AMERICAN HOTEL INCOME PROPERTIES REIT LP

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS AND OPERATIONS AND FINANCIAL CONDITION
For the three months and twelve months ended December 31, 2014
(Expressed in U.S. Dollars)

*Dated: March 19, 2015*



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## FORWARD-LOOKING DISCLAIMER

Certain information in this Management's Discussion and Analysis of Results of Operations and Financial Condition ("**MD&A**") contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "*Overview*", "*Financial Highlights*", "*Results of Operations*", "*Financial Condition*", "*Distribution History*", *"Subsequent Events", "Currency Swap Arrangements"* and "*Risks and Uncertainties*" relating to American Hotel Income Properties REIT LP's ("**AHIP**") objectives, strategies to achieve those objectives, beliefs, plans, estimates, projections and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "believe", "expect", "may", "anticipate", "should", "intend", "estimates" and similar expressions.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results. Those risks and uncertainties include, among other things, risks related to: general economic conditions; the growth in the hotel industry; Unit prices; liquidity; tax risks; ability to access debt and capital markets; competition for real property investments; ability to acquire accretive hotel investments; ability to integrate new hotel; construction of new hotels; renewal of rail contracts; environmental matters and changes in legislation.

Factors and assumptions that were applied in drawing conclusions and could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and AHIP's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities, and statements regarding AHIP's future economic performance. AHIP has based these forward-looking statements on AHIP's current expectations about future events. Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions and information currently available; however, management can give no assurance that actual results will be consistent with these forward-looking statements. Additional information about risks and uncertainties is contained in AHIP's annual information form ("**AIF**") for the year ended December 31, 2013 available on SEDAR at www.sedar.com.

Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to AHIP, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

The forward-looking information contained in this MD&A is expressly qualified in its entirety by these cautionary statements. All forward-looking statements in this MD&A are made as of March 19, 2015. AHIP does not undertake any obligation to update any such forward –looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

## BASIS OF PRESENTATION

This MD&A for the three months and twelve months ended December 31, 2014 has been prepared and includes material financial information as of March 19, 2015. This MD&A should be read in conjunction with AHIP's audited consolidated financial statements for the years ended December 31, 2014 and 2013, prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

All amounts presented in this MD&A are in United States dollars ("U.S. dollars"), unless otherwise noted.



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Additional information relating to AHIP, including AHIP's annual information form for the year ended December 31, 2013 is available at SEDAR at www.sedar.com.

AHIP's Board of Directors, upon recommendation of its Audit Committee, approved the contents of this MD&A for release on March 19, 2015.

## NON-IFRS MEASURES

AHIP has included certain non-IFRS financial measures throughout this MD&A. Management believes that in addition to conventional measures prepared in accordance with IFRS, investors in the real estate industry use these non-IFRS financial measures to evaluate AHIP's performance, ability to generate cash flows and financial condition. Accordingly, these non-IFRS financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for performance measures prepared in accordance with IFRS. In addition, they do not have standardized meanings and may not be comparable to measures used by other issuers in the real estate industry or other industries. The non-IFRS financial measures noted in this MD&A include debt to gross book value, funds from operations ("FFO"), adjusted funds from operations ("AFFO"), FFO per Unit, Core FFO per Unit, AFFO per Unit, Core AFFO per Unit, gross operating profit ("GOP"), net operating income ("NOI"), Furniture, Fixtures and Equipment Reserves ("FF&E Reserves"), earnings before interest, taxes, depreciation and amortization ("EBITDA"), interest coverage ratio, same property metrics, average daily rate ("ADR"), revenue per available room ("RevPAR") and payout ratio.

a) Debt to Gross Book Value

AHIP believes that debt-to-gross book value is an important supplemental measure of financial condition. Debt and gross book value are defined in the Amended and Restated Limited Partnership Agreement dated February 20, 2013.

"**Debt**" means the face value (excluding deferred financing costs and unamortized mark-to-market adjustments) of the revolving line of credit, term loans, contingent consideration and deferred compensation payable as at December 31, 2014.

"**Gross book value**" means, at any time, the book value of the total assets of AHIP and its consolidated subsidiaries, as shown on its then most recent consolidated statement of financial position, plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets) shown thereon or in the notes thereto, less: (i) the amount of any receivable reflecting interest rate subsidies on any debt assumed by the AHIP; and (ii) deferred income tax liabilities arising out of fair value adjustments in respect of indirect acquisitions.

b) Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO")

AHIP believes FFO and AFFO are important measures of operating performance of real estate properties. In addition, AHIP believes that AFFO is indicative of AHIP's ability to pay distributions.

"**FFO**" is not defined under IFRS. AHIP calculates FFO in accordance with the Real Property Association of Canada ("REALpac") White Paper on Funds from Operations issued April 2014. FFO is defined as net income (loss) and comprehensive income (loss) calculated in accordance with IFRS, excluding: (i) depreciation and amortization; (ii) gains (or losses) from sales of hotel properties and equipment; (iii) business acquisition costs related to the purchase of a property being accounted for as a business combination; (iv) deferred income tax (expense) recovery; (v) foreign exchange gains and losses on monetary items such as loans and receivables due to a net investment in a foreign operation; and (vi) adjustments for property taxes accounted for under IFRIC 21.

"**AFFO**" is defined as FFO subject to certain adjustments, including: (i) amortization of deferred financing costs; (ii) accretion of contingent consideration; (iii) amortization of mark-to-market adjustments; (iv) non-cash compensation items; and (v) deducting an FF&E Reserves for normalized maintenance capital expenditures. Other adjustments may be made to AFFO as determined by the General Partner at its discretion.



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c) Core FFO per Unit and Core AFFO per Unit

Management believes that the computation of FFO per Unit and AFFO per Unit includes certain items that are not indicative of the results provided by AHIP's operating portfolio and affect the comparability of AHIP's period-over-period performance. These items include the dilutive impact of securities-based compensation and one-time recovery of insurance proceeds. Therefore, in addition to FFO per Unit and AFFO per Unit, management uses Core FFO per Unit and Core AFFO per Unit to exclude such items. Management believes that Core FFO per Unit and Core AFFO per Unit are useful supplemental measures, however, these may not be comparable to the modified FFOs per Unit or modified AFFOs per Unit of other issuers.

d) Gross Operating Profit ("GOP") and Net Operating Income ("NOI")

AHIP believes GOP and NOI are important measures of operating performance of real estate properties.

"**GOP**" is defined as total revenues less hotel operating expenses, energy and property maintenance (excluding depreciation and amortization).

"**NOI**" is defined as GOP less property taxes and insurance (excluding depreciation and amortization).

AHIP calculates "**GOP Margin**" % as GOP divided by total revenues. AHIP calculates "**NOI Margin**" % as NOI divided by total revenues.

e) Furniture, Fixtures and Equipment Reserves ("FF&E Reserves")

"**FF&E Reserves**" are calculated as three percent of room revenues for the Oak Tree Inn Hotel portfolio and four percent of total revenues for the Branded Hotel portfolio.

f) Earnings before interest, taxes, depreciation and amortization ("EBITDA")

AHIP calculates "**EBITDA**" as net operating income less corporate and administrative expenses.

g) Interest Coverage Ratio

AHIP calculates the "**Interest Coverage Ratio**" as EBITDA for the period divided by interest expensed during the period. Specifically, interest expense is computed as net finance costs less non-cash items including accretion of contingent consideration, amortization of deferred financing costs and amortization of mark-to-market adjustments on assumed term loans. The interest coverage ratio is a measure of AHIP's ability to service its debt.

h) Same Property Metrics

Same property metrics represent operating results for the same properties over both reporting periods, and is intended to measure the period-over-period performance of the same asset base. A property must be owned for the entire quarter for inclusion in this metric. These metrics adjust for the impact of properties that have been sold or acquired during the current period.

i) Occupancy

"**Occupancy**" represents the total number of hotel rooms sold in a given period divided by the total number of rooms available during such period. Occupancy measures the utilization of a hotel's available capacity.

j) Average Daily Rate ("ADR")

"**ADR**" represents the total hotel room revenues divided by total number of rooms sold in a given period. ADR is a measure of the average rate paid for rooms sold.

k) Revenue Per Available Room ("RevPAR")

"**RevPAR**" is the product of occupancy and ADR.



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l) <u>Payout Ratio</u>

AHIP calculates its "**Payout Ratio"** as distributions declared divided by AFFO.

## SEASONALITY

The lodging industry is seasonal in nature, which can be expected to cause quarterly fluctuations in occupancy rates, room rates, revenues, operating expenses and cash flows. Historically, occupancies, revenues and cash flows tend to be higher in the second and third quarters and lower in the first and fourth quarters. Quarterly earnings may also be influenced by factors beyond our control including overall economic cycles and weather conditions. To the extent the cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenues, we expect to utilize cash on hand or borrowings under our credit facility to pay expenses, debt service or to make distributions to unitholders.

## OVERVIEW

### <u>About AHIP</u>

AHIP is a limited partnership formed under the *Limited Partnerships Act* (Ontario) to invest in hotel real estate properties primarily in the U.S. AHIP was established by American Hotel Income Properties REIT (GP) Inc. (the "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 and amended on February 20, 2013. 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 purposes of:

(a) acquiring common shares and, a ROC Share of American Hotel Income Properties REIT Inc. (the "U.S. REIT"). A ROC share is defined as a share in the capital of the U.S. REIT which is designated 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; 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 principal business of AHIP is to issue units of AHIP ("Units") and to acquire and hold shares of the U.S. REIT. The U.S. REIT was established, among other things, for the purposes of indirectly acquiring and owning hotel real estate properties in the U.S. AHIP has two operating segments: (i) Oak Tree Inn or Rail Hotels are hotels that have railway lodging agreements; and (ii) Branded Hotels are hotels that have franchise agreements.

AHIP's long-term objectives are to:

(i) generate stable and growing cash distributions from hotel properties substantially in the U.S.;

(ii) enhance the value of its assets and maximize the long-term value of the hotel properties through active management; and

(iii) expand its asset base and increase its AFFO per Unit through an accretive acquisition program, participation in strategic development opportunities and improvements to the properties through targeted value-added capital expenditure programs.

AHIP's Units trade on the Toronto Stock Exchange under the symbol HOT.UN and on the OTCQX International Marketplace in the U.S. under the symbol AHOTF.

AHIP's operating properties include 38 hotels which operate under AHIP's proprietary "Oak Tree Inn" brand. The Oak Tree Inn Hotels have been specifically designed for railway employee lodging customers while providing transient customers with a superior quality, select service experience. Management estimates that approximately 75% of the total available room-nights within the Oak Tree Inn portfolio are covered under contracts containing minimum occupancy guarantees. The Branded Hotels are located near transportation hubs and other multiple demand generators that cater primarily to corporate transient travelers and are supported by distribution networks of the largest hotel brands in the world. This operating segment includes nine properties under a Hilton brand (Hampton Inn), nine under various Marriott brands (Courtyard, Fairfield Inn & Suites, Residence Inn and Springhill Suites), four under various Intercontinental Hotels Group ("**IHG**") brands (Holiday Inn and Staybridge Suites) and one under a Choice brand (Sleep Inn).

**<u>Recent Developments</u>**

Some of the key initiatives completed by AHIP during 2014 include:

- Acquiring approximately $200 million worth of Branded Hotels and Oak Tree Inn Hotels;
- Raising over Cdn$100 million in two successful bought deal unit offerings;
- Maintaining a conservative balance sheet with a debt to gross book value of 51.5%;
- Taking delivery of four brand new Oak Tree Inn hotels from SunOne Developments Inc. ("**SunOne**"), our development partner, all secured by long term railway contracts and significant room guarantees.

During the year ended December 31, 2014, AHIP acquired 22 hotel properties totaling 2,007 guestrooms with the addition of the Virginia Portfolio (four hotels and 403 guestrooms), NC/GA Portfolio (four hotels and 387 guestrooms), Texas Portfolio (three hotels and 293 guestrooms), the Oklahoma Portfolio (four hotels and 440 guestrooms), NC/FL Portfolio (four hotels and 353 guestrooms) and three new Oak Tree Inn Hotels (131 guestrooms). As of March 19, 2015, AHIP's portfolio is comprised of 61 hotels located in 24 states across the U.S., representing an aggregate of 5,229 guestrooms.

a) <u>Opening of the Oak Tree Inn in Jefferson City, Missouri on February 4, 2014</u>

On September 12, 2013, AHIP acquired a 77-room hotel located in Jefferson City, Missouri. On November 21, 2013, AHIP announced the signing of a long-term contract for railway crew accommodation at this location. Renovations to improve the existing hotel to Oak Tree Inn quality standards were completed and on February 4, 2014 the hotel was re-opened as a fully renovated Oak Tree Inn.

b) <u>Acquisition of four hotel properties in Virginia on March 12, 2014 (the "**Virginia Portfolio**")</u>

On March 12, 2014, AHIP acquired four hotels located in Virginia for an aggregate purchase price of $37.2 million (or approximately $92,000 per room) excluding post-acquisition adjustments and brand mandated property improvement plans. The Virginia Portfolio is comprised of 403 guest rooms and consists of three Hampton Inn hotels (a Hilton brand) located in Harrisonburg (two hotels) and Emporia and one Fairfield Inn & Suites hotel (a Marriott brand) located in South Hill.

