A copy of this preliminary prospectus has been filed with the securities regulatory authority in the provinces of Ontario and Alberta but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This preliminary prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or any state securities laws and, subject to certain exceptions, may not be offered or sold in the United States or to U.S. persons.

PRELIMINARY PROSPECTUS

Initial Public Offering December 12, 2018

NEXPOINT HOSPITALITY TRUST

US$ [●]
[●] Units

This prospectus qualifies the distribution to the public (the "**Offering**") of [●] trust units (each, a "**Unit**") of NexPoint Hospitality Trust (the "**REIT**"), a newly-created, unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario. NexPoint Real Estate Advisors VI, L.P. (the "**Advisor**") will manage the REIT and its subsidiaries. The REIT, indirectly through NHT Holdings, LLC ("**NHI**"), will own its properties through its subsidiary, NHT Operating Partnership, LLC (the "**OP**"). In order for NHI, and thus the REIT, to qualify as a real estate investment trust for U.S. federal income tax purposes under the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), the properties will be leased to taxable subsidiaries of the REIT (the "**TRS Entities**") which will in turn contract with eligible independent contractors (as defined in the Code) to manage the day-to-day operations of the hotels. The property managers for each of the hotels in the Initial Portfolio (as defined below) are affiliates of Aimbridge Hospitality Holdings, LLC (collectively, the "**Manager**"). The Advisor gives the REIT access to an experienced management team in the public and private real estate investment trust market, with an extensive track record and network of industry relationships, as well as a management platform with deep knowledge of the REIT's current assets and markets and target markets. The Advisor's team has over 100 combined years of general experience in real estate acquisitions, dispositions, financing, rehab implementation and specific experience in hospitality, including the REIT's strategy. The Manager is a recognized leader in the hospitality space and as of September 30, 2018, manages over 812 hotel properties comprised of approximately 98,000 rooms across all segments of the hospitality space including select service and extended stay properties. See "Management and Franchise Agreements".

The REIT and its subsidiaries have been formed to acquire, own, renovate and operate a portfolio of income-producing hotel properties located in the United States. On closing of the Offering and completion of the transactions described under the "Contribution of the Initial Portfolio" (the "**Closing**") the REIT will indirectly own a portfolio of 11 hotel properties located throughout the continental United States. See "The Initial Portfolio" and the "Contribution of the Initial Portfolio". Ten of the properties within the Initial Portfolio are currently owned directly or indirectly by vehicles controlled by the principals of the Advisor and its affiliates and subsidiaries (collectively, "**NexPoint**") and one property is currently owned by a third party and will be acquired by the REIT following Closing. The REIT's portfolio will generate cash flow in U.S. dollars and the distributions made on the Units of the REIT will be denominated in U.S. dollars.

The objectives of the REIT are to: (a) provide unitholders of the REIT (the "**Unitholders**") with an opportunity to invest in an initial portfolio of extended-stay, select-service and efficient full service hotels located in attractive U.S. markets and competitively positioned to outperform the industry as a whole; (b) provide Unitholders with predictable, sustainable and growing tax efficient cash distributions; (c) enhance the value of the REIT's assets and maximize the long-term value of the Units through active asset and property management programs and procedures; and (d) expand the asset base of the REIT and increase the REIT's Core FFO (as defined below) per Unit primarily through acquisitions and improvements of its properties, including the Initial Portfolio, using targeted and strategic capital expenditures. See "Objectives of the REIT".

The REIT intends to adopt a distribution policy, as permitted under the Declaration of Trust, pursuant to which it will make pro rata monthly cash distributions to Unitholders initially equal to, on an annual basis, approximately 65% to 80% of estimated Core FFO (as defined below) and initially expected to be approximately 65% of Core FFO.

Price US$15.00 per Unit

	Price to the Public(1)(2)	Agent's Fee	Net Proceeds(3)
Per Unit	$15.00	$ [●]	$ [●]
Total(4)	$ [●]	$ [●]	$ [●]

Notes:

(1) Except as otherwise stated in this prospectus, all dollar amounts are stated in U.S. dollars.

(2) The price of the Units (the "**Offering Price**") was established by negotiation among the REIT, the Promoter and the Agent.

(3) Before deducting expenses of the Offering estimated at approximately $[●] which, together with the Agent's fee, will be paid from the proceeds of the Offering.

There is no market through which the Units may be sold and, if a market for the Units does not develop or is not sustained, purchasers may not be able to resell Units purchased under this prospectus. This may affect the pricing of the Units in the secondary market, the transparency and availability of trading prices, the liquidity of the Units and the extent of issuer regulation. See "Risk Factors". The REIT has applied to have the Units listed on the Toronto Stock Exchange (the "TSX") under the symbol "NHT". Listing is subject to the approval of the TSX in accordance with its original listing requirements. The TSX has not conditionally approved the REIT's listing application and there is no assurance that the TSX will approve the listing application. Closing is conditional upon the Units being approved for listing on the TSX. See "Plan of Distribution".

A return on a Unitholder's investment in Units is not comparable to the return on an investment in a fixed income security. The recovery of a Unitholder's initial investment is at risk, and the anticipated return on a Unitholder's investment is based on many performance assumptions. Although the REIT intends to make distributions from Core FFO to Unitholders, these distributions may be reduced or suspended. The actual amount distributed will depend on numerous factors including the financial performance of the REIT's properties, debt covenants and other contractual obligations, working capital requirements and future capital requirements, all of which are subject to a number of risks. The market value of the Units may decline if the REIT is unable to meet its Core FFO targets in the future, and that decline may be material. See "Non-IFRS Measures". **An investment in the Units involves a number of risks and it is important to consider the particular risk factors described in the "Risk Factors" section of this prospectus, which may affect the REIT, its business and the hotel industry, and therefore the availability of funds necessary to make distributions to a purchaser of Units.**

Because the REIT will be treated as a real estate investment trust for U.S. federal income tax purposes, distributions paid by the REIT to Canadian investors that are made out of the REIT's current or accumulated earnings and profits (as determined under U.S. federal income tax principles) generally will be subject to U.S. withholding tax at a rate of 30%, which may be reduced to 15% for investors that qualify for benefits under the United States-Canada Income Tax Convention (1980, as amended) (the "**Treaty**"), provided that the required form evidencing eligibility for such benefits is filed with the REIT or the appropriate withholding agent. To the extent a Canadian investor is subject to U.S. withholding tax in respect of distributions paid by the REIT on the Units out of the REIT's current or accumulated earnings and profits, the amount of such tax generally will be eligible for foreign tax credit or deduction treatment, subject to the detailed rules and limitations under the *Income Tax Act* (Canada) (the "**Tax Act**"). So long as the Units continue to be regularly traded on an established securities market, distributions with respect to Units in excess of the REIT's current and accumulated earnings and profits that are distributed to Canadian investors that have not owned (or been deemed to own) more than 10% of the outstanding Units generally will not be subject to U.S. withholding tax, although there can be no assurances that withholding on such amounts will not be required. The composition of distributions for U.S. federal income tax purposes may change over time,

which may affect the after-tax return to Unitholders. Qualified residents of Canada that are tax-exempt entities established to provide pension, retirement or other employee benefits (including trusts governed by a RRSP, a RRIF or a DPSP, but excluding trusts governed by a TFSA, RESP or a RDSP (each as defined below)) may be eligible for an exemption from U.S. withholding tax. The foregoing is qualified by the more detailed summary in this Prospectus. See "Certain Canadian Federal Income Tax Considerations" and "Certain U.S. Federal Income Tax Considerations". See also "Risk Factors – Tax-Related Risk Factors".

The after-tax return from an investment in Units to Unitholders subject to Canadian federal income tax will depend, in part, on the composition for Canadian federal income tax purposes of distributions paid by the REIT, portions of which may be fully or partially taxable or may constitute tax deferred returns of capital (i.e., returns that initially are non-taxable but which reduce the adjusted cost base of the Unitholders' Units). The composition of distributions for Canadian federal income tax purposes may change over time, thus affecting the after-tax return to Unitholders. See "Distribution Policy" and "Risk Factors – Tax-Related Risk Factors".

Raymond James Ltd. (the "**Agent**"), conditionally offers the Units, subject to prior sale, if, as and when issued by the REIT and accepted by the Agent in accordance with the conditions contained in the Agency Agreement (as defined below) and subject to the approval of certain legal matters on behalf of the REIT by Goodmans LLP and Baker & McKenzie LLP (with respect to U.S. tax matters), and on behalf of the Agent by Blake, Cassels & Graydon LLP. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Closing is expected to occur on [●] but in any event no later than [●]. Registrations and transfers of Units will be effected electronically through the non-certificated inventory ("**NCI**") system administered by CDS Clearing and Depository Services Inc. ("**CDS**"). Beneficial owners of Units will not, except in certain limited circumstances, be entitled to receive physical certificates evidencing their ownership of Units. See "Plan of Distribution" and "Declaration of Trust — Non-Certificated Inventory System". **The Agent may offer the Units at lower prices than stated above. See "Plan of Distribution".**

NexPoint Real Estate Advisors VI, L.P., which has acted as promoter (the "**Promoter**"), is organized under the laws of a foreign jurisdiction and resides outside Canada. James Dondero, Brian Mitts and Matthew McGraner are executive officers of the REIT and reside outside Canada. Although such Promoter and non-resident persons have appointed GODA Incorporators, Inc., 333 Bay Street, Suite 3400, Toronto, Ontario M5H 2S7, as its agent for service of process in Ontario, it may not be possible for investors to enforce judgments obtained in Canada against such Promoter or persons. See "Risk Factors" and "Enforcement of Judgments Against Foreign Persons".

The REIT is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that statute or any other legislation.

An affiliate of the Agent has provided the REIT with a credit facility. Consequently, the REIT may be considered a "connected issuer" of the Agent under applicable Canadian securities laws. See "Debt Strategy and Indebtedness" and "Plan of Distribution – Relationship Between the REIT and the Agent".

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MEANING OF CERTAIN REFERENCES

In this prospectus, except where otherwise indicated or the context otherwise requires, it is assumed that the transactions described under "The Contribution of the Initial Portfolio" have been completed.

References to the "REIT" in this prospectus includes its subsidiaries, unless the context otherwise requires. Unless otherwise indicated, all dollar amounts in this prospectus are stated in U.S. dollars and references to dollars or "$" are to U.S. currency and references to Canadian dollars or "C$" are to Canadian currency.

Certain terms used in this prospectus are defined under "Glossary".

References to "management" in this prospectus means the persons acting in the capacities of the REIT's Chief Executive Officer ("**CEO**"), Chief Financial Officer (**"CFO**") and Chief Investment Officer ("**CIO**"). Any statements in this prospectus made by or on behalf of management are made in such persons' capacities as officers of the REIT or the Advisor and not in their personal capacities.

ELIGIBILITY FOR INVESTMENT

In the opinion of Goodmans LLP, counsel to the REIT, based on the current provisions of the Tax Act, and subject to the provisions of any particular plan, provided that the REIT qualifies at all times as a "mutual fund trust" (as defined in the Tax Act) or the Units are listed on a "designated stock exchange" (as defined in the Tax Act, which includes the TSX), the Units will be a qualified investment for trusts governed by a registered retirement savings plan ("**RRSP**"), registered education savings plan ("**RESP**"), registered retirement income fund ("**RRIF**"), deferred profit sharing plan ("**DPSP**"), registered disability savings plan ("**RDSP**") and a tax-free savings account ("**TFSA**") (collectively, "**Exempt Plans**").

Notwithstanding the foregoing, if the Units are a "prohibited investment" (as defined in the Tax Act) for a trust governed by a TFSA, RRSP, RRIF, RESP or RDSP, the holder, annuitant or subscriber thereof will be subject to a penalty tax as set out in the Tax Act. The Units will not be a prohibited investment for a TFSA, RRSP, RRIF, RESP or RDSP provided the holder, annuitant or subscriber (as the case may be) of such registered plan deals at arm's length with the REIT, for purposes of the Tax Act, and does not have a "significant interest" (as defined in the Tax Act) in the REIT. Generally, a holder, annuitant or subscriber will have a significant interest in the REIT if the holder, annuitant or subscriber and/or persons not dealing at arm's length with the holder, annuitant or subscriber, for the purposes of the Tax Act, own, directly or indirectly, 10% or more of the fair market value of the Units. In addition, the Units will not be a "prohibited investment" if the Units are "excluded property" as defined in the Tax Act for trusts governed by a TFSA, RRSP, RRIF, RESP or RDSP. Prospective purchasers who intend to hold their Units in their TFSAs, RRSPs, RRIFs, RESPs or RDSPs should consult their own tax advisors regarding their particular circumstances.

MARKET AND INDUSTRY DATA

This prospectus includes market and industry data and forecasts that were obtained from third party sources, industry publications and publicly available information as well as industry data prepared by management on the basis of its knowledge of the hotel industry in which the REIT will operate (including management's estimates and assumptions relating to the industry based on that knowledge). Some data and other information are also based on management's good faith estimates, which are derived from its review of proprietary and independent research, and independent sources. Management's knowledge of the United States hotel industry has been developed through its experience and participation in the industry. Management believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although management believes it to be reliable, the REIT has not independently verified any of the data from management or third party sources referred to in this prospectus, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon by such sources.

RELIANCE

Unless otherwise stated, the information contained in this prospectus is accurate only as of the date of this prospectus. The REIT's business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

This prospectus contains summary descriptions of certain material agreements of the REIT. See "Material Contracts". The summary descriptions disclose attributes of such agreements material to an investor in Units but are not complete and are qualified in their entirety by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and made available electronically on SEDAR at www.sedar.com. Investors should read the full text of such material agreements.

NON-IFRS MEASURES

In this prospectus, the REIT uses certain non-IFRS financial measures, which include core funds from operations ("**Core FFO**"), earnings before interest, taxes, depreciation and amortization ("**EBITDA**"), funds from operations ("**FFO**") and net operating income ("**NOI**"). These terms are not measures recognized under International Financial Reporting Standards ("**IFRS**") and do not have standardized meanings prescribed by IFRS. Management believes that these measures are helpful to investors because they are widely recognized measures of a REIT's performance and provide a relevant basis for comparison among real estate entities.

"**Core FFO**" means FFO with certain adjustments which are either not likely to occur on a regular basis or are otherwise not representative of the ongoing operating performance of the REIT's portfolio. Core FFO adjusts FFO to remove items such as losses on extinguishment of debt and modification costs (includes prepayment penalties incurred and the write-off of unamortized deferred financing costs and fair market value adjustments of assumed debt related to the retirement of debt and costs incurred in connection with a debt modification that are expensed), casualty-related expenses and recoveries, the amortization of deferred financing costs incurred in the current period, and the non-controlling interests related to these items.

"**Debt**" means the total principal amounts outstanding by the REIT under mortgages payable and term preferred equity which under IFRS is accounted for as a liability.

"**Debt to Gross Book Value Ratio**" is calculated by dividing Debt, which consists of the total principal amounts outstanding under mortgages payable and term preferred equity which under IFRS is accounted for as a liability, by Gross Book Value.

"**EBITDA**" means earnings before interest, taxes, depreciation and amortization.

"**FFO**" means net income (loss) and comprehensive income (loss) calculated in accordance with IFRS, excluding: (i) depreciation of depreciable real estate assets and amortization of customer relationships and intangible assets arising from a business combination; (ii) gains (or losses) from sales of hotel properties and equipment; (iii) deferred income tax expense (recovery); (iv) impairment losses or reversals recognized on land and depreciable real estate properties; (v) transaction costs expensed as a result of the purchase of a hotel property being accounted for as a business combination; (vi) fair value adjustments to certain financial instruments; and (vii) the non-controlling interests in respect of the above. FFO has been prepared consistently with the definition presented in the White Paper on funds from operations prepared by the Real Property Association of Canada for all periods presented.

"**Gross Book Value**" means, at any time, the greater of (i) the book value of the assets of the REIT and its consolidated subsidiaries, as shown on its then most recent consolidated balance sheet prepared in accordance with IFRS; and (ii) the historical cost of the investment properties, plus (a) the carrying value of cash and cash equivalents; (b) the carrying value of mortgages receivable; and (c) the historical cost of other assets and investments used in operations; less accumulated depreciation.

"**Mortgage Debt to Gross Book Value Ratio**" is calculated by dividing principal amounts outstanding under mortgages payable by Gross Book Value.

"**NOI**" means total revenues from properties less hotel operating expenses as presented in the combined statements of income prepared in accordance with IFRS.

"**NOI Margin**" means NOI divided by the total revenues from properties as presented in the combined statements of income prepared in accordance with IFRS.

"**Non-Room Revenues**" means ancillary revenues generated by a hotel property, such as food and beverage, parking, telephone and other guest service revenues.

Core FFO, Debt, Debt to Gross Book Value Ratio, EBITDA, FFO, Mortgage Debt to Gross Book Value Ratio, NOI and Non-Room Revenues should not be construed as alternatives to net income and comprehensive income determined in accordance with IFRS as indicators of the REIT's performance. The REIT's method of calculating Core FFO, Debt, Debt to Gross Book Value Ratio, EBITDA, FFO, Mortgage Debt to Gross Book Value Ratio, NOI and Non-Room Revenues may differ from other issuers' methods and accordingly may not be comparable to measures used by other issuers.

SELECT INDUSTRY TERMS

In this prospectus, the REIT uses certain terms commonly used in the hotel and lodging industry, including the following:

"**Average Daily Rate**" or "**ADR**" represents hotel room revenues (excluding Non-Room Revenues and taxes) divided by the total number of rooms sold in a given period, divided by the number of days in the period.

"**Occupancy**" means the total number of room nights sold divided by the total number of room nights available at a hotel or group of hotels.

"**Revenue per Available Room**" or "**RevPAR**" means hotel room revenue divided by total number of room nights available to guests for a given period. RevPAR does not include Non-Room Revenues. Management uses RevPAR to identify trend information with respect to room revenues from comparable properties and to evaluate hotel performance. RevPAR is a commonly used performance measure in the hotel industry. RevPAR changes that are driven predominantly by changes in occupancy have different implications for overall revenue levels and incremental profitability than do changes that are driven predominantly by changes in average room rates.

"**RevPAR Index**" measures a hotel's RevPAR performance relative to an aggregated grouping of hotels (i.e., competitive set, market or submarket, etc.). If all things are equal, a property's RevPAR Index is 100, compared to the aggregated group of hotels. A RevPAR Index above 100 indicates an outperformance against the aggregated grouping, and a RevPAR Index below 100 indicates an underperformance against the aggregated grouping of hotels. For example, a hotel with a RevPAR of $105 measured against a competitive set with an average RevPAR of $100 would have a RevPAR Index of 105% ($105 / $100 = 105%). RevPAR Index is also often referred to in the hotel industry as "RevPAR Penetration".

FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking information" as defined under Canadian securities laws (collectively, "**forward-looking statements**") which reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of the REIT. The words "plans", "expects", "does not expect", "scheduled", "goals", "seek", "strategy", "future", "estimates", "intends", "anticipates", "does not anticipate", "projects", "believes" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "should", "might", "likely", "occur", "be achieved" or "continue" and similar expressions identify forward looking statements. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking statements. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Some of the specific forward-looking statements in this prospectus include, but are not limited to, statements with respect to the following:

- the closing of the contribution of the Initial Portfolio;
- the closing of the Acquisition (as defined below);
- the listing of the Units on the TSX;
- the intention of the REIT to pay, preserve, protect and grow Unitholders' distributions;
- the ability of the REIT to execute its growth strategies;
- the REIT's competitive position within its industry;
- expectations regarding laws, rules and regulations applicable to the REIT;
- the expected tax treatment of the REIT and of the REIT's distributions to Unitholders;
- the expected industry and demographic trends; and
- the expected increase in NOI/EBITDA based on the renovation of 1,012 rooms to be renovated throughout the Initial Portfolio.

Such forward-looking statements are qualified in their entirety by the inherent risks, uncertainties and changes in circumstances surrounding future expectations which are difficult to predict and many of which are beyond the control of the REIT, including that the transactions contemplated herein are completed.

Forward-looking statements are necessarily based on a number of estimates and assumptions that, while considered reasonable by management of the REIT as of the date of this prospectus, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The REIT's estimates, beliefs and assumptions, which may prove to be incorrect, include the various assumptions set forth herein, including, but not limited to, the REIT's future growth potential, results of operations, future prospects and opportunities, demographic and industry trends, no change in legislative or regulatory matters, future levels of indebtedness, the tax laws as currently in effect, the continuing availability of capital and the current economic conditions.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties. Forward-looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ, possibly materially, from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors".

Certain statements included in this prospectus may be considered a "financial outlook" for purposes of applicable Canadian securities laws, and as such, the financial outlook may not be appropriate for purposes other than this prospectus. All forward-looking statements are based only on information currently available. to the REIT and are made as of the date of this prospectus. Except as expressly required by applicable Canadian securities laws, the REIT assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements in this prospectus are qualified by these cautionary statements.

EXCHANGE RATE INFORMATION

The properties comprising the Initial Portfolio are located in the United States. The REIT discloses all financial information contained in this prospectus in U.S. dollars. The following table sets forth, for the periods

indicated, the high, low, average and period-end indicative rates of exchange for US$1.00, expressed in Canadian dollars, published by the Bank of Canada.

	Nine months ended September 30	Year ended December 31		
	2018[(1)]	**2017[(1)]**	**2016[(2)]**	**2015[(2)]**
	($)	**($)**	**($)**	**($)**
Highest rate during the period	1.3310	1.3743	1.4589	1.399
Lowest rate during the period	1.2288	1.2128	1.2544	1.1728
Average rate for the period	1.2876	1.2986	1.3248	1.2787
Rate at the end of period	1.2945	1.2545	1.3427	1.384

Notes:

(1) 2018 and 2017 data from the Bank of Canada reflects the daily average exchange rates.

(2) 2016 and 2015 data from the Bank of Canada reflects the noon exchange rates.

On **[●]**, 2018, the daily average rate of exchange posted by the Bank of Canada for conversion of U.S. dollars into Canadian dollars was $1.00 equals C$**[●]**.

PROSPECTUS SUMMARY

The following is a summary of the principal terms of the prospectus and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. For an explanation of certain terms and abbreviations used in this prospectus, please refer to the "Glossary" section of this prospectus.

THE REIT

Overview

NexPoint Hospitality Trust (the "**REIT**") is a newly-created, unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust (the "**Declaration of Trust**") under the laws of the Province of Ontario. The REIT has been created for the purpose of aggregating a portfolio of 11 hospitality assets located in the United States (the "**Initial Portfolio**"), to raise capital to acquire additional U.S. located hospitality assets that meet its investment objectives and criteria and to own, renovate and operate its portfolio of income-producing hotel properties. The REIT is externally managed by NexPoint Real Estate Advisors VI, L.P. (the "**Advisor**"), which has been formed for the purpose of managing the REIT and its subsidiaries.

The REIT will indirectly wholly-own NHT Holdings, LLC ("**NHI**"), a newly formed Delaware limited liability company that intends to elect to be treated as a real estate investment trust under U.S. tax laws. Substantially all of NHI's business will be conducted through NHT Operating Partnership, LLC (the "**OP**"), the REIT's operating partnership, which is a newly formed Delaware limited liability company. The REIT will own its properties through the OP and its subsidiaries. The OP and its subsidiaries will lease the properties to taxable subsidiaries of the REIT (the "**TRS Entities**"), in order for NHI, and thus the REIT, to qualify as a real estate investment trust for U.S. federal income tax purposes under the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), which will, in turn, engage eligible independent contractors (as defined in the Code), affiliates of Aimbridge Hospitality Holdings, LLC (the "**Manager**"), to manage the day-to-day operations of the hotels.

The Advisor gives the REIT access to an experienced management team and extensive network of industry relationships, as well as a management platform with deep knowledge of the assets and markets. The Advisor is an affiliate of various entities managed by the principals and officers of the Advisor, which manage approximately $4.5 billion of real estate investments as of October 31, 2018. The Advisor's team has over 100 years of general experience in real estate acquisitions, dispositions, financing, rehab implementation and specific experience in hospitality, including the REIT's strategy. Over the past five years, the Advisor's team has closed $5.5 billion of U.S. real estate transactions across multiple property types including: multifamily, hospitality, single family rental, storage, health care, office and retail. The team also externally manages, through an affiliate of the Advisor, a publicly traded REIT, NexPoint Residential Trust, which focuses on class B multifamily assets with a value-enhancing opportunity located in high growth cities in the Southeastern and Southwestern United States. Since listing of NexPoint Residential Trust on the New York Stock Exchange on April 1, 2015, the Advisor's team has delivered a return of 205.6% to shareholders (inclusive of reinvested dividends) through November 30, 2018. The structure and history of NexPoint Residential Trust is very similar to that of the REIT in that the Initial Portfolio was acquired through private entities that were later aggregated into a real estate investment trust and then listed on a public exchange.

Objectives of the REIT

The objectives of the REIT are to: (a) provide Unitholders with an opportunity to invest in an initial portfolio of extended-stay, select-service and efficient full service hotels located in attractive U.S. markets and competitively positioned to outperform the industry as a whole; (b) provide Unitholders with predictable, sustainable and growing tax efficient cash distributions; (c) enhance the value of the REIT's assets and maximize the long-term value of the Units through active asset and property management programs and procedures; and (d) expand the asset base of the REIT and increase the REIT's Core FFO per Unit primarily through acquisitions and improvements of its properties, including the Initial Portfolio, using targeted and strategic capital expenditures. See "Objectives of the REIT".

Investment Opportunity

The REIT intends to achieve its investment objectives by acquiring hotel properties that will offer a high current yield and in many cases are underperforming assets with the potential to increase in value through investments in capital improvements, a market-based recovery, brand repositioning, revenue enhancements, operational improvements, expense inefficiencies, and exploiting excess land or underutilized space. The Advisor plans to target markets that have a stable yet growing and reliable demand base as well as real barriers to entry and limited present and future competitive new supply growth. The REIT expects that its hotel properties will be located in areas that it believes exhibit strong economic attributes such as job growth, strong business or transitory travel and leisure travel. Select-service and extended stay hotel properties, which the REIT expects to comprise a majority of its portfolio, typically do not include amenities provided in full-service hotel properties; therefore, select-service and extended stay hotel properties primarily derive their revenues from hotel room rentals and, to a lesser extent, from restaurants, meeting space and other similar income streams. Extended-stay hotel properties are generally high-quality, residential style hotels that offer a package of services and amenities for extended-stay business and leisure travelers. The REIT may also opportunistically invest in efficient full-service hotel properties, although it does not expect such properties to comprise a substantial portion of its portfolio. Full-service hotel properties generally provide a full complement of guest amenities including restaurants, large meeting facilities, concierge, and room service, porter service or valet parking. The REIT may also originate or make investments in debt related to targeted hotel properties.

See “Investment Opportunity”.

Investment Highlights

The following describes the investment highlights of the Offering.

Access to Hospitality Assets Located in the United States on a Tax Efficient Basis. Management believes that the United States real estate market is one of the most dynamic, stable and liquid real estate markets in the world. The ability for Canadian investors to access hospitality assets located in the U.S. is difficult as investing directly in real estate investment trusts domiciled in the U.S. is a tax inefficient avenue for exposure to this important asset class. Currently, there are very few alternatives domiciled in Canada that invest primarily in hospitality properties located in the U.S. Using the REIT’s structure whereby it is taxed as a U.S. real estate investment trust but is domiciled in Canada, the REIT offers a tax efficient way for Canadian investors to gain exposure to U.S. hospitality assets.

Attractive Asset Class with Favorable Fundamentals. Hospitality properties offer the shortest duration leases of any real estate sector which offers the ability to adjust pricing of rooms immediately to meet market demand, which should provide an inflation hedge during periods of economic expansion and rising interest rates. The REIT believes its strategy of targeting older properties in need of capital improvements that can be repositioned to generate higher revenues will work in all market cycles and produce high current returns to investors and offers a unique opportunity for Canadian retail investors to access an institutional strategy through a publicly traded, tax efficient vehicle. The REIT expects to benefit from the increase in overall economic activity, increased discretionary spending and business and leisure travel in the U.S. as well as benefit from its ability to adjust its operations to weather an economic downturn and provide consistent relative returns through all economic cycles.

Unique Strategy Offering a Total Return Profile. Management believes that the REIT’s strategy of buying older properties that need capital improvements, a market-based recovery, brand repositioning, revenue enhancements, operational improvements, expense inefficiencies, and exploiting excess land or underutilized space, gives it the opportunity to generate high current yield as well as capital appreciation over time.

Attractive and Stable Yield. The REIT intends to pay a monthly cash distribution, representing approximately 65% of the REIT’s Core FFO and to increase the REIT’s dividend over time such that the REIT pays out annually 65% to 80% of its Core FFO.

Sizeable Quality Portfolio with Embedded Growth Opportunity. The Initial Portfolio is comprised of 11 properties located throughout the U.S. in the select service and extended stay hospitality categories. Each property has a long-term franchise agreement with Marriott, Hilton or InterContinental Hotels Group sponsored brands. The REIT believes each property in the Initial Portfolio has the opportunity to generate outsized market share improvements and topline increases as leading select service or extended stay hotels in their respective submarkets. In addition to organic growth, the REIT is expected to realize additional embedded growth from its capital improvement strategy.

Attractive External Growth Strategy. The REIT expects to capitalize on a pipeline of target hospitality investments requiring funding for capital improvements or brand repositioning that exist in the U.S. market by utilizing its ability to raise new capital as a publicly traded entity. The REIT believes it will be able to react more quickly and more opportunistically in its investment program as compared to private fund structures, which can limit the ability of a fund investor to benefit from transactions that require a quick closing or that require capital in excess of existing investor commitments. Additionally, the Offering, and potential future offerings, will allow the REIT to avoid the lengthy and time consuming private fundraising process, which will increase the time available to focus on investment and asset management activity for the REIT.

Management Team Aligned with Shareholders. Members of the management team will be aligned with shareholders through a significant ownership percentage in the REIT. At Closing, the management team will own approximately [●]% of the REIT.

See "Investment Highlights" and "Risk Factors".

Growth Strategies

The REIT intends to grow in three ways. First, through organic growth expected from favorable economic and demographic fundamentals within its existing markets. Second, the REIT believes the Initial Portfolio will provide opportunities for further embedded growth through value-enhancing initiatives such as the REIT's capital improvement program. Third, the REIT believes there are ample assets that fit its strategy and intends to pursue a disciplined external growth strategy by acquiring well located hospitality properties that it believes have the potential to generate higher yields and growth prospects through the REIT's capital improvement program.

To find hotel properties that best meet its selection criteria for investment, the Advisor's property acquisition team will study regional demographics and market conditions, interview local brokers and operators, and utilize its network of external real estate professionals to gain the practical knowledge that studies sometimes lack. The property acquisitions team will also work with various property managers and affiliates to tap into their vast network and broad market exposure. Additionally, where the REIT believes it gives it a comparative advantage, it will partner with firms that have an expertise in the property class and geographic area where it is seeking to acquire properties. An experienced commercial construction engineer will inspect the structural soundness and the operating systems of each building, and an environmental firm will investigate environmental issues to ensure each property meets its quality specifications. The Advisor's management team will emphasize thorough market research, local market knowledge, underwriting discipline, and risk management in evaluating potential investments.

See "Growth Strategies".

Initial Portfolio

The Initial Portfolio consists of 11 properties comprised of 1,607 rooms. The Initial Portfolio is located across six major metropolitan statistical area ("**MSA**") markets in five states in the continental United States.

The following table highlights certain information about the Initial Portfolio as at September 30, 2018:

Brand	Location	Year Built /Renovated	Rooms	RevPAR
Hilton				
Hilton Garden Inn	Dallas, Texas	1995/2015	240	$88.69
DoubleTree	Beaverton, Oregon	1997/2018	98	$107.27
DoubleTree	Bend, Oregon	1998/2018	117	$127.68
DoubleTree	Olympia, Washington	2000/2018	102	$104.78
DoubleTree	Tigard, Oregon	1996/2018	101	$100.40
DoubleTree	Vancouver, Washington	1996/2018	98	$102.61

Brand	Location	Year Built /Renovated	Rooms	RevPAR
Homewood Suites	Plano, Texas	1997/2018	99	$78.26
Homewood Suites	Addison, Texas	1990/2018	120	$69.51
Homewood Suites	Irving, Texas	1990/2018	136	$88.92
Marriott				
Marriott	St. Petersburg, Florida	2001/2010	209	$116.69
InterContinental Hotels Group				
Holiday Inn Express	Nashville, Tennessee	1968/2018	287	$192.28
Total Rooms:			**1607**	

Description of the Initial Portfolio

Hilton Garden Inn Dallas Market Center

The hotel is centrally located and proximate to many of the region's major demand generator's including Dallas Love Field and several medical facilities in the Dallas Medical District. The hotel is also within walking distance to the more than five million square foot Dallas Market Center and one of the largest convention hotels in the southwest United States, the 1,600 room Hilton Anatole. The hotel is an "upscale" class hotel that was most recently renovated in 2015 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

DoubleTree Beaverton

The hotel benefits from its strategic positioning in the heart of "Silicon Forest", a high-technology industry cluster in Oregon. The hotel is situated near corporate headquarters or a major presence of several consumer brands such as Nike, Adidas, Intel, IBM, and Columbia Sportswear. The hotel is also proximate to downtown Portland. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Bend

The hotel is situated in an idyllic scenic setting that provides year round recreational activities, a high standard of living, as well as becoming renowned for its industries that include software and high-technology, bioscience, outdoor recreation products, aviation, manufacturing, and craft brewing and distilling. The hotel is located in the heart of downtown Bend within walking distance to numerous shops, restaurants, bars and breweries and a short drive to the Mount Bachelor Ski Resort. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Olympia

The hotel is located at a waterfront location less than one mile north of the capital building in the capital of Washington State, in Thurston County. The hotel benefits greatly from a diverse demand base, an expanding port facility, a vibrant arts scene, recreational activities, and the steady influence of the state government. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Tigard

The hotel benefits from its strategic positioning in the heart of "Silicon Forest", a high-technology industry cluster in Oregon. The hotel is situated in the heart of nearly 8.6 million square feet of office within three miles and is proximate to downtown Portland. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Vancouver

The hotel is proximate to Portland International Airport as well as the various corporate and leisure demand generators of Vancouver, Washington and Portland, Oregon, which includes over 3.3 million square feet of office space and a 450 bed medical facility within three miles. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

Homewood Suites Plano

The hotel is conveniently located off of Preston Road, in an affluent suburb of Dallas, with more than 60 million square feet of office in the Far North Dallas submarket. Management believes this hotel will benefit from its proximity to a growing market within the United States. The hotel is an "upscale" class hotel that was most recently renovated in 2018 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Homewood Suites Addison

Located along the highly trafficked Belt Line Road in Dallas' "Platinum Office Corridor", the hotel benefits from the dense surrounding concentration of office, restaurant, and entertainment venues. Within a three mile radius of the hotel is approximately 31 million square feet of office and over 13 million square feet of retail. The hotel is an "upscale" class hotel that was most recently renovated in 2018 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Homewood Suites Las Colinas

The hotel is centrally located within Las Colinas' urban center, providing access to more than 2,000 companies (including five fortune 500 headquarters) within the 12,000 acre master-planned submarket as well as one of the nation's busiest airports, DFW International Airport. The hotel is an "upscale" class hotel that was most recently renovated in 2018 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Marriott St. Petersburg

The hotel is situated less than a mile from Raymond James Ltd., one of the larger employers in the greater Tampa Bay MSA as well as a variety of corporate and leisure demand generators including Tampa International Airport and the world class beaches of Clearwater. Management of the REIT believes this hotel presents a variety of value add opportunities related to institutionalizing management and completion of several capital improvement projects that will drive rates and improve the properties RevPAR penetration and further enhance operating margins due to the properties lean and efficient layout. The hotel is an "upper upscale" class hotel that was renovated in 2010 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Holiday Inn Express Nashville

The hotel is located within walking distance of several of Nashville's numerous tourist destinations and demand generators, including the Country Music Hall of Fame & Museum, Bridgestone Arena and Music City Center. In addition, starting in 2019 Amazon will be opening a logistics hub adjacent to the hotel that is expected to create an estimated 5,000 new jobs in the city of Nashville. The hotel is currently undergoing a rehabilitation that management of the REIT believes will help to fully realize a materially improved competitive position that leverages its central location and strong in-place cash-flow. Management believes that this rehabilitation will make the hotel an attractive destination for visitors, residents, and businesses driven by the city's distinct culture, tourist attractions, highly desirable tax incentives, and employment opportunities. Additionally, the Nashville hospitality market has benefitted from the city's growth over the last five years as

demonstrated by a RevPAR compound annual growth rate of +10.1%, more than double that of the top 25 US Markets (+5.0%) per Smith Travel Research. The hotel is a "upper midscale" class hotel that is currently undergoing renovations to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

See "The Initial Portfolio".

Assessment and Valuation of the Initial Portfolio Properties

The REIT has retained JLL Valuation & Advisory Services, LLC (the "**Appraiser**") to provide an independent opinion as to the aggregate market value of the Initial Portfolio. The Appraiser estimated the aggregate market value of the Initial Portfolio on a portfolio basis, as at [●], 2018 to be approximately $[●].

See "Assessment and Valuation of the Initial Properties".

Debt Strategy and Indebtedness

The REIT plans to use leverage in the portfolio to help increase returns and yields to Unitholders. The REIT will seek to maintain a debt profile consisting of various sources of low cost capital, including debt from regional and national banks, insurance companies, and non-bank lenders. Immediately following Closing, management anticipates the REIT's Debt will be approximately $217 million of secured mortgage loans and term preferred equity of approximately $11.1 million, which under IFRS is accounted for as a liability, implying a Mortgage Debt to Gross Book Value Ratio of approximately **[66]**% and a Debt to Gross Book Value Ratio of [●]% inclusive of the term preferred equity. The REIT intends to target and maintain a Mortgage Debt to Gross Book Value Ratio of between 60% to 70%, or [●]% to [●]% inclusive of term preferred equity and convertible debentures, in order to maximize returns while minimizing leverage risk.

Lender	Interest Rate/Spread	Amortization Period (Years)	Maturity Date[2]	Number of Encumbered Properties	Principal Amount Outstanding as of January 1, 2019 ($)[3]
Raymond James Bank, N.A.	3.55%[1]	25	September 25, 2021	1[4]	32,000,000
Societe Generale	5.12%	30	July 1, 2026	1[5]	69,831,569
Western Alliance Bank	3.76%[1]	25	January 1, 2020	1[6]	20,914,080
NXT Capital, LLC	4.95%[1]	30	May 4, 2020	3[7]	32,106,655
ACRC Lender LLC	3.45%[1]	30	May 9, 2021	5[8]	62,365,000
Total Mortgage Loans				**11**	**$ 217,217,304**

Notes:

(1) Variable based on one-month LIBOR.

(2) Does not include extension options which apply for a majority of the mortgage loans.

(3) Excludes term preferred equity.

(4) Secured by Marriott St. Petersburg.

(5) Secured by Holiday Inn Express Nashville.

(6) Secured by Hilton Garden Inn Dallas Market Center.

(7) Secured by Homewood Suites Plano, Homewood Suites Addison and Homewood Suites Las Colinas.

(8) Secured by DoubleTree Beaverton, DoubleTree Bend, DoubleTree Olympia, DoubleTree Tigard and DoubleTree Vancouver.

Following Closing, the REIT's mortgage debt will have a weighted average maturity of 3.77 years and a weighted average interest rate of 5.83% based on a one-month LIBOR rate of 2.32188%. The term preferred equity will pay a cumulative preferred dividend of [●]% annually and will have a term of [●] years.

See “Debt Strategy and Indebtedness”.

Governance and Management of the REIT

The REIT will be externally managed by the Advisor under the Advisory Agreement (as defined below). In order for NHI, and thus the REIT, to qualify as a real estate investment trust for U.S. federal income tax purposes under the Code, the day-to-day operations of the REIT's hotel properties must be managed by an eligible independent contractor (as defined in the Code). The entities through which the REIT owns the hotel properties will lease the hotel properties to one or more TRS Entities, which will enter into Hotel Management Agreements (as defined below) with the Manager, pursuant to which the Manager will operate and manage the REIT's hotel properties. The TRS Entities will also enter into franchise agreements (as described below).

The following table sets forth the name, municipality of residence, positions held with the REIT and principal occupation of the trustees of the REIT (the “**Trustees**”):

Name	Position with the REIT	Principal Occupation
NEIL LABATTE .... Toronto, Ontario, Canada	Trustee	President and CEO Global Dimension Capital, Inc.
[●]	[●]	[●]
[●]	[●]	[●]
[●]	[●]	[●]
[●]	[●]	[●]

The following table sets forth the name, municipality of residence and positions held with the REIT of each executive officer of the REIT on Closing:

Name and Municipality of Residence	Office with the REIT
JAMES DONDERO .... Dallas, Texas, USA	Chief Executive Officer
BRIAN MITTS .... Dallas, Texas, USA	Chief Financial Officer
MATTHEW MCGRANER.. Dallas, Texas, USA	Chief Investment Officer

See “Governance and Management of the REIT”.

On Closing, the REIT and the Advisor (or an affiliate thereof) will enter into certain agreements governing the relationships among such parties following Closing. These agreements are described below.

Management and Franchise Agreements

Advisory Agreement

Pursuant to an advisory agreement (the “**Advisory Agreement**”), subject to the overall supervision of the board of trustees of the REIT (the “**Board**”), the Advisor will manage the day-to-day operations of, and provide investment management services to, the REIT. Under the terms of the Advisory Agreement, the Advisor will:

- find, present and recommend to the Board investment opportunities consistent with the REIT's investment policies and objectives;

- identify, evaluate, negotiate and recommend to the Board the structure of the REIT's investments (including performing due diligence);
- review and analyze financial information for each underlying property of the REIT's portfolio;
- subject to the overall supervision of the Board, manage the REIT's capital improvement program including determining when to execute the program at each property;
- close, monitor and administer the investments made by the REIT; and
- maintain the accounting and financial records of the REIT and its subsidiaries and file required information with the Ontario Securities Commission upon approval of the Board.

The Advisor will also provide the REIT with individuals, as determined by the Advisor, to serve as the REIT's executive officers and will have a right to nominate two trustees to the Board of Trustees of the REIT.

As consideration for the Advisor's services, the REIT will pay to the Advisor an advisory fee at an annualized rate of 1.00% of gross assets of the REIT, with certain adjustments, paid monthly (the "**Advisory Fee**"), together with reimbursement of certain general and administrative expenses. Additionally, a long term incentive plan (the "**LTIP**") will be put in place pursuant to which restricted Units (the "**RUs**") may be granted periodically by the Independent Trustees of the Board to officers and trustees. The LTIP plan implemented and effective on the date of the listing of the Units on the TSX (the "**Listing**") will represent 10% of the market capitalization of the REIT following completion of the Listing. Grants under the LTIP may be awarded by Independent Trustees of the Board at their discretion.

Pursuant to the Advisory Agreement, and subject to certain exceptions including expenses associated with a future debt or equity raise or unusual expenses related to litigation or other unusual activity, the REIT shall not incur annual general and administrative expenses (inclusive of the Advisory Fee and other compensation expenses paid to the Advisor and including compensation from LTIP grants) in excess of 1.5% of gross assets of the REIT (the "**Total G&A Cap**") and the Advisor shall backstop and shall be liable for any general and administrative expenses in excess of such Total G&A Cap.

The Advisory Agreement will have an initial term of two years, and upon approval by the Board will be renewable thereafter for successive one-year terms unless earlier terminated or not renewed by the REIT or the Advisor. The REIT will have the right to terminate the Advisory Agreement on 60 days' written notice without payment of a termination fee in the case of a breach of the Advisory Agreement by the Advisor; provided that no such notice shall be required in the event of fraud, misappropriation of funds, gross negligence, general assignment for the benefit of creditors or bankruptcy of the Advisor. The REIT will be permitted to terminate the Advisory Agreement without cause or due to a change in control of the REIT with six months' written notice to the Advisor. In the event of termination (other than termination for cause) or non-renewal of the Advisory Agreement, the Advisor will be entitled to compensation equal to three times the Advisory Fee paid to the Advisor over the last 12 months subject to a cap at [●]% of the combined equity value of the REIT and the OP on a consolidated basis, as of the internalization closing, calculated by multiplying the aggregate number of outstanding Units by the **[market price of the Units on the TSX]**.

The Advisor will have the right to terminate the Advisory Agreement upon default or the general assignment for the benefit of creditors or bankruptcy by the REIT. NexPoint shall separately grant to the REIT and its subsidiaries the right to continue the use of the "NexPoint" name and logo and related marks and designs under a non-exclusive, royalty-free license agreement entered into at Closing. NexPoint will be permitted to terminate the license at any time on 180 days' written notice following any date on which the Advisor ceases to be the Advisor for the REIT.

See "Management and Franchise Agreements – Advisory Agreement".

Hotel Management Agreement

All of the REIT's hotel properties will be operated pursuant to hotel management agreements (the "**Hotel Management Agreements**") between the Manager, a professional third-party hotel management company, and the TRS Entities that lease the property from the OP and its subsidiaries. The Hotel Management Agreement will require the TRS Entities to pay a base fee to the Manager calculated as a percentage of hotel revenues generated by the hotel operations. In

addition, the Hotel Management Agreements will on occasion provide that the Manager can earn an incentive fee for EBITDA, gross operating profit or an owner's priority return over certain thresholds.

The terms of the REIT's Hotel Management Agreements initially range from one to five years with various extension and termination provisions. The Hotel Management Agreements for the DoubleTree hotels in the Initial Portfolio may be terminated on 60 days' notice by the hotel owner without payment of a termination fee. The Hotel Management Agreements for the Homewood Suites hotels in the Initial Portfolio may be terminated without cause upon 60 days' notice after June 1, 2019 by the hotel owner without payment of a termination fee. The Hotel Management Agreement for Hilton Garden Inn Dallas Market Center may be terminated on 90 days' notice by the hotel owner following the 24th month after the commencement of the agreement. No termination fee will be required if such termination occurs after the 49th month following the commencement of the agreement. The Hotel Management Agreement for Marriott St. Petersburg may be terminated on 60 days' notice by the hotel owner after April 30th, 2019 without payment of a termination fee. The Hotel Management Agreement for Holiday Inn Express Nashville may be terminated on 60 days' notice by the hotel owner after the first year of the contract term without payment of a termination fee.

The TRS Entities may employ hotel managers in the future other than the Manager. Neither the REIT nor any of its affiliates has any ownership or economic interest in the Manager engaged by the TRS Entities. If in the future, the REIT or any of its affiliates have an ownership stake in a hotel manager engaged by the TRS Entities, the ownership will be limited such that the hotel manager still qualifies as an eligible independent contractor as defined by the Code, allowing the REIT to maintain its ability to qualify as a REIT for federal U.S. tax purposes.

See "Management and Franchise Agreements – Hotel Management Agreement".

Franchise Agreements

Upon Closing, all of the REIT's hotel properties will operate under franchise agreements with Marriott, Hilton or InterContinental Hotels Group brands. The REIT believes that the public's perception of the quality associated with a branded hotel is an important feature in its attractiveness to guests. Franchisors provide a variety of benefits to franchisees, including centralized reservation systems, national advertising, marketing programs and publicity designed to increase brand awareness, loyalty programs, training of personnel and maintenance of operational quality at hotels across the brand system.

The terms of the REIT's franchise agreements initially range from 15 to 20 years with various extension provisions. Each franchisor receives franchise fees ranging from 2% to 6% of each hotel property's room revenue, and some agreements require that the REIT pay marketing fees of up to 4.5% of room revenue. In addition, some of these franchise agreements require that the REIT deposit into a reserve fund for capital expenditures up to 4% of the hotel property's gross or room revenues depending on the franchisor to insure the REIT complies with the franchisors' standards and requirements. The REIT also pays fees to its franchisors for services such as reservation and information systems.

See "Management and Franchise Agreements – Franchise Agreements".

Restrictions on Ownership and Transfer of the Units

The Declaration of Trust contains restrictions on ownership and transfer of the Units that are intended to assist the REIT in qualifying as a real estate investment trust for U.S. federal income tax purposes. In particular, the Declaration of Trust prohibits any person from actually, beneficially or constructively owning more than 6.2% of the Units, subject to any exemption granted by the Board. In addition, in order for the REIT to comply with its U.S. federal income tax withholding obligations under the *Foreign Investment in Real Property Tax Act of 1980* ("**FIRPTA**"), the Declaration of Trust provides that certain non-U.S. persons that otherwise would own more than 5% of the Units are subject to notice requirements and transfer restrictions. These ownership limits and transfer restrictions may delay or impede transfers of Units. See "Declaration of Trust — Restrictions on Ownership and Transfer" for a more detailed discussion of these ownership limits and transfer restrictions. In addition, a non-U.S. person that holds or has held, actually or constructively, more than 5% of the outstanding Units, as determined for U.S. federal income tax purposes, may be subject to additional U.S. taxes under FIRPTA in respect of their investment in Units. See "Certain U.S. Federal Income Tax Considerations".

THE OFFERING

Offering:	[●] Units.
Amount:	US$[●]
Price:	US$15.00 per Unit.
Use of Proceeds:	The net proceeds of this Offering are estimated to be approximately $[●] after deduction of the Agent's fee and will be used to fund a portion of the expenses of the Offering.
Unit Attributes:	The REIT is authorized to issue an unlimited number of Units. Each Unit represents a proportionate undivided beneficial ownership interest in the REIT. Each Unit is transferable and entitles the holder thereof to: (i) an equal participation in distributions of the REIT; (ii) rights of redemption; and (iii) one vote at all meetings of unitholders. See "Declaration of Trust".
Retained Interest:	Immediately following Closing, principals and affiliates of the Advisor will own an approximate **[●]**% interest in the REIT through their ownership of Units and Class B units of the OP.
Distribution Policy:	The REIT initially intends to adopt a distribution policy pursuant to which the REIT will make monthly cash distributions to Unitholders equal to, on an annual basis, approximately 65% of estimated Core FFO. Pursuant to this distribution policy, distributions will be paid to Unitholders of record at the close of business on the applicable distribution record date determined by the Trustees from time to time.
Risk Factors:	An investment in Units is subject to a number of risk factors that should be carefully considered. Cash distributions by the REIT are not guaranteed and will be based, in part, upon the financial performance of the REIT's properties, which is susceptible to a number of risks. These risks, and other risks associated with an investment in Units, include but are not limited to those related to the hotel and real estate industries, as well as the REIT and its business. See "Risk Factors" and the other information included in this prospectus for a discussion of the risks that an investor should carefully consider before deciding to invest in Units.

THE REIT

Overview

NexPoint Hospitality Trust (the "**REIT**") is a newly-created, unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust under the laws of the province of Ontario. The registered and head office of the REIT is located at 333 Bay Street, Suite 3400, Toronto, Ontario M5H 2S7. The REIT has been created for the purpose of acquiring, owning and operating a portfolio primarily consisting of select service and extended stay income-producing hotel properties located in the United States.

Upon Closing, the REIT will indirectly own a portfolio of 11 hotel properties located across the U.S. (the "**Initial Portfolio**"). All of the 11 hotels in the Initial Portfolio are franchised with: Hilton Hotels under the following brands: (i) DoubleTree (five hotels); (ii) Homewood Suites (three hotels); (iii) Hilton Gardens Inn (one hotel); InterContinental Hotels Group under the Holiday Inn Express brand (one hotel); or Marriott under the Marriott brand (one hotel).

Subject to the overall supervision of the Board, the REIT will be managed by the Advisor, which provides expertise across the full spectrum of real estate investment management, including acquisitions, financing and asset management, and the Manager, which provides expertise in hotel operations, sales and marketing, construction, information technology, accounting and human resource management.

The REIT will own its properties through its subsidiary, NHI. In order for NHI, and thus the REIT, to be eligible to elect to be taxed as a real estate investment trust under the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), the properties will be leased to TRS Entities, which will in turn contract with the Manager, an eligible independent contractor (as defined in the Code), to manage the day-to-day operations of the hotels.

The Advisor

The Advisor is a recently formed Delaware limited partnership that was formed specifically to be Advisor to the REIT. The Advisor gives the REIT access to an experienced management team and extensive network of industry relationships, as well as a management platform with deep knowledge of the assets and markets. The Advisor is an affiliate of various entities managed by the principals and officers of the Advisor, which manage approximately $4.5 billion of real estate investments as of October 31, 2018. The Advisor's team has over 100 years of general experience in real estate acquisitions, dispositions, financing, rehab implementation and specific experience in hospitality, including the REIT's strategy. Over the past five years, the Advisor's team has closed $5.5 billion of U.S. real estate transactions across multiple property types including: multifamily, hospitality, single family rental, storage, health care, office and retail. The team also externally manages, through an affiliate of the Advisor, a publicly traded REIT, NexPoint Residential Trust, which focuses on class B multifamily assets with a value-enhancing opportunity located in high growth cities in the Southeastern and Southwestern United States. Since listing of NexPoint Residential Trust on the New York Stock Exchange on April 1, 2015, the Advisor's team has delivered a return of 205.6% to shareholders (inclusive of reinvested dividends) through November 30, 2018. The structure and history of NexPoint Residential Trust is very similar to that of the REIT in that the Initial Portfolio was acquired through private entities that were later aggregated into a real estate investment trust and then listed on a public exchange. In its capacity, as the advisor to the REIT, the Advisor will:

- find, present and recommend to the Board investment opportunities consistent with the REIT's investment policies and objectives;
- identify, evaluate, negotiate and recommend to the Board the structure of the REIT's investments (including performing due diligence);
- review and analyze financial information for each underlying property of the REIT's portfolio;

- subject to the overall supervision of the Board, manage the REIT's capital improvement program including determining when to execute the program at each property;
- close, monitor and administer the investments made by the REIT; and
- maintain the accounting and financial records of the REIT and its subsidiaries and file required information with the Ontario Securities Commission upon approval of the Board.

The Manager

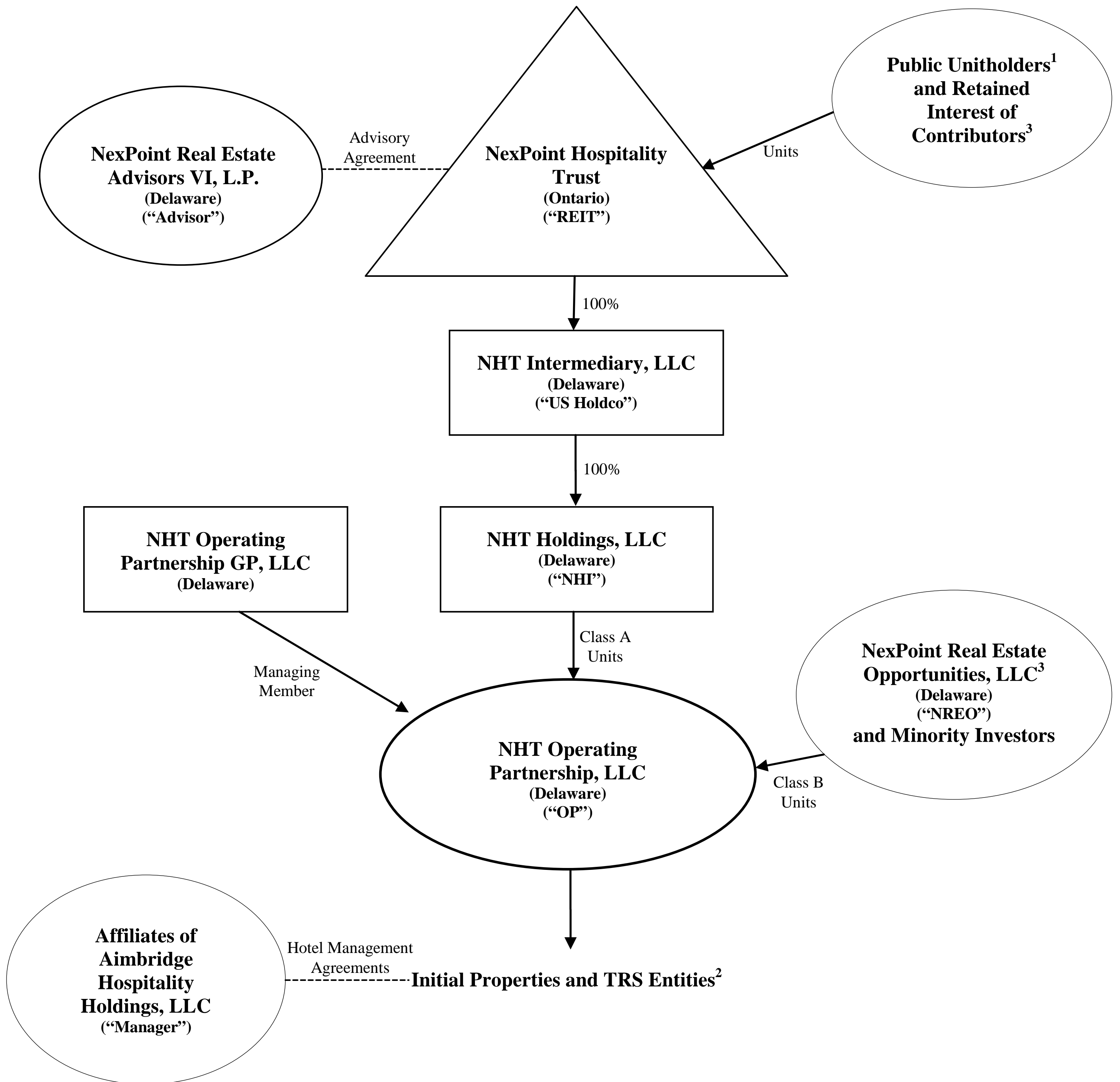
The Manager is a recognized leader in the hospitality space and manages over 812 hotel properties comprised of approximately 98,000 rooms across all segments of the hospitality space from full service hotels to select service and extended stay brands. See "Management and Franchise Agreements". The Manager operates across a full spectrum of property types including resorts, franchise branded, independent luxury, boutique, and lifestyle hotels. The Manager provides management, asset management, development, renovation and consulting services and has its corporate headquarters in Plano, Texas with regional offices in Chicago, San Clemente and San Juan. The Manager also offers investors the experience required to manage a diverse portfolio of hotels and resorts throughout the United States and the Caribbean.

The Manager brings together an experienced team of hospitality executives offering creative solutions to accomplishing the goals and objectives of each and every owner. The Manager understands the real estate and operational components of the industry and with its dedicated and highly accomplished team have the unique ability to continuously drive value. The executive team at the Manager is comprised of veteran hoteliers. Averaging over 26 years of hospitality experience, the senior executives focus on maximizing returns to partners by utilizing a unique blend of experience, resources, and relationships.

LEGAL STRUCTURE

The following chart sets out the simplified organizational structure of the REIT immediately following Closing:

Structure Chart



Notes:

(1) It is anticipated that upon the Closing, the public will hold an approximate [●]% ownership interest in the REIT (determined as if all Class B Units of the OP are redeemed for Units).

(2) Initial Properties will be owned by Subsidiaries of NHT Operating Partnership, LLC. The properties are leased to the TRS Entites, which have engaged the Manager to manage the day-to-day operations pursuant to Hotel Management Agreements.

(3) It is anticipated that upon the Closing, the Contributors will own, in the aggregate, [●] Units and [●] Class B Units of the OP representing an aggregate approximate [●]% ownership interest in the REIT (determined as if all Class B Units of the OP are redeemed for Units).

OBJECTIVES OF THE REIT

The objectives of the REIT are to:

(a) provide Unitholders with an opportunity to invest in an initial portfolio of extended-stay, select-service and efficient full service hotels located in attractive U.S. markets and competitively positioned to outperform the industry as a whole;

(b) provide Unitholders with predictable, sustainable and growing tax efficient cash distributions;

(c) enhance the value of the REIT's assets and maximize the long-term value of the Units through active asset and property management programs and procedures; and

(d) expand the asset base of the REIT and increase the REIT's Core FFO per Unit primarily through acquisitions and improvements of its properties, including the Initial Portfolio, using targeted and strategic capital expenditures.

INVESTMENT OPPORTUNITY

The REIT intends to achieve its investment objectives by acquiring hotel properties that will offer a high current yield and in many cases are underperforming assets with the potential to increase in value through investments in capital improvements, a market-based recovery, brand repositioning, revenue enhancements, operational improvements, expense inefficiencies, and exploiting excess land or underutilized space. The Advisor plans to target markets that have a stable yet growing and reliable demand base as well as real barriers to entry and limited present and future competitive new supply growth. The REIT expects that its hotel properties will be located in areas that it believes exhibit strong economic attributes such as job growth, strong business or transitory travel and leisure travel. Select-service and extended stay hotel properties, which the REIT expects to comprise a majority of its portfolio, typically do not include amenities provided in full-service hotel properties; therefore, select-service and extended stay hotel properties primarily derive their revenues from hotel room rentals and, to a lesser extent, from restaurants, meeting space and other similar income streams. Extended-stay hotel properties are generally high-quality, residential style hotels that offer a package of services and amenities for extended-stay business and leisure travelers. The REIT may also opportunistically invest in efficient full-service hotel properties, although it does not expect such properties to comprise a substantial portion of its portfolio. Full-service hotel properties generally provide a full complement of guest amenities including restaurants, large meeting facilities, concierge, and room service, porter service or valet parking. The REIT may also originate or make investments in debt related to targeted hotel properties.

Generally, for each property the REIT may seek a liquidity event within three to five years after the original acquisition date of a property. In pursuing a liquidity event for a property, the REIT will take into consideration the prohibited transaction tax rules under the Code. Management's primary goals of shareholder friendly capital allocation may potentially include a liquidity event involving the sale of assets, the entire company, a merger into an existing publicly traded real estate investment trust or other publicly traded vehicle, or a listing of its shares on a national securities exchange.

INVESTMENT HIGHLIGHTS

The following describes the investment highlights of the Offering.

Access to Hospitality Assets Located in the United States on a Tax Efficient Basis. Management believes that the United States real estate market is one of the most dynamic, stable and liquid real estate markets in the world. The ability for Canadian investors to access hospitality assets located in the U.S. is difficult as investing directly in real estate investment trusts domiciled in the U.S. is a tax inefficient avenue for exposure to this

important asset class. Currently, there are very few alternatives domiciled in Canada that invest primarily in hospitality properties located in the U.S. Using the REIT's structure whereby it is taxed as a U.S. real estate investment trust but is domiciled in Canada, the REIT offers a tax efficient way for Canadian investors to gain exposure to U.S. hospitality assets.

Attractive Asset Class with Favorable Fundamentals. Hospitality properties offer the shortest duration leases of any real estate sector which offers the ability to adjust pricing of rooms immediately to meet market demand, which should provide an inflation hedge during periods of economic expansion and rising interest rates. The REIT believes its strategy of targeting older properties in need of capital improvements that can be repositioned to generate higher revenues will work in all market cycles and produce high current returns to investors and offers a unique opportunity for Canadian retail investors to access an institutional strategy through a publicly traded, tax efficient vehicle. The REIT expects to benefit from the increase in overall economic activity, increased discretionary spending and business and leisure travel in the U.S. as well as benefit from its ability to adjust its operations to weather an economic downturn and provide consistent relative returns through all economic cycles.

Unique Strategy Offering a Total Return Profile. Management believes that the REIT's strategy of buying older properties that need capital improvements, a market-based recovery, brand repositioning, revenue enhancements, operational improvements, expense inefficiencies, and exploiting excess land or underutilized space, gives it the opportunity to generate high current yield as well as capital appreciation over time.

Attractive and Stable Yield. The REIT intends to pay a monthly cash distribution, representing approximately 65% of the REIT's Core FFO and to increase the REIT's dividend over time such that the REIT pays out annually 65% to 80% of its Core FFO.

Sizeable Quality Portfolio with Embedded Growth Opportunity. The Initial Portfolio is comprised of 11 properties located throughout the U.S. in the select service and extended stay hospitality categories. Each property has a long-term franchise agreement with Marriott, Hilton or InterContinental Hotels Group sponsored brands. The REIT believes each property in the Initial Portfolio has the opportunity to generate outsized market share improvements and topline increases as leading select service or extended stay hotels in their respective submarkets. In addition to organic growth, the REIT is expected to realize additional embedded growth from its capital improvement strategy.

Attractive External Growth Strategy. The REIT expects to capitalize on a pipeline of target hospitality investments requiring funding for capital improvements or brand repositioning that exist in the U.S. market by utilizing its ability to raise new capital as a publicly traded entity. The REIT believes it will be able to react more quickly and more opportunistically in its investment program as compared to private fund structures, which can limit the ability of a fund investor to benefit from transactions that require a quick closing or that require capital in excess of existing investor commitments. Additionally, the Offering, and potential future offerings, will allow the REIT to avoid the lengthy and time consuming private fundraising process, which will increase the time available to focus on investment and asset management activity for the REIT.

Management Team Aligned with Shareholders. Members of the management team will be aligned with shareholders through a significant ownership percentage in the REIT. At Closing, the management team will own approximately [●]% of the REIT.

GROWTH STRATEGIES

The REIT intends to grow in three ways. First, through organic growth expected from favorable economic and demographic fundamentals within its existing markets. Second, the REIT believes the Initial Portfolio will provide opportunities for further embedded growth through value-enhancing initiatives such as the REIT's capital improvement program. Third, the REIT believes there are ample assets that fit its strategy and intends to pursue a disciplined external growth strategy by acquiring well located hospitality properties that it believes have the potential to generate higher yields and growth prospects through the REIT's capital improvement program.

To find hotel properties that best meet its selection criteria for investment, the Advisor's property acquisition team will study regional demographics and market conditions, interview local brokers and operators, and utilize its network of external real estate professionals to gain the practical knowledge that studies sometimes lack. The property acquisitions team will also work with various property managers and affiliates to tap into their vast network and broad market exposure. Additionally, where the REIT believes it gives it a comparative advantage, it will partner with firms that have an expertise in the property class and geographic area where it is seeking to acquire properties. An experienced commercial construction engineer will inspect the structural soundness and the operating systems of each building, and an environmental firm will investigate environmental issues to ensure each property meets its quality specifications. The Advisor's management team will emphasize thorough market research, local market knowledge, underwriting discipline, and risk management in evaluating potential investments.

Organic Growth from Favourable Economic and Demographic Fundamentals.

The REIT believes the current macroeconomic environment, demographic trends, historical average supply growth, cost of new brand required programming and new construction costs, favorable debt capital markets, and current market conditions will continue to create attractive opportunities to acquire hotel properties at prices that are generally discounts to replacement cost, provide potential for significant long-term value appreciation and generate attractive yields for its Unitholders. Given the conditions of the current economic environment in the markets where the REIT is focused and the experience of the Advisor and its network, the REIT expects to be well-positioned to capitalize on these opportunities to create an attractive investment portfolio that will maximize Unitholder yields and total returns.

Organic Growth Through Value-Enhancing Initiatives

The REIT has 1,012 rooms to be renovated throughout the Initial Portfolio and management expects an increase in NOI/EBITDA. Management of the REIT anticipates that the REIT will benefit from its value-enhancing renovations by driving outsized market share growth relative to each asset's competitive market within 12-36 months of completion. Assets coming out of the value-enhancing initiatives are less reliant on growth from local market conditions, and are dependent on generating organic growth from new found competitiveness in local markets.

External Growth Through Acquisitions

Seek Properties Meeting the REIT'S Investment Criteria. The REIT's strategy will focus primarily on acquiring existing select-service and extended stay hotel properties, and on an opportunistic basis, full-service hotel properties, that are classified in the "upper upscale", "upscale" and "upper-midscale" chain scales of the hospitality industry, as defined by Smith Travel Research, Inc., and operated under widely recognized brands such as Marriott, Hilton, Hyatt, Starwood Hotels & Resorts and the InterContinental Hotels Group. Chain scale segments are a method by which branded hotels are grouped by Smith Travel Research, Inc. based on the actual average room rates. The REIT expects that its hotel properties offer a high current yield and/or be underperforming assets with the potential to increase in value through investments in capital improvements, a market-based recovery, brand repositioning, revenue enhancements, operational improvements, expense inefficiencies, and exploiting excess land or underutilized space. The Advisor plans to target markets that have a varied stable and/or growing and reliable demand base as well as real barriers to entry and/or limited present and future new supply growth. The REIT expects that its hotel properties will be located in areas that it believes exhibit strong economic features. Select-service and extended stay hotel properties, which it expects to comprise a majority of its portfolio, typically do not include amenities provided in full-service hotel properties; therefore, select-service and extended stay hotel properties primarily derive their revenues from hotel room rentals and, to a lesser extent, from restaurants, meeting space and other similar income streams. Extended-stay hotel properties are generally high-quality, residential style hotels that offer a package of services and amenities for extended-stay business and leisure travelers. The REIT may also opportunistically invest in full-service hotel properties, although it does not expect such properties to comprise a substantial portion of its portfolio. Full-service hotel properties generally provide a full complement of guest amenities including restaurants, large meeting facilities, concierge, and room service, porter service or valet parking. The REIT may also originate or make investments in debt related to targeted hotel properties.

The REIT's Opportunistic Investment Strategy. Hotel properties can provide investors with an attractive blend of current cash flow, opportunity for capital appreciation, and can mitigate inflationary impacts through shorter duration commercial rents. Growth in the United States hotel Revenue per Available Room, or RevPAR, has historically been closely correlated with macroeconomic trends, including growth in United States gross domestic product ("**GDP**"), corporate profitability, capital investments, consumer confidence and employment. Therefore, as the United States economy continues to strengthen, the REIT anticipates RevPAR growth, along with related growth in property operating income and valuations, to culminate in an overall improvement of hotel industry fundamentals over the course of its investments.

