*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This 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 authorized to sell such securities. The securities offered herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**1933 Act**"), or any state securities laws and may not be offered or sold to, or for the account or benefit of, persons in the United States or "U.S. persons" (within the meaning of Regulation S under the 1933 Act) except pursuant to an exemption from the registration requirements of the 1933 Act and applicable state securities laws. See "Plan of Distribution".*

PROSPECTUS

Initial Public Offering February 12, 2013

AMERICAN HOTEL INCOME PROPERTIES REIT LP

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Cdn$87,000,000

8,700,000 Units

This prospectus qualifies the distribution of 8,700,000 limited partnership units (each, a "**Unit**") of American Hotel Income Properties REIT LP (the "**REIT**" or the "**Issuer**"), a newly established limited partnership formed under the *Limited Partnerships Act* (Ontario), at a price of Cdn$10.00 per Unit (the "**Offering Price**") for aggregate gross proceeds to the Issuer of Cdn$87,000,000 (the "**Offering**"), assuming no exercise of the Over-Allotment Option (as defined herein). As part of the Offering, certain principals of the O'Neill Group (as defined herein) have agreed to purchase an aggregate of 100,000 Units under this prospectus. See "*Plan of Distribution*".

The Issuer has been formed to indirectly own and acquire hotel properties in the U.S. On closing of the Offering, the Issuer will indirectly acquire, through American Hotel Income Properties REIT Inc. (the "**U.S. REIT**") and its Subsidiaries (as defined herein), a portfolio of 32 hotel properties located in 19 states (the "**Initial Portfolio**") currently owned and operated by Lodging Enterprises, LLC ("**Lodging Enterprises**") pursuant to the terms of the Unit Purchase Agreement (as defined herein). See "*Portfolio Overview*", "*The Acquisition*" and "*Use of Proceeds*".

The Issuer's long-term objectives are to: (a) generate stable and growing cash distributions from hotel properties substantially in the U.S.; (b) enhance the value of its assets and maximize the long-term value of the Properties (as defined herein) through active management; and (c) expand its asset base and increase its AFFO (as defined herein) per Unit through an accretive acquisition program, participation in strategic development opportunities and improvements to the Properties through targeted value added capital expenditure programs.

The Issuer intends to make regular monthly cash distributions to Unitholders (as defined herein). The initial cash distribution, which will be for the period from and including the date of closing of the Offering to March 31, 2013, is expected to be paid on April 15, 2013 to Unitholders of record on March 29, 2013 and is estimated to be Cdn$0.096 per Unit (assuming the closing of the Offering occurs on February 20, 2013). The Issuer expects that subsequent monthly cash distributions will be approximately Cdn$0.075 per Unit. The distribution of cash to Unitholders is not assured. See "*Distribution Policy*".

Price: Cdn$10.00 Per Unit

	Price to the Public(1)	Underwriters' Fee(2)	Net Proceeds to the Issuer(3)
Per Unit	Cdn$ 10.00	Cdn$ 0.60	Cdn$ 9.40
Total Offering(4)	**Cdn$87,000,000**	**Cdn$5,220,000**	**Cdn$81,780,000**

(1) The Offering Price was established by negotiation between the Issuer, American Hotel Income Properties REIT (GP) Inc. (the "**GP**"), the general partner of the Issuer, and Canaccord Genuity Corp. and National Bank Financial Inc. (collectively, the "**Lead Underwriters**"), on behalf of TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., Dundee Securities Ltd., GMP Securities L.P., Macquarie Capital Markets Canada Ltd., Burgeonvest Bick Securities Limited and Haywood Securities Inc. (together with the Lead Underwriters, the "**Underwriters**"). See "*Plan of Distribution*".

(2) The Underwriters will receive a fee (the "**Underwriters' Fee**") equal to 6.0% of the gross proceeds of the Offering, payable in cash.

(3) After deducting the Underwriters' Fee but before deducting expenses of the Offering, estimated to be Cdn$5,500,000, which, together with the Underwriters' Fee, will be paid from the proceeds of the Offering. The expenses of the Offering do not include other expenses associated with the acquisition of the Initial Portfolio.

(4) Includes the proceeds from the issuance of 100,000 Units to the certain principals of the O'Neill Group under this prospectus. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to the Issuer will be Cdn$100,050,000, Cdn$6,003,000 and Cdn$94,047,000, respectively.

Investment Highlights

- Initial portfolio of quality lodging properties focused on railroad employee accommodation
- Stable cash flow resulting from strategic relationships with U.S. railroad operators
- Improving lodging industry fundamentals
- Attractive valuations provide an opportune time to acquire U.S. hotel properties
- Initial portfolio provides a platform for growth in the transportation and contract-focused lodging sector
- Experienced and aligned management team and board
- Compelling investment metrics and conservative leverage profile

AHIP

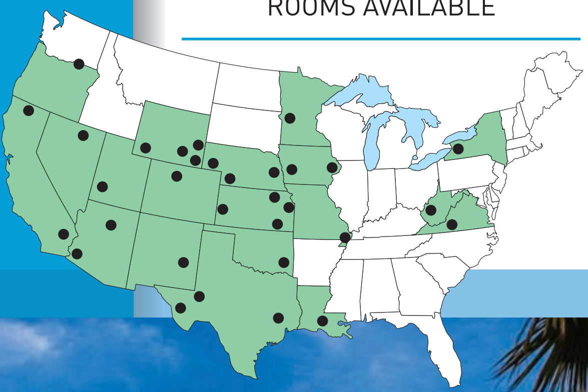
STRONG INITIAL PORTFOLIO

32

PROPERTIES OWNED

2,565

ROOMS AVAILABLE



COMPELLING OPERATING METRICS

91%

10-YEAR AVERAGE PORTFOLIO OCCUPANCY RATE

20+

YEARS AVERAGE LENGTH OF RELATIONSHIPS WITH RAILWAYS

74%

ROOM NIGHTS COVERED UNDER MINIMUM OCCUPANCY GUARANTEES

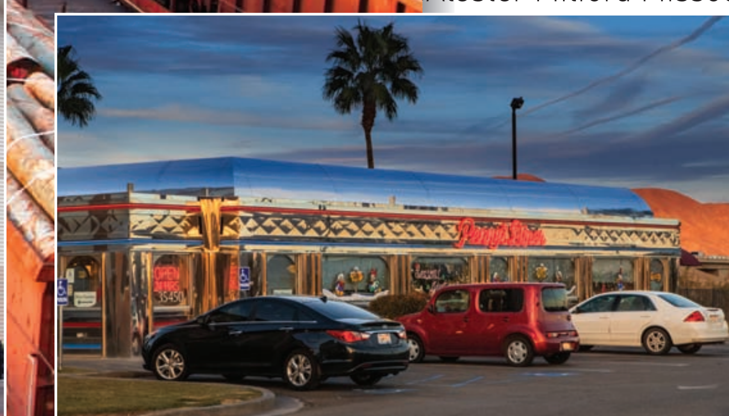
3.5

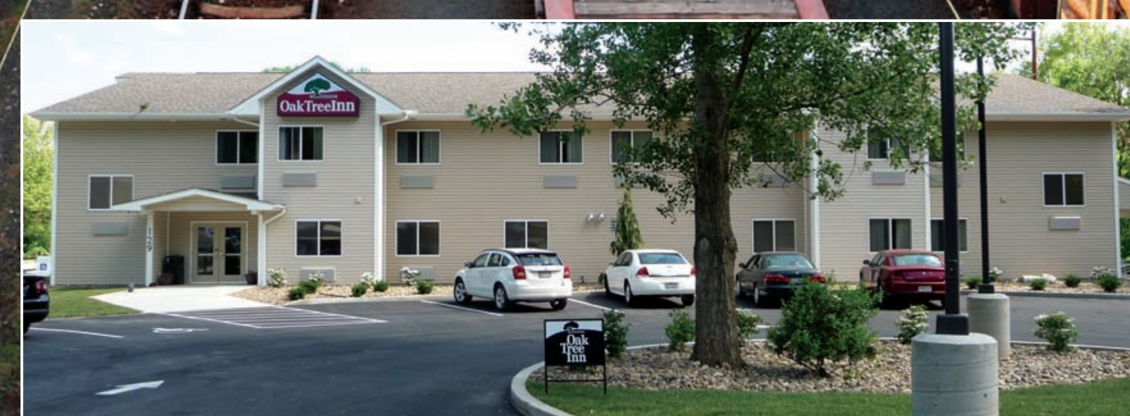
YEARS WEIGHTED AVERAGE TERM TO CONTRACT MATURITY

Initial portfolio of quality lodging properties focused on railroad employee accommodation

A platform for growth in the **transportation and contract-focused** lodging sector

AHIP





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The Underwriters, as principals, conditionally offer the Units, subject to prior sale, if, as and when issued by the Issuer and accepted by the Underwriters, in accordance with the conditions contained in the Underwriting Agreement (as defined herein and referred to under "*Plan of Distribution*") and subject to the approval of certain legal matters by Farris, Vaughan, Wills & Murphy LLP on behalf of the Issuer and Blake, Cassels & Graydon LLP on behalf of the Underwriters.

The Issuer has granted to the Underwriters an option (the "**Over-Allotment Option**") exercisable, in whole or in part, at any time and from time to time until 5:00 pm (Vancouver time) on the day that is 30 days following the Closing Date (as defined herein) to purchase up to an aggregate of 1,305,000 additional Units at the Offering Price, to cover over-allotments, if any, and for market stabilization purposes. This prospectus also qualifies the granting of the Over-Allotment Option and the Units issuable upon the exercise of the Over-Allotment Option. A purchaser who acquires Units forming part of the Underwriters' over–allocation position acquires such Units under this prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "*Plan of Distribution*". Unless otherwise set out, references to "Units" in this prospectus shall include the 1,305,000 Units issuable on exercise of the Over-Allotment Option. The following table sets forth the number of securities issuable under the Over-Allotment Option:

Underwriters' Position	Maximum number of securities available	Exercise period	Exercise price
Over-Allotment Option	**1,305,000 Units**	**Within 30 days of Closing**	**Cdn$10.00 per Unit**

The Toronto Stock Exchange (the "**Exchange**") has conditionally approved the listing of the Units on the Exchange under the symbol "HOT.UN". Listing of the Units is subject to the Issuer fulfilling all of the requirements of the Exchange on or before May 7, 2013.

There is 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*".

An investment in the Units offered by this prospectus must be considered speculative as the Units are subject to certain risk factors as set out under "*Risk Factors*". An investment in Units is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

The return on an investment in Units is not comparable to the return on an investment in a fixed-income security. Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the Issuer intends to distribute its available cash to Unitholders (as defined herein), such cash distributions are not guaranteed and may be reduced or suspended in the future. The Issuer's ability to make cash distributions and the actual amount distributed will depend on a number of factors, including the financial performance of the Properties, debt covenants and other contractual obligations, interest rates, the occupancy rates of the Properties, working capital requirements, future capital requirements, foreign currency changes that are not hedged, and the Issuer's ability to complete future acquisitions. The Issuer may be required to supplement its cash distributions from working capital. See "*Risk Factors*". In addition, the market value of the Units may decline if the Issuer is unable to meet its cash distribution targets in the future.

Unitholders will generally be required to include (or be entitled to deduct), in computing their income for income tax purposes, their proportionate share of the income (or loss) of the Issuer allocated to the Unitholder by the Issuer for the Fiscal Year (as defined herein) of the Issuer ending in or on the Unitholder's taxation year. Such allocation may bear no relation to the cash distributions made by the Issuer to such Unitholder for that period. In the event that cash distributions paid to a Unitholder in a Fiscal Year are less than the income for income tax purposes allocated to such Unitholder for the year, the full amount of such income will be required to be included in the Unitholder's income for the year and any such shortfall in distributions will generally result in a net increase in the adjusted cost base of the Unitholder's Units. If a Unitholder receives distributions from the Issuer in a year which exceed the amount of income for income tax purposes allocated to the Unitholder by the Issuer for the year, any such excess distributions will not generally be included in the Unitholder's income for the year, but will result in a net reduction of the adjusted cost base of the Unitholder's Units (i.e. tax deferred returns of capital). See "*Principal Canadian Federal Income Tax Considerations*". The Issuer estimates that no part of the monthly cash distributions to be made to Unitholders in 2013 will comprise tax deferred returns of capital.

The after-tax return from an investment in Units to a Unitholder will depend in part on the Unitholder's ability to recognize for purposes of the Tax Act (as defined herein) U.S. taxes paid by the Issuer or by the Unitholder through foreign tax credits or foreign tax deductions under the Tax Act. See "*Principal Canadian Federal Income Tax Considerations*".

Subject to the qualifications and assumptions discussed under "*Principal Canadian Federal Income Tax Considerations*", the Units will, on the date hereof, be qualified for investment by the Plans (as defined herein). Adverse tax consequences will generally apply to a Plan and/or its annuitant, beneficiary or subscriber thereunder or holder thereof, if Units cease to be a qualified investment for the Plans. In respect of an RRSP (as defined herein), RRIF (as defined herein) or a TFSA (as defined herein), adverse tax consequences will also arise if it acquires or holds property that is or becomes a prohibited investment. See "*Eligibility for Investment*" and "*Principal Canadian Federal Income Tax Considerations*".

The Issuer will hold its interest in the Initial Portfolio indirectly through the U.S. REIT and its Subsidiaries and the Issuer's investment and operating activities will be carried out by the U.S. REIT and its Subsidiaries. The U.S. REIT will be incorporated, following the closing of the Offering, under the state laws of Maryland. Although the U.S. REIT and its Subsidiaries will have appointed Farris, Vaughan, Wills & Murphy LLP, 2500 – 700 West Georgia Street, Vancouver, BC V7Y 1B3, as their agent for service of process in British Columbia, it may not be possible for investors to enforce judgements obtained in Canada against the U.S. REIT and its Subsidiaries.

The directors of the GP and the U.S. REIT are and will be subject to various potential conflicts of interest arising from the relationships among and between each of them and their affiliates. See "*Governance and Management of the Issuer – Conflict of Interest Provision*".

Subscriptions for 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. Book-entry certificates representing the Units will be issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee and will be deposited with CDS on closing of the Offering. The closing of the Offering is expected to occur on or about February 20, 2013. Beneficial owners of Units will not, except in certain limited circumstances, be entitled to receive physical certificates evidencing their ownership of Units and will receive only a customer confirmation form from a registered dealer that is a CDS Participant (as defined herein) and from or through which the Units are purchased. In the event that the Offering does not close, all funds received from purchasers will be returned to purchasers, without interest.

No person is authorized by the Issuer to provide any information or to make any representation other than as contained in this prospectus in connection with this issue and sale of the Units.

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ABOUT THIS PROSPECTUS

An investor should rely only on the information contained in this prospectus and should not rely on parts of the information contained in this prospectus to the exclusion of others. The Issuer has not, and the Underwriters have not, authorized anyone to provide investors with additional or different information from that contained in this prospectus. The Issuer is not, and the Underwriters are not, offering to sell these securities in any jurisdictions where the offer or sale of these securities is not permitted. Unless otherwise stated, the information contained in this prospectus is accurate only as at the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the Units. The Issuer's business, financial condition, results of operations and prospects may have changed since the date of this prospectus. If, however, after a receipt for the Final Prospectus is issued but before the Closing Date, a material change occurs, the Issuer will file an amendment to the Final Prospectus as soon as practicable, but in any event within 10 days after the day the change occurs.

For investors outside of Canada, none of the Issuer nor any of the Underwriters has done anything which would permit the Offering, possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about, and to observe any restrictions relating to, the Offering and the possession or distribution of this prospectus.

This prospectus contains summary descriptions of certain material agreements of the Issuer. 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.

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

MEANINGS OF CERTAIN REFERENCES

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

The Issuer's investment and operating activities are limited because the Issuer's investment and operating activities will be carried out by direct and indirect Subsidiaries, including the U.S. REIT. For simplicity, the Issuer uses terms in this prospectus to refer to the investments and operations of the Issuer and its direct and indirect Subsidiaries, including the U.S. REIT, as a whole. Accordingly, in this prospectus, unless the context otherwise requires, the "Issuer" is referring to the Issuer and its direct and indirect Subsidiaries, including the U.S. REIT, as a whole, giving effect to the acquisition of the Initial Portfolio. When the Issuer uses expressions such as "the Issuer's investments" or "the Issuer's operations", the Issuer is referring to the investments and operations of the Issuer and its direct and indirect Subsidiaries, including the U.S. REIT, as a whole, in each case, from and after Closing and the acquisition of the Initial Portfolio. When the Issuer uses expressions such as "the Issuer's portfolio", "the Issuer owns" or "the Issuer invests in" in relation to the Properties, the Issuer is referring to the Issuer's indirect ownership of and investment in the Properties through its investment in its direct and indirect Subsidiaries, including the U.S. REIT. When the Issuer uses expressions such as "the Issuer operates", the Issuer is referring to the Issuer's indirect operations, as carried out by its direct and indirect Subsidiaries, including the U.S. REIT.

References to "management" in this prospectus mean the persons acting in the capacities of the GP's Chief Executive Officer, Chief Financial Officer and Director of Finance. Any statements in this prospectus made by or on behalf of management are made in such persons' capacities and not in their personal capacities.

Except where otherwise indicated, the disclosure contained in this prospectus assumes that: (i) the Offering has been completed; (ii) the acquisition of the Initial Portfolio has been completed; and (iii) the Over-Allotment Option has not been exercised.

EXCHANGE RATE DATA

The Initial Properties are located in the U.S. Accordingly, the Issuer is exposed to the impact of fluctuations in the Canadian/U.S. dollar exchange rate. Except as otherwise stated in this prospectus, all dollar amounts in this prospectus are stated in U.S. dollars. The following table reflects the low and high rates of exchange in Canadian dollars for one U.S. dollar during the periods noted, the average rate of exchange during such periods and the rates of exchange at the end of each such period, based on the Bank of Canada's closing exchange rates for the specified periods and dates:

	Nine months ended September 30		Year ended December 31		
	2012	**2011**	**2011**	**2010**	**2009**
	Cdn$	**Cdn$**	**Cdn$**	**Cdn$**	**Cdn$**
Highest rate during the period	1.0397	1.0482	1.0549	1.0745	1.2991
Lowest rate during the period	0.9683	0.9428	0.9428	0.9946	1.0259
Average rate for the period(1)	1.0023	0.9781	0.9891	1.0303	1.1420
Rate at the end of the period	0.9832	0.9833	1.0170	0.9946	1.0510

(1) Determined by averaging the closing rate on each Business Day during the respective period.

As of February 11, 2013, the Bank of Canada closing exchange rate was Cdn$1.0043 (1.00 U.S.$ = 0.9957 Cdn$).

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 lodging industry in which the Issuer will operate (including management's estimates and assumptions relating to the industry based on that knowledge). Management's knowledge of the hotel and lodging industry in the U.S. 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, which include Smith Travel Research, Inc. ("**STR**"), PricewaterhouseCoopers LLP ("**PWC**"), PKF Hospitality Research, LLC ("**PKF**"), Bloomberg, U.S. Department of Transportation, National Surface Transportation Policy and Revenue Study Commission, U.S. Bureau of Economic Analysis, National Bureau of Economic Research, Standard & Poor's Corporation ("**Standard & Poor's**"), HVS Global Hospitality Services ("**HVS**"), Jones Lang LaSalle Inc., and the Association of American Railroads, 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, neither the Issuer nor the Underwriters have independently verified any of the data from 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. Certain providers of market data and forecasts may be advisors to participants in the lodging industry and may present information in a manner that is more favourable to that industry than would be presented by an independent source.

NON-IFRS MEASURES

In this prospectus, the Issuer uses certain non-IFRS financial measures, which include funds from operations **("FFO")**, adjusted funds from operations **("AFFO**") and net operating income **("NOI**"). These terms are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO, AFFO and NOI are supplemental measures of performance for real estate investment trusts. The Issuer believes that AFFO is an important measure of economic performance and is indicative of the Issuer's ability to pay distributions, while FFO and NOI are important measures of operating performance and the performance of real estate properties. The IFRS measurement most directly comparable to FFO, AFFO and NOI is net income. See "*Reconciliation of Non-IFRS Forecast*" and "*Management's Discussion and Analysis of Results of Operations*" for a reconciliation of FFO, AFFO and NOI to net income for the applicable periods.

"FFO" is defined as net earnings and comprehensive income in accordance with IFRS, excluding: (i) depreciation and amortization; (ii) gains (or losses) from sales of hotel properties; (iii) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (iv) deferred income tax expense, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

"AFFO" is defined as FFO subject to certain adjustments, including: (i) amortization of deferred financing costs; (ii) compensation expense related to deferred unit incentive plans; and (iii) deducting a reserve for normalized maintenance capital expenditures, as determined by the Issuer. Other adjustments may be made to AFFO as determined by the GP in its discretion.

"NOI" is defined as revenue after operating expenses have been deducted (excluding depreciation and amortization) and adjusting for the NOI of equity accounted entities, joint ventures and non-controlling interests.

FFO, AFFO and NOI should not be construed as alternatives to net income or cash flow from operating activities, determined in accordance with IFRS as indicators of the Issuer's performance. The Issuer's method of calculating FFO, AFFO and NOI may differ from other issuers' methods and accordingly may not be comparable to measures used by other issuers.

FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking information. Statements other than statements of historical fact contained in this prospectus may be forward-looking information. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue", or similar expressions suggesting future outcomes or events. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and the Issuer's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the estimates or predictions of actions of customers, competitors or regulatory authorities, and statements regarding the Issuer's future economic performance. The Issuer has based these forward-looking statements on the Issuer's current expectations about future events. Some of the specific forward-looking statements in this prospectus include, but are not limited to, statements with respect to: (i) the Issuer's intention to provide stable, sustainable and growing cash flows through operation of the Properties and the Issuer's other stated objectives; (ii) the Issuer's intention to make regular monthly cash distributions; (iii) the Issuer's plan to cause a Subsidiary of the U.S. REIT to acquire the Initial Portfolio; (iv) the Issuer's ability to execute the Issuer's business and growth strategies, including by making additional acquisitions of Properties in the Issuer's target markets; (v) the Issuer's forecast financial results for the periods set out in this prospectus under "*Financial Forecast*"; (vi) forecast NOI figures or data derived from forecast NOI relating to individual Properties or property type or geography; (vii) the expected tax treatment of the Issuer's distributions to Unitholders; (viii) the Issuer's access to available sources of debt and equity financing; (ix) expectations for Units to be considered "regularly traded" on an established securities market; (x) expectations, including anticipated trends and challenges, in respect of the hotel sector in the Issuer's target markets; and (xi) the expected level of foreign tax, if any, payable on amounts that give rise to the Issuer's distributable income.

Forward-looking statements do not take into account the effect of transactions or other items announced or occurring after the statements are made. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.

Although the Issuer believes that the expectations reflected in such forward-looking information are reasonable, the Issuer can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this prospectus as well as the following: (i) the Issuer will receive financing on acceptable terms; (ii) the Issuer's future level of indebtedness and the Issuer's future growth potential will remain consistent with the Issuer's current expectations; (iii) there will be no changes to tax laws adversely affecting the Issuer's financing capability, operations, activities, structure or distributions; (iv) the Issuer will retain and continue to attract qualified and knowledgeable personnel as the Issuer expands the Issuer's portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on the Issuer's operations, including the Issuer's financing capability and asset value, will remain consistent with the Issuer's current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting the Issuer's operations; (vii) conditions in the international and, in particular, the U.S. hotel and lodging industry, including competition for acquisitions, will be consistent with the economic climate; and (viii) capital markets will provide the Issuer with readily available access to equity and/or debt financing.

Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors discussed under "*Risk Factors*". Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

The reader is further cautioned that the preparation of the financial forecast included in this prospectus under "*Financial Forecast*" requires the Issuer to make certain assumptions, judgments and estimates that affect the forecast of financial results, including assets, revenues, liabilities and expenses. These estimates may change, having either a negative or positive effect on actual results as further information becomes available, and as the economic environment changes. The actual results achieved during the financial forecast periods will vary from the forecast results, and these variations may be material.

The forecast net income figures or data derived from forecast net income relating to individual Properties or property type or geography has been prepared by the Issuer for use by prospective investors in their evaluation of potential investments in the Issuer (and in particular in order to provide prospective investors with a greater understanding of the relative importance of each of the Properties which comprise the Initial Portfolio) and may not be appropriate for any other purpose.

The forward-looking information contained in this prospectus is expressly qualified in its entirety by these cautionary statements. All forward-looking information in this prospectus is as of the date of this prospectus. The Issuer does not undertake any obligation to update any such forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. For more information on the risk factors that could cause the Issuer's actual results to differ from current expectations, see "*Risk Factors*".

ELIGIBILITY FOR INVESTMENT

In the view of KPMG LLP, in its capacity as tax advisor to the Issuer, and in the opinion of Blake, Cassels and Graydon LLP, counsel to the Underwriters, provided that the Units are listed on a "designated stock exchange" as defined in the Tax Act (which includes the Toronto Stock Exchange), the Units, if issued on the date hereof, will be qualified investments under the Tax Act for Plans.

Notwithstanding the foregoing, a holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are a "prohibited investment" as defined in the Tax Act for the TFSA, RRSP or RRIF. The Units will not be a "prohibited investment" for trusts governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Issuer for purposes of the Tax Act, (ii) has a "significant interest" as defined in the Tax Act in the Issuer, or (iii) has a "significant interest" as defined in the Tax Act in a corporation, partnership or trust with which the Issuer does not deal at arm's length for purposes of the Tax Act. Generally, a holder or annuitant, as the case may be, will not have a significant interest in the Issuer unless the holder or annuitant, as the case may be, holds interests as a member of the Issuer that have a fair market value of 10% or more of the fair market value of the interests of all members in the Issuer, either alone or together with persons and partnerships with which the holder or annuitant, as the case may be, does not deal at arm's length. Proposed amendments to the Tax Act released on December 21, 2012 (the "**December 2012 Proposals**") propose to delete the condition in (iii) above. In addition, pursuant to the December 2012 Proposals, the Units will generally not be a "prohibited investment" if the Units are "excluded property" as defined in the December 2012 Proposals for trusts governed by a TFSA, RRSP or RRIF. Holders or annuitants should consult their own tax advisors with respect to whether Units would be prohibited investments, including with respect to whether the Units would be "excluded property" as defined in the December 2012 Proposals.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering 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 of Terms".

The Issuer

American Hotel Income Properties REIT LP is a newly established limited partnership formed under the *Limited Partnerships Act* (Ontario) and governed by the REIT LP Agreement.

Investment Opportunity

American Hotel Income Properties REIT LP was formed on October 12, 2012 to indirectly own and acquire hotel properties in the U.S. On Closing, the Issuer will indirectly acquire through the U.S. REIT and its Subsidiaries all of the units of Lodging Enterprises, the current owner of a portfolio comprising 32 hotel properties located in 19 states, pursuant to the terms of the Unit Purchase Agreement. The Initial Portfolio is geographically diversified and each of the Initial Properties has been built to a high standard of quality and is well maintained. Management believes that the Initial Portfolio comprises the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry. The Initial Properties are located near high volume railroad hubs and switching terminals across the U.S. Strategic relationships with several of the largest U.S. railroad operators, Union Pacific Corporation, Burlington Northern Santa Fe LLC and CSX Corporation, as well as Canadian Pacific Railway Limited, to provide lodging accommodations for railroad employees under contracts stipulating guaranteed minimum occupancies, provide the Initial Portfolio with a recurring and stable revenue stream. The Initial Portfolio will provide a platform on which to expand the Issuer's portfolio and activities through a combination of organic growth, participation in strategic development opportunities, and accretive acquisitions. See "*Growth Strategies*".

Management believes that certain characteristics of the U.S. lodging industry, including improving hotel lodging fundamentals due to increasing demand for hotel lodging accommodations combined with stagnant supply of new hotel properties, the attractive relative valuation of hotel properties to historical valuations and replacement costs, and the availability of acquisition opportunities, provide for a unique investment opportunity. Management also believes that, as a result of the high quality of the Initial Properties, its long-term strategic relationships with railroad operators, and its strategic external development arrangement with the Developer, the Issuer is well-positioned to participate in the projected growth of the U.S. lodging industry.

The Issuer's long-term objectives are to (a) generate stable and growing cash distributions from hotel properties substantially in the U.S.; (b) enhance the value of its assets and maximize the long-term value of the Properties through active management; and (c) expand its asset base and increase its AFFO per Unit through an accretive acquisition program, participation in strategic development opportunities and improvements to the Properties through targeted value added capital expenditure programs.

Investment Highlights

Initial Portfolio of Quality Lodging Properties Focused on Railroad Employee Accommodation

The Initial Portfolio consists of 32 lodging properties, representing a total of 2,565 rooms. Management believes that the Initial Properties comprise the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry. The Initial Properties are geographically diversified among 19 states in the U.S. The Initial Properties were specifically designed or have been converted to fulfill lodging accommodation needs of railway employees, including compliance with federal regulations relating to rest time, safety and hours of service, and in accordance with labour union specifications, all of which are important to railroads in ensuring on-time performance, mitigation of employee fatigue, visibility on costs, and high employee morale. Management believes that every hour of down time can result in significant costs to a railroad due to such factors as contractual penalties for late delivery and additional labour and related expenses. The Initial Properties are located near high volume railroad hubs and switching terminals, maximizing efficiency for employees in off-duty periods. The average age of the Initial Properties is approximately 10 years (including major renovations).

Stable Cash Flow Resulting from Strategic Relationships with U.S. Railroad Operators

The Initial Portfolio has historically experienced stable operating metrics and cash flows as a result of contractual minimum occupancy guarantees provided by railroad operators. Over the past decade, the Initial Portfolio's occupancy rate has averaged 91.3% compared to 60.0% for the U.S. lodging industry. For the nine months ended September 30, 2012, the Initial Portfolio's average occupancy rate was 86.1%. Furthermore, the Initial Portfolio's average daily room rate and revenue per available room have steadily grown at a measured CAGR of 2.7% and 2.2% over the past decade, respectively. Lodging Enterprises has extensive working relationships that span over 20 years with each of the three largest U.S. railroad operators (UP, BNSF and CSX), as well as a recently established strategic relationship with CP. The Initial Portfolio is supported by contracts stipulating minimum occupancy guarantees and rates with these railroad operators. In 2011, these railroad operators generated aggregate revenues of over $56 billion, currently have a combined equity value of approximately $130 billion and, according to Standard & Poor's, have investment grade credit ratings. Following the closing of the Offering, approximately 74% of the total available room-nights in the Initial Portfolio will be covered under contracts containing minimum occupancy guarantees, with a weighted average remaining term of 3.5 years. Lodging Enterprises has had a strong track record of contract renewal success with over 96% of expiring contracts having been renewed since 1984. In addition, over the same period, no contract has ever been terminated prematurely by a railroad operator.

Improving Lodging Industry Fundamentals

The U.S. lodging industry continues to experience improving fundamentals as a result of the economic recovery that is currently underway. The U.S. lodging industry has historically shown a strong degree of correlation with the overall U.S. economy. As the economy continues to recover from the shocks caused by the recent financial crisis, management believes that the hotel industry will outperform the overall U.S. economy. Growth in GDP, coupled with rising levels of employment and increased spending on travel (both business and leisure) is driving demand for lodging. Since the financial crisis, according to PWC, demand for U.S. lodging grew at a CAGR of 6.0% from 2009 to 2011 and is expected to increase by 4.4% through 2013. By contrast, supply of U.S. lodging grew at a CAGR of 1.2% from 2009 to 2011 and is expected to increase by only 0.7% through 2013. Further, in 2011, new hotel room construction starts were 45,700 units, representing 1.0% of the existing room supply. This represents the second lowest amount of construction starts since 2002, which has averaged 85,010 hotel rooms annually, representing 1.9% of existing room supply. This imbalance between supply and demand has resulted in rising occupancy levels and room rates. From 2009 to 2011, the overall industry ADR rose from $98.05 to $101.71, overall occupancy rose from 54.6% to 59.9%, and overall industry RevPAR rose from $53.51 to $61.02. This trend is expected by management to continue through 2013, as ADR, occupancy rates and RevPAR are expected by management to increase to $111.60, 61.9% and $69.08, respectively.

Attractive Valuations Provide an Opportune Time to Acquire U.S. Hotel Properties

Despite improving industry fundamentals, hotel valuations remain attractive relative to historical valuations and replacement costs. According to HVS, the value of an average hotel room in the U.S. increased approximately 20% in 2011, but remained over 20% below peak valuations achieved in 2006. Management believes that hotel values have lagged the relative value of commercial and residential real estate asset classes, which have generally surpassed their previous peak valuations. Furthermore, hotels in the economy segment of the lodging industry continue to be valued at the largest discount to replacement cost compared to upscale, upper upscale and luxury hotels. According to HVS, the value of a U.S. hotel room, from 2011 to 2015, is expected increase at a CAGR of 12%. Institutional and strategic investors have been committing increasing amounts of capital to the U.S. lodging industry since the credit crisis. Over the last 12 months, $17.2 billion has been invested in the U.S. lodging industry, as compared to $13.7 billion in 2010 and $3.0 billion in 2009. Notable recent transactions include Blackstone Real Estate Partners' $1.2 billion acquisition of Apple REIT Six in November 2012 and their $1.9 billion acquisition of Motel 6 in October 2012, and Starwood Capital's $735 million acquisition of InTown Suites in October 2012. With the Canadian dollar trading near to or above par in relation to the U.S. dollar, combined with the relatively low cost of capital in Canada, management believes that there is an opportunity to establish a Canadian investment entity focused on acquiring U.S. hotel properties on an opportunistic and accretive basis.

Initial Portfolio Provides a Platform for Growth in the Transportation and Contract-Focused Lodging Sector

The Initial Portfolio provides the Issuer with immediate scale and presence across the U.S. Substantially all of the existing employees of Lodging Enterprises will continue in their current roles of managing and operating the Initial Portfolio's lodging business, providing the Issuer, through the external management of the IPO Hotel Manager, with a team of approximately 935 people that possess operational expertise, a long track record, and deep relationships with railroad operators. The Issuer's internal growth initiatives will focus on revenue enhancement and yield management, operational improvements, and opportunistic property expansions. External growth initiatives will focus on acquisitions of transportation and contract-oriented hotels located in close proximity to railroads, airports, highway interchanges and other transportation hubs providing select and limited-service lodging to need-based corporate, transient traveler, crew and contractual customers. In addition, the Issuer expects to benefit from a strategic relationship with the Developer, which will provide the Issuer with preferential rights to cause Subsidiaries to acquire properties to be developed by the Developer in the future. Management expects the Issuer's relationship with the Developer to provide a pipeline for growth, while minimizing the development risk for the Issuer. The Developer will assume the development pipeline currently being evaluated by Lodging Enterprises, which is comprised of six properties totaling approximately 340 rooms, representing approximately $22 million of value, all of which will feature minimum occupancy guarantees, as well as prospective leads for a further 20 development opportunities representing approximately $42 million of value. Since inception, Lodging Enterprises has developed or operated properties at 38 locations in connection with its railroad partners.