In connection with the acquisition of the Virginia Portfolio, AHIP obtained a $24.5 million, 10-year fixed rate commercial mortgage backed security ("**CMBS**") loan with a major international bank. The loan interest rate is 4.97% per annum and is interest-only for the first four years, and thereafter amortized over 30 years. AHIP also funded a $6.0 million restricted cash reserve to cover property improvement plans and other planned capital improvements for the Virginia Portfolio. The FF&E Reserve has been waived for the initial 12 months on three of the properties and for the first 24 months for the fourth property.

c) <u>Acquisition of the Oak Tree Inn Santa Teresa, New Mexico on May 6, 2014</u>

On May 1, 2014, AHIP acquired the new 56-room Oak Tree Inn hotel and Penny's Diner from SunOne pursuant to the Master Development Agreement for $5.2 million (or approximately $91,000 per room). The property is secured by a long term railway contract and opened for business on May 6, 2014. The acquisition was funded by a combination of cash on hand, new mortgage debt and the issuance of 101,247 Units, which were issued at Cdn$10.825 per Unit.

d) Completion of Cdn$50.7 million Unit Issuance on June 4, 2014 (“**June 2014 Offering**”)

On June 4, 2014, AHIP completed a bought-deal public offering of 4,900,000 Units, including 552,000 Units from a partial exercise of the over-allotment option, at a price of Cdn$10.35 per Unit, for total gross proceeds of Cdn$50.7 million.

e) Acquisition of four hotel properties in North Carolina and Georgia in July 2014 (the “**NC/GA Portfolio**”)

On July 3, 2014, AHIP acquired the first three hotels in the NC/GA Portfolio (formerly known as the “**Southeastern Portfolio**”). The three properties included a 111-room Hampton Inn hotel (a Hilton brand) and an 87-room Fairfield Inn & Suites hotel (a Marriott brand) both located in Asheboro, North Carolina and an 82-room Fairfield Inn & Suites hotel (a Marriott brand) located in Kingsland, Georgia. On July 11, 2014, AHIP acquired the fourth hotel, a 107-room SpringHill Suites hotel (a Marriott brand) in Pinehurst, North Carolina. The four hotels were acquired for an aggregate purchase price of $30.5 million (or approximately $79,000 per room) before customary closing and post-acquisition adjustments and excluding a $1.5 million brand mandated property improvement plan. The acquisition was funded using a combination of cash from AHIP’s June 2014 Offering, the assumption of existing CMBS loans of approximately $13.4 million on the SpringHill Suites and Hampton Inn properties and a new CMBS loan of $6.0 million on the two Fairfield Inn & Suites properties. The interest rates on the assumed CMBS loans range from 5.28%-5.69% and the interest rate on the new loan is 4.72%. The new loan is interest only for the first two years with principal amortization commencing in August 2016 over a 30-year amortization period. The FF&E Reserve has been waived for the initial 12 months on the new loan.

f) Acquisition of three hotel properties in Texas in October 2014 (the “**Texas Portfolio**”)

On October 27, 2014, AHIP acquired three hotels in Amarillo, Texas including a 151-room Holiday Inn hotel (an IHG brand), a 79-room Fairfield Inn & Suites hotel (a Marriott brand) and a 63-room Sleep Inn & Suites hotel (a Choice brand). The three hotels were acquired for an aggregate purchase price of $31.4 million (or approximately $107,000 per room) before customary closing and post-acquisition adjustments and excluding up to $0.4 million for brand mandated property improvement plans. The acquisition was funded using a combination of cash from AHIP’s June 2014 Offering, cash on hand and a new $16.0 million, 10-year, interest only, CMBS mortgage with a fixed interest rate of 4.20%. The FF&E reserve has been waived for the first 12 months of the term.

g) Completion of Cdn$50.3 million Unit Issuance on October 28, 2014 (“**October 2014 Offering**”)

On October 28, 2014, AHIP completed a bought-deal public offering of 4,810,000 Units, including 500,000 Units from a partial exercise of the over-allotment option, at a price of Cdn$10.45 per Unit, for total gross proceeds of Cdn$50.3 million. See USE OF PROCEEDS section for more information.

h) Acquisition of the Oak Tree Inn Glendive, Montana on October 28, 2014

On October 28, 2014, AHIP acquired a new 50-room Oak Tree Inn hotel and Penny’s Diner from SunOne pursuant to the Master Development Agreement for $4.9 million (or approximately $98,000 per room). The property is secured by a long term railway contract and the acquisition was funded by a combination of cash on hand, advances from AHIP’s credit facility and 43,016 Units, which were issued at Cdn$10.45 per Unit.

i) Acquisition of four hotel properties in Oklahoma in November 2014 (the “**Oklahoma Portfolio**”)

On November 3, 2014, AHIP acquired four hotels in the state of Oklahoma. Three of the four properties are located in Oklahoma City and include the 147-room Holiday Inn Oklahoma City Airport, the 103-room Staybridge Suites Oklahoma City Airport and the 109-room Holiday Inn Oklahoma City North Quail Springs (all three are Intercontinental Hotels Group brands). The fourth hotel is an 81-room Hampton Inn hotel (a Hilton brand) located in Woodward, Oklahoma. The four hotels were acquired for an aggregate purchase price of $48.0 million (or



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$109,000 per room) before customary closing and post-acquisition adjustments and excluding $0.7 million for brand mandated property improvement plans. The acquisition was funded using a combination of cash from AHIP's October 2014 Offering and a new $25.5 million, 10 year, interest only, CMBS mortgage with a fixed interest rate of 4.20%. The FF&E reserve has been waived for the first 12 months of the term.

j) Acquisition of the Oak Tree Inn Brunswick, Maryland on November 24, 2014

On November 24, 2014, AHIP acquired the new 25-room Oak Tree Inn hotel and Penny's Diner from SunOne pursuant to the Master Development Agreement for $2.8 million (or approximately $110,000 per room). The property is secured by a long term railway contract and the acquisition was funded by cash on hand. The hotel opened on December 3, 2014.

k) Acquisition of four hotel properties in North Carolina and Florida in November 2014 (the "**NC/FL Portfolio**")

On November 25, 2014, AHIP acquired four hotels located in North Carolina and Florida for an aggregate purchase price of $41.0 million (or approximately $116,000 per room), excluding $2.5 million for brand mandated property improvement plans and before customary closing and post-acquisition adjustments. The NC/FL portfolio (formerly known as the "Southeast Portfolio II") is comprised of 353 guestrooms and includes a 94-room Courtyard by Marriott hotel and an 80-room Hampton Inn (a Hilton brand), both located in Statesville, North Carolina, an 83-room Fairfield Inn & Suites (a Marriott brand) located in Melbourne, Florida and a 96-room Fairfield Inn & Suites (a Marriott brand) located in Titusville, Florida. The acquisition was funded using a combination of cash from AHIP's October 2014 Offering, cash on hand and a new $26.1 million, 10 year, CMBS mortgage with a fixed interest rate of 4.27%. The mortgage is interest only for the first seven years and then amortized over a 30-year term. The FF&E reserve has been waived for the first 24 months of the term.

l) New Mortgage and Renewal of Line of Credit Facility

On December 5, 2014, AHIP entered into a new mortgage facility totaling $11.2 million related to four new-build Oak Tree Inn railway properties acquired over the past few months, as identified below. AHIP also revised its $4.0 million revolving line of credit facility, which can now be used for both construction financing and general working capital purposes. The new mortgage is for a 10-year term with a fixed interest rate of 4.76% and is being amortized over 20 years. The new mortgage will be secured by the Brunswick (Maryland), Glendive (Montana), Livonia (Louisiana) and Santa Teresa (New Mexico) properties and is guaranteed by the U.S. REIT. The revolving line of credit facility is interest-only with a floating interest rate based on the 30-day LIBOR plus 3.00% (with a minimum interest rate of 4.00%) and matures on February 20, 2016.

m) Commencement of New Railway Growth Strategy

On January 23, 2015, AHIP commenced a new railway growth strategy involving the construction of additional guestrooms at existing, high occupancy Oak Tree Inn railway hotels. The first opportunity involves a commitment with SunOne to construct a 24-room expansion at the existing 109-room Oak Tree Inn located in Dexter, Missouri. The existing property is currently operating at over 100% occupancy and is secured by a long-term railway contract. AHIP will acquire the additional guestrooms for a total purchase price of $2.7 million. Construction is commencing immediately with completion targeted for late-2015.

n) Acquisition of the Oak Tree Inn Wellington, Kansas on February 25, 2015

On February 25, 2015, AHIP acquired the new 110-room Oak Tree Inn hotel from SunOne pursuant to the Master Development Agreement for $7.4 million (or approximately $67,000 per room). The property is located adjacent to the existing hotel and Penny's Diner and is secured by a long-term railway contract. The acquisition was funded by a combination of cash, new mortgage debt and the issuance of 66,927 Units, which were issued at Cdn$11.20 per Unit. The new mortgage has a variable rate of the 30-day LIBOR rate plus 3.00% with a floor interest rate of 4.00%. It has a 10-year term with a 20-year amortization schedule.



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**Outlook**

The U.S. hotel industry finished 2014 with record-breaking performance metrics including the highest average daily rate (ADR) of $115 and revenue per available room (RevPAR) of $74. In addition, 2014 RevPAR growth came in at +8.3%, the second strongest ever since +8.6% in 2005. Smith Travel Research ("**STR"**) expects that this optimism will continue into 2015 with annualized occupancy for the industry targeted to hit a record level of 65% during the year. STR expects this to contribute to better pricing power translating to a forecasted ADR growth rate of +5.2%, and resulting in RevPAR growth of 6.4%. For 2015, PKF has projected supply growth of +1.1% and demand growth of +3.2% and is forecasting RevPAR growth of +7.6% and a further +6.6% increase in 2016 driven primarily by ADR growth. As a result, management expects the current cycle of strong RevPAR growth will continue over the next 24 months.

Management believes that AHIP has entered the hotel market at an opportune time. Hotels in secondary and tertiary markets continue to sell at or below replacement cost. Furthermore, favorable supply and demand fundamentals coupled with a growing U.S. economy are resulting in continued strength in ADR and occupancy rates, which are expected to translate into improved cash flows from hotel operations, and higher real estate values.

Key economic factors include the impact of the strong U.S. Dollar and low oil prices. The strength of the U.S. Dollar may impact inbound travel, but this is expected to have a greater impact on higher segment properties (i.e. luxury and upper-upscale segments) in gateway cities like Chicago, New York, Los Angeles and Miami. Low oil prices should have a net positive impact on both businesses and consumers and will benefit the overall economy. The resulting lower gasoline prices will encourage highway travel to branded hotels located in secondary and tertiary markets during the seasonally strong second and third quarters.

AHIP continues to evaluate opportunities to acquire additional high quality select service and extended stay hotel assets in the U.S. on an accretive basis. AHIP specifically targets markets that have strong demand generators and where AHIP expects demand growth will outpace new supply. Recent portfolio acquisitions are representative examples of the good physical quality assets with strong in-place cash flow / yield that AHIP is targeting in its acquisitions. The CMBS market continues to drive transaction activity with its market share exceeding 50% in 2014. We continue to see 10-year interest only term loans for conservatively leveraged transactions in the 50-55% range priced in the 4.25% range. Collectively, this type of financing provides a highly accretive environment for hotel acquisitions priced at trailing, capitalization rates of 8.0-8.5%, after management fees and an FF&E reserve.

The Oak Tree Inn Hotels will have modest RevPAR growth arising from contractual cost of living rate increases negotiated in the various railway contracts and higher occupancies from railway employees caused by higher shipping volumes. According to Rail Time Indicators, an independent railroad industry publication, the year-to-date total car loads to February 2015 were up 2.3% on a year-over-year basis on the strength of higher shipments in metallic ores, crushed stone sand and gravel, grain products and petroleum products. Petroleum products make up approximately 6% of total carloads and were up 4.3% on year-to-date basis. The growing U.S. economy is generating significant demand for rail capacity and any expected drop in oil-by-rail is expected to be replaced with demand from other products.

AHIP has proven its ability to execute on its business plan, with hotel results in line with management's expectations; new hotels in the Oak Tree Inn portfolio coming online secured by long term railway contracts; and the doubling of the number of guestrooms since the IPO in February 2013. With substantial accretive acquisition targets available for AHIP's Branded Hotels portfolio, and continuing strength in the railway industry supporting the Oak Tree Inn Hotels, AHIP is focused on continuing the momentum in growing throughout 2015 and beyond.

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## FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

| (US$000s unless otherwise noted and except per unit amounts) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013 | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013[2] |
|---|---|---|---|---|
| Number of rooms[1] | 5,119 | 3,113 | 5,119 | 3,113 |
| Number of properties[1] | 60 | 38 | 60 | 38 |
| Number of restaurants[1] | 29 | 23 | 29 | 23 |
| Properties under development[1] | 1 | 4 | 1 | 4 |
| Rooms under development[1] | 110 | 241 | 110 | 241 |
| Occupancy rate | 77.9% | 77.7% | 81.4% | 81.7% |
| Average daily room rate ("ADR") | $ 72.15 | $ 60.07 | $ 70.64 | $ 57.70 |
| Revenue per available room ("RevPAR") | $ 56.19 | $ 46.66 | $ 57.47 | $ 47.12 |
| Revenues | $ 27,849 | $ 14,495 | $ 93,143 | $ 48,052 |
| Net operating income ("NOI") | $ 9,126 | $ 4,400 | $ 32,000 | $ 16,045 |
| Net income (loss) and comprehensive income (loss) | $ 209 | $ (955) | $ 2,128 | $ (318) |
| EBITDA | $ 7,148 | $ 2,342 | $ 24,427 | $ 11,183 |
| Funds from operations ("FFO") – As Reported | $ 4,741 | $ 1,297 | $ 16,588 | $ 7,408 |
| FFO per Unit (basic and diluted) – As Reported | $ 0.21 | $ 0.10 | $ 0.91 | $ 0.74 |
| Core FFO per Unit (basic) | $ 0.19 | $ 0.15 | $ 0.92 | $ 0.80 |
| Core FFO per Unit (diluted) | $ 0.19 | $ 0.15 | $ 0.91 | $ 0.80 |
| Adjusted funds from operations ("AFFO") | $ 4,167 | $ 1,690 | $ 15,038 | $ 7,246 |
| AFFO per Unit (basic) – As Reported | $ 0.18 | $ 0.13 | $ 0.83 | $ 0.72 |
| AFFO per Unit (diluted) – As Reported | $ 0.18 | $ 0.13 | $ 0.82 | $ 0.72 |
| Core AFFO per Unit (basic and diluted) | $ 0.16 | $ 0.13 | $ 0.80 | $ 0.72 |
| Distributions declared – US$ | $ 4,807 | $ 2,802 | $ 15,067 | $ 8,327 |
| AFFO payout ratio | 115.4% | 165.8% | 100.2% | 114.9% |
| Debt to gross book value[1] | 51.5% | 47.4% | 51.5% | 47.4% |
| Interest coverage ratio | 2.8x | 2.0x | 3.0x | 3.1x |
| Weighted average loan interest rate[1] | 4.73% | 4.89% | 4.73% | 4.89% |
| Weighted average loan term to maturity[1] | 7.5 years | 6.3 years | 7.5 years | 6.3 years |
| Number of Units outstanding[1] | 24,335,563 | 14,437,800 | 24,335,563 | 14,437,800 |
| Basic weighted average number of Units outstanding | 22,896,634 | 13,050,726 | 18,220,718 | 10,058,647 |
| Same property occupancy | 84.0% | 79.4% | 83.7% | 82.3% |
| Same property ADR | $ 55.52 | $ 56.78 | $ 56.45 | $ 56.73 |
| Same property RevPAR | $ 46.66 | $ 45.11 | $ 47.23 | $ 46.67 |

(1) At period end.
(2) Reflects operating results for the 314 day period from February 20, 2013 to December 31, 2013.