Focusing on Hotel Properties with a Value-Enhancing Component. The operationally intense nature of hotel assets presents opportunities to employ a variety of strategies to enhance value, including strategic capital expenditures and repositioning, brand and management changes, revenue and expense management. For a majority of the hotel properties it acquires, the REIT intends to execute a modest value-add strategy, whereby the REIT acquires assets underperforming its full potential in high-demand markets, remedy operational and/or managerial inefficiencies, implement sophisticated revenue optimization strategies, invest additional capital to improve the competitiveness of the assets, and reposition the properties to increase occupancies, average daily rates, and resale value. The REIT expects its modest value-add component to consist, on average, of investments of $10,000 to $25,000 per room in the first 24 months of ownership, in an effort to add value to the asset's exterior and interior. The REIT's value-add strategy is to primarily target hotel properties that will provide both current income and capital appreciation.

Market Research. The Advisor's acquisition team will originate, underwrite, research, diligence, and finance each acquisition utilizing both real-time market data and the transactional knowledge and experience of the network of professionals of the Advisor.

Local Market Knowledge. The Advisor, either directly through its relationships with real estate professionals in the area or through its property managers, will develop information concerning the locality of the property to assess its competitive position.

Underwriting Discipline. The Advisor will follow a disciplined process to evaluate a potential investment in terms of its income-producing capacity and prospects for capital appreciation, which will include a review of property fundamentals (including expense structure, occupancy rates, and property capital expenditure), capital markets fundamentals (including cap rates, interest rates and holding period) and market fundamentals (including rental rates, concession and occupancy levels at comparable properties), as well as projected Occupancy and Average Daily Rates, which when multiplied together equal Revenue per Available Room, or RevPAR. The Advisor will strive to verify all assumptions by third-party research from credible sources, to the extent practical, in order to ensure consistency in the underwriting approach. In addition, the Advisor will perform stress tests on each acquisitions by reducing RevPAR growth assumptions and increasing the interest rate in its assumptions prior to acquiring each asset.

Risk Management. Risk management is a fundamental principle in the Advisor's construction of the portfolio. The REIT intends to acquire and in the management of each investment, diversify the portfolio by investment size, geographic location, and interest rate risk critical to controlling portfolio-level risk.

When evaluating potential acquisitions and dispositions, the Advisor generally will consider the following factors as applicable:

- strategically targeted markets;
- income levels and employment growth trends in the relevant market;
- demand growth characteristics supported by demographic indicator
- supply of undeveloped or developable real estate, local building costs and construction costs;

- the location, construction quality, condition and design of the property;
- the current and projected cash flow of the property and the ability to increase cash flow;
- the potential for capital appreciation of the property;
- purchase price relative to the replacement cost of the property;
- the potential for economic growth and the tax and regulatory environment of the community in which the property is located;
- the rental demand by hotel guests for similar hotel properties in the vicinity;
- significant barriers to entry in the market, such as scarcity of development sites, regulatory hurdles, high room per development costs, availability of hotel franchise, and long lead times for new development;
- the prospects for liquidity through sale, financing or refinancing of the property;
- the benefits of integration into existing operations;
- potential return on investment initiatives, including redevelopment, rebranding, redesign, expansion and change of management;
- competition from existing hotel properties and properties under development and the potential for the construction of new hotel properties in the area; and
- potential for opportunistic selling based on demand and price of high quality assets.

THE U.S. LODGING INDUSTRY

Introduction

The lodging sector generated approximately $208 billion of industry revenues in 2017, according to data provided by Smith Travel Research, Inc. (“**STR**”). As of 2017, the U.S. lodging sector comprised approximately of 55,000 hotels with more than 5 million rooms. Over the past 15 years, lodging sector revenue has grown at a compound annual growth rate (“**CAGR**”) of 4.4% while the number of hotel rooms has grown at a CAGR of 1.9%. As of August 31, 2018, STR reports that the trailing twelve month average for room night demand stood at 1.88 billion room nights sold through July 2018. Additionally, STR notes that demand growth in the U.S. lodging market is strong and that absolute changes are actually getting stronger, which led to an updated U.S. RevPAR forecast for full year 2018 and 2019 of 3.2% and 2.6% respectively. STR expects the demand increase to continue to be a source of record rooms sold, resulting in the highest occupancies ever recorded for the U.S., which is projected to allow hoteliers to realize pricing power above the consumer prices index.

Generally, lodging industry performance is highly correlated with macroeconomic conditions in the U.S. Fluctuations in lodging demand and, therefore, financial and operating performance, are caused largely by general economic and local market conditions, which affect levels of business and leisure travel. In particular, macroeconomic trends relating to GDP growth, corporate profits, capital investments and employment growth are some of the primary drivers of lodging demand. Lodging supply growth is typically driven by overall lodging demand, as extended periods of strong demand growth tend to encourage new hotel development. However, the pace of supply growth is typically influenced by several additional factors, including the availability and cost construction

financing, construction costs and other local market considerations. As of August 31, 2018 new supply in the U.S. is actually forecast to fall to the long-term average of 1.9%

The U.S. lodging market is the largest in the world and in 2016 accounted for approximately 50% of transaction volume globally. Since 2012, at least $170 billion of merger and acquisition transactions have been completed in the United States with private equity investors and foreign capital accounting for approximately 60% of buyers. 2018 is expected to be another strong year for transaction volume with a significant amount of debt and equity capital seeking transactions. The U.S. lodging market is characterized as a highly liquid market with a significant amount of capital from a diverse investor base comprised of private equity, public real estate investment trusts, private developers, hotel franchisors and operators and offshore investors.

U.S. Lodging Industry Segmentation Descriptions

Chain scale segmentation is a grading system used to group branded hotels based on actual average room rates. Hotels are classified along a scale ranging from highest actual average room rate to lowest actual average room rate. Independent hotels, regardless of actual average room rate, are included in a separate chain scale category. Chain scale segments are defined as: luxury, upper upscale, upscale, upper midscale, midscale, economy and independent.

Luxury

Luxury hotels offer the highest quality amenities and personalized services to guests. These hotels cater primarily to business travelers and first class leisure travelers and are generally situated in urban locations. Amenities typically include one or more restaurants, a lounge/bar area, banquet and conference facilities, full service business centers, spa and fitness centers and boutique retail stores. Services offered by luxury hotels include room service, concierge, valet, shoe shine, laundry, dry cleaning services and local transportation. Examples of hotels within this chain scale include Fairmont, Four Seasons, InterContinental and Ritz-Carlton. Luxury hotels are also distinguished by unique investment characteristics including lower cap rates and cash yields and a higher proportion of investor returns being realized in the form of capital appreciation.

Upper Upscale

The upper upscale lodging segment consist of hotels that cater to both business travelers who do not require luxury hotel amenities and leisure travelers who desire greater amenities than those typically found in midscale hotels. Hotels in this segment are typically capable of hosting blocks of group travelers (defined as parties needing 10 or more guestrooms), and offer meeting space and food and beverage options, and, as a result, have diversified demand segments and revenue streams. Additionally, the upper upscale hotel amenities and price point cater precisely to the large and fast growing market in the U.S. of corporate travelers, which customer type primarily consists of Fortune 1000 and similar companies and is characterized with burgeoning lodging demand and significant corporate profits. The upscale and upper upscale hotel segments typically include full service hotels in both urban and suburban locations. Examples of hotels within this chain scale include Embassy Suites, Marriott, Westin, Hyatt and Hilton.

Upscale Hotels

Similar to the upper upscale tier, the upscale lodging segment consists of hotels that cater to both business and leisure travelers who desire a premier product. With a few exceptions, hotels in this segment typically are of the limited service variety and do not cater to group customers. This results in a larger portion of revenue derived from rooms business relative to the upper upscale segment. Additionally, the upscale hotel amenities and price point caters to discerning but price conscious corporate travelers. The upscale segment consists primarily of hotels in both urban and suburban markets. Examples of full service hotels within this chain scale include DoubleTree and Crowne Plaza, and examples of limited-hotels within this chain scale include Hilton Garden Inn, Homewood Suites, Aloft, Hyatt Place and Staybridge Suites.

Midscale (Including Upper Midscale)

Midscale and upper midscale lodging segments are primarily comprised of hotels offering both studio and one bedroom suites designed for both business and leisure travelers. Midscale and upper midscale hotel rooms often contain both a living/work area and a sleeping area. Additional amenities may include limited fitness areas, guest laundry facilities and a local diner or restaurant. The midscale segment comprises the largest portion of hotel rooms in the United States. Examples of hotels within this chain scale include Holiday Inn, Best Western and Howard Johnson (upper midscale) and Comfort Inn, Fairfield Inn and Hampton Inn (midscale).

Economy

The economy lodging segment is almost exclusively comprised of hotels with inexpensive room rates and a very limited offering of additional services or amenities. The segment is comprised of two primary user bases: industrial and leisure customers. Industrial customers are primarily comprised of corporate accounts seeking accommodations for work crews in rural or remote locations and generally sign multi-year contracts. Leisure customers are typically price conscious travelers seeking basic accommodations, often near transportation routes. Examples of hotels within this chain scale include Oak Tree Inn, Motel 6 and Super 8.

Independent

Independent hotels are independently owned and operated and not associated with any hotel brand or banner. Independent hotels have the flexibility to provide special and personalized services typically not provided by branded hotels. Independent hotels typically are found in locations which require unique customer service offerings and do not require the marketing support of a major brand. Examples of hotels within this chain scale include High Peaks Resort, the Shorecrest Hotel and the Virgin Hotel.

Lodging Industry Franchising

Branded hotels represent approximately 75% of all hotel rooms in the United States lodging market. Hotel owners enter into franchise agreements to brand their hotels with franchisors such as Hilton, Marriott and International Hotels Group with a goal of servicing demand from business and leisure travelers with strong brand awareness. These business and leisure travelers are often attracted with loyalty program incentives and hotel franchisors focus on maximizing customer retention rates. Strong affiliation and long term franchise agreements with premier hotel brands often increase a hotel’s operational and financial performance through improved occupancy and reduced income volatility. As a result, franchised hotels have greater market competitiveness and increased liquidity leading to greater interest from institutional investors and, consequently, higher valuations. Hotel franchisors also offer reservation systems, corporate partnerships to attract group customers and transient business travelers, marketing programs and training programs to ensure a similar first-rate guest experience regardless of location.

Service Level Segmentation

Service level segmentation is a classification system used to group hotels with different product and service offerings to guests. Hotels are typically grouped into full service and limited service categories.

While chain scale and service levels of hotels do not directly correlate, management believes that upper upscale and luxury chain scales are predominantly comprised of full service hotels, and lower chain scales are predominantly comprised of select service hotels:

Full-Service Hotels

Full service hotels are generally comprised of upper upscale or luxury hotels and provide a full suite of amenities, including food and beverage services for both individuals and groups comprised of restaurant style dining, room service and banquet services for large gatherings such as business meetings or conferences. Management believes that offering a full suite of food and beverage amenities is essential for group customers, business travelers and first class leisure travelers. These services cannot be replicated by other lodging alternatives such as Airbnb and limited service hotels. As a result, full service hotels are able to differentiate themselves from other lodging accommodations which find themselves in direct competition with Airbnb. Full service hotels are also more attractive lodging investments due to the higher levels of group reservations, increased booking visibility and diverse revenue streams. With higher replacement costs than limited service hotels, new supply in full service hotels is limited, placing upward pressure on RevPAR. Management believes that full service assets have the benefit of diversified revenue streams which helps insulate full service hotels from new lodging inventory supplied by limited service hotels and Airbnb.

Limited-Service Hotels

Limited service hotels can belong to any chain scale segmentation but are most often seen in the upscale, midscale or economy lodging segments. Limited service hotels typically have rooms-only operations with limited additional amenities and services. Although limited service hotels may offer amenities such as a continental breakfast, they do not have dedicated food and beverage departments and do not have restaurant style dining, room service or banquet services. Limited service hotels often have higher margin operations given the limited array of services offered but lower levels of overall profitability resulting from typically having lower levels of group customers and higher levels of transient leisure customers, resulting in lower booking visibility and shorter booking windows often making it difficult to maximize revenue. Limited service hotels often face competition from Airbnb, especially in downtown urban markets, given the similarity of product offerings, including basic sleeping accommodations and the lack of a dedicated food and beverage department. Limited service hotels typically generate more than 95% of total revenues from rooms.

Customer Segmentation

Customer segmentation is a classification system that groups customers based on their booking preferences and characteristics. The main difference between the different customer segments is the ability to increase visibility and forward bookings to reduce volatility. Customer segmentation categories include: transient, group and contract.

- ***Transient***. Transient customers include both business and leisure travelers and typically include rooms sold to individuals or groups occupying less than 10 rooms per night.

- ***Group***. Group customers include both business and leisure travelers who reserve rooms in blocks of 10 or more rooms per night and are often sold pursuant to a master signed agreement. Group customers are generally part of defined groups (i.e. corporate, tour operator or religious institution) and often use the meeting, conference and banquet facilities.

- ***Contract***. Contract customers typically refer to corporations with long term contracts with specified room and rental rate commitments for extended periods of time with guaranteed payments regardless of use. Contract customers include airline crews, railroad employees and other travel intensive oriented industries.

Location Segmentation

Location segmentation is a classification system that groups hotels based on their physical location in any given market. Location categories include: urban, suburban, airport, interstate/motorway, resort, and small metro/town. Urban and suburban hotels comprise approximately 57% of total U.S. hotel market share and are popular location segments for institutional investors. Suburban hotels have several attractive investment characteristics compared to urban hotels, including stronger RevPAR performance over the past three, five and seven years, respectively. RevPAR in suburban markets has outperformed urban markets in part because supply growth has been approximately 1.1% lower in suburban markets on a compounded annual basis over the last three years, resulting in approximately 3.6% greater total supply growth in urban markets relative to suburban markets over that period. Management believes that the suburban markets of the Initial Portfolio further insulate the assets from Airbnb, which is primarily concentrated in urban markets.

THE INITIAL PORTFOLIO

On Closing, the REIT will indirectly acquire an 11-property portfolio located in five states in the United States across six major MSA markets and four brands.

Initial Portfolio

The following table highlights certain information about the Initial Portfolio as at September 30, 2018:

Brand	Location	Year Built /Renovated	Rooms	RevPAR
Hilton				
Hilton Garden Inn	Dallas, Texas	1995/2015	240	$88.69
DoubleTree	Beaverton, Oregon	1997/2018	98	$107.27
DoubleTree	Bend, Oregon	1998/2018	117	$127.68
DoubleTree	Olympia, Washington	2000/2018	102	$104.78
DoubleTree	Tigard, Oregon	1996/2018	101	$100.40
DoubleTree	Vancouver, Washington	1996/2018	98	$102.61
Homewood Suites	Plano, Texas	1997/2018	99	$78.26
Homewood Suites	Addison, Texas	1990/2018	120	$69.51

Brand	Location	Year Built /Renovated	Rooms	RevPAR
Homewood Suites	Irving, Texas	1990/2018	136	$88.92
Marriott				
Marriott	St. Petersburg, Florida	2001/2010	209	$116.69
InterContinental Hotels Group				
Holiday Inn Express	Nashville, Tennessee	1968/2018	287	$192.28
Total Rooms:			**1607**	

Description of the Initial Portfolio

Hilton Garden Inn Dallas Market Center

The hotel is centrally located and proximate to many of the region's major demand generator's including Dallas Love Field and several medical facilities in the Dallas Medical District. The hotel is also within walking distance to the more than five million square foot Dallas Market Center and one of the largest convention hotels in the southwest United States, the 1,600 room Hilton Anatole. The hotel is an "upscale" class hotel that was most recently renovated in 2015 to upgrade dećor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

DoubleTree Beaverton

The hotel benefits from its strategic positioning in the heart of "Silicon Forest", a high-technology industry cluster in Oregon. The hotel is situated near corporate headquarters or a major presence of several consumer brands such as Nike, Adidas, Intel, IBM, and Columbia Sportswear. The hotel is also proximate to downtown Portland. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Bend

The hotel is situated in an idyllic scenic setting that provides year round recreational activities, a high standard of living, as well as becoming renowned for its industries that include software and high-technology, bioscience, outdoor recreation products, aviation, manufacturing, and craft brewing and distilling. The hotel is located in the heart of downtown Bend within walking distance to numerous shops, restaurants, bars and breweries and a short drive to the Mount Bachelor Ski Resort. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Olympia

The hotel is located at a waterfront location less than one mile north of the capital building in the capital of Washington State, in Thurston County. The hotel benefits greatly from a diverse demand base, an expanding port facility, a vibrant arts scene, recreational activities, and the steady influence of the state government. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Tigard

The hotel benefits from its strategic positioning in the heart of "Silicon Forest", a high-technology industry cluster in Oregon. The hotel is situated in the heart of nearly 8.6 million square feet of office within three miles and is proximate to downtown Portland. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

DoubleTree Vancouver

The hotel is proximate to Portland International Airport as well as the various corporate and leisure demand generators of Vancouver, Washington and Portland, Oregon, which includes over 3.3 million square feet of office space and a 450 bed medical facility within three miles. The hotel is an "upscale" class hotel that is currently undergoing renovations to upgrade bathroom facilities and fixtures in all rooms and to update common areas.

Homewood Suites Plano

The hotel is conveniently located off of Preston Road, in an affluent suburb of Dallas, with more than 60 million square feet of office in the Far North Dallas submarket. Management believes this hotel will benefit from its proximity to a growing market within the United States. The hotel is an "upscale" class hotel that was most recently renovated in 2018 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Homewood Suites Addison

Located along the highly trafficked Belt Line Road in Dallas' "Platinum Office Corridor", the hotel benefits from the dense surrounding concentration of office, restaurant, and entertainment venues. Within a three mile radius of the hotel is approximately 31 million square feet of office and over 13 million square feet of retail. The hotel is an "upscale" class hotel that was most recently renovated in 2018 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Homewood Suites Las Colinas

The hotel is centrally located within Las Colinas' urban center, providing access to more than 2,000 companies (including five fortune 500 headquarters) within the 12,000 acre master-planned submarket as well as one of the nation's busiest airports, DFW International Airport. The hotel is an "upscale" class hotel that was most recently renovated in 2018 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Marriott St. Petersburg

The hotel is situated less than a mile from Raymond James Ltd., one of the larger employers in the greater Tampa Bay MSA as well as a variety of corporate and leisure demand generators including Tampa International Airport and the world class beaches of Clearwater. Management of the REIT believes this hotel presents a variety of value add opportunities related to institutionalizing management and completion of several capital improvement projects that will drive rates and improve the properties RevPAR penetration and further enhance operating margins due to the properties lean and efficient layout. The hotel is an "upper upscale" class hotel that was renovated in 2010 to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Holiday Inn Express Nashville

The hotel is located within walking distance of several of Nashville's numerous tourist destinations and demand generators, including the Country Music Hall of Fame & Museum, Bridgestone Arena and Music City Center. In addition, starting in 2019 Amazon will be opening a logistics hub adjacent to the hotel that is expected to

create an estimated 5,000 new jobs in the city of Nashville. The hotel is currently undergoing a rehabilitation that management of the REIT believes will help to fully realize a materially improved competitive position that leverages its central location and strong in-place cash-flow. Management believes that this rehabilitation will make the hotel an attractive destination for visitors, residents, and businesses driven by the city's distinct culture, tourist attractions, highly desirable tax incentives, and employment opportunities. Additionally, the Nashville hospitality market has benefitted from the city's growth over the last five years as demonstrated by a RevPAR compound annual growth rate of +10.1%, more than double that of the top 25 US Markets (+5.0%) per Smith Travel Research. The hotel is a "upper midscale" class hotel that is currently undergoing renovations to upgrade décor, flooring, furniture, bathrooms and fixtures in all rooms and for general improvements to common areas.

Overview of Hilton Hotels

Hilton Hotels is an established and leading family of hotel brands in the U.S. lodging industry with over 5,500 hotels across 15 brands in 109 countries encompassing approximately 82 million loyalty customers. Hilton's brands are widely recognized and trusted by consumers across the globe. Hilton has strict franchisee requirements to ensure high quality, consistency and best-in-class service across its portfolio. Long-term franchise agreements allow owners and operators to leverage Hilton's advertising and marketing programs, reservation systems and the guest loyalty programs ensuring the ability to maximize operational and financial performance. Hotel customers trust that each hotel will provide the same first-rate experience, staff will be polite and well trained and the product offering will be consistent. Hilton has meticulously curated and consistently reviews and researches each of its brands to maximize the experience of existing customers and attract new customers looking for a dependable experience. As a result of these strong customer relationships, Hilton brands out penetrate their competitive hotel peers sets across the globe with a 14% global RevPAR premium compared to competitors.

Hilton Honors Guest Loyalty Program

Hilton Hotels maintains a powerful guest loyalty program under the brand name Hilton Honors. The Hilton Honors guest loyalty program generates significant repeat business and rewards guests with loyalty points for each night's stay at any of Hilton's 5,500+ hotels worldwide. Members can redeem these loyalty points with Hilton Hotels or with nearly 130 other corporate partners including airlines, car rental companies and credit card providers. Hilton Honors members represented approximately 60% of Hilton's system-wide occupancy and contributed over $40 billion of hotel-level revenues to Hilton franchised hotels in 2018.

Hilton Brands

Hilton Garden Inn

Hilton Garden Inn is the "laid-back sophisticated" brand offering heartfelt service and award winning amenities, by Hilton. The brand currently enjoys 805 hotels in 41 countries.

DoubleTree

DoubleTree by Hilton prides itself on caring about the little details that have a big impact, from welcoming guests with its signature, warm DoubleTree Cookie to serving the communities around them.

DoubleTree by Hilton continues to rapidly expand, with a footprint in enticing gateway cities — from New York City and Madrid to Boston and Turin. These properties offer unique, contemporary accommodations and full-service, upscale facilities, which includes restaurants and lounges, room service, health clubs, and meeting and banquet space. DoubleTree by Hilton is a fast growing global portfolio of 543 upscale hotels with more than 127,000 rooms and 43 countries.

Homewood Suites

Homewood Suites by Hilton offers a unique approach to longer stays allowing guests to stay in their routine while traveling for business or leisure. Every room is a spacious studio, one, and two bedroom suites featuring a full kitchen with a full-size refrigerator, microwave, and stove top, so guests can cook a meal without leaving their suite. A free, full hot breakfast is served daily, along with free drinks (for those of legal drinking age), and bites Monday through Thursday. Additional amenities include free Wi-Fi, fitness center, business center, sport courts, swimming pools, and complimentary grocery shopping service – everything guests need while traveling, whether they stay a day, a month, or longer. The brand has 474 hotels in 3 countries and territories.

Overview of Marriott Brands

Marriott is a leading global lodging company with more than 6,500 properties in 127 countries and territories. In 2016, Marriott acquired Starwood Hotels & Resorts, making them the largest global lodging company in the world.

Marriott Guest Loyalty Program

Marriott maintains three guest loyalty programs under the names Marriott Rewards, The Ritz-Carlton Rewards and SPG. The three guest loyalty programs share a single, unified program with one set of benefits so that travelers have the ability to earn and redeem rewards across different hotel brands. Collectively, the guest loyalty programs cover 29 distinct hotel brands.

Marriott Brands

Marriott

Marriott provides sophisticated spaces and experiences. This flagship brand currently features over 567 open properties with 202,166 rooms worldwide. Marriott intends to open an additional 160 hotels representing approximately 46,088 anticipated new rooms.

Overview of InterContinental Hotels Group

InterContinental Hotels Group is a leading multinational hospitality company. Its diverse portfolio includes 13 differentiated brands. As one of the largest hospitality companies in the world, InterContinental Hotels Group has over 5,500 hotels with over 825,000 rooms. InterContinental Hotels Group intends to grow its portfolio, with plans to open over 1,800 additional hotels.

InterContinental Hotels Group Guest Loyalty Program

InterContinental Hotels Group maintains a guest loyalty program under the name IHG Rewards Club. The IHG Rewards Club has more than 100 million members enrolled worldwide and is an effective tool for driving customers to InterContinental Hotels Group brands and generating brand loyalty. Members are seven times more likely to book through low cost direct booking channels and in 2017 provided more than 21% more revenue per stay than non-members.

InterContinental Hotels Group Brands

Holiday Inn Express

Holiday Inn Express features simple and engaging amenities. The brand currently offers approximately 2,685 hotels, representing over 274,000 rooms. It is anticipated that InterContinental Hotels will open and additional 786 hotels under the Holiday Inn Express brand.

ASSESSMENT AND VALUATION OF THE INITIAL PORTFOLIO

Independent Appraisal

The REIT retained JLL Valuation & Advisory Services, LLC (the "**Appraiser**") to provide an independent opinion as to the aggregate market value of the Initial Portfolio on a portfolio basis (the "**Appraisal**"). The Appraisal was prepared in conformance with the guidelines and recommendations set forth in the Uniform Standards of Professional Appraisal Practice, the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute and Title XI of the *Financial Institution Reform, Recovery and Enforcement Act of 1989*. The Appraisal defines "market value", in accordance with Code of Federal Regulations, Title 12, Chapter I, Part 34.42g, as "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus". According to the Appraisal Institute of the United States, implicit in the definition of market value is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (i) buyer and seller are typically motivated; (ii) both parties are well informed or well advised, and acting in what they consider their best interests; (iii) a reasonable time is allowed for exposure of each individual Initial Portfolio in the open market; (iv) payment is made in terms of cash in U.S. dollars or on terms of financial arrangements comparable thereto; and (v) the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Based on the Appraisal prepared by the Appraiser, the "as-is" aggregate market value of the Initial Portfolio on a portfolio basis, as at **[●]**, 2018, is estimated to be approximately $**[●]** including a portfolio premium of approximately **[●]**%. The value conclusions made by the Appraiser reflect all known information about the Initial Portfolio, market conditions and available data. The estimated market value of the Initial Portfolio was determined by the Appraiser using both the (i) income capitalization approach, which utilized the direct capitalization method, as investors in similar types of property typically rely solely on this method; and (ii) sales comparison approach, which utilized the sale price per key analyses, and which was used primarily as support for the income capitalization approach, as significant adjustments are required because of the differences in the various elements of comparison. The income capitalization approach was given the greatest weight in the conclusion of value in the Appraisal, as the value indication from the income capitalization approach is supported by market data regarding income, expenses and required rates of return and a typical investor would place greatest reliance on the income capitalization approach.

The Appraiser analyzed the Initial Portfolio and market data gathered through the use of appropriate, relevant and accepted market-derived methods and procedures. Further, the Appraiser employed the appropriate and relevant approaches to value, and correlated and reconciled the results into an estimate of market value for each of the Initial Portfolio. The Appraiser conducted an economic analysis, taking into account the area, surrounding area, and hospitality market, as well as a comparable property analysis, taking into account the land description, improvements, real estate taxes, the highest and best use for the property and the land valuation for each of the Initial Portfolio.

In determining the appropriate market value of the Initial Portfolio, under the sales comparison approach, the Appraiser gave appropriate consideration to adjustment factors, an analysis and adjustment of comparable sales and the effective gross income multipliers and operating expense ratios for comparable sales. Under the income capitalization approach, the Appraiser gave appropriate consideration to occupancy and ADRs, a market RevPAR analysis, a gross income estimate, operating expenses, net operating income and the appropriate capitalization rate.

In appraising the Initial Portfolio, the Appraiser assumed that title to the Initial Portfolio is good and marketable and free and clear of all liens and encumbrances and the improvements on the Initial Portfolio were structurally sound. The Appraiser did not take into account soil, engineering, structural or environmental matters. The Appraiser visited each of the Initial Portfolio, which were considered to be in good condition. Appropriate valuation parameters were used with respect to the calculation of market value, the portfolio premium and exposure time.

Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Appraisal is based on various assumptions of future expectations and while the Appraiser's internal forecasts of net operating income for the Initial Portfolio is considered to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the Appraisal. The Appraisal will be filed with the securities regulatory authorities in the provinces of Ontario and Alberta and investors are advised to read the Appraisal for a full description of applicable assumptions and conditions.

Environmental Site Assessments

Each of the 11 properties in the Initial Portfolio has been the subject of a Phase I environmental site assessment report ("**Phase I ESA Report**") conducted by independent and experienced environmental consultants from September, 2014 to October, 2018. The Phase I ESA Reports were prepared in general accordance with the scope and limitations of ASTM Designation E 1527-2013, "Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process". The purpose of the Phase I ESA Reports was to identify any existing or potential recognized environmental conditions ("**RECs**") in connection with the Initial Portfolio, which means the presence or likely presence of any hazardous substances or petroleum products in, on, or at any property within the Initial Portfolio (i) due to any release to the environment, (ii) under conditions indicative of a release to the environment, or (iii) under conditions that pose a material threat of a future release to the environment. The Phase I ESA Reports also identified any controlled recognized environmental conditions ("**CRECs**"), historical recognized environmental conditions ("**HRECs**") and non-ASTM environmental issues in connection with the Initial Portfolio.

Based on the Phase I ESA Reports prepared in respect of the Initial Portfolio, the independent environmental consultants did not identify any RECs, CRECs or HRECs in connection with any of the Initial Portfolio as of the date of the respective Phase I ESA Reports. In the case of the Phase I ESA Report for DoubleTree Olympia, it was recommended that the ongoing subsurface monitoring, indoor air monitoring, sub-slab soil vapor monitoring and certain other remediation efforts be continued on the property. Such ongoing monitoring and remediation efforts have since been undertaken in accordance with the recommendation of the Phase I ESA report.

Any other non-ASTM environmental issues noted in the Phase I ESA Reports were issues that can be managed under an operations and maintenance program and did not warrant further environmental assessment investigation as of the date of the respective Phase I ESA Reports.

It is the REIT's operating policy to obtain a Phase I ESA Report conducted by an independent and experienced environmental consultant prior to acquiring a property. If a Phase I ESA Report recommends a Phase II environmental assessment be conducted, the REIT will ensure that a Phase II environmental assessment is conducted by an independent and experienced environmental consultant. Management is not aware of any non-compliance with environmental laws at any of the Initial Portfolio that management believes would have a material adverse effect on the REIT. Management is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the Initial Portfolio that would materially adversely affect the REIT or the values of the Initial Portfolio, taken as a whole, as determined by the Appraiser.

Property Condition Assessments

Property condition assessment reports ("**PCA Reports**") were prepared for each of the 11 properties comprising the Initial Portfolio for the purpose of assessing and documenting the general condition of the buildings, site and other improvements at each of the Initial Portfolio. The PCA Reports were also prepared for the purpose of identifying those areas that will require remedial repair at each of the Initial Portfolio. The PCA Reports were

prepared in general accordance with ASTM E2018-08, "Standard Guide for Property Condition Assessments: Baseline Property Condition Assessment Process".

The site observations for the PCA Reports were conducted between September, 2014 to October, 2018. Each of the PCA Reports assessed repairs required to be completed immediately, deferred routine maintenance repairs and capital replacement reserves expenditures to be performed during the subsequent 12 years in order to maintain appropriate building conditions. The cost estimates in the PCA Reports were for components of systems exhibiting significant deferred maintenance and existing deficiencies requiring major repairs or replacement. Repairs or improvements that could be classified as (i) cosmetic; (ii) decorative; (iii) part or parcel of a buildings renovation program or to reposition the asset in the marketplace; (iv) routine or normal preventative maintenance; or (v) that are the responsibility of the tenants were not included.

The PCA Reports provide that each of the properties comprising the Initial Portfolio was observed to be in fair to good overall condition, except for the PCA Report for Homewood Suites Las Colinas, which identified certain poor conditions requiring repairs on foundation & framing and plumbing. At the time of their preparation, the PCA Reports identified certain capital expenditures necessary to maintain the properties in good physical condition, which have since been addressed. Over the past 12 months approximately $12 million in renovations have been completed at the 11 properties comprising the Initial Portfolio. Going forward, the REIT expects that furniture, fixtures and equipment reserves will be sufficient to satisfy any additional capital expenditures required.

DEBT STRATEGY AND INDEBTEDNESS

The REIT plans to use leverage in the portfolio to help increase returns and yields to Unitholders. The REIT will seek to maintain a debt profile consisting of various sources of low cost capital, including debt from regional and national banks, insurance companies, and non-bank lenders. Immediately following Closing, management anticipates the REIT's Debt will be approximately $217 million of secured mortgage loans and term preferred equity of approximately $11.1 million, which under IFRS is accounted for as a liability, implying a Mortgage Debt to Gross Book Value Ratio of approximately **[66]**% and a Debt to Gross Book Value Ratio of [●]% inclusive of the term preferred equity. The REIT intends to target and maintain a Mortgage Debt to Gross Book Value Ratio of between 60% to 70%, or [●]% to [●]% inclusive of term preferred equity and convertible debentures, in order to maximize returns while minimizing leverage risk.

The following chart provides a summary of the REIT's mortgages that will be outstanding following Closing:

Lender	Interest Rate/Spread	Amortization Period (Years)	Maturity Date[(2)]	Number of Encumbered Properties	Principal Amount Outstanding as of January 1, 2019 ($)[(3]
Raymond James Bank, N.A.	3.55%[(1)]	25	September 25, 2021	1[(4)]	32,000,000
Societe Generale	5.12%	30	July 1, 2026	1[(5)]	69,831,569
Western Alliance Bank	3.76%[(1)]	25	January 1, 2020	1[(6)]	20,914,080
NXT Capital, LLC	4.95%[(1)]	30	May 4, 2020	3[(7)]	32,106,655
ACRC Lender LLC	3.45%[(1)]	30	May 9, 2021	5[(8)]	62,365,000
Total Mortgage Loans				**11**	**$ 217,217,304**

Notes:

(1) Variable based on one-month LIBOR.

(2) Does not include extension options which apply for a majority of the mortgage loans.

(3) Excludes term preferred equity.

(4) Secured by Marriott St. Petersburg.

(5) Secured by Holiday Inn Express Nashville.

(6) Secured by Hilton Garden Inn Dallas Market Center.

(7) Secured by Homewood Suites Plano, Homewood Suites Addison and Homewood Suites Las Colinas.

(8) Secured by DoubleTree Beaverton, DoubleTree Bend, DoubleTree Olympia, DoubleTree Tigard and DoubleTree Vancouver.

Following Closing, the REIT's mortgage debt will have a weighted average maturity of 3.77 years and a weighted average interest rate of 5.83% based on a one-month LIBOR rate of 2.32188%. The term preferred equity will pay a cumulative preferred dividend of **[●]**% annually and will have a term of [●] years.

THE CONTRIBUTION OF THE INITIAL PORTFOLIO

Overview

At Closing, the REIT, through its subsidiaries will acquire or aggregate a portfolio of 11 select service and extended stay hotel properties located across five states and six major MSA markets located in the United States. Ten of the hotels will be contributed by four different groups of parties (the "**Contributors**" and each a "**Contributor**") to the REIT or the OP (the "**Contributions**" and each a "**Contribution**"). The four groups of Contributors will be: (i) the shareholders of NexPoint Multifamily Capital Trust, Inc. ("**NMCT Shareholders**"), a Maryland corporation wholly-owned by affiliates of the Advisor ("**NMCT**"); (ii) HCBH 11611 Ferguson, LLC ("**HCBH**"), a Delaware limited liability company wholly owned by affiliates of the Advisor; (iii) Meritage Residential Partners LLC ("**Meritage**"), a Delaware limited liability company wholly owned by affiliates of the Advisor; and (iv) NexPoint Real Estate Opportunities, LLC ("**NREO**"), a Delaware limited liability company, along with minority investors in the properties being contributed by NREO. Upon completion of the Contribution and related transactions, the contributed assets and assumed liabilities will be held by the OP and its subsidiaries, and each hotel property will be leased to the TRS Entities under a long-term lease arrangement in exchange for the payment of the agreed upon rent amount. In order to fund the Contribution, the REIT, through NHI and the OP, will assume or enter into multiple mortgages collateralized by the properties. Upon completion of the Contributions and Acquisition (as defined below), the REIT will have a consolidated Gross Book Value of approximately $368.4 million with an equity value of approximately $115.8 million and Debt of approximately $217 million, exclusive of preferred equity issued by NMCT as described below.

NMCT Shareholders will, indirectly through a series of transactions, contribute 100% of the shares of NMCT to the REIT in exchange for Units of the REIT. NMCT owns approximately $19.3 million in proceeds held by a qualified intermediary (as defined in the Code), the right and obligation to acquire the Holiday Inn Express Nashville and issued preferred equity in the amount of $11.1 million, which is held by an affiliate.

HCBH will contribute 100% of its LLC interests in HCRE Plano, LLC ("**HCRE Plano**"), a Delaware limited liability company, 100% of its LLC interests in HCRE Addison, LLC ("**HCRE Addison**"), a Delaware limited liability company, and 100% of its LLC interests in HCRE Las Colinas, LLC ("**HCRE Las Colinas**"), a Delaware limited liability company, to HCRE Hotel Partner, LLC ("**HCREHP**"). HCBH will then, indirectly through a series of transactions, contribute 100% of its LLC interests in HCREHP to the REIT in exchange for Units of the REIT. HCRE Plano owns Homewood Suites Plano, HCRE Addison owns Homewood Suites Addison and HCRE Las Colinas owns Homewood Suites Las Colinas.

Meritage will, indirectly through a series of transactions, contribute 100% of its LLC interests in NHT SP, LLC ("**NHT SP**"), a Delaware limited liability company, to the REIT in exchange for Units of the REIT. NHT SP owns Marriott St. Petersburg.

NREO and minority members will contribute 100% of the LLC interests in NREO NW Hospitality, LLC ("**NREO NW**"), a Delaware limited liability company, and 2325 Stemmons Hotel Partners, LLC ("**2325 Stemmons**"), a Delaware limited liability company, to the OP in exchange for Class B units of the OP (the "**Class B OP Units**"). NREO NW owns (i) 100% of the LLC interests in NHT Beaverton, LLC ("**NHT Beaverton**"), a Delaware limited liability company, which owns DoubleTree Beaverton, (ii) 100% of the LLC interests in NHT

Bend, LLC ("**NHT Bend**"), a Delaware limited liability company, which owns DoubleTree Bend, (iii) 100% of the LLC interests in NHT Olympia, LLC ("**NHT Olympia**"), a Delaware limited liability company, which owns DoubleTree Olympia, (iv) 100% of the LLC interests in NHT Tigard, LLC ("**NHT Tigard**"), a Delaware limited liability company, which owns DoubleTree Tigard, and (v) 100% of the LLC interests in NHT Vancouver, LLC ("**NHT Vancouver**"), a Delaware limited liability company, which owns DoubleTree Vancouver. 2325 Stemmons owns Hilton Garden Inn Dallas Market Center.

Acquisition of Holiday Inn Express Nashville by Subsidiary

On or prior to the day following Listing, NHT Nashville, LLC ("**NHT Nashville**"), a Delaware limited liability company, and a subsidiary of NMCT, will exercise its rights under the certain purchase and sale agreement to acquire Holiday Inn Express Nashville for $[●] and assumed debt of $ [●] (the "**Acquisition**").

Upon completion of the Acquisition, the REIT, through the OP's indirect ownership, will indirectly own 11 properties, having an appraised value of $[●] million, with an equity value of $[●] million and will assume debt in the amount of $[●] million.

For an illustration of the corporate structure of the REIT upon completion of the above steps, see "Legal Structure".

RETAINED INTEREST

Immediately following Closing, principals and affiliates of the Advisor will own an approximate **[●]**% interest in the REIT through their ownership of Units and Class B OP Units.

GOVERNANCE AND MANAGEMENT OF THE REIT

Board of Trustees

The Declaration of Trust will provide that, subject to certain conditions, the Trustees will have absolute and exclusive power, control and authority over the REIT's assets and operations, as if the Trustees were the sole and absolute legal and beneficial owners of the REIT's assets. The governance practices, investment guidelines and operating policies of the REIT will be overseen by a board of trustees (the "**Board**") consisting of a minimum of one and a maximum of nine Trustees, a majority of whom will be Canadian residents. The REIT must, at all times, have a majority of Trustees who are independent within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("**NI 58-101**"); provided, however, that if at any time a majority of the Trustees are not independent because of the death, resignation, bankruptcy, adjudicated incompetence, removal or change in circumstance of any Trustee who was an Independent Trustee, this requirement shall not be applicable for a period of 60 days thereafter, during which time the remaining Trustees shall appoint a sufficient number of Trustees who qualify as "independent" to comply with this requirement.

The Board will initially be comprised of five Trustees, a majority of whom will be independent Canadian residents. One of the independent Canadian resident Trustees will be designated as Chair of the Board. Pursuant to NI 58-101, an Independent Trustee is one who is free from any direct or indirect relationship which could, in the view of the Board, be reasonably expected to interfere with a Trustee's independent judgment. The REIT has determined that Neil Labatte, [●] and [●] will be independent under these standards. [●] and [●] will not be independent under these standards.

The mandate of the REIT's Board will be one of stewardship and oversight of the REIT and its business. In fulfilling its mandate, the Board will adopt a written charter setting out its responsibility for, among other things, (i) participating in the development of and approving a strategic plan for the REIT; (ii) supervising the activities and managing the investments and affairs of the REIT; (iii) approving major decisions regarding the REIT; (iv) defining the roles and responsibilities of management; (v) reviewing and approving the business and investment objectives to be met by management; (vi) assessing the performance of and overseeing management and the Advisor; (vii)

reviewing and approving the REIT's debt strategy; (viii) identifying and managing risk exposure; (ix) ensuring the integrity and adequacy of the REIT's internal controls and management information systems; (x) succession planning; (xi) establishing committees of the Board, where required or prudent, and defining their mandate; (xii) maintaining records and providing reports to Unitholders; (xiii) ensuring effective and adequate communication with Unitholders, other stakeholders and the public; (xiv) determining the amount and timing of distributions to Unitholders; and (xv) acting for, voting on behalf of and representing the REIT as a holder of shares of NHI and, indirectly, the Class A units of the OP ("**Class A OP Units**").

The Board will adopt a written position description for the Chair of the Board, which will set out the Chair's key responsibilities, including, as applicable, duties relating to setting Board meeting agendas, chairing Board and Unitholder meetings, Trustee development and communicating with Unitholders and regulators. The Board will also adopt a written position description for each of the committee chairs which will set out each of the committee chair's key responsibilities, including duties relating to setting committee meeting agendas, chairing committee meetings and working with the respective committee and management to ensure, to the greatest extent possible, the effective functioning of the committee.

The standard of care and duties of the Trustees provided in the Declaration of Trust will be similar to those imposed on directors of a corporation governed by the *Canada Business Corporations Act* (the "**CBCA**"). Accordingly, each Trustee will be required to exercise the powers and discharge the duties of his or her office honestly, in good faith and in the best interests of the REIT and the Unitholders, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust will provide that each Trustee is entitled to indemnification from the REIT in respect of the exercise of the Trustee's powers and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of the REIT and the Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his or her conduct was lawful.

Other than Trustees appointed prior to Closing, which Trustees will hold office for a term expiring at the close of the next annual meeting of Unitholders or until a successor is appointed, Trustees will be elected at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting, or until a successor is appointed, and will be eligible for re-election. The Board intends to adopt a majority voting policy consistent with TSX requirements prior to the first uncontested meeting of Unitholders at which trustees are to be elected. Nominees will be nominated by the Compensation, Governance and Nominating Committee, in each case for election by Unitholders as Trustees in accordance with the provisions of the Declaration of Trust and will be included in the proxy-related materials to be sent to Unitholders prior to each annual meeting of Unitholders.

A quorum of the Trustees, being the majority of the Trustees then holding office (provided a majority of the Trustees comprising such quorum are residents of Canada), will be permitted to fill a vacancy in the Board, except a vacancy resulting from an increase in the number of Trustees, from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from an increase in the number of Trustees other than in accordance with the provision regarding the appointment of trustees in the Declaration of Trust or from a failure of the Unitholders to elect the required number of Trustees, the Trustees will promptly call a special meeting of the Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there is no Trustee then in office, any Unitholder will be entitled to call such meeting. Except as otherwise provided in the Declaration of Trust, the Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, provided that the number of additional Trustees so appointed will not at any time exceed one-third of the number of Trustees who held such office at the conclusion of the immediately preceding annual meeting of Unitholders. Any Trustee may resign upon 30 days' written notice to the REIT, unless such resignation would cause the number of remaining Trustees to be less than a quorum, and may be removed by an ordinary resolution passed by a majority of the votes cast at a meeting of Unitholders.

The following table sets forth the name, municipality of residence, positions held with the REIT and principal occupation of the Trustees of the REIT:

Name	Position with the REIT	Principal Occupation
NEIL LABATTE .... Toronto, Ontario, Canada	Trustee	President and CEO Global Dimension Capital, Inc.
[●]	[●]	[●]
[●]	[●]	[●]
[●]	[●]	[●]
[●]	[●]	[●]

As a group, the Trustees and executive officers of the REIT will beneficially own, control or direct, directly or indirectly, [●] Units on Closing, representing approximately **[●]**% of the issued and outstanding Units.

Biographical Information Regarding the Trustees

Additional biographical information regarding the individuals who will be Trustees of the REIT as of Closing, for the past five years is set out below:

Neil Labatte. Mr. Labatte is the founder of Global Dimension Capital, Inc., a real estate and hotel investment advisory firm. He is currently the President and CEO Global Dimension Capital, Inc. and is the President and Chief Executive Officer of Talon International Development Inc., a real estate development company. Mr. Labatte is also a Director of Skyline Investments Inc., a Canadian company specializing in hospitality real estate investment in Canada and the United States. Mr. Labatte currently serves on the boards of BSR REIT (where he serves as Chair) and Triovest Inc. He was previously a Director of Pomeroy Hotels as well as HealthLease Properties REIT, Alpha Peak and Holloway Lodging Corporation, all current or former TSX-listed entities. Mr. Labatte is also the former President and Chief Executive Officer of the Legacy Hotels REIT, positions he held since June 1999 and March 2003, respectively until January 2004. He also served as a trustee of the Legacy Hotels REIT from April 2003 until September 2007. Mr. Labatte joined Fairmont Hotels & Resorts in 1997 as Vice President, Acquisitions, and from October 2001 to December 31, 2004 served as Senior Vice President, Real Estate and was a member of the organization's Executive Committee. Mr. Labatte possesses over 35 years of experience within the real estate sector. For four years prior to joining Fairmont Hotels & Resorts, Mr. Labatte was a founder, principal and board member of AEW Mexico Company, a Dallas, Texas private equity real estate investment management company formed with one of the largest institutional real estate private equity companies in the United States. For the 12 years prior to the formation of AEW Mexico Company, he was involved in the hotel and real estate sectors in the capacity of investment banker and consultant. Mr. Labatte received his B.Sc. and M.Sc. in Finance from the University of Utah. Mr. Labatte played professional hockey with the St. Louis Blues and Salt Lake Golden Eagles from 1977-1982. He was previously Co-Chairman of the NHL Alumni Association.

Penalties or Sanctions

None of the REIT's proposed Trustees or executive officers, and to the best of the REIT's knowledge, no Unitholder holding a sufficient number of securities to affect materially the control of the REIT, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Individual Bankruptcies

None of the REIT's existing or proposed Trustees or executive officers, and to the best of the REIT's knowledge, no Unitholder holding a sufficient number of securities to affect materially the control of the REIT, has, within the 10 years prior to the date of this prospectus, become bankrupt, made a proposal under any legislation

relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Corporate Cease Trade Orders and Bankruptcies

Except as disclosed below, none of the REIT's existing or proposed Trustees or executive officers, and to the best of the REIT's knowledge, no Unitholder holding a sufficient number of securities to affect materially the control of the REIT is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, (a) a director, chief executive officer or chief financial officer of any company that was subject to an order that was issued while the existing or proposed director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the existing or proposed director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, or (c) a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. For the purposes of this paragraph, "order" means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case, that was in effect for a period of more than 30 consecutive days.

Mr. Labatte is a director and/or officer of Talon International Inc. and several affiliated entities, including Talon International Development Inc., TFB Inc., 2263847 Ontario Limited and 2270039 Ontario Limited. On November 1, 2016, such corporations became parties to a receivership order from the Ontario Superior Court of Justice (Commercial List) appointing a court-appointed receiver of certain assets of such entities used in relation to the Trump International Hotel & Tower in Toronto, Ontario. The sale of such assets to various third parties was facilitated through the receivership process.

Interests of Trustees in Material Transactions

Other than as described in this prospectus, there are no material interests, direct or indirect, of any Trustee or executive officer of the REIT, any Unitholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of the aggregate votes attached to the Units, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect the REIT or any of its subsidiaries.

Committees of the Board of Trustees

The Board will establish three committees: the Audit Committee and the Compensation, Governance and Nominating Committee. All members of the Audit Committee will be persons determined by the Board to be Independent Trustees, except for temporary periods in limited circumstances in accordance with National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"), and will be residents of Canada. A majority of the members of the Compensation, Governance and Nominating Committee will be persons determined by the Board to be Independent Trustees and will be residents of Canada.

Audit Committee

The Audit Committee will consist of at least three Trustees, all of whom will be persons determined by the REIT to be both Independent Trustees and financially literate within the meaning of NI 52-110 and all of whom will be residents of Canada. The Audit Committee will initially be comprised of Neil Labatte, [●] and [●], all of whom have extensive financial experience and have been determined to be independent. Each of the Audit Committee members will have an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting.

The Board will adopt a written charter for the Audit Committee, substantially in the form set out under Appendix A to this prospectus, which sets out the Audit Committee's responsibilities. It is expected that the Audit Committee's responsibilities will include: (i) reviewing the REIT's procedures for internal control with the REIT's auditors and Chief Financial Officer; (ii) reviewing and approving the engagement of the auditors; (iii) reviewing annual and quarterly financial statements and all other material continuous disclosure documents, including the REIT's annual information form and management's discussion and analysis; (iv) assessing the REIT's financial and accounting personnel; (v) assessing the REIT's accounting policies; (vi) reviewing the REIT's risk management procedures; (vii) reviewing any significant transactions outside the REIT's ordinary course of business and any pending litigation involving the REIT; (viii) overseeing the work and reviewing of the independence of the external auditors; and (ix) reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management.

The Audit Committee will have direct communication channels with the Chief Financial Officer and the external auditors of the REIT to discuss and review such issues as the Audit Committee may deem appropriate.

Compensation, Governance and Nominating Committee

The Compensation, Governance and Nominating Committee will be comprised of at least three Trustees, a majority of whom will be persons determined by the REIT to be Independent Trustees and a majority of whom will be residents of Canada, and will be charged with reviewing, overseeing and evaluating the compensation, corporate governance and nominating policies of the REIT. The Compensation, Governance and Nominating Committee will initially be comprised of Neil Labatte, [●] and [●], all of whom have been determined by the REIT to be Independent Trustees.

The Board will adopt a written charter for the Compensation, Governance and Nominating Committee setting out its responsibilities for: (i) assessing the effectiveness of the Board, each of its committees and individual Trustees; (ii) overseeing the recruitment and selection of candidates as Trustees of the REIT; (iii) organizing an orientation and education program for new Trustees; (iv) considering and approving proposals by the Trustees to engage outside advisors on behalf of the Board as a whole or on behalf of the Independent Trustees; (v) reviewing and making recommendations to the Board concerning any change in the number of Trustees composing the Board; (vi) considering questions of management succession; (vii) administering securities based compensation plans of the REIT including the Omnibus Plan (as defined below), any purchase plan of the REIT, and any other compensation incentive programs; (viii) assessing the performance of management of the REIT; (ix) reviewing and approving the compensation paid by the REIT, if any, to the officers of the REIT; and (x) reviewing and making recommendations to the Board concerning the level and nature of the compensation payable to Trustees and officers of the REIT.

It is expected that the Compensation, Governance and Nominating Committee will put in place an orientation program for new Trustees under which a new Trustee will meet with the Chair of the Board and members of the executive management team of the REIT. It is anticipated that a new Trustee will be provided with comprehensive orientation and education as to the nature and operation of the REIT and its business, the role of the Board and its committees, and the contribution that an individual Trustee is expected to make. The Compensation, Governance and Nominating Committee will be responsible for coordinating development programs for continuing Trustees to enable the Trustees to maintain or enhance their skills and abilities as Trustees as well as ensuring that their knowledge and understanding of the REIT and its business remains current.

The Board believes that the members of the Compensation, Governance and Nominating Committee individually and collectively possess the requisite knowledge, skill and experience in governance and compensation matters, including human resource management, executive compensation matters and general business leadership, to fulfill the committee's mandate. For additional details regarding the relevant education and experience of each member of the Compensation, Governance and Nominating Committee, see "– Biographical Information Regarding the Trustees".

In determining total compensation for the REIT's Trustees and executive officers, the Compensation, Governance and Nominating Committee and the Board will consider a number of key factors, including (i) relative total Unitholder return, (ii) acquisitions, financings and refinancings and (iii) financial performance. The

Compensation, Governance and Nominating Committee and the Board will also assess the individual performance of each executive including a consideration of leadership, team development, asset management, investment and financing strategy development and execution, public company governance, and execution of specific objectives.

Nomination of Trustees

All board nominees are nominated by the Compensation, Governance and Nominating Committee, who make such nominations after considering the mix of skills and experience it believes are necessary to further the REIT's goals. Trustees elected at an annual meeting will be elected for a term expiring at the close of the subsequent annual meeting and will be eligible for re-election. Trustees appointed by the Trustees between meetings of Unitholders in accordance with the Declaration of Trust shall be appointed for a term expiring at the close of the next annual meeting and will be eligible for election or re-election, as the case may be. The Declaration of Trust includes certain advance notice provisions for the nomination of persons by Unitholders to stand for election as Trustees. See "Declaration of Trust – Advance Notice Provision".

Term Limits

The REIT does not impose term limits on its Trustees as it takes the view that term limits are an arbitrary mechanism for removing Trustees that can result in valuable, experienced Trustees being forced to leave the Board solely because of length of service. Instead, the REIT believes that Trustees should be assessed a minimum of annually based on their ability to continue to make a meaningful contribution to the REIT. The REIT is committed to ensuring that its Board is comprised of individuals with appropriate skill sets and annually asks its Trustees to evaluate the effectiveness of the Board and the individual Trustees. The results of these annual surveys are taken into account when determining the appropriate slate of individuals to stand for election as Trustees at each annual meeting.

Remuneration of Trustees

Each non-management Trustee will be paid an annual board retainer fee of $[●] per year as well as a fee of $[●] per meeting of the Board or any committee thereof. Each Trustee will be reimbursed for all reasonable travel and ancillary expenses incurred. The Chair of the Board will receive an additional annual retainer of $[●]. The chair of the Audit Committee will receive an additional annual retainer of $[●]. The chair of the Compensation, Governance and Nominating Committee will receive an additional annual retainer of $[●]. The Trustees will not receive any additional remuneration for acting as directors on the boards of any of the REIT's subsidiaries. Trustees who are also members of management will not receive any remuneration for their role as a Trustee. Trustees may also be issued equity based incentive compensation awards under the Omnibus Plan and may elect to receive their compensation in the form of deferred trust units.

Orientation and Continuing Education

New Trustees

When new Trustees are elected to the Board, they can be expected to participate in a comprehensive orientation program. The orientation program will familiarize new Trustees with the REIT's business and operations, including structure, operations, and risks. They will be briefed on the role of the Board, its committees and the contributions individual trustees are expected to make. New Trustees can also be expected to receive an orientation package containing all Trustees' committee mandates and charters, copies of the REIT's policies and other background information on the REIT's business, operations and risks.

Continuing Education

The REIT's continuing education program for its Trustees will involve the ongoing evaluation by the Compensation, Governance and Nominating Committee of the skills and competencies of existing Trustees. The Board is currently comprised of highly qualified and experienced Trustees with impressive levels of skill and

knowledge. Many of the Trustees are seasoned business executives, directors or professionals with considerable experience, including as directors of other significant public companies. The Compensation, Governance and Nominating Committee will continually monitor the composition of the Board and will recommend the adoption of a formal continuing education program should it be determined to be necessary.

As part of the REIT's continuing education program, Trustees will:

- receive a comprehensive electronic package of information prior to each board and committee meeting;
- obtain a quarterly report on the REIT's operations and markets from management;
- receive updates from management and third parties (including advisors) on regulatory developments and trends and issues related to the REIT's business;
- receive reports on the work of board committees following committee meetings;
- complete an annual tour of certain REIT properties; and
- are encouraged to attend industry conferences and events, with the reasonable cost of such events being reimbursed by the REIT.

Board Assessments

The Compensation, Governance and Nominating Committee will conduct an annual assessment of the Board, its committees and of each individual Trustee. The results of the assessments will be communicated to the Board. This process will be used (i) as an assessment tool, (ii) as a component of the regular review process of Board members' participation, and (iii) to assist with the Board's succession planning.

Conflicts of Interest

The Declaration of Trust will contain "conflict of interest" provisions to protect Unitholders without creating undue limitations on the REIT. As the Trustees will be engaged in a wide range of real estate and other activities, the Declaration of Trust will contain provisions, similar to those contained in the CBCA, that will require each Trustee to disclose to the REIT, at the first meeting of Trustees at which a proposed contract or transaction is considered, any interest in a material contract or transaction or proposed material contract or transaction with the REIT or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with the REIT. If a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the Trustees, a Trustee will be required to disclose in writing to the REIT, or request to have entered into the minutes of meetings of Trustees, the nature and extent of his or her interest forthwith after the Trustee becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee who has made disclosure to the foregoing effect will not be entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction primarily relates to his or her remuneration or is for an indemnity under the provisions of the Declaration of Trust or the purchase or maintenance of liability insurance.

All decisions of the Board will require the approval of a majority of the Trustees present in person or by phone at a meeting of the Board, except for each of the following matters which will also require the approval of a majority of the Independent Trustees:

(a) an acquisition of a property or an investment in a property, whether by co-investment or otherwise, in which any related party of the REIT has any direct or indirect interest, whether as owner, operator or manager;

(b) a material change to any agreement with a related party of the REIT or any renewal, extension or termination thereof or any increase in any fees (including any transaction fees) or distributions payable thereunder;

(c) the entering into of, or the waiver, exercise or enforcement of any rights or remedies under, any agreement entered into by the REIT, or the making, directly or indirectly, of any co-investment, in each case with (i) any Trustee, (ii) any entity directly or indirectly controlled by any Trustee or in which any Trustee holds a significant interest, or (iii) any entity for which any Trustee acts as a director or other similar capacity;

(d) the refinancing, increase or renewal of any indebtedness owed by or to (i) any Trustee, (ii) any entity directly or indirectly controlled by any Trustee or in which any Trustee holds a significant interest, or (iii) any entity for which any Trustee act as a director or other similar capacity;

(e) decisions relating to any claims by or against one or more parties to any agreement with any related party to the REIT; and

(f) the election or appointment of members of the board of directors of NHI.

In connection with any transaction involving the REIT, including any transaction which requires the approval of a majority of the Independent Trustees, the Board shall have the authority to retain external legal counsel, consultants or other advisors to assist it in negotiating and completing such transaction without consulting or obtaining the approval of any officer of the REIT.

It is anticipated that the Independent Trustees will hold in-camera meetings, with members of management not in attendance, as part of regulatory scheduled Board meetings. The Chair will conduct the in-camera meetings without the presence of management or the other non-independent Trustees, and in circumstances where the Independent Trustees have determined that the Chair is subject to a potential conflict of interest in connection with his non-independence designation pursuant to NI 58-101 or otherwise, the lead Trustee shall conduct such in-camera sessions both without the presence of management and without the presence of management or the non-independent Trustees (including the Chair).

Executive Officers

The responsibilities of the management of the REIT will include: (i) providing the Board with information and advice relating to the operation of the REIT's properties, acquisitions and financings; (ii) establishing, at least on an annual basis, investment and operating plans for the ensuing period; (iii) conducting and supervising the due diligence required in connection with proposed acquisitions and completing any acquisitions or dispositions; (iv) maintaining the books and financial records of the REIT; (v) determining and preparing designations, elections and determinations to be made in connection with the income and capital gains of the REIT for tax and accounting purposes; (vi) preparing reports and other information required to be sent to Unitholders and other disclosure documents; (vii) calculating all distributions; (viii) communicating with Unitholders and other persons, including investment dealers, lenders and professionals; and (ix) administering or supervising the administration, on behalf of the Board, of the payment of distributions by the REIT.

The Board will adopt a written position description and mandate for the Chief Executive Officer which will set out the key responsibilities of the Chief Executive Officer. The primary functions of the Chief Executive Officer will be to lead management of the business and affairs of the REIT, to lead the implementation of the resolutions and the policies of the Board, to supervise day to day management and to communicate with Unitholders and regulators. The Chief Executive Officer mandate will be considered by the Board for approval annually.

The following table sets forth the name, municipality of residence and positions held with the REIT of each named executive officer of the REIT on Closing:

Name and Municipality of Residence	Office with the REIT
JAMES DONDERO Dallas, TX, USA	Chief Executive Officer
BRIAN MITTS Dallas, TX, USA	Chief Financial Officer
MATTHEW MCGRANER Dallas, TX, USA	Chief Investment Officer

Additional biographical information regarding the named executive officers of the REIT, including a description of each individual's principal occupation within the past five years, is provided below.

James Dondero. Mr. Dondero serves as the Chief Executive Officer of the REIT. He is the President of Highland Capital Management, L.P. which he co-founded in 1993 and NexPoint Advisors, LP, which he founded in 2012. Mr. Dondero has over 30 years of experience investing in credit and equity markets and has helped pioneer credit asset classes with portfolio management experience ranging in several asset classes, including real estate debt & equity. Mr. Dondero received a BS in Commerce (Accounting and Finance) from the University of Virginia, and is a Certified Managerial Accountant and a Chartered Financial Analyst.

Brian Mitts. Mr. Mitts serves as the Chief Financial Officer, Executive Vice President-Finance, Treasurer and Corporate Secretary of the REIT. Mr. Mitts has over 25 years of accounting, finance and real estate experience and also currently serves as the CFO and member of the investment committee for NexPoint Residential Trust Inc. and other entities managed by affiliates of the Advisor. Mr. Mitts received an MPA and a BBA from the University of Texas at Austin. Mr. Mitts is a licensed Certified Public Accountant.

Matthew McGraner. Mr. McGraner serves as Chief Investment Officer and Executive Vice President of the REIT and is a Managing Director at Highland Capital Management, L.P., and has led $5.3 billion of real estate investments for NexPoint since 2013. With over twelve years of real estate, private equity and legal experience, his primary responsibilities are to lead the strategic direction and operations of the real estate platform at Highland Capital Management, L.P., as well as source and execute investments, manage risk and develop potential business opportunities. Mr. McGraner received a BS from Vanderbilt University and a JD from Washington University School of Law.

Trustees' and Officers' Liability Insurance

The REIT intends to obtain trustees' and officers' liability insurance policies, which cover indemnification of Trustees and officers of the REIT in certain circumstances, including coverage for the REIT and its Trustees and officers in relation to the prospectus. In addition, the REIT will enter into indemnification agreements with each of its Trustees and officers for liabilities and costs in respect of any action or suit against them in connection with the execution of their duties, subject to customary limitations prescribed by applicable law.

Ethical Business Conduct

The REIT will adopt a written code of conduct (the "**Code of Conduct**") that applies to all Trustees, officers, and management of the REIT and its subsidiaries. The objective of the Code of Conduct is to provide guidelines for maintaining the integrity, reputation, honesty, objectivity and impartiality of the REIT and its subsidiaries. The Code of Conduct will address conflicts of interest, protecting the REIT's assets, confidentiality, fair dealing with security holders, competitors and employees, insider trading, compliance with laws and reporting any illegal or unethical behaviour. As part of the Code of Conduct, any person subject to the Code of Conduct will be required to avoid or fully disclose interests or relationships that are harmful or detrimental to the REIT's best interests or that may give rise to real, potential or the appearance of conflicts of interest. The Board will have the ultimate responsibility for the stewardship of the Code of Conduct. The Code of Conduct will also be filed with the Canadian securities regulatory authorities on the SEDAR website at www.sedar.com.

Diversity

The REIT is committed to fostering an open and inclusive workplace culture. The REIT's Code of Conduct will underscore a commitment to diversity and recognizes it as an important asset. The Code of Conduct explicitly states that the REIT and its affiliates are firmly committed to providing equal opportunity in all aspects of employment.

The Compensation, Governance and Nominating Committee values and considers diversity as part of its overall annual evaluation of Trustee nominees for election or re-election, as well as candidates for management positions. Gender and geography (subject to the limitations set forth in the Declaration of Trust) are of particular importance to the REIT in ensuring diversity within the Board and management. Recommendations concerning Trustee nominees are, foremost, based on merit and performance, but diversity is taken into consideration, as it is beneficial that a diversity of backgrounds, views and experiences be present at the Board and management levels.

As of Closing, there will be no female Trustees on the Board and no female executive officers of the REIT or any of its major subsidiaries. The REIT does not currently have a diversity policy in place, but will consider implementing one following Closing. When seeking and considering new Trustees and executive officers, the Compensation, Governance and Nominating Committee will consider a number of factors, including gender, ethnic and geographic diversity, as well as age, business experience, professional expertise, personal skills and perspectives. The REIT has not specified a numerical target for women Trustees on the Board, nor will the REIT maintain a specific numerical target in making executive officer appoints. However, the level of representation of women will be considered by the REIT, the Board and the Compensation, Governance and Nominating Committee in the identification of prospective Trustees and executive officers.

MANAGEMENT AND FRANCHISE AGREEMENTS

Advisory Agreement

Pursuant to an advisory agreement (the "**Advisory Agreement**"), subject to the overall supervision of the Board, the Advisor will manage the day-to-day operations of, and provide investment management services to, the REIT. Under the terms of the Advisory Agreement, the Advisor will:

- find, present and recommend to the Board investment opportunities consistent with the REIT's investment policies and objectives;
- identify, evaluate, negotiate and recommend to the Board the structure of the REIT's investments (including performing due diligence);
- review and analyze financial information for each underlying property of the REIT's portfolio;
- subject to the overall supervision of the Board, manage the REIT's capital improvement program including determining when to execute the program at each property;
- close, monitor and administer the investments made by the REIT; and
- maintain the accounting and financial records of the REIT and its subsidiaries and file required information with the Ontario Securities Commission upon approval of the Board.

The Advisor will also provide the REIT with individuals, as determined by the Advisor, to serve as the REIT's executive officers and will have a right to nominate two trustees to the Board.

As consideration for the Advisor's services, the REIT will pay to the Advisor an advisory fee at an annualized rate of 1.00% of gross assets of the REIT, with certain adjustments, paid monthly (the "**Advisory Fee**"), together with reimbursement of certain general and administrative expenses. Additionally, a long term incentive

plan (the "**LTIP**") will be put in place pursuant to which restricted Units (the "**RUs**") may be granted periodically by the Independent Trustees of the Board to officers and trustees. The LTIP plan implemented and effective on the date of the listing of the Units on the TSX (the "**Listing**") will represent 10% of the market capitalization of the REIT following completion of the Listing. Grants may be awarded by Independent Trustees of the Board at their discretion.

Pursuant to the Advisory Agreement, and subject to certain exceptions including expenses associated with a future debt or equity raise or unusual expenses related to litigation or other unusual activity, the REIT shall not incur annual general and administrative expenses (inclusive of the Advisory Fee and other compensation expenses paid to the Advisor and including compensation from LTIP grants) in excess of 1.5% of gross assets of the REIT (the "**Total G&A Cap**") and the Advisor shall backstop and shall be liable for any general and administrative expenses in excess of such Total G&A Cap.

The Advisory Agreement will have an initial term of two years, and upon approval by the Board will be renewable thereafter for successive one-year terms unless earlier terminated or not renewed by the REIT or the Advisor. The REIT will have the right to terminate the Advisory Agreement on 60 days' written notice without payment of a termination fee in the case of a breach of the Advisory Agreement by the Advisor; provided that no such notice shall be required in the event of fraud, misappropriation of funds, gross negligence, general assignment for the benefit of creditors or bankruptcy of the Advisor. The REIT will be permitted to terminate the Advisory Agreement without cause or due to a change in control of the REIT with six months' written notice to the Advisor. In the event of termination (other than termination for cause) or non-renewal the Advisor will be entitled to compensation equal to three times the Advisory Fee paid to the Advisor over the last 12 months subject to a cap at [●]% of the combined equity value of the REIT and the OP on a consolidated basis, as of the internalization closing, calculated by multiplying the aggregate number of outstanding Units by the market price of the Units on the TSX.

The Advisor will have the right to terminate the Advisory Agreement upon default or the general assignment for the benefit of creditors or bankruptcy by the REIT. NexPoint shall separately grant to the REIT and its subsidiaries the right to continue the use of the "NexPoint" name and logo and related marks and designs under a non-exclusive, royalty-free license agreement entered into at Closing. The Advisor will be permitted to terminate the license at any time on 180 days' written notice following any date on which the Advisor ceases to be the Advisor for the REIT.

Hotel Management Agreement

All of the REIT's hotel properties will be operated pursuant to hotel management agreements (the "**Hotel Management Agreements**") between the Manager, a professional third-party hotel management company, and the TRS Entities that lease the property from the OP and its subsidiaries. The Hotel Management Agreement will require the TRS Entities to pay a base fee to the Manager calculated as a percentage of hotel revenues generated by the hotel operations managed by each TRS Entities. In addition, the Hotel Management Agreements will on occasion provide that the Manager can earn an incentive fee for EBITDA, gross operating profit or an owner's priority return over certain thresholds. The TRS Entities may employ hotel managers in the future other than the Manager. Neither the REIT nor any of its affiliates has any ownership or economic interest in the Manager engaged by the TRS Entities. If in the future, the REIT or any of its affiliates have an ownership stake in a hotel manager engaged by the TRS Entities, the ownership will be limited such that the hotel manager still qualifies as an eligible independent contractor as defined by the Code, allowing the REIT to maintain its ability to qualify as a REIT for federal U.S. tax purposes.

