Consolidated Financial Statements of
(Expressed in United States dollars)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

From the date of formation on October 12, 2012 to December 31, 2012
and for the year ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of American Hotel Income Properties REIT LP

We have audited the accompanying consolidated financial statements of American Hotel Income Properties REIT LP, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of loss and comprehensive loss, partners' capital and cash flows for the year ended December 31, 2013 and for the period from date of formation on October 12, 2012 to December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of American Hotel Income Properties REIT LP as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2013 and for the period from date of formation on October 12, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 14, 2014
Vancouver, Canada

AMERICAN HOTEL INCOME PROPERTIES REIT LP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in United States dollars)

	As at December 31, 2013	As at December 31, 2012
ASSETS		
CURRENT		
Cash and cash equivalents	$ 29,486,899	$ 185,990
Restricted cash	6,000,000	250,000
Trade and other receivables	1,209,357	-
Prepaids and deposits	977,799	-
Other assets	361,718	-
Deferred offering and finance costs	-	1,691,218
	38,035,773	2,127,208
Property, buildings and equipment (Note 5)	187,390,804	-
Mezzanine loans receivable (Note 6)	322,017	-
Intangible assets (Note 7)	8,420,927	-
Deferred income tax asset (Note 8)	2,332,320	-
	198,466,068	-
TOTAL ASSETS	$ 236,501,841	$ 2,127,208
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 6,163,625	$ 1,775,332
Current portion of term loans (Note 9)	3,533,503	-
	9,697,128	1,775,332
Term loans (Note 9)	103,207,912	-
Contingent consideration (Note 4)	5,085,059	-
Deferred compensation payable (Note 4)	460,023	-
Deferred income tax liability (Note 8)	1,813,466	-
	110,566,460	-
TOTAL LIABILITIES	$ 120,263,588	$ 1,775,332
PARTNERS' CAPITAL (Note 10)	116,238,253	351,876
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 236,501,841	$ 2,127,208

COMMITMENTS (Note 12)

SUBSEQUENT EVENTS (Note 18)

See the accompanying notes to consolidated financial statements.

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AMERICAN HOTEL INCOME PROPERTIES REIT LP

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in United States dollars)

	Year ended December 31, 2013	Date of formation on October 12, 2012 to December 31, 2012
Revenue		
Rooms	$ 38,211,563	$ -
Food	8,944,522	-
Rental and other	896,408	-
	48,052,493	-
Hotel expenses		
Operating expenses	24,635,591	-
Energy	2,419,345	-
Property maintenance	2,630,001	-
Property taxes and insurance	2,322,687	-
Depreciation and amortization	6,367,867	-
	38,375,491	-
INCOME FROM OPERATING ACTIVITIES	9,677,002	-
Corporate and administrative	4,861,909	50,661
Loss on disposal of property and equipment	142,353	-
Business acquisition costs	2,226,060	404,203
INCOME (LOSS) BEFORE FINANCE COSTS AND INCOME TAXES	2,446,680	(454,864)
Finance income	(146,265)	-
Finance costs	3,662,765	-
Net finance costs	3,516,500	-
LOSS BEFORE INCOME TAXES	(1,069,820)	(454,864)
Deferred income tax recovery	(752,314)	-
NET LOSS AND COMPREHENSIVE LOSS	$ (317,506)	$ (454,864)
Basic and diluted weighted average net loss per unit	$ (0.03)	$ (0.93)
Basic and diluted weighted average number of units outstanding	10,058,647	488,889

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AMERICAN HOTEL INCOME PROPERTIES REIT LP

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(Expressed in United States dollars)

From the date of formation on October 12, 2012 to December 31, 2012 and for the year ended December 31, 2013

	Units Outstanding	General Partner	Limited Partner Units	Cumulative earnings / (deficit)	Total
Partners' capital, beginning of period	-	-	-		-
Capital contribution by General Partner	-	100	-		100
Issuance of partner units for cash	1	-	1		1
Issuance of partner units to Seed Capital Investors	799,999	-	806,639		806,639
Net loss and comprehensive loss for the period				(454,864)	(454,864)
Balance as at December 31, 2012	**800,000**	**$ 100**	**$ 806,640**	**$ (454,864)**	**$ 351,876**
Consolidation of pre-initial public offering units	(400,000)				
Issuance of units on initial public offering (Note 1)	10,005,000		98,307,770		98,307,770
Issuance costs on initial public offering			(9,738,124)		(9,738,124)
Issuance of units on public offering of subscription receipts (Note 1)	3,967,500		38,275,948		38,275,948
Issuance costs on public offering of subscription receipts			(2,961,436)		(2,961,436)
Issuance of units under securities-based compensation plan (Note 11)	65,300		647,091		647,091
Net loss and comprehensive loss for the year				(317,506)	(317,506)
Distributions to partners				(8,327,366)	(8,327,366)
Balance as at December 31, 2013	**14,437,800**	**$ 100**	**$ 125,337,889**	**$ (9,099,736)**	**$ 116,238,253**

See the accompanying notes to consolidated financial statements.

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AMERICAN HOTEL INCOME PROPERTIES REIT LP

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in United States dollars)

	Year ended December 31, 2013	Date of formation on October 12, 2012 to December 31, 2012
Cash provided by (used in):		
OPERATIONS		
Net loss and comprehensive loss	$ (317,506)	$ (454,864)
Interest paid	(2,836,860)	-
Items not affecting cash:		
Depreciation and amortization	6,367,867	-
Loss on disposal of property and equipment	142,353	-
Securities-based compensation expense	647,091	-
Accretion of contingent consideration	168,710	-
Amortization of deferred financing costs	180,639	-
Deferred income tax recovery	(752,314)	-
Interest expense	3,313,415	-
	6,913,395	(454,864)
Changes in non-cash operating working capital (Note 16)	184,937	84,114
	7,098,332	(370,750)
INVESTING		
Purchase of property, buildings and equipment	(6,057,460)	-
Proceeds on disposal of assets	1,900	-
Franchise fees paid	(484,615)	-
Acquisition of the Oak Tree Inn hotels (Note 4), net of cash provided by seller	(57,806,730)	-
Acquisition of the Other Branded hotels (Note 4), net of cash provided by seller	(57,667,089)	-
Funding of restricted cash for property improvement plans (Note 4)	(6,000,000)	
	(128,013,994)	-
FINANCING		
Issuance of partner units on formation of partnership	-	806,740
Units issued for cash on initial public offering (net of expenses)	90,248,657	-
Units issued for cash on public offering of subscription receipts (net of expenses)	35,314,512	-
Distributions paid	(7,309,221)	-
Net proceeds from 2013 Term Loans (Note 9)	37,294,152	-
Proceeds from Initial Term Loan - Amendment #1 (Note 9)	2,850,000	-
Mezzanine loans receivable advanced (Note 6)	(322,017)	-
Payment on Initial Term Loan (Note 9)	(6,959,547)	-
Financing costs paid	(1,149,965)	-
Release of escrow funds on initial public offering	250,000	(250,000)
	150,216,571	556,740
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	29,300,909	185,990
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	185,990	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 29,486,899	$ 185,990

See the accompanying notes to consolidated financial statements.