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**Operational and Financial Highlights**

The increase in ADR, RevPAR, revenues and NOI can be attributed to changes within the portfolio during the year. Specifically, the acquisition of 19 Branded Hotels totaling 1,876 guestrooms in Virginia, North Carolina, Georgia, Texas, Oklahoma and Florida coupled with the opening of four Oak Tree Inn Hotels totaling 208 guest rooms in Maryland, Montana, Missouri and New Mexico and the inclusion of a full twelve months of operating results during 2014 also contributed to the improved operating results. The addition of Branded Hotels also contributed higher ADR and RevPAR resulting in higher revenues. For 2013, the Oak Tree Inn Hotels portfolio results were included for the 314 day period from the acquisition date (February 20, 2013) to December 31, 2013 and the Branded Hotels only included the results of the Pittsburgh Portfolio for the 41-day period from the acquisition date (November 21, 2013) to December 31, 2013.

FFO for the current quarter was $4.7 million (2013 – $1.3 million). FFO was $16.6 million for the twelve month period ended December 31, 2014 (2013 - $7.4 million). The increase was due to higher NOI arising from the addition of new hotels in the portfolio. FFO per Unit (basic and diluted) – As Reported was $0.21 and $0.91 for the three months and twelve months ended December 31, 2014, compared to $0.10 and $0.74 for the same periods for the prior year. Core FFO per Unit (diluted), which adjusts for securities-based compensation and non-recurring insurance proceeds from property losses at a rail hotel, was $0.19 for the quarter ended December 31, 2014 (2013 - $0.15). For the year ended December 31, 2014, Core FFO per Unit (diluted) was $0.91 (2013 - $0.80).

AFFO was $4.2 million for the current quarter (2013 - $1.7 million). AFFO was $15.0 million for the twelve month period ended December 30, 2014 (2013 - $7.2 million). The increase was due to higher NOI arising from new hotels being added to the portfolio offset by higher FF&E Reserves driven by higher revenues. On a per unit basis, AFFO per Unit (diluted) – As Reported was $0.18 and $0.82 per unit for the three months and twelve months ended December 31, 2014, compared to $0.13 and $0.72 for the same periods last year. Core AFFO per Unit (basic and diluted), which adjusts for non-recurring insurance proceeds from property losses at a rail hotel, was $0.16 for the quarter ended December 31, 2014 (2013 - $0.13). For the year ended December 31, 2014, Core AFFO per Unit (basic and diluted) was $0.80 (2013 - $0.72).



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# RESULTS OF OPERATIONS

## Operations

The following discussion highlights selected financial information for AHIP for the three months and twelve months ended December 31, 2014 and December 31, 2013. This information has been compiled from, and should be read in conjunction with, the audited consolidated financial statements and the related notes to the financial statements.

| (US$000s unless otherwise noted and except per unit amounts) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013 | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013[(1)] |
|---|---|---|---|---|
| Revenues | $ 27,849 | $ 14,495 | $ 93,143 | $ 48,052 |
| Hotel expenses | 18,723 | 10,095 | 61,143 | 32,007 |
| Net operating income | 9,126 | 4,400 | 32,000 | 16,045 |
| Depreciation and amortization | 3,686 | 2,022 | 11,709 | 6,368 |
| Income from operating activities | 5,440 | 2,378 | 20,291 | 9,677 |
| Loss on disposal of property and equipment | 274 | 142 | 605 | 142 |
| Corporate and administrative | 1,978 | 2,058 | 7,573 | 4,862 |
| Business acquisition costs | 1,563 | 472 | 3,178 | 2,226 |
| Income (loss) before finance costs and income taxes | 1,625 | (294) | 8,935 | 2,447 |
| Finance income | (24) | - | (96) | (146) |
| Finance costs | 2,522 | 1,146 | 8,116 | 3,663 |
| Income (loss) before income taxes | (873) | (1,440) | 915 | (1,070) |
| Current income tax recovery | (91) | (101) | - | - |
| Deferred income tax recovery | (991) | (384) | (1,213) | (752) |
| Net income (loss) and comprehensive income (loss) | $ 209 | $ (955) | $ 2,128 | $ (318) |
| Basic and diluted net income (loss) per unit | $ 0.01 | $ (0.07) | $ 0.12 | $ (0.03) |
| Basic weighted average number of units outstanding | 22,896,634 | 13,050,726 | 18,220,718 | 10,058,647 |
| Diluted weighted average number of units outstanding | 22,926,960 | 13,050,726 | 18,261,263 | 10,058,647 |

(1) Reflects operating results for the 314 day period from the IPO date of February 20, 2013 to December 31, 2013.

The increase in revenues, expenses and NOI can be attributed to changes in the portfolio between reporting periods. The addition of Branded Hotels also contributed to higher revenues as a result of higher ADR and RevPAR compared to the Rail Hotels. Hotel expenses consist of hotel operating expenditures including labor costs, sales and marketing, franchise fees, energy, property maintenance, property taxes and insurance.

Depreciation and amortization expenses consist of depreciation charges on property, buildings and equipment, and amortization of intangible assets. Depreciation and amortization expenses for the quarter were $3.7 million (2013 - $2.0 million). Depreciation and amortization expenses for the twelve months ended December 31, 2014 were $11.7

million (2013 - $6.4 million). The increased amounts were due to the acquisition of both Branded Hotels and Rail Hotel properties during the period.

Corporate and administrative expenses consist of hotel management fees, salaries and benefits, directors' fees, foreign exchange gains and losses, securities based compensation, professional fees and office expenses. Corporate and administrative expenses were $2.0 million and $7.6 million for the three and twelve months ended December 31, 2014, respectively, compared to $2.1 million and $4.8 million for the three months and the twelve months ended December 31, 2013:

| **(US$000s unless otherwise noted)** | **Three months ended Dec 31, 2014** | **Three months ended Dec 31, 2013** | **Twelve months ended Dec 31, 2014** | **Twelve months ended Dec 31, 2013(1)** |
|---|---|---|---|---|
| Hotel management fees | $ 1,226 | $ 648 | $ 4,059 | $ 2,122 |
| Salaries, benefits and directors fees | 315 | 144 | 1,073 | 686 |
| Foreign exchange losses (gains) | (15) | - | 262 | (92) |
| Securities-based compensation | 55 | 647 | 501 | 647 |
| Professional fees | 327 | 446 | 1,084 | 869 |
| Office and general | 70 | 173 | 594 | 630 |
| Total corporate and administrative expenses | $ 1,978 | $ 2,058 | $ 7,573 | $ 4,862 |

(1) Reflects operating results for the 314 day period from the IPO date of February 20, 2013 to December 31, 2013.

The increase in corporate and administrative expenses can be attributed to the acquisition of hotels resulting in higher revenues and therefore higher property management fees. Higher salaries and benefits were due to increased staffing levels coupled with the impact of securities-based compensation charges related to Unit grants issued to certain AHIP employees in December 2013, which also contributed to changes between periods.

Business acquisition costs consist primarily of professional fees directly attributable to the acquisition of hotel properties. Under IFRS, all transactional costs are expensed in the period incurred irrespective of the final outcome of the acquisition. Business acquisition costs were approximately $1.6 million and $3.2 million for the three and twelve months ended December 31, 2014, respectively, compared to approximately $0.5 million and $2.2 million for the three and twelve months ended December 31, 2013, respectively. The difference is due to the specific transactions undertaken during each period. During 2014, the acquisition of 19 branded hotels in Virginia, North Carolina, Georgia, Texas, Oklahoma and Florida had an impact on costs during the current year. The acquisition of the 32-hotel Oak Tree Inn portfolio and Pittsburgh Portfolio impacted the prior year.

Finance costs consist of interest on term loans, preferred share dividends, non-cash accretion on contingent consideration, amortization of debt financing costs and amortization of the mark-to-market adjustment on assumed loans offset by interest income.

Net finance costs were $2.5 million and $8.0 million for the three and twelve months ended December 31, 2014, respectively, compared to $1.1 million and $3.5 million for the same periods in 2013. The increased amounts were caused by the acquisition of hotel properties and related financing including the addition of a $38.0 million mortgage for the Pittsburgh Portfolio in November 2013, a $24.5 million mortgage for the Virginia Portfolio in March 2014, $19.4 million in term loans for the NC/GA Portfolio in July 2014, a $16.0 million mortgage for the Texas Portfolio in October 2014, a $25.5 million mortgage for the Oklahoma Portfolio in November 2014 and a $26.1 million mortgage for the NC/FL Portfolio.

AHIP is a not a SIFT limited partnership pursuant to the *Income Tax Act* (Canada). Under the *Income Tax Act* (Canada), as long as AHIP meets prescribed conditions relating to the nature of its assets and revenues, it is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. AHIP's indirect subsidiaries, Lodging Enterprises LLC and AHIP Enterprises LLC are taxable REIT subsidiaries of the U.S. REIT and are subject to income taxes. Deferred income tax is recognized in respect of temporary differences between the carrying amounts of the intangible assets and contingent consideration 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. AHIP has used a blended rate of approximately 40% to calculate its related deferred income tax provisions. The deferred income tax recovery in the period reflects the change in the temporary differences that were previously recognized.

**Total Portfolio Operating Statements**

| (US$000s unless otherwise noted) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013 | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013(1) |
|---|---|---|---|---|
| Number of rooms | 5,119 | 3,113 | 5,119 | 3,113 |
| Number of properties | 60 | 38 | 60 | 38 |
| Number of restaurants | 29 | 23 | 29 | 23 |
| Occupancy rate | 77.9% | 77.7% | 81.4% | 81.7% |
| Average daily room rate ("ADR") | $ 72.15 | $ 60.07 | $ 70.64 | $ 57.70 |
| Revenue per available room ("RevPAR") | $ 56.19 | $ 46.66 | $ 57.47 | $ 47.12 |
| Revenues | | | | |
| Rooms | $ 24,000 | $ 11,866 | $ 80,389 | $ 38,631 |
| Food and beverage | 3,257 | 2,488 | 11,644 | 8,944 |
| Other | 592 | 141 | 1,110 | 477 |
| TOTAL REVENUES | 27,849 | 14,495 | 93,143 | 48,052 |
| Expenses | | | | |
| Operating expenses | 14,631 | 7,769 | 47,055 | 24,635 |
| Energy | 1,282 | 802 | 4,500 | 2,419 |
| Property maintenance | 1,380 | 810 | 4,795 | 2,630 |
| TOTAL EXPENSES | 17,293 | 9,381 | 56,350 | 29,684 |
| GROSS OPERATING PROFIT ("GOP") | 10,556 | 5,114 | 36,793 | 18,368 |
| *GOP Margin %* | *37.9%* | *35.3%* | *39.5%* | *38.2%* |
| Taxes and insurance | 1,430 | 714 | 4,793 | 2,323 |
| NET OPERATING INCOME ("NOI") | $ 9,126 | $ 4,400 | $ 32,000 | $ 16,045 |
| *NOI Margin %* | *32.8%* | *30.4%* | *34.4%* | *33.4%* |

(1) Reflects operating results for the 314-day period from the IPO date of February 20, 2013 to December 31, 2013.

Overall portfolio occupancy was 77.9% for the three months ended December 31, 2014, compared to 77.7% for the same period last year. The increase in occupancy was due to the strong performance of certain hotels in the Rail Portfolio due to increased demand from rail customers from higher rail volumes. For the most recent quarter, the Rail Hotels had an average occupancy rate of 83.9% (2013 – 79.4%), while the Branded Hotels had an average occupancy rate of 69.2% (2013 – 56.6%). Occupancy for the twelve months ended December 31, 2014 was down marginally compared to the prior year due to the lower occupancy contribution from the Branded Hotels, which were acquired during the year.

ADR increased to $72.15 for the current quarter (2013 - $60.07). ADR for the twelve months ended December 31, 2014 increased to $70.64 (2013 - $57.70). The increase in ADR reflected the impact of the higher-rated Branded Hotels in the total portfolio. For the most recent quarter, the Branded Hotels had an ADR of $99.88 compared to the Rail Hotels ADR of $56.21. For the year ended December 31, 2014, the Branded Hotels had an ADR of $106.18 compared to the Rail Hotels ADR of $56.83.



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AHIP achieved total revenues and NOI of $27.8 million and $9.1 million, respectively, for the three months ended December 31, 2014 compared to $14.5 million and $4.4 million, respectively, for the same period in 2013. For the twelve months ended December 31, 2014, total revenues and NOI increased to $93.1 million and $32.0 million, respectively, from total revenues and NOI of $48.1 million and $16.0 million, respectively, for the twelve months ended December 31, 2013. The increase in total revenues and NOI can be attributed to the acquisition of 19 Branded Hotels in Florida, Georgia, North Carolina, Oklahoma, Texas and Virginia, coupled with the opening of four Rail Hotels in Maryland, Missouri, Montana and New Mexico. In addition, the inclusion of a full twelve months of operating results during 2014 also contributed to higher operating results. For 2013, only partial operating results were included for the Rail Hotels from the acquisition date of February 20, 2013 to December 31, 2013. While the Branded Hotels portfolio included only the four Pittsburgh hotels and operating results were for the 41-day period from November 21, 2013 to December 31, 2013.

Overall improvements in NOI margin reflect the addition of higher margin Branded Hotels to the portfolio compared to the prior year. For the current quarter, Branded Hotels had an average NOI margin of 33.0% compared to 32.8% for the Rail Hotels. For the year ended December 31, 2014, the Branded Hotels had an average NOI margin of 39.4% compared to 31.4% for the Rail Hotels.