The terms of the REIT's Hotel Management Agreements initially range from one to five years with various extension and termination provisions. The Hotel Management Agreements for the DoubleTree hotels in the Initial Portfolio may be terminated on 60 days' notice by the hotel owner without payment of a termination fee. The Hotel Management Agreements for the Homewood Suites hotels in the Initial Portfolio may be terminated without cause upon 60 days' notice after June 1, 2019 by the hotel owner without payment of a termination fee. The Hotel Management Agreement for Hilton Garden Inn Dallas Market Center may be terminated on 90 days' notice by the hotel owner following the 24th month after the commencement of the agreement. No termination fee will be required if such termination occurs after the 49th month following the commencement of the agreement. The Hotel

Management Agreement for Marriott St. Petersburg may be terminated on 60 days' notice by the hotel owner after April 30th, 2019 without payment of a termination fee. The Hotel Management Agreement for Holiday Inn Express Nashville may be terminated on 60 days' notice by the hotel owner after the first year of the contract term without payment of a termination fee.

The TRS Entities may employ hotel managers in the future other than the Manager. Neither the REIT nor any of its affiliates has any ownership or economic interest in the Manager engaged by the TRS Entities. If in the future, the REIT or any of its affiliates have an ownership stake in a hotel manager engaged by the TRS Entities, the ownership will be limited such that the hotel manager still qualifies as an eligible independent contractor as defined by the Code, allowing the REIT to maintain its ability to qualify as a REIT for federal U.S. tax purposes.

Franchise Agreements

Upon Closing, all of the REIT's hotel properties will operate under franchise agreements with Marriott, Hilton or InterContinental Hotels Group brands. The REIT believes that the public's perception of the quality associated with a branded hotel is an important feature in its attractiveness to guests. Franchisors provide a variety of benefits to franchisees, including centralized reservation systems, national advertising, marketing programs and publicity designed to increase brand awareness, loyalty programs, training of personnel and maintenance of operational quality at hotels across the brand system.

The terms of the REIT's franchise agreements initially range from 15 to 20 years with various extension provisions. Each franchisor receives franchise fees ranging from 2% to 6% of each hotel property's room revenue, and some agreements require that the REIT pay marketing fees of up to 4.5% of room revenue. In addition, some of these franchise agreements require that the REIT deposit into a reserve fund for capital expenditures up to 4% of the hotel property's gross or room revenues depending on the franchisor to insure the REIT complies with the franchisors' standards and requirements. The REIT also pays fees to its franchisors for services such as reservation and information systems.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion describes the significant elements of the REIT's expected executive compensation program. The REIT's senior management team will consist of individuals employed by the Advisor. The Advisor will provide advisory services to the REIT pursuant to the Advisory Agreement, for which the REIT will pay the Advisor certain fees. See "Management of the REIT – Advisory Agreement". Any variability in cash compensation to be paid by the Advisor to the named executive officers employed by the Advisor will not impact the REIT's financial obligations.

The Chief Executive Officer, Chief Financial Officer and Chief Investment Officer are referred to herein as the "named executive officers" in accordance with applicable Canadian securities laws. The officers named in the "Summary Compensation Table" below are employees of the Advisor (or an affiliate thereof) and the Advisor will have sole responsibility for determining the compensation of the named executive officers, other than with respect to the granting of Unit-based compensation under the initial LTIP plan and subsequent LTIP plans, which will be the responsibility of the Independent Trustees of the Board. The REIT will not have any employment agreements with members of senior management and will not pay any cash compensation to any individuals serving as officers. Rather, as employees of the Advisor (or an affiliate thereof), those individuals will be compensated by the Advisor (through its relevant affiliates). A portion of the compensation paid to those employees of the Advisor will be attributable to time spent on the activities of the REIT. The REIT will pay the Advisor certain fees in connection with the Advisory Agreement but the REIT will not bear the cost of any direct compensation paid to any employees of the Advisor.

Principal Elements of Compensation

The following discussion supplements the more detailed information concerning executive compensation that appears in the "Summary Compensation Table" and the accompanying narrative that follows:

The compensation of the named executive officers will include three principal elements: (a) base salary which will be paid by the Advisor; (b) discretionary cash bonuses which will be paid by the Advisor; and (c) long-term incentives, which may consist of restricted equity units, performance-based awards, deferred trust units, options or other equity-based incentive compensation awards granted under the Omnibus Plan, all as described and defined below.

Base Salaries

Base salaries are intended to provide an appropriate level of fixed compensation that will assist in employee retention and recruitment. Base salaries will be determined on an individual basis, taking into consideration the past, current and potential contribution to the REIT's success, the position and responsibilities of the named executive officers and competitive industry pay practices for other real estate investment trusts and companies of comparable size. Base salaries will be paid by the Advisor or its affiliates, not the REIT.

Annual Cash Bonuses

Annual cash bonuses are discretionary and are not awarded pursuant to a formal incentive plan. Annual cash bonuses will be awarded based on qualitative and quantitative performance standards and reward the performance of the named executive officer individually. The determination of the REIT's performance may vary from year to year depending on economic conditions and conditions in the real estate industry, and may be based on measures such as Unit price performance, the meeting of financial targets against budget (such as Core FFO), the meeting of acquisition objectives and balance sheet performance. Individual performance factors vary, and may include completion of specific projects or transactions and the execution of day-to-day management responsibilities. Annual cash bonuses will be paid by the Advisor or its affiliates, not the REIT.

Long-Term Compensation Plans

Grants of equity-based incentive awards under the Omnibus Plan (which may include restricted equity units, performance-based awards, deferred trust units, and other awards convertible, exercisable or exchangeable into or otherwise based on Units) may be used to align the interests of the named executive officers more closely with the interests of the Unitholders, since they are tied to the REIT's financial and Unit trading performance and vest or accrue over a number of years. The Board, acting on the recommendation of the Compensation, Governance and Nominating Committee, may designate individuals eligible to receive grants of equity-based incentive awards. In determining grants of such awards, an individual's performance and contributions to the REIT's success, relative position, tenure and past grants will be taken into consideration. No awards or grants will be made in connection with Closing. It is anticipated that the Compensation, Governance and Nominating Committee and the Board will meet following Closing to consider the award of equity-based incentive grants under the Omnibus Plan to the named executive officers. No discussions or determinations have taken place regarding the potential quantum or terms of any such grants or awards as of the date of this prospectus.

Incentive Compensation Plans

Omnibus Equity Incentive Plan

On Listing, the REIT will adopt the Omnibus Equity Incentive Plan (the "**Omnibus Plan**"). All equity and equity-based awards to be made or granted, including future grants to be made to named executive officers of the REIT, will be made under the Omnibus Plan.

Administration. The Omnibus Plan will be administered by the Compensation, Governance and Nominating Committee. The Compensation, Governance and Nominating Committee will have the authority to, among other things, determine eligibility for awards to be granted, determine, modify or waive the type or types of, form of settlement (whether in cash, Units or otherwise) of, and terms and conditions of, awards, to accelerate the vesting or exercisability of awards, to adopt rules, guidelines and practices governing the operation of the Omnibus Plan as the Compensation, Governance and Nominating Committee deems advisable, to interpret the terms and provisions of the Omnibus Plan and any award agreement, and to otherwise do all things necessary or appropriate to carry out the purposes of the Omnibus Plan. The Compensation, Governance and Nominating Committee's decisions with respect to the Omnibus Plan and any award under the Omnibus Plan are binding upon all persons.

Eligibility. Key officers and any employees of the REIT, independent Trustees and key employees of the Advisor and its respective affiliates who, in the opinion of the Compensation, Governance and Nominating Committee, have dedicated significant time and attention to the affairs and business of the REIT will be eligible to participate in the Omnibus Plan. It is the current expectation of the REIT that Trustees will be issued restricted equity units (see "—Remuneration of Trustees") and other eligible persons will be issued restricted equity units, performance-based awards or other awards convertible, exercisable or exchangeable into or otherwise based on Units (see "—Principal Elements of Compensation – Long-Term Compensation Plans").

Authorized Units. Subject to adjustment, as described below, the maximum number of Units that will be available for issuance under the Omnibus Plan shall not exceed 10% of the issued and outstanding Units of the REIT on a fully-diluted basis, or such greater number as may be determined by the Board and approved by the Unitholders and, if required, by any relevant stock exchange or other regulatory authority; all of which may be delivered in satisfaction of restricted equity units, performance-based awards, deferred trust units or any other applicable award, awarded under the Omnibus Plan. Units issued under the Omnibus Plan may be Units held in treasury or authorized but unissued Units of the REIT not reserved for any other purpose. Units subject to an award that for any reason expires without having been exercised, is cancelled, forfeited or terminated or otherwise is settled without the issuance of Units, will again be available for grant under the Omnibus Plan.

Types of Awards. The Omnibus Plan provides for awards of restricted equity units, performance-based awards, deferred trust units, and other awards convertible, exercisable or exchangeable into or otherwise based on the Units. Eligibility distribution equivalents may also be provided in certain circumstances in connection with an award under the Omnibus Plan.

- *Restricted Equity Units*. A restricted equity unit award is an award denominated in notional units that entitles the participant to receive Units or cash measured by the value of the Units in the future. The delivery of Units or cash under a restricted equity unit award may be subject to the satisfaction of performance conditions or other vesting conditions.

- *Performance Awards*. A performance award is an award the vesting, settlement or exercisability of which is subject to specified performance criteria.

- *Deferred Trust Units*. A deferred trust unit is an award of a notional investment in the Units reflected on an unfunded, book-entry account maintained by the REIT. deferred trust units may be subject to performance conditions or other vesting conditions. deferred trust units may be settled in Units, cash measured by the value of a Unit, or a combination thereof.

- *Other Awards*. Other awards are awards that are convertible into, exercisable or exchangeable for, or otherwise based on Units.

Vesting; Termination of Employment or Service. The Compensation, Governance and Nominating Committee will have the authority to determine the vesting schedule applicable to each award, and accelerate the vesting or exercisability of any award.

Change in Control. In the event of certain consolidations, mergers or similar transactions of the REIT, certain sales or other disposition of the REIT's Units, certain liquidation events or sales or dispositions of all or substantially all of the REIT's assets, the Compensation, Governance and Nominating Committee may provide for the conversion, exercise or exchange of outstanding awards for new awards, or, if no equivalent awards are available, for the accelerated vesting or delivery of Units under awards, or for a cash-out of outstanding awards.

Adjustments. In the event of an extraordinary distribution, securities based distribution, stock split or combination (including a reverse stock split) or any recapitalization, business combination, merger, consolidation, spin-off, exchange of Units, liquidation or dissolution of the REIT or other similar transaction affecting the Units, the Board will make adjustments as it determines in its sole discretion to the number and kind of Units available for issuance under the Omnibus Plan, the annual per-participant Unit limits, the number, class, exercise price (or base value), performance objectives applicable to outstanding awards and any other terms of outstanding awards affected by such transaction. The Compensation, Governance and Nominating Committee may also make adjustments of the type described in the preceding sentence to take into account distributions and events other than those listed above if it determines that adjustments are appropriate to avoid distortion in the operation of the Omnibus Plan.

Termination and Amendments. The Compensation, Governance and Nominating Committee may amend the Omnibus Plan or outstanding awards, or terminate the Omnibus Plan as to future grants of awards, except that the Compensation, Governance and Nominating Committee will not be able to alter the terms of an award if it would affect materially and adversely a participant's rights under the award without the participant's consent. Unitholder approval will be required for any amendment to the Omnibus Plan that increases the number of Units available for issuance under the Omnibus Plan or the individual award limitations specified therein (except with respect to certain adjustments as described above), modifies the class of persons eligible for participation in the Omnibus Plan, extends the term of any award granted beyond its original expiration date, permits an award to be exercisable beyond ten years from its grant date (except where an expiration date would have fallen within a blackout period of the REIT), permits awards to be transferred other than for normal estate settlement purposes, or deletes or reduces the range of amendments which require approval of the Unitholders, or to the extent required by law.

Compensation Risk

The Compensation, Governance and Nominating Committee will consider the implications of the risks associated with the REIT's compensation policies and practices as part of its responsibility to ensure that the compensation for the Trustees and the Chief Executive Officer, Chief Financial Officer and Chief Investment Officer of the REIT align the interests of the Trustees and officers with Unitholders and the REIT as a whole. The REIT's insider trading policy will prohibit all officers and Trustees of the REIT from selling "short" or selling "call options" on any of the REIT's securities and from purchasing financial instruments, such as prepaid variable forward contracts, equity swaps, collars or units of exchange funds that are designed to hedge or offset a decrease in the market value of equity securities granted to such executive officers and Trustees as compensation or held directly or indirectly by such person.

Summary Compensation Table Expected for Fiscal 2019

The following table sets out information concerning the expected compensation to be paid by the Advisor to the named executive officers in fiscal 2018 in respect of the services provided by such officers to the REIT:

Name and principal position	Year	Salary[1]	Bonus[2]	Unit-based awards (options or deferred trust units)[3]	All other compensation	Total compensation
James Dondero, CEO	2019	-	-	[●]	-	$[●]
Brian Mitts, CFO	2019	-	-	[●]	-	$[●]
Matthew McGraner, CIO	2019	-	-	[●]	-	$[●]

Notes:

(1) All compensation for James Dondero (Chief Executive Officer), Brian Mitts (Chief Financial Officer) and Matthew McGraner (Chief Investment Officer) will be paid by the Advisor or its respective affiliates, and there is no reimbursement by the REIT for such compensation. Messrs. Dondero, Mitts and McGraner will act in a variety of capacities for the Advisor and their respective affiliates, and the REIT, and accordingly, the total compensation that each such individual is expected to receive from the Advisor is not disclosed in this table, since total compensation will not be solely attributable to the services that he will provide to the REIT. The allocation of the total compensation disclosed in this table was determined by the Advisor solely for the purposes of this table, based on the time expected to be spent by each such individual in connection with REIT-related services from the time the REIT was formed to the end of fiscal 2018. The portion of total compensation expected to be attributable to the REIT in respect of other employees or senior management of the Advisor, Manager and their respective affiliates, does not meet the definition of named executive officer under applicable Canadian securities laws.

(2) As this amount is discretionary on the part of the Advisor, it has not been determined as of the date of this prospectus.

(3) Determination of any grants of performance-based awards, restricted equity units, deferred trust units or other Unit-based incentive compensation pursuant to the Omnibus Plan will be made at the discretion of the Trustees following Closing and has not been determined as of the date of this prospectus.

INDEBTEDNESS OF TRUSTEES AND EXECUTIVE OFFICERS

None of the Trustees, executive officers, employees, former executive officers or former employees of the REIT or any of its subsidiaries, and none of their respective associates, is or has within 30 days before the date of this prospectus or at any time since the beginning of the most recently completed financial year been indebted to the REIT or any of its subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided by the REIT or any of its subsidiaries.

CAPITALIZATION OF THE REIT

The following table sets forth the pro forma consolidated capitalization of the REIT as at [●], 2018, (net of costs relating to the Contribution), giving effect to the Closing including the completion of the transactions described under "The Contribution of the Initial Portfolio" and "Debt Strategy and Indebtedness". The table should be read in conjunction with the *pro forma* financial statements and notes of the REIT thereto contained in this prospectus. See "Index to the Financial Statements".

	As at [●][(1)][1]
Mortgages	[●]
Preferred Equity	[●]
Unitholders' Equity	
Units	$15.00
(Authorized – unlimited; Issued - [●])	[●]
Total Capitalization	[●]

Note:

(1) The REIT was initially settled on December 12, 2018 with $15.00 in cash.

[1] Date of Closing.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Presentation

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("**MD&A**") discusses the financial condition and results of operations and changes thereto of the eleven hospitality properties located throughout the United States (the "**Initial Portfolio**") and owned by NexPoint Hospitality Trust (the "**REIT**") after completion of the series of contributions and acquisition contemplated in this prospectus. The MD&A should be read in conjunction with the financial statements included in this prospectus. All amounts are stated in thousands of U.S. dollars, unless otherwise noted. Financial data has been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (the "**IASB**"). This MD&A is dated as of, and has been prepared based on information available to management as of, the date of this prospectus.

Included in the Initial Portfolio is the Holiday Inn Express located in downtown Nashville, Tennessee (the "**Nashville Property**"), which the REIT anticipates will be purchased the day following the listing of the REIT on the Toronto Stock Exchange (the "**Listing**"). After Listing, the REIT will indirectly acquire ownership of all of the properties in the Initial Portfolio. This prospectus includes separate historical financial statements of each component of the Initial Portfolio.

The objective of this discussion is to provide Unitholders of the REIT with an analysis of the historical assets, liabilities, revenues and expenses of the Initial Portfolio for the periods referenced. Less emphasis has been placed on analyzing the impact of income taxes and the historical capital structure of the Initial Portfolio, as the historical financial statements contained in this prospectus do not reflect the REIT's proposed capital structure and income tax status, which will be significantly different. The unaudited "pro forma" condensed consolidated financial statements of the REIT contained in this prospectus reflect the impact of financial leverage, real estate investment trust tax status and proposed capital structure on a going forward basis.

Cautionary Note Regarding Forward-Looking Information

Some of the information contained in this MD&A contains forward-looking information. See "Forward-Looking Statements".

Non-IFRS Measures

This MD&A contains certain non-IFRS financial measures, including Funds from Operations ("**FFO**"), Core Funds from Operations ("**CFFO**"), Net Operating Income ("**NOI**") and Net Operating Income Margin ("**NOI Margin**"). See "Non-IFRS Measures".

The Initial Portfolio for the Years Ended December 31, 2017, 2016 and 2015

Overview

The following discusses the financial condition and results of operations and changes thereto of the historical information relating to each component of the Initial Portfolio and should be read in conjunction with the combined or consolidated financial statements (collectively, the "**Financials**"), as the case may be, of the Initial Portfolio contained in this prospectus. The Financials of the Initial Portfolio consist of the statements of financial position as of December 31, 2017, 2016 and 2015 and January 1, 2015 (with the exception of the HWS Portfolio (defined below), which is only shown as of December 31, 2017 and May 4, 2017), along with the statements of comprehensive income, statements of members' equity and statements of cash flows for the years ended December 31, 2017, 2016 and 2015 (with the exception of the HWS Portfolio, which is only shown for the period from May 4, 2017 to December 31, 2017). Additionally, the Financials of the Initial Portfolio consist of the statements of

financial position as of September 30, 2018, along with the statements of comprehensive income, statements of members' equity and statements of cash flows for the nine months ended September 30, 2018 and 2017 (with the exception of the HWS Portfolio, which is only shown for the nine months ended September 30, 2018).

This prospectus contains separate financial statements for each component of the Initial Portfolio which are comprised of the Hilton Garden Inn Dallas Market Center property (the "**HGI Property**"), presented on a stand-alone basis as 2325 Stemmons Hotel Partners, LLC; the Doubletree Beaverton property, the Doubletree Bend property, the Doubletree Olympia property, the Doubletree Tigard property, and the Doubletree Vancouver property (collectively, the "**DT Portfolio**"), presented on a combined, stand-alone basis; the Homewood Suites Addison property, the Homewood Suites Las Colinas property and the Homewood Suites Plano property (the "**HWS Portfolio**"), presented on a consolidated basis as HCRE Hotel Partner, LLC; the Marriott St. Petersburg property (the "**St. Pete Property**"), which is presented on a stand-alone basis; and the Nashville Property, which is also presented on a stand-alone basis. Accordingly, this MD&A for the Initial Portfolio has been presented on a separate basis by component as well. The HWS portfolio was purchased by HCRE Hotel Partner, LLC ("**HCREHP**") on May 4, 2017 (the "**HWS Acquisition Date**"). As such, financial information for HCREHP and the HWS Portfolio is presented from May 4, 2017 through, and as of, December 31, 2017 and January 1, 2018 through, and as of, September 30, 2018 and accordingly a comparative analysis between periods is not presented as it is not a meaningful analysis.

Additionally, NREO NW Hospitality LLC purchased the DT Portfolio on May 5, 2018. As such, 2018 financial statements are shown from January 1, 2018 through May 4, 2018 and a separate set of financials presents the results of the DT Portfolio from May 5, 2018 through September 30, 2018. Management does not present a comparison between year-to-date 2018 results through September 30, 2018 with the same period in 2017 as the comparison would not be meaningful given the two stub period financial statements in 2018.

The REIT is a newly-created, unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT has applied to have its units traded on the Toronto Stock Exchange under the symbol "NHT". NexPoint Real Estate Advisors VI, L.P. (the "**Advisor**") will manage the REIT. The REIT, indirectly through NHT Holdings, LLC ("**NHI**"), will own its properties through NHI's subsidiary, NHT Operating Partnership, LLC (the "**OP**"). In order for NHI, and thus the REIT, to be eligible to elect to be taxed as a real estate investment trust under the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), the properties will be leased to taxable subsidiaries of the REIT (the "**TRS Entities**"), which will in turn contract with eligible independent contractors (as defined in the Code) to manage the day-to-day business operations of the hotels. The property managers for the properties in the Initial Portfolio are affiliates of AimBridge Hospitality Holdings, LLC (collectively, the "**Manager**").

Through various subsidiary entities, the REIT directly and indirectly owns eleven asset-specific limited liability entities, each owning a single hospitality property that comprises the Initial Portfolio. Immediately after Closing, the Initial Portfolio will consist of eleven hospitality properties containing 1,607 rooms. The Initial Portfolio will generate income primarily from rental payments received in connection with hospitality properties and related income. Management has identified approximately 1,012 rooms within the Initial Portfolio for renovations that it believes will improve the condition of the individual properties and increase rental revenue and related hospitality income over the next three years.

The following sections present information and analysis from the financial statements from each component of the Initial Portfolio for the periods referenced:

2325 Stemmons Hotel Partners, LLC
*Hilton Garden Inn Property (“**HGI Property**”)*

Review of Selected Financial and Operating Information of the HGI Property as of and for the Years Ended December 31, 2017 and 2016

The following tables highlight selected financial information of the HGI Property as of and for the years ended December 31, 2017 and 2016. This information has been compiled from, and should be read in conjunction with the financial statements of 2325 Stemmons Hotel Partners, LLC and the notes thereto included elsewhere in this prospectus. Additionally, presented below is a summary of the unaudited FFO, CFFO, NOI and NOI Margin for the years ended December 31, 2017 and 2016, with additional detail provided in “Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin”.

	Year Ended December 31	
	2017	**2016**
Total revenues	$ 9,216	$ 9,448
Operating expenses	(4,703)	(4,630)
General and administrative expenses	(1,846)	(1,965)
Depreciation	(1,423)	(1,378)
Interest expense, net	(1,158)	(1,059)
Income tax expense	(30)	(41)
Net income and comprehensive income	**$ 56**	**$ 375**

	Year Ended December 31	
	2017	**2016**
Funds from Operations	$ 1,479	$ 1,753
Core Funds from Operations	1,581	1,866
Net Operating Income	2,667	2,853

	December 31	
	2017	**2016**
Total assets	$ 31,165	$ 31,610
Total liabilities	23,070	23,571
Members’ equity	8,095	8,039

Review and Comparison of Operational Results of the HGI Property for the Years Ended December 31, 2017 and 2016

Total Revenues

	Year Ended December 31			
	2017	2016	Variance	%
Rooms	$ 7,796	$ 8,020	$ (224)	–2.8%
Food and beverage	1,276	1,272	4	0.3%
Other	144	156	(12)	–7.7%
Total revenues	**$ 9,216**	**$ 9,448**	**$ (232)**	**–2.5%**

Room revenue consists of income related to the rental of hotel rooms. Food and beverage revenue is comprised of revenues from the sale of food and beverage to hotel guests while other revenue consists of all other income generated by the HGI Property. Total revenue decreased $232, or 2.5%, to $9,216 for the year ended December 31, 2017 compared to $9,448 for the year ended December 31, 2016. The decrease in revenue is primarily attributable to a decrease in occupancy and RevPAR. Specifically, compared to the year ended December 31, 2016, weighted average occupancy rates decreased by -1.6% during the year ended December 31, 2017 and RevPAR decreased $2.28 from the prior year.

Operating Expenses

	Year Ended December 31			
	2017	2016	Variance	%
Payroll	$ 2,085	$ 1,978	$ 107	5.4%
Repairs and maintenance	384	499	(115)	–23.0%
Utilities	270	274	(4)	–1.5%
Property taxes and insurance	545	489	56	11.5%
Cost of goods sold	588	548	40	7.3%
Franchise fees	431	449	(18)	–4.0%
Other operating expenses	400	393	7	1.8%
Operating expenses	**$ 4,703**	**$ 4,630**	**$ 73**	**1.6%**

Operating expenses are comprised mainly of costs associated with the management and maintenance of the property including maintenance, payroll, insurance and the costs associated with deriving the food and beverage revenue and franchise fees paid to the franchisor. These expenses increased by $73, or 1.6%, to $4,703 for the year ended December 31, 2017 compared to $4,630 for the year ended December 31, 2016. The increase in expenses was primarily driven by increases in payroll expenses and property taxes and was slightly offset by lower repairs and maintenance costs in the comparative period.

General and Administrative Expenses

	Year Ended December 31			
	2017	2016	Variance	%
Property management fees	$ 329	$ 337	$ (8)	–2.4%
Office operations	425	420	5	1.2%
Marketing	943	1,098	(155)	–14.1%
Other administrative expenses	149	110	39	35.5%
General and administrative expenses	**$ 1,846**	**$ 1,965**	**$ (119)**	**–6.1%**

General and administrative expenses are comprised of the costs to market the services of the property, management fees paid to the Manager and general costs of operating the business. General and administrative expenses decreased by $119, or 6.1%, to $1,846 for the year ended December 31, 2017 compared to $1,965 for the year ended December 31, 2016. The decrease was primarily attributable to a decrease in marketing costs in the comparative period.

Interest Expense, Net

	Year Ended December 31			
	2017	2016	Variance	%
Interest on debt	$ 1,086	$ 987	$ 99	10.0%
Amortization of deferred financing costs	72	72	–	0.0%
Interest expense, net	**$ 1,158**	**$ 1,059**	**$ 99**	**9.3%**

Net interest expense consists of interest expense on the note payable and amortization of deferred financing costs. Net interest expense increased by $99, or 9.3%, to $1,158 for the year ended December 31, 2017 compared to $1,059 for the year ended December 31, 2016. The increase was primarily attributable to an increase in interest expense on the note payable in the comparative period driven by increases in one-month LIBOR during 2017.

Income Tax Expense

	Year Ended December 31			
	2017	2016	Variance	%
Income tax expense	$ 30	$ 41	$ (11)	–26.8%

Income tax expense consists of the income tax recorded for 2325 Stemmons TRS, Inc., which is a taxable REIT subsidiary. Income tax expense decreased by $11, or 26.8%, to $30 for the year ended December 31, 2017 compared to $41 for the year ended December 31, 2016. The decrease was attributable to lower taxable income in the comparative period.

Net Income and Comprehensive Income

	Year Ended December 31			
	2017	2016	Variance	%
Net Income and comprehensive income	$ 56	$ 375	$ (319)	–85.1%

Net income and comprehensive income decreased by $319, or 85.1%, to $56 for the year ended December 31, 2017 as compared to $375 for the year ended December 31, 2016. As discussed above, this decrease was primarily due to a net increase in the following components of net income and comprehensive income:

- a decrease in total revenue of $232, primarily driven by decreases in occupancy and RevPAR;
- an increase in operating expenses of $73, primarily driven by increases in payroll and property taxes, slightly offset by a decrease in repairs and maintenance costs;
- a decrease in general and administrative expenses of $119, primarily driven by lower marketing costs;
- an increase in net interest expense of $99, primarily driven by increases in one-month LIBOR during 2017; and
- a decrease in income tax expense of $11 as a result of lower taxable income in the comparative period.

Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin Results of the HGI Property for the Years Ended December 31, 2017 and 2016

Set out below is a reconciliation of the unaudited FFO, CFFO, NOI and NOI Margin for the years ended December 31, 2017 and 2016:

	Year Ended December 31	
	2017	**2016**
Net income	$ 56	$ 375
Depreciation	1,423	1,378
Funds from Operations	**1,479**	**1,753**
Deferred financing costs	72	72
Income tax expense	30	41
Core Funds from Operations	**$ 1,581**	**$ 1,866**

	Year Ended December 31	
	2017	**2016**
Total revenues	$ 9,216	$ 9,448
Total operating expenses	(6,549)	(6,595)
Net Operating Income	**$ 2,667**	**$ 2,853**
Net Operating Income margin	28.9%	30.2%

Financial Statement Analysis of the HGI Property as of and for the Years Ended December 31, 2017 and 2016

The following table highlights selected financial information for the HGI Property as of December 31, 2017 and 2016. This information has been compiled from, and should be read in conjunction with the consolidated financial statements of the HGI Property and the notes thereto included elsewhere in this prospectus.

	December 31	
	2017	2016
Total current assets	$ 3,140	$ 2,506
Property and equipment, net	28,025	29,104
Total assets	**31,165**	**31,610**
Total current liabilities	2,148	2,427
Note payable, net	20,922	21,144
Total liabilities	**23,070**	**23,571**
Members' equity	**$ 8,095**	**$ 8,039**

Total Current Assets

	December 31			
	2017	2016	Variance	%
Cash and cash equivalents	$ 2,969	$ 1,957	$ 1,012	51.7%
Restricted cash	–	–	–	0.0%
Trade and other receivables	113	456	(343)	–75.2%
Prepaid and other assets	58	93	(35)	–37.6%
Total current assets	**$ 3,140**	**$ 2,506**	**$ 634**	**25.3%**

Total current assets are comprised of cash and cash equivalents, restricted cash, receivables, prepaid expense and other assets. Total current assets increased by $634, or 25.3%, to $3,140 as of December 31, 2017 compared to $2,506 as of December 31, 2016. The increase was primarily due to an increase in cash related to positive cash flow from operating activities but reduced by investing and financing activities.

Property and Equipment, net

	December 31			
	2017	2016	Variance	%
Land	$ 2,555	$ 2,555	$ –	0.0%
Buildings and improvements	25,922	25,600	322	1.3%
Furniture, fixtures and equipment	3,101	3,079	22	0.7%
Total property and equipment	31,578	31,234	344	1.1%
Accumulated depreciation	(3,553)	(2,130)	(1,423)	66.8%
Total property and equipment, net	**$ 28,025**	**$ 29,104**	**$ (1,079)**	**–3.7%**

Property and equipment, net includes land, buildings, improvements, as well as furniture, fixtures and equipment, reduced by accumulated depreciation. Land, buildings, improvements and furniture, fixtures and equipment are measured initially at cost, including transaction costs. Subsequent to initial recognition, these assets are measured at historical cost or fair value, whichever is lower. Subsequent capital expenditures are added to the carrying value of the assets only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Property and equipment, net decreased by $1,079, or 3.7%, to $28,025 as of December 31, 2017 compared to $29,104 as of December 31, 2016. The decrease was attributable primarily to increased accumulated depreciation, offset slightly by additions to buildings and improvements and furniture, fixtures and equipment.

Note payable, net

Note payable, net includes the outstanding balance of the note payable on the HGI Property reduced by the unamortized deferred financing costs and the current portion of note payable and totaled $20,922 as of December 31, 2017, compared to $21,144 as of December 31, 2016, representing a decrease of $222, or 1.0%. The decrease was primarily attributable to amortization of deferred financing costs. As of December 31, 2017, the aggregate principal repayments in the next five years, and thereafter, or until maturity if shorter, are as follows:

	Note Payable
2018	$ 294
2019	310
2020	20,755
2021	–
2022	–
Thereafter	–
Note payable	**21,359**
Current maturities	(294)
Net unamortized deferred financing costs	(143)
Note payable, net	**$ 20,922**

Cash Flows of the HGI Property for the Years Ended December 31, 2017 and 2016

The HGI Property reported a cash balance of $2,969 as of December 31, 2017 as compared to a cash balance of $1,957 as of December 31, 2016. The changes in cash flow for the years ended December 31, 2017 and 2016 are as follows:

	Year Ended December 31	
	2017	**2016**
Cash flow provided by (used in):		
Operating activities	$ 2,715	$ 3,989
Investing activities	(344)	(477)
Financing activities	(1,359)	(2,292)
Increase (decrease) in cash and cash equivalents	1,012	1,220
Cash and cash equivalents, beginning of period	1,957	737
Cash and cash equivalents, end of period	**$ 2,969**	**$ 1,957**

Operating activities for the years ended December 31, 2017 and 2016

Cash flows from operating activities for the year ended December 31, 2017 generated a net cash inflow of $2,715 compared to a net cash inflow of $3,989 for the year ended December 31, 2016. The decrease of $1,274 in cash flows from operating activities was largely driven by lower net income and higher payments of payables.

Investing activities for the year ended December 31, 2017 and 2016

Cash flows used in investing activities for the year ended December 31, 2017 resulted in a net cash outflow of $344 compared to a net cash outflow of $477 for the year ended December 31, 2016. The decrease of $133 in net cash

outflows from investing activities was primarily due to less additions to property and equipment offset by a less inflows into restricted cash.

Financing activities for the year ended December 31, 2017 and 2016

Cash flows used in financing activities for the year ended December 31, 2017 resulted in a net cash outflow of $1,359 compared to a net cash outflow of $2,292 for the year ended December 31, 2016. The decrease of $933 in net cash outflows from financing activities was driven by lower distributions paid to members, higher principal pay down on the note payable and slightly offset by higher interest paid on the note.

Transactions with Related Parties

Stemmons Hospitality, LLC ("**Stemmons**") is a minority member of 2325 Stemmons Hotel Partners, LLC and was an affiliate of the property manager of the HGI Property from acquisition on December 30, 2014 through January 7, 2016. During this period, property management fees paid to the property manager of the HGI Property were considered related party transactions. For the period ended January 7, 2016, the property manager of the HGI Property was paid $5.

Subsequent Events

2325 Stemmons Hotel Partners, LLC evaluated subsequent events through December 11, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these consolidated financial statements.

Critical Accounting Estimates and Assumptions

Management makes estimates and assumptions concerning the future. The resultant accounting estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below. Further information is set forth in Note 3 of the consolidated financial statements presented in this prospectus.

Property and Equipment, Net

Property and equipment, net is recorded at historical cost or fair value if the property is impaired, whichever is lower. Real estate fair values for all other periods presented were determined internally by management through an impairment analysis process. For the internal valuations, a direct capitalization income method was used to calculate fair value. In determining estimates of fair value of the property and equipment, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events.

The primary assumptions underpinning the fair value determination are capitalization rates and stabilized net operating income. The estimates used when determining the fair value of real estate are capitalization rates and stabilized future net operating income. The capitalization rate applied is reflective of the characteristics, location and market of each property. The stabilized future cash flows of each real estate property are based upon rental income from current income and assumptions about occupancy rates and RevPAR. In addition, there is a normalized management fee allowance and capital expenditure reserve taken into consideration when determining future property cash flows. For fair values determined internally, management utilized internal financial information, external market data and capitalization rates provided by independent industry experts and other periodic third-party appraisals.

Significant Accounting Policies

A summary of significant accounting policies is set forth in Note 3 of the consolidated financial statements.

Liquidity, Capital Resources and Contractual Commitments

A summary of future debt obligations, based on principal debt maturities as of December 31, 2017 are as follows:

	Carrying amount	Contractual cash flows	1 year	More than 1 year
Note payable	$ 21,359	$ 21,359	$ 294	$ 21,065
Interest payable on note	–	2,327	1,172	1,155
Total	**$ 21,359**	**$ 23,686**	**$ 1,466**	**$ 22,220**

Acquisitions

For the years ended December 31, 2017, 2016 and 2015, 2325 Stemmons Hotel Partners, LLC had no acquisitions.

Dispositions

For the years ended December 31, 2017, 2016 and 2015, 2325 Stemmons Hotel Partners, LLC had no dispositions.

2325 Stemmons Hotel Partners, LLC
*Hilton Garden Inn Property ("**HGI Property**")*

Review of Selected Financial and Operating Information of the HGI Property as of and for the Years Ended December 31, 2016 and 2015

The following tables highlight selected financial information of the HGI Property as of and for the years ended December 31, 2016 and 2015. This information has been compiled from, and should be read in conjunction with, the consolidated financial statements of 2325 Stemmons Hotel Partners, LLC and the notes thereto included elsewhere in this prospectus. Additionally, presented below is a summary of the unaudited FFO, CFFO, NOI and NOI Margin for the years ended December 31, 2016 and 2015, with additional detail provided in "Funds from Operations, Core Funds from Operations, Net Operating Income and NOI Margin Results".

	Year Ended December 31	
	2016	**2015**
Total revenues	$ 9,448	$ 8,209
Operating expenses	(4,630)	(4,356)
General and administrative expenses	(1,965)	(1,397)
Depreciation	(1,378)	(752)
Interest expense, net	(1,059)	(962)
Income tax expense	(41)	(120)
Net income and comprehensive income	**$ 375**	**$ 622**

	Year Ended December 31	
	2016	**2015**
Funds from Operations	$ 1,753	$ 1,374
Core Funds from Operations	1,866	1,566
Net Operating Income	2,853	2,456

	December 31	
	2016	**2015**
Total assets	$ 31,610	$ 30,916
Total liabilities	23,571	21,947
Members' equity	8,039	8,969

Review and Comparison of Operational Results of the HGI Property for the Years Ended December 31, 2016 and 2015

Total Revenues

	Year Ended December 31						
	2016		2015		Variance		%
Rooms	$	8,020	$	6,817	$	1,203	17.6%
Food and beverage		1,272		1,198		74	6.2%
Other		156		194		(38)	–19.6%
Total revenues	**$**	**9,448**	**$**	**8,209**	**$**	**1,239**	**15.1%**

Room revenue consists of income related to the rental of hotel rooms. Food and beverage revenue is comprised of revenues from the sale of food and beverage to hotel guests while other revenue consists of all other income generated by the HGI Property. Total revenue increased $1,239, or 15.1%, to $9,448 for the year ended December 31, 2016 compared to $8,209 for the year ended December 31, 2015. The increase in revenue is primarily attributable to higher occupancy and RevPAR. Specifically, compared to the year ended December 31, 2015, weighted average occupancy rates increased by 14.9% during the year ended December 31, 2016 and RevPAR increased $13.47 from the prior year.

Operating Expenses

	Year Ended December 31						
	2016		2015		Variance		%
Payroll	$	1,978	$	1,748	$	230	13.2%
Repairs and maintenance		499		326		173	53.1%
Utilities		274		262		12	4.6%
Property taxes and insurance		489		526		(37)	–7.0%
Cost of goods sold		548		468		80	17.1%
Franchise fees		449		390		59	15.1%
Other operating expenses		393		636		(243)	–38.2%
Operating expenses	**$**	**4,630**	**$**	**4,356**	**$**	**274**	**6.3%**

Operating expenses are comprised mainly of costs associated with the management and maintenance of the property including maintenance, payroll, insurance and the costs associated with deriving the food and beverage revenue and franchise fees paid to the franchisor. These expenses increased by $274, or 6.3%, to $4,630 for the year ended December 31, 2016 compared to $4,356 for the year ended December 31, 2015. The increase in expenses was primarily driven by an increase in payroll expenses and repairs and maintenance and partially offset by a decrease in other expenses.

General and Administrative Expenses

	Year Ended December 31				
	2016	2015		Variance	%
Property management fees	$ 337	$ 245		$ 92	37.6%
Office operations	420	417		3	0.7%
Marketing	1,098	625		473	75.7%
Other administrative expenses	110	110		–	0.0%
General and administrative expenses	**$ 1,965**	**$ 1,397**		**$ 568**	**40.7%**

General and administrative expenses increased by $568, or 40.7%, to $1,965 for the year ended December 31, 2016 compared to $1,397 for the year ended December 31, 2015. The increase was primarily attributable to the increase in marketing expenses, which was part of the initial business plan upon acquisition of the HGI Property, to drive revenue higher.

Interest Expense, Net

	Year Ended December 31			
	2016	2015	Variance	%
Interest on debt	$ 987	$ 890	$ 97	10.9%
Amortization of deferred financing costs	72	72	–	0.0%
Interest expense, net	**$ 1,059**	**$ 962**	**$ 97**	**10.1%**

Net interest expense consists of interest expense on the note payable and amortization of deferred financing costs. Net interest expense increased by $97, or 10.1%, to $1,059 for the year ended December 31, 2016 compared to $962 for the year ended December 31, 2015. The increase was attributable to an increase in interest expense on the note payable in the comparative period driven by increases in one-month LIBOR during 2016.

Income Tax Expense

	Year Ended December 31			
	2016	2015	Variance	%
Income tax expense	$ 41	$ 120	$ (79)	–65.8%

Income tax expense consists of the income tax recorded for 2325 Stemmons TRS, Inc., which is a taxable REIT subsidiary. Income tax expense decreased by $79, or 65.8%, to $41 for the year ended December 31, 2016 compared to $120 for the year ended December 31, 2015. The decrease was attributable to lower taxable income in 2016.

Net Income and Comprehensive Income

	Year Ended December 31			
	2016	2015	Variance	%
Net income and comprehensive income	$ 375	$ 622	$ (247)	–39.7%

Net income and comprehensive income decreased by $247, or 39.7%, to $375 for the year ended December 31, 2016 as compared to $622 for the year ended December 31, 2015. As discussed above, this decrease was primarily due to a net increase in the following components of net income and comprehensive income:

- an increase in total revenue of $1,239 resulting from an increase in occupancy and RevPAR as a result of higher spending on marketing and capital improvement program completed in 2015;
- an increase in operating expenses of $274 resulting from increases in payroll expenses and repairs and maintenance costs, partially offset by a decrease in other expenses;
- an increase in general and administrative expenses of $568 as a result of higher marketing costs;
- an increase in net interest expense of $97, primarily driven by increases in one-month LIBOR during 2016; and
- a decrease in income tax expense of $79 as a result of lower taxable income in 2016.

Funds from Operations, Core Funds from Operations, Adjusted Funds from Operations, Net Operating Income and Net Operating Income Margin

Results of the HGI Property for the Years Ended December 31, 2016 and 2015

Set out below is a reconciliation of the unaudited FFO, CFFO, NOI and NOI Margin for the years ended December 31, 2016 and 2015:

	Year Ended December 31	
	2016	**2015**
Net income	$ 375	$ 622
Depreciation	1,378	752
Funds from Operations	**1,753**	**1,374**
Deferred financing costs	72	72
Income tax expense	41	120
Core Funds from Operations	**$ 1,866**	**$ 1,566**

	Year Ended December 31	
	2016	**2015**
Total revenues	$ 9,448	$ 8,209
Operating expenses	(6,595)	(5,753)
Net Operating Income	**$ 2,853**	**$ 2,456**
Net Operating Income margin	30.2%	29.9%

Financial Statement Analysis of the HGI Property as of and for the Years Ended December 31, 2016 and 2015

The following table highlights selected financial information for the HGI Property as of December 31, 2016 and 2015. This information has been compiled from, and should be read in conjunction with, the consolidated financial statements of the HGI Property and the notes thereto included elsewhere in this prospectus.

	December 31	
	2016	2015
Total current assets	$ 2,506	$ 1,059
Property and equipment, net	29,104	29,857
Total assets	**31,610**	**30,916**
Total current liabilities	2,427	602
Note payable, net	21,144	21,345
Total liabilities	**23,571**	**21,947**
Members' equity	**$ 8,039**	**$ 8,969**

Total Current Assets

	December 31			
	2016	2015	Variance	%
Cash and cash equivalents	$ 1,957	$ 737	$ 1,220	165.5%
Restricted cash	–	148	(148)	0.0%
Trade and other receivables	456	36	420	1166.7%
Prepaid and other assets	93	138	(45)	–32.6%
Total current assets	**$ 2,506**	**$ 1,059**	**$ 1,447**	**136.6%**

Total current assets are comprised of cash and cash equivalents, restricted cash, receivables, prepaid expense and other assets. Total current assets increased by $1,447, or 136.6%, to $2,506 as of December 31, 2016 compared to $1,059 as of December 31, 2015. The increase was primarily due to an increase in cash related to positive cash flow from operating activities.

Property and Equipment, net

	December 31			
	2016	2015	Variance	%
Land	$ 2,555	$ 2,555	$ –	0.0%
Buildings and improvements	25,600	25,168	432	1.7%
Furniture, fixtures and equipment	3,079	2,886	193	6.7%
Total property and equipment	31,234	30,609	625	2.0%
Accumulated depreciation	(2,130)	(752)	(1,378)	183.2%
Total property and equipment, net	**$ 29,104**	**$ 29,857**	**$ (753)**	**–2.5%**

Property and equipment, net includes land, building and building improvement, as well as furniture, fixtures and equipment, reduced by accumulated depreciation. Land, buildings, improvements and furniture, fixtures and equipment are measured initially at cost, including transaction costs. Subsequent to initial recognition, these assets are measured at historical cost or fair value, whichever is lower. Subsequent capital expenditures are added to the carrying value of the assets only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Property and equipment, net decreased by $753, or 2.5%, to $29,104 as of December 31, 2016 compared to $29,867 as of December 31, 2015. The decrease was attributable primarily to increased accumulated depreciation, offset partially by additions to buildings and improvements and furniture, fixtures and equipment.

Note payable, net

Note payable, net includes the outstanding balance of the note payable on the HGI Property reduced by the unamortized deferred financing cost and the current portion of note payable and totaled $21,144 as of December 31, 2016, compared to $21,345 as of December 31, 2015, representing a decrease of $201, or 0.9%. The decrease was primarily attributable to amortization of deferred financing costs.

Cash Flows of the HGI Property for the Years Ended December 31, 2016 and 2015

The HGI Property reported a cash balance of $1,957 as of December 31, 2016 as compared to a cash balance of $737 as of December 31, 2015. The changes in cash flow for the years ended December 31, 2016 and 2015 are as follows:

	Year Ended December 31	
	2016	**2015**
Cash flow provided by (used in):		
Operating activities	$ 3,989	$ 2,752
Investing activities	(477)	(5,277)
Financing activities	(2,292)	2,853
Increase (decrease) in cash and cash equivalents	1,220	328
Cash and cash equivalents, beginning of period	737	409
Cash and cash equivalents, end of period	**$ 1,957**	**$ 737**

Operating activities for the year ended December 31, 2016 and 2015

Cash flows from operating activities for the year ended December 31, 2017 generated a net cash inflow of $3,989 compared to a net cash inflow of $2,752 for the year ended December 31, 2016. The increase of $1,237 in cash flows from operating activities was largely driven by higher cash flow from operations.

Investing activities for the year ended December 31, 2016 and 2015

Cash flows used in investing activities for the year ended December 31, 2016 resulted in a net cash outflow of $477 compared to a net cash outflow of $5,277 for the year ended December 31, 2015. The decrease of $4,800 in net cash outflows from investing activities was primarily due to less additions to property and equipment.

Financing activities for the year ended December 31, 2016 and 2015

Cash flows used in financing activities for the year ended December 31, 2016 resulted in a net cash outflow of $2,292 compared to a net cash inflow of $2,853 for the year ended December 31, 2015. The increase of $5,145 in net cash outflows from financing activities was driven by higher distributions to members.

Transactions with Related Parties

Stemmons Hospitality, LLC ("**Stemmons**") is a minority member of 2325 Stemmons Hotel Partners, LLC and was an affiliate of the property manager of the HGI Property from acquisition on December 30, 2014 through January 7, 2016. During this period, property management fees paid to the property manager of the HGI Property were considered related party transactions. For the periods ended January 7, 2016 and December 31, 2015, the property manager of the HGI Property was paid $5 and $245, respectively.

Critical Accounting Estimates and Assumptions

Management makes estimates and assumptions concerning the future. The resultant accounting estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below. Further information is set forth in Note 3 of the consolidated financial statements presented in this prospectus.

Property and Equipment, Net

Property and equipment, net is recorded at historical cost or fair value if the property is impaired, whichever is lower. Real estate fair values for all other periods presented were determined internally by management through an impairment analysis process. For the internal valuations, a direct capitalization income method was used to calculate fair value. In determining estimates of fair value of the property and equipment, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events.

The primary assumptions underpinning the fair value determination are capitalization rates and stabilized net operating income. The estimates used when determining the fair value of real estate are capitalization rates and stabilized future net operating income. The capitalization rate applied is reflective of the characteristics, location and market of each property. The stabilized future cash flows of each real estate property are based upon rental income from current income and assumptions about occupancy rates and RevPAR. In addition, there is a normalized management fee allowance and capital expenditure reserve taken into consideration when determining future property cash flows. For fair values determined internally, management utilized internal financial information, external market data and capitalization rates provided by independent industry experts and other periodic third-party appraisals.

Significant Accounting Policies

A summary of significant accounting policies is set forth in Note 3 of the consolidated financial statements.

HCRE Hotel Partner, LLC

Homewood Suites Addison, Homewood Suites Las Colinas and Homewood Suites Plano

*(collectively, the "**HWS Portfolio**")*

Review of Selected Financial and Operating Information of the HWS Portfolio as of and for the Period Ended December 31, 2017

The following tables highlight selected financial information of the HWS Portfolio as of and for the period ended December 31, 2017. This information has been compiled from, and should be read in conjunction with, the consolidated financial statements of HCRE Hotel Partners LLC and the notes thereto included elsewhere in this prospectus. Additionally, presented below is a summary of the unaudited FFO, CFFO, NOI and NOI Margin for the period ended December 31, 2017, with additional detail provided in "Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin".

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Total revenues	$ 7,653
Operating expenses	(3,755)
General and administrative expenses	(1,701)
Depreciation	(520)
Interest expense, net	(1,106)
Net income and comprehensive income	**$ 571**

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Funds from Operations	$ 1,091
Core Funds from Operations	1,221
Net Operating Income	2,197

	December 31
	2017
Total assets	$ 37,925
Total liabilities	26,304
Members' equity	9,859

Review and Comparison of Operational Results of the HWS Portfolio for the Year Ended December 31, 2017

Total Revenues

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Rooms	$ 7,538
Food and beverage	14
Other	101
Total revenues	**$ 7,653**

Room revenue consists of income related to the rental of hotel rooms. Food and beverage revenue is comprised of revenues from the sale of food and beverage to hotel guests while other revenue consists of all other income generated by the HWS Portfolio. Total revenue for the period ended December 31, 2017 was $7,653 and was driven primarily by room revenue which was $7,538.

Operating Expenses

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Payroll	$ 1,624
Repairs and maintenance	394
Utilities	298
Property taxes and insurance	526
Cost of goods sold	150
Franchise fees	417
Other operating expenses	346
Operating expenses	**$ 3,755**

Operating expenses are comprised mainly of costs associated with the management and maintenance of the property including maintenance, payroll, insurance and the costs associated with deriving the food and beverage revenue and franchise fees paid to the franchisor. These expenses totaled $3,755 for the period ended December 31, 2017 and consisted primarily of payroll expenses and property taxes and insurance, which were $1,624 and $526, respectively.

General and Administrative Expenses

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Property management fees	$ 191
Office operations	420
Marketing	808
Other administrative expenses	282
General and administrative expenses	**$ 1,701**

General and administrative expenses are comprised of the costs to market the services of the property, management fees paid to the Manager and general costs of operating the business. General and administrative expenses totaled $1,701 for the period ended December 31, 2017 and was comprised primarily of marketing expenses and office operations, where were $808 and $420, respectively.

Interest Expense, Net

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Interest on debt	$ 976
Amortization of deferred financing costs	130
Interest expense, net	**$ 1,106**

Net interest expense consists of interest expense on the note payable and amortization of deferred financing costs. Net interest expense for the period ended December 31, 2017 was $1,106 and was driven primarily by interest on the note payable of $976.

Net Income and Comprehensive Income

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Net income and comprehensive income	$ 571

Net income and comprehensive income for the period ended December 31, 2017 was $571 was driven primarily by the following components of net income and comprehensive income:

- revenue of $7,653;
- operating expenses of $3,755;
- general and administrative expenses of $1,701; and
- net interest expense of $1,106.

Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin

Results of the HWS Portfolio for the Period Ended December 31, 2017

Set out below is a reconciliation of the unaudited FFO, CFFO, NOI and NOI Margin for the period ended December 31, 2017:

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Net income (loss)	$ 571
Depreciation	520
Funds from Operations	**1,091**
Deferred financing costs	130
Income tax expense	–
Core Funds from Operations	**$ 1,221**

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Total revenues	$ 7,653
Total operating expenses	(5,465)
Net Operating Income	**$ 2,197**
Net Operating Income margin	28.7%

Financial Statement Analysis of the HWS Portfolio as of and for the Period Ended December 31, 2017

The following table highlights selected financial information for the HWS Portfolio as of December 31, 2017. This information has been compiled from, and should be read in conjunction with, the consolidated financial statements of the HWS Portfolio and the notes thereto included elsewhere in this prospectus.

	December 31
	2017
Total current assets	$ 2,130
Property and equipment, net	35,795
Total assets	**37,925**
Total current liabilities	1,762
Note payable, net	26,304
Total liabilities	**28,066**
Members' equity	**$ 9,859**

Total Current Assets

	December 31
	2017
Cash and cash equivalents	$ 697
Restricted cash	1,008
Trade and other receivables	245
Prepaid and other assets	180
Total current assets	**$ 2,130**

Total current assets are comprised of cash and cash equivalents, restricted cash, receivables, prepaid expense and other assets. Total current assets were $2,130 as of December 31, 2017 and consisted primarily of cash and cash equivalents and restricted cash, which were $697 and $1,008, respectively.

Property and Equipment, net

	December 31
	2017
Land	$ 6,715
Buildings and improvements	20,988
Furniture, fixtures and equipment	2,094
Construction in Progress	6,508
Total property and equipment	36,315
Accumulated depreciation	(520)
Total property and equipment, net	**$ 35,795**

Property and equipment, net includes land, building and building improvements, as well as furniture, fixtures and equipment, reduced by accumulated depreciation. Land, buildings, improvements and furniture, fixtures and equipment are measured initially at cost, including transaction costs. Subsequent to initial recognition, these assets are measured at historical cost or fair value, whichever is lower. Subsequent capital expenditures are added to the carrying value of the assets only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Property and equipment, net as of December 31, 2017 was $35,795 and consisted primarily of buildings and improvements of $20,998, construction in progress of $6,508 and land of $6,715 and was partially offset by accumulated depreciation of $520.

Note payable, net

Note payable, net includes the outstanding balance of the note payable on the HWS Portfolio reduced by the unamortized deferred financing cost and totaled $26,304 as of December 31, 2017. As of December 31, 2017, the aggregate principal repayments in the next five years, and thereafter, or until maturity if shorter, are as follows:

	Note Payable
2018	$ –
2019	277
2020	26,481
2021	–
2022	–
Thereafter	–
Note payable	**26,758**
Current maturities	–
Net unamortized deferred financing costs	(454)
Note payable, net	**$ 26,304**

Cash Flows of the HWS Portfolio for the Period Ended December 31, 2017

The HWS Portfolio reported a cash balance of $697 as of December 31, 2017. The cash flows for the period ended December 31, 2017 are as follows:

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Cash flow provided by (used in):	
Operating activities	$ 2,930
Investing activities	(36,867)
Financing activities	34,634
Increase (decrease) in cash and cash equivalents	697
Cash and cash equivalents, beginning of period	–
Cash and cash equivalents, end of period	**$ 697**

Operating, investing and financing activities for the period ended December 31, 2017

For the period ended December 31, 2017, net cash inflows from operating activities were $2,930, net cash outflows from investing activities were $36,867, and net cash inflows from financing activities were $34,634, resulting in an increase in cash and cash equivalents for the period.

Transactions with Related Parties

For the period ended December 31, 2017, there were no transactions with related parties.

Subsequent Events

HCRE Hotel Partner, LLC evaluated subsequent events through December 11, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these consolidated financial statements.

Critical Accounting Estimates and Assumptions

Management makes estimates and assumptions concerning the future. The resultant accounting estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below. Further information is set forth in Note 3 of the consolidated financial statements presented in this prospectus.

Property and Equipment, Net

Property and equipment, net is recorded at historical cost or fair value if the property is impaired, whichever is lower. Real estate fair values for all other periods presented were determined internally by management through an impairment analysis process. For the internal valuations, a direct capitalization income method was used to calculate fair value. In determining estimates of fair value of the property and equipment, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events.

The primary assumptions underpinning the fair value determination are capitalization rates and stabilized net operating income. The estimates used when determining the fair value of real estate are capitalization rates and stabilized future net operating income. The capitalization rate applied is reflective of the characteristics, location and market of each property. The stabilized future cash flows of each real estate property are based upon rental income from current income and assumptions about occupancy rates and RevPAR. In addition, there is a normalized management fee allowance and capital expenditure reserve taken into consideration when determining future property cash flows. For fair values determined internally, management utilized internal financial information, external market data and capitalization rates provided by independent industry experts and other periodic third-party appraisals.

Significant Accounting Policies

A summary of significant accounting policies is set forth in Note 3 of the consolidated financial statements.

Liquidity, Capital Resources and Contractual Commitments

A summary of future debt obligations, based on principal debt maturities as of December 31, 2017 are as follows:

	Carrying amount	Contractual cash flows	1 year	More than 1 year
Note payable	$ 26,758	$ 26,758	$ –	$ 26,758
Interest payable on note	148	4,256	1,767	2,489
Total	$ 26,906	$ 31,014	$ 1,767	$ 29,247

Acquisitions

Detailed below are the asset acquisitions completed for the period ended December 31, 2017:

Brand	Location	Acquisition Date	Rooms	Purchase price[1]	Mortgage
Homewood Suites	Plano, Texas	May 4, 2017	99	$ 8,574	$ 8,624
Homewood Suites	Addison, Texas	May 4, 2017	120	8,773	6,573
Homewood Suites	Las Colinas, Texas	May 4, 2017	136	12,362	6,983
			355	$ 29,709	$ 22,180

(1) ....
ncludes transaction costs of $67, $69 and $73, respectively.

Dispositions

For the period ended December 31, 2017, HCRE Hotel Partner, LLC had no dispositions.

The Initial Portfolio for the Nine Months Ended September 30, 2018 and 2017 Overview

The following discusses the financial condition and results of operations and changes thereto of the historical information relating to each component of the Initial Portfolio and should be read in conjunction with the combined or consolidated financial statements (collectively, the "**Financials**"), as the case may be, of the Initial Portfolio contained in this prospectus. The Financials of the Initial Portfolio consist of the statements of financial position as of September 30, 2018 and December 31, 2017, respectively, along with the statements of comprehensive income, statements of members' equity and statements of cash flows for the nine months ended September 30, 2018 and 2017, respectively (with the exception of the HWS Portfolio, which is only shown for the 2018 period). The HWS portfolio was purchased by HCRE Hotel Partner, LLC on May 4, 2017. As such, financial information for HCRE Hotel Partner, LLC and the HWS Portfolio is only presented below for the nine months ended September 30, 2018 and, accordingly, a comparative analysis between periods is not presented as it is not a meaningful analysis.

Additionally, NREO NW Hospitality LLC purchased the DT Portfolio on May 5, 2018. As such, 2018 financials are shown from January 1, 2018 through May 4, 2018 and a separate set of financials presents the results of the DT Portfolio from May 5, 2018 through September 30, 2018. Management does not present a comparison between year-to-date 2018 results through September 30, 2018 with the same period in 2017, as the comparison would not be meaningful given the two stub period financial statements in 2018.

The following sections present information and analysis from the financial statements from each component of the Initial Portfolio for the nine months ended September 30, 2018 and 2017, where applicable:

2325 Stemmons Hotel Partners, LLC
*Hilton Garden Inn Property ("**HGI Property**")*

Review of Selected Financial and Operating Information of the HGI Property as of and for the Nine Months Ended September 30, 2018 and 2017

The following tables highlight selected financial information of the HGI Property as of and for the nine months ended September 30, 2018 and 2017. This information has been compiled from, and should be read in conjunction with the financial statements of 2325 Stemmons Hotel Partners, LLC and notes thereto included elsewhere in this prospectus. Additionally, presented below is a summary of the unaudited FFO, CFFO, NOI and NOI Margin for the nine months ended September 30, 2018 and 2017, with additional detail provided in "Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin".

	Nine Months Ended September 30	
	2018	**2017**
Total revenues	$ 7,024	$ 7,069
Operating expenses	(3,597)	(3,498)
General and administrative expenses	(1,504)	(1,495)
Depreciation	(1,094)	(1,063)
Interest expense, net	(1,001)	(858)
Income tax expense	(2)	(22)
Net income (loss) and comprehensive income (loss)	**$ (174)**	**$ 133**

	Nine Months Ended September 30	
	2018	**2017**
Funds from Operations	$ 920	$ 1,196
Core Funds from Operations	976	1,272
Net Operating Income	1,923	2,076

	September 30	**December 31**
	2018	**2017**
Total assets	$ 28,646	$ 31,165
Total liabilities	22,755	23,070
Members' equity	28,646	31,165

Review and Comparison of Operational Results of the HGI Property for the Nine Months Ended September 30, 2018 and 2017

Total Revenues

	Nine Months Ended September 30			
	2018	**2017**	**Variance**	**%**
Rooms	$ 6,019	$ 5,970	$ 49	0.8%
Food and beverage	891	991	(100)	–10.1%
Other	114	108	6	5.6%
Total revenues	**$ 7,024**	**$ 7,069**	**$ (45)**	**–0.6%**

Room revenue consists of income related to the rental of hotel rooms. Food and beverage revenue is comprised of revenues from the sale of food and beverage to hotel guests while other revenue consists of all other income generated by the HGI Property. Total revenue decreased $45, or 0.6%, to $7,024 for the nine months ended September 30, 2018 compared to $7,069 for the nine months ended September 30, 2017. The decrease in revenue is primarily attributable to lower food and beverage revenue. Specifically, compared to the nine months ended September 30, 2017, total food and beverage revenue decreased by 10.1% during the nine months ended September 30, 2018, though RevPAR marginally increased by $0.71 from the prior period.

Operating Expenses

	Nine Months Ended September 30			
	2018	**2017**	**Variance**	**%**
Payroll	$ 1,614	$ 1,573	$ 41	2.6%
Repairs and maintenance	293	293	–	0.0%
Utilities	211	205	6	2.9%
Property taxes and insurance	420	358	62	17.3%
Cost of goods sold	396	444	(48)	–10.8%
Franchise fees	332	330	2	0.6%
Other operating expenses	331	295	36	12.2%
Operating expenses	**$ 3,597**	**$ 3,498**	**$ 99**	**2.8%**

Operating expenses are comprised mainly of costs associated with the management and maintenance of the property including maintenance, payroll, insurance and the costs associated with deriving the food and beverage revenue and franchise fees paid to the franchisor. These expenses increased by $99, or 2.8%, to $3,597 for the nine months ended September 30, 2018 compared to $3,498 for the nine months ended September 30, 2017. The increase in expenses was primarily driven by an increase in payroll expenses and in property taxes and was costs of goods sold in the comparative period.

General and Administrative Expenses

	Nine Months Ended September 30			
	2018	2017	Variance	%
Property management fees	$ 210	$ 326	$ (116)	–35.6%
Office operations	291	327	(36)	–11.0%
Marketing	817	726	91	12.5%
Other administrative expenses	186	116	70	60.3%
General and administrative expenses	**$ 1,504**	**$ 1,495**	**$ 9**	**0.6%**

General and administrative expenses are comprised of the costs to market the services of the property, management fees paid to the Manager and general costs of operating the business. General and administrative expenses decreased by $9, or 0.6%, to $1,504 for the nine months ended September 30, 2018 compared to $1,495 for the nine months ended September 30, 2017. The decrease was primarily attributable to a decrease in property management fees, partially offset by increases in marketing and other expenses in the comparative period.

Interest Expense, Net

	Nine Months Ended September 30			
	2018	2017	Variance	%
Interest on debt	$ 947	$ 804	$ 143	17.8%
Amortization of deferred financing costs	54	54	–	0.0%
Interest expense, net	**$ 1,001**	**$ 858**	**$ 143**	**16.7%**

Net interest expense consists of interest expense on the note payable and amortization of deferred financing costs. Net interest expense increased by $143, or 16.7%, to $1,001 for the nine months ended September 30, 2018 compared to $858 for the nine months ended September 30, 2017. The increase was attributable to an increase in interest expense on the note payable in the comparative period driven by increases in one-month LIBOR during 2018.

Income Tax Expense

	Nine Months Ended September 30			
	2018	2017	Variance	%
Income tax expense	$ 2	$ 22	$ (20)	-90.9%

Income tax expense consists of the income tax recorded for 2325 Stemmons TRS, Inc., which is a taxable REIT subsidiary. Income tax expense decreased by $20, or 90.9%, to $2 for the nine months ended September 30, 2018 compared to $22 for the nine months ended September 30, 2017. The decrease was attributable to lower taxable income in 2018.

Net Income and Comprehensive Income

	Nine Months Ended September 30			
	2018	2017	Variance	%
Net income (loss) and comprehensive income (loss)	$ (174)	$ 133	$ (307)	–230.8%

Net income and comprehensive income decreased by $307, or 230.8%, to a net loss of $174 for the nine months ended September 30, 2018 as compared to net income of $133 for the nine months ended September 30, 2017. As discussed above, this decrease was primarily due to a net increase in the following components of net income and comprehensive income:

- a decrease in total revenue of $45 resulting primarily from decreases food and beverage revenue;
- an increase in operating expenses of $99 resulting from increases in payroll and property taxes and partially offset by costs of providing food and beverage;
- an increase in net interest expense of $143, primarily driven by increases in one-month LIBOR during 2018; and
- a decrease in income tax expense of $20 as a result of lower taxable income in 2018.

Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin Results of the HGI Property for the Nine Months Ended September 30, 2018 and 2017

Set out below is a reconciliation of the unaudited FFO, CFFO, NOI and NOI Margin for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30	
	2018	**2017**
Net income (loss)	$ (174)	$ 155
Depreciation	1,094	1,063
Funds from Operations	**920**	**1,196**
Deferred financing costs	54	54
Income tax expense	2	22
Core Funds from Operations	**$ 976**	**$ 1,272**

	Nine Months Ended September 30	
	2018	**2017**
Total revenues	$ 7,024	$ 7,069
Total operating expenses	(5,101)	(4,993)
Net Operating Income	**$ 1,923**	**$ 2,076**
Net Operating Income margin	27.4%	29.4%

Financial Statement Analysis of the HGI Property as of September 30, 2018 and December 31, 2017

The following table highlights selected financial information for the HGI Property as of September 30, 2018 and December 31, 2017. This information has been compiled from, and should be read in conjunction with the consolidated financial statements of the HGI Property and the notes thereto included elsewhere in this prospectus.

	September 30 2018	December 31 2017
Total current assets	$ 1,572	$ 3,140
Property and equipment, net	27,074	28,025
Total assets	**28,646**	**31,165**
Total current liabilities	2,093	2,148
Note payable, net	20,662	20,922
Total liabilities	**22,755**	**23,070**
Members' equity	**$ 5,891**	**$ 8,095**

Total Current Assets

	September 30 2018	December 31 2017	Variance	%
Cash and cash equivalents	$ 1,355	$ 2,969	$ (1,614)	–54.4%
Restricted cash	–	–	–	0.0%
Trade and other receivables	138	113	(25)	–22.1%
Prepaid and other assets	79	58	(21)	–36.2%
Total current assets	**$ 1,572**	**$ 3,140**	**$ (1,568)**	**–49.9%**

Total current assets are comprised of cash and cash equivalents, restricted cash, receivables, prepaid expenses and other assets. Total current assets decreased by $1,568, or 49.9%, to $1,572 as of September 30, 2018 compared to $3,140 as of December 31, 2017. The decrease was primarily due to an increase in cash distributions paid.

Property and Equipment, net

	September 30 2018	December 31 2017	Variance	%
Land	$ 2,555	$ 2,555	$ –	0.0%
Buildings and improvements	26,018	25,922	96	0.4%
Furniture, fixtures and equipment	3,148	3,101	47	1.5%
Total property and equipment	31,721	31,578	143	0.5%
Accumulated depreciation	(4,647)	(3,553)	(1,094)	30.8%
Total property and equipment, net	**$ 27,074**	**$ 28,025**	**$ (951)**	**–3.4%**

Property and equipment, net includes land, building and building improvements, as well as furniture, fixtures and equipment, reduced by accumulated depreciation. Land, buildings, improvements and furniture, fixtures and equipment are measured initially at cost, including transaction costs. Subsequent to initial recognition, these assets are measured at historical cost or fair value, whichever is lower. Subsequent capital expenditures are added to the carrying value of the assets only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Property and equipment, net decreased by $951, or 3.4%, to $27,074 as of September 30, 2018 compared to $28,025 as of December 31, 2017. The decrease was attributable primarily to increased accumulated depreciation, offset slightly by additions to buildings and improvements.

Note payable, net

Note payable, net includes the outstanding balance of the note payable on the HGI Property reduced by the unamortized deferred financing cost and totaled $20,662 as of September 30, 2018, compared to $20,922 as of December 31, 2017, representing a decrease of $260, or 1.2%. The decrease was primarily attributable to amortization of deferred financing costs. As of September 30, 2018, the aggregate principal repayments in the next five years, and thereafter, or until maturity if shorter, are as follows:

		Note Payable
2018	$	–
2019		303
2020		20,755
2021		–
2022		–
Thereafter		–
Note payable		**21,058**
Current maturities		(307)
Net unamortized deferred financing costs		(89)
Note payable, net	**$**	**20,662**

Cash Flows of the HGI Property for the Nine Months Ended September 30, 2018 and 2017

The HGI Property reported a cash balance of $1,355 as of September 30, 2018 as compared to a cash balance of $2,763 as of September 30, 2017. The changes in cash flow for the nine months ended September 30, 2018 and 2017 are as follows:

	Nine Months Ended September 30			
	2018		**2017**	
Cash flow provided by (used in):				
Operating activities	$	1,807	$	1,971
Investing activities		(143)		(132)
Financing activities		(3,278)		(1,033)
Increase (decrease) in cash and cash equivalents		(1,614)		806
Cash and cash equivalents, beginning of period		2,969		1,957
Cash and cash equivalents, end of period	**$**	**1,355**	**$**	**2,763**

Operating activities for the nine months ended September 30, 2018 and 2017

Cash flows from operating activities for the nine months ended September 30, 2018 generated a net cash inflow of $1,807 compared to a net cash inflow of $1,971 for the nine months ended September 30, 2017. The decrease of $164 in cash inflows from operating activities was largely driven by lower net income and higher interest payments.