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1. Reporting entity

American Hotel Income Properties REIT LP ("AHIP") is a limited partnership formed under the *Limited Partnership Act* (Ontario) to invest in hotel real estate properties in the United States. AHIP was established by and among 8290768 Canada Inc. (renamed American Hotel Income Properties REIT (GP) Inc.) (AHIP's "General Partner") and Maverick Management Corp. as the initial limited partner, pursuant to the terms of AHIP's Limited Partnership Agreement dated October 12, 2012. AHIP's head office and address for service is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia, Canada, V6B 5A1.

AHIP was established, among other things, for the purpose of:

a) acquiring common shares and, where applicable, a ROC Share of American Hotel Income Properties REIT Inc. (the "U.S. REIT"), a ROC Share being defined as a share in the capital of the U.S. REIT which is designated within such capital as a preferred share;

b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of AHIP and making distributions to Unitholders (a Unitholder is defined as a person at any time that is a limited partner in AHIP and who is the beneficial owner of one or more Units); and

c) in connection with the undertaking set out above, reinvesting income and gains of AHIP and taking other actions besides the mere protection and preservation of AHIP's property.

The U.S. REIT qualifies and intends to continue to qualify as a real estate investment trust pursuant to the U.S. Internal Revenue Code.

Initial Public Offering ("IPO") and acquisition of initial portfolio

On February 20, 2013, AHIP completed its IPO of 9,570,000 Units priced at Cdn$10.00 per Unit, for total gross proceeds of Cdn$95.7 million (US$94.1 million). Included in the closing were 870,000 Units for total gross proceeds of Cdn$8.7 million (US$8.5 million) from a partial exercise of the over-allotment option described in AHIP's final prospectus dated February 12, 2013 as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada.

On March 1, 2013, the exercise of the remaining balance of the over-allotment option was completed, resulting in the issuance of an additional 435,000 Units at a price of Cdn$10.00 per Unit for gross proceeds of Cdn$4.4 million (US$4.2 million).

Concurrent with the closing of the IPO, AHIP indirectly acquired the outstanding share capital in a portfolio comprising an aggregate of 32 hotel properties located in 19 states (the "Oak Tree Inn hotels"), predominantly in smaller towns throughout the U.S. as disclosed in Note 4(a). A substantial portion of the Oak Tree Inn hotels' revenue is generated through lodging agreements with several railroad companies. The Oak Tree Inn hotels include one property under the Best Western brand.

Additional offering and acquisition of Pittsburgh hotels

On October 31, 2013, AHIP completed the public offering of 3,967,500 subscription receipts ("Subscription Receipts") on a bought-deal basis, inclusive of 517,500 Subscriptions Receipts related to an over-allotment

1. Reporting entity (*continued*)

option, at a price of Cdn$10.15 per Subscription Receipt for gross proceeds to AHIP of Cdn$40.3 million (US$38.3 million) (the "Offering").

On November 21, 2013, AHIP used the proceeds from the Offering to indirectly acquire four hotel properties located in metropolitan Pittsburgh, Pennsylvania (the "Other Branded hotels"), as disclosed in Note 4(b). The Other Branded hotels comprise an aggregate of 471 guest rooms and consists of three hotels under the 'Hampton Inn' flag (a Hilton brand), and one hotel under the 'Residence Inn' flag (a Marriott brand).

AHIP's Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol HOT.UN and also in the United States on the OTCQX International marketplace under the symbol AHOTF.

2. Basis of presentation and statement of compliance

a) Statement of compliance:

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the Interpretations Committee ("IFRICs"). AHIP has consistently applied the accounting policies in all periods presented.

These consolidated financial statements were approved and authorized for issue by the directors of the General Partner on March 14, 2014.

b) Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis.

c) Functional and presentation currency:

AHIP's functional and presentation currency is United States ("U.S.") dollars.

Transactions denominated in Canadian dollars are translated to U.S. dollars as follows: monetary assets and liabilities are translated at current rates of exchange and non-monetary assets and liabilities are translated at historical rates of exchange. Revenues and expenses are translated at average rates of exchange for the period. All exchange gains and losses are recognized in the consolidated statement of loss and comprehensive loss.

The functional currency of AHIP's subsidiaries is U.S. dollars.

d) Measurement uncertainty (use of estimates):

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results may differ from these estimates.

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2. Basis of presentation and statement of compliance (*continued)*

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimates include the following:

i) Business combinations

The acquisition of a business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition dates. To support management's determination of the fair value of property, buildings and equipment, AHIP obtained third-party valuations. To support the determination of the value of intangible assets, management evaluated the incremental earning stream attributable to the lodging agreements discounted at an expected rate of return.

ii) Depreciation and amortization

Management has estimated the useful lives of property, buildings and equipment in the determination of depreciation. The estimated useful lives of property, buildings and equipment are determined based on various factors including historical data and AHIP's expected use of the assets. Intangible assets are amortized over the average remaining contractual term of the lodging agreements.

(e) Accounting standards adopted in the period:

The following new accounting standards were adopted by AHIP effective January 1, 2013. The adoption of the new standards did not impact AHIP's consolidated financial statements as AHIP acquired all of its operating subsidiaries in 2013 and all acquisitions were accounted for under the new standards.

i) IAS 1 – Presentation of Financial Statements:

In June 2011, the IASB made amendments to IAS 1, Presentation of Financial Statements. This amendment requires entities to group items presented in other comprehensive income ("OCI") on the basis of whether they will or will not subsequently be reclassified to profit or loss. The effective date of this amendment was January 1, 2013.

ii) IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements. This new standard replaces IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities. The new standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard was January 1, 2013.

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2. Basis of presentation and statement of compliance (*continued*)

iii) IFRS 11 – Joint Arrangements:

In May 2011, the IASB issued IFRS 11, Joint Arrangements. This new standard replaces IAS 31 Interests in Joint Ventures. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. The effective date of this standard was January 1, 2013.

iv) IFRS 12 – Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities. This new standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The effective date of this standard was January 1, 2013.

v) IFRS 13 - Fair Value Measurement:

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. The objective of IFRS 13 is to define fair value, set out in a single IFRS framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard was January 1, 2013.