**Oak Tree Inn Hotels Operating Statements**

| (US$000s unless otherwise noted) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013 | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013(1) |
|---|---|---|---|---|
| Number of rooms | 2,772 | 2,642 | 2,772 | 2,642 |
| Number of properties | 37 | 34 | 37 | 34 |
| Number of restaurants | 26 | 23 | 26 | 23 |
| Occupancy rate | 83.9% | 79.4% | 83.8% | 82.3% |
| Average daily room rate (“ADR”) | $ 56.21 | $ 56.77 | $ 56.83 | $ 56.73 |
| Revenue per available room (“RevPAR”) | $ 47.17 | $ 45.11 | $ 47.59 | $ 46.67 |
| Revenues | | | | |
| Rooms | $ 11,873 | $ 10,588 | $ 46,576 | $ 37,353 |
| Food and beverage | 3,041 | 2,488 | 11,428 | 8,944 |
| Other | 430 | 127 | 720 | 463 |
| TOTAL REVENUES | 15,344 | 13,203 | 58,724 | 46,760 |
| Expenses | | | | |
| Operating expenses | 7,895 | 7,011 | 30,405 | 23,877 |
| Energy | 751 | 738 | 3,136 | 2,355 |
| Property maintenance | 849 | 724 | 3,395 | 2,544 |
| TOTAL EXPENSES | 9,495 | 8,473 | 36,936 | 28,776 |
| GROSS OPERATING PROFIT (“GOP”) | 5,849 | 4,730 | 21,788 | 17,984 |
| *GOP Margin %* | *38.1%* | *35.8%* | *37.1%* | *38.5%* |
| Taxes and insurance | 849 | 619 | 3,333 | 2,228 |
| NET OPERATING INCOME (“NOI”) | $ 5,000 | $ 4,111 | $ 18,455 | $ 15,756 |
| *NOI Margin %* | *32.6%* | *31.1%* | *31.4%* | *33.7%* |

(1) Reflects operating results for the 314 day period from the IPO date of February 20, 2013 to December 31, 2013.



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For the current quarter as well as for the twelve month period ended December 31, 2014, the increase in occupancy rate reflected the addition of 208 highly utilized guestrooms at four Oak Tree Inn properties in Brunswick (Maryland), Glendive (Montana), Santa Teresa (New Mexico) and Jefferson City (Missouri) during the year. The slight decrease in ADR can be attributed to displacement of higher-rated transient guests due to stronger demand from the railways for guestrooms.

Total revenues for the current quarter as well as for the year ended December 31, 2014 reflected the addition of the four new hotels during the year as well as $393,000 in insurance proceeds related to a property claim that occurred earlier in the year. In addition, the 2014 results included a full twelve months (or 365 days) of operations. The 2013 results included operations from the acquisition date of February 20, 2013 to December 31, 2013 (or 314 days).

GOP margin for the current quarter was 38.1% compared to 35.8% in the prior period reflecting improved cost containment by the hotel management. GOP margin for the year was 37.1% compared to 38.5% in the prior period. The decrease in margin reflects higher hotel operating expenses due to the addition of hotel-specific personnel, the addition of new management information systems and processes and higher property maintenance costs arising from implementation of new preventative maintenance programs. In addition, high energy prices, reflecting the unusually cold winter season during the first quarter of 2014, had a dampening impact on margins compared to the same period in the prior year.

NOI margin for the current quarter was 32.6% compared to 31.1% in the prior period due to higher revenues from the new properties coming online offset by higher insurance premiums for workers compensation and property insurance lines of coverage. NOI margin for the year was 31.4% compared to 33.7% last year. The decrease was partly attributable to weather-related property insurance claims at certain properties. Taxes and insurance expenses were also higher due to increases in property and liability premiums from the insurance renewal on November 1, 2013 coupled with higher property taxes at certain properties arising from higher property assessments.

## Branded Hotels Operating Statements

| (US$000s unless otherwise noted) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013[1] | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013[1] |
|---|---|---|---|---|
| Number of rooms | 2,347 | 471 | 2,347 | 471 |
| Number of properties | 23 | 4 | 23 | 4 |
| Number of restaurants | 3 | - | 3 | - |
| Occupancy rate | 69.2% | 56.6% | 75.8% | 56.6% |
| Average daily room rate ("ADR") | $ 99.88 | $ 115.55 | $ 106.18 | $ 115.55 |
| Revenue per available room ("RevPAR") | $ 69.14 | $ 65.38 | $ 80.48 | $ 65.38 |
| Revenues | | | | |
| Rooms | $ 12,127 | $ 1,278 | $ 33,813 | $ 1,278 |
| Food and beverage | 216 | - | 216 | - |
| Other | 162 | 14 | 390 | 14 |
| TOTAL REVENUES | 12,505 | 1,292 | 34,419 | 1,292 |
| Expenses | | | | |
| Operating expenses | 6,736 | 758 | 16,650 | 758 |
| Energy | 531 | 64 | 1,364 | 64 |
| Property maintenance | 531 | 86 | 1,400 | 86 |
| TOTAL EXPENSES | 7,798 | 908 | 19,414 | 908 |
| GROSS OPERATING PROFIT ("GOP") | 4,707 | 384 | 15,005 | 384 |
| *GOP Margin %* | *37.6%* | *29.7%* | *43.6%* | *29.7%* |
| Taxes and insurance | 581 | 95 | 1,460 | 95 |
| NET OPERATING INCOME ("NOI") | $ 4,126 | $ 289 | $ 13,545 | $ 289 |
| *NOI Margin %* | *33.0%* | *22.4%* | *39.4%* | *22.4%* |

(1) Reflects operating results for the 41 day period from the acquisition date of November 21, 2013 to December 31, 2013.

The Branded Hotels segment consist of the four Pittsburgh hotels acquired in November 2013, the four Virginia hotels acquired in March 2014, the four North Carolina/Georgia hotels acquired in July 2014, the three Texas hotels acquired in October 2014 and the eight hotels acquired in Oklahoma, North Carolina and Florida in November 2014.

The higher NOI margin for the Branded Hotels compared to the Rail Hotels reflects the rooms-only and transient guest focus of these limited service, branded properties, which have higher average daily rates.

The significant growth is due to the addition of 19 hotels during the year. During 2013, there were only four hotels in this segment and the 2013 results included operating results from the acquisition date of the Pittsburgh Portfolio on November 21, 2013 to December 31, 2013 (or 41 days). The second half of the fourth quarter is traditionally the weakest operating period and resulting in lower operating margins.



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## Same Property Operating Metrics

The following table presents same property operating metrics for the three months and twelve months ended December 31, 2014 and December 31, 2013, respectively. Same property calculations exclude the Brunswick, Glendive, Jefferson City and Santa Teresa, Oak Tree Inn Hotels along with the all of the Branded Hotels as they were not owned by AHIP throughout each of the periods presented.

| (US$000s unless otherwise noted) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013 | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013[(1)] |
|---|---|---|---|---|
| Number of rooms | 2,564 | 2,564 | 2,564 | 2,564 |
| Number of properties | 33 | 33 | 33 | 33 |
| Number of restaurants | 23 | 23 | 23 | 23 |
| Occupancy rate | 84.0% | 79.4% | 83.7% | 82.3% |
| Average daily room rate (“ADR”) | $ 55.52 | $ 56.78 | $ 56.45 | $ 56.73 |
| Revenue per available room (“RevPAR”) | $ 46.66 | $ 45.11 | $ 47.23 | $ 46.67 |
| Revenues | | | | |
| Rooms | $ 11,006 | $ 10,589 | $ 44,198 | $ 37,353 |
| Food and beverage | 2,737 | 2,488 | 11,091 | 8,945 |
| Other | 513 | 127 | 702 | 463 |
| TOTAL REVENUES | 14,256 | 13,204 | 55,991 | 46,761 |
| Expenses | | | | |
| Operating expenses | 7,250 | 7,010 | 29,053 | 23,876 |
| Energy | 707 | 738 | 3,013 | 2,355 |
| Property maintenance | 794 | 724 | 3,256 | 2,544 |
| TOTAL EXPENSES | 8,751 | 8,472 | 35,322 | 28,775 |
| GROSS OPERATING PROFIT (“GOP”) | 5,505 | 4,732 | 20,669 | 17,986 |
| *GOP Margin %* | *38.6%* | *35.8%* | *36.9%* | *38.5%* |
| Taxes and insurance | 861 | 619 | 3,298 | 2,228 |
| NET OPERATING INCOME (“NOI”) | $ 4,644 | $ 4,113 | $ 17,371 | $ 15,758 |
| *NOI Margin %* | *32.6%* | *31.1%* | *31.0%* | *33.7%* |

(1) Reflect operating results for the 314 day period from the IPO date of February 20, 2013 to December 31, 2013.

For the current quarter and year ended December 31, 2014, higher occupancy reflects strong performance at certain Rail Hotels due to increased demand from rail customers from higher rail shipments of commodities including coal products and oil and gas. ADR was down for the quarter and for the year in comparison to the prior periods due to the displacement of higher rate paying guests by rail guests and also due to the shorter reporting period in 2013. The net impact was that RevPAR was higher for both the quarter and year ended December 31, 2014.

For the current quarter, increases in RevPAR translated into slightly higher total revenues and higher GOP and GOP margin. Other revenues increased during the current quarter due to the inclusion of $393,000 in insurance proceeds related to a property insurance claim that occurred earlier in the year. This was offset by an increase in property taxes arising from higher assessments at certain properties coupled with higher property and liability premiums arising from the most recent insurance renewal completed on November 1, 2013. The net result was higher NOI and NOI margin.



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Total revenues for the twelve months ended December 31, 2014 were higher than the same period last year as 2014 results include a full twelve months of operations, including the first six weeks of the calendar year, which are traditionally the weakest operating periods in the hotel industry. The 2013 results include operations from the acquisition date of February 20, 2013 to December 31, 2013 (or 314 days). GOP Margin declined by 1.6 percentage points due to a longer operating period, higher hotel operating expenses due to the addition of hotel operations personnel, increased costs of implementing new management information systems, increased utility charges during the unusually cold winter during the first quarter and higher property maintenance costs arising from preventative maintenance programs. Taxes and insurance expenses were also significantly higher due to increases in property and liability premiums from the insurance renewal on November 1, 2013 along with higher property taxes at certain properties.

## RECONCILIATION OF NON-IFRS OPERATING RESULTS

### FUNDS FROM OPERATIONS (FFO)

FFO is a supplemental non-IFRS financial measure of operating performance widely used in the Canadian real estate industry. FFO is not defined under IFRS and should not be used as a substitute for net income (loss), cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. Instead, FFO has been included to provide readers and investors with additional information to improve their understanding of AHIP's operating results. AHIP calculates FFO in accordance with the *REALpac White Paper on Funds from* Operations as described in the "Non-IFRS Measures" section of this MD&A. Net income (loss) and comprehensive income (loss) to FFO is calculated as follows:

| **(US$000s unless otherwise noted and except per unit amounts)** | **Three months ended Dec 31, 2014** | **Three months ended Dec 31, 2013** | **Twelve months ended Dec 31, 2014** | **Twelve months ended Dec 31, 2013** |
|---|---|---|---|---|
| **Net income (loss) and comprehensive income (loss)** | **$ 209** | **$ (955)** | **$ 2,128** | **$ (318)** |
| Add/(deduct): | | | | |
| Depreciation and amortization | 3,686 | 2,022 | 11,709 | 6,368 |
| Loss on disposal of property and equipment | 274 | 142 | 605 | 142 |
| Business acquisition costs | 1,563 | 472 | 3,178 | 1,968 |
| Foreign exchange losses | - | - | 181 | - |
| Deferred income tax recovery | (991) | (384) | (1,213) | (752) |
| **Funds from operations ("FFO") – As Reported** | **$ 4,741** | **$ 1,297** | **$ 16,588** | **$ 7,408** |
| Securities-based compensation | 55 | 647 | 501 | 647 |
| Non-recurring insurance proceeds | (393) | - | (393) | - |
| **Core Funds from operations ("FFO")** | **4,403** | **$ 1,944** | **$ 16,696** | **$ 8,055** |
| Basic weighted average number of units outstanding | 22,896,634 | 13,050,726 | 18,220,718 | 10,058,647 |
| Diluted weighted average number of units outstanding | 22,926,960 | 13,050,726 | 18,261,263 | 10,058,647 |
| FFO per Unit (Basic and Diluted) – As Reported | $ 0.21 | $ 0.10 | $ 0.91 | $ 0.74 |
| Core FFO Per Unit (Basic) | $ 0.19 | $ 0.15 | $ 0.92 | $ 0.80 |
| Core FFO Per Unit (Diluted) | $ 0.19 | $ 0.15 | $ 0.91 | $ 0.80 |



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FFO was $4.7 million and $16.6 million for the three and twelve months ended December 31, 2014, respectively, compared to $1.3 million and $7.4 million for the same periods last year. The increase was due to higher NOI arising from new hotels being added to the portfolio. Business acquisition costs were higher in the current period due to higher transactional activity, namely the acquisition of the NC/GA Portfolio, the Texas Portfolio, the Oklahoma Portfolio and the NC/FL Portfolio compared to the prior period.

FFO per Unit – As Reported was $0.21 and $0.91 for the three and twelve months ended December 31, 2014, respectively, compared to $0.10 and $0.74 for the same periods last year. Core FFO per unit (diluted) was $0.19 and $0.91 per unit for the three and twelve months ended December 31, 2014 compared to $0.15 and $0.80 for the same periods last year.

## ADJUSTED FUNDS FROM OPERATIONS (AFFO)

Hotel operations require maintenance capital expenditures to maintain the occupancy and revenue streams of the business. AFFO is a widely used non-IFRS measure in the Canadian real estate industry to indicate available cash flow after maintenance capital expenditures and economic performance. AFFO is not defined under IFRS and the method applied by AHIP to calculate AFFO may differ from methods applied by other issuers and as a result may not be comparable with measures used by other issuers.