Investing activities for the nine months ended September 30, 2018 and 2017

Cash flows used in investing activities for the nine months ended September 30, 2018 resulted in a net cash outflow of $143 compared to a net cash outflow of $132 for the nine months ended September 30, 2017. The increase of $11 in net cash outflows from investing activities was primarily due to lower additions to restricted cash.

Financing activities for the nine months ended September 30, 2018 and 2017

Cash flows used in financing activities for the nine months ended September 30, 2018 resulted in a net cash outflow of $3,278 compared to a net cash outflow of $1,033 for the nine months ended September 30, 2017. The increase of $2,245 in net cash outflows from financing activities was driven by higher distributions paid to members.

Transactions with Related Parties

For the nine months ended September 30, 2018 and 2017, there were no transactions with related parties.

Subsequent Events

2325 Stemmons Hotel Partners, LLC evaluated subsequent events through December 11, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these consolidated financial statements.

Critical Accounting Estimates and Assumptions

Management makes estimates and assumptions concerning the future. The resultant accounting estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below. Further information is set forth in Note 3 of the consolidated financial statements presented in this prospectus.

Property and Equipment, Net

Property and equipment, net is recorded at historical cost or fair value if the property is impaired, whichever is lower. Real estate fair values for all other periods presented were determined internally by management through an impairment analysis process. For the internal valuations, a direct capitalization income method was used to calculate fair value. In determining estimates of fair value of the property and equipment, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events.

The primary assumptions underpinning the fair value determination are capitalization rates and stabilized net operating income. The estimates used when determining the fair value of real estate are capitalization rates and stabilized future net operating income. The capitalization rate applied is reflective of the characteristics, location and market of each property. The stabilized future cash flows of each real estate property are based upon rental income from current income and assumptions about occupancy rates and RevPAR. In addition, there is a normalized management fee allowance and capital expenditure reserve taken into consideration when determining future property cash flows. For fair values determined internally, management utilized internal financial information, external market data and capitalization rates provided by independent industry experts and other periodic third-party appraisals.

Significant Accounting Policies

A summary of significant accounting policies is set forth in Note 3 of the consolidated financial statements.

Liquidity, Capital Resources and Contractual Commitments

A summary of future debt obligations, based on principal debt maturities as of September 30, 2018, are as follows:

	Carrying amount	Contractual cash flows	1 year	More than 1 year
Note payable	$ 21,058	$ 21,058	$ 307	$ 20,751
Interest payable on note	–	1,636	1,312	324
Total	$ 21,058	$ 22,694	$ 1,619	$ 21,075

Acquisitions

For the nine months ended September 30, 2018 and 2017, 2325 Stemmons Hotel Partners, LLC had no acquisitions.

Dispositions

For the nine months ended September 30, 2018 and 2017, 2325 Stemmons Hotel Partners, LLC had no dispositions.

HCRE Hotel Partner, LLC

Homewood Suites Addison, Homewood Suites Las Colinas and Homewood Suites Plano
*(collectively, the "**HWS Portfolio**")*

Review of Selected Financial and Operating Information of the HWS Portfolio as of and for the Nine Months Ended September 30, 2018

The following tables highlight selected financial information of the HWS Portfolio as of and for the nine months ended September 30, 2018. This information has been compiled from, and should be read in conjunction with, the consolidated financial statements of HCRE Hotel Partner, LLC and notes thereto included elsewhere in this prospectus. Additionally, presented below is a summary of the unaudited FFO, CFFO, NOI and NOI Margin for the nine months ended September 30, 2018, with additional detail provided in "Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin".

	Nine Months Ended September 30
	2018
Total revenues	$ 7,547
Operating expenses	(4,113)
General and administrative expenses	(1,818)
Depreciation	(596)
Interest expense, net	(1,680)
Net loss and comprehensive loss	**$ (660)**

	Nine Months Ended September 30
	2018
Funds from Operations	$ (64)
Core Funds from Operations	82
Net Operating Income	1,616

	September 30
	2018
Total assets	$ 43,237
Total Liabilities	31,641
Members' equity	9,782

Review and Comparison of Operational Results of the HWS Portfolio for the Nine Months Ended September 30, 2018

Total Revenues

	Nine Months Ended September 30
	2018
Rooms	$ 7,446
Food and beverage	14
Other	87
Total revenues	**$ 7,547**

Room revenue consists of income related to the rental of hotel rooms. Food and beverage revenue is comprised of revenues from the sale of food and beverage to hotel guests while other revenue consists of all other income generated by the HWS Portfolio. Total revenue for the nine months ended September 30, 2018 was $7,547 and was driven primarily by room revenue which was $7,446.

Operating Expenses

	Nine Months Ended September 30
	2018
Payroll	$ 1,826
Repairs and maintenance	485
Utilities	304
Property taxes and insurance	524
Cost of goods sold	186
Franchise fees	409
Other operating expenses	379
Operating expenses	**$ 4,113**

Operating expenses are comprised mainly of costs associated with the management and maintenance of the property including maintenance, payroll, insurance and the costs associated with deriving the food and beverage revenue and franchise fees paid to the franchisor. These expenses totaled $4,113 for the nine months ended September 30, 2018 and consisted primarily of payroll expenses and property taxes and insurance, which were $1,826 and $524, respectively.

General and Administrative Expenses

	Nine Months Ended September 30
	2018
Property management fees	$ 189
Office operations	463
Marketing	807
Other administrative expenses	359
General and administrative expenses	**$ 1,818**

General and administrative expenses are comprised of the costs to market the services of the property, management fees paid to the Manager and general costs of operating the business. General and administrative expenses totaled

$1,818 for the nine months ended September 30, 2018 and was comprised primarily of marketing expenses and office operations, of $807 and $463, respectively.

Interest Expense, Net

	Nine Months Ended September 30	
	2018	
Interest on debt	$	1,534
Amortization of deferred financing costs		146
Interest expense, net	**$**	**1,680**

Net interest expense consists of interest expense on the note payable and amortization of deferred financing costs. Net interest expense for the nine months ended September 30, 2018 was $1,680 and was driven primarily by interest on the note payable of $1,534.

Net Income and Comprehensive Income

	Nine Months Ended September 30	
	2018	
Net loss and comprehensive loss	$	(660)

Net income and comprehensive income for the nine months ended September 30, 2018 was a loss of $660 and was driven primarily by the following components of net income and comprehensive income:

- revenue of $7,547;
- operating expenses of $4,113;
- general and administrative expenses of $1,818;
- depreciation of $596; and
- net interest expense of $1,680.

Funds from Operations, Core Funds from Operations, Net Operating Income and Net Operating Income Margin Results of the HWS Portfolio for the Nine months Ended September 30, 2018

Set out below is a reconciliation of the unaudited FFO, CFFO, NOI and NOI Margin for the nine months ended September 30, 2018:

	Nine Months Ended September 30	
	2018	
Net loss	$	(660)
Depreciation		596
Funds from Operations		**(64)**
Deferred financing costs		146
Income tax expense		–
Core Funds from Operations	**$**	**82**

	Nine Months Ended September 30	
	2018	
Total revenues	$	7,547
Total operating expense		(5,931)
Net Operating Income	**$**	**1,616**
Net Operating Income margin		21.4%

Financial Statement Analysis of the HWS Portfolio as of September 30, 2018

The following table highlights selected financial information for the HWS Portfolio as of September 30, 2018. This information has been compiled from, and should be read in conjunction with, the consolidated financial statements of the HWS Portfolio and the notes thereto included elsewhere in this prospectus.

	September 30	
	2018	
Total current assets	$	2,023
Property and equipment, net		41,214
Total assets		**43,237**
Total current liabilities		1,656
Note payable, net		31,641
Total liabilities		33,297
Members' equity	**$**	**9,782**

Total Current Assets

	September 30	
	2018	
Cash and cash equivalents	$	705
Restricted cash		889
Trade and other receivables		242
Prepaid and other assets		187
Total current assets	**$**	**2,023**

Property and Equipment, net

	Nine Months Ended September 30
	2018
Land	$ 6,715
Buildings and improvements	21,100
Furniture, fixtures and equipment	2,255
Construction in progress	12,260
Total property and equipment	42,330
Accumulated depreciation	(1,116)
Total property and equipment, net	**$ 41,214**

Property and equipment, net includes land, building and building improvements, as well as furniture, fixtures and equipment, reduced by accumulated depreciation. Land, buildings, improvements and furniture, fixtures and equipment are measured initially at cost, including transaction costs. Subsequent to initial recognition, these assets are measured at historical cost or fair value, whichever is lower. Subsequent capital expenditures are added to the carrying value of the assets only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Note payable, net

Note payable, net includes the outstanding balance of the note payable on the HWS Portfolio reduced by the unamortized deferred financing cost. As of September 30, 2018, the aggregate principal repayments in the next five years, and thereafter, or until maturity if shorter, are as follows:

	Note Payable
2018	$ –
2019	277
2020	31,830
2021	–
2022	–
Thereafter	–
Note payable	**32,107**
Current maturities	(158)
Net unamortized deferred financing costs	(308)
Note payable, net	**$ 31,641**

Cash Flows of the HWS Portfolio for the Nine Months Ended September 30, 2018

The HWS Portfolio reported a cash balance of $705 as of September 30, 2018. The components of cash flow for the nine months ended September 30, 2018 are as follows:

	Nine Months Ended September 30	
	2018	
Cash flow provided by (used in):		
Operating activities	$	1,481
Investing activities		(5,896)
Financing activities		4,423
Increase in cash and cash equivalents		8
Cash and cash equivalents, beginning of period		697
Cash and cash equivalents, end of period	**$**	**705**

Operating, investing and financing activities for the nine months ended September 30, 2018

For the nine months ended September 30, 2018, net cash inflows from operating activities were $1,481, net cash outflows from investing activities were $5,896, and net cash inflows from financing activities were $4,423, resulting in an increase in cash and cash equivalents for the nine months ended September 30, 2018 of $8.

Transactions with Related Parties

For the nine months ended September 30, 2018, there were no transactions with related parties.

Subsequent Events

HCRE Hotel Partner, LLC evaluated subsequent events through December 11, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these consolidated financial statements.

Critical Accounting Estimates and Assumptions

Management makes estimates and assumptions concerning the future. The resultant accounting estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below. Further information is set forth in Note 3 of the consolidated financial statements presented in this prospectus.

Property and Equipment, Net

Property and equipment, net is recorded at historical cost or fair value if the property is impaired, whichever is lower. Real estate fair values for all other periods presented were determined internally by management through an impairment analysis process. For the internal valuations, a direct capitalization income method was used to calculate fair value. In determining estimates of fair value of the property and equipment, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events.

The primary assumptions underpinning the fair value determination are capitalization rates and stabilized net operating income. The estimates used when determining the fair value of real estate are capitalization rates and stabilized future net operating income. The capitalization rate applied is reflective of the characteristics, location and market of each property. The stabilized future cash flows of each real estate property are based upon rental income from current income and assumptions about occupancy rates and RevPAR. In addition, there is a normalized management fee allowance and capital expenditure reserve taken into consideration when determining future

property cash flows. For fair values determined internally, management utilized internal financial information, external market data and capitalization rates provided by independent industry experts and other periodic third-party appraisals.

Significant Accounting Policies

A summary of significant accounting policies is set forth in Note 3 of the consolidated financial statements.

Liquidity, Capital Resources and Contractual Commitments

Cash flow generated from leasing properties represents the primary source of liquidity to service debt, pay operating expenses and make distributions. Cash flow from operations is dependent upon continually leasing available rooms, cost of debt and other factors.

A summary of future debt obligations, based on principal debt maturities as of September 30, 2018, are as follows:

	Carrying amount	Contractual cash flows	1 year	More than 1 year
Note payable	$ 32,107	$ 32,107	$ 158	$ 31,949
Interest payable on note	173	3,893	2,345	1,548
Total	$ 32,280	$ 36,000	$ 2,503	$ 33,497

Acquisitions

For the nine months ended September 30, 2018, HCRE Hotel Partner, LLC made no acquisitions.

Dispositions

For the nine months ended September 30, 2018, HCRE Hotel Partner, LLC had no dispositions.

Other Financial and Operating Information of the REIT

Future Accounting Changes

New standards and amendments to existing standards issued by the IASB may be relevant to the REIT in preparing its consolidated financial statements in future periods, including IFRS 16. The REIT intends to adopt this standard on its effective date.

IFRS 16, *Leases* ("**IFRS 16**") was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17, *Leases*. The most significant effect of the new standard will be the recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low value assets may be exempted. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted. The REIT intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019 and does not expect the new standard to have a material impact on its consolidated financial statements.

Financial Risk Management

The activities of the Initial Portfolio expose them to market risk and liquidity risk. Risk management is carried out by the Chief Financial Officer under policies approved by executive management.

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. There may be interest rate risk associated with the Initial Portfolio's fixed rate mortgages payable due to the expected requirement to refinance such mortgages payable in the year of maturity. To manage exposure to interest rate risk, management endeavors to manage maturities of fixed rate mortgages payable, and match the nature of the mortgages payable with the cash flow characteristics of the underlying assets. This risk may also be minimized through having a portion of the REIT's notes payable in fixed term arrangements.

(b) Liquidity Risk

Liquidity risk is the risk that the REIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. To mitigate the risk associated with the refinancing of maturing debt, the REIT intends to stagger the maturity dates of its mortgage portfolio over a number of years.

Liquidity, Capital Resources and Contractual Commitments

The REIT will seek to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account the availability of financing and market conditions, and the financial characteristics of each property. The REIT believes that cash generated from rental income will be sufficient to meet future operating expenses, capital expenditures and future debt service requirements. In addition, the REIT believes that its capital structure will provide it with financial flexibility to pursue future growth strategies. However, the REIT's ability to fund operating expenses, capital expenditures and future debt service requirements will depend on, among other things, future operating performance, which will be affected by general economic, industry, financial and other factors, including factors beyond the REIT's control. See the "Risk Factors" section in this prospectus.

Cash flow generated from leasing properties represents the primary source of liquidity to service debt, pay operating expenses and make distributions. Cash flow from operations is dependent upon continually leasing available rooms, cost of debt and other factors.

Disclosure Controls and Procedures and Internal Controls

The REIT's management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in its

various reports are recorded, processed, summarized and reported accurately. As of the end of the period covered by this MD&A, the Chief Executive Officer and the Chief Financial Officer of the REIT have reviewed and evaluated the Initial Portfolio disclosure controls and procedures (as that term is defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**") and, based upon that review and evaluation, concluded that those disclosure controls and procedures were effective and met the requirements thereof. Nevertheless, management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

NI 52-109 requires the Chief Executive Officer and Chief Financial Officer to certify that they are responsible for establishing and maintaining internal control over financial reporting for the Initial Portfolio and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer are also responsible for disclosing any changes to the internal controls for the Initial Portfolio that have materially affected, or are reasonably likely to materially affect, the REIT's internal control over financial reporting.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the disclosure controls or internal controls over financial reporting of the Initial Portfolio will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met.

The Chief Executive Officer and Chief Financial Officer have, using the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013), evaluated the design and operating effectiveness of the internal controls over financial reporting of the Initial Portfolio and concluded that, as of September 30, 2018, and subject to the inherent limitations described above, internal controls over financial reporting were effective to provide reasonable assurance that information related to consolidated results and decisions to be made on those results were appropriate.

There have been no changes in the internal controls over financial reporting of the Initial Portfolio during the nine months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect the REIT's internal controls over financial reporting.

INVESTMENT GUIDELINES AND OPERATING POLICIES

Investment Guidelines

The Declaration of Trust provides certain guidelines on investments that may be made directly or indirectly by the REIT. The assets of the REIT after Closing may be invested only with the approval of the trustees and only in accordance with the following restrictions:

(a) the REIT may only invest, directly or indirectly, in interests (including fee ownership and leasehold interests) in income-producing real estate located in the United States and Canada (including, for greater certainty, assets whose revenue stems primarily from hospitality assets but which may include income from other asset classes), assets ancillary thereto necessary for the operation of such real estate and such other activities as are consistent with the other investment guidelines of the REIT;

(b) notwithstanding anything else contained in the Declaration of Trust, the REIT shall not make any investment, take any action or omit to take any action that would result in Units not being units of a "mutual fund trust" within the meaning of the Tax Act or that would result in the Units not being qualified investments for Exempt Plans;

(c) the business of the REIT shall be limited to and conducted in such a manner as to permit the REIT at all times to be classified as a Real Estate Investment Trust (as defined in the Code) for U.S. federal income tax purposes, unless the Trustees have determined, at their full discretion, that the REIT cease qualifying as a real estate investment trust under the Code;

(d) the REIT may, directly or indirectly, invest in a joint venture arrangement for the purposes of owning interests or investments otherwise permitted to be held by the REIT; provided that such joint venture arrangement contains terms and conditions which, in the opinion of the Independent Trustees, are commercially reasonable, including without limitation such terms and conditions relating to restrictions on the transfer, acquisition and sale of the REIT's and any joint venturer's interest in the joint venture arrangement, provisions to provide liquidity to the REIT, provisions to limit the liability of the REIT and its Unitholders to third parties, and provisions to provide for the participation of the REIT in the management of the joint venture arrangement. For purposes hereof, a "joint venture arrangement" is an arrangement between the REIT and one or more other persons pursuant to which the REIT, directly or indirectly, conducts an undertaking for one or more of the purposes set out in the investment guidelines of the REIT and in respect of which the REIT may hold its interest jointly or in common or in another manner with others either directly or through the ownership of securities of a corporation or other entity;

(e) except for temporary investments held in cash, deposits with a Canadian or U.S. chartered bank or trust company registered under the laws of a province of Canada or a state of the United States, short-term government debt securities or money market instruments maturing prior to one year from the date of issue and except as permitted pursuant to the investment guidelines and operating policies of the REIT, the REIT may not hold securities of a person other than to the extent such securities would constitute an investment in real property (as determined by the Trustees) and provided further that, notwithstanding anything contained in the Declaration of Trust to the contrary, but in all events subject to paragraph (ii) above, the REIT may hold securities of a person: (a) acquired in connection with the carrying on, directly or indirectly, of the REIT's activities or the holding of its assets; or (b) which focuses its activities primarily on the activities described in paragraph (i) above, provided in the case of any proposed investment or acquisition which would result in the beneficial ownership of more than 10% of the outstanding securities of an issuer (the "**Acquired Issuer**"), the investment is made for the purpose of subsequently effecting the merger or combination of the business and assets of the REIT and the Acquired Issuer or for otherwise ensuring that the REIT will control the business and operations of the Acquired Issuer;

(f) the REIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;

(g) the REIT shall not invest, directly or indirectly, in operating businesses unless:

(i) revenue will be principally associated with the ownership, directly or indirectly, of hospitality properties; or

(ii) it principally involves the ownership, maintenance, development, improvement, leasing or management, directly or indirectly, of a hospitality property (in each case as determined by the Trustees); or

(iii) it is an indirect investment and is incidental to a transaction which satisfies (a) or (b) above;

(h) the REIT shall not invest in raw land for development, except (a) for existing properties with additional development or properties adjacent to existing properties of the REIT for the purpose of the renovation or expansion of existing properties, or (b) the development of new properties which will be capital property of the REIT, provided that the aggregate value of the investments of the REIT in raw land, excluding raw land under development, after giving effect to the proposed investment, will not exceed 10% of Gross Book Value;

(i) the REIT may invest in and originate mortgages and mortgage bonds (including participating or convertible mortgages) and similar instruments where:

(i) the real property which is security for such mortgages and similar instruments is income producing real property which otherwise meets the other investment guidelines of the REIT; and

(ii) the aggregate book value of the investments of the REIT in mortgages, after giving effect to the proposed investment, will not exceed 15% of Gross Book Value; and

(j) the REIT may invest an amount (which, in the case of an amount invested to acquire real property, is the purchase price less the amount of any debt incurred or assumed in connection with such investment) up to 15% of the Gross Book Value of the REIT in investments which do not comply with one or more of paragraphs (a), (d), (e), (g) and (h).

Operating Policies

The Declaration of Trust provides that operations and affairs of the REIT are to be conducted in accordance with the following policies:

(a) the REIT shall not purchase, sell, market or trade in currency or interest rate futures contracts otherwise than for hedging purposes where, for the purposes hereof, the term “hedging” has the meaning ascribed thereto by National Instrument 81-102 - *Mutual Funds adopted by the Canadian Securities Administrators*, as replaced or amended from time to time;

(b) (i) any written instrument creating an obligation which is or includes the granting by the REIT of a mortgage; and

(ii) to the extent the Trustees determine to be practicable and consistent with their fiduciary duties to act in the best interest of the Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation,

shall contain a provision, or be subject to an acknowledgement to the effect, that the obligation being created is not personally binding upon, and that resort must not be had to, nor will recourse

or satisfaction be sought from, by lawsuit or otherwise the private property of any of the Trustees, Unitholders, annuitants or beneficiaries under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion thereof is bound; the REIT, however, is not required, but must use all reasonable efforts, to comply with this requirement in respect of obligations assumed by the REIT upon the acquisition of real property;

(c) the REIT may engage in construction or development of real property: (a) to maintain its real properties in good repair or to improve the income producing potential of properties in which the REIT has an interest; and (b) to develop new properties that will be capital properties of the REIT on completion, provided that the aggregate value of the investments of the REIT in properties under development after giving effect to the proposed investment in the construction or development, will not exceed 20% of Gross Book Value;

(d) title to each real property shall be held by and registered in the name of the REIT, a subsidiary of the REIT, the Trustees or a corporation or other entity wholly-owned, directly or indirectly, by the REIT or jointly- owned, directly or indirectly, by the REIT, with joint venturers; provided, that where land tenure will not provide fee simple title, the REIT, the Trustees or a corporation or other entity wholly-owned, directly or indirectly, by the REIT or jointly owned, directly or indirectly, by the REIT shall hold a land lease as appropriate under the land tenure system in the relevant jurisdiction;

(e) the REIT shall not incur or assume any indebtedness if, after giving effect to the incurrence or assumption of such indebtedness, the total indebtedness of the REIT would be more than 70% of Gross Book Value (or 75% of Gross Book Value including convertible debentures);

(f) the REIT shall not directly or indirectly guarantee any indebtedness or liabilities of any kind of a third party, except indebtedness or liabilities assumed or incurred by an entity in which the REIT holds an interest, directly or indirectly, or by an entity jointly owned by the REIT with joint venturers and operated solely for the purpose of holding a particular property or properties, where such indebtedness, if granted by the REIT directly, would cause the REIT to contravene its investment guidelines or operating policies. The REIT is not required but shall use its reasonable best efforts to comply with this requirement (a) in respect of obligations assumed by the REIT pursuant to the acquisition of real property; or (b) if doing so is necessary or desirable in order to further the initiatives of the REIT permitted under the Declaration of Trust;

(g) the REIT shall directly or indirectly obtain and maintain at all times property insurance coverage in respect of potential liabilities of the REIT and the accidental loss of value of the assets of the REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practice of owners of comparable properties;

(h) the REIT shall have obtained an appraisal of each real property that it intends to acquire and an engineering survey with respect to the physical condition thereof, in each case, by an independent and experienced consultant, unless the requirement for such an appraisal or engineering survey is waived by the Independent Trustees;

(i) the REIT shall obtain a Phase I environmental site assessment of each real property to be acquired by it and, if the Phase I environmental site assessment report recommends that a further environmental site assessment be conducted, the REIT shall have conducted such further environmental site assessments, in each case by an independent and experienced environmental consultant; as a condition to any acquisition such assessments shall be satisfactory to the Trustees; and

(j) the REIT shall not engage in any sales of properties, directly or indirectly, if it would subject the REIT to tax under Section 857 of the Code.

For the purpose of the foregoing investment guidelines and operating policies, the assets, liabilities and transactions of a corporation or other entity wholly or partially-owned by the REIT will be deemed to be those of the REIT on a proportionate consolidation basis. In addition, any references in the foregoing investment guidelines and operating policies to investment in real property will be deemed to include an investment in a joint venture arrangement that invests in real property.

Amendments to Investment Guidelines and Operating Policies

Pursuant to the Declaration of Trust, all of the investment guidelines set out under the heading "Investment Guidelines" and the operating policies contained in paragraphs (a), (e), (f), (g), (h) and (i) set out under the heading "Operating Policies" may be amended only with the approval of two-thirds of the votes cast by Unitholders of the REIT at a meeting of Unitholders called for such purpose. The remaining operating policies may be amended with the approval of a majority of the votes cast by Unitholders at a meeting called for such purpose.

Notwithstanding the foregoing paragraph, if at any time a government or regulatory authority having jurisdiction over the REIT or any property of the REIT shall enact any law, regulation or requirement which is in conflict with any investment guideline or operating policy of the REIT then in force (other than subparagraph (b) at "Investment Guidelines and Operating Policies – Investment Guidelines"), such investment guideline or operating policy in conflict shall, if the Trustees on the advice of legal counsel to the REIT so resolve, be deemed to have been amended to the extent necessary to resolve any such conflict and, notwithstanding anything to the contrary, any such resolution of the Trustees shall not require the prior approval of Unitholders.

DECLARATION OF TRUST

General

The REIT is an unincorporated open-ended real estate investment trust established pursuant to the Declaration of Trust under, and governed by, the laws of the Province of Ontario. Although the REIT is expected to qualify on Closing as a "mutual fund trust" as defined in the Tax Act, the REIT will not be a "mutual fund" as defined by applicable securities legislation.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such Act or any other legislation. The Units are not shares in the REIT and, although the protections, rights and remedies set out in the Declaration of Trust are similar to those provided under the CBCA, Unitholders do not have statutory rights of shareholders of a corporation including, for example, "dissent rights" in respect of certain corporate transactions and fundamental changes, the right to apply to a court to order the liquidation or dissolution of the REIT, or the right to bring "oppression" or "derivative" actions. Furthermore, the REIT is not a trust company and accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Units

The REIT is authorized to issue an unlimited number of Units. Issued and outstanding Units may be subdivided or consolidated from time to time by the Trustees without notice to or the approval of the Unitholders.

No Unit will have any preference or priority over another. Each Unit will represent a Unitholder's proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of Unitholders and to participate *pro rata* in any distributions by the REIT, whether of net income, net realized capital gains or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. Units will be fully paid and non-assessable when issued and are transferable. The Units are redeemable by the holder thereof, as described below under "Declaration of Trust – Redemption Right" and, except as set out in "Retained Interest", "Declaration of Trust –Issuance of Units" and "The Operating Partnership – Operation", the Units have no other conversion, retraction, redemption or pre-emptive rights. Fractional Units may be issued as a result of an act of the Trustees, but fractional Units will not entitle the holders thereof to vote, except to the extent that such fractional Units may represent in the aggregate one or more whole Units.

Restrictions on Ownership and Transfer

REIT Qualification

In order for the REIT to qualify as a real estate investment trust for U.S. federal income tax purposes, the Units must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding Units (after taking into account options to acquire Units) may be owned, directly or through certain constructive ownership rules, by five or fewer individuals (as defined in the Code to include certain entities such as private foundations) at any time during the last half of a taxable year.

The Declaration of Trust contains restrictions on the ownership and transfer of the Units that are intended to assist the REIT in complying with these requirements to qualify as a real estate investment trust. The relevant sections of the Declaration of Trust provide that, subject to the exceptions described below, no person or entity may actually or beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 6.2% of the Units, excluding any Units that are not treated as outstanding for U.S. federal income tax purposes. Each of these restrictions, as well as the restrictions described below under "Declaration of Trust – FIRPTA", is referred to as an "ownership limit" and collectively as the "ownership limits". A person or entity that would have acquired actual, beneficial or constructive ownership of the Units but for the application of the ownership limits or any of the other restrictions on ownership and transfer of the Units is a "prohibited owner".

The constructive ownership rules under the Code are complex and may cause Units owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 6.2% of the Units (or the acquisition of an interest in an entity that owns, actually or constructively, the Units) by an individual or entity could, nevertheless, cause that individual or entity, or another individual or entity, to own constructively in excess of 6.2% of the Units and thereby violate the applicable ownership limit.

The Declaration of Trust provides that the Board, subject to certain limits including any applicable fiduciary duties, shall prospectively exempt a person from the ownership limits and, if necessary, establish a different limit on ownership for such person if it determines that such exemption could not cause or permit:

- five or fewer individuals to actually or beneficially own more than 49% in value of the outstanding Units; or
- the REIT to own, actually or constructively, an interest in a tenant of the REIT (or a tenant of any entity owned in whole or in part by the REIT).

As a condition of the exception, the Board may require an opinion of counsel or a U.S. Internal Revenue Service (the "**IRS**") ruling, in either case in form and substance satisfactory to the Board, in its sole and absolute discretion, in order to determine or ensure the REIT's status for U.S. federal income tax purposes, and such representations, covenants and/or undertakings as are necessary or prudent to make the determinations above. Notwithstanding the receipt of any ruling or opinion, the Board may impose such conditions or restrictions as it deems appropriate in connection with such an exception.

In connection with a waiver of an ownership limit or at any other time, the Board may, in its sole and absolute discretion, increase or decrease Unit ownership limits for one or more persons, except that a decreased ownership limit will not be effective for any person whose actual, beneficial or constructive ownership of the Units exceeds the decreased ownership limit at the time of the decrease until the person's actual, beneficial or constructive ownership of the Units equals or falls below the decreased ownership limit, although any further acquisition of the Units will violate the decreased ownership limit. The Board may not increase or decrease any ownership limit if the new ownership limit would allow five or fewer persons to actually or beneficially own more than 49% of the Units.

The Declaration of Trust further prohibits:

- any person from actually, beneficially or constructively owning Units that could result in the REIT being "closely held" under Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year) or otherwise cause the REIT to fail to qualify as a real estate investment trust (including, but not limited to, actual, beneficial or constructive ownership of Units that could result in the REIT owning (actually or constructively) an interest in a tenant that is described in Section 856(d)(2)(b) of the Code if the income the REIT derives from such tenant, taking into account the REIT's other income that would not qualify under the gross income requirements of Section 856(c) of the Code, would cause the REIT to fail to satisfy any of the gross income requirements imposed on real estate investment trusts); and

- any person from transferring Units if such transfer would result in the Units being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution).

Any person who acquires or attempts or intends to acquire actual, beneficial or constructive ownership of Units that will or may violate the ownership limits or any of the other restrictions on ownership and transfer of the Units described above must give written notice immediately to the REIT or, in the case of a proposed or attempted transaction, provide it at least 15 days prior written notice, and provide the REIT with such other information as the REIT may request in order to determine the effect of such transfer on the REIT's status for U.S. federal income tax purposes.

The ownership limits and other restrictions on ownership and transfer of the Units described above will not apply if the Board determines that it is no longer in the REIT's best interests to continue to qualify as a real estate investment trust or that compliance is no longer required in order for the REIT to qualify as a real estate investment trust.

Every owner of 5% or more (or such lower percentage as required by the Code or the Treasury regulations promulgated thereunder) of the outstanding Units, within 30 days after the end of each taxable year, must give written notice to the REIT stating the name and address of such owner, the number of Units that the owner actually or beneficially owns and a description of the manner in which the Units are held. Each such owner also must provide the REIT with any additional information that the REIT requests in order to determine the effect, if any, of the person's actual or beneficial ownership on the REIT's status for U.S. federal income tax purposes and to ensure compliance with the ownership limits and the other restrictions on ownership and transfer of the Units set forth in the Declaration of Trust. In addition, any person that is an actual, beneficial or constructive owner of Units and any person (including the Unitholder of record) who is holding Units for an actual, beneficial or constructive owner must, on request, disclose to the REIT in writing such information as the REIT may request in good faith in order to determine the REIT's status for U.S. federal income tax purposes and to comply with requirements of any taxing authority or governmental authority or to determine such compliance.

FIRPTA

Under the *Foreign Investment in Real Property Tax Act of 1980*, as amended ("**FIRPTA**"), if any non-U.S. person holds, actually or constructively, more than 10% of the outstanding Units, the REIT will be required to withhold 15% on distributions in excess of the REIT's current and accumulated earnings and profits (as determined for U.S. federal income tax purposes), and to withhold 21% (or less to the extent provided in applicable Treasury Regulations) of any distribution to such non-U.S. person that could be designated by the REIT as a capital gain dividend. Any such withheld amount is creditable against such non-U.S. person's FIRPTA tax liability.

In order for the REIT to comply with its withholding obligations under FIRPTA (and certain other regulatory requirements), the Units are subject to notice requirements and transfer restrictions. Non-U.S. persons holding Units are required to provide the REIT with such information as the REIT may request. Furthermore, any non-U.S. person that would be treated as having acquired sufficient Units to be treated as owning more than 5% of the Units is required to notify the REIT by the close of the business day prior to the date of the transfer that would cause the non-U.S. person to own more than 5% of the Units.

The constructive ownership rules under the Code are complex and may cause Units owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of 5% or less of the Units (or the acquisition of an interest in an entity that owns, actually or constructively, the Units) by an individual or entity could, nevertheless, cause that individual or entity, or another individual or entity, to own constructively in excess of 5% of the Units and thereby become subject to the notice requirement. Under these rules of constructive ownership, Units can be attributed (i) among family members, (ii) to non-U.S. persons from entities that own Units, to the extent that such non-U.S. persons own interests in such entities, and (iii) to entities from non-U.S. persons that own interests in such entities. Under these attribution rules, Units of related entities (including related investment funds) may be aggregated to the extent of overlapping ownership.

If any non-U.S. person that would otherwise be treated as having acquired sufficient Units to be treated as owning more than 5% of the Units fails to comply with the FIRPTA notice provisions described above, the excess Units (i.e., the excess of the number of Units it would be treated as owning over an amount equal to 5% of the outstanding Units) will be sold, through the mechanism described below under "Declaration of Trust – Excess Units," with such non-U.S. person receiving the lesser of (i) its original purchase price for the excess Units, and (ii) the sale price of the excess Units (net of commissions and other expenses of sale). Non-U.S. persons holding Units are strongly advised to monitor their actual and constructive ownership of Units.

Excess Units

Pursuant to the Declaration of Trust, if any purported transfer of the Units or any other event would otherwise result in any person violating the ownership limits described above under "Declaration of Trust – REIT Qualification" or such other limit established by the Board or otherwise failing to qualify as a REIT, or if a non-U.S. person would otherwise be treated as owning more than 5% of the Units and has not complied with the notice provisions described under "Declaration of Trust – FIRPTA", then the number of Units that exceeds the applicable ownership limit (rounded up to the nearest whole Unit) will be automatically transferred to, and held by, a charitable trust for the exclusive benefit of one or more charitable beneficiaries selected by the REIT. The prohibited owner will have no rights in Units held by the charitable trustee. The automatic transfer will be effective as of the close of business on the business day prior to the date of the violative transfer or other event that results in the transfer to the charitable trust. Any dividend or other distribution paid to the prohibited owner, prior to the REIT's discovery that the Units had been automatically transferred to a charitable trust, must be repaid to the charitable trustee upon demand. If the transfer to the charitable trust as described above is not automatically effective, for any reason, to prevent violation of the applicable restriction on ownership and transfer of the Units, then the transfer of the number of Units that otherwise would cause any person to violate the above restrictions will be void and of no force or effect and the intended transferee will acquire no rights in the Units. If any transfer of the Units would result in Units being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution), then any such purported transfer will be void and of no force or effect and the intended transferee will acquire no rights in the Units.

Units transferred to the charitable trustee are deemed offered for sale to the REIT, or the REIT's designee, at a price per Unit equal to the lesser of (i) the price per Unit in the transaction that resulted in the transfer of the Units to the charitable trust (or, in the event of a gift, devise or other such transaction, the last sale price reported on the TSX on the day of the transfer or other event that resulted in the transfer of such Units to the charitable trust); and (ii) the last sale price reported on the TSX on the date the REIT accepts, or the REIT's designee accepts, such offer. The REIT must reduce the amount payable to the prohibited owner by the amount of dividends and distributions paid to the prohibited owner and owed by the prohibited owner to the charitable trustee and pay the amount of such reduction to the charitable trustee for the benefit of the charitable beneficiary. The REIT has the right to accept such offer until the charitable trustee has sold the Units held in the charitable trust. Upon a sale to the REIT, the interest of the charitable beneficiary in the Units sold terminates and the charitable trustee must distribute the net proceeds of the sale to the prohibited owner and any dividends or other distributions held by the charitable trustee with respect to such Units will be paid to the charitable beneficiary.

If the REIT does not buy the Units, the charitable trustee must, within 20 days of receiving notice from the REIT of the transfer of Units to the charitable trust, sell the Units to a person or persons designated by the charitable trustee who could own the Units without violating the ownership limits or other restrictions on ownership and transfer of the Units. Upon such sale, the charitable trustee must distribute to the prohibited owner an amount equal

to the lesser of (i) the price paid by the prohibited owner for the Units (or, if the prohibited owner did not give value in connection with the transfer or other event that resulted in the transfer to the charitable trust (e.g., a gift, devise or other such transaction), the last sale price reported on the TSX on the day of the transfer or other event that resulted in the transfer of such Units to the charitable trust); and (ii) the sales proceeds (net of commissions and other expenses of sale) received by the charitable trustee for the Units. The charitable trustee must reduce the amount payable to the prohibited owner by the amount of dividends and other distributions paid to the prohibited owner and owed by the prohibited owner to the charitable trustee. Any net sales proceeds in excess of the amount payable to the prohibited owner will be immediately paid to the charitable beneficiary, together with any dividends or other distributions thereon. In addition, if prior to discovery by the REIT that Units have been transferred to the charitable trustee, such Units are sold by a prohibited owner, then such Units shall be deemed to have been sold on behalf of the charitable trust and, to the extent that the prohibited owner received an amount for or in respect of such Units that exceeds the amount that such prohibited owner was entitled to receive, such excess amount shall be paid to the charitable trustee upon demand.

The charitable trustee will be designated by the REIT and will be unaffiliated with the REIT and with any prohibited owner. Prior to the sale of any Units by the charitable trust, the charitable trustee will receive, in trust for the beneficiary, all dividends and other distributions paid by the REIT with respect to such Units, and may exercise all voting rights with respect to such Units for the exclusive benefit of the charitable beneficiary.

Subject to Ontario law, effective as of the date that the Units have been transferred to the charitable trust, the charitable trustee may, at the charitable trustee's sole discretion:

- rescind as void any vote cast by a prohibited owner prior to the REIT's discovery that the Units have been transferred to the charitable trust; and

- recast the vote in accordance with the desires of the charitable trustee acting for the benefit of the beneficiary of the charitable trust.

However, if the REIT has already taken irreversible corporate action, then the trustee may not rescind and recast the vote.

If the Board determines in good faith that a proposed transfer or other event has taken place that violates the restrictions on ownership and transfer of the Units set forth in the Declaration of Trust, the Board may take such action as it deems advisable in its sole discretion to refuse to give effect to or to prevent such transfer, including, but not limited to, causing the REIT to redeem Units, refusing to give effect to the transfer on the REIT's books or instituting proceedings to enjoin the transfer.

The Units are subject to the restrictions on ownership and transfer of the Units described herein under "Declaration of Trust – Restrictions on Ownership and Transfer". These restrictions on ownership and transfer could delay, defer or prevent a transaction or a change of control of the REIT that might involve a premium price for the Units that the Unitholders believe to be in their best interest.

Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders will be required to be called and held in various circumstances, including (i) for the election or removal of Trustees, (ii) the appointment or removal of the auditors of the REIT, (iii) the approval of amendments to the Declaration of Trust (except as described below under "Amendments to the Declaration of Trust"), (iv) the sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of the REIT approved by the Trustees), (v) the termination of the REIT, and (vi) for the transaction of any other business as the Trustees may determine or as may be properly brought before the meeting. Meetings of Unitholders will be called and held annually, commencing in 2019, for the election of the Trustees and the appointment of the auditors of the REIT. All meetings of Unitholders must be held in Canada.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned in writing by the holders of not less than 5% of the Units

then outstanding. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Unitholders have the right to obtain a list of Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the CBCA.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy. Two persons present in person or represented by proxy, and such persons holding or representing by proxy not less in aggregate than 25% of the total number of outstanding Units, will constitute a quorum for the transaction of business at all such meetings. Any meeting at which a quorum is not present within one-half hour after the time fixed for the holding of such meeting, if convened upon the request of the Unitholders, will be terminated, but in any other case, the meeting will stand adjourned to a day not less than 14 days later and to a place and time as chosen by the chair of the meeting, and if at such adjourned meeting a quorum is not present, the Unitholders present either in person or by proxy will be deemed to constitute a quorum.

Pursuant to the Declaration of Trust, a resolution in writing executed by Unitholders holding a proportion of the outstanding Units equal to the proportion required to vote in favour thereof at a meeting of Unitholders to approve that resolution is valid as if it had been passed at a meeting of Unitholders.

Advance Notice Provision

The Declaration of Trust includes certain advance notice provisions (the "**Advance Notice Provision**"), which will: (i) facilitate orderly and efficient annual general or, where the need arises, special, meetings; (ii) ensure that all Unitholders receive adequate notice of the Trustee nominations and sufficient information with respect to all nominees; and (iii) allow Unitholders to register an informed vote.

Except as otherwise provided in the Declaration of Trust, only persons who are nominated by Unitholders in accordance with the Advance Notice Provision shall be eligible for election as Trustees. Nominations of persons for election to the Board may be made for any annual meeting of Unitholders, or for any special meeting of Unitholders if one of the purposes for which the special meeting was called was the election of Trustees: (i) by or at the direction of the Board, including pursuant to a notice of meeting; (ii) by or at the direction or request of one or more Unitholders pursuant to a requisition of the Unitholders made in accordance with the Declaration of Trust; or (iii) by any person (a "**Nominating Unitholder**"): (a) who, at the close of business on the date of the giving of the notice provided for below and on the record date for notice of such meeting, is entered in the REIT's register as a holder of one or more Units carrying the right to vote at such meeting or who beneficially owns Units that are entitled to be voted at such meeting; and (b) who complies with the notice procedures set forth in the Advance Notice Provision.

In addition to any other applicable requirements, for a nomination to be made by a Nominating Unitholder, the Nominating Unitholder must have given timely notice thereof in proper written form to the Trustees.

To be timely, a Nominating Unitholder's notice to the Trustees must be made: (i) in the case of an annual meeting of Unitholders, not less than 30 days prior to the date of the annual meeting of Unitholders; provided, however, that in the event that the annual meeting of Unitholders is to be held on a date that is less than 50 days after the date that is the earlier of the date that a notice of meeting is filed for such meeting or the date on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Unitholder may be made not later than the close of business on the 10th day following the date on which the first public announcement of the date of the annual meeting of Unitholders was made; and (ii) in the case of a special meeting (which is not also an annual meeting) of Unitholders called for the purpose of electing Trustees (whether or not called for other purposes), not later than the close of business on the 15th day following the date on which the first public announcement of the date of the special meeting of Unitholders was made.

To be in proper written form, a Nominating Unitholder's notice to the Trustees must set forth: (i) as to each person whom the Nominating Unitholder proposes to nominate for election as a Trustee: (a) the name, age, business address and residential address of the person; (b) the principal occupation or employment of the person; (c) the class or series and number of Units which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of Unitholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and (d) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of

Trustees pursuant to applicable Securities Laws (as defined in the Declaration of Trust); and (ii) as to the Nominating Unitholder giving the notice, any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Unitholder has a right to vote any Units and any other information relating to such Nominating Unitholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of Trustees pursuant to applicable Securities Laws.

The chairperson of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement in the Advance Notice Provision.

Redemption Right

Units are redeemable at any time on demand by the holders thereof upon delivery to the REIT of a duly completed and properly executed notice requesting redemption in a form reasonably acceptable to the Trustees, together with written instructions as to the number of Units to be redeemed. A Unitholder not otherwise holding a fully registered Unit certificate who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer who will be required to deliver the completed redemption notice form to the REIT and to CDS. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof will be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of:

(a) 90% of the "Market Price" of a Unit calculated as of the date on which the Units were surrendered for redemption (the "**Redemption Date**"); and

(b) 100% of the "Closing Market Price" on the Redemption Date.

For purposes of this calculation, the "**Market Price**" of a Unit as at a specified date will be:

(a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date;

(b) an amount equal to the weighted average of the closing market prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of 10 consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or

(c) if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, an amount equal to the simple average of the following prices established for each of the 10 consecutive trading days ending on such date: the simple average of the last bid and last asking price of the Units for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the simple average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

The "**Closing Market Price**" of a Unit for the purpose of the foregoing calculations, as at any date will be:

(a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date if the principal exchange or market provides information necessary to compute a weighted average trading price of the Units on the specified date;

(b) an amount equal to the closing price of a Unit on the principal market or exchange if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;

(c) an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or

(d) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

If Units are not listed or quoted for trading in a public market, the Redemption Price will be the fair market value of the Units, which will be determined by the Trustees in their sole discretion.

The aggregate Redemption Price payable by the REIT in respect of any Units surrendered for redemption during any calendar month will be paid in U.S. dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) on the date such Units are tendered for redemption, the outstanding Units must be listed for trading on the TSX or traded or quoted on any other stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, in any market where the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period commencing immediately before the Redemption Date; and (iv) the redemption of the Units must not result in the delisting of the Units from the principal stock exchange on which the Units are listed.

Cash payable on redemptions will be paid *pro rata* to all Unitholders tendering Units for redemption in any month. To the extent a Unitholder is not entitled to receive cash upon the redemption of Units as a result of any of the foregoing limitations, then the balance of the Redemption Price for such Units will, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie to such Unitholder of Redemption Notes. In the event of distributions of Redemption Notes, each Redemption Note so distributed to the redeeming holder of Units shall be in the principal amount of $100 or such other amount as may be determined by the Trustees. No fractional Redemption Notes shall be distributed and where the number of Redemption Notes to be received upon redemption by a holder of Units would otherwise include a fraction, that number shall be rounded down to the next lowest whole number. The Trustees may deduct or withhold from all payments or other distributions payable to any Unitholder pursuant to the Declaration of Trust all amounts required by law to be so withheld. Where the REIT makes a distribution in specie on the redemption of Units of a Unitholder, the REIT currently intends to allocate to that Unitholder any capital gain or income realized by the REIT on or in connection with such distribution. See "Certain Canadian Federal Income Tax Considerations".

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. Redemption Notes which may be distributed to holders of Units in connection with a redemption will not be listed on any exchange, no market is expected to develop in Redemption Notes and such securities may be subject to an indefinite "hold period" or other resale restrictions under applicable securities laws. Redemption Notes so distributed may not be qualified investments for Exempt Plans, depending upon the circumstances at the time.

Purchases of Units by the REIT

The REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange and regulatory policies. Any such purchase will constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Take-Over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid or issuer bid is made for Units within the meaning of the *Securities Act* (Ontario) and not less than 90% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who do not accept the offer either, at the election of each Unitholder, on the terms offered by the offeror or at the fair value of such Unitholder's Units determined in accordance with the procedures set out in the Declaration of Trust.

The Declaration of Trust and the operating agreement of the OP (the "**Operating Agreement**") will provide that in the event that a non-exempt take-over bid from a person acting at arm's length to holders of Class B OP Units (or any affiliate or associate thereof) is made for Units, unless the take-over bid is structured to (i) permit holders of Class B OP Units to both redeem for Units and tender conditional on take-up, or (ii) such that the offer is made for all Class B OP Units on identical terms, then from and after the first take-up of Units under the said take-over bid (provided that not less than 25% of the Units other than Units held at the date of the take-over bid by the offeror or associates or affiliates of the offeror are so taken up) the terms and conditions of the Class B OP Units held by persons other than the offeror (or any affiliate or associate thereof will automatically (without further action) be amended such that the redemption rate shall be varied to equal 110% of the redemption rate then in effect (such that on conversion, exercise, redemption or exchange the holder shall receive 1.1 Units for each Unit that the holder would otherwise have received). Notwithstanding any adjustment on completion of an exclusionary offer as described above, the distribution rights attaching to the Class B OP Units will also not be adjusted until the redemption right is actually exercised.

Non-Certificated Inventory System

Other than pursuant to certain exceptions, registration of interests in and transfers of Units held through CDS, or its nominee, will be made electronically through the NCI system of CDS. On Closing, the REIT, via its transfer agent, will electronically deliver the Units registered to CDS or its nominee. Units held in CDS must be purchased, transferred and surrendered for redemption through a CDS participant, which includes securities brokers and dealers, banks and trust companies. All rights of Unitholders who hold Units in CDS must be exercised through, and all payments or other property to which such Unitholders are entitled will be made or delivered by CDS or the CDS participant through which the Unitholder holds such Units. A holder of a Unit participating in the NCI system will not be entitled to a certificate or other instrument from the REIT or the REIT's transfer agent evidencing that person's interest in or ownership of Units, nor, to the extent applicable, will such Unitholder be shown on the records maintained by CDS, except through an agent who is a CDS participant.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder's interest in such Units (other than through a CDS participant) may be limited due to the lack of a physical certificate.

Issuance of Units

The REIT may issue new Units from time to time, in such manner, for such consideration and to such person or persons as the Trustees shall determine. Unitholders will not have any pre-emptive rights whereby additional Units proposed to be issued would be first offered to existing Unitholders. If the Trustees determine that the REIT does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trustees to be available for the payment of such distribution.

The REIT may also issue new Units (or securities exchangeable into Units) (i) as consideration for the acquisition of new properties or assets by it, at a price or for the consideration determined by the Trustees, (ii) pursuant to any incentive or option plan established by the REIT from time to time, (iii) pursuant to a distribution reinvestment plan of the REIT (See "Distribution Policy"), or (iv) pursuant to a Unitholder rights plan of the REIT.

The Declaration of Trust also provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated so that each Unitholder will hold, after the consolidation, the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts distributed represent income, non-resident holders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates (if any) representing their original Units in exchange for a certificate representing post-consolidation Units.

Information and Reports

The REIT will furnish to Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by the Declaration of Trust and by applicable law. Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) information as required by applicable tax and securities laws.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time. Certain amendments require approval by at least two-thirds of the votes cast at a meeting of Unitholders called for such purpose. Other amendments to the Declaration of Trust require approval by a majority of the votes cast at a meeting of Unitholders called for such purpose.

Except as described below, the following amendments, among others, require the approval of two-thirds of the votes cast by all Unitholders at a meeting:

(a) an exchange, reclassification or cancellation of all or part of the Units;

(b) the addition, change or removal of the rights, privileges, restrictions or conditions attached to the Units;

(c) any constraint on the issue, transfer or ownership of the Units or the change or removal of such constraint;

(d) any sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of the REIT approved by the Trustees and not prejudicial to Unitholders);

(e) the termination of the REIT or its subsidiaries (other than as part of an internal reorganization of the assets of the REIT or its subsidiaries as approved by the Trustees and not prejudicial to Unitholders);

(f) the combination, amalgamation or arrangement of any of the REIT or its subsidiaries with any other entity (other than as part of an internal reorganization of the assets of the REIT or its subsidiaries as approved by the Trustees and not prejudicial to Unitholders); and

(g) except as described herein, the amendment of the investment guidelines and operating policies of the REIT. See "Investment Guidelines and Operating Policies – Amendments to Investment Guidelines and Operating Policies".

Notwithstanding the foregoing, the Trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

(a) aimed at ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over: (i) the Trustees or the REIT; (ii)

the continuing status of the REIT as a "mutual fund trust" under the Tax Act; (iii) the continuing status of the REIT as a "real estate investment trust" for U.S. federal income tax purposes; or (iv) the distribution of Units;

(b) to increase the 6.2% ownership limit to a maximum of 9.8%;

(c) which, in the opinion of the Trustees, provide additional protection for the Unitholders;

(d) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders;

(e) which, in the opinion of the Trustees, are necessary or desirable to remove conflicts or inconsistencies between the disclosure in this prospectus and the Declaration of Trust;

(f) of a minor or clerical nature or to correct typographical mistakes, ambiguities or manifest omissions or errors, which amendments, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders;

(g) which, in the opinion of the Trustees, are necessary or desirable: (i) to ensure continuing compliance with IFRS; or (ii) to ensure the Units are classified as equity for purposes of IFRS;

(h) which, in the opinion of the Trustees, are necessary or desirable to enable the REIT to implement a Unit option or purchase plan or issue Units for which the purchase price is payable in instalments;

(i) which, in the opinion of the Trustees, are necessary or desirable for the REIT to qualify for a particular status under, or as a result of changes in, taxation or other laws, or the interpretation of such laws, including to qualify for the definition of "real estate investment trust" in the Tax Act and the Code or to otherwise prevent the REIT or any of its subsidiaries from becoming subject to tax under the SIFT Rules (as defined below);

(j) to create one or more additional classes of units solely to provide voting rights to holders of shares, units or other securities that are exchangeable, redeemable, exercisable or convertible for Units entitling the holder thereof to a number of votes not exceeding the number of Units into which the exchangeable shares, units or other securities are exchangeable, redeemable, exercisable or convertible but that do not otherwise entitle the holder thereof to any rights with respect to the REIT's property or income other than a return of capital; and

(k) for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) which, in the opinion of the Trustees, is not prejudicial to Unitholders and is necessary or desirable.

NHT INTERMEDIARY, LLC

NHT Intermediary, LLC ("**US Holdco**") is a newly formed Delaware limited liability company. Upon Closing, NHI will be a wholly-owned subsidiary of US Holdco. The board of directors of US Holdco will be determined (and may be removed without cause) by the REIT; provided that the board of directors of US Holdco shall always be comprised of a majority of (a) U.S. residents; and (b) individuals who are neither employed by, affiliated with, and who are otherwise independent of, the Advisor. The operations of US Holdco will be subject to the terms of its organizing documents, which will provide, among other things, that US Holdco will operate in a manner consistent with the governance and other terms of the Declaration of Trust, including the investment guidelines and operating principles set out therein. The REIT will exercise effective oversight of US Holdco.

NHT HOLDINGS, LLC

NHT Holdings, LLC ("**NHI**") is a newly formed Delaware limited liability company. Upon completion of the Contribution and related transactions, the REIT will indirectly own all of the common shares in NHI and will control NHI. The board of directors of NHI will be determined (and may be removed without cause) by the Board of the REIT, provided that the board of directors of NHI shall always be comprised of a majority of (a) U.S. residents; and (b) individuals who are neither employed by, affiliated with, and who are otherwise independent of, the Advisor. The operations of NHI will be subject to the terms of its organizing documents, which will provide, among other things, that NHI will operate in a manner consistent with the governance and other terms of the Declaration of Trust, including the investment guidelines and operating principles set out therein. The REIT will exercise effective oversight of NHI.

THE OPERATING PARTNERSHIP

General

NHT Operating Partnership, LLC (the "**OP**") is a Delaware limited liability company governed by the Operating Agreement and the laws of the State of Delaware. The registered office of the OP is located at 1209 Orange Street, Wilmington, Delaware, U.S.A, 19801. The principal place of business of the OP is located at 300 Crescent Court, Suite 700, Dallas, Texas, U.S.A, 75201. On Closing, the holder of the Class A OP Units will be NHI and the holders of the Class B OP Units will be NREO and certain minority partners. The managing member of the OP is NHT Operating Partnership GP, LLC and is wholly-owned by a third party. NHI has a call right to acquire the outstanding equity of the managing member at any time.

The REIT is considered an umbrella partnership real estate investment trust (an "**UPREIT**") for U.S. federal income tax purposes. An UPREIT is a structure that REITs often use to acquire real property from sellers on a tax deferred basis for U.S. federal income tax purposes because the sellers can generally accept equity interests and defer taxable gain otherwise required to be recognized by them upon the disposition of their properties. Such sellers may also desire to achieve diversity in their investment and other benefits afforded to unitholders in a real estate investment trust. For purposes of satisfying the asset and income tests for qualification as a real estate investment trust for U.S. federal income tax purposes, the REIT's proportionate share of the assets and income of the OP will be deemed to be assets and income of the REIT, so long as the OP continues to be treated as a partnership for U.S. federal income tax purposes.

OP Units

Upon Closing, the OP will have outstanding (i) Class A OP Units, all of which will be held by NHI, and (ii) Class B OP Units, all of which will be held by NREO and certain minority partners. The Class B OP Units will, in all material respects, be economically equivalent to the Units on a per unit basis, subject to certain customary anti-dilution adjustments. The holders of Class B OP Units will be entitled to receive distributions from the OP on the same per unit basis as holders of Class A OP Units. Class B OP Units do not carry a voting right with respect to matters put before Unitholders of the REIT for a vote. It is anticipated that Class B OP Units may be subsequently issued to U.S. persons in connection with the acquisition of additional properties by the REIT in the United States.

Transfers of Class A Units and Class B OP Units are generally not permitted subject to limited exceptions, including (i) pursuant to the redemption of the Class B OP Units, (ii) transfers from a legal entity to an affiliate, subsidiary or successor in interest of such entity, and (iii) with regards to Class B OP Units only, transfers to other Class B OP Unitholders after the date that is 180 days after the Closing.

Redemption Rights

After holding Class B OP Units for at least 12 months (subject to acceleration in certain circumstances), the holders of Class B OP Units, acting individually, have the right to cause the OP to redeem all or a portion of such Class B OP Units for a cash payment of equivalent value or Units, as determined by the OP and as directed by the REIT in their sole discretion. If the OP elects to redeem Class B OP Units for Units, the REIT will generally deliver (indirectly) one Unit for each Class B OP Unit redeemed (subject to customary anti-dilution adjustments).

In connection with the exercise of these redemption rights, a holder of Class B OP Units will be required to make certain representations, including that the delivery of Units upon redemption will not result in such holder owning Units in excess of the ownership limits in the Declaration of Trust.

Compulsory Acquisition

The Operating Agreement provides that in the event of an acquisition of not less than 90% of the Units (including Units issuable upon the redemption of Class B OP Units) by a person (including persons acting jointly or in concert with such person), **[●]** will have the right, subject to applicable laws, to acquire outstanding Class B OP Units in exchange for an equal number of Units, subject to adjustments for splits, consolidations and reorganizations in accordance with the Declaration of Trust.

Operation

The Operating Agreement requires that the OP be operated in a manner that will enable the REIT to (i) satisfy the requirements for being classified as a real estate investment trust for U.S. federal income tax purposes, unless the Board elects for the REIT to cease to qualify as a real estate investment trust, (ii) not be subject to any federal income or excise tax liability, unless the Board elects for the REIT to cease to qualify as a real estate investment trust, and (iii) ensure that the OP will not be classified as a "publicly traded partnership" for purposes of Section 7704 of the Code, which classification could result in the OP being taxed as a corporation for U.S. federal income tax purposes, rather than as a partnership.

The operations of the OP will be subject to the terms of the Operating Agreement, which will provide, among other things, that (i) the OP will operate in a manner consistent with the governance and other terms of the Declaration of Trust, including the investment guidelines and operating principles set out therein, and (ii) certain fundamental actions to be taken by the OP (including items such as acquisitions, dispositions and refinancings of real property) will require the approval of **[●]**.

Distributions and Allocations of Profits and Losses

The Operating Agreement generally provides that the OP will distribute cash flow from operations and, except as provided below, net sales proceeds from the disposition of assets, to all unitholders of the OP on a *pro rata* basis in accordance with their ownership interests. Upon the liquidation of the OP, after payment of (or adequate provision for) debts and obligations, any remaining assets of the OP will be distributed in accordance with the distribution provisions contained in the Operating Agreement. The holders of Class B OP Units will be entitled to receive distributions from the OP proportionately to the distributions made by the REIT to holders of Units. Following Closing, it is anticipated that the aggregate distributions paid on Class A Units will be approximately **[●]**% and the aggregate distributions paid on Class B OP Units will be approximately **[●]**% of the total distributions paid.

The Operating Agreement provides that generally, net income, net loss and, to the extent necessary, individual items of income, gain, loss or deduction of the OP will be allocated among the members *pro rata* in accordance with their ownership interests. Following Closing, it is anticipated that approximately **[●]**% of the profits and losses will be allocated to the Class A Units and approximately **[●]**% of the profits and losses will be allocated to the Class B OP Units. If the REIT elects to cause the OP to admit additional members to the OP, the distributions and allocations of profits and losses to the members generally will be *pro rata* in accordance with their ownership interests.

In addition to the administrative and operating costs and expenses incurred by the OP and its subsidiaries in acquiring and managing their properties, the OP will either pay the administrative costs and expenses of NHI and the REIT directly or make cash distributions to reimburse for expenses incurred by NHI and the REIT. For U.S. federal income tax purposes, such expenses will be treated as expenses of the OP. Such expenses will include, but not be limited to:

- administrative and operating costs and expenses and other expenses, including any Advisory Fees paid to the Advisor, and any accounting and legal expenses;

- costs and expenses relating to the formation and continuity of existence of the REIT, including taxes, fees and assessments associated therewith, any and all costs, expenses or fees payable to any director, officer or employee of the REIT;

- costs and expenses associated with the preparation and filing of any periodic reports by the REIT under Canadian federal or provincial laws or regulations and U.S. federal, state or local laws or regulations;

- costs and expenses associated with compliance by the REIT with laws, rules and regulations promulgated by any regulatory body; and

- costs and expenses relating to any issuance, redemption or repurchase of Units or other securities by the REIT.

Indemnification

To the fullest extent permitted by law, the Operating Agreement provides for indemnification of any person for any loss incurred by such a person by reason of such person's status with the REIT or a director, officer, employee, agent or affiliate of the REIT or the OP.

Tax Matters

Pursuant to the Operating Agreement, NHI will be the "partnership representative" of the OP for U.S. federal income tax purposes pursuant to Section 6223 of the Code, and as such, will have authority to make tax decisions under the Code on behalf of the OP. The OP will file a U.S. federal income tax return annually on IRS Form 1065 (or such other successor form) or on any other IRS form as may be required.

DISTRIBUTION POLICY

The following outlines the distribution policy of the REIT to be adopted pursuant to the Declaration of Trust. Determinations as to the amounts distributable, however, will be made in the sole discretion of the Trustees from time to time.

Distribution Policy

The REIT intends to adopt a distribution policy, as permitted under the Declaration of Trust, pursuant to which it will make *pro rata* monthly cash distributions to Unitholders initially equal to, on an annual basis, approximately 65% to 80% of estimated Core FFO and initially expected to be approximately 65% of Core FFO. See "Non-IFRS Measures" and "Risk Factors". Management of the REIT believes that the 65% payout ratio initially set by the REIT should allow the REIT to meet its internal funding needs, while being able to support stable growth in cash distributions and comply with federal U.S. tax laws in regard to maintaining its status as a REIT. However, the actual payout ratio will be determined by the Trustees in their discretion. Pursuant to the Declaration of Trust, the Trustees have full discretion respecting the timing and amounts of distributions including the adoption, amendment or revocation of any distribution policy. It is the REIT's current intention to make distributions to Unitholders at least equal to the amount of net income and net realized capital gains of the REIT as is necessary to ensure that the REIT will not be liable for ordinary income taxes on such income.

Because the REIT will be treated as a real estate investment trust for U.S. federal income tax purposes, distributions paid by the REIT to Canadian investors that are made out of the REIT's current or accumulated earnings and profits (as determined under U.S. federal income tax principles) generally will be subject to U.S. withholding tax at a rate of 30%, which may be reduced to 15% for investors that qualify for benefits under the Treaty. To the extent a Canadian investor is subject to U.S. withholding tax in respect of distributions paid by the REIT on the Units out of the REIT's current or accumulated earnings and profits, the amount of such tax generally will be eligible for foreign tax credit or deduction treatment, subject to the detailed rules and limitations under the Tax Act. The foregoing is qualified by the more detailed summary in this prospectus. Distributions in excess of the REIT's current and accumulated earnings and profits that are distributed to Canadian investors that have not owned

(or been deemed to own) more than 10% of the outstanding Units generally will not be subject to U.S. withholding tax, although there can be no assurances that withholding on such amounts will not be required. The composition of distributions for U.S. federal income tax purposes may change over time, which may affect the after-tax return to Unitholders. Qualified residents of Canada that are tax-exempt entities established to provide pension, retirement or other employee benefits (including trusts governed by a RRSP, a RRIF or a RDSP, but excluding trusts governed by a TFSA, a RESP or a RDSP) may be eligible for an exemption from U.S. withholding tax. See "Certain Canadian Federal Income Tax Considerations" and "Certain U.S. Federal Income Tax Considerations". See also "Risk Factors – Tax-related Risk Factors".

Pursuant to the REIT's distribution policy, Unitholders of record as at the close of business on the applicable distribution record date determined by the Trustees from time to time will have an entitlement to receive distributions on such distribution date. Distributions may be adjusted for amounts paid in prior periods if the actual Core FFO for the prior periods is greater than or less than the estimates for the prior periods. Under the Declaration of Trust and pursuant to the distribution policy of the REIT, where the REIT's cash is not sufficient to make payment of the full amount of a distribution, such payment will, to the extent necessary, be distributed in the form of additional Units. See "Declaration of Trust – Units", "Certain Canadian Federal Income Tax Considerations" and "Certain U.S. Federal Income Tax Considerations".

The ability of the REIT to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT and will be subject to various factors including financial performance, obligations under applicable credit facilities and restrictions on payment of distributions thereunder on the occurrence of an event of default, fluctuations in working capital, the sustainability of income derived from the REIT's properties and any capital expenditure requirements. See "Risk Factors".

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Goodmans LLP, Canadian counsel to the REIT, the following is a summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable as of the date hereof to a purchaser who acquires, as beneficial owner, Units pursuant to this prospectus and who, for the purposes of the Tax Act and at all relevant times, is, or is deemed to be, resident in Canada, deals at arm's length with the REIT and the Agent, and is not affiliated with the REIT or the Agent and holds the Units as capital property (in this section of the prospectus, referred to as a "**Holder**"). The Units generally will be capital property to a Holder provided that the Holder does not hold such Units in the course of carrying on a business and has not acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Holders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such Units, and any other "Canadian security" (as defined in the Tax Act) owned in the taxation year in which the election is made, and in all subsequent taxation years, deemed to be capital property. Holders who do not hold their Units as capital property should consult their own tax advisors regarding their particular circumstances.

This summary does not apply to a Holder: (i) that is a "financial institution" subject to the mark-to-market rules in the Tax Act; (ii) an interest in which would be a "tax shelter investment" within the meaning of the Tax Act; (iii) that has elected to determine its Canadian tax results in a foreign currency pursuant to the "functional currency" reporting rules, in the Tax Act; (iv) that holds or has held, actually or constructively, more than 10% of the outstanding Units, as determined for U.S. federal income tax purposes (See "Certain U.S. Federal Income Tax Considerations"); or (v) that has entered or will enter into a "derivative forward agreement", as defined in the Tax Act, with respect to the Holder's Units. Such Holders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of Units. In addition, this summary does not address the deductibility of interest by a purchaser who has borrowed money to acquire Units under this Offering.

This summary assumes that either the TSX Publicly Traded Exception or the U.S. Publicly Traded Exception applies. See "Certain U.S. Federal Income Tax Considerations".

This summary is based on the current provisions of the Tax Act, all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) before the date hereof ("**Proposed Amendments**"), counsel's understanding of the current published administrative policies and practices of the Canada Revenue Agency (the "**CRA**"), and a certificate as to certain factual matters from an executive officer of the

REIT. Except for Proposed Amendments, this summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account other federal or any provincial, territorial or foreign tax legislation or considerations. No assurance can be given that the Proposed Amendments will be enacted in the form proposed or at all.

This summary is of a general nature only and is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units. The income and other tax consequences of acquiring, holding or disposing of Units will vary depending on a purchaser's particular status and circumstances, including the province or territory in which the purchaser resides or carries on business. This summary is not intended to be, nor should it construed to be, legal or tax advice to any particular purchaser. Purchasers should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units in their own circumstances.

Generally, for purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of Units must be expressed in Canadian dollars. Amounts denominated in another currency must be converted into Canadian dollars using the appropriate exchange rate determined in accordance with the detailed rules in the Tax Act in that regard. An investment in Units will be dominated in U.S. dollars and distributions made on the Units will be made in U.S. dollars. Accordingly, a holder of Units must convert such amounts to Canadian dollars for the purposes of the Tax Act.

Status of the REIT

This summary assumes the REIT will qualify at all times as a "mutual fund trust" within the meaning of the Tax Act and that the REIT will validly elect under the Tax Act to be a mutual fund trust from the date it was established. An executive officer of the REIT has advised counsel that it intends to ensure that the REIT will meet the requirements necessary for it to qualify as a mutual fund trust no later than the Closing and at all times thereafter, and to file the necessary election so that the REIT will qualify as a mutual fund trust throughout its first taxation year. **If the REIT were not to qualify as a mutual fund trust at all times, the income tax considerations could be materially and adversely different from those described below**.

This summary is also based on the assumption that the REIT will at no time be a "SIFT trust", as defined in the rules applicable to SIFT trusts and SIFT partnerships in the Tax Act (the "**SIFT Rules**"). The SIFT Rules effectively tax certain income of a publicly traded trust or partnership that is distributed to its investors on the same basis as would have applied had the income been earned through a taxable Canadian corporation and distributed by way of dividend to its shareholders. These rules apply only to "SIFT trusts" and "SIFT partnerships" (each as defined in the Tax Act) and their investors.