3. Significant accounting policies

a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of AHIP and its subsidiaries that are controlled by AHIP. Control exists when AHIP is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

Intra group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of AHIP and its subsidiaries. AHIP owns and consolidates the following subsidiaries:

3. Significant accounting policies (*continued)*

	State of Incorporation	Percentage of ownership
American Hotel Income Properties REIT Inc.	Maryland	100%
Lodging Properties LLC	Delaware	100%
Lodging Enterprises, LLC	Delaware	100%
AHIP Properties LLC	Delaware	100%
AHIP PA Pitt Airport Properties LLC	Delaware	100%
AHIP PA Pitt Greentree Properties LLC	Delaware	100%
AHIP PA Pitt Cranberry Properties LLC	Delaware	100%
AHIP PA Pitt Cranberry II Properties LLC	Delaware	100%
AHIP PA Pitt Airport Properties LP	Delaware	100%
AHIP PA Pitt Greentree Properties LP	Delaware	100%
AHIP PA Pitt Cranberry Properties LP	Delaware	100%
AHIP PA Pitt Cranberry II Properties LP	Delaware	100%
AHIP VA South Hill Properties LLC	Delaware	100%
AHIP VA Emporia Properties LLC	Delaware	100%
AHIP VA Harrisonburg Properties LLC	Delaware	100%
AHIP VA Harrisonburg II Properties LLC	Delaware	100%
AHIP Enterprises LLC	Delaware	100%
AHIP PA Pitt Airport Enterprises LLC	Delaware	100%
AHIP PA Pitt Greentree Enterprises LLC	Delaware	100%
AHIP PA Pitt Cranberry Enterprises LLC	Delaware	100%
AHIP PA Pitt Cranberry II Enterprises LLC	Delaware	100%
AHIP VA South Hill Enterprises LLC	Delaware	100%
AHIP VA Emporia Enterprises LLC	Delaware	100%
AHIP VA Harrisonburg Enterprises LLC	Delaware	100%
AHIP VA Harrisonburg II Enterprises LLC	Delaware	100%

b) Property, buildings and equipment:

i) Recognition and measurement:

Property, buildings and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When parts of an item of property, buildings and equipment have different useful lives, they are accounted for as separate items (major components) of property, buildings and equipment.

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3. Significant accounting policies (*continued)*

Gains and losses on disposal of an item of property, buildings and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, buildings and equipment, and are recognized as a separate line item in profit or loss.

ii) Subsequent costs:

The cost of replacing a part of an item of property, buildings and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to AHIP, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance of property, buildings and equipment are recognized in profit or loss as incurred.

iii) Depreciation

Depreciation is computed on a straight-line basis based on the useful lives of each component of property, buildings and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset, as outlined below.

Asset	Basis	Rate (in years)
Buildings	Straight-line	17 - 40
Equipment	Straight-line	5 - 15
Automobiles	Straight-line	5
Leasehold improvements	Straight-line	5 - 40

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

c) Intangible assets:

Intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss.

i) Recognition and measurement

AHIP's intangible assets consist of:

- lodging agreements with several railroad companies, which provide minimum guarantees on rooms reserved at AHIP's hotel properties.
- contract-signing fees payable upon entering into a lodging facility agreement for guaranteed room rentals (Note 4(a))
- franchise fees

ii) Amortization

Amortization is calculated based on the cost of the asset less its residual value. Amortization is recognized in earnings on a straight-line basis over the estimated useful lives of intangible assets

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3. Significant accounting policies (*continued)*

from the date that they are available for use, specifically when the agreements come into effect, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The basis of amortization and estimated useful lives are as follows:

Asset	Basis	Rate (in years)
Lodging agreements	Straight-line	5
Contract signing fees	Straight-line	10
Franchise fees	Straight-line	10

d) Impairment of non-financial assets:

The carrying amounts of AHIP's non-financial assets, consisting of property, buildings and equipment, and intangible assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

When the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. When an indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, the recoverable amount of that asset is estimated. A reversal of an impairment loss is recognized immediately in profit or loss if the recoverable amount of a previously impaired asset has subsequently increased to the lower of the asset's or cash generating unit's recoverable amount of carrying value had no impairment loss been recognized for the asset or cash-generating unit in prior years.

e) Financial instruments:

i) Financial assets:

AHIP's financial assets are comprised of cash and cash equivalents, restricted cash, trade and other receivables, and mezzanine loans receivable. AHIP classifies these financial assets as loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable

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3. Significant accounting policies (*continued)*

transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

ii) Financial liabilities:

AHIP has the following non-derivative financial liabilities: accounts payable and accrued expenses, contingent consideration, deferred compensation payable, and term loans. AHIP classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method.

All non-derivative financial liabilities are initially recognized on the date that AHIP becomes a party to the contractual provisions of the instrument.

AHIP derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

iii) Impairment of financial assets:

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to AHIP on terms that AHIP would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

AHIP considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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3. Significant accounting policies (*continued)*

f) Cash and cash equivalents:

AHIP considers all liquid investments with original terms to maturity of three months or less when acquired to be cash equivalents. Cash and cash equivalents consist of cash on hand and cash held at banks.

g) Restricted cash:

Pursuant to the terms of the loan agreements (Note 9), AHIP must maintain a cash reserve on deposit with the lenders in respect of future capital expenditures.

h) Provisions:

A provision is recognized if, as a result of a past event, AHIP has a present legal or constructive obligation that can be estimated reasonably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the time value of money is material, provisions are determined by discounting the expected future cash flows using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as a finance cost.

i) Revenue recognition:

Revenue is generated primarily from the operation of AHIP's hotels and restaurants. Rental and other income is comprised of fees for property damage, vehicle charges, and maintenance charges at offsite customer locations.

Revenue is recognized when services are rendered, the amount is earned, and collectability is reasonably assured.

AHIP may collect payments in advance of the utilization of a facility. These payments are recorded as deferred revenue until such time as the applicable facility is utilized, at which time the deferred revenue is recognized as revenue.

j) Finance income and finance costs:

Finance income consists of interest on cash and cash equivalents and restricted cash, which is recognized in the period in which it is earned.

Finance costs comprise interest expense on borrowings and amortization of debt financing costs. Finance costs are recognized in the period in which they are incurred. Interest expense on borrowings used to finance the renovation and construction of the hotel properties is capitalized to construction-in-progress during the period of construction.

k) Deferred offering and acquisition costs:

Professional, consulting, regulatory, registration and other costs directly attributable to issuing equity instruments are recorded as deferred offering costs until the equity transaction is completed, if the completion of the transaction is considered likely. The transaction costs of an equity transaction are

3. Significant accounting policies (*continued*)

deducted from partners' capital. Costs related to the acquisition of a business and costs related to evaluating potential acquisitions are expensed in the period incurred.

l) Debt financing fees:

Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term using the effective interest rate method, and are included in finance costs. The unamortized balance of the fees and costs is included and shown as a reduction in the related debt.

m) Net loss per unit:

Basic and diluted net loss per unit is calculated by dividing net loss by the weighted average number of units outstanding during the reporting period.

n) Income taxes:

AHIP is not subject to tax under Part I of the Income Tax Act (Canada) (the "Tax Act"). Each partner of AHIP is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of AHIP for its fiscal year ending in or on the partner's taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the "SIFT Measures"). A "SIFT partnership" (as defined in the Tax Act) will be subject to SIFT tax on its 'taxable non-portfolio earnings" (as defined in the Tax Act) at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. The "taxable non-portfolio earnings" less SIFT tax payable by a SIFT partnership will also be included in computing income of the Unitholder for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. The SIFT Measures do not apply to a partnership that does not hold any "non-portfolio property" throughout the taxation year of the partnership. Management believes that AHIP will not hold any "non-portfolio property" and should not be a SIFT partnership and therefore not subject to the SIFT Measures. Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate AHIP in such a manner so as it remains exempt from the SIFT Measures on a continuous basis in the future. If AHIP becomes a SIFT partnership it will be generally subject to income taxes at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations on its taxable non-portfolio earnings, if any.