Experienced and Aligned Management Team and Board

The Issuer will be internally managed by an experienced senior management team and the lodging activities of the Issuer's Subsidiaries will be externally managed by the Hotel Managers, affiliates of O'Neill Hotels & Resorts Ltd. Collectively, the Issuer's and the Hotel Managers' executive teams are comprised of experienced owners and managers of hospitality properties that have managed, acquired, constructed and/or advised on over Cdn$1 billion of hotel investments and have an extensive background in international hospitality operations. OHR is a fully integrated hotel management group, providing oversight in all areas of hospitality operations including finance, information technology, marketing, sales, design, renovation, construction and food and beverage operations. OHR currently manages a portfolio of seven hotels and a condominium management company in the U.S. and Canada, comprising approximately 2,300 rooms, of which three hotels are in the U.S., employing 800 staff members. OHR manages hotels under the Westin, Embassy Suites by Hilton, Ascend Collection by Choice Hotels and Coast Hotels & Resorts brands. In 1997, OHR founded Canadian Hotel Income Properties Real Estate Investment Trust. Upon completion of its initial public offering, CHIP REIT owned a portfolio of hotel properties valued at approximately Cdn$230 million. Under the leadership of OHR, CHIP REIT expanded its initial 15 property portfolio to 36 properties, representing a portfolio value of approximately Cdn$500 million. CHIP REIT was ultimately acquired for Cdn$1.2 billion by a Canadian pension fund. The GP's board of directors will be comprised of a majority of independent directors that have substantial real estate, hospitality and capital markets experience. To further align the Hotel Managers' and the Developer's interests with the Issuer's, assuming the completion of the Offering and the completion of the transactions described under "*The Acquisition*", the O'Neill Group and the Sunstone Group will collectively hold an approximate 4.8% interest in the Issuer.

Compelling Investment Metrics and Conservative Leverage Profile

The Issuer intends to pay stable monthly cash distributions, initially expected to provide Unitholders with an annual yield of approximately 9.0% based on an estimated AFFO payout ratio of approximately 82.2%. The Issuer is anticipated to have a debt to Gross Book Value ratio of approximately 45.9% immediately following the Closing, bearing interest at a weighted average rate of approximately 4.83% (97.9% of which is fixed), with a weighted average term to maturity of 4.9 years. See "*Investment Highlights*" and "*Risk Factors*".

Growth Strategies

The Issuer, through its internal management team and external hotel manager, intends to adopt the following growth strategies to increase cash flow:

Organic Growth

The Issuer's internal growth strategy will focus on revenue and yield management, operating improvements and expansion opportunities. The IPO Hotel Manager will employ a variety of revenue maximization techniques, including the implementation of systems for yield and revenue management (the management of room rates and occupancy rates) and the enhancement of other non-room revenues. In addition to the implementation of these systems, the IPO Hotel Manager also intends to focus on generating passerby traffic with improved hotel signage and profile, in an effort to increase occupancy from passerby travellers and other non-railroad guests that generate significantly higher ADR and ultimately higher margins. The Issuer's Subsidiaries intend to improve operating results of both the Initial Portfolio and Subsequent Properties through the enhancement of national bulk purchasing programs, targeted renovations and capital expenditures, and, if applicable, initiating or changing franchise affiliations. In addition, the IPO Hotel Manager will identify expansion opportunities in markets where demand exceeds supply, as evidenced by high occupancy rates prevailing over an extended period and a sustained high level of ADR.

Access to Development Opportunities through Strategic Relationship with the Developer

Management believes that a significant portion of the Issuer's future growth will come from the construction of additional Oak Tree Inns and the acquisition by Subsidiaries of the Issuer of other Suitable Properties. In order to minimize risks typically associated with development of new hotels, the Issuer has established a strategic development relationship with the Developer, which is an Affiliate of each of OHR and the Sunstone Group. Pursuant to the Master Development Agreement, the Issuer will have a right of first opportunity, through its Subsidiaries, to all new Suitable Property development projects developed by the Developer, as well as the opportunity to finance such development opportunities via mezzanine loans. The Sunstone Group is an experienced real estate investor that has developed, acquired, managed and divested approximately $1.4 billion of real estate in Canada and the U.S. since 2002. Principals of the Sunstone Group founded Pure Industrial Real Estate Trust and Pure Multi-Family REIT LP. Since inception, Lodging Enterprises has developed or operated properties at 38 locations in connection with its railroad partners.

Strategic and Accretive Acquisitions

Through the experience and relationships of its management team, the Issuer will seek to identify potential property and portfolio acquisitions using investment criteria that focus on the quality of the properties, the strength of the underlying operations, the types of properties available and amenities offered, market demographics, contract terms (if applicable), opportunities for expansion, security of cash flows, potential for capital appreciation and potential for increasing value through improved property, revenue and yield management. When targeting acquisitions, the Issuer's Subsidiaries will focus on transportation-oriented hotels (independent and branded) located in secondary markets in the U.S. in close proximity to railroads, airports, highway interchanges and other transportation hubs providing select and limited-service lodging to need-based corporate, transient travelers, crew and contractual customers. Acquisition properties will feature strong underlying fundamentals including an initial target going-in capitalization rate in the range of approximately 8% – 9%, and an acquisition price that is less than 95% of replacement cost. It is the Issuer's intention that all investments and acquisitions will be accretive to the Issuer's AFFO per unit. The Initial Portfolio is generally indicative of the type of properties the Issuer intends to continue to acquire as part of its business strategy.

U.S. Lodging Industry Overview

There are approximately 52,200 hotel properties in the U.S., totaling approximately 4.9 million rooms. The U.S. lodging industry generated revenues of approximately $137.5 billion in 2011, representing a 7.5% increase over 2010, the largest year-over-year increase over the past decade.

The primary method of segmenting the U.S. lodging industry is by categorizing hotels by chain scale, location, service level and customer base.

Chain Scale Segmentation

Chain scale segmentation is a method by which branded hotels are grouped based on actual average room rates, and are classified along the following spectrum (from highest to lowest average room rate): luxury, upper-upscale, upscale, upper-midscale, midscale and economy.

- *Luxury*. Hotels that cater primarily to the individual business traveler and are generally situated in urban commercial districts, with amenities typically including a restaurant, a lounge, meeting facilities, a business center, a fitness room, and a gift shop. Examples of hotels within this chain scale include Four Seasons, Ritz Carlton and W Hotels.
- *Upscale (including upper-upscale)*. Hotels that consist of all-suite brands that cater primarily to business travelers who do not need the amenities of a full-service luxury hotel and leisure travelers who want more amenities than can be found in a midscale hotel. Examples of hotels within this chain scale include Hilton, Hyatt and Sheraton (upper-upscale) and Crowne Plaza, Radisson and Wyndham (upscale).
- *Midscale (including upper-midscale)*. Hotels that primarily offer studio and one bedroom suites designed for business and leisure travelers. The midscale segment is the largest hotel segment in the U.S. 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 characterized by affordable rates and a limited offering of ancillary services and amenities. The segment appeals to budget conscious customers primarily seeking basic accommodations. Examples of hotels within this chain scale include Days Inn, EconoLodge and Motel 6.

Location Segmentation

Segmentation by location categorizes hotels by physical location and their proximity to urban centres, suburban centres, airports, interstate/motorways, resorts or small metro/towns. Urban locations include large, populous and highly-dense metropolitan areas. Suburban locations are those locations that are in close proximity to urban locations (the precise distance varying based on market orientation and the suburban relationship with the proximate urban environment). Airport hotels are those in close proximity to an airport and primarily service airport traffic. Interstate/motorway hotels are located near major traffic thoroughfares and generate business predominantly through passerby travel. Resort hotels are situated in a resort area or market where a significant source of business is derived from leisure/destination travel. Small metro/town hotels are those that exist in rural areas with small populations (less than 150,000 people) and/or limited services, in isolation from suburban locations.

Service Level Segmentation

Hotels may be segmented by service level, which categorizes hotels as "full-service" or "limited-service" on the basis of the variety of products and services offered to guests. The most distinguishing feature of a full-service hotel is the provision of a full suite of food and beverage services, suitable for both guests and groups. Full-service hotels may include further amenities such as spas, banquet rooms, doormen/valet service and concierge service. Full-service hotels typically play a significant role in servicing group meetings, conventions and special events, while also attracting business, leisure and vacation travelers that are willing to pay the higher room rates generally charged for the full-service environment. Unlike full-service hotels, limited-service hotels typically provide "room-only" service, or very few services and amenities, and principally compete on price. Limited-service hotels lack a dedicated, revenue-producing food and beverage component, are generally located near major thoroughfares such as highways and airports, and cater primarily to price-sensitive commercial and leisure travelers.

Customer Segmentation

The customer segmentation method groups hotels based on the specific requirements and preferences of the primary types of customers occupying the hotel. Under this method a hotel can cater to multiple types of customers but typically does not serve all segments equally. The main customer segments are business/leisure travelers, groups and contract/crew lodging.

The Initial Portfolio resides largely within the economy segment, which is characterized by affordable rates and a limited offering of ancillary services and amenities located near interstates/motorways and small metro/town locations. The Initial Portfolio is primarily focused on servicing contract/crew customers as well as business/leisure travelers.

U.S. Lodging Industry Dynamics

Management believes that the Issuer will benefit from the following favourable industry dynamics:

- *Improving Lodging Industry Fundamentals*. The U.S. lodging industry continues to experience improving fundamentals as a result of the economic recovery that is currently underway. The U.S. lodging industry has historically shown a strong degree of correlation with the overall U.S. economy. As the economy continues to improve, management believes that the hotel industry will outperform the overall U.S. economy. Since the financial crisis, demand for U.S. lodging grew at a CAGR of 6.0% from 2009 to 2011 and is expected to increase by 4.4% through 2013. By contrast, supply of U.S. lodging grew at a CAGR of 1.2% from 2009 to 2011 and is expected to increase by only 0.7% through 2013. This imbalance between demand and supply has resulted in improved operating metrics. From 2009 to 2011, industry ADR increased from $98.05 to $101.71 (representing an increase of 3.7%), occupancy rates increased from 54.6% to 59.9% (representing an increase of 530 basis points) and RevPAR increased from $53.51 to $61.02 (representing an increase of 14.0%). This trend is expected by management to continue through 2013, as ADR, occupancy rates and RevPAR are expected by management to increase to $111.60, 61.9% and $69.08, respectively.

- *Limited Supply of New Hotels*. Availability of capital, specifically development capital, to the hotel industry has been constrained in recent years. As a result, in 2011, new hotel room construction starts were 45,700 units, representing 1.0% of the existing room supply. This represents the second lowest amount of construction starts since 2002. During this period, new construction starts have averaged 85,010 new hotel rooms annually, representing 1.9% of prevailing room supply. Growth in new hotel room supply is expected to remain low for the next several years as new hotel room construction starts, as a percentage of existing room supply, are projected to be only 1.1% in 2012 and 1.4% in 2013.

- *Attractive Valuations Provide an Opportune Time to Acquire U.S. Hotel Properties*. Despite improving industry fundamentals, hotel valuations remain attractive relative to historical valuations and replacement costs. According to HVS, the value of an average hotel room in the U.S. increased approximately 20% in 2011, but remained over 20% below peak valuations achieved in 2006. Management believes that hotel values have lagged the relative value of commercial and residential real estate asset classes, which have generally surpassed their previous peak valuations. Furthermore, hotels in the economy segment of the lodging industry continue to be valued at the largest discount to replacement cost compared to upscale, upper upscale and luxury hotels. According to HVS, the value of a U.S. hotel room, from 2011 to 2015, is expected to increase at a CAGR of 12%. Investment activity, as measured by transaction volumes, has increased significantly in the hotel industry, in particular from institutional and strategic investors, which have been committing increasing amounts of capital to the U.S. lodging industry since the credit crisis as they seek to capitalize on this unique window of opportunity. Over the last 12 months, $17.2 billion has been invested in the U.S. lodging industry, as compared to $13.7 billion in 2010 and $3.0 billion in 2009. Notable recent transactions include Blackstone Real Estate Partners' $1.2 billion acquisition of Apple REIT Six in November 2012 and their $1.9 billion acquisition of Motel 6 in October 2012, and Starwood Capital's $735 million acquisition of InTown Suites in October 2012. The current exchange rate environment provides Canadian investors with an attractive opportunity to acquire assets in the U.S. Over the past three decades, the Canadian dollar has, on average, traded significantly lower than the prevailing spot exchange rate. Management believes that the dynamic created by the current relative strength of the Canadian dollar, combined with the relatively low cost of capital in Canada, has created a unique opportunity to establish a Canadian investment entity focused on acquiring U.S. hotel properties on an opportunistic and accretive basis.

- *Substantial Acquisition Opportunities*. The U.S. hotel industry totals approximately 52,200 properties representing approximately 4.9 million rooms. Publicly traded U.S. real estate investment trusts own approximately 265,000 rooms, representing only a 5.4% market share. Management believes that the scale and fragmentation of the market presents the Issuer with significant opportunities to grow through accretive acquisitions in the Issuer's target markets. The Issuer intends to target the midscale and economy chain scale segments, which are comprised of an aggregate of nearly 1.3 million rooms, as well as the airport, interstate, and small metro/town location segments, which collectively comprise over 1.7 million rooms. Historically, the CMBS market represented a significant source of debt financing for the hotel industry, particularly from 2004 through 2007, but has been impaired since 2008. According to Jones Lang LaSalle, hotel-related CMBS loans with an aggregate principal amount of over $40 billion are scheduled to mature between 2013 and

2017. As a result of the constrained CMBS market and a current conservative funding environment, management expects that many owners of hotel properties will be unable to refinance existing maturing debt without additional equity investment. This may result in sales or foreclosures, creating attractive acquisition opportunities for well capitalized buyers such as the Issuer.

- *Stability of the Midscale and Economy Lodging Segments*. The midscale and economy segments of the U.S. lodging industry are the most stable of all segments. From 2001 to 2011, the year-over-year volatility of RevPAR for midscale and economy hotels was 9.6% and 7.8% respectively, as compared to the volatility of RevPAR for the U.S. lodging industry of 10.9% and 11.5% excluding economy, midscale and independent hotels.

Portfolio Overview

On Closing, the Issuer will indirectly acquire a portfolio of 32 hotel properties, representing a total of 2,565 rooms. Management believes that the hotel properties comprising the Initial Portfolio constitutes the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry.

Details of Initial Properties

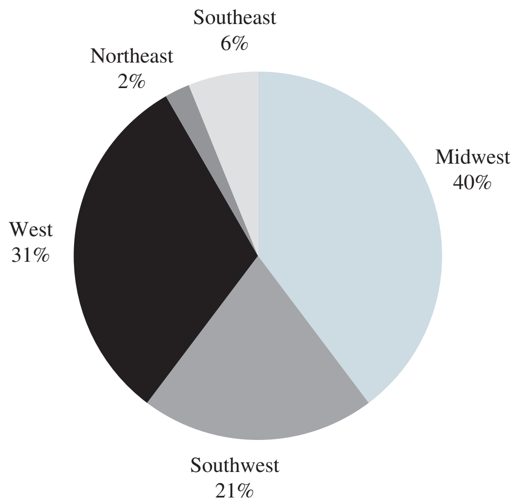
Hotel Address	Location	Yr Built/Renovated	# of Rooms	Food & Beverage
2407 East Holland Ave.	Alpine, TX	2001	40	Yes
3522 N. Highway 59	Bill, WY	2007	112	Yes
3475 Union Rd.	Buffalo, NY	2003	56	—
1625 Stillwater Ave.	Cheyenne, WY	1998	60	Yes
2300 Valley West Ct.	Clinton, IA	2005	123	—
21233 Coal River Rd.	Comfort, WV	2010	25	—
1608 W US Business 60	Dexter, MO	1998/2008	109	Yes
4000 Siskiyou Ave.	Dunsmuir, CA	2007	21	Yes
95 Spruce Rd.	Elko, NV	1999	120	—
2700 N Diers Pkwy.	Fremont, NE	2007	100	Yes
220 15th St. SE(1)	Glenwood, MN	2013	56	Yes
1170 W. Flaming Gorge Way	Green River, WY	1997/1998	191	Yes
1051 North Market St.	Hearne, TX	1999	116	Yes
1110 SE 4th St.	Hermiston, OR	2002	62	—
501 SW Blvd.(2)	Kansas City, KS	1981/1985/2013	112	—
7875 Airline Hwy / 8233 Airline Hwy(3)	Livonia, LA	1996/2013	102	Yes
123 Westvaco Rd.	Low Moor, VA	2009	30	Yes
1127 Pony Express Hwy	Marysville, KS	1999/2008	139	Yes
528 S. George Nigh Expy.	McAlester, OK	2011	61	—
777 W Center St.	Milford, UT	2002/2007	75	Yes
128 S. Willow Rd.	Missouri Valley, IA	2006	41	Yes
707 E. Webster St.	Morrill, NE	1997/2008	97	Yes
451 Halligan Dr.	North Platte, NE	2005	111	Yes
22 N. Frontage St.	Pecos, TX	2001	61	—
2005 E. Daley St.	Rawlins, WY	2006	62	Yes
K27 & Commerce St.	Sharon Springs, KS	1997	50	Yes
US 285 & 2nd St.	Vaughn, NM	1999	60	Yes
1177 E. 16th St.	Wellington, KS	1993/1999	80	Yes
1706 N. Park Dr.	Winslow, AZ	1983	72	—
98 Moffat Ave.	Yampa, CO	2001	37	Yes
35450 Yermo Rd.	Yermo, CA	2002	65	Yes
1731 S. Sunridge Dr.	Yuma, AZ	1999/2000	119	Yes
Total			**2,565**	

(1) Opened on January 23, 2013.

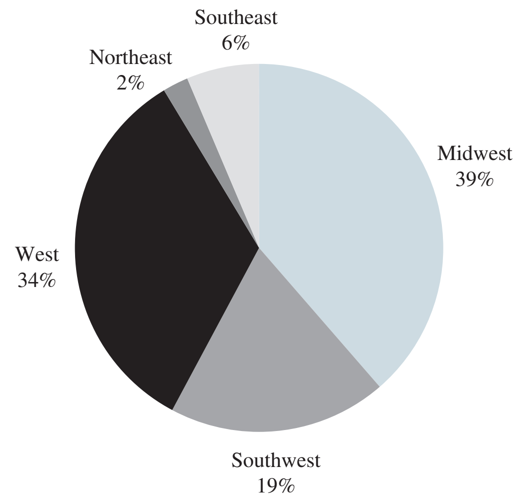
(2) Currently a Best Western branded hotel with all rooms scheduled to be converted to Oak Tree Inn standards by March 1, 2013. Management expects to retain Best Western membership.

(3) Represents an existing 42 room property and a new 60 room property under development, expected to be completed in April 2013.

Rooms by U.S. Geographic Region



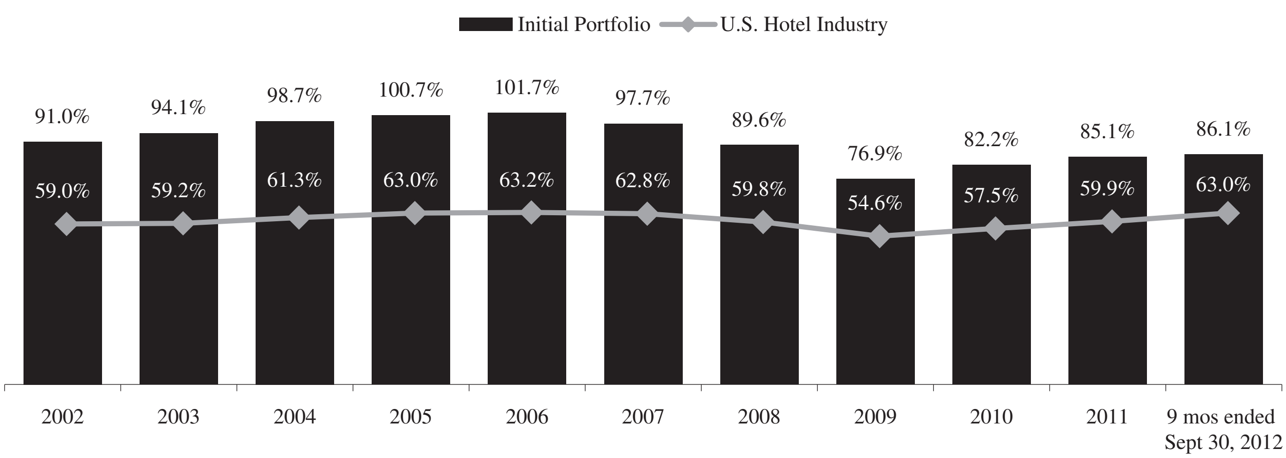
Revenue by U.S. Geographic Region(1)



(1) Based on 2013E revenues.

As a result of contractual minimum occupancy guarantees, the Initial Portfolio has experienced very stable operating metrics over various industry and economic cycles. Over the past decade, the Initial Portfolio's occupancy rate has averaged 91.3%, compared to 60.0% for the U.S. lodging industry. For the nine months ended September 30, 2012, the Initial Portfolio's average occupancy rate was 86.1%.

Initial Portfolio Occupancy



Source: STR

Overview of Railroad Operating Partners

The Initial Portfolio is supported by contracts stipulating minimum occupancy guarantees with several of the largest North American railroad operators: UP, BNSF, CSX and CP. Following the Closing, approximately 74% of the room-nights in the Initial Portfolio will be covered under minimum occupancy guarantees. The following table presents certain key statistics relating to UP, BNSF, CSX and CP.

Railroad Operator	Head-quarters	North American Rank(1)	Track Miles	2011 Revenues (billions)	Equity Value (billions)(2)	Credit Rating(3)	Length of Relationship with Lodging Enterprises (years)	2013E Railroad Room Revenue Contribution
UP	Omaha, NE	1	31,898	$19.6	$ 59.1	A-	23	86.0%
BNSF	Fort Worth, TX	2	32,000	$19.5	$ 34.4	BBB+	27	6.1%
CSX	Jacksonville, FL	3	21,000	$11.7	$ 20.3	BBB	23	5.8%
CP	Calgary, AB	6	14,700	$ 5.2	$ 17.6	BBB-	1	2.1%
Total			**99,598**	**$56.0**	**$131.4**			**100.0%**

(1) Based on operating revenues.

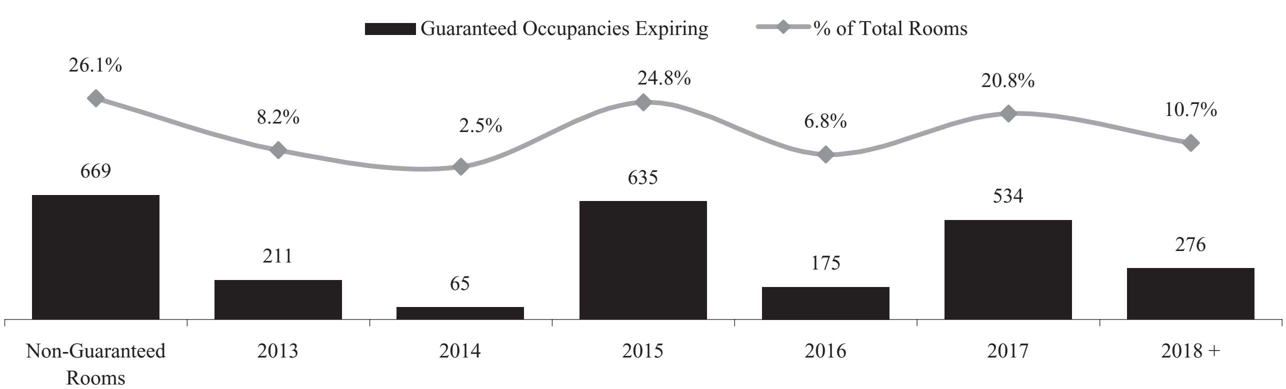
(2) Figures shown are market capitalization as at December 31, 2012 except BNSF, which is shown at book value as at September 30, 2012.

(3) Source: Standard & Poors.

Train safety is one of the most important initiatives in the railroad industry, both from the perspective of the safety of railroad employees and the general public. Because train operator fatigue is one of the leading contributing factors to train accidents, federal laws and labour union requirements have been established to reduce fatigue related incidents. Management believes that every hour of down time can result in significant costs to a railroad due to such factors as contractual penalties for late delivery and additional labour and related expenses. Railroad operators in the U.S. must comply with an extensive system of federal safety laws that require compliance in a range of areas, including mandated rest time between shifts and the establishment of interruption-free sleeping quarters. In addition, railroad labour unions increasingly require that lodging accommodations for their employees satisfy minimum standards and offer certain amenities.

The contracts underlying the Initial Portfolio have a staggered maturity profile, with a weighted average term to maturity of 2.7 years based on all room nights, or 3.5 years based on contractually guaranteed room nights.

Initial Portfolio Contract Maturity Profile



The Initial Portfolio has had a strong track record of contract renewal success. Since 1984, 32 contracts have expired between Lodging Enterprises and a railroad counterparty, with 31 contracts renewed. In addition, over the same period, no contract has ever been terminated prematurely by a railroad operator.

Governance and Management of the Issuer

The Issuer will be internally managed by an executive team comprised of hotel industry veterans with deep experience in operations, development, acquisition, and financing of lodging and hotel properties. The board of directors and management of the GP consist of the following individuals:

Name and Municipality of Residence	Position with the GP	Principal Occupation
ROBERT O'NEILL[(1)(2)(9)] . . . . West Vancouver, British Columbia	Director and Chief Executive Officer	Chief Executive Officer, American Hotel Income Properties REIT (GP) Inc.
STEPHEN J. EVANS[(3)(4)] . . . . North Vancouver, British Columbia	Independent Director	Chief Operating Officer, Sunstone Realty Advisors Inc. Co-CEO, Pure Industrial Real Estate Trust Chief Executive Officer, Pure Multi-Family REIT LP
W. MICHAEL MURPHY[(3)(5)] . . . . Atlanta, Georgia	Independent Director	Head of Lodging and Leisure Capital Markets, First Fidelity Mortgage Corporation
ROBERT PRATT[(3)(5)] . . . . North Vancouver, British Columbia	Independent Director	President, Coast Hotels & Resorts
KEVIN GRAYSTON[(3)(6)] . . . . North Vancouver, British Columbia	Independent Director	Consultant and Corporate Director
PETER ARMSTRONG[(5)(6)(7)] . . . . Vancouver, British Columbia	Chairman and Lead Independent Director	Executive Chairman and Founder, Armstrong Group
TAMARA L. LAWSON[(5)(6)] . . . . Toronto, Ontario	Independent Director	Chief Financial Officer, Starlight Investments Ltd.
ROBERT HIBBERD[(8)] . . . . Vancouver, British Columbia	Chief Financial Officer and Corporate Secretary	Chief Financial Officer and Corporate Secretary, American Hotel Income Properties REIT (GP) Inc.
ANNE YU . . . . Vancouver, British Columbia	Director of Finance	Director of Finance, American Hotel Income Properties REIT (GP) Inc.

(1) Not an Independent Director because the individual is an executive officer of the GP.
(2) Is a principal of Maverick Management Corp., which owns 180,000 Units of the Issuer. See "*Prior Sales*".
(3) Member of Compensation Committee.
(4) Is a principal of Triple E Investments Ltd., which owns 78,000 Units of the Issuer. See "*Prior Sales*".
(5) Member of Nominating and Governance Committee.
(6) Member of Audit, Finance and Risk Committee.
(7) Is a principal of Invictus Maneo Investments Ltd., which owns 40,000 Units of the Issuer. See "*Prior Sales*".
(8) Directly owns 20,000 Units of the Issuer. See "*Prior Sales*".
(9) Nominee of the Sponsor. See "*Governance and Management of the Issuer – Sponsor Nomination*".

Arrangements with the Hotel Managers

On Closing, the Initial Properties will be externally managed by the IPO Hotel Manager, an indirect wholly owned Subsidiary of OHR. Any Subsequent Properties acquired indirectly by the Issuer in the five years following Closing through one or more wholly owned Subsidiaries of the U.S. REIT will be externally managed by the Master Hotel Manager, a wholly owned Subsidiary of OHR, or through one or more of the Master Hotel Manager's wholly owned Subsidiaries pursuant to separate Hotel Management Agreements and the Master Hotel Management Agreement. See *"Arrangements with the Hotel Managers"*.

Pursuant to the Master Hotel Management Agreement between the Issuer and the Master Hotel Manager, operating Subsidiaries of the Issuer will enter into Hotel Management Agreements with the Hotel Managers, under which the Hotel Managers will be responsible for the hotel management of the Properties owned by such Subsidiaries. Each of the Hotel Management Agreements will provide for the payment of a hotel management fee in an amount equal to 3.50% of gross revenues. In addition, the Hotel Managers will collectively receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels (as approved by the Independent Directors of the GP), on an aggregate basis. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned. In addition, the Hotel Managers shall be entitled to an accounting, administration and purchasing fee. The IPO Hotel Manager will be entitled to $15,000 per Property for each of the first and second years following the Closing, $20,000 per Property in the third year following the Closing, and $25,000 per Property in each year thereafter. In relation to properties acquired other than the Initial Portfolio, the applicable Hotel Manager will be entitled to an accounting, administration and purchasing fee of $25,000 per Property per year. Each Hotel Manager will also be entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures.

Exclusivity

The Master Hotel Manager or one of its Subsidiaries will be the exclusive hotel managers for all Properties indirectly owned or acquired by the Issuer for a period of five years following the Closing. Thereafter, the Issuer will not be precluded from indirectly pursuing acquisitions of Properties from third parties, and entering into a hotel management agreement with a manager unaffiliated with the Master Hotel Manager, provided that the relevant operating Subsidiary will pay the Master Hotel Manager an annual compensatory fee of 0.375% of the asset value of any such acquisition for 18 months following the date of such acquisition. The compensatory fee is subject to renewal for 12 month terms by the Independent Directors of the GP, acting reasonably, 90 days prior to the end of the 18 month term and each 12 month term thereafter.

Non-Competition

For a period of five years following the Closing, the Principals, the Sponsor, the Hotel Managers and OHR, agree not to manage any Suitable Properties in the U.S. that are owned by entities other than Subsidiaries of the Issuer and any railway hotels in Canada (subject to certain exceptions for properties already managed). The Principals and the Sponsor will also agree not to, individually or in partnership or jointly or in conjunction with any person(s), directly or indirectly through any controlled entity: (i) create or manage another private or public entity focused on the ownership of Suitable Properties in the U.S. or Canada; (ii) invest in, purchase, or finance the purchase of, any assets which constitute Restricted Investments and meet the Issuer's investment criteria, unless they have been first offered to the Issuer (on no less favourable terms) and the Issuer has declined to purchase such assets; or (iii) solicit customers, patrons, suppliers, employees, consultants, advisers, partners, trustees, directors, officers or agents away from the Issuer or its facilities, or otherwise interfere with relationships that the Issuer has with such persons.

Arrangements with the Developer

Through the Master Development Agreement, the Issuer intends to cause one or more of its Subsidiaries to enter into future development agreements with SunOne Developments Inc., an Affiliate of the Principals, for the development of future Oak Tree Inns (or other Suitable Properties from time to time). The Developer will provide the Issuer with a right of first opportunity to participate in all Proposed Development Opportunities, with the option to provide mezzanine loans to finance the construction of the Proposed Development Opportunities. See *"Arrangements with the Developer"*.

Prior Sales

The Seed Capital Investors have purchased an aggregate of 400,000 Units (800,000 Units on a pre-Consolidation basis) for aggregate consideration of Cdn$800,000. As part of the Offering, certain of the Seed Capital Investors (being principals of the O'Neill Group) have agreed to purchase an aggregate of 100,000 Units under this prospectus. Accordingly, upon closing of the Offering, the Seed Capital Investors will own 500,000 Units representing 5.5% of the issued and outstanding Units. Such investors have agreed to subordinate their distributions to the distributions of other Unitholders for a period of 18 months following closing. Such Units will be held under the Escrow Agreement for a period of 18 months following the closing of the Offering. The indemnification obligations of the Sponsor under the Underwriting Agreement will be secured for a period of 18 months by the 336,000 Units held by Maverick Management Corp., Triple E Investments Ltd. and Darren Investments Inc., Affiliates of the Principals. See *"Escrowed Securities", "Distribution Policy" and "Plan of Distribution"*.

Summary of Independent Appraisals of the Initial Portfolio

The Issuer retained Cushman & Wakefield to provide an independent summary appraisal report on the fair market value of each of the 30 Existing Properties comprising the majority of the Initial Portfolio and of the property under development at the time in Glenwood, MN. Cushman & Wakefield reports in the C&W Appraisal that the sum of the individual appraised values of the Existing Properties as of November 1, 2012 was $159.6 million. This sum of the individual appraised values gives no consideration to a portfolio discount or premium and is subject to certain assumptions and limiting conditions. The appraised value of the Glenwood, MN property was estimated to be $3.4 million as of the expected completion date (which occurred on January 23, 2013). This appraised value is subject to certain assumptions and limiting conditions.

The Issuer also retained CBRE to provide an independent appraisal of the fair market value of the property under development in Livonia, LA, and retained Martens to provide an independent appraisal of the fair market value of the property under development in Kansas City, KS. CBRE reports in the CBRE Appraisal that the appraised value of the Livonia, LA property was estimated to be $3.0 million as of the expected development completion date of May 1, 2013. Martens reports in the Martens Appraisal that the appraised value of the Kansas City, KS property was estimated to be $8.4 million as of January 1, 2013. These appraised values are subject to certain assumptions and limiting conditions. See "*Assessment and Valuation of the Initial Properties*".