In calculating AFFO, AHIP makes certain adjustments to FFO as described in the "Non-IFRS Measures" section of this MD&A.

| **(US$000s unless otherwise noted and except per unit amounts)** | **Three months ended Dec 31, 2014** | **Three months ended Dec 31, 2013** | **Twelve months ended Dec 31, 2014** | **Twelve months ended Dec 31, 2013** |
|---|---|---|---|---|
| **Funds from operations ("FFO") – As Reported** | **$ 4,741** | **$ 1,297** | **$ 16,588** | **$ 7,408** |
| Add/(deduct): | | | | |
| Securities based compensation expense | 55 | 647 | 501 | 647 |
| Accretion of contingent consideration | 61 | 50 | 217 | 169 |
| Amortization of deferred financing costs | 190 | 61 | 549 | 181 |
| Amortization of mark-to-market adjustment | (18) | - | (37) | - |
| FF&E Reserves[1] | (862) | (365) | (2,780) | (1,159) |
| **Adjusted Funds from operations ("AFFO") – As Reported** | **$ 4,167** | **$ 1,690** | **$ 15,038** | **$ 7,246** |
| Insurance proceeds | (393) | - | (393) | - |
| **Core Adjusted Funds from operations - ("AFFO")** | **$ 3,774** | **$ 1,690** | **$ 14,645** | **$ 7,246** |
| Basic weighted average number of units outstanding | 22,896,634 | 13,050,726 | 18,220,718 | 10,058,647 |
| Diluted weighted average number of units outstanding | 22,926,960 | 13,050,726 | 18,261,263 | 10,058,647 |
| AFFO per Unit (Basic) – As Reported | $ 0.18 | $ 0.13 | $ 0.83 | $ 0.72 |
| AFFO per Unit (Diluted) – As Reported | $ 0.18 | $ 0.13 | $ 0.82 | $ 0.72 |
| Core AFFO per Unit (Basic and Diluted) | $ 0.16 | $ 0.13 | $ 0.80 | $ 0.72 |

(1) Reflects a normalized FF&E Reserves excluding any waivers.


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AFFO was $4.2 million and $15.0 million for the three and twelve months ended December 31, 2014 compared to $1.7 million and $7.2 million for the same periods last year. The increase in AFFO reflects portfolio acquisitions and resulting higher NOI that has occurred between periods offset by higher FF&E Reserves.

AFFO per Unit – As Reported was $0.18 and $0.83 for the three and twelve months ended December 31, 2014 compared to $0.13 and $0.72 for the same periods last year. Core AFFO per Unit (basic and diluted), which adjusts for the non-recurring insurance proceeds, was $0.16 for the quarter and $0.80 for the current year compared to $0.13 and $0.72 for the same periods last year.

As an alternative measure of cash flow from operations, AFFO is indicative of AHIP's ability to pay distributions to Unitholders.

In calculating AFFO, AHIP makes certain adjustments to Cash flow from operations as described in the "Non-IFRS Measures" section of this MD&A.

| **(US$000s unless otherwise noted and except per unit amounts)** | **Three months ended Dec 31, 2014** | **Three months ended Dec 31, 2013** | **Twelve months ended Dec 31, 2014** | **Twelve months ended Dec 31, 2013** |
|---|---|---|---|---|
| **Cash flow from operations** | $ 5,650 | $ 4,419 | $ 17,155 | $ 7,098 |
| Add/(deduct): | | | | |
| Change in non-cash working capital | (1,806) | (2,728) | (1,966) | (185) |
| Current income tax recovery | 91 | 101 | - | - |
| Business acquisition costs | 1,563 | 472 | 3,178 | 1,968 |
| Foreign exchange losses | - | - | 181 | - |
| Interest paid | 2,551 | 943 | 7,386 | 3,187 |
| Interest expense | (3,020) | (1,152) | (8,116) | (3,663) |
| FF&E Reserves(1) | (862) | (365) | (2,780) | (1,159) |
| **Adjusted Funds from operations ("AFFO") – As Reported** | $ 4,167 | $ 1,690 | $ 15,038 | $ 7,246 |
| Distributions declared | $ 4,807 | $ 2,802 | $ 15,067 | $ 8,327 |
| Payout ratio | 115.4% | 165.8% | 100.2% | 114.9% |

(1) Reflects a normalized FF&E Reserves excluding any waivers.

## DISTRIBUTIONS DECLARED COMPARED TO OPERATING CASH FLOWS

| **(US$000s)** | **Three months ended Dec 31, 2014** | **Three months ended Dec 31, 2013** | **Twelve months ended Dec 31, 2014** | **Twelve months ended Dec 31, 2013** |
|---|---|---|---|---|
| Cash flow from operations (includes interest paid) | $ 5,650 | $ 4,419 | $ 17,155 | $ 7,098 |
| Distributions declared | (4,807) | (2,802) | (15,067) | (8,327) |
| Excess (shortfall) of cash flow to distributions | $ 843 | $ 1,617 | $ 2,088 | $ (1,229) |

For the three months and year ended December 31, 2014, AHIP generated sufficient cash flow from operations to fund its distributions. During 2013, distributions exceeded cash flow from operations as it was the first year of operations and distributions were being made while capital was not yet fully deployed.



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## USE OF PROCEEDS

**Use of Proceeds from AHIP's October 2014 Offering**

In AHIP's short-form prospectus dated October 21, 2014, AHIP disclosed that the total net proceeds from the sale of the Offered Units under the Offering was estimated to be Cdn$49,123,608 (inclusive of the estimated net proceeds if the Over-Allotment Option was exercised in full) after deducting the Underwriters' Fees of Cdn$2,071,817 and deducting the estimated expenses of the Offering of Cdn$600,000. In its prospectus, AHIP estimated the net proceeds would be used: (i) as to approximately Cdn$10.0 million, to partially fund the acquisition of the Texas Portfolio; (ii) as to approximately Cdn$20.0 million to partially fund the acquisition of the Oklahoma Portfolio; (iii) as to approximately $12.5 million to partially fund the potential acquisition of another portfolio of hotels in the southeast United States that is under preliminary review and subject to various conditions (the "Southeast Portfolio II"); and (iv) as to the balance, if any, to fund working capital and/or other potential acquisitions.

AHIP's prospectus also confirmed that in the event that the closing of the Texas Portfolio occurred prior to the offering closing, AHIP would: (i) use a combination of cash from the June 2014 Offering, cash on hand and the proceeds of a new CMBS loan to fund the purchase price for the Texas Portfolio, including the brand-mandated property improvement plans; and (ii) re-allocate the proceeds of the Offering that would have otherwise been used to partially fund the acquisition of the Texas Portfolio to further fund (in conjunction with new CMBS loans) the purchase price for each of the Oklahoma Portfolio and the NC/FL Portfolio, if acquired, and to further fund working capital and/or other potential acquisitions.

The table below compares the estimated and actual use of proceeds in connection with AHIP's October 2014 Offering for the specific identified uses:

| Item | Estimated Use of Proceeds (Cdn) | Actual Use of Proceeds (Cdn) | Variance (Cdn) |
|---|---|---|---|
| Expenses of Offering and related overallotment | $ 2,671,817 | $ 2,629,335 | $ (42,482) |
| Equity proceeds used for purchase of the Texas Portfolio | 10,000,000 | -[1] | (10,000,000) |
| Equity proceeds used for purchase of the Oklahoma Portfolio | 20,000,000 | 25,022,675 | 5,022,675 |
| Equity proceeds used for purchase of the NC/FL | 12,500,000 | 19,115,030 | 6,615,030 |
| **TOTAL** | **$ 45,171,817** | **$ 46,767,040** | **$ 1,595,223** |

(1) The Texas Portfolio was completed prior to the Offering Closing.

Expenses of the Offering were lower than estimated due to only a partial exercise of the Over-Allotment Option. Net proceeds used for the purchase of the Oklahoma Portfolio and NC/FL were higher than estimated due to the closing of the purchase of the Texas Portfolio prior to the Offering Closing and re-allocation of higher amounts to the other two portfolios. The total variance to these estimates was Cdn$1,637,705 and had no impact on AHIP's ability to achieve its business objectives.

## SUMMARY OF QUARTERLY RESULTS

In accordance with Item 1.5 of Form 51-102F1 – Management's Discussion & Analysis, quarterly information has been presented for the prior eight quarters. The results for the three month period ended March 31, 2013 reflect only 39 days of hotel operations.



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| (US$000s except per Unit amounts and Distributions) | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|
| Revenues | $27,849 | $25,529 | $ 22,541 | $ 17,224 | $ 14,495 | $ 14,343 | $ 13,640 | $ 5,574 |
| Net operating income ("NOI") | 9,126 | 9,448 | 8,043 | 5,380 | 4,400 | 4,887 | 4,815 | 1,943 |
| Net income (loss) and comprehensive income (loss) | 209 | 2,029 | 651 | (760) | (955) | 1,042 | 638 | (1,043) |
| FFO | $ 4,741 | $ 5,408 | $ 4,440 | $ 1,998 | $ 1,297 | $ 2,746 | $ 2,605 | $ 819 |
| AFFO | $ 4,167 | $ 4,869 | $ 4,098 | $ 1,900 | $ 1,690 | $ 2,508 | $ 2,369 | $ 737 |
| Distributions in Cdn$ | $ 5,473 | $ 4,380 | $ 3,635 | $ 3,249 | $ 3,239 | $ 2,341 | $ 2,341 | $ 999 |
| **Amounts on a per Unit Basis** | | | | | | | | |
| Basic and diluted net income (loss) per unit | $ 0.01 | $ 0.10 | $ 0.04 | $ (0.05) | $ (0.07) | $ 0.10 | $ 0.06 | $ (0.21) |
| Diluted FFO | $ 0.21 | $ 0.28 | $ 0.28 | $ 0.14 | $ 0.10 | $ 0.26 | $ 0.25 | $ 0.16 |
| Diluted AFFO | $ 0.18 | $ 0.25 | $ 0.26 | $ 0.13 | $ 0.13 | $ 0.24 | $ 0.23 | $ 0.15 |

The hotel industry is seasonal in nature. Generally, occupancy rates, revenues and operating results for hotels located in the U.S. are greater in the second and third quarters of the calendar year than in the first and fourth quarters. These fluctuations may impact earnings and cash flow.

Furthermore, the seasonality of revenues also has an impact on earnings, specifically EBITDA margin, due to certain fixed expenditures such as property taxes, insurance and energy.

## FINANCIAL CONDITION

### Liquidity

The principal liquidity needs of AHIP are due to working capital requirements, debt servicing and repayment obligations, distributions to Unitholders, maintenance capital expenditures and future hotel acquisitions.

Cash flows from operations and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent on hotel operations including occupancy levels, room rates and operating costs.

The following table provides an overview of AHIP's cash flows from operating, financing and investing activities for the three months and twelve months ended December 31, 2014 and December 31, 2013:

| (US$000s) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013 | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013 |
|---|---|---|---|---|
| Net change in cash flow related to: | | | | |
| - Operating activities | $ 5,650 | $ 4,419 | $ 17,155 | $ 7,098 |
| - Investing activities | (135,395) | (65,295) | (207,362) | (128,014) |
| - Financing activities | 108,712 | 69,405 | 172,711 | 150,217 |
| Increase (decrease) in cash flow | $ (21,033) | $ 8,529 | $ (17,496) | $ 29,301 |

The change in in cash flow for the three months and twelve months ended December 31, 2014 compared to the same periods in 2013 was due to:

- Operating activities – higher net operating income due to Branded and Rail Hotel acquisitions
- Investing activities – investments in the various hotels that were completed during 2014 compared to 2013;
- Financing activities – net proceeds realized from the completion of the June and October 2014 Offerings compared to the initial public offering in February 2013 and November 2013 offering and additional loan



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proceeds from term loans offset by distribution payments and loan repayments

The following table sets out AHIP's contractual obligations over the next five years and thereafter.

| (US$000s) | TOTAL | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter |
|---|---|---|---|---|---|---|---|
| Term loans | $ 226,328 | $ 4,203 | $ 4,452 | $ 4,889 | $ 59,440 | $ 8,371 | $ 144,973 |
| Operating leases | 945 | 404 | 314 | 145 | 55 | 27 | - |
| Deferred compensation payable | 500 | - | 500 | - | - | - | - |
| Contingent consideration | 5,500 | - | 5,500 | - | - | - | - |
| | $ 233,273 | $ 4,607 | $ 10,766 | $ 5,034 | $ 59,495 | $ 8,398 | $ 144,973 |

## Debt Strategy

AHIP's overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis with terms to maturity that allow AHIP to:

i) achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period and

ii) fix rates and extend loan terms when borrowing conditions are favorable.

The fixed rate mortgages are expected to be primarily first charge mortgages. Subject to market conditions and AHIP's growth, management currently intends to maintain total indebtedness at approximately 50-55% of AHIP's gross book value. In accordance with AHIP's Limited Partnership Agreement, the maximum debt limit is 60% (65% including convertible debentures) of AHIP's gross book value. As at December 31, 2014, AHIP's debt to gross book value was 51.5%.

| (US$000s unless otherwise noted) | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Debt | $ 228,541 | $ 112,742 |
| Gross Book Value | $ 443,457 | $ 237,918 |
| Debt to Gross Book Value | 51.5% | 47.4% |

| (US$000s unless otherwise noted) | Three months ended Dec 31, 2014 | Three months ended Dec 31, 2013 | Twelve months ended Dec 31, 2014 | Twelve months ended Dec 31, 2013 |
|---|---|---|---|---|
| EBITDA | $ 7,148 | $ 2,342 | $ 24,427 | $ 11,183 |
| Interest expense(1) | $ 2,522 | $ 1,146 | $ 8,116 | $ 3,633 |
| Interest coverage ratio (times) | 2.8x | 2.0x | 3.0x | 3.1x |

(1) Interest expense is computed as finance costs adjusted for non-cash items including accretion of contingent consideration, amortization of deferred financing costs and amortization of mark-to-market adjustments on assumed term loans.



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The following table sets out the interest rates and terms of AHIP's current debt financing obligations:

| (US$000s unless otherwise noted) | Balance at Dec 31, 2014 | Interest Rate | Initial Term (years) | Maturity Date |
|---|---|---|---|---|
| Oak Tree Inn Hotel Loan | 64,193 | 4.85% | 5 | March 1, 2018 |
| NC/GA Portfolio Assumed Loan #1 | 5,610 | 5.69% | 5 | August 1, 2018 |
| Oak Tree Hotel Loan Amendment | 1,567 | 4.25% | 5 | May 1, 2019 |
| Pittsburgh Portfolio Term Loans | 38,000 | 5.02% | 10 | December 6, 2023 |
| NC/GA Portfolio Assumed Loan #2 | 7,655 | 5.28% | 10 | February 1, 2024 |
| Virginia Portfolio Term Loan | 24,500 | 4.97% | 10 | April 6, 2024 |
| NC/GA Portfolio Term Loan | 6,000 | 4.72% | 10 | July 6, 2024 |
| Texas Portfolio Term Loan | 16,000 | 4.20% | 10 | November 6, 2024 |
| Oklahoma Portfolio Term Loan | 25,500 | 4.20% | 10 | November 6, 2024 |
| NC/FL Portfolio Term Loan | 26,110 | 4.27% | 10 | December 6, 2024 |
| Oak Tree Hotel Loan Amendment | 11,193 | 4.76% | 10 | January 1, 2025 |
| | $ 226,328 | | | |

The weighted average interest rate as at December 31, 2014 was 4.73% (2013 – 4.89%) and the weighted average loan term to maturity as at December 31, 2014 was 7.5 years (2013 – 6.3 years).