AHIP filed an election to be treated as a partnership for U.S. federal income tax purposes. In addition, at least 90% of AHIP's gross income is expected to be qualifying income within the meaning of U.S. Internal Revenue Code (the "Code") section 7704 and AHIP is not required to register as an investment company under the Investment Company Act of 1940. As such, it is generally not subject to U.S. federal income tax under the Code. Furthermore, the U.S. REIT intends to timely make and maintain an election to be taxed as a real estate investment trust ("REIT") under the Code for its first taxation year ending December 31, 2013 and in future taxation years. In order for the U.S. REIT to qualify as a REIT under

3. Significant accounting policies (*continued)*

the Code, it must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its stockholders equal to a minimum of 90% of its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. The U.S. REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed to its stockholders annually. Management believes that all REIT conditions necessary to eliminate income taxes for the U.S. REIT for the reporting period have been met. Accordingly no provision for U.S. federal income taxes has been made for the U.S. REIT. Even though the U.S. REIT qualifies for taxation as a REIT, it may be subject to certain state and local taxes. These amounts are not expected to be material to the consolidated financial statements.

Management has operated and intends to continue operating the U.S. REIT in such a manner so as to qualify as a REIT on a continuous basis in the future. However, actual qualification as a REIT will depend upon meeting, through actual annual and quarterly operating results, the various conditions imposed by the Code. If the U.S. REIT fails to qualify as a REIT in any taxable year, it will be subject to U.S. federal and state income taxes at regular U.S. corporate rates, including any applicable alternative minimum tax. In addition, the U.S. REIT may not be able to re-qualify as a REIT for the four subsequent taxable years. Even if the U.S. REIT qualifies for taxation as a REIT, it may be subject to certain U.S. state and local taxes on its income and property, and to U.S. federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

The U.S. REIT's wholly-owned subsidiaries, Lodging Enterprises, LLC and AHIP Enterprises LLC (“TRS Subsidiaries”), are treated as taxable REIT subsidiaries for U.S. federal income tax purposes. All of the U.S. REIT’s hotel properties are leased to the TRS Subsidiaries. The TRS Subsidiaries are subject to U.S. federal and state income tax on their taxable income. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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3. Significant accounting policies (*continued)*

o) Securities-based compensation plan (the "Compensation Plan")

As described in Note 11, AHIP has a Compensation Plan that provides for the granting of Units to directors, officers, employees or consultants of AHIP, the General Partner or any of their respective affiliates, or other persons as the compensation committee may determine. Unvested Units are recorded in equity as contributed surplus and compensation expense is recorded over the vesting period at amortized cost on a straight-line basis based on the fair value of the Units on the grant date. Once vested, the Units are reclassified from contributed surplus to Units issued.

p) Segment reporting

AHIP's operating segments are organized based on type of customer serviced and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). AHIP's Board of Directors has the authority for resource allocation and assessment of AHIP's investments and is therefore the CODM.

q) New standards and interpretations issued but not yet adopted:

In November 2009, the IASB issued IFRS 9, Financial Instruments, which is the first step in its project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. The effective date of this standard is January 1, 2015, but early adoption is permitted. AHIP is assessing the impact of the standard on its financial statements.

4. Business combinations

a) Oak Tree Inn hotels

The aggregate purchase price for the Oak Tree Inn hotels (includes one Best Western franchise hotel) was $134.1 million, of which $59.6 million was paid in cash and $74.5 million was assumed under an existing term loan, before the balance attributable to contingent consideration.

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4. Business combinations (*continued*)

The purchase price was allocated to the assets acquired and liabilities assumed as follows:

Property, buildings and equipment	$	129,041,343
Intangible assets		9,030,409
Deferred income tax asset		1,966,541
Deferred income tax liability		(2,200,000)
Trade and other receivables		789,502
Other assets		413,739
Cash provided by seller		1,755,111
Deposits		224,056
Accounts payable and accrued expenses		(1,970,483)
Deferred revenue		(33,685)
Initial Term Loan		(74,538,344)
Net assets	$	64,478,189
Consideration		
Cash	$	59,561,840
Contingent consideration (earnout)		4,916,349
	$	64,478,189

Pursuant to the Purchase Agreement, $5.5 million of the purchase price is subject to an earnout provision upon achievement of certain performance based targets prior to December 31, 2015. To the extent earned, AHIP's indirect U.S. subsidiary has the option of paying such amount in cash or in units of AHIP, or a combination thereof, by January 20, 2016. This contingent consideration has been recorded at a present value of $4.9 million using a 4.0% discount rate. As at December 31, 2013, the contingent consideration balance was $5.1 million after accretion of the balance for $168,710 for the period from February 20, 2013 (the "Closing Date") to December 31, 2013.

The Purchase Agreement provides for an additional $250,000 compensation to be paid to the sellers for each "Qualifying New Contract" that AHIP enters into within two years of the Closing Date to a maximum of $1.25 million. A "Qualifying New Contract" is defined in the Purchase Agreement as a bona fide written agreement for guaranteed room rentals comprising financial and other terms substantially consistent with other similar contracts between Lodging Enterprises and any American or Canadian railway company with national operations that meet minimum contract term and revenue objectives. AHIP shall determine whether the contract satisfies the requirements of a Qualifying New Contract per the Purchase Agreement and shall provide the sellers of Lodging Enterprises with a computation notice within 10 business days following December 31, 2015.

Payment may be made in cash or Units, or a combination thereof, at the option of AHIP, and due within 20 days following December 31, 2015.

4. Business combinations (*continued*)

As it was uncertain whether AHIP will be able to enter into additional Qualifying New Contracts by 2015, the fees for the signing of Qualifying New Contracts were not included in the purchase price of the Oak Tree Inn hotels at the date of acquisition, and the fees will be recognized upon the signing of each Qualifying New Contract. At December 31, 2013, the $460,023 present value amount of deferred compensation payable related to the signing of railway contracts is included in the consolidated statement of financial position as a long-term liability.

As of December 31, 2013 the fair value of identifiable assets acquired and liabilities assumed had changed from the amounts reported at March 31, 2013:

For the year ended December 31, 2013		Final December 31, 2013		Original estimate as reported March 31, 2013
Property, buildings and equipment	$	129,041,343	$	130,241,344
Intangible assets		9,030,409		7,992,934
Deferred income tax liability		(2,200,000)		(1,985,564)
Trade and other receivables		789,502		811,447
Accounts payable and accrued expenses		(1,970,483)		(1,869,389)

For the year ended December 31, 2013, business acquisition costs totaling $2.2 million are included in the consolidated statement of income, of which $1.2 million is related to the acquisition of the Oak Tree Inn hotels.

b) Other Branded hotels

The aggregate purchase price for the Other Branded hotels was $57.7 million, of which $20.4 million was paid in cash and the balance was financed by a new term loan (the "2013 Term Loans") (Note 9).