Debt Strategy and Indebtedness

The Issuer intends to maintain a balanced debt profile, taking into account market conditions and the financial characteristics of each property. The Issuer's long-term debt strategy involves (i) achieving and maintaining staggered debt maturities to lessen exposure to interest rate fluctuations and re-financing risk in any particular period; and (ii) fixing interest rates and extending loan terms as long as possible when borrowing conditions are favourable. To monitor cash flow, the Issuer will use cash flow measures and debt level indicators to assess its ability to meet its financing obligations, including targeting a total indebtedness level of approximately 50% of Gross Book Value. The REIT LP Agreement will provide that the Issuer and any Subsidiary may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total consolidated indebtedness of the Issuer and its Subsidiaries would exceed 60% of Gross Book Value (65% including any convertible debentures).

Together with the net proceeds from the Offering, the Issuer intends to finance the acquisition of the Initial Portfolio with a five-year 4.85% fixed rate $70 million secured term loan from a U.S. chartered bank, to be borrowed by Subsidiaries of the U.S. REIT. The U.S. chartered bank has also agreed to provide a two-year floating rate revolving construction facility (floating interest rate based on 30-day LIBOR plus 3.0% with a floor of 4.0%) for up to $10 million.

On closing of the acquisition of the Initial Portfolio, the Issuer's aggregate consolidated indebtedness is expected to be approximately $71.5 million (comprised of $70 million from the Term Loan and $1.5 million from the Construction Facility), representing approximately 45.9% of Gross Book Value, of which 97.9% will be fixed rate. Following the closing of the acquisition of the Initial Portfolio, Subsidiaries of the Issuer intend to draw a further $1.1 million on the Construction Facility to complete the development of the property located in Livonia, LA, which is expected by management to be completed in April 2013. Including the amounts required to complete the development of the Livonia property, the Issuer's total consolidated debt on closing of the acquisition of the Initial Portfolio would be approximately 46.1% of Gross Book Value.

The following table sets out the principal amortization and maturity balances on debt to be paid over each of the six calendar years following the closing of the acquisition of the Initial Portfolio (assuming such debt is not renewed at maturity), which includes the Term Loan and the Construction Facility utilized to finance the acquisition of the Initial Portfolio.

Year	Principal Amortization ($000's)	Balance Due on Maturity ($000's)	Total Debt Repayments ($000's)	% of Total
2013	2,789	—	2,789	3.9%
2014	3,392	—	3,392	4.8%
2015	3,560	1,469	5,029	7.0%
2016	3,737	—	3,737	5.2%
2017	3,922	—	3,922	5.5%
2018	337	52,263	52,600	73.6%
Total	**17,737**	**53,732**	**71,469**	**100.0%**
Current weighted average interest rate				4.83%
Current weighted average term to maturity				4.9 years

Summary Financial Forecast Information

The financial forecast information set forth below is based upon the financial forecast prepared by management of the GP, on behalf of the Issuer, using assumptions with an effective date of February 12, 2013. The forecast has been prepared after giving effect to the Offering and the other transactions contemplated in this prospectus to be completed before or concurrently with Closing. The acquisition of the Initial Portfolio and Closing are expected to occur on or about February 20, 2013. For the purposes of the financial forecast only, it is assumed that the acquisition of the Initial Portfolio and Closing occurred on January 1, 2013. **The assumptions used in the preparation of the forecast, although considered reasonable by management at the time of preparation, may not materialize as forecasted and unanticipated events and circumstances may occur subsequent to the date of the forecast. Accordingly, there is a significant risk that actual results achieved by the Issuer for the forecast period will vary from the forecast results and that such variations may be material. There is no representation that actual results achieved during the forecast period will be the same in whole or in part as those in the forecast. Important factors that could cause actual results to vary materially from the forecast include those disclosed under "*Risk Factors*". See also "*Forward-Looking Information*" and "*Financial Forecast*".**

	Three-month period ending				Twelve month period ending
	March 31 2013	**June 30 2013**	**September 30 2013**	**December 31 2013**	**December 31 2013**
Revenue					
Rooms	$10,218,791	$11,282,440	$11,553,860	$10,933,269	$43,988,360
Food	2,400,370	2,664,819	2,851,351	2,533,317	10,449,857
Rental and other	232,130	237,379	245,292	240,460	955,261
	12,851,291	14,184,638	14,650,503	13,707,046	55,393,478
Hotel Expenses					
Operating expenses	6,896,508	7,021,984	7,234,094	6,959,239	28,111,825
Energy	673,445	610,701	732,474	678,423	2,695,043
Property maintenance	734,946	752,570	770,868	789.470	3,047,854
Property taxes and insurance	673,133	669,994	670,682	673,271	2,687,080
Depreciation and amortization	1,652,067	1,721,098	1,776,814	1,776,814	6,926,793
	10,630,099	10,776,347	11,184,932	10,877,217	43,468,595
Results from operating activities	**2,221,192**	**3,408,291**	**3,465,571**	**2,829,829**	**11,924,883**
Corporate and administrative	990,248	1,042,261	1,058,974	1,025,022	4,116,505
Earnings before finance costs and income taxes	**1,230,944**	**2,366,030**	**2,406,597**	**1,804,807**	**7,808,378**
Finance income	36,103	36,103	36,103	36,103	144,412
Finance costs	(863,030)	(876,973)	(874,960)	(864,633)	(3,479,596)
Net finance costs	(826,927)	(840,870)	(838,857)	(828,530)	(3,335,184)
Earnings before income taxes	**404,017**	**1,525,160**	**1,567,740**	**976,277**	**4,473,194**
Income taxes – current	(47,725)	(47,725)	(47,725)	(47,725)	(190,900)
Income taxes – deferred	148,033	148,033	148,033	148,033	592,132
	100,308	100,308	100,308	100,308	401,232
Net Earnings and comprehensive income	**$ 504,325**	**$ 1,625,468**	**$ 1,668,048**	**$ 1,076,585**	**$ 4,874,426**

Reconciliation of Non-IFRS Forecast

The following table reconciles forecast net earnings and comprehensive income to FFO, AFFO and NOI. See "*Non-IFRS Measures*" and "*Financial Forecast*".

	Three-month period ending				Twelve month period ending
	March 31 2013	June 30 2013	September 30 2013	December 31 2013	December 31 2013
Net earnings and comprehensive income	$ 504,325	$1,625,468	$1,668,048	$1,076,585	$ 4,874,426
Add/(Deduct)					
Depreciation and amortization	1,652,067	1,721,098	1,776,814	1,776,814	6,926,793
Income taxes – deferred	(148,033)	(148,033)	(148,033)	(148,033)	(592,132)
Funds From Operations (FFO)	**$2,008,359**	**$3,198,533**	**$3,296,829**	**$2,705,366**	**$ 11,209,087**
Add/(Deduct)					
Amortization of deferred finance costs	17,500	17,500	17,500	17,500	70,000
Capital expenditure reserve	(306,564)	(338,473)	(346,616)	(327,998)	(1,319,651)
Adjusted Funds From Operations (AFFO)	**$1,719,295**	**$2,877,560**	**$2,967,713**	**$2,394,868**	**$ 9,959,436**
Forecast NOI reconciliation					
Revenue					55,393,478
Hotel expenses					(43,468,595)
Depreciation and amortization					6,926,793
Forecast NOI[1]					**$ 18,851,676**

(1) Forecast NOI is prior to Hotel Manager fees of $2,496,005.

Reconciliation of NOI to Forecast NOI

Below is a reconciliation of NOI for the twelve-month period ended September 30, 2012 to the NOI for the forecast twelve-month period ending December 31, 2013. This reconciliation is illustrative in nature and has been prepared by management as a supplement for the reader to the financial forecast. The assumptions used in respect of revenues and expenses in order to arrive at the figures below constitute forward-looking information. While these assumptions are considered reasonable by the management as of the date of this prospectus, they are inherently subject to significant uncertainties and contingencies that may affect the outcome of the forward-looking information. Investors should use caution when considering such forward-looking information, and the Issuer cautions readers not to place undue reliance on these statements. See "*Forward Looking Information*".

NOI for the twelve months ended September 30, 2012[1][2]	**$16,244,586**
Increase in NOI from additional properties	2,222,631
Increase in NOI from existing properties[3]	525,658
Removal of NOI relating to property not acquired with Initial Portfolio	(141,199)
Forecast NOI for the twelve months ending December 31, 2013[4][5]	**$18,851,676**

(1) Calculated by adding the applicable amount for the nine-month period ended September 30, 2012 to the twelve month period ended December 31, 2011 and subtracting the nine month period ended September 30, 2011.

(2) Actual occupancy during the twelve month period ended September 30, 2012 was 83.8% (85.8% for Initial Portfolio).

(3) Includes approximately $68,000 of NOI from a property that is currently closed, but the railroad operator continues to make payments pursuant to the minimum occupancy guarantee.

(4) Forecast occupancy for the twelve month period ending December 31, 2013 is 88.5%.

(5) Forecast NOI is prior to Hotel Manager fees of $2,496,005.

THE OFFERING

Offering: 8,700,000 Units (10,005,000 Units if the Over-Allotment Option is exercised in full).

Amount: Cdn$87,000,000 ($100,050,000 if the Over-Allotment Option is exercised in full).

Price: Cdn$10.00 per Unit.

Over-Allotment Option: The Issuer has granted to the Underwriters the Over-Allotment Option, exercisable in whole or in part for a period of 30 days from the closing of the Offering, to purchase up to an additional 1,305,000 Units on the same terms as the Offering to cover over-allotments, if any, and for market stabilization purposes.

Use of Proceeds: The net proceeds of the Offering are estimated to be approximately Cdn$76,280,000 after deduction of the Underwriters' Fee and the estimated expenses of the Offering. The Issuer will use approximately Cdn$62,216,949 of the net proceeds of the Offering to indirectly acquire its interest in the Initial Portfolio pursuant to the terms of the Unit Purchase Agreement. Any remaining net proceeds will be used to indirectly acquire additional Suitable Properties by making further investments in the U.S. REIT and for general working capital purposes.

The net proceeds of the Over-Allotment Option, if exercised in full, will be approximately Cdn$12,167,000 after deduction of the Underwriters' Fee and the estimated expenses of completing the Over-Allotment Option. The Issuer intends to use the net proceeds received by it on the exercise of the Over-Allotment Option to indirectly acquire additional Suitable Properties by making further investments in the U.S. REIT and for general working capital purposes. See "*The Issuer's Structure*", "*Use of Proceeds*" and "*Plan of Distribution*".

Unit Attributes: The Issuer is authorized to issue an unlimited number of Units. Each Unit represents an equal undivided beneficial interest in and to all distributions from the Issuer, and an allocation of Net Income, Taxable Income, Net Loss, Taxable Loss or other amounts in accordance with the REIT LP Agreement, as well as an undivided beneficial interest in all assets of the Issuer in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the Issuer.

Distribution Policy: The Issuer intends to adopt a distribution policy pursuant to which the Issuer will make regular monthly cash distributions to Unitholders. The initial cash distribution will be for the period from and including the date of closing of the Offering to March 31, 2013, is expected to be paid on April 15, 2013 to Unitholders of record on March 29, 2013 and is estimated to be Cdn$0.096 per Unit (assuming the closing of the Offering occurs on February 20, 2013). The Issuer expects the subsequent monthly cash distributions will be approximately Cdn$0.075 per Unit. In connection with the completion of the Offering, the Seed Capital Investors have agreed to subordinate their distributions to the distributions of other Unitholders for a period of 18 months following Closing. See "*Distribution Policy*".

Risk Factors: An investment in Units is subject to a number of risk factors that should be carefully considered by a prospective purchaser. The Issuer's cash distributions are not guaranteed and will be based, in part, upon the financial performance of the Properties, which is susceptible to a number of risks. These risks, and other risks associated with an investment in Units, include Risks Relating to the Issuer, its Business and the Initial Portfolio (General Real Estate Ownership Risks; Acquisition Risk; Financing Risks; Dependence on Contracts with UP and other Railroads for Revenue; Interest Rate Risk; Fluctuations in Capitalization Rates; Environmental Matters; Uninsured Losses; Risks

Related to Insurance Renewals; Revenue Shortfalls; Joint Ventures; U.S. Market Factors; Liquidity Risk; Changes in Applicable Laws; Laws Benefitting Disabled Persons; Fixed Costs and Increased Expenses; Access to Capital; Degree of Leverage; Litigation Risks; Reliance on Management; Historical Data; Possible Loss of Limited Liability of Limited Partners; Development Risks; No Assurance of Recovery; Potential Conflicts of Interest), Risks Related to the Hotel and Lodging Industry (Operating Risks; Seasonality of the Lodging Industry; Cyclical Nature of the Lodging Industry; Competition); Risks Relating to the Offering and the Units (No Prior Public Market for Units; Volatile Market Price for Units; Historical Financial Information and Pro Forma Financial Information; Return on Investment Not Guaranteed; Return on Investment Not Comparable to Fixed-Income Security; Currency Exchange Rate Risk; Non-IFRS Measures; Financial Forecast; Unitholders' Legal Rights; Dilution); Canadian tax-related risk factors and U.S. tax-related risk factors. See *"Risk Factors"*.

THE ISSUER'S STRUCTURE

The Issuer

The Issuer is a newly established limited partnership formed under the *Limited Partnerships Act* (Ontario) on October 12, 2012 and governed by the REIT LP Agreement. The Issuer's head office is located at 1690 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1. A copy of the REIT LP Agreement will be available on SEDAR at www.sedar.com.

Assuming the completion of the Offering and the completion of the transactions described under "*The Acquisition*", public Unitholders will hold an approximate 94.5% interest in the Issuer, the O'Neill Group and the Sunstone Group will collectively hold an approximate 4.8% interest in the Issuer and other Seed Capital Investors will hold an approximate 0.7% interest in the Issuer. The GP will hold the general partner interest in the Issuer. Principals of the O'Neill Group will own 50% of the common shares of the GP and principals of the Sunstone Group will own the remaining 50% of the common shares of the GP. The Issuer will own 100% of the Common Shares of the U.S. REIT and may own one ROC Share of the U.S. REIT. The U.S. REIT will own 100% of the interests in each of Lodging Properties and Lodging Enterprises. Lodging Properties was formed in Delaware on November 1, 2012 solely for the purpose of entering into the Unit Purchase Agreement with the Sellers and is currently owned by the Issuer.

The GP

The GP is a corporation established on September 6, 2012 under the *Canada Business Corporations Act*. The GP's head office is located at 1690 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 and its registered office is at 2500 – 700 West Georgia Street, Vancouver, BC V7Y 1B3. The GP is the general partner of the Issuer.

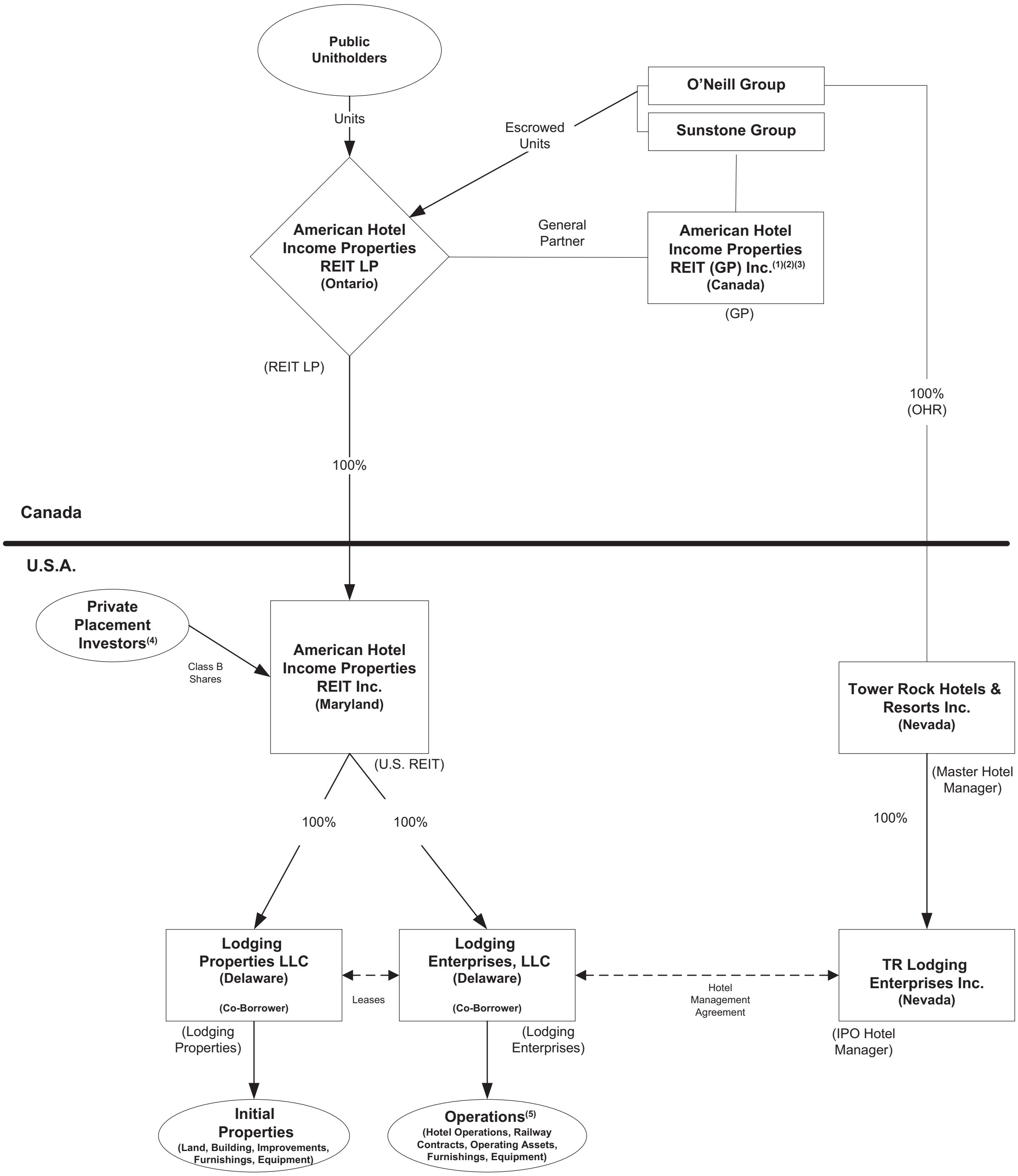
The U.S. REIT

The U.S. REIT will be a corporation formed, following Closing, pursuant to the *Maryland General Corporation Law*. The head office and address for service of the U.S. REIT will be located at 8080 East Central, Suite 180, Wichita, Kansas 67206. The U.S. REIT's principal office in the State of Maryland will be c/o The Corporation Trust Incorporated, 351 West Camden Street, Baltimore, Maryland 21201. The U.S. REIT intends to take the necessary steps to qualify as a real estate investment trust pursuant to the Code.

In order to accommodate the expected requirements of lenders, to segregate risks of ownership of the Properties, and to comply with qualification requirements as a real estate investment trust under the Code, the U.S. REIT will own the Initial Portfolio indirectly through a wholly-owned subsidiary of the U.S. REIT, Lodging Properties, which in turn will lease such Properties to another wholly-owned subsidiary of the U.S. REIT, Lodging Enterprises, the current owner and operator of the Initial Portfolio. Immediately after the closing of the acquisition of the units of Lodging Enterprises, substantially all of the Initial Properties will be transferred from Lodging Enterprises to Lodging Properties. Lodging Enterprises will continue to operate the Initial Properties through arrangements with Lodging Properties and the IPO Hotel Management Agreement with the IPO Hotel Manager. Additional acquisitions of Properties by the U.S. REIT will be undertaken through one or more wholly-owned Subsidiaries of the U.S. REIT in a similar manner as described above. See "*The Acquisition*", "*Arrangements with the Developer*" and "*Arrangements with the Hotel Managers*".

Organizational Structure

The following diagram depicts the relationships among the Issuer, the GP and their respective Subsidiaries and Affiliates assuming the completion of the Offering and the completion of the transactions described under "*The Acquisition*".



(1) Shareholders are Maverick Management Corp. (principals of which are Robert O'Neill and John O'Neill), Darren Investments Inc. (principal of which is Darren Latoski) and Triple E Investments Ltd. (principal of which is Stephen Evans).

(2) The shareholders of the GP will enter into a voting trust agreement with a third party trustee pursuant to which Unitholders will be provided the right to vote for the election of directors of the GP and on certain other fundamental matters relating to the GP. See "*Governance and Management of the Issuer – Voting Trust Agreement*".

(3) The Sponsor will have the exclusive right to nominate for election a certain minority number of directors of the GP based on the collective holdings of the Principals and their Affiliates at the time of nomination. See "*Governance and Management of the Issuer – Sponsor Nomination*".

(4) Pursuant to the Code, in order to qualify as a REIT, the U.S. REIT must be beneficially owned by at least 100 persons. In order to meet this test, on or before January 30, 2014 the U.S. REIT will issue Class B Shares to accredited investors in the U.S. See "*The U.S. REIT – Class B Shares*".

(5) The Initial Property located in Low Moor, Virginia may remain a property of Lodging Enterprises.

ACTIVITIES OF THE ISSUER AND ITS SUBSIDIARIES

The Issuer has been formed to indirectly own and acquire hotel properties in the U.S. On Closing, the Issuer will indirectly acquire through the U.S. REIT and its Subsidiaries all of the units of Lodging Enterprises, the current owner of a portfolio comprising 32 hotel properties located in 19 states (each, an "**Initial Property**" and collectively, the "**Initial Properties**" or the "**Initial Portfolio**"), pursuant to the terms of the Unit Purchase Agreement. The Initial Portfolio is geographically diversified and each of the Initial Properties has been built to a high standard of quality, is well maintained, and is being acquired for less than its replacement cost. Management believes that the Initial Portfolio comprises the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry. The Initial Properties are located near high volume railroad hubs and switching terminals across the U.S. Strategic relationships with several of the largest U.S. railroad operators, Union Pacific Corporation ("**UP**"), Burlington Northern Santa Fe, LLC ("**BNSF**") and CSX Corporation ("**CSX**"), as well as Canadian Pacific Railway Limited ("**CP**"), to provide lodging accommodations for railroad employees under contracts stipulating guaranteed minimum occupancies, give the Initial Portfolio a recurring and stable revenue stream. All of the Initial Properties are operated under the Oak Tree Inn brand name (except one Best Western franchise hotel that is scheduled to have all of its rooms converted to Oak Tree Inn standards by March 1, 2013) and were specifically designed, or have been converted, to fulfill the operating needs of railroad operators, including compliance with federal regulations relating to rest time, safety and hours of service, and satisfaction of labour union specifications. Most of the Initial Properties were purpose-built and feature a standard design, including a two or three storey wood framed building with interior corridors and stucco or vinyl siding exteriors. See "*Portfolio Overview*". The Initial Portfolio will provide a platform on which to expand the Issuer's portfolio and activities through a combination of organic growth, participation in strategic development opportunities and accretive acquisitions. See "*Growth Strategies*".

The Issuer will be internally managed by an experienced senior management team and the Initial Portfolio's lodging business will be externally operated by TR Lodging Enterprises Inc. (the "**IPO Hotel Manager**"), a wholly owned subsidiary of Tower Rock Hotels & Resorts Inc. (the "**Master Hotel Manager**", and together with the IPO Hotel Manager, and any other hotel managers appointed from time to time by the Master Hotel Manager, the "**Hotel Managers**"). The Master Hotel Manager is a wholly owned subsidiary of O'Neill Hotels & Resorts Ltd. ("**OHR**"). All Properties other than the Initial Properties (the "**Subsequent Properties**") will be externally managed by the Master Hotel Manager, or through one or more of the Master Hotel Manager's wholly owned Subsidiaries. Collectively, the Issuer's and the Hotel Managers' management teams are comprised of hotel industry veterans that have owned, managed, operated, developed, acquired and financed over Cdn$1 billion of lodging and hotel investments. The Issuer will also enter into a development agreement with SunOne Developments Inc. (the "**Developer**"), an Affiliate of each of OHR and the Sunstone Group, pursuant to which the Issuer's Subsidiaries will have preferential rights to acquire properties to be developed by the Developer in the future. The GP's board of directors will be comprised of a majority of independent directors that have substantial real estate, hospitality and capital markets experience. See "*Arrangements with the Developer*", "*Arrangements with the Hotel Managers*" and "*Governance and Management of the Issuer*".

Management believes that certain characteristics of the U.S. lodging industry, including improving hotel lodging fundamentals due to increasing demand for hotel lodging accommodations combined with stagnant supply of new hotel properties, the attractive relative valuation of hotel properties to historical valuations and replacement costs and the availability of acquisition opportunities, provide for a unique investment opportunity. Management also believes that, as a result of the high quality of the Initial Properties, its long-term strategic relationships with railroad operators and its strategic external development arrangement with the Developer, the Issuer is well-positioned to participate in the projected growth of the U.S. lodging industry.

The Issuer's long-term objectives are to (a) generate stable and growing cash distributions from hotel properties substantially in the U.S.; (b) enhance the value of its assets and maximize the long-term value of the Properties through active management; and (c) expand its asset base and increase its AFFO per Unit through an accretive acquisition program, participation in strategic development opportunities and improvements to the Properties through targeted value added capital expenditure programs.

INVESTMENT HIGHLIGHTS

Initial Portfolio of Quality Lodging Properties Focused on Railroad Employee Accommodation

The Initial Portfolio consists of 32 lodging properties, representing a total of 2,565 rooms. Management believes that the Initial Properties comprise the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry. Lodging Enterprises has developed this unique portfolio over the past 28 years, utilizing what management believes are the highest construction standards. The Initial Properties are geographically diversified among 19 states in the U.S., including 11 properties in the Midwest, 10 properties in the West, seven properties in the Southwest, three properties in the Southeast and one property in the Northeast. The Initial Properties were specifically designed or have been converted to fulfill lodging needs of railway employees, including compliance with federal regulations relating to rest time, safety and hours of service, and in accordance with labour union specifications, all of which are important to railroads in ensuring on-time performance, mitigation of employee fatigue, visibility on costs and high employee morale. Management believes that every hour of down time can result in significant costs to a railroad due to such factors as contractual penalties for late delivery and additional labour and related expenses. The Initial Properties are located near high volume railroad hubs and switching terminals, maximizing efficiency for employees in off-duty periods. The average age of the Initial Properties is approximately 10 years (including major renovations).

Stable Cash Flow Resulting from Strategic Relationships with U.S. Railroad Operators

The Initial Portfolio has historically experienced stable operating metrics and cash flows as a result of contractual minimum occupancy guarantees provided by railroad operators. Over the past decade, the Initial Portfolio's occupancy rate has averaged 91.3% compared to 60.0% for the U.S. lodging industry. In addition, over this same period, the Initial Portfolio's occupancy has never dropped below 76.9% in any given year. During the financial crisis (2008 and 2009), when the U.S. lodging industry's overall occupancy rate average dropped to 50.0%, the Initial Portfolio's occupancy rate averaged 83.3%. For the nine months ended September 30, 2012, the Initial Portfolio's occupancy rate was 86.1%. Furthermore, the Initial Portfolio's average daily room rate ("**ADR**") and revenue per available room ("**RevPar**") have steadily grown at a measured compound annual growth rate ("**CAGR**") of 2.7% and 2.2% over the past decade, respectively.

Lodging Enterprises has extensive working relationships that span over 20 years with each of the three largest U.S. railroad operators (UP, BNSF and CSX), as well as a recently established strategic relationship with CP. The Initial Portfolio is supported by contracts stipulating minimum occupancy guarantees and rates with these railroad operators. In 2011, these railroad operators generated aggregate revenues of over $56 billion, currently have a combined equity value of approximately $130 billion and, according to Standard & Poor's, have investment grade credit ratings. A typical contract with a railroad operator establishes a take-or-pay minimum number of rooms reserved daily or monthly, stipulates a fixed or inflation-adjusting room rate or a room rate adjusted based on a mutually agreeable metric, and features an initial 10-year term. Following the closing of the Offering, approximately 74% of the total available room-nights in the Initial Portfolio will be covered under contracts containing minimum occupancy guarantees, with a weighted average remaining term of 3.5 years. Lodging Enterprises has had a strong track record of contract renewal success with over 96% of expiring contracts having been renewed since 1984. In addition, over the same period, no contract has ever been terminated prematurely by a railroad operator.

Improving Lodging Industry Fundamentals

The U.S. lodging industry continues to experience improving fundamentals as a result of the economic recovery that is currently underway. The U.S. lodging industry has historically shown a strong degree of correlation with the overall U.S. economy. As the economy continues to recover from the shocks caused by the recent financial crisis, management believes that the lodging industry will outperform the overall U.S. economy. Growth in gross domestic product ("**GDP**"), coupled with rising levels of employment and increased spending on travel (both business and leisure) is driving demand for lodging. Since the financial crisis, according to PWC, demand for U.S. lodging grew at a CAGR of 6.0% from 2009 to 2011 and is expected to increase by 4.4% through 2013. By contrast, supply of U.S. lodging grew at a CAGR of 1.2% from 2009 to 2011 and is expected to increase by only 0.7% through 2013. Further, in 2011, new hotel room construction starts were 45,700 units, representing 1.0% of the existing room supply. This represents the second lowest amount of construction starts since 2002. During this period, new construction starts have averaged 85,010 new hotel rooms annually, representing 1.9% of prevailing room supply. This imbalance between supply and demand has resulted in rising occupancy levels and room rates. From 2009 to 2011, the overall industry ADR rose from $98.05 to $101.71, overall occupancy rose from 54.6% to 59.9%, and overall industry RevPAR rose from $53.51 to $61.02. This trend is expected by management to continue through 2013, as ADR, occupancy rates and RevPAR are expected by management to increase to $111.60, 61.9% and $69.08, respectively.

Attractive Valuations Provide an Opportune Time to Acquire U.S. Hotel Properties

Despite improving industry fundamentals, hotel valuations remain attractive relative to historical valuations and replacement costs. According to HVS, the value of an average hotel room in the U.S. increased from approximately $65,200 in 2010 to $78,400 in 2011 (representing an increase of approximately 20%), but remained over 20% below peak valuations achieved in 2006. Management believes that hotel values have lagged the relative value of commercial and residential real estate asset classes, which have generally surpassed their previous peak valuations. Furthermore, hotels in the economy segment of the lodging industry continue to be valued at the largest discount to replacement cost compared to upscale, upper upscale and luxury hotels. According to HVS, the value of a U.S. hotel room is expected to increase to $92,100 in 2012 and $107,700 in 2013, representing consecutive annual increases of approximately 17%. From 2011 to 2015, valuations are expected to increase at a CAGR of 12%. Institutional and strategic investors have been committing increasing amounts of capital to the U.S. lodging industry since the credit crisis, as they seek to capitalize on this unique window of opportunity. Over the last 12 months, $17.2 billion has been invested in the U.S. lodging industry, as compared to $13.7 billion in 2010 and $3.0 billion in 2009. Notable recent transactions include Blackstone Real Estate Partners' $1.2 billion acquisition of Apple REIT Six in November 2012 and their $1.9 billion acquisition of Motel 6 in October 2012, and Starwood Capital's $735 million acquisition of InTown Suites in October 2012. With the Canadian dollar trading near to or above par in relation to the U.S. dollar for most of the past three years, combined with the relatively low cost of capital in Canada, management believes that there is an opportunity to establish a Canadian investment entity focused on acquiring U.S. hotel properties on an opportunistic and accretive basis.

Initial Portfolio Provides a Platform for Growth in the Transportation and Contract-Focused Lodging Sector

The Initial Portfolio provides the Issuer with immediate scale and presence across the U.S., including a management team with extensive operating knowledge and experience. Substantially all of the existing employees of Lodging Enterprises will continue in their current roles of managing and operating the Initial Portfolio's lodging business, providing the Issuer with a team of approximately 935 people that possess operational expertise, a long track record and deep relationships with railroad operators. The Issuer's internal growth initiatives will focus on revenue enhancement and yield management, operational improvements and opportunistic property expansions. External growth initiatives will focus on acquisitions of transportation and contract-oriented hotels located in close proximity to railroads, airports, highway interchanges and other transportation hubs providing select and limited-service lodging to need-based corporate, transient traveler, crew and contractual customers. In addition, the Issuer expects to benefit from a strategic relationship with the Developer, which will provide the Issuer with preferential rights to cause Subsidiaries to acquire properties to be developed by the Developer in the future. Management expects the Issuer's relationship with the Developer to provide a pipeline for growth, while minimizing the development risk for the Issuer. The development pipeline currently being evaluated by Lodging Enterprises is comprised of six properties totaling approximately 340 rooms and representing approximately $22 million of value, all of which will feature minimum occupancy guarantees, as well as prospective leads for a further 20 development opportunities representing approximately $42 million of value. Since inception, Lodging Enterprises has developed or operated properties at 38 locations in connection with its railroad partners.

Experienced and Aligned Management Team and Board

The Issuer will be internally managed by an experienced senior management team and the lodging activities of the Issuer's Subsidiaries will be externally managed by the Hotel Managers, affiliates of OHR. Collectively, the Issuer's and the Hotel Managers' executive teams are comprised of owners and managers of hospitality properties that have managed, acquired, constructed and/or advised on over Cdn$1 billion of hotel investments and have an extensive background in international hospitality operations. OHR is a fully integrated hotel management group, providing oversight in all areas of hospitality operations including finance, information technology, marketing, sales, design, renovation, construction and food and beverage operations. OHR currently manages a portfolio of seven hotels and a condominium management company in the U.S. and Canada, comprising approximately 2,300 rooms, of which three hotels are in the U.S., employing 800 staff members. OHR manages hotels under the Westin, Embassy Suites by Hilton, Ascend Collection by Choice Hotels and Coast Hotels & Resorts brands. In 1997, OHR founded Canadian

Hotel Income Properties Real Estate Investment Trust ("**CHIP REIT**"). Upon completion of its initial public offering, CHIP REIT owned a portfolio of hotel properties valued at approximately Cdn$230 million. Under the leadership of OHR, CHIP REIT expanded its initial 15 property portfolio to 36 properties, representing a portfolio value of approximately Cdn$500 million. CHIP REIT was ultimately acquired for Cdn$1.2 billion by a Canadian pension fund.

The GP's board of directors will be comprised of a majority of independent directors that have substantial real estate, hospitality and capital markets experience. To further align the Hotel Managers' and the Developer's interests with the Issuer's, assuming the completion of the Offering and the completion of the transactions described under "*The Acquisition*", the O'Neill Group and the Sunstone Group will collectively hold an approximate 4.8% interest in the Issuer.