Where the SIFT Rules apply, distributions of a SIFT trust's "non-portfolio earnings" are not deductible in computing the SIFT trust's net income. Non-portfolio earnings generally are defined as income attributable to a business carried on by the SIFT trust in Canada or to income (other than certain dividends) from, and capital gains from the disposition of, "non-portfolio properties" (as defined in the Tax Act). The SIFT trust is itself liable to pay an income tax on an amount equal to the amount of such non-deductible distributions at a rate that is substantially equivalent to the combined federal and provincial general tax rate applicable to taxable Canadian corporations. Such non-deductible distributions paid to a holder of units of the SIFT trust generally are deemed to be taxable dividends received by the holder of such units from a taxable Canadian corporation. Such deemed dividends will qualify as "eligible dividends" for purposes of the enhanced gross-up and dividend tax credit available under the Tax Act to individuals resident in Canada and for purposes of computing a Canadian resident corporation's "general rate income pool" or "low rate income pool", as the case may be (each as defined in the Tax Act). In general, distributions paid as returns of capital will not be subject to the SIFT Rules.

The REIT will not be considered to be a SIFT trust in respect of a particular taxation year and, accordingly, will not be subject to the SIFT Rules in that year, if it does not own any non-portfolio property and does not carry on business in Canada in that year. Management has advised counsel that the REIT has not and does not currently intend to own any non-portfolio property or carry on a business in Canada.

If the REIT is subject to the SIFT Rules, certain of the income tax considerations described below would, in some respects, be materially and adversely different, and the SIFT Rules may, depending on the nature and extent

of distributions from the REIT, including what portion of its distributions are income and what portion are returns of capital, have a material adverse effect on the after-tax returns of Unitholders.

For the remainder of this summary, it is assumed that the REIT will not own any "non-portfolio property" or carry on business in Canada and, accordingly, will not be a SIFT trust.

Taxation of the REIT

The taxation year of the REIT is the calendar year. The REIT must compute its income or loss for each taxation year as though it were an individual resident in Canada. The income of the REIT for purposes of the Tax Act will include, among other things, foreign accrual property income ("**FAPI**") in respect of its "controlled foreign affiliates", dividends received from US Holdco, and any net realized taxable capital gains.

US Holdco will be a "foreign affiliate" and a "controlled foreign affiliate" of the REIT for purposes of the Tax Act. To the extent that US Holdco or any other controlled foreign affiliate of the REIT earns in a particular taxation year income that is characterized as FAPI for purposes of the Tax Act, the FAPI allocable to the REIT must be included in computing the income of the REIT for the taxation year of the REIT in which the taxation year of US Holdco (or such other controlled foreign affiliate) ends whether or not the REIT actually receives a distribution of FAPI in that year. The FAPI in respect of US Holdco will include FAPI earned directly or indirectly by US Holdco. If an amount of FAPI is included in computing the income of the REIT for Canadian tax purposes, an amount may be deductible in respect of the "foreign accrual tax" ("**FAT**") applicable to the FAPI as computed in accordance with the Tax Act. The adjusted cost base to the REIT of its shares in US Holdco will be increased by the net amount of FAPI included in the income of the REIT in respect of FAPI earned directly or indirectly by US Holdco. At such time as the REIT receives a dividend of amounts that were previously included in its income as FAPI, that dividend will effectively not be taxable to the REIT and there will be a corresponding deduction in the adjusted cost base to the REIT of its shares in US Holdco.

For the purposes of the Tax Act, all income of the REIT (including FAPI) must be calculated in Canadian currency. Where the REIT (or any of its subsidiaries) holds investments or incurs indebtedness denominated in foreign currencies, gains or losses may be realized by the REIT as a consequence of fluctuations in the relative value of the Canadian and foreign currencies.

In computing its income, the REIT will be entitled to deduct reasonable current administrative and other expenses incurred by it to earn income. Reasonable expenses incurred in respect of the issuance of Units generally may be deducted by the REIT on a five-year, straight-line basis, pro-rated for short taxation years.

The REIT may deduct from its income for a taxation year amounts which are paid or become payable by it to Unitholders in such year. An amount will be considered to be payable in a taxation year if a Unitholder is entitled in the year to enforce payment of the amount. Counsel has been advised by an executive officer of the REIT that the Trustees' current intention is to make payable to Unitholders each year sufficient amounts such that the REIT generally will not be liable to pay tax under Part I of the Tax Act. Where the REIT does not have sufficient cash to distribute such amounts in a particular taxation year, the REIT intends to make one or more in-kind distributions in that year in the form of additional Units. Income of the REIT payable in a taxation year of the REIT to the Unitholders in the form of additional Units will generally be deductible to the REIT in computing its income for that year.

A distribution by the REIT of its property upon a redemption of Units will be treated as a disposition by the REIT of such property for proceeds of disposition equal to the fair market value thereof. The REIT will realize a capital gain (or a capital loss) to the extent that the proceeds from the disposition of the property exceed (or are less than) the adjusted cost base of the relevant property and any reasonable costs of disposition.

Losses incurred by the REIT cannot be allocated to Unitholders, but can be deducted by the REIT in future years in computing its taxable income, in accordance with the Tax Act. In the event the REIT would otherwise be liable for tax on its net realized taxable capital gains for a taxation year, it will be entitled for such taxation year to reduce (or receive a refund in respect of) its liability for such tax by an amount determined under the Tax Act based on the redemption of Units of the REIT during the year (the "capital gains refund"). The capital gains refund in a particular taxation year may not completely offset the REIT's tax liability for the taxation year arising in connection

with the transfer of property in specie to redeeming Holders on the redemption of Units. The Declaration of Trust provides that all or a portion of any capital gain or income realized by the REIT in connection with such redemptions may, at the discretion of the Trustees, be treated as capital gains or income paid to, and designated as capital gains or income of, the redeeming Holder. Such income or the taxable portion of the capital gain so designated must be included in the income of the redeeming Holder (as income or taxable capital gains, as the case may be) and will be deductible by the REIT in computing its income.

Taxation of Taxable Holders

REIT Distributions

A Holder generally will be required to include in computing income for a particular taxation year the portion of the net income of the REIT, including FAPI attributed to the REIT, dividends received by the REIT from US Holdco and any net realized taxable capital gains, that is paid or payable to the Holder in that taxation year, whether or not those amounts are received in cash, additional Units or otherwise. Any loss of the REIT for purposes of the Tax Act cannot be allocated to, or treated as a loss of, a Holder.

Provided that the appropriate designations are made by the REIT, such portion of its net taxable capital gains and foreign source income that are paid or become payable to a Holder will retain its character as taxable capital gains or foreign source income, as the case may be, to Holders for purposes of the Tax Act.

The non-taxable portion of any net realized capital gains of the REIT that is paid or payable to a Holder in a year will not be included in computing the Holder's income for the year. Any other amount in excess of the net income of the REIT that is paid or payable to a Holder in a year generally should not be included in the Holder's income for the year, but such an amount which becomes payable to a Holder (other than as proceeds of disposition of Units or any part thereof) will reduce the adjusted cost base of the Units held by such Holder. To the extent that the adjusted cost base of a Unit otherwise would be less than zero, the Holder will be deemed to have realized a capital gain equal to the negative amount and the Holder's adjusted cost base of the Units will be increased by the amount of such deemed capital gain.

Foreign Tax Credits and Deductions

To the extent a Holder is subject to U.S. withholding tax in respect of distributions paid by the REIT on the Units, the amount of such tax generally will be eligible for foreign tax credit or deduction treatment, subject to the detailed rules and limitations under the Tax Act, and as described in the ensuing paragraphs; provided, however, that in the event any U.S. tax is withheld that does not represent the final U.S. income tax liability for the year, the Holder also files a U.S. federal income tax return to establish the Holder's final U.S. income tax liability for the year and the Holder is not entitled to a refund of such tax.

The U.S. withholding tax deducted in respect of a distribution paid on a Unit in a taxation year will generally be characterized as "non-business income tax", as defined in the Tax Act, and may be deductible as a foreign tax credit from the Holder's Canadian federal income tax otherwise payable for that year where the Holder has sufficient non-business income from U.S. sources, to the extent permitted by the Tax Act and that such tax has not been deducted in computing the Holder's income. Alternatively, such non-business income tax (including any amount not deductible from tax otherwise payable as a foreign tax credit) generally may be deducted by the Holder in computing the Holder's net income for the purposes of the Tax Act.

A Holder's ability to apply U.S. withholding taxes in the foregoing manner may be affected where the Holder does not have sufficient taxes otherwise payable under Part I of the Tax Act, or sufficient U.S. source income in the taxation year the U.S. withholding taxes are paid, or where the Holder has other U.S. sources of income or losses, or has paid other U.S. taxes. Although the foreign tax credit provisions are designed to avoid double taxation, the maximum credit is limited. Because of this, and because of timing differences in recognition of expenses and income and other factors, there is a risk of double taxation. Holders should consult their own tax advisors with respect to the availability of a foreign tax credit or deduction, having regard to their own circumstances.

Disposition of Units

Upon the disposition or deemed disposition of Units by a Holder, whether on a redemption or otherwise, the Holder generally will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (excluding any amount payable by the REIT which represents an amount that must otherwise be included in the Holder's income as described herein) are greater (or less) than the aggregate of the Holder's adjusted cost base of the Units immediately before such disposition and any reasonable costs of disposition.

The adjusted cost base to a Holder of a Unit generally will include all amounts paid by the Holder for the Unit subject to certain adjustments and may be reduced as a consequence of distributions paid by the REIT in excess of its net income as described above. The cost of additional Units received in lieu of a cash distribution will be the amount of income of the REIT distributed by the issuance of such Units. For the purpose of determining the adjusted cost base to a Holder, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Holder as capital property immediately before that acquisition.

A redemption of Units in consideration for cash, Redemption Notes, or other assets of the REIT, as the case may be, will be a disposition of such Units for proceeds of disposition equal to such cash or the fair market value of such Redemption Notes or other assets, as the case may be, less any income or capital gain realized by the REIT in connection with the redemption of those Units to the extent such income or capital gain is designated by the REIT to the redeeming Holder. Holders exercising the right of redemption will consequently realize a capital gain, or sustain a capital loss, to the extent that such proceeds of disposition exceed, or are exceeded by, the adjusted cost base of the Units redeemed. Where income or capital gains realized by the REIT in connection with the distribution of property *in specie* on the redemption of Units has been designated by the REIT to a redeeming Holder, the Holder will be required to include in income the income or taxable portion of the capital gain so designated. The cost of any property distributed *in specie* by the REIT to a Holder upon a redemption of Units will be equal to the fair market value of that property at the time of the distribution. The Holder will thereafter be required to include in income interest or other income derived from the property, in accordance with the provisions of the Tax Act.

Capital Gains and Losses

One-half of any capital gain realized by a Holder from a disposition of Units and the amount of any net taxable capital gains designated by the REIT in respect of the Holder will be included in the Holder's income under the Tax Act as a taxable capital gain. One-half of any capital loss (an "**allowable capital loss**") realized on the disposition of a Unit will be deducted against any taxable capital gains realized by the Holder in the year of disposition, and any excess of allowable capital losses over taxable capital gains may be carried back to the three preceding taxation years or forward to any subsequent taxation year and applied against net taxable capital gains in those years, subject to the detailed rules contained in the Tax Act.

Refundable Tax

A Holder which is a Canadian-controlled private corporation (as defined in the Tax Act) will be subject to a refundable tax in respect of its "aggregate investment income" (as defined in the Tax Act) for the year, which will include all or substantially all income and capital gains paid or payable to the Holder by the REIT and capital gains realized on a disposition of Units.

Alternative Minimum Tax

A Holder who is an individual or trust (other than certain specified trusts) may have an increased liability for alternative minimum tax as a result of capital gains realized on a disposition of Units and net income of the REIT, paid or payable, or deemed to be paid or payable, to the Holder and that is designated net taxable capital gains.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of (i) the principal U.S. federal income tax consequences of the treatment of the REIT and NHI as a real estate investment trust and (ii) the principal U.S. federal income tax consequences of the

ownership and disposition of Units to Non-U.S. Holders (as defined below).This summary is based upon the Code, its legislative history, existing and proposed regulations promulgated thereunder by the U.S. Treasury Department (the "**Treasury Regulations**"), published rulings and other administrative pronouncements issued by the IRS, and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. An advance ruling has not been requested and will not be requested from the IRS regarding any matter discussed in this prospectus. The summary is also based upon the assumption that the subsidiaries and affiliated entities of the REIT will operate in accordance with their applicable organizational documents and those of the REIT. This summary is for general information only and is not tax advice. This summary does not cover any U.S. state, or local or non-U.S. tax issues, nor does it cover issues under the U.S. federal estate or gift tax laws. It does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of its investment or tax circumstances or to investors subject to special tax rules, such as:

- financial institutions;
- insurance companies and real estate investment trusts, and each of their stockholders;
- controlled foreign corporations and passive foreign investment companies, and each of their stockholders;
- broker-dealers;
- regulated investment companies;
- partnerships (or other entities classified as partnerships for U.S. federal income tax purposes) and trusts and their partners and beneficiaries;
- persons subject to the alternative minimum tax;
- persons who hold Units on behalf of other persons as nominees;
- persons who receive Units through the exercise of employee stock options or otherwise as compensation;
- tax-exempt organizations;
- persons holding Units as part of a "straddle", "hedge", "conversion transaction", "synthetic security" or other integrated investment; and
- U.S. expatriates.

As used herein, "**U.S. Holder**" means a holder of Units that is a beneficial owner of the Units and is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes; (ii) a corporation (or other entity classified as a corporation for U.S. federal income tax purposes), created or organized in or under the laws of the United States, any state therein or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust (or otherwise if the trust has a valid election in effect under the Treasury Regulations to be treated as a domestic trust). A "**Non-U.S. Holder**" is a beneficial owner of Units that is an individual, corporation, estate or trust and is not a U.S. Holder.

In the case of partnerships that hold Units, including for this purpose any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. An investor

that is a partnership and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of Units.

The U.S. federal income tax treatment of beneficial owners of Units depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. In addition, the tax consequences to any particular beneficial owner of Units will depend on the beneficial owner's particular tax circumstances. You are urged to consult your tax advisor regarding the U.S. federal, state, local, and non-U.S. income and other tax consequences to you in light of your particular investment or tax circumstances of acquiring, holding, exchanging, or otherwise disposing of Units.

U.S. Status of the REIT

Although the REIT is organized as an unincorporated trust under Canadian law, the REIT intends to take the position that, pursuant to Section 7874 of the Code, the REIT is treated as a U.S. corporation for all purposes under the Code and, as a result, it is permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding the fact that it is organized as a Canadian entity. The discussion herein reflects this classification and uses terminology consistent with this classification, including references to "dividends" and "earnings and profits". Baker & McKenzie LLP, U.S. counsel to the REIT, will render an opinion in connection with the Closing in respect of the treatment of the REIT as a U.S. corporation under Section 7874, subject to certain representations, assumptions and factual matters.

Taxation of the REIT

This summary assumes the REIT and NHI will qualify at all times as a "real estate investment trust" within the meaning of the Code and that the REIT and NHI each will validly elect under the Code to be a real estate investment trust, commencing with its taxable year ending December 31, 2019. If the REIT or NHI were not to qualify as a real estate investment trust at all times, the income tax considerations could be materially and adversely different from those described below. To the extent that NHI fails to qualify as a real estate investment trust in any year, and does not qualify for the relief provisions described herein, the REIT also likely will not qualify as a real estate investment trust for such year.

The law firm of Baker & McKenzie LLP has acted as U.S. tax counsel to the REIT in connection herewith. In connection with this prospectus, Baker & McKenzie LLP will provide an opinion to the effect that, commencing with the taxable year ending December 31, 2019, each of the REIT and NHI has been or will be organized and operated in conformity with the requirements for qualification and taxation as a real estate investment trust under the Code, and its current and proposed method of operation will enable it to continue to maintain its qualification and taxation as a real estate investment trust under the Code. It must be emphasized that the opinion of Baker & McKenzie LLP is based on various assumptions relating to the organization and operation of the REIT and NHI, and will be conditioned upon fact-based representations and covenants made by the REIT and NHI regarding its organization, assets, and income, and the present and future conduct of its business operations, and other items regarding the REIT's and NHI's ability to meet the various requirements for qualification as a real estate investment trust, and will assume that such representations and covenants are accurate and complete and that the REIT and NHI will take no action inconsistent with its qualification as a real estate investment trust. While it is intended that the REIT and NHI will continue to operate so that each will continue to qualify as a real estate investment trust, given the highly complex nature of the rules governing real estate investment trusts, the ongoing importance of factual determinations, and the possibility of future changes in circumstances, no assurance can be given by Baker & McKenzie LLP or by the REIT, that the REIT and NHI will qualify as a real estate investment trust for any particular year. The opinion is expressed as of the date issued. Baker & McKenzie LLP has no obligation to advise the REIT or holders of Units of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinion.

Qualification and taxation as a real estate investment trust depends on the ability of the REIT and NHI to meet on a continuing basis, through actual operating results, distribution levels, and diversity of stock and asset ownership, various qualification requirements imposed upon real estate investment trusts by the Code, the compliance with which will not be reviewed by Baker & McKenzie LLP. In addition, the REIT's and NHI's ability to qualify as a real estate investment trust may depend in part upon the operating results, organizational structure and

entity classification for U.S. federal income tax purposes of certain entities in which the REIT and NHI invest, which entities will not have been reviewed by Baker & McKenzie LLP. The ability to maintain real estate investment trust qualification also requires that the REIT and NHI satisfy certain asset tests, some of which depend upon the fair market values of assets that it owns directly or indirectly. Such values may not be susceptible to a precise determination. Accordingly, no assurance can be given that the actual results of the REIT's or NHI's operations for any taxable year will satisfy such requirements for qualification and taxation as a real estate investment trust.

Taxation of Real Estate Investment Trusts in General

As indicated above, qualification and taxation as a real estate investment trust depends upon the ability of the REIT and NHI to meet, on a continuing basis, various qualification requirements imposed upon real estate investment trusts by the Code. The material qualification requirements are summarized below under "—Requirements for qualification—General". While it is intended that the REIT and NHI will operate so that each qualifies as a real estate investment trust, no assurance can be given that the IRS will not challenge this qualification, or that the REIT and NHI will be able to operate in accordance with the real estate investment trust requirements in the future. See "—Failure to qualify".

The summary below of the principal U.S. federal income tax consequences of the treatment of the REIT as a real estate investment trust and the various qualification requirements imposed upon real estate investment trusts by the Code is also applicable to NHI. Accordingly, all references below to the REIT should also be read as referring to NHI, except to the extent the context otherwise requires.

Provided that the REIT maintains its qualification as a real estate investment trust, generally the REIT will be entitled to a deduction for dividends that the REIT pays and therefore will not be subject to U.S. federal income tax on its taxable income that is currently distributed to holders of Units. This treatment substantially eliminates the "double taxation" at the corporate and Unitholder levels that generally results from investment in a corporation. In general, the income generated by the REIT is taxed only at the Unitholder level upon a distribution of dividends to Unitholders. It is expected that the REIT will distribute amounts at least equal to the REIT's taxable income and capital gain on an annual basis. However, no assurance can be given that distributions equal to these amounts will in fact be made every year.

Any net operating losses, foreign tax credits and other tax attributes present at the REIT level generally do not pass through to the Unitholders, subject to special rules for certain items such as the capital gains that the REIT recognizes.

- Even if the REIT maintains its qualification as a real estate investment trust, the REIT will nonetheless be subject to U.S. federal income tax in the following circumstances:
  - the REIT will be taxed at regular corporate rates on any undistributed taxable income, including undistributed net capital gains;
  - if the REIT has net income from "prohibited transactions", which are, in general, sales or other dispositions of inventory or property held primarily for sale to customers in the ordinary course of business, other than "foreclosure property", such income will be subject to a 100% tax. See "—Foreclosure property" below.
  - if the REIT elects to treat property that it acquired in connection with a foreclosure of a mortgage loan or certain leasehold terminations as "foreclosure property", the REIT may thereby avoid the 100% tax on gain from a resale of that property (if the sale would otherwise constitute a prohibited transaction), but the REIT's income from the sale or operation of the property may be subject to U.S. federal income tax at the highest rate applicable to corporations (currently 21%);
  - if the REIT fails to satisfy the 75% gross income test or the 95% gross income test, as discussed below, but nonetheless maintains its qualification as a real estate investment trust because it

satisfies other requirements, the REIT will be subject to a 100% tax on an amount based on the magnitude of the failure, as adjusted to reflect the profit margin associated with its gross income;

- if the REIT violates the asset tests (other than certain *de minimis* violations) or other requirements applicable to real estate investment trusts, as described below, and yet maintains its qualification as a real estate investment trust because there is reasonable cause for the failure and other applicable requirements are met, the REIT may be subject to a penalty tax (and, in such case, the amount of the penalty tax will be at least $50,000 per failure, and, in the case of certain asset test failures, will be determined as the amount of net income generated by the assets in question multiplied by the highest rate applicable to corporations (currently 21%) if that amount exceeds $50,000 per failure);

- if the REIT fails to distribute during each calendar year at least the sum of (1) 85% of its real estate investment trust ordinary income for such year, (2) 95% of its real estate investment trust capital gain net income for such year, and (3) any undistributed taxable income from prior periods, the REIT will be subject to a nondeductible 4% excise tax on the excess of the required distribution over the sum of (a) the amounts that the REIT actually distributed (taking into account excess distributions from prior years); and (b) the amounts the REIT retained and upon which it paid U.S. federal income tax at the corporate level;

- the REIT may be required to pay monetary penalties to the IRS in certain circumstances, including if the REIT fails to meet record-keeping requirements intended to monitor its compliance with rules relating to the composition of a real estate investment trust's Unitholders, as described below in "Requirements for qualification-General";

- earnings of any subsidiaries that are subchapter C corporations, including any taxable REIT subsidiaries, are subject to U.S. federal corporate income tax.

- a 100% tax may be imposed on transactions between the REIT and a taxable REIT subsidiary as defined under Section 856(l) of the Code (a "**TRS**"), that do not reflect arm's-length terms (and, in addition, the earnings of TRSs are subject to U.S. federal income tax); and

- if the REIT acquires appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Code) in a transaction in which the adjusted tax basis of the assets in the REIT's hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, the REIT may be subject to U.S. federal income tax on such appreciation at the highest rate then applicable to corporations if it subsequently recognizes gain on a disposition of any such assets during the five-year period following their acquisition from the subchapter C corporation.

In addition, the REIT may be subject to a variety of taxes, including state, local, and non-U.S. income, property and other taxes on its assets and operations. The REIT could also be subject to tax in situations and on transactions not presently contemplated.

Requirements for Qualification—General

The Code defines a real estate investment trust as a corporation, trust or association:

(a) that is managed by one or more trustees or directors;

(b) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

(c) that would be taxable as a U.S. corporation but for its election to be subject to tax as a real estate investment trust;

(d) that is neither a financial institution nor an insurance company subject to specific provisions of the Code;

(e) the beneficial ownership of which is held by 100 or more persons;

(f) in which, during the last half of each taxable year, not more than 50% in value of the outstanding stock is owned, directly or indirectly, by five or fewer "individuals" (as defined in the Code to include specified tax-exempt entities);

(g) that makes an election to be a real estate investment trust for the current taxable year or has made such an election for a previous taxable year that has not been terminated or revoked; and

(h) that meets other tests described below, including with respect to the nature of its income and assets.

The Code provides that conditions (a) through (d) must be met during the entire taxable year, and that condition (e) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. Conditions (e) and (f) need not be met during a corporation's initial tax year as a real estate investment trust.

To monitor compliance with the stock ownership requirements, the REIT generally is required to maintain records regarding the actual ownership of the Units. To do so, the REIT must demand written statements each year from the record holders of significant percentages of Units pursuant to which the record holders must disclose the actual owners of the Units (i.e., the persons required to include dividends in their gross income). The REIT must maintain a list of those persons failing or refusing to comply with this demand as part of the REIT's records. The REIT could be subject to monetary penalties if the REIT fails to comply with these record-keeping requirements. If the REIT satisfies these requirements and after exercising reasonable diligence would not have known that condition (f) is not satisfied, the REIT will be deemed to have satisfied such condition. If you fail or refuse to comply with the demands, you will be required by the Treasury Regulations to submit a statement with your U.S. federal income tax return disclosing your actual ownership of Units and other information.

In addition, a corporation generally may not elect to become a real estate investment trust unless its taxable year is the calendar year.

Effect of Subsidiary Entities

Disregarded subsidiaries. If the REIT owns a corporate subsidiary that is a "qualified real estate investment trust subsidiary", that subsidiary is disregarded for U.S. federal income tax purposes, and all of the subsidiary's assets, liabilities and items of income, deduction and credit are treated as the REIT's assets, liabilities and items of income, deduction and credit, including for purposes of the gross income and asset tests applicable to real estate investment trusts. A qualified real estate investment trust subsidiary is any corporation, other than a TRS (as described below), that is directly or indirectly wholly owned by a REIT. Other entities that are wholly owned by the REIT, including single member limited liability companies that have not elected to be taxed as corporations for U.S. federal income tax purposes, are also disregarded as separate entities for U.S. federal income tax purposes, including for purposes of the real estate investment trust income and asset tests. Disregarded subsidiaries, along with any partnerships in which the REIT holds an equity interest, are sometimes referred to herein as "pass-through subsidiaries".

In the event that a disregarded subsidiary of the REIT ceases to be wholly-owned—for example, if any equity interest in the subsidiary is acquired by a person other than the REIT or another disregarded subsidiary of the REIT—the subsidiary's separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect the REIT's ability to satisfy the various asset and gross income requirements applicable to real estate investment trusts, including the requirement that real estate investment trusts generally may not own, directly or indirectly, more than 10% of the securities of another corporation. See "—Asset tests" and "—Income tests".

The REIT owns its interest in NHI through US Holdco, which will be treated as a disregarded entity for U.S. federal income tax purposes. Accordingly, for purposes of the real estate investment trust status tests discussed below, all of the assets and income and loss of US Holdco will be treated as assets and income and loss of the REIT.

Ownership of partnership interests. If the REIT is a partner in an entity that is treated as a partnership for U.S. federal income tax purposes, the Treasury Regulations provide that the REIT is deemed to own its proportionate share of the partnership's assets, and to earn its proportionate share of the partnership's income, for purposes of the asset and gross income tests applicable to real estate investment trusts. The REIT's proportionate share of a partnership's assets and income is based on its capital interest in the partnership (except that for purposes of the 10% of value asset test, described below, its proportionate share of the partnership's assets is based on its proportionate interest in the equity and certain debt securities issued by the partnership, as described in the Code). In addition, the assets and gross income of the partnership are deemed to retain the same character in the REIT's hands. Thus, the REIT's proportionate share of the assets and items of income of any subsidiary partnership will be treated as the REIT's assets and items of income for purposes of applying the real estate investment trust requirements. Consequently, to the extent that the REIT directly or indirectly holds a preferred or other equity interest in a partnership, the partnership's assets and operations may affect its ability to maintain real estate investment trust qualification, even though the REIT may have no control or only limited influence over the partnership. All or substantially all of NHI's real estate assets are expected to be owned through the OP (which will be treated as a partnership for U.S. federal income tax purposes) and its subsidiaries.

In addition, the *Bipartisan Budget Act of 2015* changed the rules applicable to U.S. federal income tax audits of partnerships. Under the new rules (which are generally effective for taxable years beginning after December 31, 2017), among other changes and subject to certain exceptions, any audit adjustment to items of income, gain, loss, deduction, or credit of a partnership (and any partner's distributive share thereof) is determined, and taxes, interest, or penalties attributable thereto are assessed and collected, at the partnership level. Notwithstanding that proposed regulations have been issued with respect to these new rules, it remains uncertain exactly how these new rules will be implemented, and it is possible that they could result in partnerships in which the REIT directly or indirectly invests being required to pay additional taxes, interest and penalties as a result of an audit adjustment, and the REIT, as a direct or indirect partner of these partnerships, could be required to bear the economic burden of those taxes, interest, and penalties even though, as a real estate investment trust, it may not otherwise have been required to pay additional corporate-level taxes as a result of the related audit adjustment. The changes created by these new rules are sweeping and in many respects dependent on the promulgation and/or finalization of future Treasury Regulations or other guidance by the U.S. Treasury Department. Prospective investors are urged to consult their tax advisors with respect to these changes and their potential impact on their investment in Units.

Taxable subsidiaries. A real estate investment trust may jointly elect with a subsidiary corporation, whether or not wholly-owned, to treat such subsidiary corporation as a TRS. The real estate investment trust generally may not own more than 10% of the securities of a taxable corporation, as measured by voting power or value, unless it and such corporation elect to treat such corporation as a TRS. The separate existence of a TRS or other taxable corporation is not ignored for U.S. federal income tax purposes. Accordingly, a TRS or other taxable subsidiary corporation generally is subject to U.S. federal income tax on its earnings, which may reduce the cash flow that the REIT and its subsidiaries generate in the aggregate, and may reduce the REIT's ability to make distributions to its Unitholders.

A real estate investment trust is not treated as holding the assets of a TRS or other taxable subsidiary corporation (including a subsidiary that is also a real estate investment trust) or as receiving any income that the subsidiary earns. Rather, the stock issued by a TRS to it is an asset in its hands, and a real estate investment trust treats the dividends paid to it from such taxable subsidiary, if any, as income. This treatment can affect a real estate investment trust's income and asset test calculations, as described below. Because a real estate investment trust does not include the assets and income of TRSs or other taxable subsidiary corporations in determining its compliance with the real estate investment trust requirements, it may use such entities (to the extent such entities are not also real estate investments trusts) to undertake indirectly activities that the real estate investment trust rules might otherwise preclude it from doing directly or through pass-through subsidiaries. For example, a real estate investment trust may use TRSs or other taxable subsidiary corporations to conduct activities that give rise to certain categories of income such as management fees or gain from sales of assets held for sale to customers or to conduct activities that, if conducted by the real estate investment trust directly, would be treated in its hands as prohibited transactions.

The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent real estate investment trust to assure that the TRS is subject to an appropriate level of U.S. federal income taxation. Further, these rules impose a 100% excise tax on certain transactions between a TRS and its parent real estate investment trust or the real estate investment trust's tenants that are not conducted on an arm's-length basis. The 100% tax also will apply to "redetermined services income", i.e., non-arm's-length income of a TRS attributable to services provided to, or on behalf of, its parent real estate investment trust (other than services provided to the real estate investment trust's tenants, which are potentially taxed as "redetermined rents").

NHI will indirectly own, through the OP, shares of NMCT, a taxable subsidiary that will elect real estate investment trust status beginning with its taxable year ending December 31, 2019, and the discussion below assumes that it will qualify as a real estate investment trust for such taxable year and in each taxable year thereafter. As discussed above, NHI will not be treated as holding the assets of NMCT or currently earning any income that NMCT earns. To qualify as a real estate investment trust, NMCT will need to independently meet, on a continuing basis, the various qualifications requirements imposed upon real estate investment trusts discussed herein. While it is intended that NMCT will operate so that it qualifies as a real estate investment trust, no assurance can be given that NMCT will qualify, or will continue to qualify in any taxable year, as a real estate investment trust, since qualification as a real estate investment trust depends on continuing to satisfy numerous asset, income and distribution tests described below, which in turn will be dependent in part on the REIT's ongoing operating results. To the extent that NMCT fails to qualify as a real estate investment trust in any year, and does not qualify for the relief provisions described herein, the REIT also likely will not qualify as a real estate investment trust for such year.

Income Tests

In order to maintain real estate investment trust qualification, the REIT must satisfy two gross income requirements on an annual basis. First, at least 75% of the REIT's gross income for each taxable year, excluding gross income from sales of inventory or dealer property in prohibited transactions, discharge of indebtedness and certain hedging transactions, generally must be derived from investments relating to real property or mortgages on real property, including interest income derived from mortgage loans secured by real property, "rents from real property" (generally, rents for use of real property, but not including certain contingent and related-party rents), dividends received from other real estate investment trusts, and gains from the sale of certain real estate assets, as well as specified income from temporary investments. Second, at least 95% of the REIT's gross income in each taxable year, excluding gross income from prohibited transactions, discharge of indebtedness and certain hedging transactions, must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as other dividends, interest, and gain from the sale or disposition of stock or securities, which need not have any relation to real property. Income and gain from certain hedging transactions will be excluded from both the numerator and the denominator for purposes of both the 75% and 95% gross income tests. It is intended that the amount of the REIT's non-qualifying income will be monitored and its portfolio of assets will be managed to comply with the gross income tests but it cannot be assured that the REIT will be successful in this effort.

As indicated above, for purposes of the 75% and 95% gross income tests, a real estate investment trust is deemed to have earned a proportionate share of the income earned by any partnership, or any limited liability company treated as a partnership for U.S. federal income tax purposes, in which it owns an interest, which share is determined by reference to its capital interest in such entity, and is deemed to have earned the income earned by any qualified REIT subsidiary or entity that is disregarded as separate from the REIT for U.S. federal income tax purposes.

Rents from real property. Rent that the REIT receives from its real property will qualify as "rents from real property", which is qualifying income for purposes of the 75% and 95% gross income tests, only if the following conditions are met:

- first, the rent must not be based, in whole or in part, on the income or profits of any person, but may be based on a fixed percentage or percentages of receipts or sales;

- second, neither the REIT nor a direct or indirect owner of 10% or more of its shares of beneficial interest may own, actually or constructively, 10% or more of a tenant from whom the REIT receives rent, other than a TRS. If the tenant is a TRS, such TRS may not directly or indirectly operate or

manage the related property. Instead, the property must be operated on behalf of the TRS by a person who qualifies as an "independent contractor" and who is, or is related to a person who is, actively engaged in the trade or business of operating lodging facilities for any person unrelated to the REIT and the TRS;

- third, if the rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, then the rent attributable to personal property will qualify as rents from real property. However, if the 15% threshold is exceeded, the rent attributable to personal property will not qualify as rents from real property; and

- fourth, the REIT generally must not operate or manage its real property or furnish or render services to its tenants, other than through an "independent contractor" who is adequately compensated and from whom the REIT does not derive revenue. However, the REIT need not provide services through an "independent contractor", but instead may provide services directly to its tenants, if the services are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not considered to be provided for the tenants' convenience. In addition, the REIT may provide a minimal amount of "noncustomary" services to the tenants of a property, other than through an independent contractor, as long as the REIT's income from the services (valued at not less than 150% of the REIT's direct cost of performing such services) does not exceed 1% of the REIT's income from the related property. Furthermore, the REIT may own up to 100% of the stock of a TRS which may provide customary and noncustomary services to the REIT's tenants without tainting its rental income for the related properties.

The TRS Entities of the REIT will lease the land, buildings, improvements, furnishings and equipment comprising the REIT's hotel properties. In order for the rent paid under the leases to constitute "rents from real property", the leases must be respected as true leases for U.S. federal income tax purposes and not treated as service contracts, joint ventures or some other type of arrangement. The determination of whether these leases are true leases depends on an analysis of all the surrounding facts and circumstances. In making such a determination, courts have considered a variety of factors, including the following:

- the intent of the parties;

- the form of the agreement;

- the degree of control over the property that is retained by the property owner (for example, whether the lessee has substantial control over the operation of the property or whether the lessee was required simply to use its best efforts to perform its obligations under the agreement); and

- the extent to which the property owner retains the risk of loss with respect to the property (for example, whether the lessee bears the risk of increases in operating expenses or the risk of damage to the property) or the potential for economic gain with respect to the property.

It is believed that the leases of the REIT are structured so that they qualify as true leases for U.S. federal income tax purposes. Investors should be aware that there are no controlling Treasury Regulations, published rulings or judicial decisions involving leases with terms substantially the same as the REIT's leases that discuss whether such leases constitute true leases for U.S. federal income tax purposes. If these leases are characterized as service contracts or partnership agreements, rather than as true leases, part or all of the payments that the operating partnership of the REIT and its subsidiaries receive from the TRS Entities may not be considered rent or may not otherwise satisfy the various requirements for qualification as "rents from real property". In that case, the REIT likely would not be able to satisfy either the 75% or 95% gross income test and, as a result, would lose its real estate investment trust status unless the REIT qualifies for relief, as described below under "— Failure to Satisfy Gross Income Tests".

As described above, in order for the rent that the REIT receives to constitute "rents from real property", several other requirements must be satisfied. One requirement is that percentage rent must not be based in whole or in part on the income or profits of any person. Percentage rent, however, will qualify as "rents from real property" if

it is based on percentages of receipts or sales and the percentages: (1) are fixed at the time the percentage leases are entered into; (2) are not renegotiated during the term of the percentage leases in a manner that has the effect of basing percentage rent on income or profits; and (3) conform with normal business practice. More generally, percentage rent will not qualify as "rents from real property" if, considering the leases and all the surrounding circumstances, the arrangement does not conform with normal business practice, but is in reality used as a means of basing the percentage rent on income or profits.

The REIT must not own, actually or constructively, 10% or more of the shares or the assets or net profits of any lessee (a "**related party tenant**"), other than a TRS. The constructive ownership rules generally provide that, if 10% or more in value of the REIT's shares of beneficial interest is owned, directly or indirectly, by or for any person, the REIT is considered as owning the shares owned, directly or indirectly, by or for such person. The REIT currently leases all of its hotels to the TRS Entities and it is intended that the REIT will lease to a TRS Entity any hotels the REIT acquires in the future.

As described above, the REIT may own up to 100% of the capital stock of one or more TRSs. A TRS is a fully taxable corporation that is permitted to lease hotel properties from the related REIT as long as it does not directly or indirectly operate or manage any lodging facilities or provide rights to any brand name under which any lodging facility is operated, unless such rights are provided to an "eligible independent contractor" to operate or manage a lodging facility if such rights are held by the TRS as a franchisee, licensee, or in a similar capacity and such hotel is either owned by the TRS or leased to the TRS by its parent real estate investment trust. A TRS will not be considered to operate or manage a qualified lodging facility solely because the TRS directly or indirectly possesses a license, permit, or similar instrument enabling it to do so. Additionally, a TRS will not be considered to operate or manage a qualified lodging facility located outside of the United States, as long as an "eligible independent contractor" is responsible for the daily supervision and direction of such individuals on behalf of the TRS pursuant to a management contract or similar service contract. Moreover, rent that the REIT receives from a TRS will qualify as "rents from real property" as long as the property is operated on behalf of the TRS by an "independent contractor" who is adequately compensated, who does not, directly or through its shareholders, own more than 35% of the Units, taking into account certain ownership attribution rules, and who is, or is related to a person who is, actively engaged in the trade or business of operating "qualified lodging facilities" for any person unrelated to the REIT and the TRS lessee (an "**eligible independent contractor**"). A "qualified lodging facility" is a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis, unless wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. A "qualified lodging facility" includes customary amenities and facilities operated as part of, or associated with, the lodging facility as long as such amenities and facilities are customary for other properties of a comparable size and class owned by other unrelated owners.

The rent attributable to the personal property leased in connection with the lease of a hotel must not be greater than 15% of the total rent received under the lease. The rent attributable to the personal property contained in a hotel is the amount that bears the same ratio to total rent for the taxable year as the average of the fair market values of the personal property at the beginning and at the end of the taxable year bears to the average of the aggregate fair market values of both the real and personal property contained in the hotel at the beginning and at the end of such taxable year (the "**personal property ratio**"). To comply with this limitation, a TRS lessee may acquire furnishings, equipment and other personal property. With respect to each hotel in which the TRS lessee does not own the personal property, it is believed either that the personal property ratio is less than 15% or that any rent attributable to excess personal property does not jeopardize the ability of the REIT to qualify as a real estate investment trust. There can be no assurance, however, that the IRS would not challenge the calculation of a personal property ratio, or that a court would not uphold such assertion. If such a challenge were successfully asserted, the REIT could fail to satisfy the 75% or 95% gross income test and thus potentially lose its real estate investment trust status.

The REIT cannot furnish or render noncustomary services to the tenants of its hotels, or manage or operate its hotels, other than through an independent contractor who is adequately compensated and from whom the REIT does not derive or receive any income. However, the REIT needs not provide services through an "independent contractor", but instead may provide services directly to its tenants, if the services are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not considered to be provided for the tenants' convenience. In addition, the REIT may provide a minimal amount of "noncustomary" services to the

tenants of a property, other than through an independent contractor, as long as the REIT's income from the services does not exceed 1% of its income from the related property. Finally, the REIT may own up to 100% of the capital stock of one or more TRSs, which may provide noncustomary services to the REIT's tenants without tainting its rents from the related hotel properties. The REIT will not perform any services other than customary ones for its lessees, unless such services are provided through independent contractors or TRSs.

Interest income. Interest income constitutes qualifying mortgage interest for purposes of the 75% gross income test (as described above) to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. If the REIT receives interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that the REIT acquired or originated the mortgage loan (or, in the event of a "significant modification", the date the loan is modified), the interest income will be apportioned between the real property and the other collateral, and the REIT's income from the arrangement will qualify for purposes of the 75% gross income test only to the extent that the interest is allocable to the real property. For purposes of the 75% gross income test, if the fair market value of the personal property securing the loan does not exceed 15% of the total fair market value of all such property, such personal property is treated as real property. Even if a loan is not secured by real property, or is undersecured, the income that it generates may nonetheless qualify for purposes of the 95% gross income test.

Dividend income. The REIT may directly or indirectly receive distributions from TRSs or other corporations that are not real estate investment trusts or qualified real estate investment trust subsidiaries. These distributions generally are treated as dividend income to the extent of the earnings and profits of the distributing corporation. Such distributions generally constitute qualifying income for purposes of the 95% gross income test, but not for purposes of the 75% gross income test. Any dividends that the REIT receives from another real estate investment trust, however, are qualifying income for purposes of both the 95% and 75% gross income tests.

Failure to satisfy the gross income tests. It is intended that the sources of income, including any nonqualifying income received by the REIT, will be monitored and the REIT's assets will be managed so as to ensure compliance with the gross income tests. No assurance can be given, however, that the REIT will be able to satisfy the gross income tests. If the REIT fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year the REIT may still maintain its qualification as a real estate investment trust for such year if the REIT is entitled to relief under applicable provisions of the Code. These relief provisions will be generally available if (1) the REIT's failure to meet these tests was due to reasonable cause and not due to willful neglect and (2) following the identification of the failure to meet the 75% or 95% gross income test for any taxable year, the REIT files a schedule with the IRS setting forth each item of its gross income for purposes of the 75% or 95% gross income test for such taxable year in accordance with Treasury Regulations yet to be issued. It is not possible to state whether the REIT would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions are inapplicable to a particular set of circumstances, the REIT will fail to maintain its qualification as a real estate investment trust. Even where these relief provisions apply, the Code imposes a tax based upon the profit attributable to the amount by which the REIT fails to satisfy the particular gross income test.

Asset Tests

At the close of each calendar quarter, the REIT must also satisfy five tests relating to the nature of its assets.

First, at least 75% of the value of the REIT's total assets must be represented by some combination of "real estate assets", cash, cash items, U.S. Government securities, and, under some circumstances, stock or debt instruments purchased with new capital. For this purpose, "real estate assets" include interests in real property, some kinds of mortgage loans (including an interest in an obligation secured by a mortgage on both real property and personal property if the fair market value of the personal property does not exceed 15% of the total fair market value of all the property securing the obligation), certain mezzanine loans indirectly secured by interests in entities that own interests in real property, stock of other corporations that qualify as real estate investment trusts, debt instruments issued by publicly offered real estate investment trusts, and personal property to the extent income from such personal property is treated as "rents from real property" because the personal property is rented in connection with a rental of real property and the rent attributable to the personal property does not exceed 15% of the total rent received under the lease.

Second, the value of any one issuer's securities that the REIT owns may not exceed 5% of the value of the REIT's total assets.

Third, the REIT may not own more than 10% of any one issuer's outstanding securities, as measured by either value (the "**10% of value asset test**"), or voting power.

The 5% and 10% asset tests do not apply to securities that qualify under the 75% asset test, or to securities of TRSs and qualified real estate investment trust subsidiaries, and the 10% of value asset test does not apply to "straight debt" having specified characteristics and to certain other securities described below. Solely for purposes of the 10% of value asset test, the determination of the REIT's interest in the assets of a partnership (or entity treated as a partnership for tax purposes) in which the REIT owns an interest will be based on the REIT's proportionate interest in any securities issued by the partnership (or entity treated as a partnership for U.S. federal income tax purposes), excluding for this purpose certain securities described in the Code.

Fourth, the aggregate value of all securities of TRSs that the REIT holds may not exceed 20% of the value of its total assets, with respect to taxable years beginning on and after January 1, 2018.

Fifth, not more than 25% of the REIT's assets may consist of debt instruments issued by publicly offered real estate investment trusts that qualify as "real estate assets" only because of the express inclusion of "debt instruments issued by publicly offered real estate investment trusts" in the definition of "real estate assets".

Notwithstanding the general rule, as noted above, that for purposes of the real estate investment trust income and asset tests the REIT is treated as owning its proportionate share of the underlying assets of a subsidiary partnership, if the REIT holds indebtedness issued by a partnership, the indebtedness will be subject to, and may cause a violation of, the asset tests unless the indebtedness is a qualifying mortgage asset or other conditions are met.

Certain securities will not cause a violation of the 10% of value asset test described above. Such securities include instruments that constitute "straight debt", which includes, among other things, securities having certain contingency features. A security does not qualify as "straight debt" where a real estate investment trust (or a "controlled taxable real estate investment trust subsidiary", as defined in the Code, of the real estate investment trust) owns other securities of the same issuer which do not qualify as straight debt, unless the value of those other securities constitute, in the aggregate, 1% or less of the total value of that issuer's outstanding securities. In addition to straight debt, the Code provides that certain other securities will not violate the 10% of value asset test. Such securities include (1) any loan made to an individual or an estate, (2) certain rental agreements pursuant to which one or more payments are to be made in subsequent years (other than agreements between a real estate investment trust and certain persons related to the real estate investment trust under attribution rules), (3) any obligation to pay rents from real property, (4) securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity, (5) any security (including debt securities) issued by another real estate investment trust, and (6) any debt instrument issued by a partnership if the partnership's income is of a nature that it would satisfy the 75% gross income test described above under "—Income tests". In applying the 10% of value asset test, a debt security issued by a partnership is not taken into account to the extent of the REIT's proportionate interest, if any, in the equity and debt securities issued by that partnership.

It is expected that the assets that the REIT owns generally will be qualifying assets for purposes of the 75% asset test, and it is intended that compliance with this requirement will be monitored on an ongoing basis. There can be no assurance, however, that the REIT will be successful in this effort. No independent appraisals have been obtained to support the conclusions as to the value of the REIT's total assets or the value of any particular security or securities. Accordingly, there can be no assurance that the IRS will not contend that the REIT's interests in its subsidiaries or in the securities of other issuers will not cause a violation of the real estate investment trust asset tests.

However, certain relief provisions are available to allow real estate investment trusts to satisfy the asset requirements or to maintain real estate investment trust qualification notwithstanding certain violations of the asset and other requirements. One such provision allows a real estate investment trust which fails one or more of the asset requirements to nevertheless maintain its real estate investment trust qualification if (1) the real estate investment trust provides the IRS with a description of each asset causing the failure, (2) the failure is due to reasonable cause

and not willful neglect, (3) the real estate investment trust pays a tax equal to the greater of (a) $50,000 per failure, and (b) the product of the net income generated by the assets that caused the failure multiplied by the highest applicable rate applicable to corporations (currently 21%), and (4) the real estate investment trust either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or otherwise satisfies the relevant asset tests within that time frame.

In the case of *de minimis* violations of the 5% and 10% asset tests, a real estate investment trust may maintain its qualification despite a violation of such requirements if (1) the value of the assets causing the violation does not exceed the lesser of 1% of the real estate investment trust's total assets at the end of the applicable quarter or $10,000,000, and (2) the real estate investment trust either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or the relevant tests are otherwise satisfied within that time frame.

If the REIT should fail to satisfy the asset tests at the end of a calendar quarter, such a failure would not cause the REIT to lose its real estate investment trust qualification if it (1) satisfied the asset tests at the close of the preceding calendar quarter; and (2) the discrepancy between the value of its assets and the asset requirements was not wholly or partly caused by an acquisition of non-qualifying assets, but instead arose from changes in the market value of its assets. If the condition described in (2) were not satisfied, the REIT still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose or by making use of relief provisions described above.

Annual Distribution Requirements

In order to maintain real estate investment trust qualification, the REIT is required to distribute dividends, other than capital gain dividends, to Unitholders in an amount at least equal to:

(a) the sum of

(i) 90% of its "real estate investment trust taxable income", computed without regard to its net capital gains and the deduction for dividends paid, and

(ii) 90% of its net income, if any, (after tax) from foreclosure property (as described below), minus,

(b) the sum of specified items of non-cash income that exceeds a certain percentage of the REIT's income.

For these purposes, "real estate investment trust taxable income" is computed without regard to the dividends paid deduction and the REIT's net capital gain. In addition, for purposes of this test, non-cash income means income attributable to leveled stepped rents, original issue discount on purchase money debt, cancellation of indebtedness, or a like-kind exchange that is later determined to be taxable.

The REIT's deduction for net business interest expense will generally be limited to 30% of its taxable income, as adjusted for certain items of income, gain, deduction or loss. Any business interest deduction that is disallowed due to this limitation may be carried forward to future taxable years. If the REIT is subject to this interest expense limitation, the real estate investment trust taxable income for a taxable year may be increased. Taxpayers that conduct certain real estate businesses may elect not to have this interest expense limitation apply to them, provided that they use an alternative depreciation system to depreciate certain property. The REIT may be eligible to make this election. If so, although the REIT would not be subject to the interest expense limitation described above, its depreciation deductions may be reduced and, as a result, the real estate investment trust taxable income for a taxable year may be increased.

The REIT generally must make these distributions in the taxable year to which they relate, or in the following taxable year if such distributions are declared before a U.S. federal income tax return is timely filed for the REIT for the year and are paid with or before the first regular dividend payment after such declaration (provided that such payment is made during the 12-month period following the close of such taxable year). These latter

distributions are taxable to Unitholders in the year in which they are paid, even though these latter distributions relate to the REIT's prior taxable year for purposes of the 90% distribution requirement.

To the extent that the REIT distributes at least 90%, but less than 100%, of "real estate investment trust taxable income", as adjusted, the REIT will be subject to tax at ordinary U.S. federal corporate income tax rates on the retained portion. The REIT may elect to retain, rather than distribute, its net long-term capital gains and pay tax on such gains. In this case, the REIT could elect for Unitholders to include their proportionate shares of such undistributed long-term capital gains in income, and to receive a corresponding credit or refund, as the case may be, for their share of the tax that the REIT paid. Unitholders would then increase their adjusted basis of their Units by the difference between (1) the amounts of capital gain dividends designated and that they include in their taxable income, minus (2) the tax that the REIT paid on their behalf with respect to that income.

To the extent that in the future the REIT may have available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that the REIT must make in order to comply with the real estate investment trust distribution requirements. Such losses, however, will generally not affect the character, in the hands of Unitholders, of any distributions that are actually made as ordinary dividends or capital gains. The REIT's net operating loss carryover can only offset 80% of taxable income in future years, but can be carried forward indefinitely.

If the REIT fails to distribute during each calendar year at least the sum of (1) 85% of its REIT ordinary income for such year, (2) 95% of its real estate investment trust capital gain net income for such year, and (3) any undistributed taxable income from prior periods, the REIT will be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (a) the amounts actually distributed (taking into account excess distributions from prior periods), plus (b) the amounts of income the REIT retained and on which it has paid U.S. federal income tax. It is intended that timely distributions will be made so that the REIT is not subject to the 4% excise tax.

It is possible that, from time to time, the REIT may not have sufficient cash to meet the distribution requirements due to timing differences between its actual receipt of cash and its inclusion of items in income for U.S. federal income tax purposes. In the event that such timing differences occur, in order to meet the distribution requirements, it might be necessary for the REIT to arrange for short-term, or possibly long-term, borrowings, to use cash reserves, to liquidate non-cash assets at rates or times the REIT regards as unfavorable, or to pay dividends in the form of taxable in-kind distributions of property. Alternatively, the REIT may declare a taxable dividend payable in cash or Units at the election of each Unitholder, where the aggregate amount of cash to be distributed in such dividend may be subject to limitation. In such case, for U.S. federal income tax purposes, taxable Unitholders receiving such dividends will be required to include the full amount of the dividend as income and would be required to satisfy the tax liability associated with the dividend with cash from other sources including sales of Units. Both a taxable dividend and sale of Units resulting from such dividend could adversely affect the price of Units.

The REIT may be able to rectify a failure to meet the distribution requirements for a year by paying "deficiency dividends" to Unitholders in a later year, which may be included in its deduction for dividends paid for the earlier year. In this case, the REIT may be able to avoid losing real estate investment trust qualification or being taxed on amounts distributed as deficiency dividends. The REIT will be required to pay interest and a penalty based on the amount of any deduction taken for deficiency dividends. While the payment of a deficiency dividend will apply to a prior year for purposes of the REIT distribution requirements, it will be treated as an additional distribution to Unitholders in the year such dividend is paid.

Recordkeeping Requirements

The REIT is required to maintain records and request on an annual basis information from specified Unitholders. These requirements are designed to assist the REIT in determining the actual ownership of outstanding Units and maintaining its qualification as a real estate investment trust.

Prohibited Transactions

Net income that the REIT derives from a "prohibited transaction" is subject to a 100% tax. The term "prohibited transaction" generally includes a sale or other disposition of property (other than foreclosure property, as discussed below) that is held as inventory or primarily for sale to customers in the ordinary course of a trade or business by the REIT (or a lower tier partnership in which the REIT owns an equity interest) or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to the REIT. It is intended that the operations of the REIT will be conducted so that no asset that it owns (or is treated as owning) will be treated as, or as having been, held as inventory or primarily for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of its business. Whether property is held as inventory or "primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. No assurance can be given that any property that the REIT sells will not be treated as property held as inventory or primarily for sale to customers, or that the REIT can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of such corporation at regular U.S. federal income tax rates. It is intended that the activities of the REIT will be structured to avoid prohibited transaction characterization.

Foreclosure Property

Foreclosure property is real property and any personal property incident to such real property (1) that the REIT acquires as the result of having bid on the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after a default (or upon imminent default) on a lease of the property or a mortgage loan held by the REIT and secured by the property, (2) for which it acquired the related loan or lease at a time when default was not imminent or anticipated, and (3) with respect to which the REIT made a proper election to treat the property as foreclosure property. The REIT generally will be subject to tax at the maximum U.S. federal corporate rate (currently 21%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the 75% gross income test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property.

Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is granted by the IRS. This grace period terminates, and foreclosure property ceases to be foreclosure property, on the first day occurring: (i) on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for the purposes of the 75% gross income test, or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test; (ii) on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or (iii) which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income or through a TRS.

Penalty Tax

Any redetermined rents, redetermined deductions, excess interest or redetermined service income the REIT generates will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of any services furnished to any of the REIT's tenants by a TRS of the REIT, redetermined deductions and excess interest represent any amounts that are deducted by a TRS of the REIT for amounts paid to the REIT that are in excess of the amounts that would have been deducted based on arm's length negotiations, and redetermined service income is income of a TRS that is understated as a result of services provided to the REIT or on the REIT's behalf. Rents received by the REIT will not constitute redetermined rents if they qualify for certain safe harbor provisions contained in the Code.

Safe-harbor provisions are provided where: (1) amounts are excluded from the definition of impermissible tenant service income as a result of satisfying the 1% *de minimis* exception; (2) the TRS renders a significant

amount of similar services to unrelated parties and the charges for such services are substantially comparable; (3) rents paid to the REIT by tenants who are not receiving services from the TRS are substantially comparable to the rents paid by the REIT's tenants leasing comparable space who are receiving such services from the TRS and the charge for the service is separately stated; and (4) the TRS's gross income from the service is not less than 150% of the subsidiary's direct cost of furnishing the service.

Management believes that the REIT's arrangements with its TRSs reflect arm's-length terms. However, these determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to accurately reflect their respective incomes.

Failure to Qualify

If the REIT fails to satisfy one or more requirements for real estate investment trust qualification other than the income or asset tests, the REIT could avoid disqualification if its failure is due to reasonable cause and not to willful neglect and the REIT pays a penalty of $50,000 for each such failure. Relief provisions are available for failures of the income tests and asset tests, as described above in "—Income tests" and "—Asset tests".

If the REIT fails to maintain its qualification for taxation as a real estate investment trust in any taxable year, and the relief provisions described above do not apply, the REIT would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. The REIT cannot deduct distributions to Unitholders in any year in which it does not qualify as a real estate investment trust, nor would the REIT be required to make distributions in such a year. Unless the REIT is entitled to relief under specific statutory provisions, the REIT would also be disqualified from re-electing to be taxed as a real estate investment trust for the four taxable years following the year during which it lost qualification. It is not possible to state whether, in all circumstances, the REIT would be entitled to this statutory relief.

Taxation of Non-U.S. Holders

The following is a summary of certain U.S. federal income tax consequences of the ownership and disposition of Units applicable to Non-U.S. Holders.

Ordinary dividends. The portion of dividends received by Non-U.S. Holders that is (1) payable out of the earnings and profits of the REIT, (2) not attributable to gains of the REIT from sales or exchanges of a U.S. real property interest, as defined under Section 897(c) of the Code (a "**USRPI**"), and (3) not effectively connected with a U.S. trade or business of the Non-U.S. Holder, will generally be subject to U.S. federal withholding tax at the rate of 30%, unless reduced or eliminated by treaty and the Non-U.S. Holder provides to the REIT an IRS Form W-8BEN (or other acceptable substitute or applicable form). A Non-U.S. Holder that is a qualified resident of Canada generally is entitled to a 15% withholding rate under the Treaty if: (i) the Non-U.S. Holder is an individual and holds no more than 10% of the outstanding Units, (ii) the Units are publicly traded and the Non-U.S. Holder owns no more than 5% of the outstanding Units or (iii) the Non-U.S. Holder (other than an individual) holds no more than 10% of the outstanding Units and the REIT is diversified. For this purpose, the REIT will be treated as diversified if the gross value of no single interest in real property of the REIT exceeds 10% of the gross value of the REIT's total interest in real property. Qualified residents of Canada that are tax-exempt entities established to provide pension, retirement or other employee benefits (including trusts governed by a RRSP, a RRIF or a DPSP) may be eligible for an exemption from U.S. federal tax withholding on dividends under Article XXI of the Treaty. A trust governed by a TFSA, a RESP or a RDSP is not entitled to benefits as an entity or arrangement under the Treaty. Instead, income received by a TFSA, a RESP or a RDSP is treated as received by the beneficiary of the TFSA RESP, or RDSP as the case may be, and the TFSA, RESP, or RDSP, as the case may be, should be disregarded for U.S. federal income tax purposes. The beneficiary or annuitant of the TFSA RESP, or RDSP as the case may be, may, however, be eligible for reduced withholding tax rates under the Treaty. Unitholders that are Exempt Plans should consult their own tax advisors with respect to the Canadian and U.S. federal income tax considerations relevant to an investment in Units.

Under some treaties, however, lower rates generally applicable to dividends do not apply to dividends from real estate investment trusts. In the case of a taxable dividend payable in Units with respect to which any U.S. federal withholding tax is imposed on a Non-U.S. Holder, the REIT may have to withhold or dispose of part of the Units otherwise distributable in such dividend and use such withheld shares or the proceeds of such disposition to satisfy the U.S. federal withholding tax imposed.

It is expected that REIT distributions on the Units will exceed the REIT's current and accumulated earnings and profits as determined under the Code. For the purpose of determining the amount to withhold, management of the REIT will make a reasonable estimate of the portion of a distribution that is paid out of current and accumulated earnings and profits. The Non-U.S. Holder may seek a refund from the IRS of any amounts withheld if it is subsequently determined that the distribution was, in fact, in excess of current and accumulated earnings and profits of the REIT.

In general, Non-U.S. Holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of Units. In cases where the dividend income from a Non-U.S. Holder's investment in Units is, or is treated as, effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business, the Non-U.S. Holder generally will be subject to U.S. federal income tax at graduated rates, in the same manner as U.S. Holders are taxed with respect to such dividends. Such income must generally be reported on a U.S. income tax return filed by or on behalf of the Non-U.S. Holder. Such income may also be subject to the 30% branch profits tax in the case of a Non-U.S. Holder that is a corporation (subject to potential reduction under the Treaty).

Non-dividend distributions. A Non-U.S. Holder will not incur tax on a distribution in excess of the REIT's current and accumulated earnings and profits if the excess portion of the distribution does not exceed the Non-U.S. Holder's adjusted tax basis in its Units. Instead, the excess portion of the distribution would reduce the Non-U.S. Holder's adjusted tax basis in the Units. It is expected that the Units will constitute USRPIs, as described below, and thus, if the Non-U.S. Holder otherwise would be subject to tax on gain from the disposition of its Units as described herein, distributions that the REIT makes in excess of the sum of (x) the Non-U.S. Holder's proportionate share of the earnings and profits of the REIT, plus (y) the Non-U.S. Holder's tax basis in its Units, will be taxed under FIRPTA, at the rate of U.S. federal income tax, including any applicable capital gains rates, that would apply to a U.S. Holder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a withholding at a rate of 15% of the amount by which the distribution exceeds the Unitholder's share of earnings and profits of the REIT.

Because management of the REIT expects that the Units will be considered to be regularly traded on an established securities market as described below under "Certain U.S. Federal Income Tax Considerations – Dispositions of Units", it does not expect to be required to withhold on distributions in excess of the REIT's current and accumulated earnings and profits that are distributed to Non-U.S. Holders that own 10% or less of the outstanding Units during the applicable testing period, although there can be no assurance that withholding on such amounts will not be required.

Capital gain dividends. Under FIRPTA, a distribution that the REIT makes to a Non-U.S. Holder, to the extent attributable to gains from dispositions of USRPIs that the REIT held directly or through pass-through subsidiaries, or USRPI capital gains, will, except as described below, be considered effectively connected with a U.S. trade or business of the Non-U.S. Holder and will be subject to U.S. federal income tax at the rates applicable to the U.S. Holders, without regard to whether the REIT designates the distribution as a capital gain dividend. See above under "—Taxation of Non-U.S. Holders—Ordinary dividends", for a discussion of the consequences of income that is effectively connected with a U.S. trade or business. In addition, the REIT will be required to withhold tax at the highest applicable corporate rate (currently 21%) of the maximum amount that could have been designated as USRPI capital gains dividends. Distributions subject to FIRPTA may also be subject to a 30% branch profits tax in the hands of a Non-U.S. Holder that is a corporation (subject to potential reduction under the Treaty).

A distribution is not attributable to USRPI capital gain if the REIT held an interest in the underlying asset solely as a creditor, although the holding of a shared appreciation mortgage loan would not be solely as a creditor. Capital gain dividends received by a Non-U.S. Holder that are attributable to dispositions of assets of the REIT other than USRPIs are not subject to U.S. federal income or withholding tax, unless (1) the gain is effectively connected with the Non-U.S. Holder's U.S. trade or business, in which case the Non-U.S. Holder would be subject to the same treatment as U.S. Holders with respect to such gain, or (2) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the Non-U.S. Holder will incur a 30% U.S. federal income tax on his capital gains.

A capital gain dividend that would otherwise have been treated as a USRPI capital gain will not be so treated or be subject to FIRPTA, and generally will not be treated as income that is effectively connected with a U.S. trade or business, and instead will be treated in the same manner as an ordinary dividend (see "—Taxation of Non-

U.S. Holders—Ordinary dividends"), if (1) the capital gain dividend is received with respect to a class of Units that is regularly traded on an established securities market, and (2) the recipient Non-U.S. Holder is not treated for U.S. federal income taxes purposes as owning more than 10% of that class of Units at any time during the one-year period ending on the date on which the capital gain dividend is received. As discussed below, it is believed that the Units will be treated as "regularly traded on an established securities market", but no assurance can be given as to the current or future treatment of the Units as "regularly traded on an established securities market".

Dispositions of REIT Units. The Units will be treated as USRPIs if, 50% or more of the assets of the REIT throughout a prescribed testing period consist of interests in real property located within the United States, excluding, for this purpose, interests in real property solely in a capacity as a creditor (but including interests in so-called "United States real property holding corporations" and interests in mortgages secured by real property bearing interest determined by reference to net or gross profits or gains of the obligor or changes in the value of the property securing the obligation in question). It is expected that the foregoing test will be met and the Units will be treated as USRPIs, absent the application of certain exceptions discussed below, because the REIT predominately holds hotel properties that constitute U.S. real property, but no assurance can be given that this always will be the case.

Even if the foregoing 50% test is met, the Units will not constitute USRPIs if the REIT is a "domestically controlled qualified investment entity". A domestically controlled qualified investment entity includes a REIT, if less than 50% of value of its outstanding shares of stock is held directly or indirectly by non-U.S. persons at all times during a specified testing period. It is not expected that the REIT will qualify as a domestically controlled qualified investment entity. In addition, a Non-U.S. Holder's sale of Units will not be subject to tax under FIRPTA as a sale of a USRPI provided that the Units are "regularly traded" on an "established securities market", both as defined by applicable Treasury Regulations and as discussed below, and the selling Non-U.S. Holder owned, actually and constructively, 10% or less of the outstanding Units at all times during the five-year period ending on the date of disposition or such shorter period that the Units were held.

An "established securities market" consists of any of the following: (a) a U.S. national securities exchange which is registered under Sec. 6 of the Securities Exchange Act of 1934; (b) a non-U.S. national securities exchange which is officially recognized, sanctioned, or supervised by a governmental authority; or (c) any over-the-counter market. An over-the-counter market is any market which has an interdealer quotation system. An interdealer quotation system is any system of general circulation to brokers and dealers which regularly disseminates quotations of stocks and securities by identified brokers or dealers, other than by quotation sheets which are prepared and distributed by a broker or dealer in the regular course of business and which contain only quotations of such broker or dealer.

For the purpose of (b), above, the TSX is a non-U.S. national securities exchange which is officially recognized, sanctioned, or supervised by a governmental authority, and, accordingly, the TSX is an established securities market. For so long as 100 or fewer persons do not own 50% or more of the Units, the Units should be treated as "regularly traded" on the TSX for a calendar quarter if: (a) the Units trade, other than in *de minimis* quantities, on at least 15 days during the calendar quarter; (b) the aggregate number of Units traded during the calendar quarter is at least 7.5% of the average number of Units outstanding during such calendar quarter (reduced to 2.5% if there are 2,500 or more record holders of Units); and (c) the REIT attaches a statement to its U.S. federal income tax return that provides information relating to it, the Units, and beneficial owners of more than 5% of the Units (the "**TSX Publicly Traded Exception**"). However, the REIT is closely held as of the Offering. As a result, these requirements will not be satisfied as of the Offering with respect to the REIT. Although management intends to further diversify the REIT's ownership such that these requirements will be satisfied in the future, there can be no assurance that these requirements will be satisfied with respect to the REIT.

In addition, the Units would be considered "regularly traded" on an established securities market for a calendar quarter if the established securities market were located in the U.S. and the Units were regularly quoted by more than one broker or dealer making a market in the Units through an interdealer quotation system. The OTC Pink tier of OTC Markets Group Inc. ("**OTC Pink**") and the OTCQX are over-the-counter markets during a calendar quarter having an interdealer quotation system that should be treated as an "established securities market" located in the U.S. A broker or dealer makes a market in a class of stock only if the broker or dealer holds itself out to buy or sell shares of such class of stock at the quoted price. In this regard, the REIT has received indications that at least two brokers or dealers are willing to regularly quote and make a market in the Units on the OTC Pink and/or the OTCQX. For each calendar quarter during which the Units are regularly quoted on the OTC Pink and/or the

OTCQX, the Units should be treated as "regularly traded" on an established securities market in the U.S. (the "**U.S. Publicly Traded Exception**") and, accordingly, gain on sales of Units by Non-U.S. Holders that own 10% or less of the outstanding Units during the applicable testing period would not be subject to U.S. federal income tax. Investors are cautioned that there can be no assurances that there will be at least two brokers or dealers regularly quoting the Units on the OTC Pink and/or the OTCQX in any particular calendar quarter. In addition, neither the Code, the applicable Treasury Regulations, administrative pronouncements nor judicial decisions provide guidance as to the frequency or duration with which the Units must be quoted during a calendar quarter to be "regularly quoted". U.S. tax counsel to the REIT believes that it is reasonable to interpret this exception to the effect that, so long as the brokers or dealers regularly quote the Units at any time during a calendar quarter, any gain from a sale at any time during the quarter would not be subject to U.S. federal income tax for Non-U.S. Holders that own 10% or less of the outstanding Units during the applicable testing period. Due to the lack of guidance from the IRS, however, investors are cautioned that there can be no assurance the IRS would concur in this interpretation.

Management believes that the Units may satisfy the U.S. Publicly Traded Exception and may satisfy the TSX Publicly Traded Exception in the future. However, if neither the U.S. Publicly Traded Exception nor the TSX Publicly Traded Exception is satisfied, the sale of Units by a Non-U.S. Holder may be subject to taxation under FIRPTA with the result that the Non-U.S. Holder would be required to file a U.S. federal income tax return and would be subject to the same treatment as a U.S. Holder with respect to such gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals, and the purchaser of Units could be required to withhold 15% of the purchase price and remit such amount to the IRS.