The purchase price has been allocated to the assets acquired and liabilities assumed on a preliminary basis as follows:

Property, buildings and equipment	$	57,250,000
Trade and other receivables		103,725
Prepaids and deposits		313,364
Cash provided by seller		4,000
Net assets	$	57,671,089
Financed by:		
Cash		20,376,937
2013 Term Loans, net of deferred financing costs		37,294,152
Total consideration	$	57,671,089

Pursuant to the terms of the 2013 Term Loans, AHIP funded a $6.0 million restricted cash reserve for brand mandated property improvement plans ("PIPs").

5. Property, buildings and equipment

	Land	Buildings	Equipment	Automobiles	Leasehold improvements	Construction in progress	Total
Cost or deemed cost:							
Balance at January 1, 2013	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Acquisition of Oak Tree Inn hotels (Note 4)	15,475,927	102,899,372	9,107,413	39,390	21,756	1,497,485	129,041,343
Acquisition of Other Branded hotels (Note 4)	8,083,512	47,966,488	1,200,000				57,250,000
Additions	275,510	2,103,152	1,437,690			2,241,108	6,057,460
Transfers	176,853	3,041,843	519,897			(3,738,593)	-
Disposals	-	(36,340)	(138,716)	-	-	-	(175,056)
Balance at December 31, 2013	24,011,802	155,974,515	12,126,284	39,390	21,756	-	192,173,747
Depreciation:							
Balance at January 1, 2013	-	-	-	-	-	-	-
Depreciation for the period	-	2,932,025	1,869,060	8,194	4,467	-	4,813,746
Disposals	-	(1,816)	(28,987)	-	-	-	(30,803)
Balance at December 31, 2013	-	2,930,209	1,840,073	8,194	4,467	-	4,782,943
Net book value:							
At December 31, 2013	$ 24,011,802	$ 153,044,306	$ 10,286,211	$ 31,196	$ 17,289	$ -	$ 187,390,804

During the year ended December 31, 2013, interest on the construction facility (Note 9) of $16,404 was capitalized to construction-in-progress during the period of construction and subsequently transferred to buildings upon completion.

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6. Mezzanine loans receivable

On February 20, 2013, AHIP entered into an agreement with a related party, SunOne Developments Inc. (“SunOne”) pursuant to which SunOne Developments Inc. provides exclusive development services to subsidiaries of AHIP (the “Master Development Agreement”). See Note 13(b).

In accordance with the Master Development Agreement, AHIP may elect to finance (directly or indirectly) developments via a mezzanine loan, provided that: (i) all debt (senior and mezzanine in nature) will not exceed the aggregate of 90% of the cost of construction of such project; (ii) the value of the mezzanine loan may not exceed 80% of the difference between the aggregate construction costs and senior debt financing (and subject to the Developer committing the balance of the projected funding as equity capital that is subordinate to the mezzanine loan provided by the Issuer); (iii) the value of the mezzanine loan will not exceed the value of all senior construction financing; and (iv) the mezzanine loan is provided at an interest rate that is to be accretive to AHIP and in any event not less than a competitive market rate. Each of the mezzanine loans receivable is due twelve months from the date the related development property is substantially complete.

During the year ended December 31, 2013, AHIP entered into the following mezzanine loan agreements with SunOne:

Property under development	Loan Amount Available ($)	Amount Drawn ($) as at December 31, 2013	Annual Interest Rate (%)
Santa Teresa, NM	650,000	291,313	10%
Brunswick, MD	392,000	30,704	10%
Wellington, KS	931,000	-	10%
Glendive, MT	638,000	-	10%
	$ 2,611,000	$ 322,017	

7. Intangible assets

	Railroad agreements Note 4(a)	Franchise fees Note 4(b)	Total
Balance at January 1, 2013	$ -	$ -	$ -
Acquisition of Oak Tree Inn hotels	9,030,409	-	9,030,409
Acquisition of Other Branded hotels	-	484,615	484,615
Contract signing fees	460,024	-	460,024
Amortization	(1,548,929)	(5,192)	(1,554,121)
Balance at December 31, 2013	$ 7,941,504	479,423	$ 8,420,927

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8. Deferred income taxes

The analysis of deferred tax assets and deferred tax liabilities is as follows:

		As at December 31, 2013
Deferred tax assets:		
Non capital losses carried forward	$	298,490
Contingent consideration		2,033,830
		2,332,320
Deferred tax liabilities:		
Intangible assets		(1,676,289)
Prepaid insurance		(121,740)
Property and equipment	$	(15,437)
		(1,813,466)
Deferred tax assets (net)	$	518,854

9. Term Loans

		December 31, 2013
Intial Term Loan (a)		67,578,797
Initial Term Loan - Amendment #1 (a)		2,850,000
2013 Term Loans (b)		38,000,000
		108,428,797
Less: unamortized portion of debt issuance costs		(1,687,382)
		106,741,415
Current portion of term loans		(3,533,503)
	$	103,207,912

a) Initial Term Loan for the Oak Tree Inn hotels

At the Closing Date, a U.S. chartered bank (the "Initial Lender") amended the existing term loan related to the Oak Tree Inn hotels and assumed by AHIP upon the acquisition, and extended a $70.0 million term loan (the “Initial Term Loan”) and a $10.0 million construction facility (the “Construction Facility” and together with the Initial Term Loan, the “Initial Debt Financing”), secured by a first-priority security interest in all business assets of two of AHIP's subsidiaries, Lodging Properties LLC and Lodging Enterprises LLC, (collectively the "Borrowers"), including first-priority mortgages on each of the properties of the Oak Tree Inn hotels.

The Initial Term Loan has a fixed interest rate of 4.85% and a five year term. The Initial Term Loan has a 180 month amortization period, with the remaining principal balance due and payable at the end of the term, subject to prepayment. The Initial Term Loan can be prepaid, subject to a prepayment fee equal to 3% of the

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9. Term Loans (*continued*)

outstanding principal balance during the first year following the Closing Date, 2% of the outstanding principal balance during the second year following the Closing Date and 1% of the outstanding principal balance during the third year following the Closing Date. There are no prepayment fees during the fourth and fifth years of the term.

The Initial Debt Financing includes, among other things, financial covenants and contains restrictions on the Borrowers' ability to make distributions or pay management fees or leasing expenses if a default or event of default exists under the Initial Debt Financing.

On December 23, 2013 (the "First Amendment Date"), the Initial Debt Financing was amended to provide an additional term loan of $2.9 million (the "Term Loan - Amendment #1"). $2.3 million of this amount was used to repay the balance of the Construction Facility and $600,000 was provided for additional working capital purposes.

The Initial Term Loan - Amendment #1 has a ten year term. The interest rate from the First Amendment Date to the fifth anniversary of the First Amendment Date is 4% per annum. The interest rate for the remainder of term is a variable per annum rate equal to the sum of the Treasury Rate plus 2.75%, with the Treasury Rate being the one-year constant maturity United States Treasury Department obligations. The Initial Term Loan - Amendment #1 can be prepaid, without premium or penalty, in a minimum aggregate amount of $500,000 or such lesser amount as shall be remaining outstanding under the Initial Term Loan - Amendment #1 with written notice to the Initial Lender.