Compelling Investment Metrics and Conservative Leverage Profile

The Issuer intends to pay stable monthly cash distributions, initially expected to provide Unitholders with an annual yield of approximately 9.0% based on an estimated AFFO payout ratio of approximately 82.2%. Management believes the Issuer will have a consolidated debt to Gross Book Value ratio of approximately 45.9% immediately following the Closing, bearing interest at a weighted average rate of approximately 4.83% (97.9% of which is fixed), with a weighted average term to maturity of 4.9 years.

GROWTH STRATEGIES

Organic Growth

Management believes there are opportunities to increase the cash flow and value of the Initial Portfolio and Subsequent Properties through a number of growth initiatives designed to enhance the operations of the U.S. REIT. These include, but are not limited to:

- *Revenue growth and yield management.* The IPO Hotel Manager will employ a variety of revenue maximization techniques, including the implementation of systems for yield and revenue management (the management of room rates and occupancy rates) and the enhancement of other non-room revenues. In addition to the implementation of these systems, the IPO Hotel Manager also intends to focus on passerby traffic with improved hotel signage and profile, in an effort to increase occupancy from passerby travellers and other non-railroad guests that generate significantly higher ADR and ultimately higher margins. The IPO Hotel Manager will also use a mix of advertising and marketing techniques designed specifically for each hotel, which may include the use of cross-marketing and direct marketing, locally-negotiated corporate rates, as well as taking advantage of the reservation systems and global distribution systems of franchisors, as applicable.
- *Operating improvements.* The Issuer, through the U.S. REIT and its Subsidiaries, intends to improve operating results of both the Initial Portfolio and Subsequent Properties through the enhancement of national bulk purchasing programs, targeted renovations and capital expenditures, and, if applicable, initiating or changing franchise affiliations. Examples of capital expenditures may include the renovation of public areas, the upgrade of guest room finishings and furnishings, space reconfigurations and building facade treatments.
- *Expansion opportunities*. The IPO Hotel Manager will generally seek to capitalize on high occupancy rates by increasing ADR before proposing that the Issuer's Subsidiaries consider property expansions. Expansion of existing hotel properties will be considered by the Issuer's Subsidiaries only in markets where demand exceeds supply, as evidenced by high occupancy rates prevailing over an extended period and a sustained high level of ADR. In considering potential property expansion projects, the Issuer's Subsidiaries will give significant consideration to the stability of underlying market conditions and the strategic competitive position of the hotel, including its location, overall character or reputation, and the possibility that competing hotel construction projects could emerge. Six hotels in the Initial Portfolio have excess land available for future development and expansion and are currently experiencing occupancy rates in excess of 85%.

Management believes that the Issuer's management structure promotes stable and growing financial performance. This structure includes an incentive fee based on exceeding budgeted gross operating profits and a long-term earn-out that rewards management for successful contract renewals. See "*The Acquisition – Unit Purchase Agreement*" and "*Arrangements with the Hotel Managers – Hotel Management*".

Access to Development Opportunities through Strategic Relationship with the Developer

Management believes that a significant portion of the Issuer's future growth will come from the construction of additional hotels under the Oak Tree Inn brand and the acquisition by Subsidiaries of the Issuer of other Suitable Properties. In order to minimize risks typically associated with development of new hotels, the Issuer has established a strategic development relationship with the Developer, which is an Affiliate of each of OHR and the Sunstone Group. The Sunstone Group is an experienced real estate investor that has developed, acquired, managed and divested approximately $1.4 billion of real estate in Canada and the U.S. since 2002. Principals of the Sunstone Group founded Pure Industrial Real Estate Trust and Pure Multi-Family REIT LP. Since inception, Lodging Enterprises has developed or operated properties at 38 locations in connection with its railroad partners.

Pursuant to the Master Development Agreement, the Issuer will have preferential rights to cause its Subsidiaries to acquire all new Suitable Property development projects developed by the Developer, as well as the opportunity to finance such development opportunities via mezzanine loans at an interest rate that is accretive to the Issuer. The Issuer's strategic relationship with the Developer will reduce many of the risks associated with new hotel development as well as risks associated with ramp-up periods, as each development opportunity must feature fully executed contracts with a creditworthy counterparty and a minimum occupancy guarantee covering no less than 50% of the total rooms at the proposed development property for a minimum of five years. Management estimates that a typical property's construction process is approximately six to nine months from the start of construction.

The Issuer, based on approval from a majority of the Independent Directors (excluding any of whom have declared a conflict of interest), will have the right, but not the obligation, to participate in proposed developments undertaken by the Developer by providing mezzanine financing on any such developments. In the event that the Issuer provides mezzanine financing to a development property undertaken by the Developer, the Issuer will have the right to cause a Subsidiary to acquire the property at a purchase price equal to the greater of 95% of the fair market value of the property or the actual construction cost of the project. Should the Independent Directors initially decline to participate via mezzanine financing in a proposed development, the Issuer will still retain the right, but not the obligation, to cause one of its Subsidiaries to purchase the proposed development when construction is substantially complete. See "*Arrangements with the Developer*".

Lodging Enterprises is currently negotiating contracts for six new locations, representing an aggregate of approximately 340 guaranteed rooms and representing approximately $22 million of value and is evaluating prospective leads for a further 20 new development opportunities, representing approximately $42 million of value, with existing and new railroad operator partners.

Strategic and Accretive Acquisitions

Through the experience and relationships of its management team, the Issuer will seek to identify potential property and portfolio acquisitions using investment criteria that focus on the quality of the properties, the strength of the underlying operations, the types of properties available and amenities offered, market demographics, contract terms (if applicable), opportunities for expansion, security of cash flows, potential for capital appreciation and potential for increasing value through improved property, revenue and yield management. The Issuer intends to indirectly acquire, through one or more Subsidiaries, independent and branded lodging properties in high-traffic areas within secondary markets in the U.S., where the Issuer believes that the implementation of professional management practices can significantly enhance property level operating results. With respect to branded lodging acquisitions, the Issuer's Subsidiaries will focus on acquiring limited-service and select-service hotels under nationally franchised brands such as Super 8, Wingate by Wyndham, La Quinta, Quality Inn, Red Lion, Hampton Inn, Holiday Inn Express, Fairfield Inn, Residence Inn by Marriott and Embassy Suites by Hilton, among others. When targeting acquisitions, the Issuer's Subsidiaries will focus on transportation-oriented hotels located in close proximity to railroads, airports, highway interchanges and other transportation hubs providing select and limited-service lodging to need-based corporate, transient travelers, crew and contractual customers. Acquisition properties will feature strong underlying fundamentals including an initial target going-in capitalization rate in the range of approximately 8% – 9%, and an acquisition price that is less than 95% of replacement cost. It is the Issuer's intention that all investments and acquisitions will be accretive to the Issuer's AFFO per unit. The Initial Portfolio is generally indicative of the type of properties the Issuer intends to continue to acquire as part of its business strategy.

INDUSTRY OVERVIEW

Introduction to the U.S. Lodging Industry

There are approximately 52,200 hotel properties in the U.S., totaling approximately 4.9 million rooms. The U.S. lodging industry generated revenues of approximately $137.5 billion in 2011, representing a 7.5% increase over 2010, and the largest year-over-year increase over the past decade.

The lodging industry in the U.S. consists of private and public entities that operate in an extremely diversified market under a variety of brand names. The lodging industry has several key participants, including owners, franchisors and managers. Owners of hotels typically enter into an agreement with an independent third party to manage the hotel. These properties may be branded and operated under the manager's brand or may be branded under a franchise agreement and operated by the franchisee or by an independent hotel manager. The properties also may be operated as an independent hotel (unaffiliated with any brand) by an independent hotel manager. Franchisors own a brand or brands and strive to grow their revenues by expanding the number of hotels in their franchise system. Franchisors provide their branded hotels with brand recognition, marketing support and centralized reservation systems. Managers are responsible for the day-to-day operation of the hotels, including the employment of hotel staff, the determination of room rates, the development of sales and marketing plans, the preparation of operating and capital expenditure budgets and the preparation of financial reports for the owner. They typically receive fees based on the revenues and profitability of the hotel.

Historically, the lodging industry in the U.S. has been cyclical in nature. Demand for lodging is primarily driven by the general level of activity in the economy, and in particular, growth in GDP, employment levels, discretionary spending, travel and tourism, corporate profits, consumer confidence and the strength of international currencies. Internal industry cycles also have a strong effect on the lodging industry with the most important determinant being the continually changing relationship between room demand and room supply. For example, hotel construction activity may fluctuate from year to year, often in response to factors such as the availability of funds.

Segmentation of the U.S. Lodging Industry

The primary method of segmenting the U.S. lodging industry is by categorizing hotels by chain scale, location, service level and customer base.

Chain Scale Segmentation

Chain scale segmentation is a method by which branded hotels are grouped based on actual average room rates, and may be classified along the following spectrum (from highest to lowest average room rate): luxury, upper-upscale, upscale, upper-midscale, midscale and economy.

- *Luxury.* These hotels cater primarily to the individual business traveler and are generally situated in urban commercial districts. Amenities typically include a restaurant, a lounge, meeting facilities, a business center, a fitness room and a gift shop. The services offered by luxury hotels include room service, concierge, valet, shoe shine service, daily newspapers, airport shuttle and local transportation. Examples of hotels within this chain scale include Four Seasons, Ritz Carlton and W Hotels.
- *Upscale (including upper-upscale).* These segments consist of hotels and all-suite brands that cater primarily to business travelers who do not need the amenities of a full service luxury hotel. Also, these segments appeal to leisure travelers who want more amenities than can be found in a midscale hotel. These segments include a mix of more traditional full-service urban hotels, as well as smaller select-service hotels that are located in a mix of urban and suburban locations. Examples of hotels within this chain scale include Hilton, Hyatt and Sheraton (upper-upscale) and Crowne Plaza, Radisson and Wyndham (upscale).
- *Midscale (including Upper-Midscale).* The midscale lodging segment consists of hotels offering studio and one bedroom suites designed for business and leisure travelers. Midscale hotel rooms typically contain a combination living and work area and a sleeping area. The work area includes a large desk, internet access and one or more phone lines. Other amenities may include a fitness center, guest laundry facilities and potentially an onsite restaurant. The midscale segment is the largest hotel segment in the U.S. 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 characterized by affordable rates and a limited offering of ancillary services and amenities. The segment appeals to budget conscious customers primarily seeking basic accommodations. Examples of hotels within this chain scale include Days Inn, EconoLodge and Motel 6.

Location Segmentation

Segmentation by location categorizes hotels by physical location and their proximity to urban centres, suburban centres, airports, interstate/motorways, resorts or small metro/towns. Urban locations include large, populous and highly-dense metropolitan areas. Suburban locations are those locations that are in close proximity to urban locations (the precise distance varying based on market orientation and the suburban relationship with the proximate urban environment). Airport hotels are those in close proximity to an airport and primarily service airport traffic. Interstate/motorway hotels are located near major traffic thoroughfares and generate business predominantly through passerby travel. Resort hotels are situated in a resort area or market where a significant source of business is derived from leisure/destination travel. Small metro/town hotels are those that exist in rural areas with small populations (less than 150,000 people) and/or limited services, in isolation from suburban locations.

The following tables illustrate the U.S. lodging industry by chain scale and location segment:

U.S. Lodging Industry Metrics by Chain Scale (2011)

	Rooms (000's)	ADR	Occup.	RevPAR
Luxury	106.3	$261.49	71.0%	$185.65
Upper-Upscale	552.7	$147.96	69.3%	$102.56
Upscale	569.9	$111.70	69.5%	$ 77.63
Upper-Midscale	840.0	$ 93.91	61.3%	$ 57.55
Midscale	487.6	$ 72.32	53.2%	$ 38.48
Economy	784.0	$ 50.46	53.4%	$ 26.94
Total	**3,340.5**(1)	**$101.71**	**59.9%**	**$ 61.02**

Source: STR

U.S. Lodging Industry Metrics by Location Segment (2011)

	Rooms (000's)	ADR	Occup.	RevPAR
Urban	760.7	$147.38	67.5%	$99.48
Suburban	1,750.9	$ 86.15	60.1%	$51.80
Interstate	500.6	$ 71.62	53.4%	$38.22
Airport	305.4	$ 90.99	66.3%	$60.37
Resort	601.5	$135.45	61.9%	$83.80
Small Metro/Town	955.7	$ 83.89	53.5%	$44.88
Total	**4,874.8**	**$101.71**	**59.9%**	**$61.02**

Source: STR

(1) Total rooms excludes approximately 1.5 million independent (non-branded) rooms.

Service Level Segmentation

Hotels may be segmented by service level, which categorizes hotels as "full-service" or "limited-service" on the basis of the variety of products and services offered to guests. The most distinguishing feature of a full-service hotel is the provision of a full suite of food and beverage services, suitable for both guests and groups. Full-service hotels may include further amenities such as spas, banquet rooms, doormen/valet service and concierge service. Full-service hotels typically play a significant role in servicing group meetings, conventions and special events, while also attracting business, leisure and vacation travelers that are willing to pay the higher room rates generally charged for the full-service environment. Unlike full-service hotels, limited-service hotels typically provide "room-only" service, or very few services and amenities, and principally compete on price. Limited-service hotels lack a dedicated, revenue-producing food and beverage component, are generally located near major thoroughfares such as highways and airports, and cater primarily to price-sensitive commercial and leisure travelers.

Customer Segmentation

The customer segmentation method groups hotels based on the specific requirements and preferences of the primary types of customers occupying the hotel. Under this method a hotel can cater to multiple types of customers but typically does not serve all segments equally. Hotels can be categorized on the basis of customer segmentation as follows:

- *Business/Leisure Travelers.* Business and leisure traveler guests reserve rooms at rack, corporate, package, government or foreign-traveler rates. The segment also includes guests who reserve rooms via third party web sites.

- *Group.* Guests that reserve rooms simultaneously in blocks of a minimum of ten rooms or more (e.g. group tours, domestic and international groups, association, convention and corporate groups), or that are otherwise part of a well-defined group, including social, military, education, religious and fraternal groups. Group customers often utilize hotel banquet and meeting facilities.
- *Contract/Crew.* Refers to customers whose rooms are booked at rates stipulated by contracts, such as for railroad employees, airline crews and other similar guests. These customers receive accommodation under contracts that specify a minimum volume guarantee.

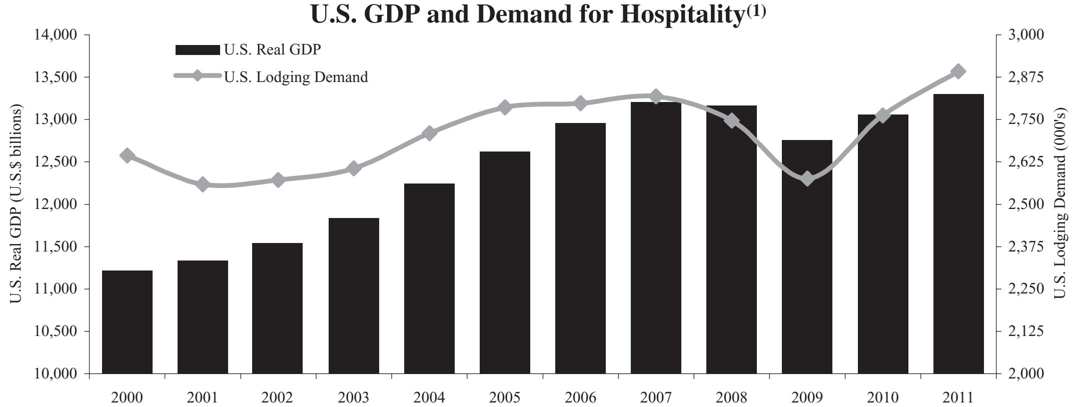
The Initial Portfolio resides largely within the economy segment, which is characterized by affordable rates and a limited offering of ancillary services and amenities located near interstates/motorways and small metro/town locations. The Initial Portfolio is primarily focused on servicing contract/crew customers as well as business/leisure travelers.

U.S. Lodging Industry Dynamics

Management believes that the Issuer will benefit from a number of favourable industry dynamics and trends, including:

- *Improving Lodging Industry Fundamentals.* The U.S. lodging industry continues to experience improving fundamentals as a result of the economic recovery that is currently underway. GDP increased by 7.9% from 2009 to 2011, the unemployment rate has decreased from 10.0% at the end of 2009 to 7.8% as at December 2012 and spending on travel and tourism increased by 15.5% from 2009 to 2011. The U.S. hotel industry has historically shown a strong degree of correlation with the overall U.S. economy. As the economy continues to recover from the shocks caused by the recent financial crisis, management believes that the hotel industry will outperform the overall U.S. economy.

U.S. GDP and Demand for Hospitality(1)

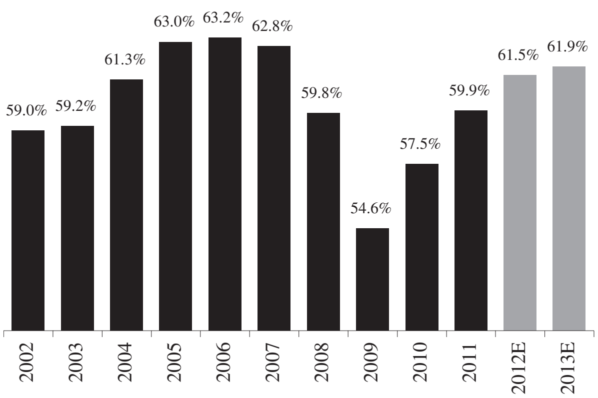


Source: U.S. Bureau of Economic Analysis (U.S. Real GDP), STR (U.S. Lodging Demand)

(1) GDP based on 2005 prices. U.S. lodging demand based on thousands of occupied room nights.

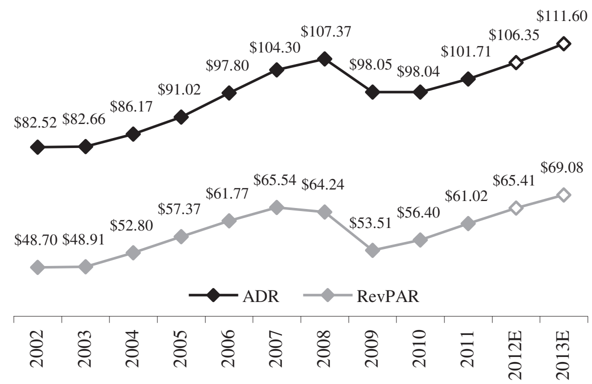
Since the U.S. emerged from the financial crisis, the lodging industry has experienced increasing demand. According to PWC, demand for U.S. lodging grew at a CAGR of 6.0% from 2009 to 2011 and is expected to increase by 4.4% through 2013. By contrast, supply of U.S. lodging grew at a CAGR of 1.2% from 2009 to 2011 and is expected to increase by only 0.7% through 2013. This imbalance between demand and supply has resulted in improved operating metrics. From 2009 to 2011, industry ADR increased from $98.05 to $101.71 (representing an increase of 3.7%), occupancy rates increased from 54.6% to 59.9% (representing an increase of 530 basis points) and RevPAR increased from $53.51 to $61.02 (representing an increase of 14.0%). This trend is expected by management to continue through 2013, as ADR, occupancy rates and RevPAR are expected by management to increase to $111.60, 61.9% and $69.08, respectively.

Lodging Industry Occupancy (2002 – 2013E)



Source: STR, PWC

Lodging Industry ADR and RevPAR (2002 – 2013E)

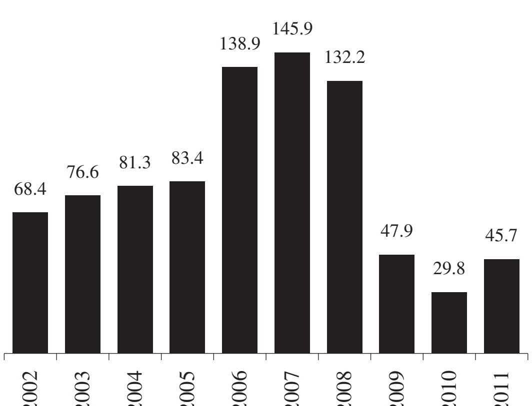


Source: STR, PWC

- *Limited Supply of New Hotels*. Availability of capital, specifically development capital, to the hotel industry has been constrained in recent years. As a result, in 2011, new hotel room construction starts were 45,700 units, representing 1.0% of the existing room supply. This represents the second lowest amount of construction starts since 2002. During this period, new construction starts have averaged 85,010 new hotel rooms annually, representing 1.9% of prevailing room supply. PWC expects that growth in new hotel room supply will remain low for the next several years. It expects new hotel room construction starts, as a percentage of existing room supply, to be only 1.1% in 2012 and 1.4% in 2013.

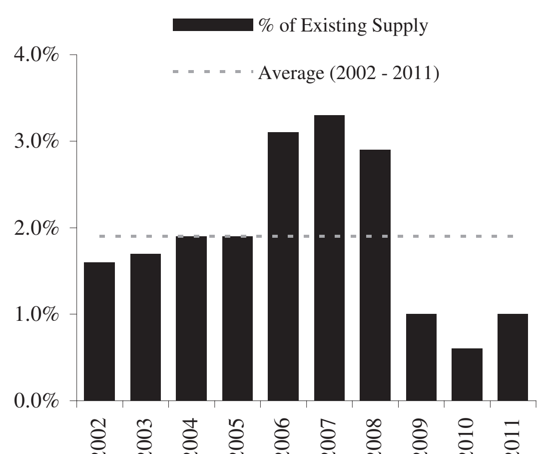
New Hotel Room Construction Starts

(000's)



Source: STR

New Hotel Room Construction Starts as a Percentage of Room Supply

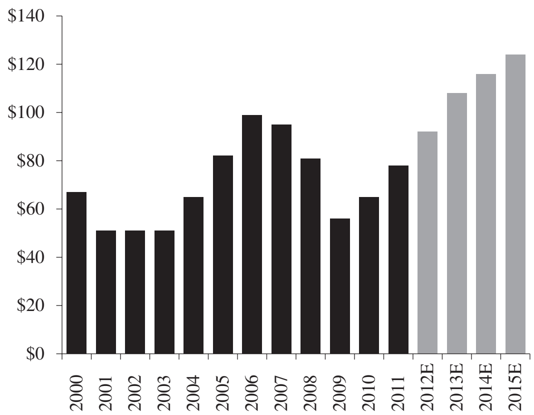


Source: STR

- *Attractive Valuations Provide an Opportune Time to Acquire U.S. Hotel Properties.* Despite improving industry fundamentals, hotel valuations remain attractive relative to historical valuations and replacement costs. Management believes that hotel values have lagged the relative value of commercial and residential real estate asset classes, which have generally surpassed their previous peak valuations. Furthermore, within the lodging industry, hotels in the economy segment continue to be valued at the largest discount to replacement cost compared to upscale, upper upscale and luxury hotels. According to HVS, the value of an average hotel room in the U.S. increased from approximately $65,200 in 2010 to $78,400 (representing an increase of approximately 20%) in 2011, but remained over 20% below peak valuations achieved in 2006. According to HVS, the value of a U.S. hotel room is expected to increase to $107,700 in 2013, representing consecutive annual increases of approximately 17%. From 2011 to 2015, valuations are expected to increase at a CAGR of 12%.

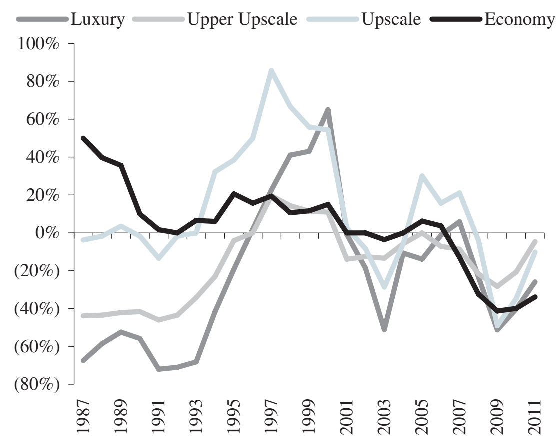
U.S. Hotel Valuation

(000's per room)



Source: HVS

Market Value to Replacement Cost



Source: The chart above was compiled by management and is based on the reproduction of charts previously prepared by HVS.

Investment activity, as measured by transaction volumes, has increased significantly in the hotel industry, in particular from institutional and strategic investors, which have been committing increasing amounts of capital to the U.S. lodging industry since the credit crisis as they seek to capitalize on this unique window of opportunity. Over the last 12 months, $17.2 billion has been invested in the U.S. lodging industry, as compared to $13.7 billion in 2010 and $3.0 billion in 2009. Notable recent transactions include Blackstone Real Estate Partners' $1.2 billion acquisition of Apple REIT Six in November 2012 and their $1.9 billion acquisition of Motel 6 in October 2012, and Starwood Capital's $735 million acquisition of InTown Suites in October 2012. The current exchange rate environment provides Canadian investors with an attractive opportunity to acquire assets in the U.S. Over the past three decades, the Canadian dollar has, on average, traded significantly lower than the prevailing spot exchange rate. Management believes that the dynamic created by the current relative strength of the Canadian dollar, combined with the relatively low cost of capital in Canada, has created a unique opportunity to establish a Canadian investment entity focused on acquiring U.S. hotel properties on an opportunistic and accretive basis.

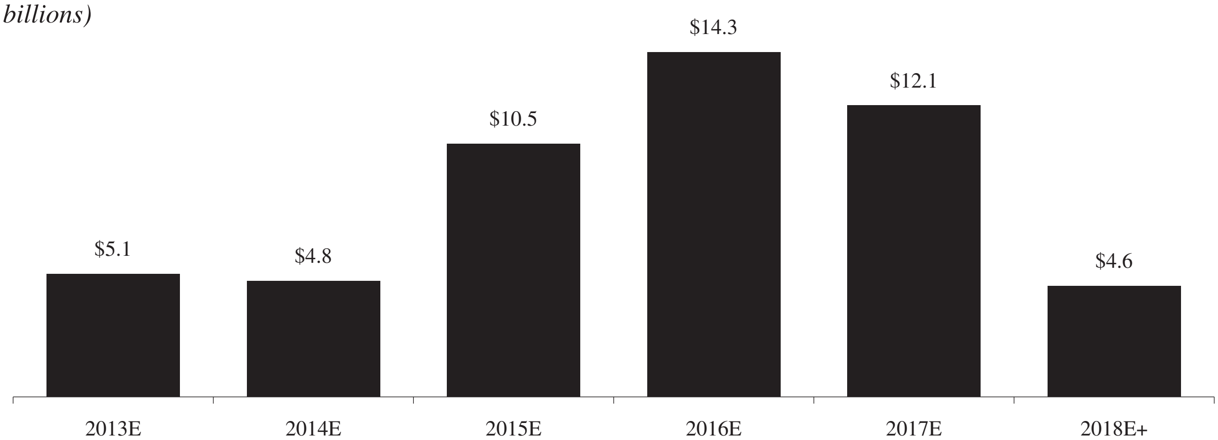
CAD/USD Exchange Rate

Source: Bloomberg

- *Substantial Acquisition Opportunities*. The U.S. hotel industry totals approximately 52,200 properties representing approximately 4.9 million rooms. Publicly traded U.S. real estate investment trusts own approximately 265,000 rooms, representing only a 5.4% market share. Management believes that the scale and fragmentation of the market presents the Issuer with significant opportunities to grow through accretive acquisitions in the Issuer's target markets. The Issuer intends to target the midscale and economy segments, which comprise nearly 1.3 million rooms, as well as the airport, interstate, and small metro/town location segments, which comprise over 1.7 million rooms. Historically, the Commercial Mortgage Backed Securities ("**CMBS**") market represented a significant source of debt financing for the hotel industry, particularly from 2004 through 2007, but has been impaired since 2008. According to Jones Lang LaSalle, hotel-related CMBS loans with an aggregate principal amount of over $40 billion are scheduled to mature between 2013 and 2017. As a result of the constrained CMBS market and a current conservative funding environment, management expects that many owners of hotel properties will be unable to refinance existing maturing debt without additional equity investment. This may result in sales or foreclosures, creating attractive acquisition opportunities for well capitalized buyers such as the Issuer.

Hotel CMBS Loan Maturities (2013 – 2018+)

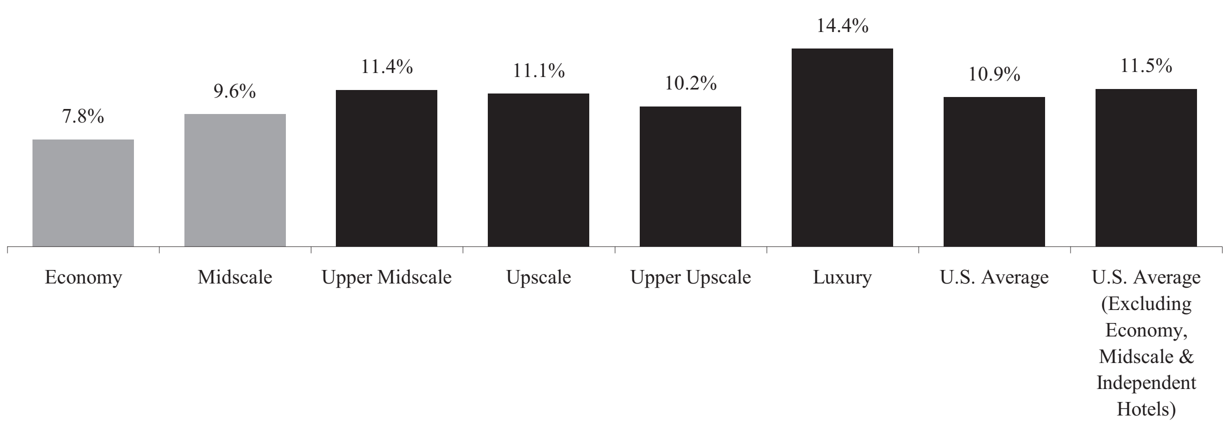
($ billions)



Source: Jones Lang LaSalle

- *Stability of the Midscale and Economy Lodging Segments.* The midscale and economy segments of the U.S. lodging industry are the most stable of all segments. From 2001 to 2011, the year-over-year volatility of RevPAR for midscale and economy hotels, as measured by standard deviation, was 9.6% and 7.8% respectively, as compared to the volatility of RevPAR for the U.S. lodging industry of 10.9% and 11.5% excluding economy, midscale and independent hotels.

Volatility of Chain Scale RevPAR (2001-2011)(1)



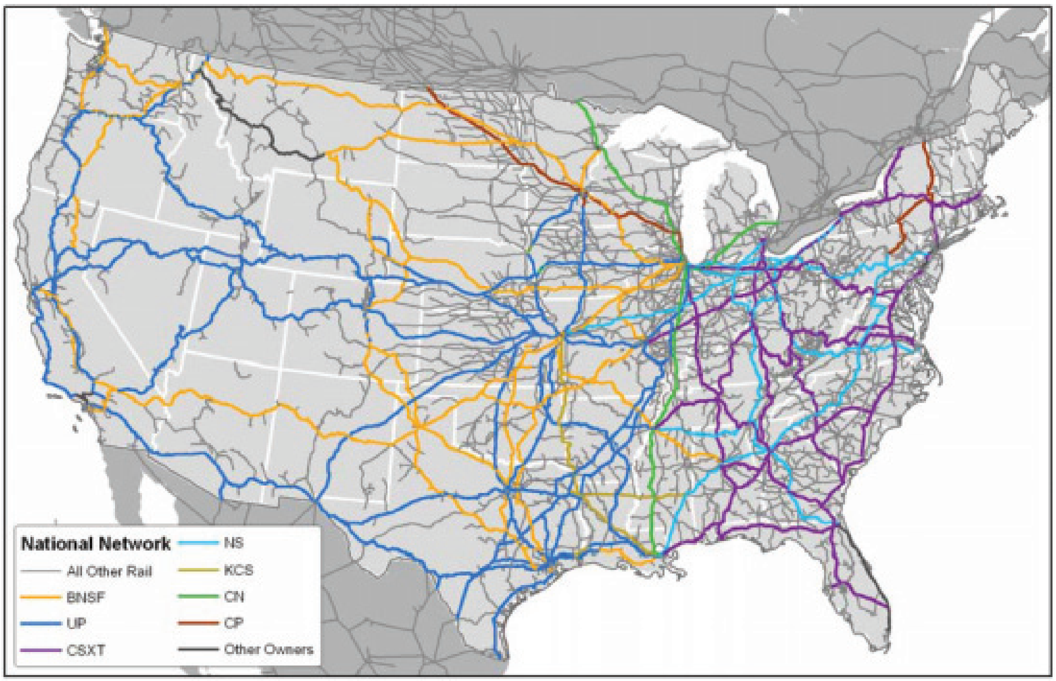
Source: STR

(1) Figures are measured as standard deviation of chain scale RevPAR divided by average chain scale RevPAR.

Overview of the U.S. Railroad Industry

Over 560 freight railroads operate in the U.S. However, the majority of operations are concentrated amongst the largest industry participants. The seven "Class I" railroads (defined as railroads having annual carrier operating revenues of $250 million or more) account for approximately 69% of U.S. freight rail mileage, 90% of its employees and 94% of revenue. The three largest Class I railroads are UP, BNSF and CSX.

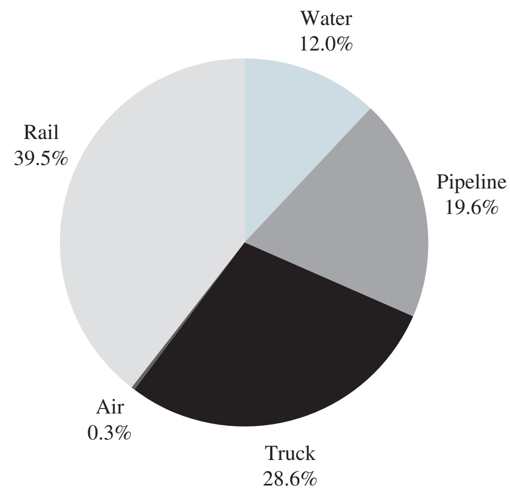
North American Railroad Network



Source: National Surface Transportation Policy and Revenue Study Commission.