Gain from the sale of Units that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a Non-U.S. Holder in two cases: (1) if the Non-U.S. Holder's investment in Units is effectively connected with a U.S. trade or business conducted by such Non-U.S. Holder, the Non-U.S. Holder will be subject to the same treatment as a U.S. Holder with respect to such gain, or (2) if the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, the nonresident alien individual will be subject to a 30% U.S. federal income tax on the individual's capital gain. In addition, even if the REIT is a domestically controlled qualified investment entity, upon disposition of Units (subject to the 10% exception applicable to "regularly traded" stock described above), a Non-U.S. Holder may be treated as having gain from the sale or exchange of a USRPI if the Non-U.S. Holder (1) disposes of Units within a 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been treated as gain from the sale or exchange of a USRPI, and (2) acquires, or enters into a contract or option to acquire, other Units within 30 days after such ex-dividend date.

Special FIRPTA Rules. Recently enacted amendments to FIRPTA create special rules that modify the application of the foregoing FIRPTA rules for particular types of Non-U.S. Holders, including "qualified foreign pension funds" and their wholly-owned non-U.S. subsidiaries and certain widely-held, publicly traded "qualified collective investment vehicles". Non-U.S. Holders are urged to consult their own tax advisors regarding the applicability of these or any other special FIRPTA rules to their particular investment in Units.

Non-U.S. Holders are urged to consult their tax advisors regarding the U.S. federal, state, local and non-U.S. income and other tax consequences of owning Units.

Backup Withholding and Information Reporting

The applicable withholding agent must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable income tax treaty. A Non-U.S. Holder may be subject to backup withholding unless applicable certification requirements are met.

Payment of the proceeds of a sale of Units within the United States is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalties of perjury that it is not a U.S. person for U.S. federal income tax purposes (and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person for U.S. federal income tax purposes) or the holder otherwise establishes an exemption. Payment of the proceeds of a sale of Units conducted through certain U.S. related financial

intermediaries is subject to information reporting (but not backup withholding) unless the financial intermediary has documentary evidence in its records that the beneficial owner is not a U.S. person for U.S. federal income tax purposes and specified conditions are met or an exemption is otherwise established.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Other Tax Considerations

Legislative or Other Actions Affecting Real Estate Investment Trusts

The present U.S. federal income tax treatment of real estate investment trusts may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. In particular, on December 22, 2017 the Tax Cuts and Jobs Act was signed into law. The Tax Cuts and Jobs Act makes significant changes to the U.S. federal income tax rules for taxation of individuals and corporations, generally effective for taxable years beginning after December 31, 2017. In addition to reducing corporate and non-corporate tax rates, the Tax Cuts and Jobs Act eliminates or restricts various deductions. Most of the changes applicable to individuals are temporary and apply only to taxable years beginning after December 31, 2017 and before January 1, 2026. The Tax Cuts and Jobs Act makes numerous large and small changes to the tax rules that do not affect REITs directly but may affect the Unitholders and may indirectly affect the REIT. The real estate investment trust rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department which may result in statutory changes as well as revisions to the Treasury Regulations and interpretations thereof. Changes to the U.S. federal income tax laws and interpretations thereof could adversely affect an investment in Units.

Foreign Account Tax Compliance Act

Withholding generally is required, at a rate of 30%, on dividends in respect of Units, and on gross proceeds from the sale, after December 31, 2018, of Units, held by or through certain non-U.S. financial institutions (including investment funds), unless such institution either (1) enters into an agreement with the U.S. Treasury Department to report, on an annual basis, information with respect to shares in the institution held by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments; or (2) operates in a jurisdiction that has entered into an agreement with the U.S. Treasury Department requiring similar reporting to such jurisdiction or to the U.S. Treasury Department and complies with such agreement. Accordingly, the entity through which Units are held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale (beginning after December 31, 2018) of, Units held by an investor that is a non-financial non-U.S. entity generally are (or will be) subject to withholding at a rate of 30%, unless such entity either (1) certifies to the REIT that such entity does not have any "substantial United States owners"; or (2) provides certain information regarding the entity's "substantial United States owners", which the REIT will in turn provide to the IRS. The REIT will not pay any additional amounts to Unitholders in respect of any amounts withheld under the foregoing rules. Prospective Unitholders are encouraged to consult their tax advisors regarding the possible implications of the legislation imposing such withholding on their investment in Units.

State, Local and Non-U.S. Taxes

The REIT and its subsidiaries and Unitholders may be subject to state, local or non-U.S. taxation in various jurisdictions including those in which they transact business, own property or reside. The state, local or non-U.S. tax treatment of the REIT and that of the Unitholders may not conform to the U.S. federal income tax treatment discussed above. Any non-U.S. taxes that the REIT incurs do not pass through to Unitholders as a credit against their U.S. federal income tax liability. Prospective investors should consult their tax advisors regarding the application and effect of state, local and non-U.S. income and other tax laws on an investment in Units.

PLAN OF DISTRIBUTION

General

Pursuant to the terms and conditions of the agency agreement (the "**Agency Agreement**") entered into between the REIT, the Promoter and the Agent, the Agent has agreed to conditionally offer the Units on a "best efforts basis" until [●], 2019, but in any event not later than 90 days after a receipt for a final prospectus is issued. If one or more amendments to the final prospectus are filed and the principal securities regulatory authority has issued a receipt for any such amendment, the distribution under this Offering will not continue for a period of more than 90 days after the lastest date of a receipt for any such amendment. In any case, the total period of distribution under the Offering will not continue for a period of more than 180 days from the date of the receipt for the final prospectus.

The Offering Price of the Units has been determined by negotiation between the REIT, the Promoter and the Agent. In consideration for its services in connection with the Offering, the REIT has agreed to pay the Agent: (i) a fee equal to $[●] per Unit; (ii) a cash work fee of $350,000; and (iii) a right of first refusal to act as lead agent/underwriter and lead bookrunner in relation to any and all future public equity or quasi-equity offerings by NREO and/or the REIT on any Canadian exchange for a period of 36 months from the time of Listing.

The Offering is being made in the provinces of Ontario and Alberta. The Units will be offered in the provinces of Ontario and Alberta through the Agent or its affiliates who are registered to offer the Units for sale in such provinces and such other registered dealers as may be designated by the Agent. Subject to applicable law, and residency restrictions under the Declaration of Trust, the Agent may offer the Units outside of Canada.

There is currently no market through which the Units may be sold and purchasers may not be able to resell Units purchased under this prospectus. This may affect the pricing of the Units in the secondary market, the transparency and availability of trading prices, the liquidity of the Units and the extent of issuer regulation (see "Risk Factors").

Closing is expected to occur on [●], 2019 or such other date as the REIT and the Agent may agree, but in any event not later than [●], 2019. Closing is conditional upon the Units being approved for listing on the TSX.

All of the Units sold in the Offering will be freely tradeable without restriction or further registration under applicable Canadian securities laws.

The obligations of the Agent under the Agency Agreement are subject to certain closing conditions and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events.

Pursuant to the Agency Agreement, the REIT and the Promoter have agreed to indemnify the Agent and its directors, officers, employees and agents against certain liabilities, including, without limitation, civil liabilities under Canadian securities legislation, and to contribute to any payments the Agent may be required to make in respect thereof.

The Units have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws and may not be offered or sold in the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, except to the extent permitted by the Agency Agreement, the Units may not be offered or sold within the United States.

The Agent proposes to offer the Units to the public initially at the Offering Price. After the Agent has made a reasonable effort to sell all of the Units at the Offering Price, the Offering Price of the Units may be decreased and may be further changed from time to time to amounts not greater than the Offering Price, and the compensation realized by the Agent will be decreased by the amount that the aggregate price paid by the purchasers of the Units is less than the amount paid by the Agent to the REIT.

Relationship Between the REIT and the Agent

An affiliate of the Agent will be a lender to the REIT and has provided debt financing in the amount of $32,000,000 (the "**Credit Facility**"). See "Debt Strategy and Indebtedness". The collateral securing the Credit Facility is [●]. Consequently, the REIT may be considered a "connected issuer" of the Agent under applicable Canadian securities laws. As of the date of this prospectus, the borrower under the Credit Facility is in compliance with the terms of its indebtedness under the Credit Facility**.** Since the indebtedness was initially incurred, the borrower's financial position and the value of the collateral granted as security for the indebtedness have not materially changed in an adverse manner. The decision to undertake the Offering was made by REIT and the Promoter. The affiliate of the Agent was not involved in the decision to undertake the Offering. The terms of the Offering, including the Offering Price, were determined by negotiation between the REIT, the Promoter and the Agent, and the affiliate of the Agent had no influence as to the determination of the terms of the Offering. The Agent will not receive any direct benefit from the Offering other than its the fee payable by the REIT to the Agent.

NCI System

Subscriptions for the Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Offering will be conducted under the NCI book-based system administered by CDS. Units registered in the name of CDS or its nominee will be deposited electronically with CDS on an NCI basis at the Closing. Units must be purchased or transferred through a CDS participant and all rights of holders of Units must be exercised through, and all payments or other property to which such holder is entitled will be made or delivered by, CDS or the CDS participant through which the holder of Units holds such Units. Beneficial owners of Units will not, except in certain limited circumstances, be entitled to receive physical certificates evidencing their ownership of Units.

USE OF PROCEEDS

The net proceeds of this Offering are estimated to be approximately $[●] after deduction of the Agent's fee and will be used to fund a portion of the expenses of the Offering.

RISK FACTORS

The REIT faces a variety of significant and diverse risks, many of which are inherent in the business conducted by the REIT. Described below are certain risks that could materially affect the REIT and the value of the Units. Other risks and uncertainties that the REIT does not presently consider to be material, or of which the REIT is not presently aware, may become important factors that affect the REIT's future financial condition and results of operations. The occurrence of any of the risks discussed below could materially and adversely affect the business, prospects, financial condition, results of operations, cash flow or the ability of the REIT to make cash distributions to Unitholders or value of the Units of the REIT. Prospective purchasers of the Units should carefully consider these risks before investing in the Units.

Risk Factors Related to the Hotel and Lodging Industry

Operating Risks in the Hotel Industry

All real property investments are subject to a degree of risk and uncertainty and are affected by various factors, including general economic conditions and local real estate markets. The business of the REIT and the REIT's ability to make distributions to Unitholders may be adversely affected by various operating risks common to the hotel industry, including competition; over-building; dependence on business travel and tourism; changes in taxes and governmental regulations that influence or set wages, prices or interest rates; availability and cost of capital necessary to fund investments, capital expenditures and service interest, principal or other debt obligations; changes in operating costs, shortages of labour, risks of unionization of labour, increases in the costs of food and liquor; receipt and/or maintenance of licenses and permits with local authorities; relationships with brand franchisors; the ability of other lodging alternatives to attract and retain customers; changes in local market conditions due to changes in general or local economic conditions and neighbourhood characteristics, and building structure and building system, health, or hygiene issues rendering properties uninhabitable on a temporary or long

term basis. Any of these factors could limit or reduce the prices charged for the REIT's products or services. As a result, any of these factors can reduce the REIT's profits and limit its opportunities for growth.

Exogenous Events

The hotel industry is subject to exogenous events outside the control of hotel owners, hotel managers, and hotel franchisors that can impact the financial performance of the industry. These factors include war; terrorist activities or threats and heightened travel security measures instituted in response to such events; outbreaks of pandemic or contagious diseases; natural disasters, such as earthquakes, gas leaks, fires, hurricanes and floods; and instability or perceived instability in domestic political and geo-political conditions. All of the above factors may adversely affect the REIT revenues and/or operating expenses and certain of these factors may increase the REIT's capital expenditure liabilities.

Cyclical Nature of the Hotel Industry

The hotel industry is cyclical. Macroeconomic and other factors beyond the REIT's control can reduce demand for lodging products and services, including demand for rooms at properties owned and managed by the REIT. These factors include changes and volatility in general economic conditions, including: the severity and duration of any downturn in the U.S. or global economy and financial markets; changes in the desirability of particular locations or travel patterns of customers; decreased corporate budgets and spending; low consumer confidence; depressed housing prices; financial condition of the airline and other transportation-related industries and its impact on travel; oil prices and travel costs; and cyclical over-building in the hotel ownership industry. These factors can adversely affect individual properties, particular regions or the REIT's business as a whole. Any one or more of these factors could limit or reduce the demand, or the rates the REIT's properties are able to charge for rooms or services or the prices at which the REIT is able to sell any property, which could adversely affect the REIT's business, results of operations and financial condition.

The Presence of Online Travel Agencies and Alternative Lodging Marketplaces

The hotel industry may be affected by advances in technology. Consumers' growing use of internet travel intermediaries ("**OTAs**") and alternative lodging marketplaces may adversely affect the REIT'S profitability. The REIT's hotel guest rooms may be booked through OTAs such as Expedia.com, Travelocity.com, Hotels.com, etc. As guest bookings through OTAs increase, these intermediaries may be able to obtain higher commissions, reduced room rates and other significant contract concessions from the REIT. Moreover, OTAs attempt to influence consumer choice behavior by increasing the visibility and importance of price, reviews and general indicators of quality (descriptors such as "four-star lakeside hotel") at the expense of brand identification on their websites and mobile applications. OTAs attract consumers by offering innovation, ease of use platforms, multiple travel products, membership programs, the ability to package travel products across different suppliers (such as car rental, guest room booking, activities tickets etc.) in one transaction, and other marketing techniques. OTAs hope that consumers will eventually develop loyalties to their online reservation system rather than to the brands under which hotel properties are franchised. The increasing reliance of consumers on online intermediaries and the continued expansion in technologies may negatively impact the strength of the REIT's partner brands, traditional distribution platforms and profit margins.

Advances in technology have made alternative lodging accommodations a direct source of competition to the hotel industry. Alternative lodging marketplaces, such as Airbnb and HomeAway, operate websites and mobile applications that market available furnished, privately-owned residential properties, including homes, condominiums and vacation homes, that can be rented on a nightly, weekly or monthly basis. The influx of these lodging accommodations traditionally not available to consumers and the increased acceptance of these options by consumers may lead to a reduction in demand for conventional hotel guest rooms and to an increase in supply of lodging alternatives. If the use of alternative lodging marketplaces significantly increases, particularly among the REIT's key customer and location segments, its profitability may be adversely affected.

Competition

The lodging sector is highly competitive. The REIT faces competition from a number of sources, including from Airbnb and from other hotels located in the immediate vicinity of the properties comprising the Initial Portfolio

and the broader geographic areas where the REIT's hotels are and will be located. The REIT's properties compete on the basis of location, room rates, quality, service levels, reputation and reservations systems, among many factors. The REIT also faces competition from alternative lodging options such as Airbnb that have and may continue to add guest accommodations that compete with hotel inventory. OTAs may capture a greater share of guest bookings, which would have a negative impact on the strength of brands and their distribution platforms, while also adding to the REIT's expenses in the form of fees to the OTAs. Such competition may reduce occupancy rates and revenues of the REIT and could have an adverse effect on the REIT's business, cash flows, financial condition and results of operations and the REIT's ability to make distributions to Unitholders. Increases in the cost to the REIT of acquiring hotel properties may adversely affect the ability of the REIT to acquire such properties on favourable terms and may otherwise have an adverse effect on the REIT's business.

Liquidity

Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of the REIT to respond to changing economic or investment conditions. If the REIT were 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 otherwise less than what would otherwise be expected to be realized under normal circumstances. By specializing in hotel properties, the REIT 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.

Economic and Demographic Environment

Consumer demand for the products and services offered by the REIT's portfolio is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. Declines in consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, lower consumer confidence or adverse political conditions can lower the revenues and profitability of the REIT's properties.

Concentration in Upper Upscale Segment

The REIT will primarily own interests in hotels in the upper upscale segment. The REIT will not seek to invest in assets selected to reduce the risks associated with an investment in this segment and will be subject to risks inherent in investing in a single sector of a market.

Seasonality of the Hotel Industry

The seasonality of the hotel industry could have a material adverse effect on the REIT. The hotel industry is seasonal in nature, which can be expected to cause quarterly fluctuations in revenues. The REIT's quarterly earnings may be adversely affected by factors outside the REIT's control, including weather conditions and poor economic factors in certain markets in which the REIT operates. This seasonality can be expected to cause periodic fluctuations in room revenues, occupancy levels, room rates and operating expenses in particular hotels. The REIT can provide no assurances that cash flows will be sufficient to offset any shortfalls that occur as a result of these fluctuations. As a result, the REIT may have to enter into short-term borrowings in certain quarters in order to make distributions to Unitholders and the REIT can provide no assurances that such borrowings will be available on favourable terms, if at all. Consequently, volatility in financial performance resulting from the seasonality of the hotel industry could have a material adverse effect on the REIT.

Risk Factors Related to the Business of the REIT

Acquisitions

The REIT's business plan includes, among other things, growth through identifying suitable acquisition opportunities and pursuing such opportunities. If the REIT is unable to manage its growth effectively, it could adversely impact the REIT's financial position and results of operations and decrease the amount of cash available for distribution. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis and, as such, there can be no assurance that distributions to

Unitholders will increase in the future. Acquired properties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of the REIT. Representations and warranties given by third parties to the REIT may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Furthermore, it is not always possible to obtain from the seller the records and documents that are required in order to fully verify that the buildings to be acquired are constructed in accordance, and that their use complies with, planning laws and building code requirements. Accordingly, in the course of acquiring a property, specific risks might not be or might not have been recognized or correctly evaluated. These circumstances could lead to additional costs and could have a material adverse effect on revenues from the relevant properties. The REIT's ability to acquire properties on satisfactory terms and successfully integrate and operate them is subject to the following additional risks: (a) the REIT may be unable to acquire desired properties because of competition from other real estate investors with more capital, including other real estate operating companies, real estate investment trusts and investment funds; (b) the REIT may acquire properties that are not accretive to results upon acquisition, and the REIT may not successfully manage and lease those properties to meet its expectations; (c) competition from other potential acquirers may significantly increase the purchase price of a desired property; (d) the REIT may be unable to generate sufficient cash from operations, or obtain the necessary debt or equity financing to consummate an acquisition or, if obtainable, financing may not be on satisfactory terms; (e) the REIT may need to spend more than budgeted amounts to make necessary improvements or renovations to acquired properties; (f) agreements for the acquisition of properties are typically subject to customary conditions to closing, including satisfactory completion of due diligence investigations, and the REIT may spend significant time and money on potential acquisitions that the REIT does not consummate; (g) the REIT may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations; (h) market conditions may result in lower than expected room revenues; and (i) the REIT may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties. The REIT will also be relying upon the Advisor as a source of potential acquisition opportunities and there is no certainty that suitable properties may be available to the REIT. If the REIT cannot complete property acquisitions on favourable terms, or operate acquired properties to meet the REIT's goals or expectations, the REIT's business, financial condition, results of operations and cash flow, the per Unit trading price and the REIT's ability to satisfy debt service obligations and to make distributions to the Unitholders could be materially and adversely affected.

Possible Failure to Complete the Acquisition of Holiday Inn Express Nashville

Completion of the Acquisition is subject to the satisfaction of certain closing conditions. As such, there is no assurance that the Acquisition will be completed, or if completed, will be on terms that are exactly the same as disclosed in this prospectus. In the event that Holiday Inn Express Nashville is not acquired following Listing, there is a risk that some or all of the expected benefits of the Acquisition will fail to materialize, or may not occur within the time periods anticipated by management and there is a risk that the REIT may incur unexpected costs related to the Acquisition. The realization of some or all of such benefits may be affected by a number of factors, many of which are beyond the control of the REIT.

Franchise Agreements and Concentrated Brand Family

The REIT (or subsidiaries thereof) will operate a significant portion of the hotels pursuant to franchise or license agreements with nationally recognized hotel brands. Management believes that building brand value is critical to increased demand and the strengthening of customer loyalty. All of the hotels in the REIT's Initial Portfolio utilize brands owned by Hilton, Marriott or InterContinental Hotels Group. Consequently, if market recognition or the positive perception of Hilton, Marriott or InterContinental Hotels Group is reduced or compromised, the goodwill associated with the Hilton, Marriott or InterContinental Hotels Group-branded hotels in the REIT's portfolio may be adversely affected. Franchise agreements contain specific standards for, and restrictions and limitations on, the operation and maintenance of the REIT's hotels in order to maintain uniformity within the franchisor system. The REIT may be required to incur costs to comply with these standards and these standards could potentially conflict with the REIT's ability to create specific business plans tailored to each property and to each market. Failure to comply with these brand standards may result in termination of the applicable franchise or license agreement. Upon any such termination, the REIT would be required to rebrand the hotel, which could result in substantial relicensing or rebranding costs, a decline in the value of the hotel, the loss of marketing support and

participation in guest loyalty programs, and harm the REIT's relationship with the franchisor, impeding the REIT's ability to operate other hotels under the same brand. If any of the foregoing were to occur, it could have a material adverse effect on the REIT.

Regulation and Changes in Applicable Laws

The REIT'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 zoning laws, building codes, environmental laws, health and food safety laws and regulations and other laws generally applicable to hotel business operations. Non-compliance with laws could expose the REIT to liability. Lower revenue growth or significant unanticipated expenditures may result from the REIT'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 the REIT's properties, including changes to building codes and fire and safety codes.

Environmental Matters

The REIT is subject to various requirements (including federal, state and municipal laws, as applicable) relating to environmental matters. Such requirements provide that the REIT 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 the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT'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 the REIT'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 the REIT. It is the REIT's operating policy to obtain or be entitled to rely on an environmental site assessment prior to acquiring a property. Where an environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental assessments. Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders. Environmental laws and other requirements can change and the REIT 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 an adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders.

Fixed Costs and Capital Expenditures

As a matter of conducting business in the ordinary course, certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing sufficient income to pay such expenses. In order to retain desirable hotel destinations and to generate adequate revenue over the long-term, the REIT must maintain or, in some cases, improve a property's condition to meet market demand. These maintenance and improvement costs may be significant and may be costs the REIT is unable to pass on to its hotel guests. The REIT is also subject to utility and property tax risk relating to increased costs that the REIT may experience as a result of higher resource prices as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of re-valuations of properties and their adherent tax rates.

In some instances, enhancements to properties may result in significant increases in property assessments following a re-valuation. Additionally, utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. The REIT may incur general liability related to guests on its properties for which it is found negligent, or for claims that are otherwise not fully covered by insurance. Any significant increase in these resource costs may have an adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders. The timing and amount of capital expenditures required by the REIT will indirectly affect the amount of cash available for distribution to Unitholders. Distributions may be reduced, or even eliminated, at times when the REIT deems it necessary to make significant capital or other expenditures.

Access to Capital

The real estate industry is highly capital intensive. The REIT will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance that the REIT will have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, in certain circumstances, the REIT may not be able to borrow adequate funds. Market conditions and unexpected volatility or illiquidity in financial markets may inhibit the REIT's access to long-term financing in the Canadian capital markets. As a result, it is possible that financing which the REIT 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 the REIT or otherwise, may not be available or, if it is available, may not be available on favourable terms to the REIT. Failure by the REIT to access required capital could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Financing Risks

The REIT estimates that its outstanding indebtedness at Closing will be approximately $217 million. There can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of the REIT to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could adversely impact the REIT's financial condition, liquidity and results of operations and decrease the amount of cash available for distribution to Unitholders. If the REIT defaults under a mortgage loan, it may lose the properties securing such loan.

The REIT will be subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by the REIT'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 Core FFO. There is a risk that existing maturing mortgages will be subject to increased interest rates. To the extent that interest rates rise following Closing, the REIT's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution. The REIT's debt will also contain covenants that require it to maintain certain financial ratios on a consolidated basis. If the REIT does not maintain such ratios, its ability to make distributions will be limited. Additionally, to the extent that the REIT incurs variable rate indebtedness, such indebtedness will result in fluctuations in the REIT's cost of borrowing as interest rates change.

Privacy / Cybersecurity

The REIT, through the Manager, and its franchise partners are required to collect and maintain personal information about hotel employees and, through third-party providers, collect information about customers in connection with the processing of credit and debt transactions and as part of certain of the REIT's marketing programs. The collection and use of such information is regulation in the U.S. at the federal and state levels and in Canada at the federal and provincial levels, and the regulatory environment in these and other jurisdictions related to information security and privacy is increasingly demanding. At the same time, the REIT will rely increasingly on cloud computing and other technologies that result in third parties holding customer or hotel employee information on the REIT's behalf. If the security of the REIT's, its franchise partners' or third party providers' information systems used to store or process such information is compromised, or if the REIT or such third parties otherwise fail to comply with applicable laws and regulations, the REIT or its franchise partners could face litigation and the

imposition of penalties that could adversely affect the REIT's financial performance. The brand reputations of the REIT's franchise partners could also be adversely affected from these types of security breaches or regulatory violations, which could impair revenues or the ability to attract and retain qualified hotel personnel.

Privacy and information security risks have generally increased in recent years because of the proliferation of new technologies, such as ransomware, and the increased sophistication and activities of perpetrators of cyber-attacks. On November 30, 2018, Marriott, one of the REIT's franchise partners and owner of Starwood Hotels & Resorts, disclosed that the guest reservation system of Starwood Hotels & Resorts had been breached, exposing personal and private information of millions of customers including names, phone numbers, e-mail addresses, passport numbers, dates of birth and credit card numbers and expiration dates. The security measures put in place by the REIT or its franchise partners cannot provide absolute security, and the REIT and its franchise parterns' information technology infrastructure may be vulnerable to similar or other criminal cyber-attacks or data security incidents, including, ransom of data, such as, without limitation, resident and/or employee information, due to employee error, malfeasance, or other vulnerabilities. Any such incident could compromise the REIT's or such franchise partner's networks, and the information stored by the REIT or such franchise partner could be accessed, misused, publicly disclosed, corrupted, lost, or stolen, resulting in fraud, including wire fraud related to the REIT assets, or other harm. Moreover, if a data security incident or breach affects the REIT's systems or such franchise partner's systems or results in the unauthorized release of personally identifiable information, the REIT's or such franchise partner's reputation and brand could be materially damaged and the REIT may be exposed to a risk of loss or litigation and possible liability, including, without limitation, loss related to the fact that agreements with such franchise partners or such franchise partner's financial condition, may not allow the REIT to recover all costs related to a cyber breach for which they alone or they and the REIT should be jointly responsible for, which could result in a material adverse effect on the REIT's business, results of operations and financial condition.

In the future, the REIT and its franchise partners may expend additional resources to continue to enhance information security measures and/or to investigate and remediate any information security vulnerabilities. Despite these steps, there can be no assurance that the REIT or its franchise partners will not suffer a data security incident in the future, that unauthorized parties will not gain access to sensitive data stored on the REIT's systems or the systems of its franchise partners, or that any such incident will be discovered in a timely manner. Further, the techniques used by criminals to obtain unauthorized access to sensitive data, such as phishing and other forms of human engineering, are increasing in sophistication and are often novel or change frequently; accordingly, the REIT and its franchise partners may be unable to anticipate these techniques or implement adequate preventative measures.

Litigation Risks

In the normal course of the REIT'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 the REIT and as a result, could have a material adverse effect on the REIT's assets, liabilities, business, financial condition and results of operations. Even if the REIT 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 the REIT's business operations, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders.

Potential Conflicts of Interest

The Trustees will, from time to time, in their individual capacities, deal with parties with whom the REIT may be dealing, or may be seeking investments similar to those desired by the REIT. The interest of these persons could conflict with those of the REIT. The Declaration of Trust contains conflict of interest provisions requiring the Trustees to disclose their interests in certain contracts and transactions and to refrain from voting on those matters. In addition, certain decisions regarding matters that may give rise to a conflict of interest must be made by a majority of the independent Trustees only. See "Governance and Management of the REIT — Conflicts of Interest". Conflicts may also exist due to the fact that (i) certain Trustees of the REIT will be affiliated with the Advisor; (ii) the REIT and the Advisor will enter into certain arrangements; (iii) the Advisor and its affiliates are actively

engaged in the ownership, development and management of hotel real estate properties; and (iv) the REIT may become involved in transactions that conflict with the interests of the foregoing. See “Arrangements with NexPoint”.

Insurance Coverage May be Inadequate

The REIT will attempt to obtain adequate insurance of the type and coverage customarily obtained for properties similar to those owned by the REIT to cover significant areas of risk to it as an entity and to its properties. However, there are types of losses at the property level, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, tornadoes, hurricanes, pollution or environmental matters, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. The REIT may not have adequate coverage for such losses. If any of the REIT’s properties incurs a casualty loss that is not fully insured, the value of the REIT’s assets will be reduced by any such uninsured loss. In addition, other than any working capital reserve or other reserves the REIT may establish, it has no source of funding to repair or reconstruct any uninsured damaged property. Further, to the extent the REIT must pay unexpectedly large amounts for insurance, it could suffer reduced earnings that would result in lower distributions to Unitholders.

Degree of Leverage

The REIT’s degree of leverage could have important consequences to Unitholders. For example, the degree of leverage could affect the REIT’s ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general trust purposes, making the REIT more vulnerable to a downturn in business or the economy in general.

Limitations on Sale

The REIT may be required to expend funds to correct defects or to make improvements before a property can be sold. No assurance can be given that the REIT will have funds available to correct such defects or to make such improvements. In acquiring a property, the REIT may agree to lock-out provisions that materially restrict it from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property or debt or other contracts that are not prepayable or terminable and must be assumed by a buyer. These provisions would restrict the REIT’s ability to sell a property. These factors and any others that would impede the REIT’s ability to respond to adverse changes in the performance of its properties could significantly affect the REIT’s financial condition and operating results and decrease the amount of cash available for distribution to Unitholders. Additionally, franchisors need to approve replacement franchisees upon a sale and there is no assurance the REIT will be able to locate buyers who are approved franchisees.

Investments in Debt Instruments

The REIT may hold direct or indirect investments in mortgages and mortgage bonds (including participating or convertible mortgages). Adverse changes to the financial condition of a mortgagor with respect to a mortgage held directly or indirectly by the REIT could have an adverse impact on the REIT’s ability to collect principal and interest payments from such mortgagor and therefore, cause a reduction in the REIT’s ability to make distributions to Unitholders and in the value of that investment.

Based upon applicable laws governing the REIT’s investment in debt instruments and the loans underlying the REIT’s debt securities, the REIT’s investments in debt may also be adversely affected by: (i) the operation of applicable laws regarding the ability to foreclose mortgage loans or to exercise other creditors’ rights provided in the underlying loan documents; (ii) lender liability with respect to the negotiation, administration, collection or foreclosure of mortgage loans; (iii) penalties for violations of applicable usury limitations; and (iv) the impact of bankruptcy or insolvency laws.

Further, the REIT will not know whether the values of the properties securing the mortgage loans will remain at the levels existing on the dates of origination of those mortgage loans. If the values of the underlying properties fall, the risk to the REIT will increase because of the lower value of the security associated with such loans.

Laws Benefiting Disabled Persons

Laws benefiting disabled persons may result in unanticipated expenses being incurred by the REIT. Under the Americans with Disabilities Act of 1990 (the "**ADA**"), all places intended to be used by the public are required to meet certain federal requirements related to access and use by disabled persons. This and other federal, state and local laws may require modifications to the REIT's properties, or affect renovations of the properties. Non-compliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although the REIT believes the Initial Portfolio is in substantial compliance with the present requirements, the REIT may incur unanticipated expenses to comply with the ADA in connection with the ongoing operation or redevelopment of the REIT's properties.

Reliance on Key Personnel and Risk of Competing Demands

The management and governance of the REIT depends on the services of certain key personnel, including certain executive officers and the Trustees. The loss of the services of any key personnel and the inability of the REIT to attract and retain qualified and experienced personnel could have an adverse effect on the REIT and adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders. The Advisor, Manager and their respective officers and certain key personnel will face competing demands relating to their time and service and may have conflicts in allocating their time to the REIT's business, which may cause operating results to suffer.

Litigation at the Property Level

The acquisition, ownership and disposition of real property carries certain specific litigation risks. Litigation may be commenced with respect to a property acquired by the REIT or its subsidiaries in relation to activities that took place prior to the REIT's acquisition of such property. In addition, at the time of disposition of an individual property, a potential buyer may claim that it should have been afforded the opportunity to purchase the asset or alternatively that such buyer should be awarded due diligence expenses incurred or damages for misrepresentation relating to disclosures made, if such buyer is passed over in favour of another as part of the REIT's efforts to maximize sale proceeds. Similarly, successful buyers may later sue the REIT under various damage theories, including those sounding in tort, for losses associated with latent defects or other problems not uncovered in due diligence.

New Markets

If the opportunity arises, the REIT may explore acquisitions of properties in new markets. Each of the risks applicable to the REIT's ability to acquire and successfully integrate and operate properties in its current markets is also applicable to its ability to acquire and successfully integrate and operate properties in new markets. In addition to these risks, the REIT may not possess the same level of familiarity with the dynamics and market conditions of any new markets, which could adversely affect its ability to expand into or operate in those markets. The REIT may be unable to achieve a desired return on its investments in new markets. If the REIT is unsuccessful in expanding into new markets, it could adversely affect its business, financial condition, results of operations and cash flow, the per Unit trading price and ability to satisfy debt service obligations and to make distributions to Unitholders.

Expanding Social Media Vehicles

The use of social media could cause the REIT to suffer brand damage or information leakage. Negative posts or comments about the REIT or its hotel properties on any social networking website could damage the REIT's reputation. In addition, employees or others might disclose non-public sensitive information relating to the REIT's business through external media channels. The continuing evolution of social media will present the REIT with new challenges and risks.

Employee Theft or Fraud

Certain of the REIT's employees have access to, or signature authority with respect to, bank accounts or other REIT assets, which exposes the REIT to the risk of fraud or theft. In addition, certain employees have access to key information technology ("**IT**") infrastructure and to hotel guest and other information that is commercially valuable. Should any employee compromise any of the REIT's IT systems, or misappropriate resident or other information, the REIT could incur losses, including significant financial or reputational harm, from which full recovery cannot be assured. The REIT may also not have insurance that covers any losses in full or that covers losses from particular criminal acts. Potential liabilities for theft or fraud are not quantifiable and an estimate of possible loss cannot be made.

Third-Party Approvals

While all consents of a material nature are expected to be obtained on or prior to Closing, certain consents or approvals deemed expedient in connection with Offering transactions may not yet have been obtained at the time of Closing and the consents obtained may be subject to conditions that are required to be fulfilled following Closing. Additionally, third-parties may request certain consents or approvals that were not considered to be necessary in connection with the Offering. To the extent that such approvals are not obtained or conditions relating thereto are not fulfilled, third-parties may claim for breach of contract or other damages. While management believes the risks related to third-party approvals are minimal, should any such claim be successful, an adverse impact could result to the REIT's financial condition and operating results, decreasing the amount of cash available for distribution.

Risk Factors Related to Real Estate Ownership

Interest Rate Risk

Changes in interest rates could adversely affect the REIT's cash flows and the REIT's ability to pay distributions and make interest payments. Interest rate risk is the combined risk that the REIT would experience a loss as a result of its exposure to a higher interest rate environment and the possibility that at the end of a mortgage term the REIT would be unable to renew the maturing debt either with the existing or a new lender ("**Interest Rate Risk**"). With the current uncertain world economic times, there is a heightened risk that not only will existing maturing mortgages be subject to increased interest rates, but the distinct possibility also exists that maturing mortgages will not be renewed or, if they are renewed, they will be renewed at significantly lower loan-to-value ratios. The REIT will seek to manage its Interest Rate Risk by negotiating, where possible, fixed interest rates on all of its mortgage debt.

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.

Risk Related to Insurance Renewals

Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for catastrophic risks. When the REIT's current insurance policies expire, the REIT may encounter difficulty in obtaining or renewing property or casualty insurance on its properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (e.g., earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the REIT is able to renew its policies at levels and with limitations consistent with its current policies, the REIT cannot be sure that it will be able to obtain such insurance at premiums that are reasonable. If the REIT were unable to obtain adequate insurance, and its properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Joint Ventures

The REIT may invest in or be a participant in joint ventures and partnerships with third parties in respect of its interests or investments in hotel properties. A joint venture or partnership involves certain additional risks which could result in additional financial demands, increased liability and a reduction in the REIT's control over hotel properties and its ability to sell their interests in a hotel property within a reasonable time frame.

Tax-Related Risk Factors

Canadian Tax Risks

(a) ***Residency of the REIT for Canadian and U.S. Tax Purposes*** — The REIT is resident in Canada for purposes of the Tax Act and is treated as a domestic corporation in the U.S. under the Code. As a result, the REIT is generally taxable on its worldwide income in both Canada and the U.S. However, in both jurisdictions, the REIT generally will not be subject to tax on the portion of its income that it distributes to Unitholders (subject to certain limitations and exceptions). Management of the REIT is of the view that the status of the REIT as taxable in both Canada and the U.S. is not likely to give rise to any material adverse consequences in the future as it is not anticipated that the REIT will be subject to material federal income tax in either Canada or the U.S. Nevertheless, the REIT's status as taxable on its worldwide income in both Canada and the U.S. could, in certain circumstances, have a material adverse effect on the REIT and the Unitholders. As a result of the REIT being resident in both Canada and the U.S., withholding taxes of both Canada and the U.S. will be relevant to distributions by the REIT and could result in double taxation to certain investors and other consequences. Accordingly, potential investors should carefully review both the "Certain Canadian Federal Income Tax Considerations" and the "Certain U.S. Federal Income Tax Considerations" sections.

(b) ***Mutual Fund Trust Status*** — The REIT intends to qualify as a "unit trust" and a "mutual fund trust" for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and practices of the CRA respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Unitholders. Should the REIT cease to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading "Certain Canadian Federal Income Tax Considerations" could be materially and adversely different in certain respects.

(c) ***Application of the SIFT Rules*** — The SIFT Rules will apply to a trust that is a SIFT trust. The REIT will not be considered to be a SIFT trust in respect of a particular taxation year and, accordingly, will not be subject to the SIFT Rules in that year, if it does not own any non-portfolio property and does not carry on business in Canada in that year. Management has advised counsel that the REIT has not and does not currently intend to own any non-portfolio property nor carry on a business in Canada.

If the SIFT Rules were to apply to the REIT, the impact to a Unitholder would depend on the status of the holder and, in part, on the amount of income distributed which would not be deductible by the REIT in computing its income in a particular year and what portions of the REIT's distributions constitute "non-portfolio earnings", other income and returns of capital. The likely effect of the SIFT Rules on the market for Units, and on the REIT's ability to finance future acquisitions through the issue of Units or other securities is uncertain. If the SIFT Rules were to apply to the REIT, they could adversely affect the marketability of the Units, the amount of cash available for distribution and the after-tax return to investors.

(d) ***Foreign Tax Credits*** — The after-tax return from an investment in Units to a Unitholder resident in Canada for the purposes of the Tax Act will depend in part on the Unitholder's ability to recognize for purposes of the Tax Act U.S. taxes paid by the Unitholder through foreign tax credits or foreign tax deductions under the Tax Act (See "Certain Canadian Federal Income Tax Considerations"). A Unitholder's ability to recognize U.S. taxes through foreign tax credits or foreign tax deductions may be affected where the Unitholder does not have sufficient taxes

otherwise payable under Part I of the Tax Act or sufficient U.S. source income in the taxation year the U.S. taxes are paid or where the Unitholder has other U.S. sources of income or losses, has paid other U.S. taxes or, in certain circumstances, has not filed a U.S. federal income tax return. Furthermore, foreign tax credits or foreign tax deductions will be dependent upon the Canadian federal and provincial tax rates and U.S. tax rates that will prevail in future years to apply to applicable sources of income. Unitholders are therefore advised to consult their own tax advisors in regards to foreign tax credits and foreign tax deductions.

A Unitholder that is an Exempt Plan will not be entitled to a foreign tax credit or deduction under the Tax Act in respect of any U.S. tax paid by the Exempt Plan (including any U.S. withholding tax imposed on distributions paid to the Exempt Plan). As a result, the after-tax return from an investment in Units to a Unitholder that is an Exempt Plan may be adversely affected. Such Unitholders should carefully review the "Certain U.S. Federal Income Tax Considerations" section, and consult with their own tax advisors in regards to U.S. tax payable in respect of an investment in Units.

If (i) a Unitholder holds, or has held, actually or constructively, more than 10% of the outstanding Units, as determined for U.S. federal income tax purposes, or (ii) the TSX Publicly Traded Exception or the U.S. Publicly Traded Exception are not satisfied, a Unitholder may be subject to additional U.S. tax on a disposition of the Units and on certain distributions by the REIT. The proceeds receivable on a disposition of a Unit may not qualify as U.S. source income for purposes of the Tax Act (including for Canadian foreign tax credit purposes), and beneficiaries of certain Unitholders that are trusts may not be considered to have paid such tax for purposes of the Tax Act and, accordingly, may not be entitled to a foreign tax credit in respect of such U.S. tax for Canadian tax purposes.

(e) ***FAPI*** — FAPI earned directly or indirectly by US Holdco and any other controlled foreign affiliate of the REIT must be included in computing the income of the REIT for the fiscal year of the REIT in which the taxation year of US Holdco (or such other controlled foreign affiliate) ends, subject to a deduction for grossed-up FAT as computed in accordance with the Tax Act. It is not anticipated that the deduction for grossed-up FAT will materially offset any FAPI realized by the REIT, and accordingly any FAPI realized generally will increase the allocation of income by the REIT to Unitholders. In addition, as FAPI generally must be computed in accordance with Part I of the Tax Act as though the controlled foreign affiliate were a resident of Canada (subject to the detailed rules contained in the Tax Act), income or transactions may be taxed differently under foreign tax rules as compared to the FAPI rules and, accordingly, may result in additional income being allocated to Unitholders. For example, certain transactions that do not give rise to taxable income under the Code may still give rise to FAPI for purposes of the Tax Act.

(f) ***Non-Residents of Canada*** — The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are non-residents of Canada for the purposes of the Tax Act. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time. In addition, this Prospectus does not describe the tax consequences under the Tax Act to non-residents of Canada, which may be more adverse than the consequences to other Unitholders. Further, because the REIT is both resident in Canada for purposes of the Tax Act and treated as a domestic corporation in the U.S. under the Code, withholding taxes of both Canada and the U.S. will be relevant to Unitholders who are both non-residents of Canada and Non-U.S. Holders and could, in certain circumstances, result in both Canadian and U.S. withholding tax applying to certain distributions to certain investors and other consequences. Prospective purchasers who are non-residents of Canada should consult their own tax advisors.

(g) ***Foreign Currency*** — For purposes of the Tax Act, the REIT generally is required to compute its Canadian tax results, including any FAPI earned, using Canadian currency. Where an amount that is relevant in computing a taxpayer's Canadian tax results is expressed in a currency other than Canadian currency, such amount must be converted into Canadian dollars using the appropriate exchange rate determined in accordance with the detailed rules in the Tax Act in that regard. As a

result, the REIT may realize gains and losses for tax purposes and FAPI by virtue of the fluctuation of the value of foreign currencies relative to Canadian dollars.

(h) ***Changes in Law*** — There can be no assurance that Canadian federal income tax laws, the judicial interpretation thereof, the terms of the Treaty, or the administrative practices and policies of the CRA and the Department of Finance (Canada) will not be changed in a manner that adversely affects the REIT or Unitholders. Any such change could increase the amount of tax payable by the REIT or its affiliates or could otherwise adversely affect Unitholders by reducing the amount available to pay distributions or changing the tax treatment applicable to Unitholders in respect of such distributions.

U.S. Tax Risks

(a) ***The OP*** — All of the operations and assets of the REIT will be indirectly held through the OP. For so long as the OP is treated as a partnership for U.S. federal income tax purposes, the REIT will be treated as owning its proportionate share of the assets and income of the OP for the purposes of the REIT asset and income tests. An entity that would otherwise be treated as a partnership for U.S. federal income tax purposes may nonetheless be treated as a corporation for U.S. federal income tax purposes if it is a "publicly traded partnership" and certain other requirements are met. A partnership would be treated as a publicly traded partnership if its interests were traded on an established securities market or were readily tradable on a secondary market or a substantial equivalent thereof, within the meaning of applicable Treasury Regulations. The Operating Agreement contains provisions intended to ensure that the OP is not considered a "publicly traded partnership". Accordingly, management does not anticipate that the OP will be treated as a publicly traded partnership that is taxable as a corporation. However, if the OP were classified as a "publicly traded partnership", the OP would be treated as a corporation rather than as a partnership for U.S. federal income tax purposes. In such case, the REIT would not be treated as owning its proportionate share of the assets and income of the OP for the purposes of the real estate investment trust asset and income test requirements (and, instead, would be treated as owning the stock of a corporation). This could cause the REIT to fail to qualify as a real estate investment trust. In addition, the income of the OP would become subject to U.S. federal corporate income tax.

(b) ***Qualification as a Real Estate Investment Trust*** — The REIT intends to operate in a manner that will allow it to qualify as a real estate investment trust for U.S. federal income tax purposes. Although the REIT does not intend to request a ruling from the IRS, as to its real estate investment trust qualification, it expects to receive an opinion of Baker & McKenzie LLP with respect to its qualification as a real estate investment trust in connection with the offering of its Units. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The opinion of Baker & McKenzie LLP will be based on Baker & McKenzie LLP's review and analysis of existing law and on certain representations as to factual matters made by the REIT, including representations relating to its assets and the sources of its income and its proposed method of operation. The opinion will be expressed as of the date issued and will not cover subsequent periods and Baker & McKenzie LLP will have no obligation to advise the REIT or the holders of its Units of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Baker & McKenzie LLP, and the REIT's qualification as a real estate investment trust, will depend on the REIT's satisfaction of certain asset, income, organizational, distribution, Unitholder ownership and other requirements on a continuing basis, the results of which will not be monitored by Baker & McKenzie LLP. Accordingly, given the complex nature of the rules governing real estate investment trusts, the ongoing importance of factual determinations, including the potential tax treatment of investments the REIT makes, and the possibility of future changes in the REIT's circumstances, no assurance can be given that the REIT's actual results of operations for any particular taxable year will satisfy such requirements. Moreover, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not change the tax laws with respect to qualification as a real estate investment trust or the U.S. federal income tax consequences of that qualification.

If the REIT fails to qualify as a real estate investment trust in any calendar year, it would be required to pay U.S. federal income tax (and any applicable state and local tax) on its taxable income at regular corporate rates, and dividends paid to the Unitholders would not be deductible by the REIT in computing its taxable income and would be taxable to the Unitholders under the rules generally applicable to corporate distributions.

A loss of real estate investment trust status would reduce the net earnings available for investment or distribution to Unitholders because of the additional tax liability which in turn could have an adverse impact on the value of the Units. Unless its failure to qualify as a real estate investment trust was subject to relief under U.S. federal tax laws, the REIT could not re-elect to qualify as a real estate investment trust until the fifth calendar year following the year in which it failed to qualify.

(c) ***Reliance on Section 7874 of the Code*** — The REIT intends to rely on Section 7874 of the Code to be classified as a domestic corporation for U.S. federal income tax purposes. For U.S. federal income tax purposes, an entity taxed as a corporation is generally considered to be a tax resident in the jurisdiction of its organization or incorporation. Under U.S. federal income tax law, an entity which is organized under the laws of Canada would generally be classified as a non-U.S. entity for U.S. federal income tax purposes. Section 7874 of the Code provides an exception to this general rule under which a non-U.S. incorporated entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal income tax purposes. These rules are complex and there is limited guidance regarding their application. Baker & McKenzie LLP, U.S. tax counsel to the REIT, will render an opinion in connection with the Offering in respect of the treatment of the REIT as a U.S. corporation under Section 7874, subject to certain representations, assumptions and factual matters.

If the REIT were deemed to be a non-U.S. corporation for U.S. federal income tax purposes, the REIT would fail to qualify as a real estate investment trust, and the intended benefits of the structure would not be achieved. This would result in adverse tax consequences. Additionally, the REIT could not re-elect to qualify as a real estate investment trust.

(d) ***Annual Distribution Requirement*** — To qualify as a real estate investment trust for U.S. federal income tax purposes, the REIT generally must distribute annually to its Unitholders a minimum of 90% of its net taxable income, determined without regard to the dividends-paid deduction and excluding net capital gains. The REIT will be subject to regular corporate income taxes on any undistributed real estate investment trust taxable income each year. Additionally, it will be subject to a 4% non-deductible excise tax on any amount by which distributions paid by the REIT in any calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from previous years. Payments the REIT makes to its Unitholders under Unitholders' rights of redemption will not be taken into account for purposes of these distribution requirements. Compliance with the real estate investment trust distribution requirements may hinder the REIT's ability to grow, which could adversely affect the value of its Units. Furthermore, the REIT may find it difficult or impossible to meet distribution requirements in certain circumstances. The requirement to distribute most of its taxable income could cause the REIT to: (i) sell assets in adverse market conditions, (ii) borrow on unfavourable terms, (iii) distribute amounts that would otherwise be used to make future acquisitions or capital expenditures, or (iv) declare a taxable dividend in which Unitholders may elect to receive Units or cash (where the aggregate amount of cash to be distributed in such dividend may be subject to limitation), in each case, in order to comply with real estate investment trust requirements. These alternatives could adversely affect the REIT's economic performance.

(e) ***Impact of Lease Characterization*** — To qualify as a real estate investment trust for U.S. federal income tax purposes, the REIT must satisfy two gross income tests, under which specified percentages of the REIT's gross income must be derived from certain sources, including "rents from real property". Rents paid by the TRS Entities to the OP and its subsidiaries pursuant to the leases of the REIT's hotel properties will constitute substantially all of the REIT's gross income. In order for such rent to qualify as "rents from real property" for purposes of the gross income

tests, the leases must be respected as true leases for U.S. federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If the leases between the TRS Entities and the OP and its subsidiaries are not respected as true leases for U.S. federal income tax purposes, the REIT would fail to qualify as a real estate investment trust for U.S. federal income tax purposes.

(f) ***Impact of Real Estate Investment Trust Compliance on Performance*** — To qualify as a real estate investment trust for U.S. federal income tax purposes, the REIT must continually satisfy tests concerning, among other things, the sources of its income, the nature and diversification of its assets, the amounts that it distributes to the Unitholders and the ownership of the Units. The REIT may be required to make distributions to Unitholders at disadvantageous times or when it does not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to it in order to satisfy the source-of-income or asset diversification requirements for qualifying as a real estate investment trust. Thus, compliance with the real estate investment trust requirements may hinder the REIT's ability to operate solely on the basis of maximizing profits.

Additionally, at the close of each calendar quarter, the REIT must also satisfy five tests relating to the nature of its assets. First, at least 75% of the value of the REIT's total assets must be represented by some combination of designated real estate assets, cash, cash items, U.S. Government securities and, under some circumstances, stock or debt instruments purchased with new capital. Second, the value of any one issuer's securities that the REIT owns may not exceed 5% of the value of the REIT's total assets. Third, the REIT may not own more than 10% of any one issuer's outstanding securities, as measured by either value or voting power. The 5% and 10% asset tests do not apply to securities that qualify under the 75% asset test, or to securities of a taxable REIT subsidiary and qualified REIT subsidiaries, and the 10% of value asset test does not apply to "straight debt" having specified characteristics and to certain other securities. Fourth, the aggregate value of all securities of taxable REIT subsidiaries that the REIT holds may not exceed 20% of the value of the REIT's total assets, with respect to taxable years beginning on and after January 1, 2018. Fifth, not more than 25% of the value of the REIT's assets may consist of certain debt instruments issued by publicly offered real estate investment trusts that are otherwise qualifying assets for purposes of the 75% test described above. If the REIT fails to comply with these requirements at the end of any calendar quarter, it must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing its real estate investment trust qualification and suffering adverse tax consequences.

(g) ***Ownership Limitations*** — In order for the REIT to qualify as a real estate investment trust for each taxable year under the Code (other than its first taxable year, during which this requirement is not yet applicable), no more than 50% in value of its outstanding Units may be owned, directly or indirectly, by five or fewer individuals during the last half of any taxable year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. As of the Offering, the REIT does not satisfy this requirement.

The REIT has until the second half of its second taxable year (i.e., 2020) to satisfy this requirement. Management intends a subsequent equity offering prior to such time in order to sufficiently diversify the REIT's ownership in order to satisfy this requirement. However, there is no guarantee that this subsequent transaction will occur, or that it will sufficiently diversify the REIT's ownership in satisfaction of this requirement. Thus, there is no guarantee that this requirement will be timely satisfied.

If this requirement is not timely satisfied, then the REIT would fail to qualify as a real estate investment trust for U.S. federal income tax purposes. This would have detrimental tax consequences to the REIT and the holders of its Units. If the REIT fails to qualify as a real estate investment trust in any calendar year, it would be required to pay U.S. federal income tax (and any applicable state and local tax) on its taxable income at regular corporate rates, and dividends paid to the Unitholders would not be deductible by the REIT in computing its taxable income and would be taxable to the Unitholders under the rules generally applicable to corporate distributions.

Further, a loss of real estate investment trust status would reduce the net earnings available for investment or distribution to Unitholders because of the additional tax liability which in turn could have an adverse impact on the value of the Units. In order to assist the REIT in qualifying as a real estate investment trust, ownership of its Units by any person is generally limited to 6.2% in value or number of Units, whichever is more restrictive, of any class or series of Units, except that certain exceptions will be made for certain owners of the REIT as of the Offering. In addition, these ownership limitations could have the effect of discouraging a takeover or other transaction in which holders of the Units might receive a premium for their Units over the then-prevailing market price or which holders might believe to be otherwise in their best interests.

(h) ***Other Taxes*** — Even if the REIT qualifies and maintains its status as a real estate investment trust, it may be subject to U.S. federal and state income taxes. The REIT may not be able to make sufficient distributions to avoid excise taxes applicable to real estate investment trusts. The REIT may also decide to retain income it earns from the sale or other disposition of its real estate assets and pay income tax directly on such income. In that event, the Unitholders would be treated as if they earned that income and paid the tax on it directly. The REIT may also be subject to state and local taxes on its income or property, either directly or at the level of the entities through which it indirectly owns its assets. Any U.S. federal or state taxes the REIT pays will reduce its cash available for distribution to the Unitholders.

In addition, in order to meet the real estate investment trust qualification requirements or to avert the imposition of the prohibited transactions tax discussed below, the REIT may hold some of its assets or conduct activities through subsidiary corporations (the taxable REIT subsidiaries) that will be subject to corporate level income tax at regular rates. If the REIT lends money to a taxable REIT subsidiary, the taxable REIT subsidiary may be unable to deduct all or a portion of the interest paid to the REIT, which could result in an even higher corporate level tax liability. Furthermore, the Code imposes a 100% tax on certain transactions between a taxable REIT subsidiary and its parent real estate investment trust that are not conducted on an arm's length basis, including services provided by the taxable REIT subsidiary to such real estate investment trust or on behalf of such real estate investment trust. The REIT will structure transactions with any taxable REIT subsidiary on terms that it believes are arm's length to avoid incurring the 100% excise tax described above, but there can be no assurances that it will be able to avoid application of the 100% tax.

(i) ***Taxable REIT Subsidiaries*** — The REIT will hold some of its assets and conduct activities through the TRS Entities, which are taxable REIT subsidiaries. The REIT's taxable REIT subsidiaries will be subject to U.S. federal and state income tax on their taxable income, which consists of the revenues from the hotel properties leased by the TRS Entities, net of operating expenses (including management fees) for such hotel properties and rent paid to the OP and its subsidiaries. Accordingly, although the REIT's ownership of the TRS Entities allows it to participate in the operating income from the REIT's hotel properties in addition to receiving rent, that operating income is fully subject to income tax. The after-tax net income of the TRS Entities is available for distribution to the REIT.

(j) ***Impact of Management Arrangements on Qualification as a Real Estate Investment Trust*** — Rent paid by a lessee that is a "related party tenant" of the REIT will not be qualifying income for purposes of the two gross income tests applicable to real estate investment trusts. An exception is provided, however, for leases of "qualified lodging facilities" to a taxable REIT subsidiary so long as the hotels are managed by an "eligible independent contractor" and certain other requirements are satisfied. The REIT intends to take advantage of this exception. The REIT expects that the OP and its subsidiaries will lease all of the REIT's hotels to the TRS Entities, which are taxable REIT subsidiaries, and that the hotels will at all times be managed by "eligible independent contractors". Among other requirements, in order to qualify as an eligible independent contractor, the hotel manager must not own, directly or through its shareholders, more than 35% of the REIT's outstanding Units, and no person or group of persons can own more than 35% of the REIT's outstanding Units and the shares (or ownership interest) of the hotel management company (taking into account certain ownership attribution rules). The ownership attribution rules that apply for

purposes of these 35% thresholds are complex, and monitoring actual and constructive ownership of the REIT's Units by the hotel management companies and their owners may not be practical. Accordingly, there can be no assurance that these ownership levels will not be exceeded.

In addition, for a hotel management company to qualify as an eligible independent contractor, such company or a related person must be actively engaged in the trade or business of operating "qualified lodging facilities" (as defined below) for one or more persons not related to the REIT or its taxable REIT subsidiaries at each time that such company enters into a hotel management contract with a taxable REIT subsidiary. The REIT believes the Manager operates qualified lodging facilities for certain persons who are not related to the REIT or its taxable REIT subsidiaries. However, no assurances can be provided that this will continue to be the case or that any other hotel management companies that the REIT may engage in the future will in fact comply with this requirement in the future. Failure to comply with this requirement would require the REIT to find other managers for future contracts, and, if the REIT hired a management company without knowledge of the failure, it could jeopardize the REIT's status as a real estate investment trust.

As noted above, each hotel with respect to which a TRS Entity pays rent must be a "qualified lodging facility". A "qualified lodging facility" is a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. The REIT believes that all of the hotels leased to the TRS Entities are qualified lodging facilities. Although the REIT intends to monitor future acquisitions and improvements of hotels, the real estate investment trust provisions of the Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied in all cases.

(k) ***Prohibited Transactions Tax*** — The REIT's ability to dispose of property during its first few years of operations is restricted to a substantial extent as a result of its real estate investment trust status. Under applicable provisions of the Code regarding prohibited transactions by real estate investment trusts, the REIT will be subject to a 100% tax on any gain realized on the sale or other disposition of any property (other than foreclosure property) that it owns, directly or through any subsidiary entity, including the OP, but excluding any taxable REIT subsidiary, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of trade or business. The REIT intends to avoid the 100% prohibited transaction tax by (1) conducting activities that may otherwise be considered prohibited transactions through a taxable REIT subsidiary, (2) conducting operations in such a manner so that no sale or other disposition of an asset will be treated as a prohibited transaction, or (3) structuring certain dispositions of its properties to comply with certain safe harbours available under the Code for properties held at least two years. However, no assurance can be given that any particular property will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

(l) ***Changes in Law*** — The present U.S. federal income tax treatment of real estate investment trusts may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in the REIT. The U.S. federal income tax rules relating to real estate investment trusts constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in frequent statutory changes and revisions to regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the REIT or cause it to change its investments and commitments and affect the tax considerations of an investment in it

In particular, recently enacted legislation known as the Tax Cuts and Jobs Act makes wholesale changes to the Code. The effect of the many changes made in this legislation is highly uncertain,

both in terms of direct effect on the taxation of an investment in Units and their indirect effect on the REIT's operations. As of the date of this Offering, the principal direct tax effect of the legislation on U.S. Holders appear to be the allowance of a deduction of an amount equal to 20% of any qualified dividends from the REIT (subject to certain exceptions) under Section 199A of the Code. The complicated statutes, regulations, rulings and other administrative positions relating to the qualification of REITs and the taxation of them and their stockholders are subject to revision at any time.

The IRS has issued various Treasury Regulations, guidance, and rulings relating to the Tax Cuts and Jobs Act. Further, technical corrections legislation with respect to the Tax Cuts and Jobs Act has been proposed. The proposed legislation's final form and effect cannot be predicted and may be adverse. Many of the amendments will require further guidance through the issuance of Treasury Regulations in order to assess their effect. There may be substantial delay before such Treasury Regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments on the REIT.

There may also be future changes in U.S. federal tax laws, regulations, rules, and judicial and administrative interpretations applicable to the REIT and its business, the effect of which cannot be predicted. Prospective investors are urged to consult with their tax advisors regarding the possible effect of the Tax Cuts and Jobs Act on the REIT, its business, and its stockholders.

(m) ***FIRPTA*** — A non-U.S. person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to tax under FIRPTA on the gain recognized on the disposition and required to file a U.S. federal income tax return reporting this disposition. FIRPTA does not apply, however, to the disposition of stock in a real estate investment trust if the shares are considered "regularly traded on an established securities market" and the non-U.S. person does not hold, actually or constructively, more than 10% of the outstanding shares of the REIT at any time during the five-year period ending on the date of disposition or such shorter period that the shares were held.

For purposes of this exception, the TSX is considered an "established securities market" and, as long as 100 or fewer persons do not own 50% or more of the Units, the Units should be treated as regularly traded on the TSX if the TSX Publicly Traded Exception is met. However, the REIT is closely held as of the Offering. As a result, these requirements will not be satisfied as of the Offering with respect to the REIT. Although management intends to further diversify the REIT's ownership such that these requirements will be satisfied in the future, there can be no assurance that these requirements will be satisfied with respect to the REIT.

The Units would be considered "regularly traded" on an established securities market for a calendar quarter if the established securities market is located in the United States and the Units are regularly quoted by more than one broker or dealer making a market in the Units through an interdealer quotation system in the United States. It is expected that the Units will be traded through an interdealer quotation system in the United States in a manner that would be considered "regularly traded on an established securities market" for purposes of this exception.

Investors are cautioned that there can be no assurances that there will be at least two brokers or dealers regularly quoting the Units on the OTC Pink or OTCQX in any particular calendar quarter. In addition, neither the Code, the applicable Treasury regulations, administrative pronouncements nor judicial decisions provide guidance as to the frequency or duration with which the Units must be quoted during a calendar quarter to be "regularly quoted". U.S. counsel to the REIT believes that it is reasonable to interpret this exception to the effect that, so long as the brokers or dealers quote the Units during a calendar quarter, any gain from a sale at any time during the quarter is not expected to be subject to U.S. federal income tax for Non-U.S. Holders that own 10% or less of all or a portion of the outstanding Units during the applicable testing period. Due to the lack of guidance from the IRS, however, investors are cautioned that there can be no assurance the IRS would concur in this interpretation.

However, if neither of these exceptions is satisfied, the sale of Units by a non-U.S. person would generally be subject to U.S. federal income tax at normal graduated rates with respect to gain recognized and the REIT would be required to withhold at a rate of 15% on distributions in excess of the REIT's current and accumulated earnings and profits. In addition, a purchaser of Units would be required to withhold tax at the rate of 15% of the amount realized from the sale and to report and to remit such tax to the IRS. Furthermore, under FIRPTA, if any non-U.S. person holds, actually or constructively, more than 10% of the outstanding Units, the REIT will be required to withhold 21% (or less to the extent provided in applicable Treasury Regulations) of any distribution to such Unitholder that could be designated by the REIT as a capital gain dividend. Any such withheld amount is creditable against such Unitholder's FIRPTA tax liability.

In order for the REIT to comply with its withholding obligations under FIRPTA, the Units are subject to notice requirements and transfer restrictions. Non-U.S. persons holding Units are required to provide the REIT with such information as the REIT may request. Furthermore, any non-U.S. person that would be treated as having acquired sufficient Units to be treated as owning more than 5% of the Units is required to notify the REIT by the close of the business day prior to the date of the transfer that would cause the non-U.S. person to own more than 5% of the Units. For the purpose of determining whether a non-U.S. person has acquired more than 5% of the Units, rules of constructive ownership apply which can attribute ownership of Units (i) among family members, (ii) to non-U.S. persons from entities that own Units, to the extent that such non-U.S. persons own interests in such entities, and (iii) to entities from non-U.S. persons that own interests in such entities. Under these attribution rules, Units of related entities (including related investment funds) may be aggregated to the extent of overlapping ownership. If any non-U.S. person that otherwise would be treated as having acquired sufficient Units to be treated as owning more than 5% of the Units fails to comply with the notice provisions described above, the excess Units (i.e., the excess of the number of Units they are treated as owning over an amount equal to 5% of the outstanding Units) will be sold, with such non-U.S. persons receiving the lesser of (i) its original purchase price for the excess Units, and (ii) the sale price of the excess Units (net of selling expenses). Any such non-U.S. person would also not have any economic entitlement to any distribution by the REIT on an excess Unit, and, if any such distributions are received by the non-U.S. person and are not repaid, the REIT is permitted to withhold from subsequent payments to the non-U.S. person up to the amount of such forfeited distributions. Non-U.S. persons holding Units are strongly advised to monitor their actual and constructive ownership of Units. See "Declaration of Trust — Restrictions on Ownership and Transfer — FIRPTA" for a more detailed discussion of these rules. Notwithstanding that a non-U.S. person may comply with the notice requirements and transfer restrictions described above, the REIT is entitled to withhold on distributions as otherwise required by law, and, to the extent that the REIT has not sufficiently withheld on prior distributions, is entitled to withhold on subsequent distributions.

Risk Factors Related to the REIT's Relationship with the Advisor

Reliance on the Advisor and Manager

The REIT will rely on the Advisor's expertise in identifying acquisition opportunities, transaction execution, administrative services and asset management and hotel operations management capabilities. The REIT will also rely on the Advisor with respect to certain advisory services, including the services of the Chief Executive Officer, Chief Financial Officer and Chief Investment Officer. Consequently, the REIT's ability to achieve its investment objectives depends in large part on the Advisor and its ability to advise the REIT. This means that the REIT's investments are dependent upon the Advisor's business contacts within the U.S. lodging sector, its ability to successfully hire, train, supervise and manage personnel that have strong knowledge of real estate and the hotel industry in particular and its ability to operate its business in a manner that supports the REIT. If the REIT were to lose the services provided by the Advisor or its key personnel or if the Advisor or Manager fails to perform its obligations under its agreements with the REIT, the REIT's investments and growth prospects may decline. The REIT may be unable to duplicate the quality and depth of management available to it by becoming a self-managed company or by hiring another asset manager or hotel manager. Additionally, the Advisory Agreement and Hotel Management Agreement provide that, subject to certain exceptions, the REIT will not retain any other person to perform any asset management, hotel management or administrative services on its behalf. While the Trustees have

oversight responsibility with respect to the services provided by the Advisor pursuant to the Advisory Agreement and the Manager pursuant to the Hotel Management Agreement, the services provided by the Advisor and the Manager will not be performed by employees of the REIT or its subsidiaries, but by the Advisor and Manager directly, and through entities to which it may subcontract its duties. See "Management and Franchise Agreements". As a result, the Advisor, directly and indirectly, will have the ability to influence many matters affecting the REIT and the performance of its properties now and in the foreseeable future. Furthermore, at any time, on 180 days' prior written notice following the date on which the Advisor ceases to be the Advisor of the REIT, the Advisor may terminate the license agreement with the REIT pursuant to which the REIT has the right to the use of the "NexPoint" name and trademark and related marks and designs. If the Advisor terminated the license agreement, the REIT would be required to change its name and this may adversely impact the REIT.

Risks Associated with External Advisory Agreement

The Advisory Agreement will have an initial term of two years, and upon approval by the Board will be renewable thereafter for successive one-year terms unless earlier terminated or not renewed by the REIT or the Advisor. In the event that the REIT determines not to renew the Advisory Agreement, the REIT may be required to provide certain advance written notice and pay certain fees. Pursuant to the terms of the Advisory Agreement, there could be circumstances whereby the fees payable to the Advisor to carry out its duties thereunder are in excess of those expenses that would be incurred by the REIT on an annual basis if management of the REIT was performed by individuals employed directly by the REIT rather than by the Advisor. Furthermore, there is a risk that, because of the term and termination provisions of the Advisory Agreement, the termination of the Advisory Agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT. Therefore, there can be no assurance that the REIT will continue to have the benefit of the Advisor's services, including providing the REIT's executive officers, or that the Advisor will continue to be the REIT's advisor. If the Advisor should cease for whatever reason to be the advisor of the REIT, the REIT may be unable to engage an advisor on acceptable terms or the cost of obtaining substitute services, whether through an external advisor or by internalizing its management, may be greater than the fees the REIT pays the Advisor, and this may adversely impact the REIT's ability to meet its objectives and execute its strategy which could materially and adversely affect the REIT's cash flow, operating results and financial condition.

Past Performance not Predictor of Future Results

The past performance of the Advisor and the performance of the REIT are dependent on future events and are, therefore, inherently uncertain. The track records of the Advisor cannot be relied upon to predict future events due to a variety of factors, including, without limitation, varying business strategies, different local and national economic circumstances, different supply and demand characteristics, varying degrees of competition and varying circumstances pertaining to the real estate markets.

Risk Factors Related to the Offering and Structure of the REIT

Absence of a Prior Public Market

There is currently no public market for the Units. The REIT cannot predict at what price the Units will trade and there can be no assurance that an active trading market will develop after the Closing.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the Appraisal.

Potential Volatility of Unit Price

One of the factors that may influence the market price of the Units is the annual yield on the Units. An increase in market interest rates may lead purchasers of Units to demand a higher annual yield, which accordingly could adversely affect the market price of the Units. In addition, the market price of the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the REIT.

Restrictions on Redemption

It is anticipated that the redemption right attached to the Units will not be the primary mechanism by which holders of Units liquidate their investment. The entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the following limitations: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on the TSX or traded or quoted on another stock exchange or market which the Trustees consider, in their sole discretion, provides fair market value prices for the Units; (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10-day trading period commencing immediately before the Redemption Date; and (iv) the redemption of the Units must not result in the delisting of the Units on the principal stock exchange on which the Units are listed.