The Initial Term Loan - Amendment #1 also reduced the limit of the Construction Facility financing available from $10.0 million to $4.0 million.

b) Term Loans for the Other Branded hotels

On November 21, 2013, certain of AHIP's subsidiaries entered into four loan agreements (the "2013 Term Loans") with a subsidiary of a major international bank, in the aggregate principal amount of $38.0 million for a term of 10 years at an interest rate of 5.02% per annum. The 2013 Term Loans are guaranteed by the U.S. REIT and are not cross-collateralized.

The 2013 Term Loans include, among other things, financial covenants and contain restrictions on AHIP's ability to make distributions or pay management fees or leasing expenses if a default or event of default exists under these loans.

9. Term Loans (*continued*)

Principal installments payable within the next five fiscal years and thereafter on the outstanding term loans are as follows:

2014	$	3,533,503
2015		3,702,677
2016		3,878,917
2017		4,613,089
2018		53,710,240
Thereafter		38,990,371
	$	108,428,797

10. Partners' Capital

a) Authorized:

The capital of AHIP consists of an unlimited number of limited partner units of AHIP and the equity interest held by the General Partner.

b) Issued:

On October 12, 2012, the General Partner made a capital contribution of $100 and has no further obligation to contribute capital. On October 12, 2012, the initial limited partner of AHIP, Maverick Management Corp., subscribed for one unit of AHIP for $1.

On November 6, 2012, AHIP issued 799,999 Units to various subscribers, including the Principals and directors and officers of the General Partner (collectively, the "Seed Capital Investors"), for aggregate gross proceeds of $799,999. On February 20, 2013, the Seed Capital Investors' Units were consolidated on a two-for-one basis.

On February 20, 2013, AHIP closed its initial public offering ("IPO") of 9,570,000 Units, including the partial exercise of the over-allotment option, priced at Cdn$10.00 per Unit, for gross proceeds of Cdn$95.7 million (US$94.1 million). On March 1, 2013, the exercise of the remaining balance of the over-allotment option was completed, resulting in the issuance of an additional 435,000 Units at a price of Cdn$10.00 per Unit, for gross proceeds of Cdn$4.4 million (US$4.2 million).

On October 31, 2013, AHIP completed the Offering of Subscription Receipts, issuing a total of 3,967,500 Subscription Receipts at a price of Cdn$10.15 per Subscription Receipt for gross proceeds of Cdn$40.3 million (US$38.3 million).

On November 21, 2013, upon completion of the acquisition of the Other Branded hotels, one Unit of AHIP was issued in exchange for each outstanding Subscription Receipt without payment of additional consideration, which resulted in the issuance of 3,967,500 Units.

For the year ended December 31, 2013, total offering costs of $12.7 million were deducted from partners' capital of which $1.7 million was deferred at December 31, 2012.

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10. Partners' Capital *(continued)*

c) Allocation of net income or net loss:

Where Distributable Cash (defined as, for any period, the aggregate of all amounts received by AHIP in such period, whether by way of dividends, interest or otherwise, from and in respect of its direct and indirect investment in the securities held by AHIP, including its investment in any subsidiaries, less reasonable reserves determined by the General Partner to be necessary to operate the affairs of AHIP in a prudent and businesslike manner, and less taxes, if any, payable by AHIP) is paid in respect of a fiscal year, the net income and taxable income of AHIP in respect of that fiscal year shall be allocated among all Partners (defined as General Partner and the Unitholders) that were Partners at any time in the fiscal year on the following basis:

i) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of $100 per annum; and

ii) as to the balance, to the Unitholders as a class, and to each Unitholder in an amount calculated by multiplying such balance by a fraction, the numerator of which is the sum of distributions received by such Unitholder with respect to such fiscal year and the denominator of which is the aggregate amount of distributions made by AHIP to the Unitholders as a group with respect to such fiscal year.

Where no Distributable Cash is paid in respect of a fiscal year, net income and taxable income of AHIP in respect of that fiscal year shall be allocated among the Partners on the following basis:

i) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of $100 per annum; and

ii) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares of the balance divided by 12. A Proportionate Share, in respect of each Unitholder, means that fraction which, as of the date of such determination:

- has as its numerator the number of Units held by such Unitholder; and
- has as its denominator the aggregate number of Units outstanding.

Net loss and taxable loss of AHIP in respect of a fiscal year shall be allocated among all Partners that were Partners at any time in the fiscal year on the following basis:

i) first, to the General Partner 0.01% of the net loss and taxable loss of AHIP to a maximum of $100 per annum;

ii) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares as at the end of each month, the balance divided by 12.

d) Distribution policy:

AHIP intends to make monthly distributions to Unitholders of record on the last business day of each month. Distributions will be paid on or about the 15th day following the end of each month. AHIP may

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10. Partners' Capital *(continued)*

also make additional distributions in excess of monthly distributions during the year, as the General Partner may determine.

For the year ended December 31, 2013, the General Partner declared distributions of Cdn$0.771 (US$0.745) per Unit to be paid to Unitholders totaling US$8.3 million. Of this amount, US$1.0 million is included in accounts payable and accrued expenses.

11. Compensation Plan

On December 30, 2013 AHIP granted a total of 123,800 Units to certain of its employees with the following vesting dates:

Vesting dates	Number of Units		Total fair value of Units at grant date
30-Dec-13	65,300		644,408
15-May-14	28,500		281,250
30-Dec-14	15,000		148,026
30-Dec-15	15,000		148,026
Total Units granted	123,800	$	1,221,710

A summary of the details of the Units granted is as follows:

	Number of Units		Grant Price
Outstanding at December 31, 2012	-		n/a
Granted	123,800	$	9.87
Vested	(65,300)	$	9.87
Forfeited	-		n/a
Outstanding at December 31, 2013	58,500	$	9.87

For the year ended December 31, 2013, a total of $647,091 (2012 - $nil) in securities-based compensation expense is included in corporate and administrative expense.

12. Commitments

a) Operating leases:

AHIP has entered into operating leases for its office facility, office equipment and automobiles. Future minimum lease payments under non-cancelable operating leases as of December 31, 2013 are as follows:

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12. Commitments (*continued*)

2014	$	261,251
2015		133,342
2016		72,000
2017		72,000

The above amounts exclude the lease for AHIP's office space located at Suite 1660-401 West Georgia Street, Vancouver, BC, Canada. On March 12, 2013 O'Neill Hotels & Resorts Ltd. ("OHR"), a related party, entered into the lease for a term from May 1, 2013 to June 30, 2017 for an annual amount of Cdn$64,950. This lease was signed by OHR to expedite the leasing process and AHIP reimburses OHR for the related rental payments on a monthly basis.

b) Lodging agreements:

The Oak Tree Inn hotels have various lodging agreements with several railroad companies. Under these agreements, AHIP typically agrees to operate and maintain certain company-owned lodging and restaurant properties for the use of authorized railroad employees. The agreements provide for a minimum number of rooms to be available, and they also specify certain quality, service, transportation, and insurance requirements to be provided by AHIP. AHIP receives a fixed rate per rented room. AHIP may rent the remaining rooms to the general public. These agreements have terms ranging from annual renewals to expirations in 2024.

c) Lodging facility agreements, mezzanine financing and purchase commitments

For the year ended December 31, 2013 AHIP entered into agreements with SunOne Developments Inc. (“SunOne”) to purchase four Oak Tree Inn hotels and one Penny’s Diner, each secured by a 10-year railway contract. Two of these railway contracts meet the definition of Qualifying New Contract, as described in Note 4(a).