The U.S. freight railroads form an integrated, nearly 140,000-mile system that provides the world's safest, most productive and lowest-cost freight service. Rail, as measured in ton-miles, represents 40% of the overall transportation industry. The railroad industry provides transportation to a broad segment of the U.S. economy, with strategic significance for companies involved in natural resources (coal, metals, oil & gas), agriculture (crops, livestock), building materials (cement, sand, lumber, steel, asphalt), automotive, chemicals and consumer goods.

Mode of Freight Transportation (ton-miles, 2010)

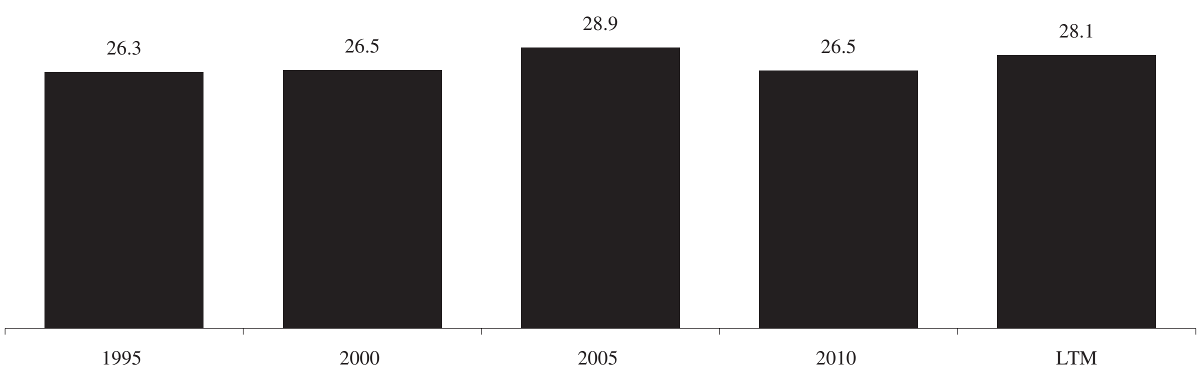


Source: U.S. Department of Transportation

Historically, growth in rail traffic in the U.S., as measured by total annual U.S. freight and intermodal car loads, has been very stable. Since 1995, rail traffic has grown at a CAGR of 0.4%. In addition, rail traffic has steadily recovered from its financial crisis low in 2009 of 23.7 million carloads to 28.1 million carloads in the last 12 months, representing a CAGR of 4.4%.

Annual U.S. Railroad Carloads

(millions)



Source: Bloomberg, The Association of American Railroads

Railroad Lodging Requirements

Train safety is one of the most important initiatives in the railroad industry, both from the perspective of the safety of railroad employees and the general public. Because train operator fatigue is one of the leading contributing factors to train accidents, the *Hours of Service Act* ("**HSA**"), described below under "*Railroad Regulation*", and labour union requirements have been established to reduce fatigue related incidents. Railroad operators in the U.S. must comply with an extensive system of federal safety laws that require compliance in a range of areas, including mandated rest time between shifts and the establishment of interruption-free sleeping quarters. In addition, railroad labour unions increasingly require that lodging accommodations for their employees satisfy minimum standards and offer certain amenities. Historically, U.S. railroad operators housed railroad crews in dormitories and other company-owned lodging quarters. Over the last few decades, however, most railroad operators have outsourced crew accommodation requirements to hotel lodging providers, partly in response to the increasingly complex regulations and standards for lodging facilities.

Railroad Regulation

The on-duty time of freight rail employees involved in operating, dispatching and signaling trains is governed by the HSA. Under the HSA, rail engineers and conductors are subject to the following restrictions, among others:

- employees may not remain or go on duty for periods in excess of 12 consecutive hours;
- employees may not remain or go on duty unless they have had at least 10 consecutive hours off duty during the prior 24 hours;
- if employees work for six consecutive days, they must have at least 48 hours off before they can work again, except in certain limited circumstances; and
- employees cannot remain or go on duty, or wait for or be in deadhead transportation from an assignment, for more than 276 hours in any calendar month.

The Initial Properties, located near high volume railroad hubs and switching terminals, are operated such that a railway employee may go off duty, travel to an Initial Property, and check in to a clean guest room within 30 minutes. Efforts to provide reliable transportation and 24-hour housekeeping to 'turn' rooms quickly reduce instances of railway employees resetting their mandated rest time, and therefore facilitates railway labour cost containment. The Initial Properties were specifically designed or have been converted to fulfill the lodging needs of railway employees, including compliance with provisions of the HSA relating to rest time, safety and hours of service, and in accordance with labour union specifications, all of which are important to ensuring on-time performance, mitigation of employee fatigue, visibility on cost and high employee morale. Examples of design and construction features uniquely tailored to the railroad industry include: (a) construction methods that reduce noise from outside and neighbouring rooms; (b) built-in features that prevent sleep disruption such as specially designed black out blinds, electronic sensors that prevent interruptions from housekeeping, and HVAC systems designed to avoid disruption caused by on and off cycling; and (c) computer rooms with terminals integrated with applicable railroad systems.

Competition

The Issuer primarily competes with traditional economy and midscale hotels that also cater to the railroad employee lodging industry. Management believes that it has a competitive advantage over these hotels, as the hotel properties comprising the Initial Portfolio are specifically designed to fulfill the lodging accommodation needs of railway employees.

In addition, the Issuer competes with other hotels specifically focused on providing lodging for railroad employees. The two competitors that focus primarily in this area are Travelliance (formerly known as Inter Motel Leasing) and Motel Sleepers, Inc.

Travelliance is privately owned and operates five lodging facilities for BNSF. Management believes that some of Travelliance's facilities are similar to a typical Oak Tree Inn. However, most of Travelliance's facilities are greater than 15 years of age whereas the average age of the Initial Properties is approximately 10 years (including major renovations). Management believes that Travelliance's business has shifted from lodging facilities and transportation services for a single railroad to focusing on full service travel management that includes hotel sourcing, corporate travel and information management for a customer base that includes government, airlines, trucking, construction and similar industries.

Motel Sleepers, Inc. ("**MSI**") is privately owned and owns and operates 15 hotels serving Norfolk Southern. Management understands that MSI's lodging facilities are only open to railroad employees, and they do not sell rooms to the public. Management also believes that MSI's lodging facilities are similar to a typical Oak Tree Inn. Management understands that MSI has also moved into the business of providing lodging information services and providing room rate negotiations with hotels for the trucking, construction and other industries.

PORTFOLIO OVERVIEW

On Closing, the Issuer will indirectly acquire a portfolio of 32 hotel properties representing a total of 2,565 rooms. Management believes that the hotel properties comprising the Initial Portfolio constitutes the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry.

Details of Initial Properties

Hotel Address	Location	Yr Built/Renovated	# of Rooms	Food & Beverage
2407 East Holland Ave.	Alpine, TX	2001	40	Yes
3522 N. Highway 59	Bill, WY	2007	112	Yes
3475 Union Rd.	Buffalo, NY	2003	56	—
1625 Stillwater Ave.	Cheyenne, WY	1998	60	Yes
2300 Valley West Ct.	Clinton, IA	2005	123	—
21233 Coal River Rd.	Comfort, WV	2010	25	—
1608 W US Business 60	Dexter, MO	1998/2008	109	Yes
4000 Siskiyou Ave.	Dunsmuir, CA	2007	21	Yes
95 Spruce Rd.	Elko, NV	1999	120	—
2700 N Diers Pkwy.	Fremont, NE	2007	100	Yes
220 15th St. SE(1)	Glenwood, MN	2013	56	Yes
1170 W. Flaming Gorge Way	Green River, WY	1997/1998	191	Yes
1051 North Market St.	Hearne, TX	1999	116	Yes
1110 SE 4th St.	Hermiston, OR	2002	62	—
501 SW Blvd.(2)	Kansas City, KS	1981/1985/2013	112	—
7875 Airline Hwy / 8233 Airline Hwy(3)	Livonia, LA	1996/2013	102	Yes
123 Westvaco Rd.	Low Moor, VA	2009	30	Yes
1127 Pony Express Hwy	Marysville, KS	1999/2008	139	Yes
528 S. George Nigh Expy.	McAlester, OK	2011	61	—
777 W Center St.	Milford, UT	2002/2007	75	Yes
128 S. Willow Rd.	Missouri Valley, IA	2006	41	Yes
707 E. Webster St.	Morrill, NE	1997/2008	97	Yes
451 Halligan Dr.	North Platte, NE	2005	111	Yes
22 N. Frontage St.	Pecos, TX	2001	61	—
2005 E. Daley St.	Rawlins, WY	2006	62	Yes
K27 & Commerce St.	Sharon Springs, KS	1997	50	Yes
US 285 & 2nd St.	Vaughn, NM	1999	60	Yes
1177 E. 16th St.	Wellington, KS	1993/1999	80	Yes
1706 N. Park Dr.	Winslow, AZ	1983	72	—
98 Moffat Ave.	Yampa, CO	2001	37	Yes
35450 Yermo Rd.	Yermo, CA	2002	65	Yes
1731 S. Sunridge Dr.	Yuma, AZ	1999/2000	119	Yes
Total			**2,565**	

(1) Opened on January 23, 2013.

(2) Currently a Best Western branded hotel with all rooms scheduled to be converted to Oak Tree Inn standards by March 1, 2013. Management expects to retain Best Western membership.

(3) Represents an existing 42 room property and a new 60 room property under development, expected to be completed in April 2013.

Oak Tree Inn

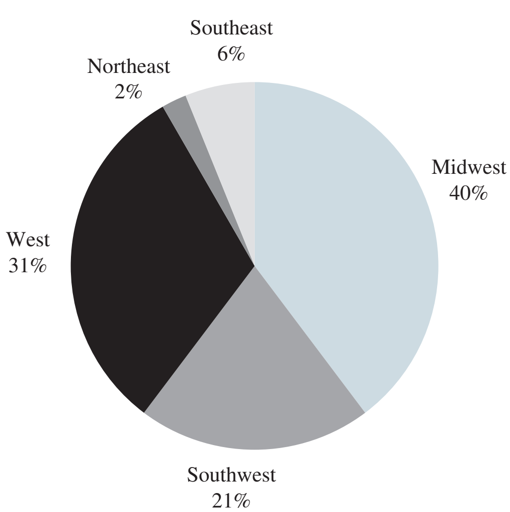
Management believes that the Oak Tree Inn hotel chain is the largest portfolio of purpose-built crew lodging facilities serving the U.S. freight railroad industry. Oak Tree Inn hotels are constructed with distinctive features that result in darker, quieter and better climate-controlled guestrooms when compared to their competitors. The Oak Tree Inn service mark was registered with the U.S. Patent and Trademark Office on May 18, 1999 by Lodging Enterprises. The Oak Tree Inn mark will be acquired indirectly by the Issuer through its acquisition of Lodging Enterprises.

Penny's Diner

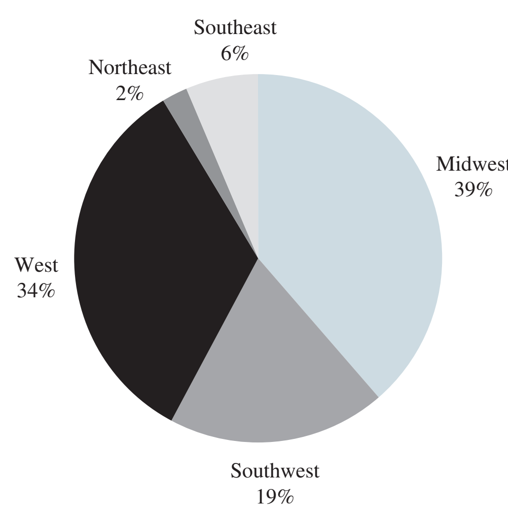
Penny's Diner restaurants comprise a 23-unit restaurant chain servicing Oak Tree Inn hotel guests, drive-by guests and local residents. Specific characteristics of Penny's Diner restaurants include stand-alone 24-hour operations, classic 1950s style decor with nostalgic memorabilia, and standard American cuisine. The "Penny's Diner" service mark was registered with the U.S. Patent and Trademark Office on May 18, 1999 by Lodging Enterprises. The "Penny's Diner" mark will be acquired indirectly by the Issuer through its acquisition of Lodging Enterprises.

Geographic Location of the Initial Properties

Rooms by U.S. Geographic Region



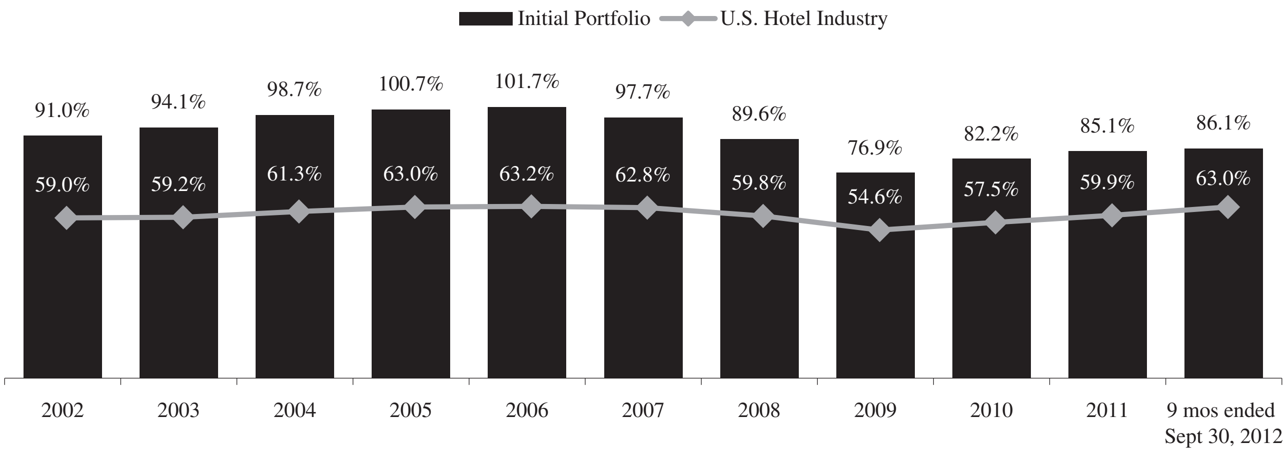
Revenue by U.S. Geographic Region(1)



(1) Based on 2013E revenues.

As a result of contractual minimum occupancy guarantees, the Initial Portfolio has experienced very stable operating metrics over various industry and economic cycles. Over the past decade, the Initial Portfolio's occupancy rate has averaged 91.3%, compared to 60.0% for the U.S. lodging industry. In addition, over this same period, the Initial Portfolio's occupancy has never dropped below 76.9% in any given year. During the financial crisis (2008 and 2009), when the U.S. lodging industry's occupancy rate dropped to 50.0%, the Initial Portfolio's occupancy rate averaged 83.3%. For the nine months ended September 30, 2012, the Initial Portfolio's average occupancy rate was 86.1%. In 2005 and 2006, the Initial Portfolio achieved occupancy rates in excess of 100% due to 'room compression', the sale of the same room twice or more in the same day due to frequent railroad employee turnover, a very unique attribute of the Initial Portfolio relative to the broader U.S. lodging industry.

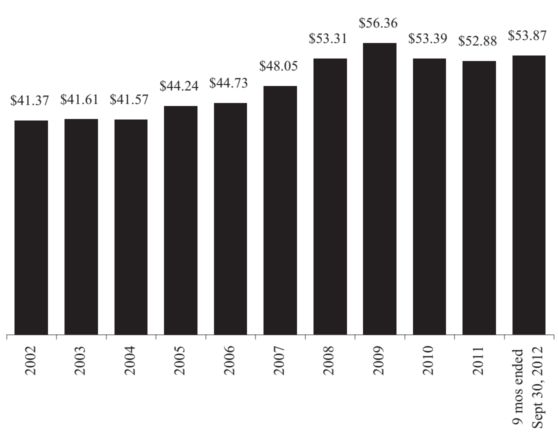
Initial Portfolio Occupancy



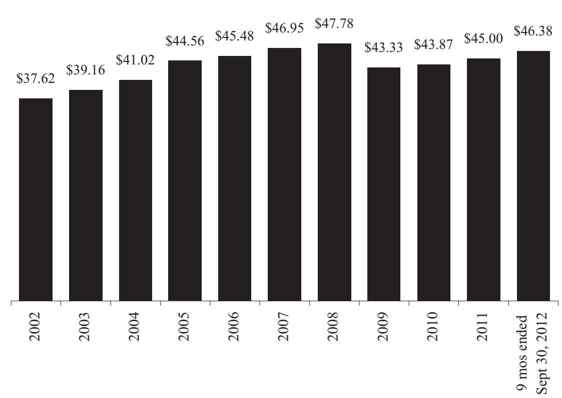
Source: STR

The Initial Portfolio's ADR and RevPAR has steadily grown at a measured CAGR of 2.7% and 2.2% over the past decade, respectively.

Initial Portfolio ADR

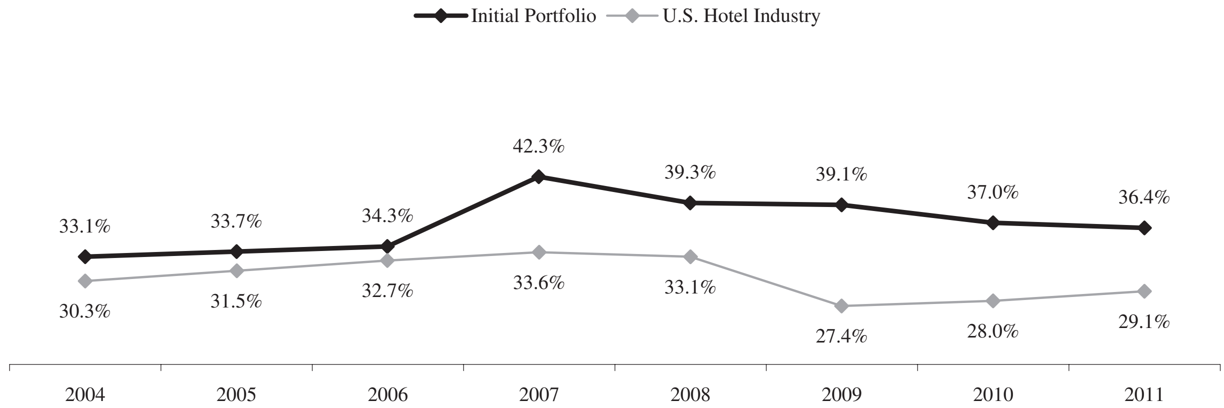


Initial Portfolio RevPAR



The Initial Portfolio consistently generates profitability margins in excess of the U.S. hotel industry average. Since 2004, the Initial Portfolio has generated an average gross operating profit margin of 36.9%, 620 basis points above the overall U.S. hotel average of 30.7% over the same period.

Initial Portfolio Gross Operating Profit Margin(1)



Source: STR

(1) Income before tax, insurance and depreciation.

Description of the Initial Properties

2407 East Holland Avenue (Alpine, TX) – Oak Tree Inn

The 40-room property is located in Alpine, TX, which is 350 miles northwest of San Antonio and 220 miles southeast of El Paso. Alpine is situated in west Texas at the edge of the Chihuahuan desert between Big Bend National Park and the Davis Mountains. The Oak Tree Inn opened in 2001 and features stick frame construction with Colorlok siding, interior corridors, the standard set of railway amenities, Penny's Diner, a barbecue grill and dedicated meeting space.

3522 N. Highway 59 (Bill, WY) – Oak Tree Inn

The 112-room Oak Tree Inn Bill is located within Wyoming's Powder River Basin, which is the largest source of mined coal in the U.S. Bill is located 80 miles south of Gillette along Highway 59 in rural Wyoming. In addition to the rail yard, the hotel serves oil exploration crews and local coal mines. The property opened in 2007 and features the standard set of railway amenities, stick frame construction with vinyl siding, interior corridors, Penny's Diner, RV hook ups, and its own waste treatment and water tank/well pump house on the approximately 36.3-acre site.

3475 Union Road (Buffalo, NY) – Oak Tree Inn

The 56-room Oak Tree Inn Buffalo was built in 2003 and features stick frame construction with brick and vinyl siding, interior corridors, safe deposit box and the standard set of railway amenities. Buffalo is located in western New York on the shores of Lake Erie, 20 miles south of Niagara Falls. It is the second most populous city in the state with over 261,000 people. Major employers include local, state and federal government offices, the University of Buffalo, Kaleida Health, Catholic Health System, Employer Services Corporation, Tops Markets, HSBC Bank and M&T Bank.

1625 Stillwater Avenue (Cheyenne, WY) – Oak Tree Inn

The 60-room property is located in Cheyenne, the capital of Wyoming. The approximately 1.31-acre site is proximate to Cheyenne Regional Airport and the Frontier Mall / Dell Range Blvd shopping strip. With a population of nearly 59,500, Cheyenne is the most populous city in the state. Cheyenne is located 100 miles north of Denver at the crossroads of I-80 and I-25. The city's economy has historically been driven by state government, the railroads and the military sector through F.E. Warren Air Force Base and the Wyoming National Guard. The Oak Tree Inn was constructed in 1998 and features stick frame construction with stucco exterior, interior corridors, partial basement, Penny's Diner, the standard set of railway amenities and a safe deposit box.

2300 Valley West Court (Clinton, IA) – Oak Tree Inn

The 123-room Oak Tree Inn Clinton opened in 2005 and features stick frame construction with vinyl siding, interior corridors, covered smoking porch with rocking chairs, and the standard set of railway amenities. Located 140 miles west of Chicago, Clinton is situated at the intersection of Highways 30 and 67 on the west bank of the Mississippi River. Clinton has a population of nearly 27,000 and over a dozen Fortune 500 companies have operations in the region.

21233 Coal River Road (Comfort, WV) – Oak Tree Inn

The 25-room property opened in 2010 and is located in Comfort, West Virginia. The property features stick frame construction with vinyl siding, interior corridors and the standard set of railway amenities. Comfort is situated on SR 3, 25 miles south of Charleston, WV and 20 miles northeast of Madison, the seat of Boone County. Boone County's economy is heavily dependent on coal, as it has more coal reserves per square mile than any other similar sized city in the world.

1608 W. US Business 60 (Dexter, MO) – Oak Tree Inn

The Oak Tree Inn Dexter initially opened in 1998 and was expanded to 109 guestrooms in 2008. Dexter is located in southeastern Missouri at the intersection of SR 25 and US 60. The city is 25 miles west of the intersection of interstates 55 and 57. Dexter is located within Stoddard County, one of Missouri's leading agricultural regions with corn, soybeans, rice, milo, wheat and melons as the primary crops grown. Dexter's largest employers include Faurecia Emissions Control Technologies, Tyson Foods and Missouri Southern Healthcare. The property features stick frame construction with stucco, interior corridors, Penny's Diner and the standard set of railway amenities.

4000 Siskiyou Avenue (Dunsmuir, CA) – Oak Tree Inn

The 21-room Oak Tree Inn is located in Dunsmuir, in northern California's Siskiyou County near the Oregon border. The property opened in 2007 and features stick frame construction, interior corridors, the standard set of railway amenities and Penny's Diner. Dunsmuir is located off I-5, one exit north of Castle Crags State Park. Its location along the Upper Sacramento River near the base of Mount Shasta makes it a popular destination for fly fishing, hunting, skiing, climbing and sight-seeing. Designated as "California's Historic Railroad Town," Dunsmuir attracts railroad enthusiasts throughout the year.

95 Spruce Road (Elko, NV) – Oak Tree Inn

The Oak Tree Inn Elko opened in 1999 and features 120 guestrooms, a barbeque grill, a safe deposit box and the standard set of railway amenities. The four storey stick frame building is located off I-80, approximately 230 miles west of Salt Lake City and 290 miles east of Reno. Elko is situated at the base of Ruby Mountain with an economy driven by hard rock mining, transloading, manufacturing, cattle ranching, gaming and tourism.

2700 N. Diers Parkway (Fremont, NE) – Oak Tree Inn

The 100-room Oak Tree Inn Fremont opened in 2007 and is located 30 miles northwest of Omaha, NE off Highways 30 and 275. The three-storey stick frame building features vinyl siding, a barbecue grill, Penny's Diner, a safe deposit box and the standard set of railway amenities. Fremont is home to Midland University and has a population of approximately 26,000. Fremont has a diverse economic base with major employers in agribusiness, food processing, fabricated metal processing and electronics manufacturing. The property captures demand from city-wide meetings and events held in Omaha.

220 15th Street SE (Glenwood, MN) – Oak Tree Inn

The 56-room Oak Tree Inn opened on January 23, 2013 and is situated on an approximately 2.018-acre site in Glenwood, MN. The city of Glenwood is located in west-central Minnesota, in Pope Country, and is approximately 65 miles northwest from the St. Cloud area and approximately 130 miles northwest of the Minneapolis-St. Paul area. The Oak Tree Inn will provide the standard set of railway amenities, Penny's Diner and a storm shelter.

1170 W. Flaming Gorge Way (Green River, WY) – Oak Tree Inn

The 191-room Oak Tree Inn Green River is comprised of four interior corridor stick frame guestroom buildings with stucco exteriors constructed between 1997 and 1998 on an approximately 5.14-acre site. The property features Penny's Diner, a safe deposit box, the standard set of railway amenities and a drive through porte-cochere at the registration building. Located in southwestern Wyoming off I-80, Green River's population exceeds 12,000. The Green River Basin contains the world's largest known deposit of trona ore. Soda ash mining is the area's major industry.

1051 North Market Street (Hearne, TX) – Oak Tree Inn

The Oak Tree Inn Hearne opened in 1999 and features 116 guestrooms, the standard set of railway amenities and Penny's Diner. The hotel is comprised of two interior corridor stick frame buildings. Hearne is located 90 miles northeast of Austin, approximately in the centre of the "Texas Triangle" cities of Dallas, Houston and San Antonio. Hearne is 25 miles northwest of College Station, TX, home to Texas A&M University and the George Bush Presidential Library.

1110 SE 4th Street (Hermiston, OR) – Oak Tree Inn

The 62-room Oak Tree Inn Hermiston is located in northern Oregon between the Cascadia and Blue Mountains. The three storey interior corridor property was constructed in 2002 and features a vinyl siding exterior, concrete slab floors, standard set of railway amenities and a barbecue grill. Hermiston is centrally located between Portland, Seattle, Spokane and Boise. The region's climate, coupled with its water and soil quality, makes it an important agricultural production area. Hermiston's largest employers include Umatilla Army Depot, Con-Agra Foods, Wal-Mart Distribution Center, River Point Farms and Good Shepherd Medical Center. Hermiston is located near the junction of Interstates 82 and 84, and is seven miles south of the Columbia River, Lake Wallula and the McNary Dam.

501 Southwest Boulevard (Kansas City, KS) – Best Western

The 112-room Best Western Kansas City Inn opened in 1981 and was expanded in 1985. Lodging Enterprises acquired the property on December 28, 2012 and expects that all of the rooms at the property will be converted to Oak Tree Inn standards by March 1, 2013. The property features wood frame construction with brick exterior walls. All guestrooms have individual temperature controls for air-conditioning and heating. New televisions and microwaves will be installed in all guestrooms as part of the upgrade intended. Several additional upgrades including custom blackout drapes, low-decibel vacuums and door seals and sweeps will improve all 112 of the Best Western's rooms to satisfy the railway's need for darker and quieter guestrooms. Such upgrades are expected to be completed without delay or significant guest disruption. Kansas City, KS is part of the greater metropolitan area neighboring cities on both sides of the state line dividing Kansas and Missouri. Kansas City, KS is home to numerous production facilities, warehouses and distribution centers. The General Motors Fairfax Assembly plant and University of Kansas Medical Center are some of the city's major employers. The railroad crews are expected by management to have their first occupancy on March 1, 2013.

7875 and 8233 Airline Highway (Livonia, LA) – Oak Tree Inn

The 42-room hotel at 7875 Airline Hwy was constructed in 1996 and features exterior corridors, Penny's Diner, a safe deposit box and a barbecue grill. A new-build 60-room Oak Tree Inn is being constructed at 8233 Airline Hwy and is anticipated to open in April 2013. The second Livonia hotel will feature the standard set of railway amenities and will accommodate the majority of, if not all, railway guests traveling to Livonia once it opens. The older hotel may be used for overflow railway guests, transient guests, or it may be sold as an independent hotel, without the Oak Tree Inn mark. Located 25 miles west of Baton Rouge via Highway 190, Livonia is situated in Pointe Coupee Parish, one of the oldest settlements in the Mississippi Valley. The parish is located in the heart of Creole French plantation country and has a population of nearly 24,000. Agriculture is the largest industry in the region.

123 Westvaco Road (Low Moor, VA) – Oak Tree Inn

The 30-room Oak Tree Inn Low Moor opened in 2009 and features stick frame construction, vinyl siding, Penny's Diner, the standard set of railway amenities, a barbecue grill and flat screen televisions in all guestrooms. Low Moor is located off I-64 in the heart of the Alleghany Highlands, just east of the West Virginia border. The region is known for outdoor recreation including mountain biking and fly fishing. The Greenbrier Resort, located approximately 25 miles west of Low Moor, generates overflow hotel demand during the Greenbrier Classic PGA golf tournament.

1127 Pony Express Highway (Marysville, KS) – Oak Tree Inn

The 139-room Oak Tree Inn Marysville was built in 1999 and is comprised of three guestroom buildings on an approximately 7.90-acre site. The property features stick frame construction, stucco exteriors, a basement, a barbecue grill, the standard set of railway amenities and Penny's Diner. Marysville is located at the intersection of US Highways 36 and 77, 75 miles south of Lincoln, NE and 50 miles north of Riley, KS, home to Fort Riley Military Reservation. With a population of over 3,000, Marysville is the seat of Marshall County.

528 S. George Nigh Expressway (McAlester, OK) – Oak Tree Inn

The Oak Tree Inn McAlester contains 61 guestrooms and opened in 2011. The property features stick frame construction, vinyl siding, barbecue grill and the standard set of railway amenities. Located at the crossroads of US 69 and US 270, McAlester is 90 miles south of Tulsa and 125 miles southeast of Oklahoma City. McAlester has a population of over 18,000. McAlester is less than 10 miles south of Lake Eufaula, the state's largest lake and a popular vacation and fishing destination.

777 W. Center Street (Milford, UT) – Oak Tree Inn

The 75-room Oak Tree Inn Milford opened in 2002 and was expanded in 2007. The hotel is situated on approximately 2.065 acres and features concrete slab construction, vinyl siding, a barbecue grill, meeting space, the standard set of railway amenities and Penny's Diner. Located 200 miles south of Salt Lake City, Milford is situated in Beaver County near the 1,130-acre Minersville Reservoir. Other popular destinations proximate to Milford include the Rock Corral, Eagle Point Ski Resort, Fremont State Park, Cedar Breaks National Monument and Brian Head Ski Resort.

128 S. Willow Road (Missouri Valley, IA) – Oak Tree Inn

The 41-room Oak Tree Inn Missouri Valley opened in 2006 and features stick frame construction with vinyl siding, the standard set of railway amenities and Penny's Diner. Situated on a bluff overlooking the Missouri and Boyer River basins, Missouri Valley is located 25 miles north of Omaha, NE and Council Bluffs, IA, and 130 miles west of Des Moines, IA. Missouri Valley is located at the intersection of I-29 and Highway 30, just north of I-680. The largest employers in the area include Cargill, Purac and the Fort Calhoun nuclear power plant. The property captures demand from city-wide meetings and events held in Omaha.

707 E. Webster Street (Morrill, NE) – Oak Tree Inn

The 97-room Oak Tree Inn Morrill consists of three interior-corridor guestroom buildings and a Penny's Diner located on an approximately 3.4-acre site. The hotel opened in 1997 and was renovated in 2008. It features stick frame construction with Colorlok siding. A barbecue grill, safe deposit box and the standard set of railway amenities are provided. Located on US 26 in the northwestern corner of Nebraska, the village of Morrill is 15 miles northwest of Scottsbluff and 20 miles northwest of Gering. Scottsbluff is the largest city in Scotts Bluff County and Gering is the county seat. The region's economy is based on agriculture, with the primary crops being sugar beets, corn and beans.

451 Halligan Drive (North Platte, NE) – Oak Tree Inn

The 111-room Oak Tree Inn North Platte opened in 2005 and features stick frame construction, interior corridors and vinyl siding exterior. The property offers meeting space, a safe deposit box, Penny's Diner and the standard set of railway amenities. North Platte is situated on the north side of I-80 at the intersection of U.S. Highways 83 and 30 and at the convergence of the North and South Platte Rivers. The city is approximately 225 miles from Lincoln, NE, 220 miles from Cheyenne, WY and 260 miles from Denver, CO. UP, the city's largest employer, operates North Platte's Bailey Yard, which is the largest rail yard in the world.

22 N. Frontage Street (Pecos, TX) – Oak Tree Inn

The 61-room Oak Tree Inn Pecos is situated on approximately 3.14 acres, opened for operation in 2001 and features stick frame construction with Colorlok siding. The property contains meeting space, a safe deposit box and a barbecue grill. Pecos is the largest city in and seat of Reeves County, Texas. Pecos is located at the intersection of I-20 and U.S. 285, approximately 40 miles northeast of the intersection of I-10 and I-20. Pecos is situated on the eastern edge of the Chihuahuan Desert near the south-eastern border of New Mexico. With a population of 8,700, the city is a regional commercial centre for ranching, oil and gas production, as well as agriculture. It was ranked as the second fastest growing small town in the U.S. by Forbes in 2012.

2005 East Daley Street (Rawlins, WY) – Oak Tree Inn

The 62-room Oak Tree Inn Rawlins opened in 2006 and features stick frame construction with vinyl siding, interior corridors, a barbecue grill, the standard set of railway amenities and Penny's Diner. Rawlins is located off I-80 at the intersection of U.S. 287, 150 miles northwest of Cheyenne. With a population of nearly 9,000, Rawlins is the seat of, and largest city in, Carbon County.

K 27 & Commerce Street (Sharon Springs, KS) – Oak Tree Inn

The 50-room Oak Tree Inn Sharon Springs opened in 1997 and features stick frame construction with stucco exterior, interior corridors, a basement, meeting space, a barbecue grill, the standard set of railway amenities and Penny's Diner. Located at the intersection of U.S. 40 and SR 27 near the Colorado border, Sharon Springs is the seat of Wallace County. Much of the area is developed with wheat fields and cattle ranches.