Redemption Notes which may be distributed to holders of Units in connection with a redemption will not be listed on any exchange, no market is expected to develop in Redemption Notes and such securities may be subject to an indefinite "hold period" or other resale restrictions under applicable securities laws. Redemption Notes so distributed may not be qualified investments for Exempt Plans, depending on the circumstances at the time.

Appraisals

The Advisor retained the Appraiser to provide independent estimates of the fair market value range in respect of the properties comprising the Initial Portfolio (see "Assessment and Valuation of the Initial Portfolio — Independent Appraisal"). Caution should be exercised in the evaluation and use of appraisal results, which are estimates of market value at a specific point in time. In general, appraisals such as the Appraisal represent only the analysis and opinion of qualified experts as of the effective date of such appraisals and are not guarantees of present or future value. There is no assurance that the assumptions employed in determining the appraised values of the properties comprising the Initial Portfolio are correct as of the date of the prospectus or that such valuations actually reflect an amount that would be realized upon a current or future sale of any of such properties or that any projections included in such appraisals will be attainable. As prices in the real estate market fluctuate over time in response to numerous factors, the fair market value of the Initial Portfolio shown on the Appraisal may be an unreliable indication of its current market value.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the Appraisal.

Cash Distributions are Not Guaranteed

There can be no assurance regarding the amount of income to be generated by the REIT's properties. The ability of the REIT to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT, and will be subject to various factors, including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the REIT's properties and any capital expenditure requirements. Unlike fixed-income securities, there is no obligation of the REIT to distribute to Unitholders any fixed amount, and reductions in, or suspensions of, cash distributions may occur that would reduce the yield of the Units. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors. See "Certain Canadian Federal Income Tax Considerations".

Core FFO may exceed actual cash available to the REIT from time to time because of items such as principal repayments and capital expenditures in excess of stipulated reserves identified by the REIT in its calculation of Core FFO and redemptions of Units, if any. The REIT may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items. Credit and mortgage facility terms may prohibit payments or distributions from the REIT in default circumstances.

Non-IFRS Measures

The pro forma financial information set out in this prospectus includes certain measures which do not have standardized meanings prescribed by IFRS 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 the REIT.

Limited Control of Unitholders

Unitholders will have limited control over changes in the REIT's policies and operations, which increases the uncertainty and risks of an investment in the REIT. The Board will determine major policies, including policies regarding financing, growth, debt capitalization, REIT qualification and distributions. The Board may amend or revise these and other policies without a vote of Unitholders. Under the REIT's organizational documents, Unitholders have a right to vote only on limited matters. The Trustees' broad discretion in setting policies and Unitholders' inability to exert control over those policies increases the uncertainty and risks of an investment in the REIT. In addition, the Declaration of Trust will require that the Chief Executive Officer of the REIT be nominated to serve as a Trustee.

Dilution

The number of Units the REIT is authorized to issue is unlimited. Subject to the rules of any applicable stock exchange on which the Units are listed and applicable securities laws, the REIT may, in its sole discretion, issue additional Units from time to time (including pursuant to any employee incentive compensation plan that may be introduced in the future), and the interests of the holders of Units may be diluted thereby.

Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with the holding of a Unit. In addition, legislation has been enacted in the Province of Ontario and certain other provinces and territories that is intended to provide Unitholders in those provinces and territories with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. It is intended that the affairs of the REIT will be conducted to seek to minimize such risk wherever possible.

Nature of Investment

The Units represent a fractional interest in the REIT and do not represent a direct investment in the REIT's assets and should not be viewed by investors as direct securities of the REIT's assets. A holder of a Unit of the REIT does not hold a share of a body corporate. As holders of Units of the REIT, the Unitholders will not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The rights of Unitholders are based primarily on the Declaration of Trust. There is no statute governing the affairs of the REIT equivalent to the *Business Corporations Act* (Ontario) or the CBCA which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada), and thus the treatment of Unitholders upon an insolvency is uncertain.

Structural Subordination of Units

In the event of bankruptcy, liquidation or reorganization of the REIT's subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the REIT or Unitholders. The Units are effectively subordinated to the debt and other obligations of the REIT's subsidiaries. The REIT's subsidiaries generate all of the REIT's cash available for distribution and hold substantially all of the REIT's assets.

Future Offerings of Debt or Equity Securities Ranking Senior to Units

If the REIT decides to issue debt or equity securities in the future ranking senior to the Units or otherwise incur additional indebtedness, it is possible that these securities or indebtedness will be governed by an indenture or other instrument containing covenants restricting the REIT's operating flexibility and limiting the REIT's ability to make distributions to Unitholders. Additionally, any convertible or exchangeable securities that the REIT issues in the future may have rights, preferences and privileges, including with respect to distributions, more favorable than those of Units and may result in dilution to Unitholders. Because the REIT's decision to issue debt or equity securities in any future offering or otherwise incur indebtedness will depend on market conditions and other factors beyond the REIT's control, the REIT cannot predict or estimate the amount, timing or nature of the REIT's future offerings or financings, any of which could reduce the market price of the Units and dilute the value of the Units.

Enforceability of Judgments

The Promoter is an entity organized under the laws of a foreign jurisdiction and resides outside Canada. All of the managers and officers of the Promoter and certain of the experts named elsewhere in this prospectus are residents of countries other than Canada. Additionally, all of the Promoter's assets and the assets of these persons are located outside of Canada. As a result, although the Promoter will appoint GODA Incorporators, Inc. as its agent for service of process in Ontario, it may be difficult for Unitholders to initiate a lawsuit within Canada against these non-Canadian residents. In addition, it may not be possible for Unitholders to collect from the Promoter or other non-Canadian residents judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation of certain of the provinces and territories of Canada. It may also be difficult for Unitholders to succeed in a lawsuit in the United States, based solely on violations of Canadian securities laws.

Enforceability of Judgments Against Foreign Subsidiaries

NHI is organized under the laws of Delaware and the OP is organized under the laws of Delaware. All of the assets of NHI and the OP are located outside of Canada and the directors and officers, as well as certain of the experts retained by the REIT or its affiliates, are residents of countries other than Canada. As a result, it may be difficult or impossible for investors to effect service within Canada upon such persons, or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws. There is some doubt as to the enforceability in the United States by a court in original actions, or in actions to enforce judgments of Canadian courts, of civil liabilities predicated upon such applicable Canadian provincial securities laws.

Financial Reporting and Other Public REIT Requirements

The REIT will become subject to reporting and other obligations under applicable Canadian securities laws and rules of any stock exchange on which the Units are listed, including National Instrument 52-109 — *Certification of Disclosure in Issuers' Annual and Interim Filings*. These reporting and other obligations will place significant demands on the REIT's management, administrative, operational and accounting resources. In order to meet such requirements, the REIT will need to establish systems, implement financial and management controls, reporting systems and procedures and hire accounting and finance staff. If the REIT is unable to accomplish any such necessary objectives in a timely and effective fashion, its ability to comply with its financial reporting requirements and other rules that apply to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause the REIT to fail to meet its reporting obligations or result in material misstatements in its financial statements. If the REIT cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed which could also cause investors to lose confidence in the REIT's reported financial information, which could result in a lower trading price of Units.

Management does not expect that the REIT's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of

simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

The TSX has not conditionally approved the listing of the Units

The REIT has applied to list the Units on the TSX. Listing is subject to the approval of the TSX in accordance with its original listing requirements. The TSX has not conditionally approved the REIT's listing application and there is no assurance that the TSX will approve the listing application.

MATERIAL CONTRACTS

The following are the only material agreements of the REIT or its subsidiaries that will be in effect on closing of the Offering, other than contracts entered into in the ordinary course of business:

(a) the Declaration of Trust described under "Declaration of Trust";

(b) Advisory Agreement; and

(c) Operating Agreement.

Copies of the foregoing documents will be available on SEDAR at www.sedar.com.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this prospectus (including, without limitation, those transactions with the Advisor, the Manager, NMCT Shareholder, HCREP and NREO described under "The Contribution of the Initial Portfolio", "Management and Franchise Agreements" and "Retained Interest") and in the notes to the unaudited pro forma consolidated financial statements of the REIT and audited combined financial statements of the REIT, there are no material interests, direct or indirect, of the Trustees or officers of the REIT, any Unitholder that beneficially owns more than 10% of the Units of the REIT or any associate or affiliate of any of the foregoing persons in any transaction within the last three years or any proposed transaction that has materially affected or would materially affect the REIT or any of its subsidiaries.

PROMOTER

NexPoint Real Estate Advisors VI, L.P. has taken the initiative in founding and organizing the REIT and may therefore be considered promoter of the REIT for the purposes of applicable securities legislation.

PRINCIPAL UNITHOLDERS

[●]

PRIOR SALES

On December 12, 2018, the REIT was formed and one Unit was issued for $15.00 in cash. This Unit will be repurchased by the REIT on Closing.

LEGAL PROCEEDINGS

None of the REIT or its subsidiaries are involved in any outstanding, threatened or pending litigation that would have a material adverse effect on the REIT.

EXPERTS

The matters referred to under "Eligibility for Investment" and "Certain Canadian Federal Income Tax Considerations", as well as certain other legal matters relating thereto, will be passed upon on behalf of the REIT by Goodmans LLP.

Certain information relating to the Appraisal has been based upon a report by JLL Valuation & Advisory Services, LLC.

As of the date of this prospectus, the partners and associates of Goodmans LLP and the designated professionals of the Appraiser, beneficially owned, directly or indirectly, less than 1% of the outstanding securities of the REIT.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The REIT's auditors, [●], are located in [●] and are independent in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

The historical auditors of the properties in the Initial Portfolio are Aprio LLP, located in Atlanta, Georgia.

The transfer agent and registrar for the Units is American Stock Transfer at its principal office in Toronto, Ontario.

ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

The Promoter is an entity organized under the laws of a foreign jurisdiction and resides outside Canada. All of the officers of the REIT and certain experts named elsewhere in this prospectus, together with certain Trustees, are residents of countries other than Canada. Additionally, all of the REIT's assets and the assets of these persons are located outside of Canada. As a result, although each of the Promoter and the non-resident officers and Trustees have appointed GODA Incorporators, Inc. as its agent for service of process in Ontario, it may be difficult for Unitholders to initiate a lawsuit within Canada against these non-Canadian residents. In addition, it may not be possible for Unitholders to enforce against the Promoter or other non-Canadian residents judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation of certain of the provinces and territories of Canada. It may also be difficult for Unitholders to succeed in a lawsuit in the U.S. based solely on violations of Canadian securities laws.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

GLOSSARY

"**10% of value asset test**" has the meaning ascribed thereto under "Certain U.S. Federal Income Tax Considerations – Taxation of Real Estate Investment Trusts in General – Asset Tests".

"**2325 Stemmons**" means 2325 Stemmons Hotel Partners, LLC.

"**Acquired Issuer**" has the meaning ascribed thereto under "Investment Guidelines and Operating Policies – Investment Guidelines".

"**Acquisition**" means the acquisition of Holiday Inn Express Nashville by NHT Nashville.

"**ADA**" means the Americans with Disabilities Act of 1990, as amended.

"**Advance Notice Provision**" has the meaning ascribed thereto under "Declaration of Trust – Advance Notice Provision".

"**Advisor**" means NexPoint Real Estate Advisors VI, L.P.

"**Advisory Agreement**" means the asset management agreement to be entered into between the REIT and the Advisor.

"**Advisory Fee**" has the meaning ascribed thereto under "Management and Franchise Agreements – Advisory Agreement".

"**Agent**" means Raymond James Ltd.

"**Agency Agreement**" has the meaning ascribed thereto under "Plan of Distribution".

"**allowable capital loss**" means one-half of any capital loss.

"**Appraisal**" has the meaning ascribed thereto under "Assessment and Valuation of the Initial Portfolio – Independent Appraisal".

"**Appraiser**" means JLL Valuation & Advisory Services, LLC.

"**Average Daily Rate**" or "**ADR**" has the meaning ascribed thereto under "Select Industry Terms".

"**Board**" means the board of trustees of the REIT.

"**CAGR**" means compound annual growth rate.

"**CBCA**" means the *Canada Business Corporations Act*.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**CEO**" means Chief Executive Officer.

"**CFO**" means Chief Financial Officer.

"**CIO**" means Chief Investment Officer.

"**Class A OP Units**" means Class A units of the OP.

"**Class B OP Units**" means Class B units of the OP.

“**Closing**” means the closing of the Offering and completion of the transactions described under the “Contribution of the Initial Portfolio”.

“**Closing Market Price**” has the meaning ascribed thereto under “Declaration of Trust – Redemption Right”.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Code of Conduct**” means the written code of conduct adopted by the REIT.

“**Contributor”** and “**Contributors**” have the meaning ascribed thereto under “The Contribution of the Initial Portfolio – Overview”.

“**Contribution**” and “**Contributions**” have the meaning ascribed thereto under “The Contribution of the Initial Portfolio – Overview”.

“**Core FFO”** has the meaning ascribed thereto under “Non-IFRS Measures”.

“**CRA**” means Canada Revenue Agency.

“**CRECs**” means controlled recognized environmental conditions.

“**Credit Facility**” has the meaning ascribed thereto under “Plan of Distribution – Relationship Between the REIT and the Agent”.

“**Debt**” means the total principal amounts outstanding by the REIT under mortgages payable and term preferred equity which under IFRS is accounted for as a liability.

“**Debt to Gross Book Value Ratio**” is calculated by dividing Debt, which consists of the total principal amounts outstanding under mortgages payable and term preferred equity which under IFRS is accounted for as a liability, by Gross Book Value.

“**Declaration of Trust**” means the declaration of trust of the REIT.

“**DPSP**” has the meaning ascribed thereto under “Eligibility for Investment”.

“**DT Portfolio**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

“EBITDA” means earnings before interest, taxes, depreciation and amortization

“**eligible independent contractor**” has the meaning ascribed thereto under “Certain U.S. Federal Income Tax Considerations – Taxation of Real Estate Investment Trusts in General – Effect of Subsidiary Entities”.

“**Exempt Plans**” has the meaning ascribed thereto under “Eligibility for Investment”.

“**FAT**” means foreign accrual tax.

“**FAPI**” means foreign accrual property income.

“**FFO**” has the meaning ascribed thereto under “Non-IFRS Measures”.

“**Financials**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

“FIRPTA” means the *Foreign Investment in Real Property Tax Act of 1980*, as amended from time to time.

"**forward-looking statements**" has the meaning ascribed thereto under "Forward-Looking Statements".

"GDP" means United States gross domestic product.

"**Gross Book Value**" has the meaning ascribed thereto under "Non-IFRS Measures".

"**HCBH**" means HCBH 11611 Ferguson, LLC.

"**HCRE Addision**" means HCRE Addision, LLC.

"**HCRE Las Colinas**" means HCRE Las Colinas, LLC.

"**HCREHP**" means HCRE Hotel Partner, LLC.

"**HCRE Plano**" means HCRE Plano, LLC.

"**HGI Property**" has the meaning ascribed thereto under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

"**Hotel Management Agreements**" means the hotel management agreements to be entered into between the Manager and the TRS Entities.

"**Holder**" means a purchaser who acquires, as beneficial owner, Units pursuant to this Prospectus and who, for the purposes of the Tax Act and at all relevant times, is, or is deemed to be, resident in Canada, deals at arm's length with the REIT and the Agent, and is not affiliated with the REIT or the Agent and holds the Units as capital property.

"**HRECs**" means historical recognized environmental conditions.

"**HWS Acquisition Date**" has the meaning ascribed thereto under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

"**HWS Portfolio**" has the meaning ascribed thereto under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

"**IASB**" means the International Accounting Standards Board.

"**IFRS**" means International Financial Reporting Standards.

"**IFRS 16**" has the meaning ascribed thereto under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

"**Independent Trustees**" means a Trustee who is "independent" pursuant to NI 58-101.

"**Initial Portfolio**" means the existing portfolio of 11 hospitality assets located in the United States.

"**Interest Rate Risk**" means the combined risk that the REIT would experience a loss as a result of its exposure to a higher interest rate environment and the possibility that at the end of a mortgage term the REIT would be unable to renew the maturing debt either with the existing or a new lender.

"**Interested Trustees**" means a Trustee who is appointed by the Advisor and is not considered independent pursuant to NI 58-101.

"**IRS**" means the U.S. Internal Revenue Service.

"**IT**" means information technology.

“**Listing**” means the listing of the Units on the TSX.

“**LTIP**” has the meaning ascribed thereto under “Management and Franchise Agreements – Advisory Agreement”.

“**Manager**” has the meaning ascribed thereto on the cover page of this prospectus.

“**Market Price**” has the meaning ascribed thereto under “Declaration of Trust – Redemption Right”.

“**MD&A**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

“**Meritage**” means Meritage Residential Partners LLC.

“**MSA**” means metropolitan statistical area.

“**Mortgage Debt to Gross Book Value Ratio**” is calculated by dividing principal amounts outstanding under mortgages payable by Gross Book Value.

“**Nashville Property**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

“**NCI**” means non-certificated inventory.

“**NexPoint**” means the Advisor and its affiliates and subsidiaries.

“**NHI**” means NHT Holdings, LLC

“**NHT Beaverton**” means NHT Beaverton, LLC.

“**NHT Bend**” means NHT Bend, LLC.

“**NHT Nashville**” means NHT Nashville, LLC.

“**NHT Olympia**” means NHT Olympia, LLC.

“**NHT SP**” means NHT SP, LLC.

“**NHT Tigard**” means NHT Tigard, LLC.

“**NHT Vancouver**” means NHT Vancouver, LLC.

“**NI 52-109**” means National Instrument 52-109 - *Certification of Disclosure in Issuers’ Annual and Interim Filings.*

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*.

“**NI 58-101**” means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

“**NMCT**” means NexPoint Multifamily Capital Trust, Inc.

“**NMCT Shareholders**” means the shareholders of NMCT.

“**NOI**” has the meaning ascribed thereto under “Non-IFRS Measures”.

“**NOI Margin**” has the meaning ascribed thereto under “Non-IFRS Measures”.

“**Nominating Unitholder”** has the meaning ascribed thereto under “Declaration of Trust – Advance Notice Provision”.

“**Non-Room Revenues**” has the meaning ascribed thereto under “Non-IFRS Measures”.

“**Non-U.S. Holders**” means a beneficial owner of Units that is an individual, corporation, estate or trust and is not a U.S. Holder.

“**NREO**” means NexPoint Real Estate Opportunities, LLC.

“**NREO NW**” means NREO NW Hospitality, LLC.

“**Occupancy**” has the meaning ascribed thereto under “Select Industry Terms**”**.

“**Offering**” has the meaning ascribed thereto on the cover page of this prospectus.

“**Offering Price**” means the price of the Units.

“**Omnibus Plan**” means the Omnibus Equity Incentive Plan.

“**OP**” means NHT Operating Partnership, LLC.

“**Operating Agreement**” means the operating agreement of the OP, as amended.

“**OTAs**” means internet travel intermediaries.

“**OTC Pink**” means the OTC Pink tier of OTC Markets Group Inc.

“**PCA Reports**” means property condition assessment reports.

“**Performance Units**” has the meaning ascribed thereto under “Executive Compensation – Incentive Compensation Plans – Omnibus Equity Incentive Plan”.

“**personal property ratio**” has the meaning ascribed thereto under “Certain U.S. Federal Income Tax Considerations – Taxation of Real Estate Investment Trusts in General – Effect of Subsidiary Entities”.

“**Phase I ESA Report**” means a Phase I environmental site assessment report.

“**Phase II ESA Report**” means a Phase II environmental site assessment report.

“**Promoter**” means NexPoint Real Estate Advisors VI, L.P.

“**Proposed Amendments**” means all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) before the date hereof.

“**qualified lodging facility**” has the meaning ascribed thereto under “Certain U.S. Federal Income Tax Considerations – Taxation of Real Estate Investment Trusts in General – Effect of Subsidiary Entities”.

“**real estate assets**” has the meaning ascribed thereto under “Certain U.S. Federal Income Tax Considerations – Taxation of Real Estate Investment Trusts in General – Asset Tests”.

“**RECs**” means recognized environmental conditions.

“**Redemption Date**” means the date on which the Units were surrendered for redemption.

"**Redemption Notes**" means unsecured subordinated promissory notes of the REIT or a Subsidiary of the REIT having a maturity date and interest rate to be determined at the time of issuance by the Trustees, such promissory notes to provide that the REIT or such Subsidiary, as the case may be, shall at any time be allowed to prepay all or any part of the outstanding principal without notice or bonus.

"**Redemption Price**" shall have the meaning ascribed thereto under "Declaration of Trust – Redemption Right".

"**REIT**" means NexPoint Hospitality Trust.

"**related party tenant**" has the meaning ascribed thereto under "Certain U.S. Federal Income Tax Considerations – Taxation of Real Estate Investment Trusts in General – Effect of Subsidiary Entities".

"Revenue per Available Room" or "**RevPAR**" has the meaning ascribed thereto under "Select Industry Terms**"**.

"**RevPAR Index**" has the meaning ascribed thereto under "Select Industry Terms**"**.

"**RDSP**" has the meaning ascribed thereto under "Eligibility for Investment".

"**RESP**" has the meaning ascribed thereto under "Eligibility for Investment".

"**RRIF**" has the meaning ascribed thereto under "Eligibility for Investment".

"**RRSP**" has the meaning ascribed thereto under "Eligibility for Investment".

"**RUs**" means restricted Units.

"**Securities Laws**" has the meaning ascribed to it in the Declaration of Trust.

"**SIFT Rules**" means the rules applicable to SIFT trusts and SIFT partnerships in the Tax Act.

"**Stemmons**" has the meaning ascribed thereto under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

"**STR**" means Smith Travel Research, Inc.

"**St. Pete Property**" has the meaning ascribed thereto under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

"**Subsidiaries**" has the meaning ascribed to it in the *Securities Act* (Ontario), as amended from time to time.

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, in each case as amended from time to time.

"**TFSA**" has the meaning ascribed thereto under "Eligibility for Investment".

"**Total G&A Cap**" has the meaning ascribed thereto under "Management and Franchise Agreement – Advisory Agreement".

"**Treasury Regulations**" means existing and proposed regulations promulgated under the Code by the U.S. Treasury Department.

"**Treaty**" means the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended.

"**TRS**" means a taxable REIT subsidiary as defined under Section 856(1) of the Code.

“**TRS Entities**” means taxable subsidiaries of the REIT.

“**Trustees**” means the trustees of the REIT.

“**TSX**” means the Toronto Stock Exchange.

“**TSX Publicly Traded Exception**” has the meaning ascribed thereto under “Certain U.S. Federal Income Tax Considerations – Taxation of Non-U.S. Holders”.

“**U.S. Holder**” means a holder of Units that is a beneficial owner of the Units and is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes; (ii) a corporation (or other entity classified as a corporation for U.S. federal income tax purposes), created or organized in or under the laws of the United States, any state therein or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust (or otherwise if the trust has a valid election in effect under the Treasury Regulations to be treated as a domestic trust).

“**U.S. Publicly Traded Exception**” has the meaning ascribed thereto under “Certain U.S. Federal Income Tax Considerations – Taxation of Non-U.S. Holders”.

“**U.S. Securities Act**” means the *Securities Act of 1933*, as amended.

“**Unit**” means trust units of the REIT.

“**Unitholders**” means unitholders of the REIT.

“**UPREIT**” means umbrella partnership real estate investment trust.

“**US Holdco**” means NHT Intermediary, LLC.

“**USRPI**” means a U.S. real property interest, as defined under Section 897(c) of the Code.

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Pro Forma Consolidated Financial Statements of

NEXPOINT HOSPITALITY TRUST

As at and for the nine months ended September 30, 2018 and for the year ended December 31, 2017

(Expressed in U.S. dollars)

(Unaudited)

NEXPOINT HOSPITALITY TRUST
PRO FORMA CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 2018
(Amounts in thousands of U.S. dollars)
(Unaudited)

	NexPoint Hospitality Trust	HGI Property	HWS Portfolio	Other Properties in Initial Portfolio	Note 4	Pro Forma Adjustments	Pro Forma Consolidated
ASSETS							
Current assets							
Cash and cash equivalents	$ —	$ 1,355	$ 705	[•]	(a)	$ 405	$ 2,465
Restricted cash	—	—	889	[•]		—	889
Trade and other receivables	—	138	242	[•]		—	380
Prepaid and other assets	—	79	187	[•]		—	266
Total current assets	—	1,572	2,023	[•]		405	4,000
Non-current assets							
Property and equipment, net	—	27,074	41,214	[•]	(b)	10,076	78,364
Total non-current assets	—	27,074	41,214	[•]		10,076	78,364
TOTAL ASSETS	$ —	$ 28,646	$ 43,237	[•]		$ 10,481	$ 82,364
LIABILITIES AND EQUITY							
Current liabilities							
Accounts payable and other accrued liabilities	$ —	$ 1,786	$ 1,656	[•]		$ —	$ 3,442
Current portion of notes payable	—	307	158	[•]	(c)	—	465
Total current liabilities	—	2,093	1,814	[•]		—	3,907
Non-current liabilities							
Notes payable and other borrowings, net	—	20,662	31,641	[•]	(c)	—	52,303
Credit facility, net	—	—	—	[•]		—	—
Term preferred equity payable	—	—	—	[•]		—	—
Class B redeemable units of OP	—	—	—	[•]	(a) (b)	16,050	16,050
Deferred income tax liabilities	—	—	—	[•]		—	—
Total non-current liabilities	—	20,662	31,641	[•]		16,050	68,353
Total Liabilities	—	22,755	33,455	[•]		16,050	72,260
Equity							
Members' equity / Net parent investment	—	5,891	9,782	[•]	(b) (d)	(15,673)	—
Common unitholders' equity	—	—	—	[•]	(a) (b)	10,104	10,104
Total Equity	—	5,891	9,782	[•]		(5,569)	10,104
TOTAL LIABILITIES AND EQUITY	$ —	$ 28,646	$ 43,237	[•]		$ 10,481	$ 82,364

See accompanying notes to the unaudited pro forma consolidated financial statements

NEXPOINT HOSPITALITY TRUST
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Amounts in thousands of U.S. dollars; share counts in thousands)
(Unaudited)

	NexPoint Hospitality Trust	HGI Property	HWS Portfolio	Other Properties in Initial Portfolio	Note 4	Pro Forma Adjustments	Pro Forma Consolidated
Revenues							
Rooms	$ —	$ 6,019	$ 7,446	[•]	(e)	$ —	$ 13,465
Food and beverage	—	891	14	[•]	(e)	—	905
Other	—	114	87	[•]	(e)	—	201
Total revenues	—	7,024	7,547	[•]		—	14,571
Expenses							
Operating expenses	—	3,597	4,113	[•]	(f)	—	7,710
General and administrative expenses	—	1,504	1,818	[•]	(f)	—	3,322
Depreciation	—	1,094	596	[•]	(g)	65	1,755
Total expenses	—	6,195	6,527	[•]		65	12,787
Operating income (loss)	—	829	1,020	[•]		(65)	1,784
Corporate general and administrative expenses	—	—	—	[•]	(h)	1,125	1,125
Advisory fees	—	—	—	[•]	(i)	585	585
Income (loss) before net interest expense and income taxes	—	829	1,020	[•]		(1,775)	74
Interest expense, net	—	(1,001)	(1,680)	[•]	(j)	(228)	(2,909)
Income (loss) before income taxes	—	(172)	(660)	[•]		(2,003)	(2,835)
Income tax expense	—	(2)	—	[•]	(k)	—	(2)
Deferred income tax (expense) recovery	—	—	—	[•]	(k)	—	—
Net income (loss) and comprehensive income (loss)	$ —	$ (174)	$ (660)	[•]		$ (2,003)	$ (2,837)
Net income (loss) and comprehensive income (loss) attributable to preferred unitholders	$ —	$ —	$ —	[•]		$ —	$ —
Net income (loss) and comprehensive income (loss) attributable to unitholders	$ —	$ (174)	$ (660)	[•]		$ (2,003)	$ (2,837)
Weighted average units outstanding - basic and diluted	—				(l)	3,327	3,327
Earnings (loss) per unit - basic and diluted	$ —				(l)	$ (0.60)	$ (0.85)

See accompanying notes to the unaudited pro forma consolidated financial statements

NEXPOINT HOSPITALITY TRUST
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in thousands of U.S. dollars; share counts in thousands)
(Unaudited)

	NexPoint Hospitality Trust	HGI Property	HWS Portfolio	Other Properties in Initial Portfolio	Note 4	Pro Forma Adjustments	Pro Forma Consolidated
Revenues							
Rooms	$ —	$ 7,796	$ 7,538	[•]	(e)	$ 3,831	$ 19,165
Food and beverage	—	1,276	14	[•]	(e)	7	1,297
Other	—	144	101	[•]	(e)	51	296
Total revenues	—	9,216	7,653	[•]		3,889	20,758
Expenses							
Operating expenses	—	4,703	3,755	[•]	(f)	1,909	10,367
General and administrative expenses	—	1,846	1,701	[•]	(f)	865	4,412
Depreciation	—	1,423	520	[•]	(g)	397	2,340
Total expenses	—	7,972	5,976	[•]		3,171	17,119
Operating income (loss)	—	1,244	1,677	[•]		718	3,639
Corporate general and administrative expenses	—	—	—	[•]	(h)	1,500	1,500
Advisory fees	—	—	—	[•]	(i)	780	780
Income (loss) before net interest expense and income taxes	—	1,244	1,677	[•]		(1,562)	1,359
Interest expense, net	—	(1,158)	(1,106)	[•]	(j)	(1,614)	(3,878)
Income (loss) before income taxes	—	86	571	[•]		(3,176)	(2,519)
Income tax expense	—	(30)	—	[•]	(k)	—	(30)
Deferred income tax (expense) recovery	—	—	—	[•]	(k)	—	—
Net income (loss) and comprehensive income (loss)	$ —	$ 56	$ 571	[•]		$ (3,176)	$ (2,549)
Net income (loss) and comprehensive income (loss) attributable to preferred unitholders	$ —	$ —	$ —	[•]		$ —	$ —
Net income (loss) and comprehensive income (loss) attributable to unitholders	$ —	$ 56	$ 571	[•]		$ (3,176)	$ (2,549)
Weighted average units outstanding - basic and diluted	—				(l)	3,327	3,327
Earnings (loss) per unit - basic and diluted	$ —				(l)	$ (0.95)	$ (0.77)

See accompanying notes to the unaudited pro forma consolidated financial statements

NEXPOINT HOSPITALITY TRUST
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in thousands of U.S. dollars; share counts in thousands)
(Unaudited)

1. Overview

NexPoint Hospitality Trust (the "REIT") is a newly-created, unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust (the "Declaration of Trust") under the laws of the Province of Ontario. The REIT has been created for the purpose of aggregating an existing portfolio of 11 hospitality assets located in the United States (the "Initial Portfolio"), to raise capital to acquire additional U.S. located hospitality assets that meet its investment objectives and criteria and to own, renovate and operate its portfolio of income-producing hotel properties. The REIT is externally managed by NexPoint Real Estate Advisors VI, L.P. (the "Advisor"), which has been formed for the purpose of managing the REIT and its subsidiaries.

The REIT will wholly-own NHT Holdings, LLC ("NHI"), a newly formed Delaware limited liability company that intends to elect to be treated as a real estate investment trust under U.S. tax laws. Substantially all of NHI's business will be conducted through NHT Operating Partnership, LLC (the "OP"), the REIT's operating partnership, which is a newly formed Delaware limited liability company. The REIT will own its properties through the OP and its subsidiaries. The OP and its subsidiaries will lease the properties to taxable subsidiaries of the REIT (the "TRS Entities"). For NHI, and thus the REIT, to qualify as a real estate investment trust under the Code, the REIT cannot operate directly or indirectly any of the hotels it acquires and owns. Therefore, the OP and its subsidiaries will lease the hotels to the TRS Entities who in turn will engage eligible independent contractors (as defined in the U.S. tax code), affiliates of Aimbridge Hospitality Holdings, LLC (collectively, the "Manager"), to manage the hotels.

The objectives of the REIT are to: (a) provide Unitholders with an opportunity to invest in an initial portfolio of extended-stay, select-service and efficient full service hotels located in attractive U.S. markets and competitively positioned to outperform the industry as a whole; (b) provide Unitholders with predictable, sustainable and growing tax efficient cash distributions; (c) enhance the value of the REIT's assets and maximize the long-term value of the Units through active asset and property management programs and procedures; and (d) expand the asset base of the REIT and increase the REIT's Core FFO per Unit primarily through acquisitions and improvements of its properties, including the Initial Portfolio, using targeted and strategic capital expenditures.

These pro forma consolidated financial statements are prepared for inclusion in the prospectus filed with the Ontario Securities Commission on December 12, 2018 (the "Prospectus"), to effectuate the listing of the REIT's units on the Toronto Stock Exchange, and should be read in conjunction with the Prospectus and the financial statements contained therein. Capitalized terms not defined in these pro forma consolidated financial statements have the meanings as defined in the Prospectus.

Initial Portfolio

Upon closing (the "Closing") of the contribution of the Initial Portfolio including the acquisition of the Nashville Property (collectively, the "Contribution"), the REIT will indirectly own a 100% interest in a portfolio of 11 hotel properties located across the U.S. All of the 11 hotels in the Initial Portfolio are franchised with: Hilton Hotels under the following brands: (i) DoubleTree (five hotels) (the "DT Portfolio"); (ii) Homewood Suites (three hotels) (the "HWS Portfolio"); and (iii) Hilton Garden Inn (one hotel) (the "HGI Property"); Marriott under the Marriott brand (one hotel) (the "St. Pete Property"); and InterContinental Hotels Group under the Holiday Inn Express brand (one hotel) (the "Nashville Property").

The following is a summary of the principal transactions that will take place in connection with the Contribution of the Initial Portfolio.

(a) Shareholders of NexPoint Multifamily Capital Trust, Inc. ("NMCT") will, indirectly through a series of transactions, contribute 100% of their shares in NMCT, which represent 100% of the outstanding shares of NMCT, to the REIT in exchange for a number of Units equal in value to the value assigned to the shares of NMCT. Upon Contribution, NMCT will become a wholly owned subsidiary of the REIT. NMCT owns $[●] proceeds held by a qualified intermediary (as defined in the Code), the right and obligation to acquire the Nashville Property and issued preferred equity in the amount of $11.5 million, which is held by an affiliate.

(b) HCRE Hotel Partner, LLC will, indirectly through a series of transactions, contribute 100% of the LLC interests in HCRE Plano, LLC, 100% of the LLC interests in HCRE Addison, LLC, and 100% of the LLC interests in HCRE Las Colinas, LLC

to the REIT in exchange for Units equal in value to the value assigned to Homewood Suites Plano, Homewood Suites Addison, and Homewood Suites Las Colinas reduced by the accompanying mortgage debt.

(c) Meritage Residential Partners, LLC, indirectly through a series of transactions, will contribute 100% of its LLC interests in NHT SP, LLC to the REIT in exchange for Units equal in value to the value assigned to the St. Pete Property reduced by the accompanying mortgage debt.

(d) NREO and the minority members of NREO NW Hospitality, LLC will contribute 100% of the LLC interests in NREO NW Hospitality, LLC to the OP in exchange for Class B OP Units equal in value to the collective value assigned to DoubleTree Beaverton, DoubleTree Bend, DoubleTree Olympia, DoubleTree Tigard, and DoubleTree Vancouver, in each case, reduced by the accompanying mortgage debt.

(e) NREO and the minority members of 2325 Stemmons Hotel Partners, LLC will contribute 100% of the LLC interests in 2325 Stemmons Hotel Partners, LLC to the OP in exchange for Class B OP Units equal in value to the value assigned to the HGI Property reduced by the accompanying mortgage debt.

(f) NHT Nashville, LLC (“NHT Nashville”), a Delaware limited liability company and a subsidiary of NMCT, will exercise its rights under the certain purchase and sale agreement to acquire the Nashville Property for $[●] and assumed debt of $[●] (the “Acquisition”).

After completion of these transactions, all of the Class A OP Units will be owned by NHI and all of the Class B OP Units will be owned by NREO and the minority members of NREO NW Hospitality, LLC and 2325 Stemmons Hotel Partners, LLC.

The Contribution to the REIT of the Initial Portfolio, either directly or indirectly through the OP, will occur concurrently and the Acquisition is anticipated to occur the following day.

Retained Interest

Immediately following Closing, principals and affiliates of the Advisor will own an approximate [●]% interest in the REIT through their ownership of Units and Class B OP Units.

2. Basis of Presentation

These pro forma consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) and incorporate the principal accounting policies used to prepare the audited statements of income and comprehensive income of the Initial Portfolio (for the properties included herein) for the year ended December 31, 2017.

These pro forma consolidated financial statements have been prepared from the audited statement of financial position of the REIT as at [●], 2018 (date of formation) and from the unaudited statements of financial position of the Initial Portfolio (for the properties included herein) as at September 30, 2018, the unaudited statements of comprehensive income of the Initial Portfolio (for the properties included herein) for the nine months ended September 30, 2018 and the audited statements of comprehensive income of the Initial Portfolio (for the properties included herein) for the year ended December 31, 2017. These financial statements are included elsewhere in this prospectus.

The pro forma consolidated statement of financial position gives effect to the HGI Property and HWS Portfolio transactions as if they had occurred on September 30, 2018. The pro forma consolidated statements of comprehensive income for the nine months ended September 30, 2018 and for the year ended December 31, 2017 give effect to the HGI Property and HWS Portfolio transactions as if they had occurred on January 1, 2017.

These pro forma consolidated financial statements are not necessarily indicative of the results that would have actually occurred had these transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or the financial position of the REIT.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these pro forma consolidated financial statements are described below and have been applied consistently to all periods presented:

(a) Property and equipment

(i) Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset. The estimated useful lives for the current and comparative periods are as follows:

Asset	Useful Life (years)
Buildings	15 - 40
Building improvements	5 - 15
Furniture, fixtures and equipment	3 - 10

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

(b) Impairment of non-financial assets

The carrying amounts of the REIT's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

(c) Financial instruments

(i) Financial assets

The REIT's financial assets are comprised of cash and cash equivalents, restricted cash, trade and other receivables and prepaid and other assets. The REIT classifies these financial assets as loans and receivables. The REIT initially recognizes loans and receivables on the date that they are originated. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities

The REIT has the following non-derivative financial liabilities: accounts payable and other accrued liabilities and notes payable. The REIT classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. All non-derivative financial liabilities are initially recognized on the date that the REIT becomes a party to the contractual provisions of the instrument. The REIT derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Class B OP Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with International Accounting Standards 32, Financial Instruments – Presentation ("IAS 32"). The Class B OP Units are redeemable for cash or Units on a one-for-one basis subject to customary anti-dilution adjustments at the option of the REIT and, therefore, the Class B OP Units meet the definition of a financial liability under IAS 32. Further, the Class B OP Units are designated as fair value through profit and loss financial liabilities and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The Class B OP Units are, in all material aspects, economically equivalent to Units on a per unit basis. The distributions paid on Class B OP Units are accounted for as finance costs.

Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with IAS 32. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32; in which case, the puttable instruments may be presented as equity. Units meet the exemption conditions of IAS 32 and are, therefore, presented as equity.

(iii) Impairment of financial assets

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the REIT on terms that the REIT would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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

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

(d) Cash and cash equivalents

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

(e) Restricted cash

Restricted cash primarily consists of cash reserves on deposit with lenders in respect of future capital expenditures.

(f) Leases

Leases of property and equipment that transfer to the lessee substantially all of the risks and rewards of ownership are classified as finance leases. Leased assets acquired in a business combination are recorded at fair value at the acquisition date. All other leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognized on the consolidated statement of financial position.

Finance lease obligations are measured at inception of the lease at the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term using the effective interest method.

(g) Provisions

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

(h) Revenue recognition

Revenue is generated primarily from the operation of the REIT's hotels, which includes room rentals, food and beverage sales and other incidental income. Revenue is recognized when services are rendered, the amount is earned, and collectability is reasonably assured. The REIT may collect payments in advance of the utilization of a facility. These payments are recorded in accounts payable and other accrued liabilities until such time as the applicable facility is utilized, at which time the customer deposit is recognized as revenue.

(i) Interest expense, net

Net interest expense primarily consists of interest expense on outstanding debt, the amortization of deferred financing costs, distributions on Class B OP Units classified as liabilities and gain (loss) on change in fair value of Class B OP Units, net of interest income. Net interest expense is recognized in the period in which it is incurred. Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term of the debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the fees and costs is recorded as a reduction from the related debt on the pro forma consolidated statement of financial position.

(j) Income taxes

(i) Canadian mutual fund status

The REIT intends to make an election to be treated as a mutual fund trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a mutual fund trust that is not a Specified Investment Flow-Through Trust ("SIFT") pursuant to the Income Tax Act (Canada) is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to unitholders. The REIT intends to qualify as a mutual fund trust that is not a SIFT trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

(ii) U.S REIT Status

The REIT expects to be classified as a corporation for U.S. federal income tax purposes under current Treasury Regulations. Further, pursuant to section 7874 of the United States Internal Revenue Code of 1986, as amended (the "Code") the REIT expects to be treated as a U.S. corporation for all purposes under the Code and, as a result, it would be permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding it will be organized as a Canadian entity. In general, a company that elects real estate investment trust status, distributes at least 90% of its real estate investment trust taxable income to its shareholders in any taxable year, and complies with certain other requirements is not subject to U.S. federal income taxation to the extent of the income it distributes. If it fails to qualify as a real estate investment trust in any taxable year, it will be subject to U.S. federal income tax at regular corporate income tax rates on its taxable income. Even if it qualifies for taxation as a real estate investment trust, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income. The REIT has reviewed the real estate investment trust requirements and expects that it will qualify as a real estate investment trust under the Code. Accordingly, no provision for U.S. federal income or excise taxes has been made with respect to the income of the REIT.

For these entities, income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in earnings except to the extent that they relate to a business combination, or to items recognized directly in equity or in other comprehensive income.

The REIT, through wholly owned subsidiaries, intends to lease the Initial Portfolio to the TRS Entities, which are taxable in the U.S. A TRS is a corporation that has not elected REIT status and has made a joint election with a real estate investment trust to be treated as a TRS. As such, it is subject to U.S. federal and state corporate income tax. The income tax effects on the results of the TRS Entities accrue directly to the members of the REIT.

(iii) Current taxes

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

(iv) Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: (a) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and (b) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred 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.

(v) 2017 Tax Act

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was signed into law in the United States. The most significant change is the reduction of the statutory corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Many of the provisions in the 2017 Tax Act expire in seven years (at the end of 2025). The REIT does not expect the 2017 Tax Act to have a significant impact on its pro forma consolidated financial statements.

(k) Operating segments

The REIT expects to operate in one business segment, owning and operating hotel properties in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the REIT's chief operating decision-maker.

(l) Levies

In accordance with IFRS Interpretations Committee (IFRIC) 21, *Levies*, the REIT recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. This is the obligating event that gives rise to a liability to pay the property taxes.

(m) Use of estimates and assumptions

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

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

(n) Recent accounting pronouncements

(i) IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to International Accounting Standards ("IAS") 7, *Statement of Cash Flows* ("IAS 7"). The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The REIT implemented the amendments to IAS 7 on January 1, 2017 and there was no material impact on its pro forma consolidated financial statements.

(ii) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") standard ("IFRS 9"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The REIT adopted IFRS 9 on January 1, 2018 and there was no material impact on its pro forma consolidated financial statements.

(iii) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contract with Customers* ("IFRS 15"), which establishes a new five step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The REIT adopted IFRS 15 on January 1, 2018, using the modified retrospective method, and there was no material impact on its pro forma consolidated financial statements.

(iv) IFRS 16 – Leases

IFRS 16, *Leases* ("IFRS 16") was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17, *Leases*. The most significant effect of the new standard will be the recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low value assets may be exempted. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted provided the REIT has adopted IFRS 15. The REIT intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019 and does not expect the new standard to have a material impact on its consolidated financial statements.

4. Pro Forma Adjustments

The pro forma adjustments to these pro forma consolidated financial statements have been prepared to account for the impact of the HGI Property and HWS Portfolio transactions contemplated by the prospectus, as described below:

(a) The Offering

These pro forma consolidated financial statements include the subscription for one Unit of the REIT for $15.00 by the initial unitholder of the REIT, made on December 12, 2018.

These pro forma consolidated financial statements assume the REIT will raise gross proceeds pursuant to the Offering of approximately $**[450]** through the issuance of **[30,000]** Units (actual number of units, excluding any over-allotment option). Costs relating to the Offering, including underwriters' fees, are assumed to be $**[45]** and are charged directly to Unitholders' equity.

These pro forma consolidated financial statements also assume the REIT issues **[2,226,667]** Units and **[1,070,000]** Class B OP Units (actual number of units) at $15.00 per unit for total value of $**[49,450]** in connection with the HWS Portfolio and the HGI Property transactions, respectively.

(b) Contributions and Acquisition

On Closing, it is assumed that subsidiaries of the REIT will indirectly acquire entities owning the HGI Property and the HWS Portfolio for an aggregate purchase price of $**[102,650]**, inclusive of $**[53,200]** of debt assumed, subject to working capital

and capital expenditure adjustments in cash. The purchase prices have been negotiated between the REIT and the Contributors and are supported by third-party appraisals.

Net assets acquired using the purchase method of accounting based on preliminary allocations are as follows:

	HGI Property	HWS Portfolio	Other Properties in Initial Portfolio	Total
Fair value of property and equipment acquired	$ 37,150	$ 65,500	[•]	$ 102,650
Other assets acquired at carrying value	—	—	[•]	—
Total assets acquired	37,150	65,500	[•]	102,650
Fair value of notes payable and other borrowings assumed	21,100	32,100	[•]	53,200
Other liabilities assumed at carrying value	—	—	[•]	—
Total liabilities assumed	21,100	32,100	[•]	53,200
Net assets acquired	$ 16,050	$ 33,400	[•]	$ 49,450

Consideration:	
Common units issued for acquisition	2,226,667
Issuance price of common units	$ 15.00
Total value of common units issued	$ 33,400
Class B redeemable units of OP issued for acquisition	1,070,000
Issuance price of Class B redeemable units of OP	$ 15.00
Total value of Class B redeemable units of OP issued	$ 16,050
Preferred units issued for acquisition	[•]
Issuance price of preferred units	[•]
Total value of preferred units issued	[•]
Total value of consideration	$ 49,450

The actual calculation and allocation of the purchase prices for the acquisitions outlined above will be based on the assets purchased and liabilities assumed at the effective date of the acquisitions and other information available at that date. Accordingly, the actual amounts for each of these assets and liabilities will vary from the pro forma amounts disclosed above and the variations may be material.

HCRE Hotel Partner, LLC ("HCREP"), the entity that owns single-asset limited liability companies that own the HWS Portfolio, is considered under common control with the REIT because the ultimate majority owner of HCREP is the same entity/individual as the entity/individual that owns a majority of the REIT. The contribution of the HWS Portfolio by HCREP is expected to be accounted for as a combination of entities under common control; therefore, the REIT expects to account for the acquisition at historical cost in a manner similar to the pooling of interest method.

2325 Stemmons Hotel Partners, LLC, the entity that owns the HGI Property, is not considered to be under common control, and therefore the purchase of the HGI Property is considered a purchase from an unrelated third-party and is accounted for at fair value using the purchase method of accounting. The below table reconciles the adjustments made to the pro forma consolidated statement of financial position as of September 30, 2018 for the acquisition of the HGI Property:

	HGI Property
Fair value of property and equipment acquired	$ 37,150
Carrying value of property and equipment acquired	27,074
Increase to property and equipment, net	$ 10,076

(c) Notes payable

The net assets contributed include mortgages with an outstanding principal balance of $53,200, resulting in a weighted average interest rate on such debt of 6.79% as of September 30, 2018. The mortgages are secured by first liens on the properties.

(d) Historical accounts

Elimination of the historical asset, liability and equity accounts relating to the Contributors.

(e) Hotel revenues

Room, food and beverage, and other revenues have been increased by $3,831, $7, and $51, respectively, to reflect adjustments to the HWS Portfolio historical revenues for the year ended December 31, 2017. The HWS Portfolio was acquired by the Contributor on May 4, 2017; therefore, the historical operations presented reflect activity from the acquisition date through December 31, 2017. The pro forma adjustments annualize the historical amounts.

(f) Hotel operating expenses

Operating expenses and general and administrative expenses have been increased by $1,909 and $865, respectively, to reflect adjustments to the HWS Portfolio historical expenses for the year ended December 31, 2017. The pro forma adjustments annualize the historical amounts.

(g) Depreciation

Depreciation expense has been increased by $65 for the nine months ended September 30, 2018. Depreciation expense has been increased by $397 for the year ended December 31, 2017. The adjustments reflect the impact to depreciation expense from management's allocation of the fair values of the HGI Property and the HWS Portfolio to property and equipment and revision to the estimated useful lives, which were supported by third-party valuations. The fair values were determined using the acquisition price paid by the REIT for the HGI Property and the acquisition price (plus acquisition costs) of the HWS Portfolio paid by the Contributor when it acquired the portfolio on May 4, 2017.

(h) Corporate general and administrative expenses

Corporate general and administrative expenses have been increased by $1,125 for the nine months ended September 30, 2018 and $1,500 for the year ended December 31, 2017. Corporate general and administrative expenses are expected to primarily include legal fees, audit fees, director fees, annual report costs, transfer agent fees, insurance, other expenses and costs of being a public entity, which are estimated by management to be $1,500 per annum.

(i) Advisory fees

To compensate for the Advisor's services, the REIT will pay a monthly advisory fee at an annualized rate of 1.00% of gross real estate assets of the REIT, with certain adjustments, to the Advisor. To reflect this on the pro forma consolidated

statements of comprehensive income, advisory fees have been increased by $585 for the nine months ended September 30, 2018 and $780 for the year ended December 31, 2017.

(j) Interest expense, net

Net interest expense has been increased by $228 for the nine months ended September 30, 2018 and $1,614 for the year ended December 31, 2017. The pro forma adjustments reflect the interest costs of the HGI Property and the HWS Portfolio for the periods based on the debt outstanding and effective interest rates of the debt as of September 30, 2018. No pro forma adjustments were made for distributions on Class B OP Units.

(k) Income tax expense

Due to the complexities of the Contribution, the REIT has not made any pro forma adjustments to income tax expense. The REIT assumes that on Closing and beyond, it will qualify as a REIT, effective on the date of its incorporation it will meet the required REIT conditions. The REIT also assumes that it will distribute sufficient amounts of its taxable income to maintain its REIT status each taxation year.

(l) Basic and diluted earnings per unit

Earnings (loss) per unit information is calculated based on the combined weighted average number of Units and Class B OP Units assumed to be outstanding. The combined weighted average number of Units and Class B OP Units outstanding for basic and diluted earnings (loss) per unit is **[3,327]**.

5. Sources and uses of cash

The REIT's sources and uses of cash after the completion of the transactions contemplated in Note 4 are as follows:

Sources:			
Gross proceeds from the Offering	$		450
Cash from Initial Portfolio		[•]	
Initial capital contribution upon formation			—
Uses:			
Offering costs and expenses			(45)
Increase in cash at the REIT	$		405

6. Unitholders' equity

The REIT is authorized to issue an unlimited number of Units. Each Unit represents a proportionate undivided beneficial ownership interest in the REIT. Each Unit is transferable and entitles the holder thereof to: (i) an equal participation in distributions of the REIT; (ii) rights of redemption; and (iii) one vote at all meetings of unitholders.

On Closing, the REIT anticipates raising gross proceeds pursuant to the Offering of approximately $**[450]** through the issuance of **[30,000]** Units (actual number of units, excluding any over-allotment option). Costs relating to the Offering, including underwriters' fees, are assumed to be $**[45]** and are charged directly to the net assets attributable to unitholders.

On Closing, the REIT also anticipates issuing **[2,226,667]** Units and **[1,070,000]** Class B OP Units (actual number of units) at $15.00 per unit for total value of $**[49,450]** in connection with the HGI Property and HWS Portfolio transactions. The Class B OP Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with International Accounting Standards 32, Financial Instruments – Presentation ("IAS 32"). The Class B OP Units are redeemable for cash or Units on a one-for-one basis subject to customary anti-dilution adjustments at the option of the REIT and, therefore, the Class B OP Units meet the definition of a financial liability under IAS 32. Further, the Class B OP Units are designated as fair value through profit and loss

financial liabilities and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The Class B OP Units are, in all material aspects, economically equivalent to Units on a per unit basis. The distributions paid on Class B OP Units are accounted for as finance costs.

7. Related party transactions

These pro forma consolidated financial statements include the following transactions with related parties:

(i) The issuance of **[2,226,667]** Units of the REIT with a value of $**[33,400]** to an affiliate of the chief executive officer of the REIT in connection with the contribution of the HWS Portfolio.

8. Commitments and Contingencies

In connection with the Offering, the REIT has agreed to indemnify the underwriters against certain liabilities, including liabilities under applicable securities legislation, or to contribute to payments the underwriters may be required to make in respect of those liabilities. The REIT has agreed to indemnify, in certain circumstances, the Trustees and the officers of the REIT.

2325 STEMMONS HOTEL PARTNERS, LLC

Consolidated Financial Statements

September 30, 2018 and December 31, 2017

(Unaudited)

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in thousands of U.S. dollars)

	Notes	September 30, 2018 (Unaudited)		December 31, 2017	
ASSETS					
Current assets					
Cash and cash equivalents		$	1,355	$	2,969
Trade and other receivables			138		113
Prepaid and other assets			79		58
Total current assets			1,572		3,140
Non-current assets					
Property and equipment, net	4		27,074		28,025
Total non-current assets			27,074		28,025
TOTAL ASSETS		$	28,646	$	31,165
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities					
Accounts payable and other accrued liabilities	8	$	1,786	$	1,854
Current portion of note payable	9		307		294
Total current liabilities			2,093		2,148
Non-current liabilities					
Note payable, net	9		20,662		20,922
Total non-current liabilities			20,662		20,922
Total Liabilities			22,755		23,070
Members' Equity			5,891		8,095
TOTAL LIABILITIES AND MEMBERS' EQUITY		$	28,646	$	31,165

See accompanying notes to these consolidated financial statements

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands of U.S. dollars)

	Notes	For the Nine Months Ended September 30, 2018	2017
Revenues			
Rooms		$ 6,019	$ 5,970
Food and beverage		891	991
Other		114	108
Total revenues		7,024	7,069
Expenses			
Operating expenses	6	3,597	3,498
General and administrative expenses	7	1,504	1,495
Depreciation		1,094	1,063
Total expenses		6,195	6,056
Operating income		829	1,013
Interest expense, net	10	(1,001)	(858)
Income (loss) before income taxes		(172)	155
Income tax expense		(2)	(22)
Net income (loss) and comprehensive income (loss)		$ (174)	$ 133

See accompanying notes to these consolidated financial statements

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
(Amounts in thousands of U.S. dollars)

	Members' Equity	
Balances, December 31, 2016	$	8,039
Net income and comprehensive income (unaudited)		133
Balances, September 30, 2017		8,172
Balances, December 31, 2017		8,095
Net loss and comprehensive loss (unaudited)		(174)
Distributions (unaudited)		(2,030)
Balances, September 30, 2018	$	5,891

See accompanying notes to these consolidated financial statements

	Notes	For the Nine Months Ended September 30, 2018	2017
Cash flows from operating activities			
Net income (loss)		$ (174)	$ 133
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation		1,094	1,063
Interest expense, net	10	1,001	858
Changes in operating assets and liabilities:			
Operating assets		(46)	282
Operating liabilities		(68)	(365)
Net cash provided by operating activities		1,807	1,971
Cash flows from investing activities			
Additions to property and equipment	4	(143)	(132)
Net cash used in investing activities		(143)	(132)
Cash flows from financing activities			
Principal payments on note payable	9	(301)	(228)
Distributions		(2,030)	—
Interest paid		(947)	(805)
Net cash used in financing activities		(3,278)	(1,033)
Net increase (decrease) in cash and cash equivalents		(1,614)	806
Cash and cash equivalents, beginning of period		2,969	1,957
Cash and cash equivalents, end of period		$ 1,355	$ 2,763
Supplemental Disclosure of Cash Flow Information			
Income taxes paid		$ 2	$ 22

See accompanying notes to these consolidated financial statements

Note 1. General Information

2325 Stemmons Hotel Partners, LLC (the "Company") is a limited liability company registered in Delaware and was established on September 11, 2014. The Company was formed to invest in a Hilton Garden Inn hotel property located in Dallas, Texas (the "Property"). The Company is owned by NexPoint Real Estate Opportunities, LLC ("NREO"), through a wholly owned subsidiary, and Stemmons Hospitality, LLC ("Stemmons"). NREO owns 95% of the Company; Stemmons owns 5%. The Company is operated by 2325 Stemmons TRS, Inc. (the "Operating Company"), a Delaware corporation and is a wholly owned subsidiary of the Company.

NexPoint Hospitality Trust (the "REIT") is a newly-created, unincorporated, real estate investment trust established under the laws of the Province of Ontario. The REIT was formed to aggregate eleven hospitality properties (the "Initial Portfolio") and list its shares on the Toronto Stock Exchange (the "Listing"). The REIT will own its properties through its subsidiary NHT Operating Partnership, LLC, (the "OP"). Ten properties will be contributed prior to the Listing by various entities that currently own such properties (the "Transaction"). The Company will contribute the Property as a part of the Transaction in exchange for Class B units of the OP. One day after the Listing, the REIT will acquire an eleventh property. In order to consummate the Transaction and Listing, the REIT filed a preliminary prospectus with the Ontario Securities Commission on December 12, 2018 (the "Offering") to register the units of the REIT. Upon closing of the Transaction discussed in the Offering, the Properties will be owned indirectly by the REIT.

These consolidated financial statements of the Company consist of the Property and the Operating Company (the "Financials"). The Financials have been prepared for the specific purpose of reporting on the assets, liabilities, members' equity, revenues and expenses of the Company included in, and for the inclusion in, a final prospectus to be filed by the REIT. The Financials present the consolidated financial position, results of operations and cash flows of the Company and the Operating Company for the periods presented. The Financials are not necessarily indicative of future operating results.

Note 2. Basis of Preparation

(a) Statement of Compliance

The Financials have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first consolidated financial statements prepared in accordance with IFRS; the Company adopted IFRS in accordance with IFRS 1, *First-Time Adoption of International Reporting Standards*. An explanation or reconciliation of how the transition to IFRS has affected the Company's consolidated financial position, results of operations and cash flows has not been presented as the Company has not presented consolidated financial statements in previous years. The date of transition to IFRS was January 1, 2015.

(b) Basis of Measurement

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

(c) Basis of Presentation

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Operating Company. All significant intercompany accounts and transactions have been eliminated in consolidation. These consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company, and all amounts have been rounded to the nearest thousands, except when otherwise indicated.

(d) *Use of estimates, assumptions and judgements*

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

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

These consolidated financial statements were authorized for issue by the members of the Company and the board of directors of the REIT on December 12, 2018.

Note 3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below and have been applied consistently to all periods presented:

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the Operating Company. Intra-company transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the consolidated financial position, results of operations and cash flows of the Company and the Operating Company.

(b) Property and equipment

(i) Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset. The estimated useful lives for the current and comparative periods are as follows:

Asset	Useful Life (years)
Buildings	15 - 40
Building improvements	5 - 15
Furniture, fixtures and equipment	3 - 10

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

(c) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

(d) Financial instruments

(iv) Financial assets

The Company's financial assets are comprised of cash and cash equivalents, restricted cash, trade and other receivables and prepaid and other assets. The Company classifies these financial assets as loans and receivables. The Company initially recognizes loans and receivables on the date that they are originated. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(v) Financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and other accrued liabilities and note payable. The Company classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. All non-derivative financial liabilities are initially recognized on the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(vi) Impairment of financial assets

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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

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

(e) Cash and cash equivalents

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

(f) Restricted cash

Restricted cash primarily consists of cash reserves on deposit with lenders in respect of future capital expenditures.

(g) Leases

Leases of property and equipment that transfer to the lessee substantially all of the risks and rewards of ownership are classified as finance leases. Leased assets acquired in a business combination are recorded at fair value at the acquisition date. All other leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognized on the consolidated statement of financial position.

Finance lease obligations are measured at inception of the lease at the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term using the effective interest method.

(h) Provisions

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

(i) Revenue recognition

Revenue is generated primarily from the operation of the Company's hotel, which includes room rentals, food and beverage sales and other incidental income. Revenue is recognized when services are rendered, the amount is earned, and collectability is reasonably assured. The Company may collect payments in advance of the utilization of a facility. These payments are recorded in accounts payable and other accrued liabilities until such time as the applicable facility is utilized, at which time the customer deposit is recognized as revenue.

(j) Interest expense, net

Net interest expense consists of interest expense on outstanding debt and the amortization of deferred financing costs, net of interest income. Net interest expense is recognized in the period in which it is incurred. Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term of the debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the fees and costs is recorded as a reduction from the related debt on the Company's consolidated statements of financial position.

(k) Income taxes

(i) The Company

The Company is a limited liability company and is treated like a partnership for U.S. federal income tax purposes. As such, the Company has not recorded a provision for income taxes on its taxable income (see "The Operating Company" below), as the members of the Company are required to report their share of the Company's earnings in their respective income tax returns. The Company's tax returns and the amounts of allocable income or loss are subject to examination by federal and state taxing authorities. If such examinations result in changes to income tax or loss, the tax liability of the members of the Company could be changed accordingly. In certain instances, the Company may be subject to certain state and local taxes.

The Company evaluates the uncertainties of tax positions taken or expected to be taken on a return based on the probability of whether the position taken will be sustained upon examination by tax authorities. As of September 30, 2018 and December 31, 2017, the Company had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Company recognizes tax positions taken or to be taken in a tax return when they become probable. The Company concluded that it had no material uncertain tax liabilities to be recognized as of September 30, 2018 and December 31, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was signed into law in the United States. The most significant change is the reduction of the statutory corporate tax rate from 35 percent to 21 percent, effective January 1, 2018.

Many of the provisions in the 2017 Tax Act expire in seven years (at the end of 2025). The Company does not expect the 2017 Tax Act to have a significant impact on its consolidated financial statements.

(ii) The Operating Company

The Operating Company is a taxable REIT subsidiary ("TRS") of the U.S. TRS companies are treated as U.S. corporations subject to U.S federal and state income tax on their taxable income. The income tax effects on the results of the Operating Company accrue directly to the members of the Company. Income tax expense for the nine months ended September 30, 2018 and 2017 was $2 and $22, respectively, which is included in the consolidated statements of comprehensive income.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(l) Operating segments

The Company currently operates in one business segment, owning and operating one hotel property in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker.

(m) Levies

In accordance with IFRS Interpretations Committee (IFRIC) 21, *Levies*, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. This is the obligating event that gives rise to a liability to pay the property taxes.

(n) Use of estimates and assumptions

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

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

(o) Recent accounting pronouncements

(i) IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to International Accounting Standards ("IAS") 7, *Statement of Cash Flows* ("IAS 7"). The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company implemented the amendments to IAS 7 on January 1, 2017 and there was no material impact on its consolidated financial statements.

(ii) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") standard ("IFRS 9"). IFRS 9 includes revised guidance on the

classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company adopted IFRS 9 on January 1, 2018 and there was no material impact on its consolidated financial statements.

(iii) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contract with Customers* ("IFRS 15"), which establishes a new five step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company adopted IFRS 15 on January 1, 2018, using the modified retrospective method, and there was no material impact on its Financials.

(iv) IFRS 16 – Leases

IFRS 16, *Leases* ("IFRS 16") was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17, *Leases*. The most significant effect of the new standard will be the recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low value assets may be exempted. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted provided the Company has adopted IFRS 15. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019 and does not expect the new standard to have a material impact on its consolidated financial statements.

Note 4. Property and Equipment, Net

	Land	Buildings and improvements	Furniture, fixtures and equipment	Total
Cost:				
Balance, December 31, 2017	$ 2,555	$ 25,922	$ 3,101	$ 31,578
Additions	—	96	47	143
Disposals	—	—	—	—
Balance, September 30, 2018	$ 2,555	$ 26,018	$ 3,148	$ 31,721
Accumulated depreciation:				
Balance, December 31, 2017	$ —	$ 3,176	$ 377	$ 3,553
Depreciation	—	976	118	1,094
Disposals	—	—	—	—
Balance, September 30, 2018	$ —	$ 4,152	$ 495	$ 4,647
Carrying amount, December 31, 2017	$ 2,555	$ 22,746	$ 2,724	$ 28,025
Carrying amount, September 30, 2018	2,555	21,866	2,653	27,074

The Company's fixed asset additions are primarily related to improvements and upgrades required by the Company's franchise agreement.

Note 5. Restricted Cash

The Company funded restricted cash reserves for brand mandated property improvement plans ("PIPs") and furniture, fixtures and equipment upgrades arising from the execution of the Company's franchise agreement in 2014. Restricted cash reserves are typically expected to be spent over an 18-24 month period. The amounts are released to the Company as the expenditures are incurred or paid directly to the service provider.

Note 6. Operating Expenses

	For the Nine Months Ended September 30,	
	2018	2017
Payroll	$ 1,614	$ 1,573
Repairs and maintenance	293	293
Utilities	211	205
Property taxes and insurance	420	358
Cost of goods sold	396	444
Franchise fees	332	330
Other operating expenses	331	295
Operating expenses	$ 3,597	$ 3,498

Note 7. General and Administrative Expenses

	For the Nine Months Ended September 30,	
	2018	2017
Property management fees	$ 210	$ 326
Office operations	291	327
Marketing	817	726
Other administrative expenses	186	116
General and administrative expenses	$ 1,504	$ 1,495

Note 8. Accounts Payable and Other Accrued Liabilities

	September 30, 2018	December 31, 2017
Trade payables	$ 373	$ 500
Payroll and payroll taxes	175	108
Property taxes	396	491
Property management fees	—	68
Sales and occupancy taxes	123	64
Franchise fees	114	73
Deposits	373	373
Other payables	232	177
Accounts payable and other accrued liabilities	$ 1,786	$ 1,854

Note 9. Note Payable, Net

	September 30, 2018	December 31, 2017
Note payable	$ 21,058	$ 21,359
Less: current maturities	(307)	(294)
Less: unamortized portion of deferred financing costs	(89)	(143)
Note payable, net	$ 20,662	$ 20,922

On December 30, 2014, in connection with the acquisition of the Property, the Company entered into a $24,000 term loan (the "Loan") with a large financial institution and immediately drew $21,632. The Loan is secured by the Property and bears interest at a variable rate equal to the 90-day London InterBank Offered Rate ("LIBOR") plus 3.76%. As of September 30, 2018 and December 31, 2017, the Loan's effective interest rates were 6.16% and 5.45%, respectively. The Loan's first 24 monthly payments were interest only. The Loan matures on January 1, 2020.

The Company's loan agreement contains customary representations, warranties, and events of default, which requires the Company to comply with affirmative and negative covenants. As of September 30, 2018 and December 31, 2017, the Company was in compliance with all covenants of its loan agreement.

Costs related to obtaining debt financing are capitalized and amortized over the term of the related debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the costs is shown as a reduction of the related debt on the consolidated statements of financial position.

Future principal payments on the Loan, excluding amortization of deferred financing costs, payable within the next five calendar years subsequent to September 30, 2018 are as follows:

		Note payable
2018	$	66
2019		310
2020		20,755
2021		—
2022		—
Thereafter		—
Total	$	21,131

Note 10. Interest Expense, Net

	For the Nine Months Ended September 30,			
	2018		2017	
Interest on debt	$	947	$	804
Amortization of deferred financing costs		54		54
Interest expense, net	$	1,001	$	858

Note 11. Members' Capital

The members of the Company have made cash contributions and received cash distributions based on their respective ownership percentages. As of September 30, 2018, cash contributions totaled $9,740 and cash distributions totaled $4,637. All income or loss allocations are based on the member's respective ownership percentage.

Note 12. Financial Instruments

(a) Comparison of fair value to carrying amount

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. Fair value measurements recognized in the consolidated statements of financial position are categorized using the following fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of September 30, 2018 and December 31, 2017, the carrying amounts of the Company's cash and cash equivalents, restricted cash, trade and other receivables, prepaid and other assets and accounts payables and other accrued liabilities approximated their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of note payable is estimated by discounting the future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. Discount rates are either provided by lenders or are observable in the open market. As of September 30, 2018 and December 31, 2017, the carrying amount of the Company's note payable approximated its fair value.

(b) Financial risk management

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

The Company's Loan bears interest at a variable rate. Fluctuations in interest rates will impact the cost of financing incurred in the future. The Company monitors its interest rate exposure on an ongoing basis.

As of September 30, 2018, every 1% increase or decrease in the applicable interest rate, assuming all other variables are constant, would result in a corresponding change of approximately $211 in the Company's net interest expense on an annual basis.

(ii) Credit risk

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

The Company is exposed to credit risk with respect to trade and other receivables. For the nine months ended September 30, 2018 and 2017, bad debt expense was $0 and $2, respectively. Credit risk of trade and other receivables is mitigated by initiating a prompt collection process.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Property and equipment investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If the Company was required to sell the Property, the proceeds to the Company may be significantly less than the Property's carrying amount.

The Company manages liquidity risk through monitoring the repayment date and refinancing date of its note payable, monitoring its debt covenants and managing its cash flows. The Company's objective is to maintain sufficient available access to capital to fund ongoing operational and capital requirements. As of September 30, 2018 and December 31, 2017, the Company had cash and cash equivalents of $1,355 and $2,969, respectively.