These hotels will be financed and developed in accordance with the Master Development Agreement between SunOne and AHIP (Note 13(b)). AHIP has agreed to provide mezzanine financing to SunOne and, upon completion, purchase the hotels:

		As at December 31, 2013				
Property under development	Expected completion date	Total deferred compensation payable (Note 4a)	Mezzanine financing available	Mezzanine loan amount drawn (Note 6)	Unfunded commitment	Committed purchase price
Santa Teresa, NM	July 2014	$ 250,000	$ 650,000	$ 291,313	$ 358,687	$ 5,130,000
Brunswick, MD	September 2014	-	392,000	30,704	361,296	2,755,000
Wellington, KS	September 2014	-	931,000	-	931,000	7,410,000
Glendive, MT	November 2014	250,000	638,000	-	638,000	4,940,000
		$ 500,000	$ 2,611,000	$ 322,017	$ 2,288,983	$ 20,235,000

13. Related party transactions

a) Hotel Manager

AHIP has entered into a hotel management agreement with various wholly owned subsidiaries of Tower Rock Hotels & Resorts Inc. (the "Hotel Managers"), a company indirectly controlled by a director of the General Partner to manage and operate the hotel properties.

The operating subsidiary of AHIP is responsible for reimbursing the Hotel Managers for any operating expenses and direct costs incurred with respect to the operations of the properties and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses. The hotel management agreements also provide for an amount equal to 3.50% of gross revenues to be paid to the Hotel Managers. The Hotel Managers are also entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures. In addition, commencing in 2014 the Hotel Managers are eligible to receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the independent directors of the General Partner. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned.

In addition, an administration fee of $15,000 is payable to the hotel manager per property acquired on February 20, 2013 for each of the first and second years of the agreement, $20,000 per property in the third year of the agreement, and $25,000 per property in each year thereafter. A fee of $25,000 per property is payable for property acquired subsequent to February 20, 2013.

AHIP recorded the following fees charged by the Hotel Manager in corporate and administrative expenses, of which $56,165 is included in accounts payable and accrued expenses as at December 31, 2013:

		Year ended December 31, 2013
Management Fee		1,681,843
Administration Fee		439,626
Total fees expensed	$	2,121,469

In addition, management fees of $213,206 for the year ended December 31, 2013 were capitalized to property, buildings and equipment, of which $22,274 is included in accounts payable and accrued expenses as at December 31, 2013.

During the year ended December 31, 2013, the Hotel Manager incurred $17.3 million in expenses on behalf of the hotel properties during the normal course of operations, comprised primarily of payroll costs for $17.0 million and other general and administrative costs such as insurance, travel, and office supplies. Of this total, $595,343 is included in accounts payable and accrued expenses as at December 31, 2013.

13. Related party transactions *(continued)*

b) Property Development

AHIP entered into the Master Development Agreement with SunOne, a company controlled by a director of the General Partner, pursuant to which SunOne provides exclusive development services to AHIP.

Pursuant to the Master Development Agreement, AHIP has entered into agreements with SunOne to provide mezzanine loans for the construction of four hotels and to commit to the purchase of these hotels upon substantial completion a at purchase price that is the greater of: (i) 95% of the fair market value of the property, as determined by an independent third-party appraiser; and (ii) the actual construction cost of the project. Refer to Note 12(c).

Details of the mezzanine loans receivable are disclosed in Note 6.

c) Compensation

Key management is those persons having authority and responsibility for planning, direction, and controlling the activities of AHIP, directly or indirectly. Total compensation awarded to key management for the year ended December 31, 2013 was $1.1 million, which includes securities-based compensation expense of $647,091.

14. Financial instruments

The carrying values of AHIP's cash and cash equivalents, restricted cash, trade and other receivables, mezzanine loans receivable, and accounts payables and accrued expenses approximates their fair values due to the short-term nature of these financial assets and liabilities.

The carrying values of AHIP's term loans approximate their fair values due to the recent date of inception of the term loans. Going forward, the fair values of the term loans will be estimated by discounting the future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. Discount rates will either be provided by lenders or observable in the open market.

AHIP is exposed to a number of risks in its normal course of operations from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. AHIP monitors its interest rate exposure on an ongoing basis.

As described in Note 9, AHIP's terms loans as at December 31, 2013 all have fixed interest rates. The Construction Facility, until it was repaid at the First Amendment Date, had a floating interest rate.

The borrowing costs arising from the Construction Facility were capitalized to the construction in progress to which the loan related during the period of construction. The construction in progress was

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14. Financial instruments *(continued)*

substantially complete on May 16, 2013, so the capitalization of borrowing costs into the project ceased on that date. Therefore, for the year ended December 31, 2013, any change to the applicable interest rates would have impacted AHIP’s earnings only from that date to the First Amendment Date. For every 1% change in interest rate, AHIP's earnings would have changed by an estimated $22,500 for the year ended December 31, 2013.

b) Credit risk and economic dependence:

Credit risk is the risk of financial loss to AHIP if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument.

AHIP is exposed to credit risk with respect to trade and other receivables. At December 31, 2013, trade and other receivables are $1.2 million (2012 - $nil). Amounts over 30 days total $22,136 (2012 - $nil), all of which is expected to be collected. The bad debt write-off was $22,310 for the year ended December 31, 2013 (2012 - $nil).

The associated risk is mitigated by initiating a prompt collection process.

Revenues from one customer represent approximately $23.7 million or 49.4% of AHIP's total revenues for the year ended December 31, 2013. As at December 31, 2013, $299,003 was receivable from this customer.

c) Liquidity risk:

Liquidity risk is the risk that AHIP will not be able to meet its financial obligations as they fall due. Property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If AHIP were required to liquidate a property investment, the proceeds to AHIP may be significantly less than the aggregate carrying value of such property.

AHIP manages liquidity risk through monitoring the repayment dates and refinancing dates of its Construction Facility and Term Loan, monitoring its debt covenants, and managing its cash flows. AHIP’s objective is to maintain sufficient available credit facilities to fund ongoing operational and capital requirements. In addition to trade and other receivables, AHIP has cash and cash equivalents of $29.5 million excluding the restricted cash amount of $6.0 million at December 31, 2013 (December 31, 2012 - $185,990).

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14. Financial instruments *(continued)*

The timing of estimated cash outflows relating to financial liabilities are outlined in the table below:

		Value at December 31, 2013	Maturity
Accounts payable and accrued expenses	$	6,163,625	Less than 1 year
Current portion of term loans		3,533,503	Less than 1 year
Term loans		103,207,912	2015 - 2024
Contingent consideration (earnout) (Note 4(a))		5,085,059	2016 - 2023
Deferred compensation payable (Note 4(a))		460,023	2016

d) Currency exchange rate risk

AHIP's distributions are denominated in Canadian dollars. The Canadian dollar is not maintained at a fixed exchange rate compared to foreign currencies but rather the value of the Canadian dollar has a floating exchange rate in relation to other currencies. The U.S. REIT and its affiliates conduct business in the U.S. Consequently, income and expense or any ultimate gain on sale are earned or incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the cash required to fund future distributions may fluctuate with reference to U.S. dollars. Accordingly, AHIP's cash flow is subject to currency exchange rate risk.