US 285 & 2nd Street (Vaughn, NM) – Oak Tree Inn

The 60-room Oak Tree Inn Vaughn opened in 1999 and features stick frame construction with stucco exterior, interior corridors, a basement, meeting space, the standard set of railway amenities and Penny's Diner. Vaughn is located at the convergence of U.S. Highways 285, 54, and 60, 40 miles southwest of I-40 and 100 miles southeast of Albuquerque. Ranching drives the local economy and Vaughn is known for its sheep production. Vaughn is the only town in New Mexico where the main lines of two railroads, UP and BNSF, intersect.

1177 East 16th Street (Wellington, KS) – Oak Tree Inn

The 80-room Oak Tree Inn Wellington opened in 1993 and was later expanded in 1999. Situated on approximately 1.42 acres, the property features stick frame construction with board and batten siding, exterior corridors, the standard set of railway amenities, a barbecue grill and Penny's Diner. The hotel is located in Wellington, 35 miles south of Wichita between the intersections of I-35 and U.S. 160, and U.S. 81 and U.S. 160. Wellington is located in Sumner County, which is known as the wheat capital of the world. Rail, petroleum and airplane parts manufacturing also drive the local economy.

1706 North Park Drive (Winslow, AZ) – Oak Tree Inn

Formerly operated as an EconoLodge, the 72-room Oak Tree Inn Winslow opened in 1983 and features stick frame construction and exterior corridors. Winslow is located between I-40 and SR 87, 60 miles southeast of Flagstaff. BNSF Railway is the primary employer in the area. The city was located on the famed Route 66 before the opening of I-40 in the 1980s.

98 Moffat Avenue (Yampa, CO) – Oak Tree Inn

The 37-room Oak Tree Inn Yampa opened in 2001 and features stick frame construction with vinyl siding, meeting space, a barbecue grille, the standard set of railway amenities and Penny's Diner. Yampa is located off Highway 131, 30 miles south of Steamboat Springs. Yampa is located within an agricultural region supporting hay fields, and cattle and sheep farms. The town is surrounded by the Routt National Forest and is proximate to the Stillwater Reservoir and the Flat Tops Wilderness Area. Local activities include hunting, fishing, hiking, snowmobiling and cross-country skiing.

35450 Yermo Road (Yermo, CA) – Oak Tree Inn

The 65-room Oak Tree Inn Yermo opened in 2002 and features stick frame construction with stucco exterior, interior corridors, an outdoor swimming pool, the standard set of railway amenities and Penny's Diner. Yermo is located on I-15, 10 miles northeast of Barstow and three miles north of I-40. It is located 10 miles from the Marine Corps Logistics Base, and Barstow's storage and industrial annex.

1731 South Sunridge Drive (Yuma, AZ) – Oak Tree Inn

The 119-room Oak Tree Inn Yuma was constructed between 1999 and 2000. The property features stick frame construction with stucco exterior, a safe deposit box, a basement, meeting space, a barbecue grill, an outdoor swimming pool, Penny's Diner and the standard set of railway amenities. Located off I-8, Yuma is situated along the Colorado River in the southwestern corner of Arizona. It is the seat of Yuma County and has a population of over 93,000. The city's top employers include Marine Corps Air Station Yuma, Yuma Proving Ground (home to the Special Operations Free Fall School), Yuma Regional Medical Center, Bose Corporation, the U.S. Border Patrol, Dole Fresh Vegetables, and city and county government.

Other Property and Ancillary Services

620 Souder Rd. (Brunswick, MD) – Green Country Inn

The Green Country Inn is a 60-room property located near the intersection of highways 17 and 464 in Brunswick, MD. Brunswick is situated along the southwestern edge of Frederick County, MD. The property is leased to Lodging Enterprises by CSX for a nominal amount until August 2013. It opened in 1986 and features concrete block construction with a brick exterior, interior corridors, a Penny's Diner, and meeting and recreational facilities. The property sustained flood damage in October 2012 and is currently closed. The railroad operator is currently shuttling crews to an alternate lodging facility owned by a third party, and continues to make the minimum guarantee payments to Lodging Enterprises. The railroad operator is evaluating alternatives for this property, which management believes may include either: (i) the repair and subsequent reopening of the property; (ii) the indefinite closure of the property; or (iii) the construction of a new property, either through the Developer or a third party.

Mobile Home Management Services

In 2011, Lodging Enterprises entered into a contract to provide managed mobile home trailers at a customer rail yard with low daily crew volumes. The contract provides for the cleaning, operating, maintenance and month-to-month rentals of these mobile home trailers to the railroad customer at market rates.

Ancillary Services

Lodging Enterprises' strong relationships with railroad customers have led to several additional revenue sources in areas adjacent to its core offering of products and services, including snow removal, janitorial and similar services at customer rail yards.

ASSESSMENT AND VALUATION OF THE INITIAL PROPERTIES

Independent Appraisals of the Initial Portfolio

Independent Appraisals of the Existing Properties

The Issuer retained Cushman & Wakefield of Illinois, Inc. ("**Cushman & Wakefield**") to provide an independent summary appraisal report dated February 1, 2013 (the "**C&W Appraisal**") on the fair market value of each of the 30 existing properties comprising the majority of the Initial Portfolio (the "**Existing Properties**"). Cushman & Wakefield reports that the sum of the individual appraised values of the Existing Properties as of November 1, 2012 was $159.6 million. This sum of the individual appraised values gives no consideration to a portfolio discount or premium. The appraised values are subject to the assumptions and limiting conditions and any "Extraordinary Assumptions" as described in the C&W Appraisal.

Independent Appraisals of the Development Properties

The Issuer also procured independent appraisals of the fair market value of the three properties in the Initial Portfolio subject to ongoing development or conversion at the time (namely, the Glenwood, MN property, the second Livonia, LA hotel and the Kansas City, KS property (collectively, the "**Development Properties**", and each individually a "**Development Property**")).

The C&W Appraisal includes an appraisal of the Glenwood, MN Development Property. The appraised value of the Glenwood, MN property was estimated to be $3.4 million as of the expected completion date (which occurred on January 23, 2013). In reaching this appraised value, C&W assumed that the facility would be completed and that the railroad partners will have taken occupancy at the property as of the completion valuation date. The appraised value is subject to the assumptions and limiting conditions and any "Extraordinary Assumptions" described in the C&W Appraisal.

The Issuer retained CBRE, Inc. ("**CBRE**") to provide an independent appraisal of the fair market value of the Development Property in Livonia, LA (the "**CBRE Appraisal**"), and retained Martens Appraisal, LLC ("**Martens**") to provide an independent appraisal of the fair market value of the Development Property in Kansas City, KS (the "**Martens Appraisal**"). CBRE reports in the CBRE Appraisal that the appraised value of the Livonia, LA property was estimated to be $3.0 million as of the expected development completion date of May 1, 2013. For purposes of the Initial Portfolio, the two Livonia hotels are treated as a single property. For purposes of the Appraisals, the first Livonia hotel constitutes an Existing Property and the second Livonia hotel constitutes a Development Property.

Martens reports in the Martens Appraisal that the appraised value of the Kansas City, KS property was estimated to be $8.4 million as of January 1, 2013. These appraised values are subject to certain assumptions and limiting conditions.

The C&W Appraisal, the CBRE Appraisal and the Martens Appraisal are collectively referred to as the "**Appraisals**" and Cushman & Wakefield, CBRE and Martens are collectively referred to as the "**Appraisers**", and each individually as an "**Appraiser**". **The Appraisals will be filed with the securities regulatory authorities in each of the provinces and territories of Canada and investors are advised to read the Appraisals for a full description of applicable assumptions and conditions.**

Approaches and Assumptions related to Appraisals

Each of the Appraisers confirms that with respect to the Appraisal prepared by them, the Appraisal was prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice (the "**USPAP**") adopted by the Appraisal Standards Board of the Appraisal Foundation (United States). The Dictionary of Real Estate Appraisal, 5th ed., published by the Appraisal Institute, cites market value 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". 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 property in the open market; (iv) payment is made in terms of cash in U.S. dollars or in 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. None of the Appraisers or their respective affiliates were given any limiting instructions.

There are three generally-accepted approaches to developing an opinion of value: income capitalization, cost and sales comparison. In appraisal practice, an approach to value is included or eliminated based on its applicability to the property type being valued and the quality of information available. The reliability of each approach depends on the availability and comparability of market data as well as the motivation and thinking of purchasers. These valuation methods are methods traditionally used by investors when acquiring properties of this nature.

In determining the approximate market value of the Initial Properties, each of the Appraisers relied on operating and financial data provided by or on behalf of the Issuer, including detailed reports on occupancies and average daily rates, which also included data on current and historic financial information from financial statements provided by Lodging Enterprises. Each of the Appraisers believe that their applicable Appraisal gives appropriate consideration to projected net operating income for each property in terms of occupancy, average daily rate, growth rates, operating expenses, fixed charges and provisions for required capital improvements. Specifically, for each property, each of the Appraisers discussed with management the applicable property's history, current status and future prospects, reviewed historical operating results and reviewed in detail management revenue and expense estimates as set forth in the operating budgets and historical statements for their reasonableness. The Appraisers visited each applicable Initial Property to assess location and physical characteristics and estimated the highest and best use for each property. Appropriate valuation parameters were used, having due regard to the income characteristics, current market conditions and prevailing economic and industry information. Based on their review, and other relevant facts, each of the Appraisers considered such applicable data to be reasonable and supportable.

In appraising the Initial Properties, each of the Appraisers assumed that the terms of all contracts, rail or otherwise, will remain in effect into perpetuity, and that the behavior of rail demand accommodated by each of the subject properties (compressed bookings, no-shows, late departures, forfeited guaranteed occupancies, etc.) will also remain unchanged.

In appraising the applicable Initial Properties, each of the Appraisers assumed that title to the applicable Initial Properties is good and marketable and did not take into account engineering, environmental, zoning, planning or related issues.

Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value as of a specified date based upon assumptions and limiting conditions and any extraordinary assumptions specific to the relevant Appraisal. 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 Appraisals are based on various assumptions of future expectations and while the relevant Appraiser's internal forecasts of NOI for the applicable Initial Properties is considered by such Appraiser 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 limited partnership 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 Appraisals.

Environmental Site Assessments

Each of the Existing Properties and each of the Development Properties have been the subject of a Phase I environmental site assessment report (each, a "**Phase I ESA Report**") conducted by independent environmental consultants. The Phase I ESA Reports were completed for the Existing Properties in June 2012, and for the Development Properties from March to September 2012 (Glenwood – March 2012; Livonia – May 2012; Kansas City – September 2012). The Phase I ESA Reports were prepared in general accordance with the current ASTM International Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process 1527.05. The purpose of the Phase I ESA Reports was to identify any recognized environmental conditions ("**RECs**") at the Initial Properties, which means the presence or likely presence of any hazardous substances or petroleum products on any Initial Property under conditions that indicate an existing release, a past release, or a material threat of a release of any hazardous substances or petroleum products into structures on an Initial Property or into the ground, groundwater or surface water of an Initial Property. RECs include hazardous substances or petroleum products even under conditions in compliance with laws. RECs are not intended to include de minimis conditions that generally do not present a threat to human health or the environment and that generally would not be the subject of an enforcement action if brought to the attention of appropriate government agencies. Intrusive sampling and analysis were not part of these Phase I ESA Reports.

Based on the Phase I ESA Reports, the independent environmental consultants did not identify any RECs at the Initial Properties that warranted further environmental assessment investigation.

It is the Issuer's operating policy for its Subsidiaries to obtain a Phase I ESA Report conducted by an independent and experienced environmental consultant prior to acquiring or developing a Property. If a Phase I ESA Report recommends a Phase II environmental assessment be conducted, the Issuer intends to cause the relevant Subsidiary to conduct a Phase II environmental assessment, in each case by an independent and experienced environmental consultant.

Management is not aware of any material non-compliance with environmental laws at any of the Initial Properties that management believes would have a material adverse effect on the Issuer. Management is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the Initial Properties that would materially adversely affect the Issuer.

Building Condition Assessments

Building condition assessment reports were prepared for each of the Existing Properties and the Kansas City property (currently undergoing conversion from a Best Western franchise) to determine and document the existing condition of each building. No building condition assessment reports were prepared for the two other Development Properties, as they are currently under development. The assessments included the major building operating components and systems of subject properties and also identified and quantified any major defects in materials or systems which would likely affect significantly the value of any of the subject properties or the continued operation thereof. The reports on the Existing Properties were completed between May 2012 and June 2012. Building condition reports were prepared in August and September 2012 for the property in Kansas City in connection with due diligence being done pursuant to its acquisition from a third party.

For the Initial Properties assessed, the reports estimated requirements for modified capital reserve expenditures in the amount of approximately $72,000 to be completed immediately (i.e. within 90 days of the assessment), $230,000 in the short term (i.e. with one year of the assessment), and approximately $11.5 million over the next 12 years. Categories for modified capital reserve expenditures include the site, exteriors, roofing, interiors, plumbing systems, heating, ventilation and air conditioning, fire protection and life safety, garages, and elevators. The reports also identified $120,000 of modifications for compliance with the *Americans with Disabilities Act of 1990 ("***ADA***").*

Based on the reports, each Initial Property assessed was determined to be in a satisfactory condition commensurate with its age.

DESCRIPTION OF RAILROAD OPERATORS

Overview of Railroad Operating Partners

The Initial Portfolio is supported by contracts stipulating minimum occupancy guarantees with several of the largest North American railroad operators: UP, BNSF, CSX and CP. Following the Closing, approximately 74% of the room-nights in the Initial Portfolio will be covered under minimum occupancy guarantees. The following table presents certain key statistics relating to UP, BNSF, CSX and CP.

Railroad Operator	Head-quarters	North American Rank(1)	Track Miles	2011 Revenues (billions)	Equity Value (billions)(2)	Credit Rating(3)	Length of Relationship with Lodging Enterprises (years)	2013E Railroad Room Revenue Contribution
UP	Omaha, NE	1	31,898	$19.6	$ 59.1	A-	23	86.0%
BNSF	Fort Worth, TX	2	32,000	$19.5	$ 34.4	BBB+	27	6.1%
CSX	Jacksonville, FL	3	21,000	$11.7	$ 20.3	BBB	23	5.8%
CP	Calgary, AB	6	14,700	$ 5.2	$ 17.6	BBB-	1	2.1%
Total			**99,598**	**$56.0**	**$131.4**			**100.0%**

(1) Based on operating revenues.

(2) Figures shown are market capitalization as at December 31, 2012 except BNSF, which is shown at book value as at September 30, 2012.

(3) Source: Standard & Poors.

- *Union Pacific Corporation*. UP provides freight transportation services in North America. The company offers freight transportation services for agricultural products, food and beverage products, and automotive products. UP also provides transportation services for chemicals and energy products comprising coal and petroleum coke. In addition, UP offers freight transportation services for industrial products as well as steel and construction products, and intermodal imported and exported containers. As of December 31, 2011, UP's rail network included 31,898 route miles linking Pacific Coast and Gulf Coast ports with the Midwest and eastern U.S. gateways. UP was incorporated in 1862 and is headquartered in Omaha, Nebraska.
- *Burlington Northern Santa Fe LLC*. BNSF provides freight transportation services for a range of products and commodities, including consumer products, automotive products, coal, industrial products, food and

beverages, and agricultural products. As of September 4, 2012, it operated railroad networks with approximately 32,000 route miles of track in 28 states in the U.S. and two Canadian provinces. The company was founded in 1994 and is headquartered in Fort Worth, Texas. BNSF is a subsidiary of Berkshire Hathaway Inc.

- *CSX Corporation*. CSX offers traditional rail service and the transport of intermodal containers and trailers. The company transports crushed stone, fertilizer, food, consumer, agricultural, automotive, paper, chemical products, and coal. It also provides intermodal transportation services through a network of approximately 50 terminals transporting manufactured consumer goods in containers in the eastern U.S., and performs drayage services and trucking dispatch operations. CSX operates an approximate 21,000 route mile rail network, which serves various population centers in 23 states east of the Mississippi River, the District of Columbia, and the Canadian provinces of Ontario and Quebec. It also operates approximately 4,000 locomotives. CSX also serves production and distribution facilities through track connections. CSX was founded in 1978 and is based in Jacksonville, Florida.
- *Canadian Pacific Railway Limited.* CP operates as a transcontinental railway providing freight transportation services, logistics solutions, and supply chain expertise in Canada and the U.S. It transports bulk commodities, merchandise freight, finished vehicles and automotive parts, forest products, and industrial and consumer products. CP provides rail and intermodal transportation services over a network of approximately 14,700 miles serving the principal business centers of Canada, from Montreal, Quebec to Vancouver, British Columbia; and the Midwest and Northeast regions of the U.S. CP was founded in 1881 and is headquartered in Calgary, Alberta.

Typical Contract Terms

Each of the Initial Properties is supported by a contract with a railroad operator. In general, the contracts establish take-or-pay minimums on the number of rooms reserved, and stipulate a fixed or inflation-adjusting room rate or a room rate adjustment based on a mutually agreeable metric with the railway operator. However, Lodging Enterprises frequently sell rooms to the railroad operator in excess of the minimum daily or monthly room guarantee. Contracts also feature a 'must-stay' provision that prohibits railroad employees from using competing hotels within a specified radius for accommodation. Rooms not utilized by railroads can be sold to other guests at higher ADRs.

Term, Renewal Rights, and Termination

Most of the contracts have an initial 10-year term and, after the expiry of the initial term, generally provide for automatic renewals in up to one-year increments, subject to the right of the railroad operator to terminate upon written notice. Notwithstanding that most of the contracts provide for automatic renewals in one-year increments, in most cases, five-year extensions have been negotiated in the past. Over 80% of the contracts that have reached the maturity of their initial term have entered into five year extension terms.

Most contracts provide the railroad operator with the right to terminate upon written notice, with payment of a termination fee. Currently, 23 contracts representing 1,491 minimum guaranteed occupancies (79% of the guaranteed occupancies) provide the railroad operator with the right to terminate on 30 to 90 days' notice, with payment of a termination fee. A further four contracts representing 113 minimum guaranteed occupancies (6% of the guaranteed occupancies) do not provide the railroad operator with any right to terminate until a future date (ranging from June 2014 to December 2017), following which time the railroad operator may terminate upon written notice and payment of a termination fee. Therefore, 85% of the rooms covered under contract require the payment of a fee in order for the railroad to terminate prematurely, or do not currently have termination rights. There are four contracts representing 232 guaranteed rooms (12% of the guaranteed occupancies) that can be terminated upon notice by the railroad operator for which no termination fee is payable.

The basis of the termination fees vary on a contract-by-contract basis, but are typically structured either as a 'buy-out' of the remaining minimum occupancy guarantee, or a reimbursement of the unamortized construction cost of the property. As at January 30, 2013, management estimates the termination fees for the 23 contracts that are terminable on notice to be approximately $30.4 million. Including the four contracts that have future termination rights, the aggregate termination fees are estimated to be $37.4 million.

Since 1984, no contract has ever been terminated prematurely by a railroad operator.

	Number of Contracts	Guaranteed Rooms per Day	Total Available Rooms	% of Guaranteed Revenue	Weighted Average Term to Maturity (years) (2)(3)
No termination rights	1	60	60	2.5%	10.2 years
Future termination rights	4	113	223	8.4%	7.1 years
Current termination rights, subject to fee	23	1,491	1,983	77.5%	3.3 years
Current termination rights with no fee	4	232	257	11.6%	0.6 years
Total	**32**	**1,896**	**2,523(1)**	**100.0%**	**3.5 years**

(1) Excludes 42 rooms at the existing Livonia property, which, after the completion of the new Livonia property, will no longer be under contract.
(2) As at December 31, 2012.
(3) The weighted average term to the earliest termination date is 0.2 years.

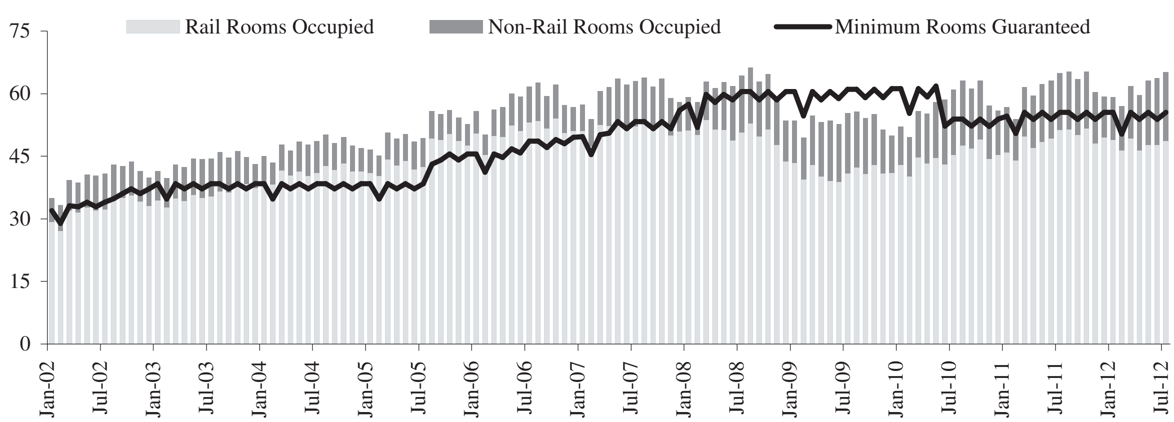
Railroad Operator Utilization

From 2002 to 2008, the Initial Portfolio experienced strong utilization by railroads of their guaranteed rooms, and in many cases experienced periods where utilization exceeded the minimum guarantee. During the financial crisis of 2008 and 2009, the Initial Portfolio experienced a decline in the utilization rate of their guaranteed rooms, which was partially offset by increased sales of room nights to non-railroad customers, generally at significantly higher ADRs. Since 2009, railroad room utilization has reverted to normalized levels.

Due to the cyclical nature of the rail industry, railroads must plan their workforce accommodation requirements based on periods of peak volumes, in order to avoid any unplanned down time due to unmet employee rest requirements. Management believes that every hour of down time can result in significant costs to a railroad due to such factors as contractual penalties for late delivery and additional labour and related expenses. During the first half of 2012, there were 14 properties in the Initial Portfolio where utilization by railroads exceeded the minimum guarantee, which management believes may signal upward pressure on the minimum guarantee and rate required by the railroad in the future.

Initial Portfolio Occupied Rooms vs. Minimum Rooms Guaranteed

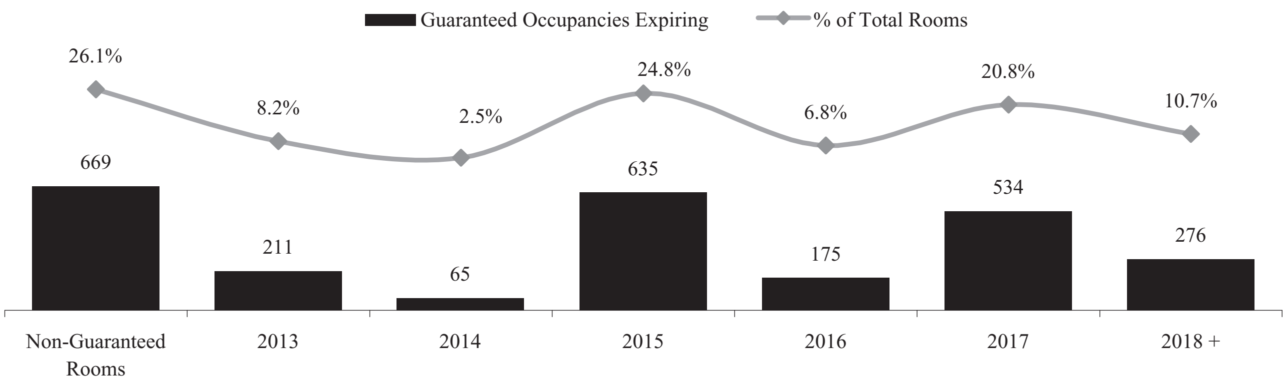
(000's of room nights)



Contract Maturity Profile

The contracts underlying the Initial Portfolio have a staggered maturity profile, with a weighted average term to maturity of 2.7 years based on all room nights, or 3.5 years based on contractually guaranteed room nights, as at December 31, 2012.

Initial Portfolio Contract Maturity Profile



Contract Renewal History

The Initial Portfolio has had a strong track record of contract renewal success. Since 1984, 32 contracts have expired between Lodging Enterprises and a railroad counterparty, with 31 contracts renewed. In addition, over this same period, no contract has ever been terminated prematurely by a railroad operator.

DEBT STRATEGY AND INDEBTEDNESS

Future Debt Strategy

The Issuer intends to maintain a balanced debt profile, taking into account market conditions and the financial characteristics of each property. The Issuer's future debt strategy will be to obtain secured debt financing from U.S. lenders, on a primarily fixed rate basis, and featuring a term to maturity that is appropriate in relation to the financial characteristics of the Issuer's properties. The Issuer intends for its Subsidiaries to finance future acquisitions with primarily fixed-rate traditional mortgage financing and, if and when appropriate, with CMBS. Overall, the Issuer's long-term debt strategy involves: (i) achieving and maintaining staggered debt maturities to lessen exposure to interest rate fluctuations and re-financing risk in any particular period; and (ii) fixing interest rates and extending loan terms as long as possible when borrowing conditions are favourable. To monitor cash flow, the Issuer will use cash flow measures and debt level indicators to assess its ability to meet its financing obligations, including targeting a total indebtedness level of approximately 50% of Gross Book Value. The REIT LP Agreement will provide that the Issuer and any Subsidiary may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total consolidated indebtedness of the Issuer and its Subsidiaries would exceed 60% of Gross Book Value (65% including any convertible debentures). Acquiring unencumbered properties will provide added flexibility to the Issuer's consolidated capital structure as it will be able to place financing on them at a later date to take advantage of a buying opportunity or to replace expiring debt when refinancing options are limited or expensive.

Debt Composition

Lodging Properties and Lodging Enterprises (for the purposes hereof, the "**Borrowers**") have received a commitment letter from a U.S. chartered bank pursuant to the terms of which the lender party thereto will provide, subject to the terms and conditions set forth therein, a $70 million term loan (the "**Term Loan**") and a $10 million construction facility (the "**Construction Facility**" and together with the Term Loan, the "**Debt Financing**") on or before February 20, 2013. The Debt Financing will be secured by a first-priority security interest in all business assets of the Borrowers, including first-priority mortgages on each of the properties in the Initial Portfolio. Lodging Enterprises has had a relationship with its U.S. chartered bank lender for 20 years.

The Term Loan has a fixed interest rate of 4.85% and a five year term. The Term Loan has a 180 month amortization period, with the remaining principal balance due and payable at the end of the term, subject to prepayment. The Term Loan can be prepaid, subject to a prepayment fee equal to 3% of the outstanding principal balance during the first year following the Closing, 2% of the outstanding principal balance during the second year following the Closing and 1% of the outstanding principal balance during the third year following the Closing. There are no prepayment fees during the fourth and fifth years of the term. The Construction Facility has a floating interest rate based on 30-day LIBOR plus 3.0% (with a floor of 4.0%) and a two year term. Advances under the Construction Facility are available to finance up to 75% of approved project costs or 75% of project appraised value, whichever is less.

The Debt Financing will include, among other things, covenants requiring the Borrowers to: (i) maintain a fixed charge ratio minimum of 1.10; (ii) maintain a consolidated tangible net worth of at least $62 million; (iii) have a ratio of total liabilities to net worth of no more than 150%; (iv) maintain cash reserves on deposit of at least $1 million; (v) maintain a capital expenditure reserve of 3% of gross room revenue, to be accumulated monthly; and (vi) maintain guarantees under contracts with railroad operators for at least 60% of the rooms of the Borrowers' hotels. The Debt Financing will also contain restrictions on the Borrowers' ability to make distributions or pay management fees or leasing expenses if a default or event of default exists under the Debt Financing.

The Debt Financing will also include customary events of default, including: (i) the failure to make payments when due; (ii) if any representations and warranties prove to have been incorrect in any material respect; (iii) the failure to perform or observe any covenant or obligation in any loan document; (iv) failure of the Borrowers to pay any material indebtedness when due in any other agreement or any other instrument relating to their indebtedness; (v) the occurrence of specified insolvency events in respect of the Borrowers; (vi) in respect of the Borrowers and their property, the existence of material judgments; (vii) the existence of certain ERISA events; (viii) any interests created by the security documents cease to be enforceable and of the same priority purported to be created thereby; and (ix) and any change of control of the Borrowers. The Debt Financing will provide for customary remedies, including acceleration and the right of the lenders to realize under any of its security.

The closing of the Term Loan is subject to customary conditions precedent, including: (i) the execution and delivery of definitive loan documentation; (ii) the perfection of security interests in the collateral securing the Debt Financing; (iii) the completion of an equity cash injection by the Borrowers of at least $65 million; (iv) receipt of appraisals demonstrating a minimum real estate collateral value of $116.7 million; and (v) binding commitments from participating lenders for an amount of at least $55 million.

The lender is expected to review and approve material agreements of the Borrower in advance of Closing.

A Subsidiary of the Issuer intends to finance the acquisition of the Initial Portfolio with a drawdown of $70 million from the Term Loan and a drawdown of $1.5 million from the Construction Facility, together with the net proceeds from the Offering. See "*The Acquisition – Unit Purchase Agreement*".

On closing of the acquisition of the Initial Portfolio, the Issuer's aggregate consolidated indebtedness is expected to be approximately $71.5 million (comprised of $70 million from the Term Loan and $1.5 million from the Construction Facility), representing approximately 45.9% of Gross Book Value, of which 97.9% will be fixed rate. Following the closing of the acquisition of the Initial Portfolio, the Issuer intends for Lodging Properties to draw a further $1.1 million on the Construction Facility to complete the development of the property located in Livonia, LA, which is expected by management to be completed in April 2013. Including the amounts required to complete the development of the Livonia property, the Issuer's total consolidated debt on closing of the acquisition of the Initial Portfolio would be approximately 46.1% of Gross Book Value.

Debt Maturities

The following table sets out the principal amortization and maturity balances on debt to be paid over each of the six calendar years following the closing of the acquisition of the Initial Portfolio (assuming such debt is not renewed at maturity), which includes the Term Loan and the Construction Facility utilized to finance the acquisition of the Initial Portfolio.

Year	Principal Amortization ($000's)	Balance Due on Maturity ($000's)	Total Debt Repayments ($000's)	% of Total
2013	2,789	—	2,789	3.9%
2014	3,392	—	3,392	4.8%
2015	3,560	1,469	5,029	7.0%
2016	3,737	—	3,737	5.2%
2017	3,922	—	3,922	5.5%
2018	337	52,263	52,600	73.6%
Total	**17,737**	**53,732**	**71,469**	**100.0%**
Current weighted average interest rate				4.83%
Current weighted average term to maturity				4.9 years

CURRENCY SWAP ARRANGEMENTS

Given that a substantial portion of the Issuer's investments and operations will be conducted in U.S. dollars and the Issuer will pay distributions to Unitholders in Canadian dollars, the Issuer intends to implement foreign currency swap programs in order to manage exposure to foreign exchange rate fluctuations and support the long-term stability of distributions to Unitholders. Upon Closing or shortly thereafter, the Issuer intends to enter into currency swap arrangements, directly or through one or more Subsidiaries, with an arm's length counterparty pursuant to which the counterparty will agree to exchange U.S. dollars for Canadian dollars at an exchange rate to be agreed upon in the currency swap arrangements.

The currency swap arrangements will be implemented initially for a term of two years. The GP will assess the Issuer's currency swap strategy from time to time.

THE ACQUISITION

Unit Purchase Agreement

The following is a summary of the material attributes and characteristics of the Unit Purchase Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms of the Unit Purchase Agreement, which will be filed with the Canadian securities regulatory authorities and will be available on SEDAR at www.sedar.com. A purchaser of Units should refer to the terms of the Unit Purchase Agreement for a complete description of the representations, warranties and indemnities being provided in favour of Lodging Properties, and related limitations under the Unit Purchase Agreement. Capitalized words in this section of the prospectus that are not defined in the glossary have the meaning given to them in the Unit Purchase Agreement.

The Issuer currently owns Lodging Properties, which was formed in Delaware on November 1, 2012 solely for the purpose of entering into the Unit Purchase Agreement with the Sellers. The Issuer intends to acquire the Initial Portfolio on the Acquisition Closing Date by way of acquisition, indirectly through the U.S. REIT and its Subsidiaries, of all of the units of Lodging Enterprises for an aggregate purchase price of $127.5 million, of which approximately $122.0 million will be paid in cash (including a payment into escrow of $2.0 million). The balance of the purchase price is attributable to a $5.5 million earnout amount (the "**Earnout Amount**"), payment of which is conditional upon the renewal by Lodging Enterprises of certain key contracts, as set forth in the terms of the Unit Purchase Agreement and discussed in more detail below. The purchase price will be subject to working capital and capital expenditure adjustments in cash, which are estimated to be $11.3 million on the Acquisition Closing Date and are subject to final adjustment after the closing of the acquisition of the Initial Portfolio. The estimated cash required at Closing for the acquisition of the units of Lodging Enterprises is approximately $133.3 million. The cash purchase price for the Initial

Portfolio will be satisfied by a combination of: (i) approximately $71.1 million net proceeds from the drawdown of the Term Loan and Construction Facility described above under "*Debt Strategy and Indebtedness*"; and (ii) approximately $62.2 million in cash from the proceeds of the Offering. Subject to the satisfaction or waiver of conditions precedent, the purchase of the Initial Portfolio is scheduled to be completed not later than February 20, 2013 (the "**Acquisition Closing Date**").

Of the total purchase price, the Earnout Amount will be withheld on the Acquisition Closing Date and will be payable to DMTB Holdings, Inc. (one of the Sellers and a company controlled by management of Lodging Enterprises) ("**DMTB**") only upon the renewal of certain existing contracts within 20 business days of December 31, 2015 or, upon request of DMTB, up to $3.5 million of the Earnout Amount may be paid within 20 business days of December 31, 2014, if the renewals have been achieved by such time. Any payments made pursuant to the Earnout Amount will, subject to any regulatory approvals, be payable in cash or in Units or a combination thereof, at the option of the Issuer. If paid in Units, such Units will not be subject to the four-month restricted period in National Instrument 45-102 *Resale of Securities*, as the right of DMTB to acquire such Units was distributed under the Unit Purchase Agreement on November 19, 2012.