The following table provides information on the carrying amounts and the non-discounted contractual maturities of financial liabilities with fixed repayment terms, including estimated interest payments using the 90-day LIBOR rate of 2.40% as of September 30, 2018:

	Carrying amount	Contractual cash flows	1 Year	More than 1 Year
Note payable	$ 21,058	$ 21,058	$ 307	$ 20,751
Interest payable on note	—	1,636	1,312	324
Accounts payable and other accrued liabilities	1,786	1,786	1,786	—
Total	$ 22,844	$ 24,480	$ 3,405	$ 21,075

Note 13. Capital Management

The Company defines capital as the aggregate of members' equity and note payable. The Company's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Company's operating agreement; complies with existing debt covenants; funds its business strategies; and builds long-term members' value. Capital adequacy is monitored by the Company by assessing performance against the approved annual plan throughout the year and by monitoring adherence to investment and debt restrictions contained in the Company's operating agreement and debt covenants.

Note 14. Segment Reporting

The Company currently operates in one business segment, owning and operating one hotel property in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker. Accordingly, the Company has a single reportable segment for disclosure purposes in accordance with IFRS.

Note 15. Commitments and Contingencies

(a) Operating leases

The Company has entered into operating leases for certain office equipment and automobiles. For the nine months ended September 30, 2018 and 2017, lease expense under these agreements was $19 and $15, respectively, and is included in operating expenses in the consolidated statements of comprehensive income.

(b) Franchise agreement

The Property is operated under a franchise agreement (the "Franchise Agreement") with a subsidiary of Hilton Worldwide (the "Franchisor"). The Franchise Agreement was executed on October 22, 2014 and has a 15-year term. The Franchise Agreement requires the payment of a monthly royalty fee of 5.5% and a monthly program fee of 4.3% of the Property's gross room revenue. For the nine months ended September 30, 2018 and 2017, franchise fees were $332 and $330, respectively, and are included in operating expenses in the consolidated statements of comprehensive income.

(c) Litigation

In the normal course of operations, the Company may become subject to a variety of legal and other claims. The Company evaluates all claims on their apparent merits and, if necessary, the Company accrues for its best estimate of the costs to satisfy such claims. While it is not possible to ascertain the ultimate outcome of all such matters, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on these consolidated financial statements. The Company is not involved in any material litigation nor, to the Company's knowledge, is any material litigation currently threatened against the Company, the Operating Company or the Property.

Note 17. Subsequent Events

The Company evaluated subsequent events through December 12, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these consolidated financial statements.

2325 STEMMONS HOTEL PARTNERS, LLC

Consolidated Financial Statements

December 31, 2017, December 31, 2016, December 31, 2015 and January 1, 2015

(With Independent Auditors’ Report Thereon)

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in thousands of U.S. dollars)

	Notes	December 31, 2017	December 31, 2016	December 31, 2015	January 1, 2015
ASSETS					
Current assets					
Cash and cash equivalents		$ 2,969	$ 1,957	$ 737	$ 409
Restricted cash		—	—	148	—
Trade and other receivables		113	456	36	29
Prepaid and other assets		58	93	138	64
Total current assets		3,140	2,506	1,059	502
Non-current assets					
Property and equipment, net	4	28,025	29,104	29,857	25,480
Total non-current assets		28,025	29,104	29,857	25,480
TOTAL ASSETS		$ 31,165	$ 31,610	$ 30,916	$ 25,982
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities					
Accounts payable and other accrued liabilities	8	$ 1,854	$ 2,154	$ 602	$ 105
Current portion of note payable	9	294	273	—	—
Total current liabilities		2,148	2,427	602	105
Non-current liabilities					
Note payable, net	9	20,922	21,144	21,345	21,273
Total non-current liabilities		20,922	21,144	21,345	21,273
Total Liabilities		23,070	23,571	21,947	21,378
Members' Equity		8,095	8,039	8,969	4,604
TOTAL LIABILITIES AND MEMBERS' EQUITY		$ 31,165	$ 31,610	$ 30,916	$ 25,982

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands of U.S. dollars)

	Notes	For the Year Ended December 31, 2017	2016	2015
Revenues				
Rooms		$ 7,796	$ 8,020	$ 6,817
Food and beverage		1,276	1,272	1,198
Other		144	156	194
Total revenues		9,216	9,448	8,209
Expenses				
Operating expenses	6	4,703	4,630	4,356
General and administrative expenses	7	1,846	1,965	1,397
Depreciation		1,423	1,378	752
Total expenses		7,972	7,973	6,505
Operating income		1,244	1,475	1,704
Interest expense, net	10	(1,158)	(1,059)	(962)
Income before income taxes		86	416	742
Income tax expense		(30)	(41)	(120)
Net income and comprehensive income		$ 56	$ 375	$ 622

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
(Amounts in thousands of U.S. dollars)

		Members' Equity
Balances, January 1, 2015	$	4,604
Net income and comprehensive income		622
Contributions		4,950
Distributions		(1,207)
Balances, December 31, 2015		8,969
Net income and comprehensive income		375
Contributions		95
Distributions		(1,400)
Balances, December 31, 2016		8,039
Net income and comprehensive income		56
Balances, December 31, 2017	$	8,095

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of U.S. dollars)

		For the Year Ended December 31,		
	Notes	2017	2016	2015
Cash flows from operating activities				
Net income		$ 56	$ 375	$ 622
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		1,423	1,378	752
Interest expense, net	10	1,158	1,059	962
Changes in operating assets and liabilities:				
Operating assets		378	(375)	(81)
Operating liabilities		(300)	1,552	497
Net cash provided by operating activities		2,715	3,989	2,752
Cash flows from investing activities				
Additions to property and equipment	4	(344)	(625)	(5,129)
Change in restricted cash		—	148	(148)
Net cash used in investing activities		(344)	(477)	(5,277)
Cash flows from financing activities				
Principal payments on note payable	9	(273)	—	—
Contributions		—	95	4,950
Distributions		—	(1,400)	(1,207)
Interest paid		(1,086)	(987)	(890)
Net cash provided by (used in) financing activities		(1,359)	(2,292)	2,853
Net increase in cash and cash equivalents		1,012	1,220	328
Cash and cash equivalents, beginning of period		1,957	737	409
Cash and cash equivalents, end of period		$ 2,969	$ 1,957	$ 737
Supplemental Disclosure of Cash Flow Information				
Income taxes paid		$ 30	$ 41	$ 120

2325 STEMMONS HOTEL PARTNERS, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of U.S. dollars)

Note 1. General Information

2325 Stemmons Hotel Partners, LLC (the "Company") is a limited liability company registered in Delaware and was established on September 11, 2014. The Company was formed to invest in a Hilton Garden Inn hotel property located in Dallas, Texas (the "Property"). The Company is owned by NexPoint Real Estate Opportunities, LLC ("NREO"), through a wholly owned subsidiary, and Stemmons Hospitality, LLC ("Stemmons"). NREO owns 95% of the Company; Stemmons owns 5%. The Company is operated by 2325 Stemmons TRS, Inc. (the "Operating Company"), a Delaware corporation and is a wholly owned subsidiary of the Company.

NexPoint Hospitality Trust (the "REIT") is a newly-created, unincorporated, real estate investment trust established under the laws of the Province of Ontario. The REIT was formed to aggregate eleven hospitality properties (the "Initial Portfolio") and list its shares on the Toronto Stock Exchange (the "Listing"). The REIT will own its properties through its subsidiary NHT Operating Partnership, LLC, (the "OP"). Ten properties will be contributed prior the Listing by various entities that currently own such properties (the "Transaction"). The Company will contribute the Property as a part of the Transaction in exchange for Class B units of the OP. One day after the Listing, the REIT will acquire an eleventh property. In order to consummate the Transaction and Listing, the REIT filed a preliminary prospectus with the Ontario Securities Commission on December 12, 2018 (the "Offering") to register the units of the REIT. Upon closing of the Transaction discussed in the Offering, the Properties will be owned indirectly by the REIT.

These consolidated financial statements of the Company consist of the Property and the Operating Company (the "Financials"). The Financials have been prepared for the specific purpose of reporting on the assets, liabilities, members' equity, revenues and expenses of the Company included in, and for the inclusion in, a final prospectus to be filed by the REIT. The Financials present the consolidated financial position, results of operations and cash flows of the Company and the Operating Company for the periods presented. The Financials are not necessarily indicative of future operating results.

Note 2. Basis of Preparation

(a) Statement of Compliance

The Financials have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first consolidated financial statements prepared in accordance with IFRS; the Company adopted IFRS in accordance with IFRS 1, *First-Time Adoption of International Reporting Standards*. An explanation or reconciliation of how the transition to IFRS has affected the Company's consolidated financial position, results of operations and cash flows has not been presented as the Company has not presented consolidated financial statements in previous years. The date of transition to IFRS was January 1, 2015.

(b) Basis of Measurement

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

(c) Basis of Presentation

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Operating Company. All significant intercompany accounts and transactions have been eliminated in consolidation. These consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company, and all amounts have been rounded to the nearest thousands, except when otherwise indicated.

(d) *Use of estimates, assumptions and judgements*

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

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

These consolidated financial statements were authorized for issue by the members of the Company and the board of directors of the REIT on December 12, 2018.

Note 3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below and have been applied consistently to all periods presented:

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the Operating Company. Intra-company transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the consolidated financial position, results of operations and cash flows of the Company and the Operating Company.

(b) Property and equipment

(i) Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset. The estimated useful lives for the current and comparative periods are as follows:

Asset	Useful Life (years)
Buildings	15 - 40
Building improvements	5 - 15
Furniture, fixtures and equipment	3 - 10

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

(c) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

(d) Financial instruments

(i) Financial assets

The Company's financial assets are comprised of cash and cash equivalents, restricted cash, trade and other receivables and prepaid and other assets. The Company classifies these financial assets as loans and receivables. The Company initially recognizes loans and receivables on the date that they are originated. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and other accrued liabilities and note payable. The Company classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. All non-derivative financial liabilities are initially recognized on the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Impairment of financial assets

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted using the instrument's original effective

interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(e) Cash and cash equivalents

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

(f) Restricted cash

Restricted cash primarily consists of cash reserves on deposit with lenders in respect of future capital expenditures.

(g) Leases

Leases of property and equipment that transfer to the lessee substantially all of the risks and rewards of ownership are classified as finance leases. Leased assets acquired in a business combination are recorded at fair value at the acquisition date. All other leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognized on the consolidated statement of financial position.

Finance lease obligations are measured at inception of the lease at the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term using the effective interest method.

(h) Provisions

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

(i) Revenue recognition

Revenue is generated primarily from the operation of the Company's hotel, which includes room rentals, food and beverage sales and other incidental income. Revenue is recognized when services are rendered, the amount is earned, and collectability is reasonably assured. The Company may collect payments in advance of the utilization of a facility. These payments are recorded in accounts payable and other accrued liabilities until such time as the applicable facility is utilized, at which time the customer deposit is recognized as revenue.

(j) Interest expense, net

Net interest expense consists of interest expense on outstanding debt and the amortization of deferred financing costs, net of interest income. Net interest expense is recognized in the period in which it is incurred. Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term of the debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the fees and costs is recorded as a reduction from the related debt on the Company's consolidated statements of financial position.

(k) Income taxes

(i) The Company

The Company is a limited liability company and is treated like a partnership for U.S. federal income tax purposes. As such, the Company has not recorded a provision for income taxes on its taxable income (see "The Operating Company" below), as the members of the Company are required to report their share of the Company's earnings in their respective income tax returns. The Company's tax returns and the amounts of allocable income or loss are subject to examination by federal and state taxing authorities. If such examinations result in changes to income tax or loss, the tax liability of the members of the Company could be changed accordingly. In certain instances, the Company may be subject to certain state and local taxes.

The Company evaluates the uncertainties of tax positions taken or expected to be taken on a return based on the probability of whether the position taken will be sustained upon examination by tax authorities. As of December 31, 2017, 2016 and 2015 and January 1, 2015, the Company had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Company recognizes tax positions taken or to be taken in a tax return when they become probable. The Company concluded that it had no material uncertain tax liabilities to be recognized as of December 31, 2017, 2016 and 2015 and January 1, 2015.

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was signed into law in the United States. The most significant change is the reduction of the statutory corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Many of the provisions in the 2017 Tax Act expire in seven years (at the end of 2025). The Company does not expect the 2017 Tax Act to have a significant impact on its consolidated financial statements.

(ii) The Operating Company

The Operating Company is a taxable REIT subsidiary ("TRS") of the U.S. TRS companies are treated as U.S. corporations subject to U.S federal and state income tax on their taxable income. The income tax effects on the results of the Operating Company accrue directly to the members of the Company. Income tax expense for the years ended December 31, 2017, 2016 and 2015 was $30, $41 and $120, respectively, which is included in the consolidated statements of comprehensive income.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(l) Operating segments

The Company currently operates in one business segment, owning and operating one hotel property in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker.

(m) Levies

In accordance with IFRS Interpretations Committee (IFRIC) 21, *Levies*, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. This is the obligating event that gives rise to a liability to pay the property taxes.

(n) Use of estimates and assumptions

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

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

(o) Recent accounting pronouncements

(i) IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to International Accounting Standards (“IAS”) 7, *Statement of Cash Flows* (“IAS 7”). The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company implemented the amendments to IAS 7 on January 1, 2017 and there was no material impact on its consolidated financial statements.

(ii) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”) standard (“IFRS 9”). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018 and does not expect the new standard to have a material impact on its consolidated financial statements.

(iii) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contract with Customers* (“IFRS 15”), which establishes a new five step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company has performed an in-depth assessment of IFRS 15 to determine what the impact of the adoption of the new standard will have on the Company’s consolidated financial statements. Based on the nature of the Company’s operations to own and operate a hotel, the Company does not expect there to be a material impact on the timing and measurement of revenue recognized as compared to the previous standard. Additional disclosures will be required to comply with IFRS 15.

(iv) IFRS 16 – Leases

IFRS 16, *Leases* (“IFRS 16”) was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17, *Leases*. The most significant effect of the new standard will be the recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low value assets may be exempted. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted provided the Company has adopted IFRS 15. The Company intends to adopt IFRS 16 in its

consolidated financial statements for the annual period beginning on January 1, 2019 and does not expect the new standard to have a material impact on its consolidated financial statements.

Note 4. Property and Equipment, Net

	Land	Buildings and improvements	Furniture, fixtures and equipment	Total
Cost:				
Balance, January 1, 2015	$ 2,525	$ 20,329	$ 2,626	$ 25,480
Additions	30	4,839	260	5,129
Disposals	—	—	—	—
Balance, December 31, 2015	2,555	25,168	2,886	30,609
Additions	—	432	193	625
Disposals	—	—	—	—
Balance, December 31, 2016	2,555	25,600	3,079	31,234
Additions	—	322	22	344
Disposals	—	—	—	—
Balance, December 31, 2017	$ 2,555	$ 25,922	$ 3,101	$ 31,578
Accumulated depreciation:				
Balance, January 1, 2015	$ —	$ —	$ —	$ —
Depreciation	—	675	77	752
Disposals	—	—	—	—
Balance, December 31, 2015	—	675	77	752
Depreciation	—	1,230	148	1,378
Disposals	—	—	—	—
Balance, December 31, 2016	—	1,905	225	2,130
Depreciation	—	1,271	152	1,423
Disposals	—	—	—	—
Balance, December 31, 2017	$ —	$ 3,176	$ 377	$ 3,553
Carrying amount, January 1, 2015	$ 2,525	$ 20,329	$ 2,626	$ 25,480
Carrying amount, December 31, 2015	2,555	24,493	2,809	29,857
Carrying amount, December 31, 2016	2,555	23,695	2,854	29,104
Carrying amount, December 31, 2017	2,555	22,746	2,724	28,025

The Company's fixed asset additions are primarily related to improvements and upgrades required by the Company's franchise agreement.

Note 5. Restricted Cash

The Company funded restricted cash reserves for brand mandated property improvement plans ("PIPs") and furniture, fixtures and equipment upgrades arising from the execution of the Company's franchise agreement in 2014. Restricted cash reserves are typically expected to be spent over an 18-24 month period. The amounts are released to the Company as the expenditures are incurred or paid directly to the service provider.

Note 6. Operating Expenses

	For the Year Ended December 31,		
	2017	2016	2015
Payroll	$ 2,085	$ 1,978	$ 1,748
Repairs and maintenance	384	499	326
Utilities	270	274	262
Property taxes and insurance	545	489	526
Cost of goods sold	588	548	468
Franchise fees	431	449	390
Other operating expenses	400	393	636
Operating expenses	$ 4,703	$ 4,630	$ 4,356

Note 7. General and Administrative Expenses

	For the Year Ended December 31,		
	2017	2016	2015
Property management fees	$ 329	$ 337	$ 245
Office operations	425	420	417
Marketing	943	1,098	625
Other administrative expenses	149	110	110
General and administrative expenses	$ 1,846	$ 1,965	$ 1,397

Note 8. Accounts Payable and Other Accrued Liabilities

	December 31, 2017	December 31, 2016	December 31, 2015	January 1, 2015
Trade payables	$ 500	$ 333	$ 8	$ —
Payroll and payroll taxes	108	94	80	5
Property taxes	491	417	—	—
Property management fees	68	75	17	1
Sales and occupancy taxes	64	75	51	4
Franchise fees	73	85	57	4
Deposits	373	373	95	—
Other payables	177	702	294	91
Accounts payable and other accrued liabilities	$ 1,854	$ 2,154	$ 602	$ 105

Note 9. Note Payable, Net

	December 31, 2017	December 31, 2016	December 31, 2015	January 1, 2015
Note payable	$ 21,359	$ 21,632	$ 21,632	$ 21,632
Less: current maturities	(294)	(273)	—	—
Less: unamortized portion of deferred financing costs	(143)	(215)	(287)	(359)
Note payable, net	$ 20,922	$ 21,144	$ 21,345	$ 21,273

On December 30, 2014, in connection with the acquisition of the Property, the Company entered into a $24,000 term loan (the "Loan") with a large financial institution and immediately drew $21,632. The Loan is secured by the Property and bears interest at a variable rate equal to the 90-day London InterBank Offered Rate ("LIBOR") plus 3.76%. As of December 31, 2017, 2016 and 2015 and January 1, 2015, the Loan's effective interest rates were 5.45%, 4.76%, 4.37% and 4.02%, respectively. The Loan's first 24 monthly payments were interest only. The Loan matures on January 1, 2020.

The Company's loan agreement contains customary representations, warranties, and events of default, which requires the Company to comply with affirmative and negative covenants. As of December 31, 2017, 2016 and 2015 and January 1, 2015, the Company was in compliance with all covenants of its loan agreement.

Costs related to obtaining debt financing are capitalized and amortized over the term of the related debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the costs is shown as a reduction of the related debt on the consolidated statements of financial position.

Future principal payments on the Loan, excluding amortization of deferred financing costs, payable within the next five calendar years subsequent to December 31, 2017 are as follows:

	Note payable
2018	$ 294
2019	310
2020	20,755
2021	—
2022	—
Thereafter	—
Total	$ 21,359

Note 10. Interest Expense, Net

	For the Year Ended December 31,		
	2017	2016	2015
Interest on debt	$ 1,086	$ 987	$ 890
Amortization of deferred financing costs	72	72	72
Interest expense, net	$ 1,158	$ 1,059	$ 962

Note 11. Members' Capital

The members of the Company have made cash contributions and received cash distributions based on their respective ownership percentages. As of December 31, 2017, cash contributions totaled $9,740 and cash distributions totaled $2,607. All income or loss allocations are based on the member's respective ownership percentage.

Note 12. Financial Instruments

(a) Comparison of fair value to carrying amount

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. Fair value measurements recognized in the consolidated statements of financial position are categorized using the following fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2017, 2016 and 2015 and January 1, 2015, the carrying amounts of the Company's cash and cash equivalents, restricted cash, trade and other receivables, prepaid and other assets, accounts payables and other accrued liabilities approximated their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of note payable is estimated by discounting the future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. Discount rates are either provided by lenders or are observable in the open market. As of December 31, 2017, 2016 and 2015 and January 1, 2015, the carrying amount of the Company's note payable approximated its fair value.

(b) Financial risk management

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

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

The Company's Loan bears interest at a variable rate. Fluctuations in interest rates will impact the cost of financing incurred in the future. The Company monitors its interest rate exposure on an ongoing basis.

As of December 31, 2017, every 1% increase or decrease in the applicable interest rate, assuming all other variables are constant, would result in a corresponding change of approximately $214 in the Company's net interest expense on an annual basis.

(v) Credit risk

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

The Company is exposed to credit risk with respect to trade and other receivables. For the years ended December 31, 2017, 2016 and 2015, bad debt expense was $2, $0, and $0, respectively. Credit risk of trade and other receivables is mitigated by initiating a prompt collection process.

(vi) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Property and equipment investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If the Company was required to sell the Property, the proceeds to the Company may be significantly less than the Property's carrying amount.

The Company manages liquidity risk through monitoring the repayment date and refinancing date of its note payable, monitoring its debt covenants and managing its cash flows. The Company's objective is to maintain sufficient available access to capital to fund ongoing operational and capital requirements. As of December 31, 2017, 2016 and 2015 and January 1, 2015, the Company had cash and cash equivalents of $2,969, $1,957, $737 and $409, respectively.

The following table provides information on the carrying amounts and the non-discounted contractual maturities of financial liabilities with fixed repayment terms, including estimated interest payments using the 90-day LIBOR rate of 1.69% as of December 31, 2017:

	Carrying amount	Contractual cash flows	1 Year	More than 1 Year
Note payable	$ 21,359	$ 21,359	$ 294	$ 21,065
Interest payable on note	—	2,327	1,172	1,155
Accounts payable and other accrued liabilities	1,854	1,854	1,854	—
Total	$ 23,213	$ 25,540	$ 3,320	$ 22,220

Note 13. Capital Management

The Company defines capital as the aggregate of members' equity and note payable. The Company's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Company's operating agreement; complies with existing debt covenants; funds its business strategies; and builds long-term members' value. Capital adequacy is monitored by the Company by assessing performance against the approved annual plan throughout the year and by monitoring adherence to investment and debt restrictions contained in the Company's operating agreement and debt covenants.

Note 14. Segment Reporting

The Company currently operates in one business segment, owning and operating one hotel property in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker. Accordingly, the Company has a single reportable segment for disclosure purposes in accordance with IFRS.

Note 15. Commitments and Contingencies

(a) Operating leases

The Company has entered into operating leases for certain office equipment and automobiles. For the years ended December 31, 2017, 2016 and 2015, lease expense under these agreements was $20, $24 and $22, respectively, and is included in operating expenses in the consolidated statements of comprehensive income.

(b) Franchise agreement

The Property is operated under a franchise agreement (the "Franchise Agreement") with a subsidiary of Hilton Worldwide (the "Franchisor"). The Franchise Agreement was executed on October 22, 2014 and has a 15-year term. The Franchise Agreement requires the payment of a monthly royalty fee of 5.5% and a monthly program fee of 4.3% of the Property's gross room revenue. For the years ended December 31, 2017, 2016 and 2015, franchise fees were $431, $449 and $390, respectively, and are included in operating expenses in the consolidated statements of comprehensive income.

(c)Litigation

In the normal course of operations, the Company may become subject to a variety of legal and other claims. The Company evaluates all claims on their apparent merits and, if necessary, the Company accrues for its best estimate of the costs to satisfy such claims. While it is not possible to ascertain the ultimate outcome of all such matters, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on these consolidated financial statements. The Company is not involved in any material litigation nor, to the Company's knowledge, is any material litigation currently threatened against the Company, the Operating Company or the Property.

Note 17. Subsequent Events

The Company evaluated subsequent events through December 12, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these consolidated financial statements.

HCRE HOTEL PARTNER, LLC

Consolidated Financial Statements

September 30, 2018 and December 31, 2017

(Unaudited)

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in thousands of U.S. dollars)

	Notes	September 30, 2018	December 31, 2017
		(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents		$ 705	$ 697
Restricted cash		889	1,008
Trade and other receivables		242	245
Prepaid and other assets		187	180
Total current assets		2,023	2,130
Non-current assets			
Property and equipment, net	4	41,214	35,795
Total non-current assets		41,214	35,795
TOTAL ASSETS		$ 43,237	$ 37,925
LIABILITIES AND MEMBERS' EQUITY			
Current liabilities			
Accounts payable and other accrued liabilities	8	$ 1,656	$ 1,762
Current portion of note payable	9	158	—
Total current liabilities		1,814	1,762
Non-current liabilities			
Note payable, net	9	31,641	26,304
Total non-current liabilities		31,641	26,304
Total Liabilities		33,455	28,066
Members' Equity		9,782	9,859
TOTAL LIABILITIES AND MEMBERS' EQUITY		$ 43,237	$ 37,925

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands of U.S. dollars)

	Notes		For the Nine Months Ended September 30, 2018
Revenues			
Rooms		$	7,446
Food and beverage			14
Other			87
Total revenues			7,547
Expenses			
Operating expenses	6		4,113
General and administrative expenses	7		1,818
Depreciation			596
Total expenses			6,527
Operating income			1,020
Interest expense, net	10		(1,680)
Net income (loss) and comprehensive income (loss)		$	(660)

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
(Amounts in thousands of U.S. dollars)

	Members' Equity	
Balances, December 31, 2017	$	9,859
Net loss and comprehensive loss (unaudited)		(660)
Contributions (unaudited)		811
Distributions (unaudited)		(228)
Balances, September 30, 2018	$	9,782

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in thousands of U.S. dollars)

	Notes	For the Nine Months Ended September 30, 2018
Cash flows from operating activities		
Net income (loss)		$ (660)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation		596
Interest expense, net	10	1,680
Changes in operating assets and liabilities:		
Operating assets		(4)
Operating liabilities		(131)
Net cash provided by operating activities		1,481
Cash flows from investing activities		
Additions to property and equipment	4	(6,015)
Change in restricted cash		119
Net cash used in investing activities		(5,896)
Cash flows from financing activities		
Proceeds from note payable	9	5,349
Contributions		811
Distributions		(228)
Interest paid		(1,509)
Net cash provided by financing activities		4,423
Net increase in cash and cash equivalents		8
Cash and cash equivalents, beginning of period		697
Cash and cash equivalents, end of period		$ 705

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in thousands of U.S. dollars)

Note 1. General Information

HCRE Hotel Partner, LLC (the "Company") is a Delaware limited liability company established on March 2, 2017. The Company was formed to acquire indirect interests in three hospitality properties (the "Properties," see table below) on May 4, 2017 from an independent third party. The Company indirectly owns the properties through single-asset limited liability companies, which are consolidated with the Company's financial statements.

Property Name	Location
Homewood Suites by Hilton – Plano	Plano, TX
Homewood Suites by Hilton – Dallas/Irving/Las Colinas	Irving, TX
Homewood Suites by Hilton – Dallas/Addison	Addison, TX

NexPoint Hospitality Trust (the "REIT") is a newly-created, unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT was formed to aggregate eleven hospitality properties (the "Initial Portfolio") and list its shares on the Toronto Stock Exchange (the "Listing"). Ten properties will be contributed prior to the Listing by various entities that currently own such properties (the "Transaction"). The Company will contribute the Properties as a part of the Transaction in exchange for units of the REIT. One day after the Listing, the REIT will acquire an eleventh property. In order to consummate the Transaction and Listing, the REIT filed a preliminary prospectus with the Ontario Securities Commission on December 12, 2018 (the "Offering") to register the units of the REIT. Upon closing of the Transaction discussed in the Offering, the Properties will be owned indirectly by the REIT.

The consolidated financial statements of the Company consist of the Properties (the "Financials"). The Financials have been prepared for the specific purpose of reporting on the historical assets, liabilities, members' equity, revenues and expenses of the Company included in, and for the inclusion in, a final prospectus to be filed by the REIT. The Financials present the consolidated financial position, results of operations and cash flows of the Company for the periods presented. The Financials are not necessarily indicative of future operating results.

Note 2. Basis of Preparation

(a) Statement of Compliance

The Financials have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first Financials prepared in accordance with IFRS; the Company adopted IFRS in accordance with IFRS 1, *First-Time Adoption of International Reporting Standards,* for the purpose of the Offering. An explanation or reconciliation of how the transition to IFRS has affected the Company's consolidated financial position, results of operations and cash flows has not been presented as the Company has not presented consolidated financial statements in previous years. The date of transition to IFRS was May 4, 2017.

(b) Basis of Measurement

The Financials have been prepared on a historical cost basis.

(c) Basis of Presentation

The Financials include the accounts of the Company on a consolidated basis. The Financials are presented in U.S. dollars, which is the functional currency of the Company, and all amounts have been rounded to the nearest thousands, except when otherwise indicated.

(d) ***Use of estimates, assumptions and judgements***

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

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

The Financials were authorized for issue by the members of the Company and the board of directors of the REIT on December 12, 2018.

Note 3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these Financials are described below and have been applied consistently to all periods presented:

(a) Basis of consolidation

The Financials comprise the financial statements of the Company and its single-asset limited liability company subsidiaries. Intra-company transactions and balances are eliminated in preparing the Financials. The Financials reflect the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries.

(b) Properties and equipment

(i) Recognition and measurement

Properties and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset. The estimated useful lives for the current and comparative periods are as follows:

Asset	Useful Life (years)
Buildings	15 - 40
Building improvements	5 - 15
Furniture, fixtures and equipment	3 - 10

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

(c) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

(d) Financial instruments

(i) Financial assets

The Company's financial assets are comprised of cash and cash equivalents, restricted cash, trade and other receivables and prepaid and other assets. The Company classifies these financial assets as loans and receivables. The Company initially recognizes loans and receivables on the date that they are originated. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and other accrued liabilities and note payable. The Company classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. All non-derivative financial liabilities are initially recognized on the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Impairment of financial assets

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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

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

(e) Cash and cash equivalents

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

(f) Restricted cash

Restricted cash primarily consists of cash reserves on deposit with lenders in respect of future capital expenditures.

(g) Leases

Leases of property and equipment that transfer to the lessee substantially all of the risks and rewards of ownership are classified as finance leases. Leased assets acquired in a business combination are recorded at fair value at the acquisition date. All other leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognized on the consolidated statement of financial position.

Finance lease obligations are measured at inception of the lease at the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term using the effective interest method.

(h) Provisions

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

(i) Revenue recognition

Revenue is generated primarily from the operation of the Company's hotels, which includes room rentals, food and beverage sales and other incidental income. Revenue is recognized when services are rendered, the amount is earned, and collectability is reasonably assured. The Company may collect payments in advance of the utilization of a facility. These payments are recorded in accounts payable and other accrued liabilities until such time as the applicable facility is utilized, at which time the customer deposit is recognized as revenue.

(j) Interest expense, net

Net interest expense primarily consists of interest expense on outstanding debt and the amortization of deferred financing costs, net of interest income. Net interest expense is recognized in the period in which it is incurred. Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term of the debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the fees and costs is recorded as a reduction from the related debt on the Company's consolidated statements of financial position.

(k) Income taxes

The Company is a limited liability company that indirectly owns the Properties through single-asset limited liability companies. The Company is treated like a partnership for U.S. federal income tax purposes. As such, the Company has not recorded a provision for income taxes on its taxable income as the members of the Company are required to report their share of the Company's earnings in their respective income tax returns. The Company's tax returns and the amounts of allocable income or loss are subject to examination by federal and state taxing authorities. If such examinations result in changes to income tax or loss, the tax liability of the members of the Company could be changed accordingly. In certain instances, the Company may be subject to certain state and local taxes.

The Company evaluates the uncertainties of tax positions taken or expected to be taken on a return based on the probability of whether the position taken will be sustained upon examination by tax authorities. As of September 30, 2018 and December 31, 2017, the Company had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Company recognizes tax positions taken or to be taken in a tax return when they become probable. The Company concluded that it had no material uncertain tax liabilities to be recognized as of September 30, 2018 and December 31, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was signed into law in the United States. The most significant change is the reduction of the statutory corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Many of the provisions in the 2017 Tax Act expire in seven years (at the end of 2025). The Company does not expect the 2017 Tax Act to have a significant impact on its Financials.

(l) Operating segments

The Company currently operates in one business segment, owning and operating three hotel properties in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker.

(m) Levies

In accordance with IFRS Interpretations Committee (IFRIC) 21, *Levies*, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. This is the obligating event that gives rise to a liability to pay the property taxes.

(n) Use of estimates and assumptions

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

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

(o) Recent accounting pronouncements

(i) IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to International Accounting Standards ("IAS") 7, *Statement of Cash Flows* ("IAS 7"). The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company implemented the amendments to IAS 7 on May 4, 2017 and there was no material impact on its Financials.

(ii) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") standard ("IFRS 9"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company adopted IFRS 9 on January 1, 2018 and there was no material impact on its Financials.

(iii) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contract with Customers* ("IFRS 15"), which establishes a new five step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company adopted IFRS 15 on January 1, 2018, using the modified retrospective method, and there was no material impact on its Financials.

(iv) IFRS 16 – Leases

IFRS 16, *Leases* ("IFRS 16") was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17, *Leases*. The most significant effect of the new standard will be the recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low value assets may be exempted. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted provided the Company has adopted IFRS 15. The Company intends to adopt IFRS 16 in its Financials for the annual period beginning on January 1, 2019 and does not expect the new standard to have a material impact on its Financials.

Note 4. Property and Equipment, Net

	Land	Buildings and improvements	Furniture, fixtures and equipment	Construction in progress	Total
Cost:					
Balance, December 31, 2017	$ 6,715	$ 20,998	$ 2,094	$ 6,508	$ 36,315
Additions	—	102	161	5,752	6,015
Disposals	—	—	—	—	—
Balance, September 30, 2018	$ 6,715	$ 21,100	$ 2,255	$ 12,260	$ 42,330
Accumulated depreciation:					
Balance, December 31, 2017	$ —	$ 379	$ 141	$ —	$ 520
Depreciation	—	432	164	—	596
Disposals	—	—	—	—	—
Balance, September 30, 2018	$ —	$ 811	$ 305	$ —	$ 1,116
Carrying amount, December 31, 2017	$ 6,715	$ 20,619	$ 1,953	$ 6,508	$ 35,795
Carrying amount, September 30, 2018	6,715	20,289	1,950	12,260	41,214

The Company’s fixed asset additions are primarily related to improvements and upgrades required by the Company’s franchise agreement.

Note 5. Restricted Cash

The Company funded restricted cash reserves for brand mandated property improvement plans (“PIPs”) and furniture, fixtures and equipment upgrades arising from the execution of the franchise agreements in 2017 of each underlying property of the Company. Restricted cash reserves are typically expected to be spent over an 18-24 month period. The amounts are released to the Company as the expenditures are incurred or paid directly to the service provider.

Note 6. Operating Expenses

	For the Nine Months Ended September 30, 2018
Payroll	$ 1,826
Repairs and maintenance	485
Utilities	304
Property taxes and insurance	524
Cost of goods sold	186
Franchise fees	409
Other operating expenses	379
Operating expenses	$ 4,113

Note 7. General and Administrative Expenses

	For the Nine Months Ended September 30, 2018
Property management fees	$ 189
Office operations	463
Marketing	807
Other administrative expenses	359
General and administrative expenses	$ 1,818

Note 8. Accounts Payable and Other Accrued Liabilities

	September 30, 2018		December 31, 2017	
Trade payables	$	134	$	74
Payroll and payroll taxes		173		110
Property taxes		489		727
Property management fees		34		30
Sales and occupancy taxes		176		166
Interest on note payable		173		148
Franchise fees		138		127
Other payables		339		380
Accounts payable and other accrued liabilities	$	1,656	$	1,762

Note 9. Note Payable, Net

	September 30, 2018		December 31, 2017	
Note payable	$	32,107	$	26,758
Less: current maturities		(158)		—
Less: unamortized portion of deferred financing costs		(308)		(454)
Note payable, net	$	31,641	$	26,304

On May 4, 2017, in connection with the acquisition of the Properties, the Company entered into a $32,350 term loan (the “Loan”) with a large financial institution and immediately drew $22,180. Subsequently, the Company drew $5,349 and $4,578 during the periods ended September 30, 2018 and December 31, 2017, respectively. The Loan is secured by the Properties and bears interest at a variable rate equal to the 30-day London InterBank Offered Rate (“LIBOR”) plus 4.95%. As of September 30, 2018 and December 31, 2017, the Loan’s effective interest rates were 7.21% and 6.51%, respectively. Beginning in June 2019, the Loan’s monthly payments include a fixed monthly amortization payment of $40 along with the monthly interest payments. The Loan matures on May 4, 2020, and has one twelve-month extension option.

The Company’s loan agreement contains customary representations, warranties, and events of default, which requires the Company to comply with affirmative and negative covenants. As of September 30, 2018 and December 31, 2017, the Company was in compliance with all covenants of its loan agreement.

Costs related to obtaining debt financing are capitalized and amortized over the term of the related debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the costs is shown as a reduction of the related debt on the consolidated statements of financial position.

Future principal payments on the Loan, excluding amortization of deferred financing costs, payable within the next five calendar years subsequent to September 30, 2018 are as follows:

	Note payable	
2018	$	—
2019		277
2020		31,830
2021		—
2022		—
Thereafter		—
Total	$	32,107

Note 10. Interest Expense, Net

	For the Nine Months Ended September 30, 2018	
Interest on debt	$	1,534
Amortization of deferred financing costs		146
Interest expense, net	$	1,680

Note 11. Members' Capital

The members of the Company have made cash contributions based on their respective ownership percentages. As of September 30, 2018, cash contributions totaled $10,099 and cash distributions totaled $228. All income or loss allocations are based on the member's respective ownership percentage.

Note 12. Financial Instruments

(a) Comparison of fair value to carrying amount

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. Fair value measurements recognized in the consolidated statements of financial position are categorized using the following fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of September 30, 2018 and December 31, 2017, the carrying amounts of the Company's cash and cash equivalents, restricted cash, trade and other receivables, prepaid and other assets, accounts payables and other accrued liabilities approximated their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of note payable is estimated by discounting the future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. Discount rates are either provided by lenders or are observable in the open market. As of September 30, 2018 and December 31, 2017, the carrying amount of the Company's note payable approximated its fair value.

(b) Financial risk management

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

The Company's Loan bears interest at a variable rate. Fluctuations in interest rates will impact the cost of financing incurred in the future. The Company monitors its interest rate exposure on an ongoing basis.

As of September 30, 2018, every 1% increase or decrease in the applicable interest rate, assuming all other variables are constant, would result in a corresponding change of approximately $321 in the Company's net interest expense on an annual basis.

(ii) Credit risk

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

The Company is exposed to credit risk with respect to trade and other receivables. For the nine months ended September 30, 2018, bad debt expense was $1. Credit risk of trade and other receivables is mitigated by initiating a prompt collection process.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Properties and equipment investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If the Company was required to sell the Properties, the proceeds to the Company may be significantly less than the Properties' carrying amount.

The Company manages liquidity risk through monitoring the repayment date and refinancing date of its note payable, monitoring its debt covenants and managing its cash flows. The Company's objective is to maintain sufficient available access to capital to fund ongoing operational and capital requirements. As of September 30, 2018 and December 31, 2017, the Company had cash and cash equivalents of $705 and $697, respectively.

The following table provides information on the carrying amounts and the non-discounted contractual maturities of financial liabilities with fixed repayment terms, including estimated interest payments using the 30-day LIBOR rate of 2.26% as of September 30, 2018:

	Carrying amount	Contractual cash flows	1 Year	More than 1 Year
Note payable	$ 32,107	$ 32,107	$ 158	$ 31,949
Interest payable on note	173	3,893	2,345	1,548
Accounts payable and other accrued liabilities	1,656	1,656	1,656	—
Total	$ 33,936	$ 37,656	$ 4,159	$ 33,497

Note 13. Capital Management

The Company defines capital as the aggregate of members' equity and note payable. The Company's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Company's operating agreement; complies with existing debt covenants; funds its business strategies; and builds long-term members' value. Capital adequacy is monitored by the Company by assessing performance against the approved annual plan throughout the year and by monitoring adherence to investment and debt restrictions contained in the Company's operating agreement and debt covenants.

Note 14. Segment Reporting

The Company currently operates in one business segment, owning and operating three hotel properties in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker. Accordingly, the Company has a single reportable segment for disclosure purposes in accordance with IFRS.

Note 15. Related Party Transactions

The Company periodically evaluates arrangements and agreements to identify related party transactions. For the nine months ended September 30, 2018, the Company has identified no material related party transactions.

Note 16. Commitments and Contingencies

(a) Operating leases

The Company had no operating leases for the nine months ended September 30, 2018.

(b) Franchise agreements

The Properties are operated under franchise agreements (the "Franchise Agreements") with a subsidiary of Hilton Worldwide (the "Franchisor"). The Franchise Agreements were executed on May 4, 2017 and have a 15-year term. The Franchise Agreements require the payment of a monthly royalty fee of 5.5% and a monthly program fee of 3.5% of the Properties' gross room revenue. For the nine months ended September 30, 2018, franchise fees were $409, and are included in operating expenses in the consolidated statements of comprehensive income.

(c)Litigation

In the normal course of operations, the Company may become subject to a variety of legal and other claims. The Company evaluates all claims on their apparent merits and, if necessary, the Company accrues for its best estimate of the costs to satisfy such claims. While it is not possible to ascertain the ultimate outcome of all such matters, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on these Financials. The Company is not involved in any material litigation nor, to the Company's knowledge, is any material litigation currently threatened against the Company or the Properties.

Note 17. Subsequent Events

The Company evaluated subsequent events through December 12, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these Financials.

HCRE HOTEL PARTNER, LLC

Consolidated Financial Statements

December 31, 2017 and May 4, 2017

(With Independent Auditors' Report Thereon)

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in thousands of U.S. dollars)

	Notes	December 31, 2017	May 4, 2017
ASSETS			
Current assets			
Cash and cash equivalents		$ 697	$ 12
Restricted cash		1,008	844
Trade and other receivables		245	70
Prepaid and other assets		180	177
Total current assets		2,130	1,103
Non-current assets			
Property and equipment, net	4	35,795	29,709
Total non-current assets		35,795	29,709
TOTAL ASSETS		$ 37,925	$ 30,812
LIABILITIES AND MEMBERS' EQUITY			
Current liabilities			
Accounts payable and other accrued liabilities	8	$ 1,762	$ 483
Total current liabilities		1,762	483
Non-current liabilities			
Note payable, net	9	26,304	21,596
Total non-current liabilities		26,304	21,596
Total Liabilities		28,066	22,079
Members' Equity		9,859	8,733
TOTAL LIABILITIES AND MEMBERS' EQUITY		$ 37,925	$ 30,812

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Amounts in thousands of U.S. dollars)

	Notes		For the Period from May 4, 2017 (Inception) to December 31, 2017
Revenues			
Rooms		$	7,538
Food and beverage			14
Other			101
Total revenues			7,653
Expenses			
Operating expenses	6		3,755
General and administrative expenses	7		1,701
Depreciation			520
Total expenses			5,976
Operating income			1,677
Interest expense, net	10		(1,106)
Net income and comprehensive income		$	571

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
(Amounts in thousands of U.S. dollars)

	Members' Equity	
Balance, May 4, 2017	$	8,733
Net income and comprehensive income		571
Contributions		555
Balance, December 31, 2017	$	9,859

HCRE HOTEL PARTNER, LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in thousands of U.S. dollars)

	Notes	For the Period from May 4, 2017 (Inception) to December 31, 2017
Cash flows from operating activities		
Net income		$ 571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		520
Interest expense, net	10	1,106
Changes in operating assets and liabilities:		
Operating assets		(360)
Operating liabilities		1,093
Net cash provided by operating activities		2,930
Cash flows from investing activities		
Acquisitions of property and equipment		(29,253)
Additions to property and equipment	4	(6,606)
Change in restricted cash		(1,008)
Net cash used in investing activities		(36,867)
Cash flows from financing activities		
Proceeds from note payable	9	26,758
Deferred financing costs paid	9	(584)
Contributions		9,288
Interest paid		(828)
Net cash provided by financing activities		34,634
Net increase in cash and cash equivalents		697
Cash and cash equivalents, beginning of period		—
Cash and cash equivalents, end of period		$ 697
Supplemental Disclosure of Noncash Activities		
Other assets acquired from acquisitions		65
Liabilities assumed from acquisitions		521

Note 1. General Information

HCRE Hotel Partner, LLC (the "Company") is a Delaware limited liability company established on March 2, 2017. The Company was formed to acquire indirect interests in three hospitality properties (the "Properties," see table below) on May 4, 2017 from an independent third party. The Company indirectly owns the properties through single-asset limited liability companies, which are consolidated with the Company's financial statements.

Property Name	Location
Homewood Suites by Hilton – Plano	Plano, TX
Homewood Suites by Hilton – Dallas/Irving/Las Colinas	Irving, TX
Homewood Suites by Hilton – Dallas/Addison	Addison, TX

NexPoint Hospitality Trust (the "REIT") is a newly-created, unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT was formed to aggregate eleven hospitality properties (the "Initial Portfolio") and list its shares on the Toronto Stock Exchange (the "Listing"). Ten properties will be contributed prior to the Listing by various entities that currently own such properties (the "Transaction"). The Company will contribute the Properties as a part of the Transaction in exchange for units of the REIT. One day after the Listing, the REIT will acquire an eleventh property. In order to consummate the Transaction and Listing, the REIT filed a preliminary prospectus with the Ontario Securities Commission on December 12, 2018 (the "Offering") to register the units of the REIT. Upon closing of the Transaction discussed in the Offering, the Properties will be owned indirectly by the REIT.

The consolidated financial statements of the Company consist of the Properties (the "Financials"). The Financials have been prepared for the specific purpose of reporting on the historical assets, liabilities, members' equity, revenues and expenses of the Company included in, and for the inclusion in, a final prospectus to be filed by the REIT. The Financials present the consolidated financial position, results of operations and cash flows of the Company for the periods presented. The Financials are not necessarily indicative of future operating results.

Note 2. Basis of Preparation

(a) Statement of Compliance

The Financials have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first Financials prepared in accordance with IFRS; the Company adopted IFRS in accordance with IFRS 1, *First-Time Adoption of International Reporting Standards,* for the purpose of the Offering. An explanation or reconciliation of how the transition to IFRS has affected the Company's consolidated financial position, results of operations and cash flows has not been presented as the Company has not presented consolidated financial statements in previous years. The date of transition to IFRS was May 4, 2017.

(b) Basis of Measurement

The Financials have been prepared on a historical cost basis.

(c)Basis of Presentation

The Financials include the accounts of the Company on a consolidated basis. The Financials are presented in U.S. dollars, which is the functional currency of the Company, and all amounts have been rounded to the nearest thousands, except when otherwise indicated.

(d) ***Use of estimates, assumptions and judgements***

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

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

The Financials were authorized for issue by the members of the Company and the board of directors of the REIT on December 12, 2018.

Note 3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these Financials are described below and have been applied consistently to all periods presented:

(a) Basis of consolidation

The Financials comprise the financial statements of the Company and its single-asset limited liability company subsidiaries. Intra-company transactions and balances are eliminated in preparing the Financials. The Financials reflect the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries.

(b) Properties and equipment

(i) Recognition and measurement

Properties and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset. The estimated useful lives for the current and comparative periods are as follows:

Asset	Useful Life (years)
Buildings	15 - 40
Building improvements	5 - 15
Furniture, fixtures and equipment	3 - 10

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

(c) Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

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

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

(d) Financial instruments

(i) Financial assets

The Company's financial assets are comprised of cash and cash equivalents, restricted cash, trade and other receivables and prepaid and other assets. The Company classifies these financial assets as loans and receivables. The Company initially recognizes loans and receivables on the date that they are originated. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial liabilities

The Company has the following non-derivative financial liabilities: accounts payable and other accrued liabilities and note payable. The Company classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. All non-derivative financial liabilities are initially recognized on the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Impairment of financial assets

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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

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

impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(e) Cash and cash equivalents

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

(f) Restricted cash

Restricted cash primarily consists of cash reserves on deposit with lenders in respect of future capital expenditures.

(g) Leases

Leases of property and equipment that transfer to the lessee substantially all of the risks and rewards of ownership are classified as finance leases. Leased assets acquired in a business combination are recorded at fair value at the acquisition date. All other leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognized on the consolidated statement of financial position.

Finance lease obligations are measured at inception of the lease at the present value of the minimum lease payments. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term using the effective interest method.

(h) Provisions

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

(i) Revenue recognition

Revenue is generated primarily from the operation of the Company's hotels, which includes room rentals, food and beverage sales and other incidental income. Revenue is recognized when services are rendered, the amount is earned, and collectability is reasonably assured. The Company may collect payments in advance of the utilization of a facility. These payments are recorded in accounts payable and other accrued liabilities until such time as the applicable facility is utilized, at which time the customer deposit is recognized as revenue.

(j) Interest expense, net

Net interest expense primarily consists of interest expense on outstanding debt and the amortization of deferred financing costs, net of interest income. Net interest expense is recognized in the period in which it is incurred. Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term of the debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the fees and costs is recorded as a reduction from the related debt on the Company's consolidated statements of financial position.

(k) Income taxes

The Company is a limited liability company that indirectly owns the Properties through single-asset limited liability companies. The Company is treated like a partnership for U.S. federal income tax purposes. As such, the Company has not recorded a provision for income taxes on its taxable income as the members of the Company are required to report their share of the Company's earnings in their respective income tax returns. The Company's tax returns and the amounts of allocable income or

loss are subject to examination by federal and state taxing authorities. If such examinations result in changes to income tax or loss, the tax liability of the members of the Company could be changed accordingly. In certain instances, the Company may be subject to certain state and local taxes.

The Company evaluates the uncertainties of tax positions taken or expected to be taken on a return based on the probability of whether the position taken will be sustained upon examination by tax authorities. As of December 31, 2017 and May 4, 2017, the Company had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Company recognizes tax positions taken or to be taken in a tax return when they become probable. The Company concluded that it had no material uncertain tax liabilities to be recognized as of December 31, 2017 and May 4, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was signed into law in the United States. The most significant change is the reduction of the statutory corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Many of the provisions in the 2017 Tax Act expire in seven years (at the end of 2025). The Company does not expect the 2017 Tax Act to have a significant impact on its Financials.

(l) Operating segments

The Company currently operates in one business segment, owning and operating three hotel properties in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker.

(m) Levies

In accordance with IFRS Interpretations Committee (IFRIC) 21, *Levies*, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. This is the obligating event that gives rise to a liability to pay the property taxes.

(n) Use of estimates and assumptions

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

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

(o) Recent accounting pronouncements

(i) IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to International Accounting Standards ("IAS") 7, *Statement of Cash Flows* ("IAS 7"). The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company implemented the amendments to IAS 7 on May 4, 2017 and there was no material impact on its Financials.

(ii) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") standard ("IFRS 9"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual periods beginning

on or after January 1, 2018 with early adoption permitted. The Company intends to adopt IFRS 9 in its Financials for the annual period beginning on January 1, 2018 and does not expect the new standard to have a material impact on its Financials.

(iii) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contract with Customers* ("IFRS 15"), which establishes a new five step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company intends to adopt IFRS 15 in its Financials for the annual period beginning on January 1, 2018. The Company has performed an in-depth assessment of IFRS 15 to determine what the impact of the adoption of the new standard will have on the Company's Financials. Based on the nature of the Company's operations to own and operate hotels, the Company does not expect there to be a material impact on the timing and measurement of revenue recognized as compared to the previous standard. Additional disclosures will be required to comply with IFRS 15.

(iv) IFRS 16 – Leases

IFRS 16, *Leases* ("IFRS 16") was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17, *Leases*. The most significant effect of the new standard will be the recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low value assets may be exempted. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted provided the Company has adopted IFRS 15. The Company intends to adopt IFRS 16 in its Financials for the annual period beginning on January 1, 2019 and does not expect the new standard to have a material impact on its Financials.

Note 4. Property and Equipment, Net

	Land	Buildings and improvements	Furniture, fixtures and equipment	Construction in progress	Total
Cost:					
Balance, May 4, 2017	$ 6,715	$ 20,922	$ 2,072	$ —	$ 29,709
Additions	—	76	22	6,508	6,606
Disposals	—	—	—	—	—
Balance, December 31, 2017	$ 6,715	$ 20,998	$ 2,094	$ 6,508	$ 36,315
Accumulated depreciation:					
Balance, May 4, 2017	$ —	$ —	$ —	$ —	$ —
Depreciation	—	379	141	—	520
Disposals	—	—	—	—	—
Balance, December 31, 2017	$ —	$ 379	$ 141	$ —	$ 520
Carrying amount, May 4, 2017	$ 6,715	$ 20,922	$ 2,072	$ —	$ 29,709
Carrying amount, December 31, 2017	6,715	20,619	1,953	6,508	35,795

The Company's fixed asset additions are primarily related to improvements and upgrades required by the Company's franchise agreement.

Note 5. Restricted Cash

The Company funded restricted cash reserves for brand mandated property improvement plans ("PIPs") and furniture, fixtures and equipment upgrades arising from the execution of the franchise agreements in 2017 of each underlying property of the Company. Restricted cash reserves are typically expected to be spent over an 18-24 month period. The amounts are released to the Company as the expenditures are incurred or paid directly to the service provider.

Note 6. Operating Expenses

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Payroll	$ 1,624
Repairs and maintenance	394
Utilities	298
Property taxes and insurance	526
Cost of goods sold	150
Franchise fees	417
Other operating expenses	346
Operating expenses	$ 3,755

Note 7. General and Administrative Expenses

	For the Period from May 4, 2017 (Inception) to December 31, 2017
Property management fees	$ 191
Office operations	420
Marketing	808
Other administrative expenses	282
General and administrative expenses	$ 1,701

Note 8. Accounts Payable and Other Accrued Liabilities

	December 31, 2017	May 4, 2017
Trade payables	$ 74	$ —
Payroll and payroll taxes	110	—
Property taxes	727	246
Property management fees	30	—
Sales and occupancy taxes	166	—
Interest on note payable	148	—
Franchise fees	127	—
Other payables	380	237
Accounts payable and other accrued liabilities	$ 1,762	$ 483

Note 9. Note Payable, Net

	December 31, 2017	May 4, 2017
Note payable	$ 26,758	$ 22,180
Less: current maturities	—	—
Less: unamortized portion of deferred financing costs	(454)	(584)
Note payable, net	$ 26,304	$ 21,596

On May 4, 2017, in connection with the acquisition of the Properties, the Company entered into a $32,350 term loan (the "Loan") with a large financial institution and immediately drew $22,180. Subsequently, the Company drew $4,578 during the period ended December 31, 2017. The Loan is secured by the Properties and bears interest at a variable rate equal to the 30-day London InterBank Offered Rate ("LIBOR") plus 4.95%. As of December 31, 2017 and May 4, 2017, the Loan's effective interest rates were

6.51% and 5.94%, respectively. Beginning in June 2019, the Loan's monthly payments include a fixed monthly amortization payment of $40 along with the monthly interest payments. The Loan matures on May 4, 2020, and has one twelve-month extension option.

The Company's loan agreement contains customary representations, warranties, and events of default, which requires the Company to comply with affirmative and negative covenants. As of December 31, 2017 and May 4, 2017, the Company was in compliance with all covenants of its loan agreement.

Costs related to obtaining debt financing are capitalized and amortized over the term of the related debt using the straight-line method, which approximates the effective interest method, and are included in net interest expense. The unamortized balance of the costs is shown as a reduction of the related debt on the consolidated statements of financial position.

Future principal payments on the Loan, excluding amortization of deferred financing costs, payable within the next five calendar years subsequent to December 31, 2017 are as follows:

		Note payable
2018	$	—
2019		277
2020		26,481
2021		—
2022		—
Thereafter		—
Total	$	26,758

Note 10. Interest Expense, Net

		For the Period from May 4, 2017 (Inception) to December 31, 2017
Interest on debt	$	976
Amortization of deferred financing costs		130
Interest expense, net	$	1,106

Note 11. Members' Capital

The members of the Company have made cash contributions based on their respective ownership percentages. As of December 31, 2017, cash contributions totaled $9,288. All income or loss allocations are based on the member's respective ownership percentage.

Note 12. Financial Instruments

(a) Comparison of fair value to carrying amount

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. Fair value measurements recognized in the consolidated statements of financial position are categorized using the following fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2017 and May 4, 2017, the carrying amounts of the Company's cash and cash equivalents, restricted cash, trade and other receivables, prepaid and other assets, accounts payables and other accrued liabilities approximated their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of note payable is estimated by discounting the future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. Discount rates are either provided by lenders or are observable in the open market. As of December 31, 2017 and May 4, 2017, the carrying amount of the Company's note payable approximated its fair value.

(b) Financial risk management

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

The Company's Loan bears interest at a variable rate. Fluctuations in interest rates will impact the cost of financing incurred in the future. The Company monitors its interest rate exposure on an ongoing basis.

As of December 31, 2017, every 1% increase or decrease in the applicable interest rate, assuming all other variables are constant, would result in a corresponding change of approximately $268 in the Company's net interest expense on an annual basis.

(ii) Credit risk

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

The Company is exposed to credit risk with respect to trade and other receivables. For the period ended December 31, 2017, bad debt expense was $7. Credit risk of trade and other receivables is mitigated by initiating a prompt collection process.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Properties and equipment investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If the Company was required to sell the Properties, the proceeds to the Company may be significantly less than the Properties' carrying amount.

The Company manages liquidity risk through monitoring the repayment date and refinancing date of its note payable, monitoring its debt covenants and managing its cash flows. The Company's objective is to maintain sufficient available access to capital to fund ongoing operational and capital requirements. As of December 31, 2017 and May 4, 2017, the Company had cash and cash equivalents of $697 and $12, respectively.

The following table provides information on the carrying amounts and the non-discounted contractual maturities of financial liabilities with fixed repayment terms, including estimated interest payments using the 30-day LIBOR rate of 1.56% as of December 31, 2017:

	Carrying amount	Contractual cash flows	1 Year	More than 1 Year
Note payable	$ 26,758	$ 26,758	$ —	$ 26,758
Interest payable on note	148	4,256	1,767	2,489
Accounts payable and other accrued liabilities	1,762	1,762	1,762	—
Total	$ 28,668	$ 32,776	$ 3,529	$ 29,247

Note 13. Capital Management

The Company defines capital as the aggregate of members' equity and note payable. The Company's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the Company's operating agreement; complies with existing debt covenants; funds its business strategies; and builds long-term members' value. Capital adequacy is monitored by the Company by assessing performance against the approved annual plan throughout the year and by monitoring adherence to investment and debt restrictions contained in the Company's operating agreement and debt covenants.

Note 14. Segment Reporting

The Company currently operates in one business segment, owning and operating three hotel properties in the U.S. The primary format for segment reporting is based on geographic region and is consistent with the internal reporting provided to the Company's chief operating decision-maker. Accordingly, the Company has a single reportable segment for disclosure purposes in accordance with IFRS.

Note 15. Related Party Transactions

The Company periodically evaluates arrangements and agreements to identify related party transactions. For the period ended December 31, 2017, the Company has identified no material related party transactions.

Note 16. Commitments and Contingencies

(a) Operating leases

The Company had no operating leases for the period ended December 31, 2017.

(b) Franchise agreements

The Properties are operated under franchise agreements (the "Franchise Agreements") with a subsidiary of Hilton Worldwide (the "Franchisor"). The Franchise Agreements were executed on May 4, 2017 and have a 15-year term. The Franchise Agreements require the payment of a monthly royalty fee of 5.5% and a monthly program fee of 3.5% of the Properties' gross room revenue. For the period ended December 31, 2017, franchise fees were $417, and are included in operating expenses in the consolidated statements of comprehensive income.

(c) Litigation

In the normal course of operations, the Company may become subject to a variety of legal and other claims. The Company evaluates all claims on their apparent merits and, if necessary, the Company accrues for its best estimate of the costs to satisfy such claims. While it is not possible to ascertain the ultimate outcome of all such matters, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on these Financials. The Company is not involved in any material litigation nor, to the Company's knowledge, is any material litigation currently threatened against the Company or the Properties.

Note 17. Subsequent Events

The Company evaluated subsequent events through December 12, 2018 and is not aware of any significant events that occurred subsequent to the balance sheet dates that would have a material impact on these Financials.

APPENDIX A
NEXPOINT HOSPITALITY TRUST

CHARTER OF THE AUDIT COMMITTEE

(the "Charter")

1. General

A. Purpose

The Audit Committee (the "**Committee**") is a committee of the board of trustees (the "**Board**") of NexPoint Hospitality Trust (the "**REIT**"). The members of the Committee and the chair of the Committee (the "**Chair**") are appointed by the Board on an annual basis (or until their successors are duly appointed) for the purpose of overseeing the REIT's financial controls and reporting and monitoring whether the REIT complies with financial covenants and legal and regulatory requirements governing financial disclosure matters and financial risk management.

2. Composition

(1) The Committee should be comprised of a minimum of three trustees, and a maximum of five trustees

(2) The Committee must be constituted as required under National Instrument 52-110 — *Audit Committees*, as it may be amended or replaced from time to time ("**NI 52-110**").

(3) All members of the Committee must (except to the extent permitted by NI 52-110) be independent (as defined by NI 52-110), and free from any relationship that, in the view of the Board, could be reasonably expected to interfere with the exercise of his or her independent judgment as a member of the Committee.

(4) No members of the Committee shall receive, other than for service on the Board or the Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the REIT or any of its related parties or subsidiaries.

(5) All members of the Committee must (except to the extent permitted by NI 52-110) be financially literate (which is defined as the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the REIT's financial statements).

(6) Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee on ceasing to be a trustee. The Board may fill vacancies on the Committee by election from among the Board. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all powers of the Committee so long as a quorum remains.

3. Limitations on Committee's Duties

In contributing to the Committee's discharge of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended or may be construed as imposing on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which any member of the Board may be otherwise subject.

Members of the Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management of the REIT ("**Management**") as to the non-audit services provided to the REIT by the external auditor, (iv) financial statements of the REIT represented to them by a member of Management or in a written report of the external auditors to present fairly the financial position of the REIT in accordance with applicable generally accepted accounting principles, and (v) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. Meetings

The Committee should meet not less than four times annually. The Committee should meet within 45 days following the end of the first three financial quarters of the REIT and shall meet within 90 days following the end of the fiscal year of the REIT. A quorum for the transaction of business at any meeting of the Committee shall be a majority of the members of the Committee or such greater number as the Committee shall by resolution determine. The Committee shall keep minutes of each meeting of the Committee. A copy of the minutes shall be provided to each member of the Committee.

Meetings of the Committee shall be held from time to time and at such place as any member of the Committee shall determine upon two day's prior notice to each of the other Committee members. The members of the Committee may waive the requirement for notice. In addition, each of the Chief Executive Officer, the Chief Financial Officer and the external auditor shall be entitled to request that the Chair call a meeting.

The Committee may ask members of Management and employees of the REIT (including, for greater certainty, its affiliates and subsidiaries) or others (including the external auditor) to attend meetings and provide such information as the Committee requests. Members of the Committee shall have full access to information of the REIT (including, for greater certainty, its affiliates, subsidiaries and their respective operations) and shall be permitted to discuss such information and any other matters relating to the results of operations and financial position of the REIT with Management, employees, the external auditor and others as they consider appropriate.

The Committee or its Chair should meet at least once per year with Management and the external auditor in separate sessions to discuss any matters that the Committee or either of these groups desires to discuss privately. In addition, the Committee or its Chair should meet with Management quarterly in connection with the REIT's interim financial statements.

The Committee shall determine any desired agenda items.

5. Committee Activities

As part of its function in assisting the Board in fulfilling its oversight responsibilities (and without limiting the generality of the Committee's role), the Committee will have the power and authority to:

A. Financial Disclosure

(1) Review, approve and recommend for Board approval the REIT's interim financial statements, including any certification, report, opinion or review rendered by the external auditor and the related management's discussion & analysis and press release.

(2) Review, approve and recommend for Board approval the REIT's annual financial statements, including any certification, report, opinion or review rendered by the external auditor, the annual information form, and the related management's discussion & analysis and press release.

(3) Review and approve any other press releases that contain financial information and such other financial information of the REIT provided to the public or any governmental body as the Committee requires.

(4) Satisfy itself that adequate procedures have been put in place by Management for the review of the REIT’s public disclosure of financial information extracted or derived from the REIT’s financial statements and the related management’s discussion & analysis.

(5) Review any litigation, claim or other contingency and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of the REIT and the appropriateness of the disclosure thereof in the documents reviewed by the Committee.

(6) Receive periodically Management reports assessing the adequacy and effectiveness of the REIT’s disclosure controls and procedures.

B. Internal Control

(1) Review Management’s process to identify and manage the significant risks associated with the activities of the REIT.

(2) Review the effectiveness of the internal control systems for monitoring compliance with laws and regulations.

(3) Have the authority to communicate directly with the internal auditor if one is present.

(4) Receive periodical Management reports assessing the adequacy and effectiveness of the REIT’s internal control systems.

(5) Assess the overall effectiveness of the internal control and risk management frameworks through discussions with Management and the external auditors and assess whether recommendations made by the external auditors have been implemented by Management.

C. Relationship with the External Auditor

(1) Recommend to the Board the selection of the external auditor and the fees and other compensation to be paid to the external auditor.

(2) Have the authority to communicate directly with the external auditor and arrange for the external auditor to be available to the Committee and the Board as needed.

(3) Advise the external auditor that it is required to report to the Committee, and not to Management.

(4) Monitor the relationship between Management and the external auditor, including reviewing any Management letters or other reports of the external auditor, discussing any material differences of opinion between Management and the external auditor and resolving disagreements between the external auditor and Management.

(5) If considered appropriate, establish separate systems of reporting to the Committee by each of management and the external auditor.

(6) Review and discuss on an annual basis with the external auditor all significant relationships they have with the REIT, Management or employees that might interfere with the independence of the external auditor.

(7) Pre-approve all non-audit services (or delegate such pre-approval, as the Committee may determine and as otherwise permitted by applicable securities laws) to be provided by the external auditor.

(8) Review the performance of the external auditor and recommend any discharge of the external auditor when the Committee determines that circumstances warrant.

(9) Periodically consult with the external auditor out of the presence of Management about (a) any significant risks or exposures facing the REIT, (b) internal controls and other steps that Management has taken to control such risks, and (c) the fullness and accuracy of the financial statements of the REIT, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.

(10) Review and approve any proposed hiring of current or former partners or employees of the current (and any former) external auditor of the REIT.

D. Audit Process

(1) Review the scope, plan and results of the external auditor's audit and reviews, including the auditor's engagement letter, the post-audit management letter, if any, and the form of the audit report. The Committee may authorize the external auditor to perform supplemental reviews, audits or other work as deemed desirable.

(2) Following completion of the annual audit and quarterly reviews, review separately with each of Management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.

(3) Review any significant disagreements among Management and the external auditor in connection with the preparation of the financial statements.

(4) Where there are significant unsettled issues between Management and the external auditor that do not affect the audited financial statements, the Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.

(5) Review with the external auditor and Management significant findings and the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented.

(6) Review the system in place to seek to ensure that the financial statements, management's discussion & analysis and other financial information disseminated to regulatory authorities and the public satisfy applicable requirements.

E. Financial Reporting Processes

(1) Review the integrity of the REIT's financial reporting processes, both internal and external, in consultation with the external auditor.

(2) Periodically consider the need for an internal audit function, if not present.

(3) Review all material balance sheet issues, material contingent obligations and material related party transactions.

(4) Review with Management and the external auditor the REIT's accounting policies and any changes that are proposed to be made thereto, including all critical accounting policies and

practices used, any alternative treatments of financial information that have been discussed with Management, the ramification of their use and the external auditor's preferred treatment and any other material communications with Management with respect thereto. Review the disclosure and impact of contingencies and the reasonableness of the provisions, reserves and estimates that may have a material impact on financial reporting.

F. General

(1) Inform the Board of matters that may significantly impact on the financial condition or affairs of the business.

(2) Respond to requests by the Board with respect to the functions and activities that the Board requests the Committee to perform.

(3) Periodically review this Charter and, if the Committee deems appropriate, recommend to the Board changes to this Charter.

(4) Review the public disclosure regarding the Committee required from time to time by NI 52-110.

(5) The Committee may at its discretion retain independent counsel, accountants and other professionals to assist it in the conduct of its activities and to set and pay (as an expense of the REIT) the compensation for any such advisors.

(6) Review in advance, and approve, the hiring and appointment of the REIT's Chief Financial Officer and any other senior officers responsible for financial reporting.

(7) Perform any other activities as the Committee or the Board deems necessary or appropriate.

6. Complaint Procedures

(1) Anyone may submit a complaint regarding conduct by the REIT or its employees or agents (including its external auditor) reasonably believed to involve questionable accounting, internal accounting controls, auditing or other matters. The Chair will have the power and authority to oversee treatment of such complaints.

(2) Complaints are to be directed to the attention of the Chair.

(3) The Committee should endeavour to keep the identity of the complainant confidential.

(4) The Chair will have the power and authority to lead the review and investigation of a complaint. The Committee should retain a record of all complaints received. Corrective action may be taken when and as warranted.

CERTIFICATE OF THE REIT AND THE PROMOTER

Dated: December 12, 2018

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the issuer as required by the securities legislation of the provinces of Alberta and Ontario.

NEXPOINT HOSPITALITY TRUST

(Signed) **JAMES DONDERO** Chief Executive Officer	(Signed) **BRIAN MITTS** Chief Financial Officer

On behalf of the Board of Trustees

(Signed) **NEIL LABATTE**
Trustee

NEXPOINT REAL ESTATE ADVISORS VI, L.P.
(as Promoter)

(Signed) **BRIAN MITTS**
Authorized Signatory

CERTIFICATE OF THE AGENT

Dated: December 12, 2018

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of the provinces of Alberta and Ontario.

RAYMOND JAMES LTD.

(Signed) **LUCAS ATKINS**
Managing Director