15. Capital management

		As at December 31, 2013		As at December 31, 2012
Term loans		106,741,415		-
Partners' capital		116,238,253		351,876
Total capital	$	222,979,668	$	351,876

AHIP defines capital as the aggregate of its term loans and partners' capital. AHIP's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the final prospectus dated February 12, 2013 as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada; complies with existing debt covenants; funds its business strategies; and builds long-term partners' value. AHIP's capital structure is periodically reviewed by the board of directors of the General Partner.

16. Supplemental cash flow disclosure

		Year ended December 31, 2013		Date of formation on October 12, 2012 to December 31, 2012
Changes in non-cash operating working capital balances:				
Trade and other receivables	$	(316,132)	$	-
Other assets		52,022		(1,691,218)
Prepaids and deposits		(440,379)		-
Accounts payable and accrued expenses		889,426		1,775,332
	$	184,937	$	84,114

17. Segment reporting

AHIP's operations consist of hotel real estate properties in the U.S. only. AHIP structures its operations in two operating and reportable segments: (i) the Oak Tree Inn hotels that have railroad lodging agreements and (ii) the Other Branded hotels with no expectation of railroad lodging agreements, based on the way that AHIP organizes its operations for making operating decisions and assessing performance. AHIP's corporate costs are not allocated to the segments.

Net Loss
For the year ended December 31, 2013

		Oak Tree Inn hotels [1]		Other Branded hotels		Other [2]		Total
Revenue	$	46,760,978	$	1,291,515	$	-	$	48,052,493
Hotel expenses		37,180,069		1,195,422		-		38,375,491
Results from operating activities		9,580,909		96,093		-		9,677,002
Corporate and administative		2,131,745		99,066		2,631,098		4,861,909
Business acquisition costs		1,210,848		635,583		379,629		2,226,060
Net finance costs		3,358,224		221,280		(63,004)		3,516,500
Other expenses (net)		142,353		-		-		142,353
Income tax recovery		(632,506)		(119,808)		-		(752,314)
Net loss	$	3,370,245	$	(740,028)	$	(2,947,723)	$	(317,506)

[1] Includes one Best Western franchise hotel
[2] Includes corporate amounts not specifically related to the segments

Hotel properties
As at December 31, 2013

		Oak Tree Inn hotels [1]		Other Branded hotels		Other [2]		Total
Property, buildings and equipment	$	130,305,542	$	57,067,577	$	17,685	$	187,390,804
Intangible assets		7,941,504		479,423		-		8,420,927

[1] Includes one Best Western franchise hotel
[2] Includes corporate amounts not specifically related to the segments

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18. Subsequent events

a) Acquisition of Virginia hotels

On March 12, 2014, AHIP completed the acquisition of the four hotel properties located in Virginia (the "Virginia Portfolio") for an aggregate purchase price of approximately $37.2 million, including up to $1.48 million for defeasance of existing debt and $0.1 million for additional land, and excluding post-acquisition adjustments and brand mandated PIPs. The Virginia Portfolio is comprised of an aggregate of 403 guest rooms and consists of three hotels under the “Hampton Inn” flag (a Hilton brand), and one hotel under the “Fairfield Inn & Suites” flag (a Marriott brand). The properties are located in Harrisonburg, Emporia and South Hill, Virginia, near transportation hubs and other major demand generators such as James Madison University, manufacturing facilities, distribution centres and medical centres. The properties cater primarily to corporate travelers seeking select-service lodging and fit with AHIP's Other Branded hotels operating segment.

b) Debt financing for the acquisition of the Virginia Portfolio.

AHIP has entered into loan agreements with a major international bank (the “Lender”) for a $24.5 million loan. The initial term of the Loan is 10 years after the closing date of March 12, 2014 (the “Term”). The interest rate on the Loan is locked at 4.97% per annum. The Loan will be secured by a first-priority mortgage encumbering each of hotels in the Virginia Portfolio, a first-priority security interest in all the business assets and personal property used in or useful in the operation of the Virginia Portfolio and a first-priority security interest in all accounts that are held by a manager for the benefit of AHIP or the Virginia Portfolio. The four properties will be cross-collateralized and cross-defaulted. The Lender will have the right to sell, assign, syndicate, securitize or participate in the Loan, in whole or in part, without AHIP's consent, and AHIP will be required to cooperate in a reasonable manner with any such sale, assignment, syndication, securitization or participation.

The Loan will be amortized as interest-only for the first three years of the Term; thereafter, a constant monthly payment of principal and interest will be due and payable in an amount sufficient to fully amortize the Loan over a 30-year amortization schedule, subject to prepayment. AHIP is required to establish and fund reserves to cover the payment of, among other things, all of the costs required by the PIPs and other planned capital improvements for the Virginia Portfolio for $6.0 million in aggregate. An ongoing capital reserve ("FF&E" reserve) of 4% will be required. The ongoing FF&E reserve is waived for the initial 12 months on all properties except for one, where the FF&E reserve is waived for the initial 24 months.

c) U.S. REIT private placement

On January 17, 2014, the U.S. REIT completed a private placement offering of preferred shares in the U.S. REIT ("Series B Cumulative Non-Voting Preferred Stock") to 125 preferred shareholders for total offering proceeds of $125,000. The shares have a par value of $1,000 with a cumulative interest rate of 12.5% per annum.

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18. Subsequent events *(continued)*

d) Distributions:

On January 24, 2014, AHIP announced a cash distribution of Cdn$0.075 per unit for the period of January 1, 2014 to January 31, 2014, which is equivalent to Cdn$0.90 per Unit on an annualized basis. The distribution was paid on February 17, 2014 to Unitholders of record on January 31, 2014.

On February 17, 2014, AHIP announced a cash distribution of Cdn$0.075 per unit for the period of February 1, 2014 to February 28, 2014, which is equivalent to Cdn$0.90 per Unit on an annualized basis. The distribution was paid on March 14, 2014 to Unitholders of record on February 28, 2014.

e) Additional mezzanine financing advanced to SunOne

On February 21, 2014, AHIP advanced $163,399 in additional mezzanine loans receivable to SunOne pursuant to the mezzanine loan agreements with SunOne (Note 6) for the following properties:

	As at February 21, 2014			
Property under development	Mezzanine financing available	Additional loans drawn	Total loan amount drawn	Unfunded commitment
Santa Teresa, NM	$ 650,000	$ 54,910	$ 346,223	$ 303,777
Brunswick, MD	392,000	35,085	65,789	$ 326,211
Wellington, KS	931,000	-	-	$ 931,000
Glendive, MT	638,000	73,404	73,404	$ 564,596
	$ 2,611,000	$ 163,399	$ 485,416	$ 2,125,584

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