The Unit Purchase Agreement contains customary purchase agreement representations and warranties, certain of which are qualified as to knowledge, materiality and disclosure. The representations and warranties relating to Lodging Enterprises are from Lodging Enterprises in favour of Lodging Properties, including, among other things, representations and warranties as to Lodging Enterprises' existence and power; authority; consents; non-contravention; capitalization; subsidiaries and other equity investments; financial statements; accounts receivable; absence of certain changes; litigation and regulation; material contracts; insurance coverage; compliance with laws; no defaults; brokers' and finders' fees; intellectual property; employees; environmental matters; tax matters; employee benefit plans; customers; permits; affiliate transactions; indebtedness; and company transaction expenses. The representations and warranties relating to the Sellers are from the Sellers in favour of Lodging Properties, including, among other things, representations and warranties as to the Sellers' ownership of units in Lodging Enterprises; organization; authority; governmental authorization; consents; non-contravention; and brokers' fees. The representations and warranties relating to Lodging Properties are from Lodging Properties in favour of Lodging Enterprises and the Sellers, including, among other things, representations and warranties as to the organization and existence of Lodging Properties; authority to execute and perform under the Unit Purchase Agreement; governmental authorization; consents; non-contravention; and brokers' and finders' fees.

Under the Unit Purchase Agreement, Lodging Enterprises made certain positive covenants to Lodging Properties to use all commercially reasonable efforts to carry on and conduct Lodging Enterprises' business in the ordinary course of business in the period between the date of the Unit Purchase Agreement and the Acquisition Closing Date.

The obligation of Lodging Properties to complete the transactions contemplated by the Unit Purchase Agreement is subject to various conditions for the exclusive benefit of Lodging Properties to be fulfilled or performed at or prior to the Acquisition Closing Date, including, among other things, conditions relating to Lodging Enterprises' and each of the Sellers' representations and warranties; Lodging Enterprises' and each of the Sellers' covenants and obligations under the Unit Purchase Agreement; no material adverse change; no action or proceeding; consents; approvals; completion of the initial public offering; delivery of closing documents and the absence of any force majeure event. The obligation of the Sellers to complete the transactions contemplated by the Unit Purchase Agreement is subject to various conditions for the exclusive benefit of the Sellers to be fulfilled or performed at or prior to the Acquisition Closing Date, including, among other things, conditions relating to Lodging Properties' representations and warranties; Lodging Properties' covenants and obligations under the Unit Purchase Agreement; no action or proceeding; consents; and delivery of closing documents.

In the Unit Purchase Agreement, the Sellers indemnify Lodging Properties on customary terms for losses arising or resulting from, among other things, any breach of any representation or warranty of Lodging Enterprises; non-compliance or breach by Lodging Enterprises of any covenant or agreement of Lodging Enterprises; or any tax liabilities arising with respect to taxable periods ending on or before the Acquisition Closing Date. In addition, each Seller indemnifies Lodging Properties for losses arising or resulting from, among other things, any breach of any representation or warranty of the Seller or non-compliance or breach by the Seller of any covenant or agreement of the Seller. The indemnification obligations of the Sellers are subject to a number of limitations, including that the Sellers are not liable for any losses unless and until the aggregate amount of all losses incurred exceeds $250,000, at which time only losses in excess thereof may be claimed, that the Sellers are not liable for any losses with respect to any individual claim where the amount of such losses does not exceed $10,000, and an overall liability cap of $8.5 million for claims notified to the Sellers in the first 12 months following the Acquisition Closing Date (and $4 million thereafter). Lodging Properties indemnifies the Sellers for losses arising or resulting from any breach of any representation, warranty, covenant or agreement by Lodging Properties. The obligations of the Sellers and Lodging Properties in relation to these indemnities and other matters under the Unit Purchase Agreement are subject to specified survival periods, including a general survival period that terminates 18 months following the Acquisition Closing Date. Subject to certain specified exceptions, including in relation to certain tax claims and Lodging Properties' right to set off against any earnout amounts from the total purchase price that become payable to the Sellers, the indemnification provisions constitute Lodging Properties' sole and exclusive remedies against the Sellers under the Unit Purchase Agreement.

There can be no assurance of recovery by Lodging Properties from the Sellers for breach of the representations, warranties and indemnity provided under the Unit Purchase Agreement, as there can be no assurance that the assets of the Sellers will be sufficient to satisfy such obligations. Only Lodging Properties will be entitled to bring a claim or action for misrepresentation or breach of contract under the Unit Purchase Agreement and purchasers of the Units under this prospectus will not have any contractual rights or remedies under the Unit Purchase Agreement. Purchasers will, however, have certain statutory rights against the Issuer and Sunstone O'Neill Hotel Management Inc., as promoter, under applicable securities laws. See "*Purchasers' Statutory Rights of Withdrawal and Rescission*".

ARRANGEMENTS WITH THE HOTEL MANAGERS

Hotel Management

The principal terms of the Hotel Management Agreements will be set forth in the Master Hotel Management Agreement to be entered into on Closing between the Issuer and the Master Hotel Manager. The Initial Properties will be externally managed by the IPO Hotel Manager, an indirect wholly owned Subsidiary of OHR, pursuant to the IPO Hotel Management Agreement and the Master Hotel Management Agreement. Any Subsequent Properties acquired indirectly by the Issuer in the five years following Closing through one or more wholly owned Subsidiaries will be externally managed by the Master Hotel Manager, a wholly owned Subsidiary of OHR (or through one or more of the Master Hotel Manager's wholly owned Subsidiaries), pursuant to separate Hotel Management Agreements to be entered into by each such Subsidiary with the Master Hotel Manager (or one of its wholly owned Subsidiaries) and the Master Hotel Management Agreement. The Hotel Managers will manage and operate the Properties and will provide customary hotel management services, including strategic planning, employment of hotel staff, preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of rooms and food and beverage operations, supervision of sales and marketing, reservation systems, human resource management, purchasing/bulk buying programs, management and supervision of construction and technical services, information technology, franchise relations and evaluations, supervision of property repairs and maintenance and supervision of compliance with material contracts relating to the Properties and leasing.

The Master Hotel Management Agreement and each of the Hotel Management Agreements entered into in the first five years of the initial term of the Master Hotel Management Agreement (including the IPO Hotel Management Agreement) will have an initial term of 10 years, and thereafter will be subject to two successive automatic five-year renewal terms. After the first five years of the Master Hotel Management Agreement, the Independent Directors may request a shorter term for any Subsequent Properties acquired by the Issuer after such time. The Master Hotel Management Agreement will be deemed to be extended for the remaining term of the applicable Hotel Management Agreements that remain in effect following the end of the second renewal term of the Master Hotel Management Agreement. The automatic renewals will occur if the relevant Hotel Manager (or the Master Hotel Manager in relation to the renewal of the Master Hotel Management Agreement) is not in material default of the relevant Hotel Management Agreement.

Under the Master Hotel Management Agreement and the Hotel Management Agreements, the operating Subsidiaries of the Issuer will be responsible for reimbursing the Hotel Managers for operating expenses and any direct costs incurred by such Hotel Managers on behalf of the operations of the Properties and their lodging businesses, including salary and benefit costs of hotel staff and other operating expenses. The operating Subsidiaries of the Issuer will not be responsible for reimbursing the Hotel Managers for any manager overhead costs of operating the Properties. Each of the Hotel Management Agreements will also provide for the payment by the applicable operating Subsidiary of a base hotel management fee to the applicable Hotel Manager during the term of the agreement in an amount equal to 3.50% of gross revenues. In addition, the Hotel Managers will collectively receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the applicable Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the Independent Directors of the GP, acting reasonably. The one exception to such approval is with respect to the budgeted gross operating profit for the hotels managed by the IPO Hotel Manager for the fiscal year 2013, which will be as determined by the Issuer for the period from Closing until December 31, 2013. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned. With respect to fees payable to the Master Hotel Manager (or one of its wholly owned Subsidiaries), the calculation of the incentive fee will not include results of hotels for the fiscal year in which they are initially leased, or for the fiscal year in which they are sold, and newly acquired or leased hotels will be included in the calculation beginning in the first full calendar year such hotel is managed. Each Hotel Manager will also be entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures.

In addition, the Hotel Managers will be entitled to an accounting, administration and purchasing fee. The IPO Hotel Manager will be entitled to $15,000 per Property for each of the first and second years following the Closing, $20,000 per Property in the third year following the Closing and $25,000 per Property in each year thereafter. For Properties acquired other than the Initial Portfolio, the applicable Hotel Manager will be entitled to an accounting, administration and purchasing fee of $25,000 per Property per year.

The Issuer will have the right to terminate the Master Hotel Management Agreement in a number of circumstances, including as a result of an event of default of the Master Hotel Manager, being bankruptcy, fraud or material uncured breach, or if, in two consecutive years: (i) a performance test relating to the achievement of 80% of the annual budgeted gross operating profit (as approved by the Independent Directors of the GP) for the Initial Properties and any Subsequent Properties is not met; and (ii) a market test relating to the achievement of 90% of the average achieved RevPAR relative to a competitive set of limited service hotels, as established and adjudicated by a recognized hotel industry consultant, are not both satisfied. The termination right will not be triggered if the failure to achieve the performance test is a result of force majeure. The market test for average achieved RevPAR will not apply to Subsequent Properties following any material post-acquisition renovations or repositioning until the earlier of (A) the date the property has been determined by the Independent Directors of the GP, acting reasonably, to be stabilized, and (B) the date that is 24 months after the Subsequent Property has been acquired indirectly by the Issuer. Unless it is otherwise in default under the Master Hotel Management Agreement, the Master Hotel Manager will have the right once during the first five years of the initial term and once during the second five years of the initial term to cure any performance test failure by making a payment to the Issuer of the deficiency in gross operating profit below the performance test criteria. Such payment may, at the Master Hotel Manager's option, be made by set-off against management fees.

The Master Hotel Management Agreement and the Hotel Management Agreements will provide that the Issuer or its Subsidiaries will pay a termination fee to the applicable Hotel Manager if the Issuer sells a Property or Properties during the term of the agreement and the applicable Hotel Manager is not continued as manager of the Property or Properties that are sold. If the Property or Properties being sold represent 10% or less of the assets of the U.S. REIT, such termination fee will be equal to the fees paid based on trailing 12 months revenues of such hotel or hotels. If the Property or Properties being sold represent more than 10% of the assets of the U.S. REIT, such termination payment will be equal to the fees paid based on trailing 36 months revenues of such Property or Properties.

The Issuer may also terminate the Master Hotel Management Agreement in the event of a change of control of the Issuer, which will be defined in the Master Hotel Management Agreement to be the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction over 66 2/3% or more of the votes attaching, collectively, to outstanding voting units of the Issuer, provided that in the event of such termination, the applicable Hotel Manager(s) will be entitled to be paid the reasonable present value of the fees that would have been expected to be paid during the remaining term of the Master Hotel Management Agreement (without regards to any renewal terms) subject to a minimum of 30 months and a maximum of five years.

Each Hotel Manager may terminate the applicable Hotel Management Agreement after the first five years of the initial term on 12 months' prior written notice. In addition, each Hotel Manager, and the Master Hotel Manager in respect of the Master Hotel Management Agreement, will have the right to terminate the applicable Hotel Management

Agreement in the event of certain customary events of default of the Issuer, including bankruptcy or insolvency proceedings, subject to customary notice and cure rights.

Exclusivity

The Master Hotel Manager or one of its Subsidiaries will be the exclusive hotel managers for all Properties indirectly owned or acquired by the Issuer for a period of five years following the Closing. Thereafter, the Issuer will not be precluded from indirectly pursuing acquisitions of Properties from third parties, and entering into a hotel management agreement with a manager unaffiliated with the Master Hotel Manager, provided that the relevant operating Subsidiary will pay the Master Hotel Manager an annual compensatory fee of 0.375% of the asset value of any such acquisition for 18 months following the date of such acquisition. The compensatory fee is subject to renewal for 12 month terms by the Independent Directors of the GP, acting reasonably, 90 days prior to the end of the 18 month term and each 12 month term thereafter.

Subcontracting

The Master Hotel Manager and the Hotel Managers will be entitled to subcontract out, in whole or in part, their respective obligations under the Master Hotel Management Agreement and Hotel Management Agreements, provided that no such subcontracting will relieve the Master Hotel Manager or the relevant Hotel Manager of its obligations under the Master Hotel Management Agreement or the applicable Hotel Management Agreement and that any cost of such subcontracting will be to the account of the applicable Hotel Manager. Further, Hotel Managers will only subcontract their duties, in whole, to entities that are treated as eligible independent contractors, as defined under section 856(d)(9)(A) of the Code, of the U.S. REIT. Notwithstanding the foregoing, the Hotel Managers shall not subcontract their duties for more than one year per hotel or for more than 10% of the hotels in the portfolio of the Issuer at any one time without approval of the Independent Directors; provided that, in no event shall the Hotel Managers be permitted to subcontract their duties for more than 25% of the hotels in the portfolio of the Issuer at any one time.

Non-Competition

Pursuant to the terms of a non-competition agreement in favour of the Issuer, for a period of five years following the Closing, Robert O'Neill, John O'Neill, Stephen Evans and Darren Latoski (collectively, the "**Principals**"), the Sponsor, the Hotel Managers and OHR, agree not to, directly or indirectly through any controlled entities, manage any Suitable Properties in the U.S. that are owned by entities other than Subsidiaries of the Issuer and any railway hotels in Canada. For greater certainty, the Principals and their Affiliates, including the Sponsor, the Hotel Managers and OHR, may manage hotels for third parties, provided that: (i) such hotels are not Suitable Properties; and (ii) the Principals and their Affiliates, including the Sponsor, the Hotel Managers and OHR, obtain the consent to manage such properties from a majority of the Independent Directors, acting reasonably. Existing hotel management contracts relating to facilities in Scottsdale, AZ, Tempe, AZ and Dallas, TX shall not be restricted thereunder.

The Principals and the Sponsor will also agree not to, individually or in partnership or jointly or in conjunction with any person(s), directly or indirectly through any controlled entity: (i) create or manage another private or public entity focused on the ownership of Suitable Properties in the U.S. or Canada (the "**Restricted Investments**"); (ii) invest in, purchase, or finance the purchase of, any assets which constitute Restricted Investments and meet the Issuer's investment criteria, unless they have been first offered to the Issuer (on no less favourable terms) and the Issuer has declined to purchase such assets; or (iii) solicit customers, patrons, suppliers, employees, consultants, advisers, partners, trustees, directors, officers or agents away from the Issuer or its facilities, or otherwise interfere with relationships that the Issuer has with such persons.

Non-Solicitation

During the term of each Hotel Management Agreement and for a period of two years following termination of each such agreement, the Issuer will not (without the consent of the Hotel Managers), solicit or hire for employment any employee of the Hotel Managers (other than non-executives who respond to an advertisement available to the general public). However, the Issuer will be entitled to solicit any non-executive employee of the Hotel Managers for whom the Issuer is required to pay employee severance costs.

ARRANGEMENTS WITH THE DEVELOPER

Through the Master Development Agreement, the Issuer intends to cause one or more of its Subsidiaries to enter into future development agreements with SunOne Developments Inc. (the "**Developer**"), an Affiliate of the Principals, for the development of future Oak Tree Inns (or other Suitable Properties) from time to time, so as to reduce the risk of hotel development for the Issuer, while still ensuring that the Oak Tree portfolio (and the overall portfolio of the Issuer) can continue to grow as opportunities arise, based on market demand. There will be no fees charged by the Developer to the Issuer or its Subsidiaries in connection with the relationship, other than in relation to third-party developments.

Under the Master Development Agreement, the Principals and the Sponsor will covenant that the development of all suitable properties, consisting of hotel properties in close proximity to railroads, airports, highway interchanges and other transportation hubs providing select and limited service lodging to need-based corporate, traveler, crew and contractual customers (such properties referred to herein as "**Suitable Properties**"), proposed to be undertaken by the Sponsor and/or the Developer (each, a "**Proposed Development Opportunity**") will only be undertaken by the Developer and its Subsidiaries.

The Master Development Agreement will grant the Developer an exclusive right to develop Suitable Properties for Subsidiaries of the Issuer on commercial terms. In the event that a third party presents the Issuer or one of its Subsidiaries with an opportunity for a Suitable Development Property (excluding Oak Tree Inn branded developments), the Issuer may elect to cause a Subsidiary to pursue such opportunity regardless of the original source of such property, provided that such Subsidiary shall pay the Developer a development fee equal to 1.0% of the total construction costs.

The Principals, the Sponsor and the Developer will provide the Issuer's Subsidiaries with a right of first opportunity to participate in any Proposed Development Opportunity generated by or arising from the activities of the Sponsor and the Developer. Such parties will agree to use their commercially reasonable best efforts to cause Suitable Properties to feature a fully executed contract with a creditworthy railroad counterparty, featuring a term of no less than five years and a minimum occupancy guarantee covering no less than 50% of the room-nights proposed to be available at the proposed development property (a "**Suitable Development Property**").

In accordance with the Master Development Agreement, the Developer will present material terms of all Proposed Development Opportunities to the Issuer. The Issuer, based on approval from the independent directors of the GP (excluding any of whom have declared a conflict of interest), may elect to finance (directly or indirectly) such Proposed Development Opportunity via a mezzanine loan, provided that: (i) all debt (senior and mezzanine in nature) will not exceed the aggregate of 90% of the cost of construction of such project; (ii) the value of the mezzanine loan may not exceed 80% of the difference between the aggregate construction costs and senior debt financing (and subject to the Developer committing the balance of the projected funding as equity capital that is subordinate to the mezzanine loan provided by the Issuer); (iii) the value of the mezzanine loan will not exceed the value of all senior construction financing; and (iv) the mezzanine loan is provided at an interest rate that is to be accretive to the Issuer and in any event not less than a competitive market rate. Any mezzanine loans provided by the Issuer (directly or indirectly) to the Developer will be cross-collateralized with all other such mezzanine loans. The Issuer will not commit more than 5% of its Gross Book Value to indirect development activities, including direct or indirect mezzanine loans, in connection with Proposed Development Opportunities.

In the event that the Issuer initially declines to cause a Subsidiary to participate in a Proposed Development Opportunity and/or the Developer nonetheless proceeds with a Proposed Development Opportunity, once the Proposed Development Opportunity reaches Substantial Completion (as defined below), and provided that the development is a Suitable Development Property, the Issuer will have a right, but not an obligation, to cause a Subsidiary to purchase the Suitable Development Property at fair market value (as determined by an independent third-party appraiser), provided that, in the opinion of the independent directors of the GP (excluding any of whom have declared a conflict of interest), such a purchase would be accretive to the Issuer's AFFO per Unit. For these purposes, "**Substantial Completion**" shall be defined as the date on which the Issuer is presented with a certificate of occupancy from the Developer.

In the event that the Issuer has provided mezzanine financing to such Proposed Development Opportunity, the purchase price at Substantial Completion shall be the greater of: (i) 95% of the fair market value of the property, as determined by an independent third-party appraiser; and (ii) the actual construction cost of the project.

In the event that the Issuer has decided to cause a Subsidiary to participate in a Proposed Development Opportunity but has not provided mezzanine financing to such Proposed Development Opportunity, the purchase price at Substantial Completion shall be the greater of: (i) 100% of the fair market value of the property, as determined by an independent third-party appraiser; and (ii) the actual construction cost of the project.

If the Issuer causes a Subsidiary to exercise rights to purchase the Suitable Development Property, the equity component of the purchase price to be paid to the Developer for each Suitable Development Property shall, at the discretion of the independent directors of the GP (excluding any of whom have declared a conflict of interest) and subject to receipt of applicable regulatory approvals and certain other limits, be allocated in cash, Units or a combination thereof. The portion paid in Units shall be determined as follows: (i) a minimum number of Units shall be determined equal to the Principals' collective pro rata ownership percentage in the Issuer (including their Affiliates, and calculated on a fully-diluted basis) at that time; and (ii) subject to the approval of a majority of the independent directors of the GP (excluding any of whom have declared a conflict of interest), up to 100% of the equity component of the purchase price.

The Master Development Agreement will have an initial term of five years. Thereafter, the agreement will be subject to automatic five-year renewal terms, provided that: (i) the Developer is not in material default of the Master Development Agreement on the applicable renewal date; and (ii) the Principals directly or indirectly through their Affiliates have retained, collectively, not less than 336,000 Units throughout the term or renewal term, as applicable. The Developer may not transfer or assign the Master Development Agreement to an unaffiliated party of the Developer without the prior consent of the Issuer. The Issuer may terminate the Master Development Agreement upon 30 days' notice in the event of the material default or insolvency of the Developer (subject to certain customary cure rights of the Developer). The Master Development Agreement will automatically terminate upon termination of the Master Hotel Management Agreement.

GOVERNANCE AND MANAGEMENT OF THE ISSUER

As required by law, the REIT LP Agreement will provide for the management and control of the Issuer by a general partner. The GP will provide day-to-day management of the Issuer and will have sole responsibility and authority for the governance of the Issuer. The GP has a board initially consisting of seven directors, the majority of whom are independent. The board of directors of the GP consists of seven members: Robert O'Neill, Stephen Evans, W. Michael Murphy, Robert Pratt, Kevin Grayston, Peter Armstrong and Tamara Lawson. Mr. O'Neill is not independent as he acts as an executive officer of the GP. The board of directors of the GP facilitates its independent supervision over management through the nomination of Independent Directors to the board of directors of the GP and the conflict of interest provision contained in the REIT LP Agreement.

The board of directors and management of the GP consist of the following individuals:

Name and Municipality of Residence	Position with the GP	Principal Occupation
ROBERT O'NEILL(1)(2)(9) West Vancouver, British Columbia	Director and Chief Executive Officer	Chief Executive Officer, American Hotel Income Properties REIT (GP) Inc.
STEPHEN J. EVANS(3)(4) North Vancouver, British Columbia	Independent Director	Chief Operating Officer, Sunstone Realty Advisors Inc. Co-CEO, Pure Industrial Real Estate Trust Chief Executive Officer, Pure Multi-Family REIT LP
W. MICHAEL MURPHY(3)(5) Atlanta, Georgia	Independent Director	Head of Lodging and Leisure Capital Markets, First Fidelity Mortgage Corporation
ROBERT PRATT(3)(5) North Vancouver, British Columbia	Independent Director	President, Coast Hotels & Resorts
KEVIN GRAYSTON(3)(6) North Vancouver, British Columbia	Independent Director	Consultant and Corporate Director
PETER ARMSTRONG(5)(6)(7) Vancouver, British Columbia	Chairman and Lead Independent Director	Executive Chairman and Founder, Armstrong Group
TAMARA L. LAWSON(5)(6) Toronto, Ontario	Independent Director	Chief Financial Officer, Starlight Investments Ltd.
ROBERT HIBBERD(8) Vancouver, British Columbia	Chief Financial Officer and Corporate Secretary	Chief Financial Officer and Corporate Secretary, American Hotel Income Properties REIT (GP) Inc.
ANNE YU Vancouver, British Columbia	Director of Finance	Director of Finance, American Hotel Income Properties REIT (GP) Inc.

(1) Not an Independent Director because the individual is an executive officer of the GP.
(2) Is a principal of Maverick Management Corp., which owns 180,000 Units of the Issuer. See "*Prior Sales*".
(3) Member of Compensation Committee.
(4) Is a principal of Triple E Investments Ltd., which owns 78,000 Units of the Issuer. See "*Prior Sales*".
(5) Member of Nominating and Governance Committee.
(6) Member of Audit, Finance and Risk Committee.
(7) Is a principal of Invictus Maneo Investments Ltd., which owns 40,000 Units of the Issuer. See "*Prior Sales*".
(8) Directly owns 20,000 Units of the Issuer. See "*Prior Sales*".
(9) Nominee of the Sponsor. See "*Governance and Management of the Issuer – Sponsor Nomination*".

Profile of the Management and Board of the GP

Robert F. O'Neill

Mr. O'Neill was the co-founder of Canadian Hotel Income Properties Real Estate Investment Trust in 1997 and served as its President and Chief Executive Officer until September 1998. Mr. O'Neill was also a co-founder of the Coast Hotel chain in 1972. In 1988, he was instrumental in managing the sale of the Coast Hotel chain to OKABE Co. of Tokyo and was retained to manage it as the President and Chief Executive Officer until 1991. Concurrently with the development and management of the Coast Hotel chain, Mr. O'Neill was President and Chief Operating Officer of National Caterers Ltd. and O'Neill Railway Catering Ltd. from 1977 to 1991. National Caterers Ltd. was Canada's largest operator and supplier of remote site construction camps providing food, lodging and support services for construction workers. In that role, he also headed several Canadian Industry Associations including the Pipeline Contractors Association of Canada in 1988. O'Neill Railway Catering Ltd. served both the CP Rail in Western Canada and the BC Railway in British Columbia on and offline. Mr. O'Neill was nominated for Canada's Entrepreneur of the Year in 1998. In 2004, he received two awards, the Industry Entrepreneur Award from the Vancouver branch of the Canadian Foodservice Association, and the Distinguished Alumni Award for Entrepreneurial Innovation from the B.C. Institute of Technology. Mr. O'Neill is recognized as a leading authority in the hotel industry and is a regular speaker at industry conferences in Canada and the U.S. Mr. O'Neill is a graduate of the British Columbia Institute of Technology, Hotel and Foodservice Program, and received his diploma in Hotel Management in 1972. He is a former Secretary of the Canadian Council of the Young Presidents' Organization and a current member of the World Presidents' Organization.

Stephen J. Evans

Mr. Evans is the Chief Operating Officer of and co-founder of the Sunstone Group. Since 2002, the Sunstone Group has identified, acquired, managed and divested approximately Cdn$1.4 billion of real estate in Canada and the U.S., including over Cdn$384 million in U.S. multi-family real estate properties and over Cdn$75 million in high-quality U.S. hotel properties since 2008. Mr. Evans is the Chief Executive Officer of Pure Multi-Family REIT LP (RUF.U-TSX-V), currently the only publicly traded vehicle in Canada offering investors exclusive exposure to U.S. multi-family real estate assets. Since inception in July 2012, Pure Multi-Family REIT LP has raised over Cdn$86 million and acquired six apartment communities for Cdn$170 million. As well, Mr. Evans co-founded Pure Industrial Real Estate Trust ("**PIRET**") in 2007. PIRET is a publicly-listed real estate investment trust (AAR.UN-TSX) established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. Since 2007, PIRET has raised approximately Cdn$340 million of equity and acquired a portfolio of 83 industrial properties in Canada having a total value of approximately Cdn$590 million. Mr. Evans is currently a director of WesternOne Inc. (WEQ-TSX).

W. Michael Murphy

Mr. Murphy is Head of Lodging and Leisure Capital Markets of the First Fidelity Mortgage Corporation. From 1998 to 2002, Mr. Murphy served as the Senior Vice President and Chief Development Officer of ResortQuest International, Inc., an NYSE-listed company. Prior to joining ResortQuest International Inc., from 1995 to 1997, Mr. Murphy was President of Footprints International, a company involved in the planning and development of environmentally friendly hotel properties. From 1994 to 1996, he was a Senior Managing Director of Geller & Co., a Chicago-based hotel advisory and asset management firm. Mr. Murphy has twice been Co-Chairman of the Industry Real Estate Finance Advisory Council (IREFAC) of the American Hotel and Lodging Association and is currently the lead director of Ashford Hospitality Trust, an NYSE-listed hotel real estate investment trust.

Robert Pratt

Mr. Pratt is President of Coast Hotels & Resorts, responsible for leading the strategic direction, management and growth of the hotel chains' Canadian operations. Immediately prior to joining Coast Hotels & Resorts, Mr. Pratt was Chief Operating Officer of Westmont Hospitality Group ("**Westmont**") where he oversaw operations of 160 hotels across Canada operating under 12 franchised brands, employing 10,000 people. After graduating from Cornell University School of Hotel Administration with a Bachelor of Science, Mr. Pratt spent 17 years with Westin Hotels and Resorts holding progressively senior roles in sales, marketing and hotel operations eventually serving as General Manager of the Westin Hotel properties in Ottawa and Edmonton. He then joined Silverbirch Hotels & Resorts (formerly CHIP Hospitality) as the Regional Vice-President of the Pacific Northwest region. He also held positions as the Senior Vice President of Operations and Executive Vice President at Silverbirch before being appointed President of Silverbirch Hotels & Resorts in 2007, where he was responsible for operations of 40 hotels coast-to-coast operating under 12 franchised brands employing 4,500 staff.

Kevin Grayston

Mr. Grayston served for 11 years as Executive Vice President and Chief Financial Officer of CHIP REIT. In this role, Mr. Grayston played a lead role in developing and implementing the financing and portfolio strategy of the Issuer and was responsible for many hotel acquisitions, dispositions and equity and debt financings. He played a lead management role in the sale of CHIP REIT to British Columbia Investment Management Corporation for Cdn$1.2 billion in 2007. Prior to joining CHIP REIT, Mr. Grayston was a senior executive with Canadian Airlines for 13 years in operating, business development and finance roles. He is also an independent director at NorSerCo Inc. which trades on a stapled basis with Northern Property REIT. Mr. Grayston is a past Director of the Vancouver Board of Trade, the Hotel Association of Canada, the Air Transportation Association of Canada and a past Governor of the British Columbia Business Council. Mr. Grayston is a Chartered Accountant.

Peter Armstrong

Mr. Armstrong is the Executive Chairman, founder and a principal of the Armstrong Group, owner and operator of Rocky Mountaineer. In 1989, Mr. Armstrong assembled the successful team to bid on the fledgling Rocky Mountaineer service that was being operated by Via Rail, a subsidized federal crown corporation. The company's turnaround and subsequent success has been achieved without government subsidy. Mr. Armstrong contributes considerable time to business and community boards. He is the past Chair and a trustee for the Vancouver Police Foundation, serves on the Board for the Business Families Centre (Sauder School of Business), the Board of British Columbia Automobile Association and the Public Private Partnership Board (P3). He is also the past Chair for the Board of St. George's School. Mr. Armstrong has received a Doctor of Technology from BCIT, a Doctor of Technology from Thompson Rivers University and a Honourary Fellow of the Sauder School of Business. He is the recipient of the Canadian Venture Capital Associations Entrepreneur of the Year Award, Ernst & Young's Entrepreneur of the Year Award for Tourism and Hospitality and the Queen's Golden Jubilee Medal for contribution to Canadian communities. He has also been inducted into the Canadian Railway Hall of Fame and was named the 2007 Tourism Leader of the Year by Tourism BC.

Tamara Lawson

Tamara L. Lawson is the Chief Financial Officer of Starlight Investments Ltd., a private real estate investment and asset management company focused primarily on residential and commercial assets. Prior to joining Starlight in June 2012, Ms. Lawson was the Chief Financial Officer and Corporate Secretary of InnVest Real Estate Investment Trust ("**InnVest**"), a TSX-listed real estate investment trust, and the Chief Financial Officer of Westmont, a privately-held hospitality organization. Ms. Lawson joined Westmont in 2001 as its Chief Financial Officer and became Chief Financial Officer of InnVest in 2002 when it went public. Ms. Lawson has over 25 years of financial management, acquisitions, corporate governance, investor relations and capital markets experience. Prior to joining Westmont in 2001, Ms. Lawson held senior executive positions at several major Canadian public companies, including Executive Vice President, Chief Financial Officer and Secretary of Chapters Inc. and Treasurer of Sears Canada Inc. Ms. Lawson holds a Master of Business Administration degree from the Schulich School of Business at York University and is a Chartered Accountant.

Robert Hibberd

Since 2004, Mr. Hibberd has been a financial consultant, specializing in corporate finance advisory and public company transactions. In 2006, Mr. Hibberd co-founded WesternOne Equity Income Fund ("**WesternOne**") and assumed the role of Chief Financial Officer, completing its initial public offering and numerous acquisitions. In 2007, Mr. Hibberd transitioned to a consulting role with WesternOne, providing assistance on numerous subsequent acquisitions, including the acquisition of Britco Structures and Britco Leasing in 2011. As founder of PureCount Inc. in 2008, Mr. Hibberd designed and implemented a periodic inventory counting process which is currently utilized by numerous clients in British Columbia, including BC Hydro who license it for use by their inventory control examiners. Prior to joining WesternOne, Mr. Hibberd was an Assistant Vice President – Corporate Finance & Investment Banking with PricewaterhouseCoopers Corporate Finance Inc. His experience included working with public companies and private businesses to identify and manage suitable potential purchasers, sellers, investors and related opportunities, with a strong emphasis on income fund transactions. Mr. Hibberd is a Chartered Accountant (British Columbia), a Certified Public Accountant (Illinois), a Certified Management Consultant (Honour Roll) with the Canadian Association of Management Consultants, holds the Corporate Finance qualification with the Canadian Institute of Chartered Accountants, and graduated with a Bachelor of Arts (Honours) from the University of Toronto.

Anne Yu

Ms. Yu has extensive public company experience, having worked as Controller and Manager of Financial Reporting of Sterling Shoes Inc. for five years and Controller of Ventyx Software Solutions Inc. (formerly MDSI Mobile Data Solutions Inc.) for three years. Prior to this, Ms. Yu was a manager in the Assurance and Business Advisory group of PricewaterhouseCoopers LLP. Ms. Yu is a Chartered Accountant (British Columbia), and graduated with a Bachelor of Commerce (Honours) from the University of British Columbia.

Voting Trust Agreement

The GP and the Issuer have determined that it is advisable for the Unitholders to have control over the election of the board of directors of the GP and certain other fundamental matters relating to the GP. Accordingly, Maverick Management Corp., Darren Investments Inc. and Triple E Investments Ltd., Affiliates of the Principals, which collectively own 100% of the outstanding shares of the GP, will, on or before the Closing, enter into a voting trust agreement with a third party trustee (the "**Voting Trust Agreement**") pursuant to which the Unitholders will be provided with the right to vote for the election of directors to the board of directors of the GP and in respect of the following matters relating to the GP:

(a) any sale of all or substantially all of its assets;

(b) any merger, amalgamation, consolidation, business combination or other material corporate transaction, except in connection with any internal reorganization that does not result in a change of control;

(c) any plan or proposal for a complete or partial liquidation or dissolution, or any reorganization or any case, proceeding or action seeking relief under any existing laws or future laws relating to bankruptcy or insolvency;

(d) any amendment to the REIT LP Agreement unless otherwise permitted therein;

(e) any amendment to the charter documents of the GP to change the authorized minimum or maximum number of directors;

(f) any other matter required by an applicable securities regulator, by the Exchange or by any other applicable stock exchange where the Issuer's securities trade from time to time;

(g) any other matter required by the Voting Trust Agreement to receive the direction of the Unitholders; or

(h) any commitment or agreement to do any of the foregoing.