Under the terms of the various loans, AHIP is required to maintain quarterly and annual debt covenants. As at December 31, 2014, AHIP was in compliance with all of its debt covenants.

## Capital Resources

AHIP's various loan agreements contain certain financial covenants that AHIP and its subsidiaries are required to maintain including interest coverage and tangible net worth ratios. As at December 31, 2014, AHIP was in compliance with all of its lending ratios and covenants.

Management intends to obtain additional equity financing and/or secured debt financing with similar interest rates and terms to meet AHIP's planned growth strategy. Management has not identified any unfavourable trends or fluctuations that may impact AHIP's ability to obtain additional equity financing and/or secured debt financing. AHIP has not obtained or made use of any additional sources of financing that are not disclosed in its consolidated financial statements.

## Partners' Capital

AHIP is authorized to issue an unlimited number of Units.

On February 20, 2013, AHIP completed its 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. 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.

On October 31, 2013, AHIP completed an Offering of Subscription Receipts, including the exercise of the over-allotment option of 517,500 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.

On November 21, 2013, upon completion of the acquisition of the Pittsburgh Portfolio, 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.

On December 30, 2013, AHIP issued 65,300 Units to certain employees for Unit grants that had vested during the quarter.

On May 1, 2014, as partial consideration for the purchase of a new Oak Tree Inn Hotel in Santa Teresa, New Mexico, AHIP issued 101,247 Units at a price of Cdn$10.825.



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On May 15, 2014, AHIP issued 28,500 Units to an officer for Unit grants that had vested during the quarter.

On June 4, 2014, AHIP completed a bought-deal public offering of 4,900,000 Units, including the partial exercise of the over-allotment option of 552,000 Units, priced at Cdn$10.35 per Unit for gross proceeds of Cdn$50.7 million.

On October 28, 2014, AHIP completed a bought-deal public offering of 4,810,000 Units, including the partial exercise of the over-allotment option of 500,000 Units, priced at Cdn$10.45 per Unit for gross proceeds of Cdn$50.3 million.

On October 28, 2014, as partial consideration for the purchase of a new Oak Tree Inn Hotel in Glendive, Montana, AHIP issued 43,016 Units at a price of Cdn$10.45 per Unit.

On December 30, 2014, AHIP issued 15,000 Units to an officer for Unit grants that had vested during the quarter.

As at December 31, 2014, there were 24,335,563 Units outstanding. On December 31, 2014, the units were traded on the TSX with a closing ask price of Cdn$10.03, and on the OTCQX with a closing ask price of $8.66. As at March 19, 2015, there were 24,402,490 Units outstanding.

## DISTRIBUTION HISTORY

### Distribution Policy

AHIP's current policy is to declare and pay monthly cash distributions using available cash. Management's goal is to maintain a conservative AFFO payout ratio. Management has not identified any legal or practical restrictions on the ability of AHIP's properties to transfer funds within AHIP's structure. The declaration of distributions is subject to the discretion of the Board of Directors of the General Partner and will be evaluated periodically and may be revised. AHIP is currently paying monthly cash distributions of Cdn$0.075 per Unit to Unitholders, which is equivalent to Cdn$0.90 per Unit on an annualized basis. Distribution declarations will be paid to Unitholders of record at the close of business on the last business day of a month on or about the 15th day of the following month.

### Distributions Summary

AHIP declared and paid cash distributions to Unitholders of record from January 1, 2014 to December 31, 2014 as per the following table:

| Month | Record Date | Payment Date | Distribution per Unit (Cdn$) | Amount (Cdn$000s) | Amount ($000s) |
|---|---|---|---|---|---|
| January 2014 | January 31, 2014 | February 17, 2014 | $ 0.075 | $ 1,083 | $ 974 |
| February 2014 | February 28, 2014 | March 14, 2014 | $ 0.075 | $ 1,083 | $ 978 |
| March 2014 | March 31, 2014 | April 15, 2014 | $ 0.075 | $ 1,083 | $ 980 |
| April 2014 | April 30, 2014 | May 15, 2014 | $ 0.075 | $ 1,083 | $ 988 |
| May 2014 | May 30, 2014 | June 16, 2014 | $ 0.075 | $ 1,093 | $ 1,005 |
| June 2014 | June 30, 2014 | July 15, 2014 | $ 0.075 | $ 1,460 | $ 1,367 |
| July 2014 | July 31, 2014 | August 15, 2014 | $ 0.075 | $ 1,460 | $ 1,341 |
| August 2014 | August 29, 2014 | September 15, 2014 | $ 0.075 | $ 1,460 | $ 1,345 |
| September 2014 | September 30, 2014 | October 15, 2014 | $ 0.075 | $ 1,460 | $ 1,303 |
| October 2014 | October 31, 2014 | November 14, 2014 | $ 0.075 | $ 1,824 | $ 1,617 |
| November 2014 | November 28, 2014 | December 15, 2014 | $ 0.075 | $ 1,824 | $ 1,596 |
| December 2014 | December 31, 2014 | January 15, 2015 | $ 0.075 | $ 1,825 | $ 1,573 |
| | | | $ 0.900 | $ 16,738 | $ 15,067 |

Distributions totaling Cdn$5.5 million ($4.8 million) were declared during the three months ended December 31, 2014 (December 31, 2013 – Cdn$3.2 million ($2.5 million)), of which Cdn$1.8 million ($1.6 million) was included in accounts payable and accrued liabilities at December 31, 2014 and subsequently paid on January 15, 2015.



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## OFF-BALANCE SHEET ARRANGEMENTS

AHIP does not have any off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

AHIP entered into a hotel management agreement with Tower Rock Hotels & Resorts Inc. ("Tower Rock"), a company controlled by the Chief Executive Officer of the General Partner, to manage and operate AHIP's hotel properties.

The operating subsidiaries of AHIP are responsible for reimbursing Tower Rock 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 management fees equal to 3.5% of gross revenues to be paid. Tower Rock is also entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures (but excluding repairs and maintenance expenses). In addition, commencing in fiscal 2014, the hotel manager is eligible to receive an incentive fee up to 15% of the amount by which the gross operating profit of all properties managed by Tower Rock, 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. For the year ended December 31, 2014, there were no incentives fees paid or accrued to the hotel manager.

In addition, for each property acquired on February 20, 2013, an annual administration fee of $15,000 is payable 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. An annual fee of $25,000 per property is payable for properties acquired subsequent to February 20, 2013.

AHIP recorded the following fees charged by Tower Rock in corporate and administrative expenses for the three months and twelve months ended December 31, 2014 and December 31, 2013.

| **(US$000s)** | **Three months ended Dec 31, 2014** | **Three months ended Dec 31, 2013** | **Twelve months ended Dec 31, 2014** | **Twelve months ended Dec 31, 2013** |
|---|---|---|---|---|
| Management fees | $ 968 | $ 507 | $ 3,246 | $ 1,682 |
| Administration fees | 259 | 141 | 813 | 440 |
| | $ 1,227 | $ 648 | $ 4,059 | $ 2,122 |

For the three and twelve month period ended December 31, 2014 capital management fees of $0.3 million and $0.4 million were capitalized compared to $0.01 million and $0.2 million for the three and twelve months ended December 31, 2013 due to the construction of the Livonia property.

During the three and twelve months ended December 31, 2014, Tower Rock incurred $8.9 million and $28.4 million, respectively, in direct expenses on behalf of the hotel properties compared to $4.9 million and $11.8 million during the same periods in the prior year. The direct expenses consisted primarily of payroll costs and other general and administrative costs including travel and office expenses.

AHIP entered into a Master Development Agreement with SunOne Developments Inc., a company affiliated with the Chief Executive Officer and a director of the General Partner, to develop suitable hotel properties.



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During 2014, AHIP acquired three hotels from SunOne paid for as follows:

| (US$000s) | Santa Teresa, New Mexico | Glendive, Montana | Brunswick, Maryland | Total |
|---|---|---|---|---|
| Property and equipment | $ 5,156 | $ 4,951 | $ 2,827 | $ 12,934 |
| Financed by: | | | | |
| Cash | $ 382 | $ 804 | $ 2,397 | $ 3,583 |
| Holdback from SunOne | - | - | 50 | 50 |
| Mezzanine loan receivable | 539 | 612 | 380 | 1,531 |
| New Oak Tree Inn Hotel Loan | 3,235 | 3,135 | - | 6,370 |
| Issuance of AHIP's Units | 1,000 | 400 | - | 1,400 |
| | $ 5,156 | $ 4,951 | $ 2,827 | $ 12,934 |

The acquisition of these hotels was considered an asset acquisition as the hotels were not operational on the acquisition date. The purchase price of these assets was calculated based on 95% of the fair market value of the property under development as determined by an independent appraisal.

## CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

The preparation of the consolidated 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, liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of income and expenses during the financial reporting period. Actual results may differ from these estimates.

### Accounting estimates

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. AHIP obtained third-party valuations to support management's determination of the fair value of property, buildings and equipment. Management evaluated the incremental earning stream attributable to the lodging agreements discounted at an expected rate of return to support the determination of the value of intangible assets. The fair values of loans assumed are determined based on various factors including AHIP's assessment of market interest rates for comparable loans.

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 or franchise agreements.

### Accounting standards adopted in the period:

The following new accounting standard was adopted by AHIP effective January 1, 2014. The new accounting standard has been reflected in AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2014.



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i) IFRIC 21 – Levies

IFRIC 21 provides an interpretation of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21. The effective date of this standard was January 1, 2014. The standard had no material impact on AHIP's consolidated financial statements.

## SUBSEQUENT EVENTS

a) Distributions

On January 19, 2015, AHIP announced a cash distribution of Cdn$0.075 per unit, which is equivalent to Cdn$0.90 per Unit on an annualized basis, for the period of January 1, 2015 to January 31, 2015 to be paid to Unitholders of record on January 30, 2015. The distribution was paid on February 13, 2015.

On February 16, 2015, AHIP announced a cash distribution of Cdn$0.075 per unit, which is equivalent to Cdn$0.90 per Unit on an annualized basis, for the period of February 1, 2015 to February 28, 2015 to be paid to Unitholders of record on February 27, 2015. The distribution was paid on March 13, 2015.

On March 17, 2015, AHIP announced a cash distribution of Cdn$0.075 per unit, which is equivalent to Cdn$0.90 per Unit on an annualized basis, for the period of March 1, 2015 to March 31, 2015 to be paid to Unitholders of record on March 31, 2015. The distribution will be paid on April 15, 2015.

b) Acquisition of the Oak Tree Inn Wellington, Kansas on February 25, 2015

On February 25, 2015, AHIP acquired the new 110-room Oak Tree Inn hotel from SunOne pursuant to the Master Development Agreement for $7.4 million. The property is located adjacent to the existing hotel and Penny's Diner and is secured by a long term railway contract. The acquisition was funded by a combination of cash, a new $4.7 million mortgage and the issuance of 66,927 Units, which were issued at Cdn$11.20 per Unit. The mortgage has a floating rate of the 30-day LIBOR rate plus 3.00%, subject to a floor interest rate of 4.00%, a 10-year term and is being amortized over 20 years.

## INTERNAL CONTROLS

National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109") requires the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") to be responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as defined in the instrument. DC&P are designed to provide reasonable assurance that material information required to be disclosed by AHIP in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are designed to ensure that material information required to be disclosed by AHIP in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to AHIP's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

AHIP's ICFR may not prevent or detect all misstatements because of the inherent limitations of any control system. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with AHIP's policies and procedures.

As at December 31, 2014, AHIP's management, under the supervision of its CEO and CFO, has evaluated the effectiveness of AHIP's DC&P and ICFR, with the exception of the scope of design of DC&P and ICFR as noted below and concluded that these controls were operating effectively. Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013).



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In accordance with Section 3.3(1)(b) of NI 52-109, AHIP's CEO and CFO have limited the scope of design of DC&P and ICFR to exclude the controls, policies and procedures related to the Virginia, NC/GA, Texas, Oklahoma and NC/FL Portfolios within the Branded Hotel Portfolio, as they were acquired less than 365 days before the last day of the year ended December 31, 2014. The results of the Branded Hotel Portfolio constitutes approximately 43% and 47% of AHIP's income from operating activities for the three and twelve months ended December 31, 2014, respectively, included in the consolidated financial statements and related notes. AHIP intends to complete the design of DC&P and ICFR for the Virginia Portfolio by March 31, 2015, for the NC/GA Portfolio by September 30, 2015 and for the Texas, Oklahoma and NC/FL Portfolios by December 31, 2015.

## CURRENCY SWAP ARRANGEMENTS

A substantial portion of AHIP's investments and operations are conducted in U.S. dollars and AHIP pays distributions to Unitholders in Canadian dollars. Therefore, AHIP has exposure to fluctuations in currency exchange rates. In general, AHIP benefits from stronger U.S. Dollar relative to the Canadian Dollar with the greatest impact on the monthly distribution. Conversely, a weaker Canadian Dollar increases the amount of equity funds required to complete investments in the United States. For the three months and year ended December 31, 2014, AHIP did not enter into any currency swap arrangements. Management continues to explore currency swap arrangements on a regular basis as a risk management tool.

The following table provides the quarterly CAD/USD exchange rates over the past 12 months:

| CAD/USD Exchange Rate | Three Months Ended Dec 31, 2014 | Sept 30, 2014 | Jun 30, 2014 | Mar 31, 2014 |
|---|---|---|---|---|
| Period end | $ 1.1601 | $ 1.1208 | $ 1.0676 | $ 1.1053 |

## RISKS AND UNCERTAINTIES

Investing in Units involves a high degree of risk. In addition to the risks identified in this section and elsewhere in this MD&A, investors should carefully consider all of the risk factors noted in AHIP's AIF, a copy of which is available on SEDAR at www.sedar.com, before purchasing Units. The occurrence of any of such risks, or other risks not presently known to AHIP or that AHIP currently believes are immaterial, could materially and adversely affect AHIP's investments, prospects, cash flows, results of operations or financial condition and AHIP's ability to make cash distributions to Unitholders. In that event, the value of the Units could decline and investors may lose all or part of their investment.

### RISKS OF REAL ESTATE OWNERSHIP

An investment in Units is an indirect investment in U.S. real estate through AHIP's interest in the U.S. REIT and indirect interest in the properties acquired by the U.S. REIT. Investment in real estate is subject to numerous risks, which include but are not limited to the following:

(a) *General Real Estate Ownership Risks*. All real property investments are subject to a degree of risk and uncertainty and are affected by various factors including general economic conditions, local real estate markets and various other factors.

(b) *Acquisition Risk*. The acquisition of the real property entails risks that investments will fail to perform in accordance with expectations, including the risks that the properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate.

(c) *Financing Risks*. Although a portion of the cash flow generated by the Oak Tree Inn hotels and Branded hotels will be devoted to servicing the related debt financing, there can be no assurance that AHIP will


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continue to generate sufficient cash flow from operations to meet required interest and principal payments. The failure of AHIP to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could adversely impact AHIP's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

AHIP will be subject to the risks associated with debt financing, including the risk that the debt financing, which is secured by AHIP's properties, will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness, which may reduce AFFO. To the extent that interest rates rise over time, AHIP's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution.

The debt financing contains covenants that require AHIP to maintain certain financial ratios on a consolidated basis. If AHIP does not maintain such ratios, its ability to make distributions will be limited. In addition, the debt financing on the Oak Tree Inn Hotels contains a covenant requiring AHIP to maintain guarantees under contracts with railroad operators for at least 60% of the rooms of the borrowers' hotels.

(d) *Economic Dependence*. AHIP is dependent on business derived from a number of contracts with large U.S. railroad operators for minimum room night guarantees and related services. Changes in terms and conditions of such contracts may materially affect future occupancy rates and revenues of the properties of the Oak Tree Inn Hotels. Following the expiry of the initial term of these contracts, the contracts generally provide for automatic renewals in one-year increments, during which time the contracts may be terminated at the option of the railroad operator on 30 days' written notice. Termination of, or failure to renew, the contracts may materially affect future occupancy rates and revenues of the Oak Tree Inn Hotels. The large proportion of guaranteed rooms at pre-negotiated rates may also limit AHIP's ability to increase ADR commensurately with market ADR should ADR rapidly increase in one or more of the markets in which the properties of the Initial Portfolio are located. AHIP is currently negotiating the renewal of twelve railway contracts that expire between June and August 2015. These contracts are with one railway customer and cover 1,137 rooms with contracted room guarantees of 695 rooms. Negotiations are ongoing with the railway company and are expected to be completed prior to the contract expiry dates.

(e) *Interest Rate Risk*. Changes in interest rates could adversely affect AHIP's cash flows and AHIP's ability to pay distributions and make interest payments. Interest rate risk is the combined risk that AHIP would experience a loss as a result of its exposure to a higher interest rate environment (interest rate risk) and the possibility that at the end of a mortgage term AHIP would be unable to renew the maturing debt either with the existing or a new lender (renewal risk).

(f) *Access to Capital*. The real estate industry is highly capital intensive. AHIP will require access to capital to maintain its properties, as well as to fund its growth strategies and significant capital expenditures from time to time. There can be no assurance that AHIP will have access to sufficient capital or access to capital on terms favourable to AHIP for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, in certain circumstances, volatile market conditions and unexpected volatility or illiquidity in financial markets may inhibit AHIP's access to long-term financing in the Canadian capital markets. As a result, it is possible that financing which AHIP may require in order to grow and expand its operations, upon the expiry of the term of financing, on refinancing any particular property owned by AHIP or otherwise, may not be available or, if it is available, may not be available on favourable terms to AHIP.

(g) *Litigation Risks*. In the normal course of AHIP's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to AHIP and as a result, could have a material adverse effect on AHIP's assets, liabilities, business, financial condition and results of operations. Even if AHIP prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from AHIP's business operations, which could have a material adverse effect on AHIP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

(h) *Reliance on Management*. Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will, in large part, be relying on the good faith and expertise of the General Partner and the Hotel Managers and their principals. In particular, prospective purchasers will have to rely on the discretion and ability of the General Partner and its principals in determining the composition of the portfolio of properties, and in negotiating the pricing and other terms of the agreements leading to the acquisition of properties. Prospective purchasers will also have to rely on the ability of the Hotel Managers to manage the operation of the properties and to implement the property management strategy established by AHIP. The ability of the General Partner and the Hotel Managers to successfully implement these strategies will depend in large part on their continued employment of senior management of the General partner and the Hotel Manager, for whom key person life insurance is not maintained. If any of such entities lose the services of one or all of these individuals, the business, financial condition and results of operations of AHIP may be materially adversely affected.

There is a risk that, because of the terms of the Hotel Management Agreements, termination of such agreements may be uneconomical for AHIP and accordingly not in the best interest of AHIP. Should the Hotel Managers terminate the Hotel Management Agreements, AHIP may be required to engage the services of an external property manager and/or alternative external hotel managers. AHIP may be unable to engage a property manager and/or hotel manager on attractive terms, in which case AHIP's operations and cash available for distribution may be materially adversely affected.

(i) *Fluctuations in Capitalization Rates*. As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

(j) *Environmental Matters*. AHIP is subject to various requirements (including federal, provincial, state and municipal laws, as applicable) relating to environmental matters. Such requirements provide that AHIP could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, mercury, volatile organic compounds, underground storage tanks, pesticides and other miscellaneous materials. Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials. Additional liability may be incurred by AHIP with respect to the release of such substances from AHIP's properties to properties owned by third parties, including properties adjacent to AHIP's properties or with respect to the exposure of persons to regulated substances. The failure to remove or otherwise address such substances may materially adversely affect AHIP's ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against AHIP. Environmental laws and other requirements can change and AHIP may become subject to more stringent environmental laws and other requirements in the future. Compliance with more stringent environmental requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on AHIP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

(k) *U.S. Market Factors*. The hotel properties are located in the U.S. Concern about the stability of the markets generally and the strength of the economy may lead lenders to reduce or cease to provide funding to businesses and consumers, and force financial institutions to continue to take the necessary steps to restructure their business and capital structures. Weak economic conditions in the U.S. and the uncertainty over the duration of these conditions could have a negative impact on the lodging industry. As a result of current economic conditions, AHIP could experience weakened demand for hotel rooms, particularly in some markets. Recent improvements in demand trends globally may not continue, and AHIP's future financial results and growth could be harmed or constrained if the recovery stalls or conditions worsen.

(l) *Liquidity Risk*. Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of AHIP to respond to changing economic or investment conditions. If AHIP were to be required to liquidate assets quickly, there is a risk the proceeds realized from such sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances. By specializing in a particular type of real estate, AHIP is exposed to adverse effects on that segment of the real estate market and does not benefit from a broader diversification of its portfolio by property class.

(m) *Changes in Applicable Laws*. AHIP's operations must comply with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include the federal *Hours of Service Act*, zoning laws, building codes, landlord tenant laws and other laws generally applicable to business operations. Non-compliance with laws could expose AHIP to liability. Lower revenue growth or significant unanticipated expenditures may result from AHIP's need to comply with changes in applicable laws, including: (i) laws imposing environmental remedial requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions; or (ii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of AHIP's properties, including changes to building codes and fire and life-safety codes.

(n) *Development Risks*. AHIP's business plan includes, among other things, growth through the indirect acquisition of suitable development properties. Pursuant to the Master Development Agreement, AHIP has preferential rights to cause its Subsidiaries to acquire certain development projects developed by SunOne, as well as the opportunity to finance such development opportunities via mezzanine loans at an interest rate that is accretive to AHIP. If SunOne defaults on a mezzanine loan or debt senior to AHIP's mezzanine loan, or in the event of the bankruptcy of SunOne, AHIP's mezzanine loan will be satisfied only after the senior debt. As a result, AHIP may not recover all or some of its investment in these loans. Also, although it is intended that AHIP's strategic relationship with SunOne will reduce risks associated with new hotel development, AHIP will be exposed to various risks associated with development activities, including the following:

- development costs of a property could exceed original estimates, possibly making the property less profitable than originally estimated, or possibly unprofitable;
- the time required to complete development of a property may be greater than originally anticipated, thereby adversely affecting AHIP's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders; and
- a developed property may not achieve desired revenue or profit goals, thereby adversely affecting AHIP's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders.

## RISKS RELATED TO THE HOTEL AND LODGING INDUSTRY

Investment in the hotel industry is subject to numerous risks, which include but are not limited to the following:

(a) *Operating Risks*. AHIP's ability to make distributions to Unitholders may be adversely affected by various operating risks common to the lodging industry, including competition, over-building and dependence on business travel and tourism. The hotel properties that are owned have different economic characteristics than many other real estate assets. A typical office property, for example, has long-term



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leases with third-party tenants, which provides a relatively stable long-term stream of revenue. Hotels, on the other hand, generate revenue from guests that typically stay at the hotel for only a few nights, which causes the room rate and occupancy levels at each of the hotels to change every day, and results in earnings that can be highly volatile. In addition, the hotels are subject to various operating risks common to the lodging industry, many of which are beyond AHIP's control, including, among others, the following:

- competition from other hotels in the markets in which AHIP operates;
- over-building of hotels in the markets in which AHIP operates, which results in increased supply and will adversely affect occupancy and revenues at AHIP's hotels;
- dependence on business and commercial travelers and tourism;
- dependence of the Initial Portfolio on contracts with large U.S. railroad operators;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- requirements for periodic capital reinvestment to repair and upgrade hotels;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- changes in interest rates;
- changes in the availability, cost and terms of financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- adverse effects of international, national, regional and local economic and market conditions;
- unforeseen events beyond AHIP's control, such as terrorist attacks, travel-related health concerns, including pandemics and epidemics, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;
- adverse effects of worsening conditions in the lodging industry; and
- risks generally associated with the ownership of hotels and real estate, as are discussed in detail herein.

The occurrence of any of the foregoing could materially and adversely affect AHIP.

(b) *Seasonality of the Lodging Industry*. The seasonality of the lodging industry could have a material adverse effect on AHIP. The lodging industry is seasonal in nature, which can be expected to cause quarterly fluctuations in revenues. AHIP's quarterly earnings may be adversely affected by factors outside AHIP's control, including weather conditions and poor economic factors in certain markets in which AHIP operates. This seasonality can be expected to cause periodic fluctuations in room revenues, occupancy levels, room rates and operating expenses in particular hotels. AHIP can provide no assurances that cash flows will be sufficient to offset any shortfalls that occur as a result of these fluctuations.

(c) *Cyclical Nature of the Lodging Industry*. The cyclical nature of the lodging industry may cause fluctuations in AHIP's operating performance, which could have a material adverse effect on AHIP. The lodging industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus revenue per available room, tend to increase when demand growth exceeds supply growth. An adverse change in lodging fundamentals could result in returns that are substantially below its expectations or result in losses, which could have a material adverse effect on AHIP.

(d) *Competition*. The hotel sector is highly competitive. AHIP faces competition from many sources, including from other hotels located in the immediate vicinity of the various properties owned by AHIP, and the broader geographic areas where AHIP's hotels are and will be located. Such competition may reduce occupancy rates and revenues of AHIP and could have a material adverse effect on AHIP's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders. Increases in the cost to AHIP of acquiring hotel properties may materially adversely affect the ability of AHIP to acquire such properties on favourable terms, and may otherwise have a material adverse effect on AHIP's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

(e) *Franchised Hotels*. Each of the Branded Hotels is subject to a franchise agreement. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Such standards are often subject to change over time, in some cases at the discretion of the franchisor, and may restrict a franchisee's ability to make improvements or modifications to a hotel property without the consent of the franchisor. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a hotel to conform to such standards or the failure of AHIP or the Hotel Managers to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement and potential liquidated damages. It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which AHIP determines are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, AHIP may elect to allow the franchise agreement to lapse. If a franchise were terminated, AHIP would generally seek to obtain a suitable replacement franchise. However, there can be no assurance that AHIP would be able to obtain a suitable replacement franchise on acceptable terms, or at all. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

**RISKS RELATING TO THE UNITS**

(a) *Volatile Market Price for Units*. The market price for Units may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond AHIP's control, including the following: (i) actual or anticipated fluctuations in AHIP's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to AHIP; (iv) addition or departure of AHIP's executive officers and other key personnel; (v) release or expiration of lock-up or other transfer restrictions on outstanding Units; (vi) sales or perceived sales of additional Units; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving AHIP or its competitors; and (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in AHIP's industry or target markets. Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of public entities and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of the Units may decline even if AHIP's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of AHIP's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Units by those institutions, which could materially adversely affect the trading price of the Units. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, AHIP's operations could be materially adversely impacted and the trading price of the Units may be materially adversely affected.

(b) *Return on Investment Not Guaranteed*. The Units are equity securities of AHIP and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that AHIP does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. AHIP has the ability to reduce or suspend distributions if circumstances so warrant. The ability of AHIP to make cash distributions, and the actual amount distributed, to Unitholders will be entirely dependent on the operations and assets of AHIP and its direct and indirect Subsidiaries, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by AHIP's properties. The market value of the Units will deteriorate if AHIP is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, AHIP's cash distributions, to the extent they exceed the amount of income for income tax purposes allocated to the Unitholder by AHIP for the year, will result in a net reduction of the adjusted cost base of the Unitholder's Units (i.e. tax deferred returns of capital). The monthly cash distributions to be made to Unitholders in 2015 may or may not comprise tax deferred returns of capital, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a Unitholder may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period. AFFO may exceed actual cash available to AHIP from time to time because of items such as principal repayments and capital expenditures in excess of stipulated reserves identified by AHIP in its calculation of AFFO and redemptions of Units, if any. AHIP may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

(c) *Return on Investment Not Comparable to Fixed-Income Security*. The return on an investment in the Units is not comparable to the return on an investment in a fixed-income security. Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although AHIP intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future. AHIP's ability to make cash distributions and the actual amount distributed will depend on a number of factors, including the financial performance of the Oak Tree Inn Hotels, Branded Hotels, and hotels currently under development through SunOne that will be acquired by AHIP, debt covenants and obligations, interest rates, the occupancy rates of AHIP's properties, working capital requirements, future capital requirements and AHIP's ability to complete future acquisitions. AHIP may be required to supplement its cash distributions from working capital. In addition, the market value of the Units may decline if AHIP reduces its cash distributions or is unable to meet its cash distribution targets in the future.

(d) *Currency Exchange Rate Risk*. The offering price for Units is 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. Although the IPO Offering, the Offering of Subscription Receipts and two other offerings during 2014 were made to Canadian residents and an investment in Units is required to be made in Canadian dollars, the U.S. REIT



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and its Affiliates will conduct business in the U.S. Consequently, income and expense or any ultimate gain on sale will be earned or incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the value of an investment in Units and the return on the original investment may be greater or less than that determined only with reference to U.S. dollars. Accordingly, investors are subject to currency exchange rate risk.

(e) *Non-IFRS Measures*. AHIP refers to certain measures which do not have standardized meanings prescribed by IFRS (see "*Non-IFRS Measures*") and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable measure calculated in accordance with IFRS, as such measures are based on investment which is external to AHIP. The measures used are meaningful to the investors as they are based on the average investor's individual investment in the entities mentioned.

(f) *Unitholders' Legal Rights*. Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against AHIP. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that Act or any other legislation. Furthermore, AHIP is not a trust company and, accordingly, is not registered under any trust and loan company legislation as AHIP does not carry on or intend to carry on the business of a trust company.

(g) *Dilution*. The number of Units AHIP is authorized to issue is unlimited. AHIP may, in AHIP's sole discretion, issue additional Units from time to time. In addition, if the $5.5 million deferred compensation described in the Unit Purchase Agreement is payable, AHIP may determine to pay this amount in Units. Any issuance of Units, including Units issued in consideration for properties acquired by AHIP or Units issued in connection with this deferred compensation, will have a dilutive effect on existing Unitholders.

## CANADIAN TAX-RELATED RISKS

The exposure of AHIP to the tax on SIFT partnerships imposed by the SIFT Measures will depend on whether or not AHIP holds "non-portfolio properties" (as defined in the Tax Act) and earns "taxable non-portfolio earnings" in respect thereof. Where AHIP holds any "non-portfolio properties", it may be subject to adverse consequences, including a tax on its "taxable non-portfolio earnings" (as defined in the Tax Act), with the result that the amount of cash available for distribution by AHIP may be reduced, and that the taxable non-portfolio earnings net of any SIFT tax (being the tax imposed under the Tax Act on "SIFT partnerships" and "SIFT trusts" as these terms are defined in the Tax Act) would be, depending on the circumstances, included in the income of Unitholders for purposes of the Tax Act as eligible dividends.

There can be no assurances that Canadian federal income tax laws respecting the treatment of partnerships and SIFT partnerships will not be changed, or that administrative policies and assessing practices of the CRA will not develop, in a manner which adversely affects AHIP and the Unitholders.

The rules governing the Canadian federal income taxation of Unitholders are complex. This "Canadian Tax-Related Risks" section does not address or consider all aspects of Canadian federal income tax of an investment in AHIP and does not consider provincial, territorial, U.S., State, or other foreign tax legislation or considerations. Prospective investors should consult their own professional advisors as to the tax consequences to them of making an investment in, and of holding, Units.

## U.S. FEDERAL INCOME TAX-RELATED RISKS

The following provides a summary of significant U.S. tax risks, but does not summarize, address or consider all aspects of these or all such risks:

(a) *The US tax treatment depends on AHIP's status as a partnership for U.S. federal income tax purposes*. There is a risk that for the current year, and for any subsequent year, AHIP does not meet the "qualifying





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income" exception to continue to be treated as a partnership for U.S. federal income tax purposes, and is, thus, treated as a corporation for U.S. federal income tax purposes. Should AHIP be treated as a corporation for U.S. federal income tax purposes, the income tax consequences will differ significantly from those described and distributions to Unitholders may be materially lower than if AHIP were treated as a flow-through entity for U.S. federal income tax purposes.

(b) *The U.S. tax treatment also depends on AHIP not being engaged in a U.S. trade or business.* AHIP believes that it is not engaged in a U.S. trade or business for U.S. federal income tax purposes, and intends to use commercially reasonable efforts to structure its activities to avoid generating income treated as effectively connected with a trade or business within the United States ("ECI"**)**, including US real property interest gain (see Item (e) below). It is possible, however, that the IRS could disagree or that the U.S. federal tax laws and Treasury regulations could change and AHIP could be deemed to be engaged in a U.S. trade or business, which would have a material adverse effect on Non-U.S. Unitholders. If, contrary to AHIP's expectations, AHIP is considered to be engaged in a U.S. trade or business or realizes U.S. real property interest gains, Non-U.S. Unitholders would be required to file U.S. federal income tax returns and would be subject to U.S. federal income tax at the regular graduated rates on income from AHIP. Non-U.S. Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

(c) *The U.S. REIT may not qualify in the future as a REIT for U.S. federal income tax purposes*. Given the highly complex nature of the rules governing REITs and the possibility of future changes in circumstances, no assurances can be given that the U.S. REIT will qualify as a REIT for U.S. federal income tax purposes, whether in its first taxable year or in any subsequent year. Should the U.S. REIT fail to qualify as a REIT, it should be subject to U.S. federal income tax and may result in materially reduced distributions to Unitholders. A REIT that is disqualified as a REIT cannot generally elect again to become a REIT prior to the fifth taxable year beginning after the first taxable year for which the termination is effective.

(d) *Potential Uncertainty as to the Availability of Treaty Benefits to Distributions from the U.S. REIT*. Treaty-reduced rates of withholding tax on fixed or determinable, annual or periodic income payments are not available under the Treaty if Unitholders are not considered the beneficial owners of the income earned by AHIP. If Unitholders were not considered the beneficial owners of AHIP's income for these purposes, distributions from the U.S. REIT to AHIP would not be eligible for a reduced rate of withholding tax.

(e) *Change of Law.* There can be no assurance that U.S. federal income tax laws, the terms of the Treaty, and the IRS and Department of the Treasury administrative and legislative policies respecting the U.S. federal income tax consequences described herein will not be changed, possibly on a retroactive basis, in a manner that adversely affects Unitholders. In particular, any such change could increase the amount of U.S. federal income tax or withholding tax payable by AHIP or its subsidiaries, reducing the amount of distributions which AHIP would otherwise receive and thereby reducing the amount available to pay distributions to Unitholders.

The rules governing the U.S. federal income taxation of AHIP, the U.S. REIT and Unitholders are complex. This AIF does not address or consider all aspects of U.S. federal income tax of an investment in AHIP and does not consider state, local, or non-U.S. tax consequences. Prospective investors should consult their own tax advisors to determine the U.S. federal income tax consequences, state, local and/or non-U.S. tax consequences, reporting and any other requirements applicable to their particular situations.

**For all of the aforesaid reasons and others set forth herein, the Units involve a certain degree of risk. Any person currently holding or considering the purchase of Units should be aware of these and other factors set forth in AHIP's AIF and should consult with his or her legal, tax and financial advisors prior to making an investment in the Units. The Units should only be purchased by persons who can afford to lose all of their investment.**



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## ADDITIONAL INFORMATION

Additional information relating to AHIP, including the company's AIF, is available on SEDAR at www.sedar.com.

### DETAILS OF PROPERTY PORTFOLIO AS AT MARCH 19, 2015

| Hotel Address | Location | Number of Rooms | Restaurant |
|---|---|---|---|
| **Oak Tree Inn Hotels** | | | |
| 2407 East Holland Avenue | Alpine, TX | 40 | Yes |
| 3522 N. Highway 59 | Bill, WY | 112 | Yes |
| 3475 Union Road | Buffalo, NY | 56 | - |
| 620 Souder Road (5) | Brunswick, MD | 25 | Yes |
| 1625 Stillwater Avenue | Cheyenne, WV | 60 | Yes |
| 2300 Valley West Ct. | Clinton, IA | 123 | - |
| 21233 Coal River Road | Comfort, WY | 25 | - |
| 1608 W U.S. Business 60 | Dexter, MO | 109 | Yes |
| 4000 Siskiyou Avenue | Dunsmuir, CA | 21 | Yes |
| 95 Spruce Road | Elko, NV | 120 | - |
| 2700 N Diers Parkway | Fremont, NE | 100 | Yes |
| 2006 North Merrill Avenue(4) | Glendive, MT | 50 | Yes |
| 220 15th Street SE | Glenwood, MN | 56 | Yes |
| 1170 W. Flaming Gorge Way | Green River, WY | 191 | Yes |
| 1051 North Market Street | Hearne, TX | 116 | Yes |
| 1110 SE 4th Street | Hermiston, OR | 62 | - |
| 1710 Jefferson Street(2) | Jefferson City, MO | 77 | - |
| 501 SW Boulevard | Kansas City, KS | 111 | - |
| 7875 Airline Highway | Livonia, LA | 42 | Yes |
| 8233 Airline Highway(1) | Livonia, LA | 60 | - |
| 123 Westvaco Road | Low Moor, VA | 30 | Yes |
| 1127 Pony Express Highway | Marysville, KS | 139 | Yes |
| 528 S. George Nigh Expressway | McAlester, OK | 61 | - |
| 777 W Center Street | Milford, UT | 75 | Yes |
| 128 S. Willow Road | Missouri Valley, IA | 41 | Yes |
| 707 E. Webster Street | Morrill, NE | 97 | Yes |
| 451 Halligan Drive | North Platte, NE | 111 | Yes |
| 22 N. Frontage Street | Pecos, TX | 61 | - |
| 2005 E. Daley Street | Rawlins, WY | 62 | Yes |
| K27 & Commerce Street | Sharon Springs, KS | 50 | Yes |
| 12 Kitty Hawk Road(3) | Santa Teresa, NM | 56 | Yes |
| U.S. 285 & 2nd Street | Vaughn, NM | 60 | Yes |
| 1177 E. 16th Street | Wellington, KS | 80 | Yes |
| 1004 E 16th Street(6) | Wellington, KS | 110 | - |
| 1706 N. Park Drive | Winslow, AZ | 72 | - |
| 98 Moffat Avenue | Yampa, CO | 37 | Yes |
| 35450 Yermo Road | Yermo, CA | 65 | Yes |
| 1731 S. Sunridge Drive | Yuma, AZ | 119 | Yes |
| **TOTAL OAK TREE INN HOTELS** | **38 properties** | **2,882** | **26** |

Footnotes:

(1) Opened in May 2013
(2) Opened on February 4, 2014
(3) Opened on May 2, 2014
(4) Acquired on October 28, 2014
(5) Acquired on November 24, 2014
(6) Acquired on February 25, 2015



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## DETAILS OF PROPERTY PORTFOLIO AS AT MARCH 19, 2015 CONTINUED

| Hotel Address | Location | Number of Rooms | Restaurant |
|---|---|---|---|
| **Branded Hotels** | | | |
| 8231 Amarillo Boulevard West (Holiday Inn)[11] | Amarillo, TX | 151 | Yes |
| 6915 I-40 West (Sleep Inn & Suites)[11] | Amarillo, TX | 63 | - |
| 1740 Airport Boulevard (Fairfield Inn & Suites)[11] | Amarillo, TX | 79 | - |
| 1137 E. Dixie Drive (Hampton Inn)[9] | Asheboro, NC | 111 | - |
| 920 Executive Way (Fairfield Inn & Suites)[9] | Asheboro, NC | 87 | - |
| 1308 Freedom Road (Residence Inn)[7] | Cranberry Township, PA | 96 | - |
| 210 Executive Drive (Hampton Inn)[7] | Cranberry Township, PA | 116 | - |
| 898 Wiggins Road (Hampton Inn)[8] | Emporia, VA | 85 | - |
| 85 University Boulevard (Hampton Inn)[8] | Harrisonburg, VA | 160 | - |
| 43 Covenant Drive (Hampton Inn)[8] | Harrisonburg, VA | 68 | - |
| 1319 East King Avenue (Fairfield Inn & Suites)[9] | Kingsland, GA | 82 | - |
| 4355 West New Haven Ave. (Fairfield Inn & Suites)[13] | Melbourne, FL | 83 | - |
| 8514 University Boulevard (Hampton Inn)[7] | Moon (Pittsburgh), PA | 127 | - |
| 4401 SW 15th Street (Holiday Inn)[12] | Oklahoma City, OK | 147 | Yes |
| 4411 SW 15th Street (Staybridge Suites)[12] | Oklahoma City, OK | 103 | - |
| 13800 Quail Springs Parkway (Holiday Inn)[12] | Oklahoma, OK | 109 | Yes |
| 10024 US Highway 15 & 501 (Springhill Suites)[10] | Pinehurst, NC | 107 | - |
| 555 Trumbull Drive (Hampton Inn)[7] | Pittsburgh, PA | 132 | - |
| 150 Arnold Drive (Fairfield Inn & Suites)[8] | South Hill, VA | 90 | - |
| 1508 Cinema Drive (Hampton Inn)[13] | Statesville, NC | 80 | - |
| 1530 Cinema Drive (Courtyard)[13] | Statesville, NC | 94 | - |
| 4735 Helen Hauser Blvd. (Fairfield Inn & Suites)[13] | Titusville, FL | 96 | - |
| 2814 Williams Avenue (Hampton Inn)[12] | Woodward, OK | 81 | - |
| **TOTAL BRANDED HOTELS** | **23 properties** | **2,347** | **3** |
| **GRAND TOTAL** | **61 properties** | **5,229** | **29** |

Footnotes:

(7) Acquired on November 21, 2013
(8) Acquired on March 12, 2014
(9) Acquired on July 3, 2014
(10) Acquired on July 11, 2014
(11) Acquired on October 27, 2014
(12) Acquired on November 3, 2014
(13) Acquired on November 26, 2014

## DETAILS OF SUNONE HOTELS UNDER DEVELOPMENT AS OF MARCH 19, 2015

| Hotel Address | Location | Number of Rooms | Restaurant |
|---|---|---|---|
| 1608 W U.S. Business 60 (expansion) | Dexter, MO | 24 | - |
| **TOTAL SUNONE DEVELOPMENTS** | **1 Property** | **24** | **-** |