The Voting Trust Agreement also contains restrictions on transfers of the shares of the GP held by each of Maverick Management Corp., Darren Investments, Inc. and Triple E Investments Ltd., subject to exceptions for transfer of such shares to Affiliates.

Sponsor Nomination

The Sponsor will have the exclusive right to nominate for election a certain minority number of directors of the GP based on the collective holdings of the Principals and their Affiliates at the time of nomination. At or prior to Closing, the Sponsor will enter into an agreement to give effect to the Sponsor's nomination rights.

Committees of the Board of Directors of the GP

The GP has appointed an Audit, Finance and Risk Committee, a Compensation Committee and a Nominating and Governance Committee.

Audit, Finance and Risk Committee

The audit, finance and risk committee (the "**Audit Committee**") will be comprised of Kevin Grayston, Peter Armstrong and Tamara Lawson. The Audit Committee will assist the GP in fulfilling its responsibilities of oversight and supervision of the Issuer's accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures, and the quality and integrity of its financial statements. In addition, the Audit

Committee will be responsible for directing the Auditors' examination of specific areas, for the selection of the Issuer's independent auditors and for the approval of all non-audit services for which its Auditors may be engaged. All members of the Audit Committee will be financially literate within the meaning of applicable securities laws.

Each of the Audit Committee members has an understanding of the accounting principles used to prepare the Issuer's financial statements, experience preparing, auditing, analyzing or evaluating comparable financial statements and experience as to the general application of relevant accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For the education and experience of each member of the Audit Committee relevant to the performance of his or her duties as a member of the Audit Committee, see "*Governance and Management of the Issuer – Profile of the Management and Board of the GP*".

The GP has adopted a written charter for the Audit Committee, which sets out the Audit Committee's responsibility in reviewing the financial statements of the Issuer and public disclosure documents containing financial information and reporting on such review to the GP, ensuring that adequate procedures are in place for the review of the Issuer's public disclosure documents that contain financial information, overseeing the work and reviewing the independence of the external auditors and reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. A copy of the Audit Committee charter is attached to this prospectus as Appendix A.

The Audit Committee will be responsible for monitoring compliance with a Code of Conduct and Ethical Behaviour (the "**Code of Conduct**") to be adopted by the GP and for establishing a procedure for the anonymous and confidential receipt and treatment of concerns or complaints received regarding accounting and related financial reporting matters. The Code of Conduct sets out the GP's expectations for the conduct of such persons in their dealings on behalf of the Issuer. The GP will establish confidential reporting procedures in order to encourage individuals to raise concerns regarding matters addressed by the code on a confidential basis free from discrimination, retaliation or harassment. Those who violate the Code of Conduct may face disciplinary actions, including dismissal. The Code of Conduct will be filed with the Canadian securities regulatory authorities.

Compensation Committee

The GP's compensation committee ("**Compensation Committee**") will be comprised of Stephen Evans, Michael Murphy, Robert Pratt and Kevin Grayston. Among other things, the Compensation Committee will:

(a) review and make recommendations to the GP regarding the appointment of officers of the Issuer;

(b) review and make recommendations to the GP regarding the Issuer's compensation policies;

(c) annually review the goals and objectives of any senior officers appointed by the Issuer for the upcoming year, provide a performance appraisal and review their compensation;

(d) make recommendations concerning the remuneration of the directors of the GP; and

(e) administer and make recommendations regarding the operation of any option plan, restricted unit plan and any other employee incentive plans.

Nominating and Governance Committee

The GP's nominating and governance committee (the "**Nominating and Governance Committee**") will be comprised of Michael Murphy, Robert Pratt, Peter Armstrong and Tamara Lawson. The Nominating and Governance Committee will be responsible for developing the Issuer's approach to governance issues, filling vacancies among the directors of the GP and periodically reviewing the effectiveness of the directors of the GP and the contribution of individual directors. Further, the Nominating and Governance Committee will also be responsible for adopting and periodically reviewing and updating its written disclosure policy. This policy will, among other things:

(a) articulate the legal obligations of the Issuer and the GP and the GP's officers and employees with respect to the disclosure of material information;

(b) identify the Issuer's spokespersons who will be the only persons authorized to communicate with third parties such as analysts, media and investors;

(c) provide guidelines on the disclosure of forward-looking information;

(d) require advance review by the Issuer's senior executives of any selective disclosure of financial information to ensure the information is not material, to prevent the selective disclosure of material information and to ensure that, if a non-permitted selective disclosure does occur, a news release is issued immediately; and

(e) establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes, during which periods the GP, directors, officers, employees and consultants, of the Issuer and its Subsidiaries, may not purchase or sell Units.

The Nominating and Governance Committee is also responsible for overseeing the recruitment and selection of such candidates as directors of the GP. The recruitment and selection of such candidates will involve an identification of the qualifications for directors that are required to fulfill the GP's responsibilities and an evaluation of the qualifications that existing directors possess. The Nominating and Governance Committee is then expected to recommend candidates to the GP for nomination as directors to be elected.

The Nominating and Governance Committee is also responsible for assessing the effectiveness of the directors of the GP, each of its committees and individual directors. Directors will be regularly surveyed to form the basis of such assessment and such assessment will be reviewed by the Chairman, with the exception of the assessment of the Chairman and the non-Independent Directors, which will be reviewed by the Lead Independent Director.

Orientation and Continuing Education

Following the Closing Date, it is expected that the Nominating and Governance Committee will put in place an orientation program for new directors under which a new director will meet with the Chairman, the Lead Independent Director and members of the executive management team of the Issuer. A new director will be provided with comprehensive orientation and education as to the nature and operation of the Issuer and its business, as to the role of the GP and its committees and the Lead Independent Director, and as to the contribution that an individual director is expected to make. The Nominating and Governance Committee will be responsible for coordinating continuing director development programs to enable the directors to maintain or enhance their skills and abilities as directors as well as ensuring their knowledge and understanding of the Issuer and its business remains current.

Liability of the GP

The REIT LP Agreement contains customary provisions limiting the liability of the GP. The GP is not liable for the return of any capital contribution made by a limited partner to the Partnership. Moreover, notwithstanding anything else contained in the REIT LP Agreement, but subject to certain sections of the REIT LP Agreement, neither the GP nor any Affiliates thereof nor their respective officers, directors, shareholders, employees or agents are liable, responsible for or accountable in damages or otherwise to the Issuer or a limited partner for an action taken or failure to act on behalf of the Issuer within the scope of the authority conferred on the GP by the REIT LP Agreement or by law, provided the GP has acted in good faith, in a manner which the GP believed to be in, or not opposed to, the best interests of the Issuer.

Insurance Coverage for the GP and Indemnification

The Issuer will obtain or cause to be obtained a policy of insurance for the GP and its directors and officers and for the Issuer's senior executive officers. The initial aggregate limit of liability applicable under such insurance will be $20 million, based on $10 million primary and $10 million excess coverage. Under the policy, the Issuer will have reimbursement coverage to the extent that it has indemnified the GP and officers. The policy will include securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the Issuer and the GP and officers.

Independent Director Matters

In addition to requiring the approval of a majority of the directors of the GP, the following matters will require the approval of at least a majority of the Independent Directors who have no interest in the matter to become effective:

(a) an acquisition or disposition of a Security, a Property or an investment in a Property, whether by co-investment or otherwise, in which a director who is not an Independent Director, an officer of the Issuer, the GP, or any of their respective related parties, Affiliates or Associates has any direct or indirect interest;

(b) an acquisition of a Security, a Property or an investment in a Property from any person for which a director who is not an Independent Director, an officer of the Issuer, the GP or any of their respective related parties, Affiliates or Associates provides services as manager;

(c) a material change to the Master Development Agreement or any renewal, extension or termination thereof or any increase in the fees payable thereunder;

(d) a material change to the Master Hotel Management Agreements or any Hotel Management Agreements or any renewal, extension or termination thereof or any increase in fees payable thereunder;

(e) the entering into, waiver of or exercise of any rights or remedies under any agreement entered into by the Issuer with a director who is not an Independent Director, an officer of the Issuer, the GP or any of their respective related parties, Affiliates or Associates;

(f) the refinancing or renewal of any indebtedness owing by or to any director who is not an Independent Director, an officer of the Issuer, the GP or any of their respective related parties, Affiliates or Associates;

(g) the making, directly or indirectly, of any co-investment with a director who is not an Independent Director, an officer of the Issuer, the GP or any of their respective related parties, Affiliates or Associates;

(h) the grant of restricted units pursuant to any employee stock-based incentive compensation plan;

(i) any change in the number of directors of the GP and the appointment of directors to fill any vacancies created by any increase in the number of directors;

(j) decisions relating to compensation of directors; and

(k) decisions relating to any claim by or against a director who is not an Independent Director, an officer of the Issuer, the GP or any of their respective related parties, Affiliates or Associates.

Conflict of Interest Provision

The REIT LP Agreement contains a "conflict of interest" provision which states that unless otherwise expressly provided in the REIT LP Agreement, whenever a potential conflict of interest exists or arises between the GP or any of its Affiliates, on the one hand, and the Issuer, or any limited partner on the other hand, any resolution or course of action in respect of such conflict of interest shall be permitted and deemed approved by all limited partners, and shall not constitute a breach of the REIT LP Agreement, or of any standard of care or duty stated or implied by law if the resolution or course of action is fair and reasonable to the Issuer. The GP shall be authorized in connection with its resolution of any conflict of interest to consider: (i) the relative interests of all parties involved in such conflict or affected by such action; (ii) any customary or accepted industry practices; and (iii) any applicable generally accepted accounting practices or principles. Nothing contained in the REIT LP Agreement, however, is intended to, nor shall it be construed to, require the GP to consider the interests of any person other than the Issuer. In the absence of bad faith by the GP, the resolutions, actions or terms so made, taken or provided by the GP with respect to such matter shall not constitute a breach of the REIT LP Agreement or a breach of any standard of care or duty imposed herein or stated or implied under the Act, any law, rule or regulation.

Competition with the Issuer

Subject to the terms of the Master Development Agreement, the Master Hotel Management Agreement and any other agreements among the Sponsor and the Issuer, the Sponsor may engage in businesses, ventures, investments and activities which may be similar to or competitive with those in which the Issuer is or might be engaged and neither the Issuer nor any such person shall be required to offer or make available to the Issuer any other business or investment opportunity which any such person may acquire or be engaged in for its own account. See "*Arrangements with the Hotel Managers*" and *"Arrangements with the Developer"*.

The Sponsor (and its Affiliates and Associates) and the directors and officers thereof may, from time to time, be engaged, directly or indirectly, for their own account or on behalf of others (including without limitation as trustee, administrator, asset manager or hotel manager of other trusts or portfolios) in hotel industry investments and other activities similar to the activities of the Issuer, the U.S. REIT and their Subsidiaries. Neither the Sponsor, nor any of its Affiliates or Associates (or their respective directors and officers) shall incur or be under any liability to the Issuer, any

Unitholder or any annuitant by reason of, or as a result of any such engagement or competition or the manner in which such person may resolve any conflict of interest or duty arising therefrom.

Individual Bankruptcies

None of the directors or officers of the GP, and to the best of the knowledge of the GP, no Unitholder holding a sufficient number of the Issuer's securities to affect materially the control of the Issuer, 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

None of the directors or officers of the GP, and to the best of the knowledge of the GP, no Unitholder holding a sufficient number of the Issuer's securities to affect materially the control of the Issuer, 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; (b) 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 proceedings, 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.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The REIT LP Agreement will provide for the management of the Issuer by the GP. The Issuer will have no directors or executive officers and the Issuer's senior management team will consist of individuals employed by the GP. The Issuer may compensate an internal employee focused on acquisition initiatives, with such compensation tied to the implementation and performance of such acquisition initiatives. The following discussion describes the significant elements of the Issuer's expected executive compensation program, with particular emphasis on the process for determining compensation payable to the Chief Executive Officer, the Chief Financial Officer and the Director of Finance of the GP. These officers are referred to herein as the "named executive officers".

Principal Elements of Compensation

The following discussion is intended to describe the compensation of the named executive officers and supplements the more detailed information concerning executive compensation that appears in the "Summary Compensation Table" set out below and the accompanying narrative that follows.

The compensation of the named executive officers will consist primarily of two elements: (a) base salary; and (b) an annual cash bonus. The Issuer's executive compensation program is intended to drive executive performance and business strategy, engender accretive growth and create Unitholder value. Accordingly, total compensation is designed to be (i) aligned with both the Issuer's performance and the individual performance of the named executive officer, (ii) attractive to the named executive officer, (iii) affordable to the Issuer, and (iv) fair to Unitholders.

The two principal elements of compensation are described below.

Base Salary

Base salary remunerates the named executive officer for discharging his or her job requirements. The base salary will be reviewed annually by the Compensation Committee to ensure that it continues to reflect individual performance and market conditions with the goal of ensuring that the named executive officer is paid fairly, taking into consideration the requirements of the position, the named executive officer's performance, skills, knowledge and experience, and compared to executives in similar roles in comparable entities. The Issuer's comparator group includes other public Canadian real estate entities, adjusted as appropriate to reflect differences in total assets, annual revenues, number of employees and market capitalization.

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 Issuer's performance may vary from year-to-year depending on economic conditions and conditions in the U.S. lodging industry, and may be based on measures such as Unit price performance, the meeting of financial targets against budget (such as AFFO per Unit), the meeting of acquisition objectives and balance sheet condition. Individual performance factors vary, and may include completion of specific projects or transactions and the execution of day-to-day management responsibilities.

The GP may, following Closing, consider the adoption of one or more forms of equity incentive plan intended to align the interests of certain parties with those of the Issuer. Such plans could involve the issuance of securities of the Issuer or another entity and could include as participants the executive officers of the GP. If one or more forms of equity incentive plan are adopted, the Issuer will reserve a portion of the outstanding Units from time to time for issuance under such plans (the "**Reserved Units**"). The aggregate number of Reserved Units available from time to time under all of the Issuer's equity incentive plans in respect of any Principals (or Related Parties to the Principals) will be limited, unless determined otherwise by the Compensation Committee at any particular time, to such aggregate amount that together with any outstanding Units held by the Principals (or Related Parties to the Principals) will be less than 10% of the outstanding number of Units (on a fully diluted basis).

Employment Agreements

Pursuant to the terms of an employment agreement to be entered into with Robert O'Neill, Mr. O'Neill will serve as Chief Executive Officer of the GP for an indefinite term and will be responsible for managerial and executive oversight of the Issuer. The agreement will provide for: (i) an annual salary payable to Mr. O'Neill in an amount of $175,000, which amount will be subject to annual review by the Compensation Committee; and (ii) annual incentive-based compensation in an amount as determined by the Compensation Committee. The GP may terminate Mr. O'Neill's employment at any time without cause upon the payment of an amount to Mr. O'Neill in lieu of notice as determined by the Compensation Committee. Mr. O'Neill's employment agreement will contain a "change of control" provision that will trigger a termination payment upon a change of control of the Issuer. Mr. O'Neill's employment agreement will also contain confidentiality covenants and certain restrictive covenants that will continue to apply following the termination of the agreement.

Pursuant to the terms of an employment agreement to be entered into with Robert Hibberd, Mr. Hibberd will serve as Chief Finance Officer of the GP for an indefinite term and will be responsible for managerial and executive oversight of the Issuer. The agreement will provide for: (i) an annual salary payable to Mr. Hibberd in an amount of $150,000, which amount will be subject to annual review by the Compensation Committee; and (ii) annual incentive-based compensation in an amount as determined by the Compensation Committee. The GP may terminate Mr. Hibberd's employment at any time without cause upon the payment of an amount to Mr. Hibberd in lieu of notice as determined by the Compensation Committee. Mr. Hibberd's employment agreement will contain a "change of control" provision that will trigger a termination payment upon a change of control of the Issuer. Mr. Hibberd's employment agreement will also contain confidentiality covenants and certain restrictive covenants that will continue to apply following the termination of the agreement.

Pursuant to the terms of an employment agreement entered into with Anne Yu, Ms. Yu will serve as Director of Finance of the GP for an indefinite term and will be responsible for managerial and executive oversight of the Issuer. The agreement provides for: (i) an annual salary payable to Ms. Yu in an amount of $120,000, which amount will be subject to annual review by the Compensation Committee; (ii) participation in all bonus plans; and (iii) participation in all incentive-based compensation pursuant to any equity incentive plan which may be adopted by the GP. In the event that no compensation has been paid to Ms. Yu during a given calendar year under a equity incentive plan or other compensation plan, a year-end bonus will be payable to her at the end of such calendar year, in such amount as determined by the Compensation Committee. The GP may terminate Ms. Yu's employment at any time before the Closing, without the payment of any amount to Ms. Yu in lieu of notice. Ms. Yu's employment agreement contains certain restrictive covenants, as well as confidentiality covenants that will continue to apply following the termination of the agreement.

Compensation of Named Executive Officers

The following table sets out information regarding the expected compensation to be paid by the Issuer to Robert O'Neill, Robert Hibberd and Anne Yu in 2013, effective as of Closing.

Name and Principal Position	Year	Salary(1) ($)	Annual Bonus(2) ($)	Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total Compensation ($)
Robert O'Neill *Chief Executive Officer*	2013	175,000	—	—	—	175,000
Robert Hibberd *Chief Financial Officer*	2013	150,000	—	—	—	150,000
Anne Yu *Director of Finance*	2013	120,000	—	—	—	120,000

(1) Annualized base salary.
(2) As this amount is discretionary, it has not been determined as of the date of this prospectus.

Director Compensation

Initially, the directors of the GP who are not affiliated with or employees of the GP will receive annual compensation in the amount of $25,000, plus $1,000 for attendance at meetings of the directors or any committee. The Chairman of the board of directors will receive an additional $15,000 per annum and the chairman of each committee will receive an additional $5,000 per annum. As well, the GP will indirectly reimburse such directors for any out of pocket expenses, including out of pocket expenses for attending meetings. The Issuer will reimburse the GP for such amounts. In addition, the Issuer will obtain insurance coverage for such directors as described above under "*Governance and Management of the Issuer – Insurance Coverage for the GP and Indemnification*". Compensation will be reviewed on an annual basis, giving consideration to the Issuer's growth and the extent of its portfolio.

Compensation Risk

The Compensation Committee will consider the implications of the risks associated with the Issuer's compensation policies and practices as part of its responsibility to ensure that the compensation for the directors of the GP and the named executive officers of the GP align the interests of such directors and named executive officers with Unitholders and the Issuer as a whole. The Issuer's insider trading policy will prohibit all officers and directors of the GP from selling "short" or selling "call options" on any of the Issuer'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 directors as compensation or held directly or indirectly by such person.

PRO FORMA CAPITALIZATION OF THE ISSUER

The following table sets forth the Issuer's pro forma consolidated capitalization as September 30, 2012, after giving effect to the Offering and the acquisition of the Initial Portfolio, but without giving effect to the exercise of the

Over-Allotment Option. The table should be read in conjunction with the Issuer's unaudited pro forma consolidated financial statements and notes thereto contained in this prospectus.

	As at September 30, 2012 after giving effect to the Offering and the Acquisition of the Initial Portfolio
Indebtedness	
Term loan (gross)	$ 70,000,000
Construction facility	1,469,153
Unitholders' Equity	
Units (Authorized – unlimited; Issued – 9,100,000)	77,080,100
Total capitalization	**$148,549,253**

FINANCIAL FORECAST

The following financial forecast, expressed in U.S. dollars, was prepared by management of the GP on behalf of the Issuer, using assumptions with an effective date of February 12, 2013 and was approved by the board of the GP. Pursuant to applicable securities policies, the Issuer will be required to update the forecast during the forecast period by identifying any material changes from the forecast resulting from events that have occurred since it was issued and by comparing such forecast with annual audited actual results and interim unaudited actual results for the periods covered. The results of this comparison will accompany the Issuer's annual or interim Management's Discussion and Analysis for the relevant periods.

The forecast has been prepared in accordance with the rules surrounding the measurement, presentation and disclosure of financial forecasts as established by the Canadian Securities Administrators in Part 4A and 4B of National Instrument 51-102 *Continuous Disclosure Obligations*. The forecast has been prepared using assumptions that reflect management's intended courses of action for the Issuer for the periods covered, given management's judgment as to the most probable set of economic conditions. The forecast has been prepared after giving effect to the Offering and the other transactions contemplated in this prospectus to be completed before or concurrently with Closing. The acquisition of the Initial Portfolio and Closing of the Offering are expected to occur on or about February 20, 2013. For the purposes of the financial forecast only, it is assumed that the acquisition of the Initial Portfolio and Closing of the Offering occurred on January 1, 2013.

The assumptions used in the preparation of the forecast, although considered reasonable by management at the time of preparation, may not materialize as forecasted and unanticipated events and circumstances may occur subsequent to the date of the forecast. Accordingly, there is a significant risk that actual results achieved by the Issuer for the forecast period will vary from the forecast results and that such variations may be material. There is no representation that actual results achieved during the forecast period will be the same in whole or in part as those in the forecast. Important factors that could cause actual results to vary materially from the forecast include those disclosed under "*Risk Factors*". See also "*Forward-Looking Information*".

The financial forecast which follows should be read in conjunction with the Issuer's unaudited pro forma consolidated financial statements, the Issuer's audited opening statement of financial position and the audited financial statements of the Initial Portfolio contained in this prospectus.

INDEPENDENT AUDITORS' REPORT ON FINANCIAL FORECAST

To the General Partner of American Hotel Income Properties REIT LP

The accompanying financial forecast of American Hotel Income Properties REIT LP consisting of consolidated statements of forecast net earnings and comprehensive income for each of the three-month periods ending March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013; and for the twelve-months ending December 31, 2013 has been prepared by management using assumptions with an effective date of February 12, 2013. We have examined the support provided by management for the assumptions, and the preparation and presentation of this financial forecast. Our examination was made in accordance with the applicable Auditing Guideline issued by The Canadian Institute of Chartered Accountants. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

- as at the date of this report, the assumptions developed by management are suitably supported and consistent with the plans of American Hotel Income Properties REIT LP, and provide a reasonable basis for the financial forecast;
- this financial forecast reflects such assumptions; and
- this financial forecast complies with the presentation and disclosure standards for future oriented financial information established in Part 4A and 4B of National Instrument 51-102, *Continuous Disclosure Obligations*.

Since this financial forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether this financial forecast will be achieved.

(signed) KPMG LLP

Chartered Accountants
February 12, 2013
Vancouver, Canada

American Hotel Income Properties REIT LP
Consolidated Statements of Forecast Net Earnings and Comprehensive Income
(Expressed in U.S. dollars)

	Three month periods ending				Twelve month period ending
	March 31 2013	**June 30 2013**	**September 30 2013**	**December 31 2013**	**December 31 2013**
Revenue					
Rooms	$10,218,791	$11,282,440	$11,553,860	$10,933,269	$43,988,360
Food	2,400,370	2,664,819	2,851,351	2,533,317	10,449,857
Rental and other	232,130	237,379	245,292	240,460	955,261
	12,851,291	14,184,638	14,650,503	13,707,046	55,393,478
Hotel Expenses					
Operating expenses	6,896,508	7,021,984	7,234,094	6,959,239	28,111,825
Energy	673,445	610,701	732,474	678,423	2,695,043
Property maintenance	734,946	752,570	770,868	789,470	3,047,854
Property taxes and insurance	673,133	669,994	670,682	673,271	2,687,080
Depreciation and amortization	1,652,067	1,721,098	1,776,814	1,776,814	6,926,793
	10,630,099	10,776,347	11,184,932	10,877,217	43,468,595
Results from operating activities	**2,221,192**	**3,408,291**	**3,465,571**	**2,829,829**	**11,924,883**
Corporate and administrative	990,248	1,042,261	1,058,974	1,025,022	4,116,505
Earnings before finance costs and income taxes	**1,230,944**	**2,366,030**	**2,406,597**	**1,804,807**	**7,808,378**
Finance income	36,103	36,103	36,103	36,103	144,412
Finance costs	(863,030)	(876,973)	(874,960)	(864,633)	(3,479,596)
Net finance costs	(826,927)	(840,870)	(838,857)	(828,530)	(3,335,184)
Earnings before income taxes	**404,017**	**1,525,160**	**1,567,740**	**976,277**	**4,473,194**
Income taxes – current	(47,725)	(47,725)	(47,725)	(47,725)	(190,900)
Income taxes – deferred	148,033	148,033	148,033	148,033	592,132
	100,308	100,308	100,308	100,308	401,232
Net Earnings and comprehensive income	**$ 504,325**	**$ 1,625,468**	**$ 1,668,048**	**$ 1,076,585**	**$ 4,874,426**

See accompanying notes to the consolidated statements of forecasted net earnings and comprehensive income.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Statements of Forecast Net Earnings and Comprehensive Income

Three-month periods ending March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013 and the twelve-month period ending December 31, 2013
(Expressed in U.S. dollars)

1. PURPOSE OF THE FINANCIAL FORECAST

This financial forecast has been prepared by management of American Hotel Income Properties (GP) Inc. (the "**General Partner**") on behalf of American Hotel Income Properties REIT LP (the "**Issuer**") for use by prospective investors in their evaluation of potential investments in the Issuer and may not be appropriate for any other purpose.

2. BASIS OF PRESENTATION OF FINANCIAL FORECAST

The financial forecast consists of the consolidated statements of forecast net earnings and comprehensive income of the Issuer for the three-month periods ending March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 and the year ending December 31, 2013. The financial forecast has been prepared by management of the General Partner on behalf of the Issuer using assumptions with an effective date of February 12, 2013, and reflects the assumptions described in note 4.

The financial forecast has been presented in U.S. dollars, which is the Issuer's functional currency. The financial forecast assumes the exchange rate between the Canadian dollar and the U.S. dollar to be at par.

The financial forecast has been prepared in compliance with parts 4A and 4B of NI 51-102 *Continuous Disclosure Obligations* using assumptions that reflect management's intended course of action for the periods presented, given management's judgement as to the most probable set of economic conditions. In future reporting periods, the financial forecast will be compared with the reported results for the financial forecast periods and any significant differences will be disclosed. The actual results achieved during the financial forecast periods will vary from the forecast results, and these variations may be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial forecast has been prepared in accordance with the significant accounting policies set out below. These policies are expected to be used to prepare the Issuer's financial statements and are consistent with the recognition and measure principles of International Financial Reporting Standards ("**IFRS**").

(a) Use of estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of income and expenses during the financial reporting period. 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 following are the key areas of estimation uncertainty that have the most significant effect on the items recognized in the financial forecast:

(i) Business combinations:

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

(ii) Amortization:

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

(b) Property and equipment:

(i) Recognition and measurement:

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

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

Management has estimated the useful lives of its property and equipment in the determination of depreciation. The estimated useful lives of property and equipment are determined based on various factors including historical data and the Issuer's expected use of the 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.

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

(ii) Subsequent costs:

The cost of replacing a part of an item of property 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 Issuer, 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, as outlined below.

The basis of depreciation and estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Building	Straight-line	40 years
Equipment	Straight-line	5 – 15 years
Automobiles	Straight-line	5 years
Leasehold improvements	Straight line	5 – 40 years

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

(c) Intangibles:

Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss and are amortized on a straight line basis over their estimated useful lives.

Amortization is calculated based on the cost of the asset, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Intangible assets are amortized over the average remaining contractual term of the lodging agreements, with an estimated useful life of five years.

(d) Impairment of non-financial assets:

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

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

Impairment losses are recognized in profit or loss in the period in which the impairment is identified. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(e) Financial instruments:

(i) Financial assets:

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

The Issuer 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 Issuer has the following non-derivative financial liabilities: accounts payables and accrued expenses, term loan, construction facility, common units and preferred units. The Issuer 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 Issuer becomes a party to the contractual provisions of the instrument.

The Issuer 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 Issuer on terms that the Issuer would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

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

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

(f) Derivative financial instruments:

At Closing, the Issuer will enter into a currency swap contract with a Canadian chartered bank to limit its exposure to fluctuations in the foreign exchange rate between the U.S. dollar versus the Canadian dollar, as it relates to unitholder distributions to be made in Canadian dollars. This forecast has not designated any derivative financial instruments as hedges. Derivatives are initially recognized at fair value and subsequently re-measured at fair value. Gains and losses arising from the change in fair values are recognized in the statement of income and comprehensive income.

(g) Employee benefits:

A 401(k) savings plan is a post-employment benefit plan under which the Issuer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to the plan are recognized in operating expense in the periods during which services are rendered by employees.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Issuer 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 Issuer's hotels and restaurants. Rental and other income is comprised of fees for property damage, vehicle charges, and maintenance charges at offsite customer locations.

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

In accordance with various lodging agreements, the Issuer may collect payments in advance of the utilization of a facility. These payments are recorded as deferred revenue until such time as the applicable facility is utilized, at which time the deferred revenue is recognized as revenue.

(j) Finance income and finance costs:

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

Finance costs comprise interest expense on borrowings and fees related to discretionary use debt financing. Finance costs are recognized in the period in which they are incurred.

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

(k) Operating segments:

The Issuer currently operates in one business segment, owning and operating hotel and related restaurant 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 chief operating decision-maker.

(l) New standards and interpretations issued but not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant impact on the financial statements of the Issuer with the exception of the following:

(i) IFRS 9 – Financial Instruments:

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

(ii) IFRS 10 – Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Issuer is currently evaluating the impact of IFRS 10 on its financial statements.

(iii) IFRS 12 – Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Issuer is currently evaluating the impact of IFRS 12 on its financial statements.

(iv) IFRS 13 – Fair Value Measurement:

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Issuer is currently evaluating the impact of IFRS 13 on its financial statements.

(v) IAS 1 – Presentation of Financial Statements:

In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The objective of IAS 1 is to set out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The effective date of this standard is January 1, 2013 but early adoption is permitted. The Issuer is currently evaluating the impact of IAS 1 on its financial statements.

(m) Income taxes:

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

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the "**SIFT Measures**"). A "SIFT partnership" (as defined in the Tax Act) will be subject to SIFT tax on its "taxable non-portfolio earnings" (as defined in the Tax Act) at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. The "taxable non-portfolio earnings" less SIFT tax payable by a SIFT partnership will also be included in computing income of the Unitholder for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. The SIFT Measures do not apply to a partnership that does not hold any "non-portfolio property" throughout the taxation year of the partnership.

Management believes that the Issuer will not hold any "non-portfolio property" and should not be a SIFT partnership and therefore not subject to the SIFT Measures. Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate the Issuer in such a manner so as it remains exempt from the SIFT Measures on a continuous basis in the future. However, the Issuer's continued exemption will depend upon meeting, through actual operating results, various conditions imposed by the SIFT Measures. If the Issuer becomes a SIFT partnership, it will be generally subject to income taxes at regular Canadian corporate rates on its taxable non-portfolio earnings, if any.

The Issuer intends to make an election to be treated as a partnership for U.S. federal income tax purposes. As such, it is generally not subject to U.S. federal income tax under the U.S. Internal Revenue Code (the "**Code**"). Furthermore, American Hotel Income Properties REIT Inc. (the "**U.S. REIT**"), an entity which is to be formed upon closing of the Offering, intends to timely make and maintain an election as a real estate investment trust ("**REIT**") under the Code in its first taxation year and future taxation years. In order for the U.S. REIT to qualify, it must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its stockholders equal to a minimum of 90% of its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. The U.S. REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed as a dividend to its shareholders annually.

Management believes the U.S. REIT, when formed, will be such that its organization, ownership, method of operations, future assets and future income will enable the U.S. REIT to qualify as a REIT under the Code. Management intends to operate the U.S. REIT in such a manner so as to qualify as a REIT on a continuous basis in the future. However, actual qualification as a REIT will depend upon meeting, through actual annual operating results, the various conditions imposed by the Code. If the U.S. REIT fails to qualify as a REIT in any taxable year, it will be subject to U.S. federal and state income taxes at regular U.S. corporate rates, including any applicable alternative minimum tax. In addition, the U.S. REIT may not be able to requalify as a REIT for the four subsequent taxable years. Even if the U.S. REIT qualifies for taxation as a REIT, the U.S.

REIT may be subject to certain U.S. state and local taxes on its income and property, and to U.S. federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

The U.S. REIT, through a wholly owned subsidiary, intends to lease the Initial Portfolio to another wholly owned subsidiary, a taxable REIT subsidiary of the U.S. REIT. Certain subsidiaries of Issuer, other than the U.S. REIT, are taxable in the U.S. For those entities, income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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.

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: 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 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.

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.

(n) Functional and presentation currency:

These financial statements are presented in U.S. dollars, which is the Issuer's functional currency. The financial forecast assumes the exchange rate between the Canadian dollar and the U.S. dollar to be at par.

4. SIGNIFICANT ASSUMPTIONS

(a) Initial transaction:

The financial forecast includes initial capital contribution of $100 from the General Partner and the subscription for one Unit (pre-consolidation) for $1.00 by the initial limited partner of the Issuer, Maverick Management Corp., made on October 12, 2012.

The financial forecast also includes the $799,999 raised through the issuance of 799,999 Units on November 6, 2012, which will be consolidated on a two-for-one basis on or before the Closing (as defined below), and assumes the Issuer will raise gross proceeds pursuant to an initial public offering (the "**Offering**") of $87,000,000 through the issuance of 8,700,000 Units (excluding any over-allotment option). The costs relating to the Offering, including underwriters' fees, will be charged directly to the net assets attributable to unitholders. The acquisition of the Initial Portfolio and the closing of the Offering (the "**Closing**") are expected to occur on or about February 20, 2013. For the purposes of the financial forecast only, it is assumed that the acquisition of the Initial Portfolio and the Closing occurred on January 1, 2013.

On Closing, it is assumed that pursuant to a conditional purchase agreement signed with third party sellers and dated November 19, 2012, the Issuer intends to cause an indirect U.S. subsidiary of the Issuer to acquire the outstanding unit capital in Lodging Enterprises, LLC ("**Lodging Enterprises**"), which owns a portfolio comprising an aggregate of 32 hotel properties located in 19 states. The purchase is subject to the completion of the Offering and the satisfaction or waiver of conditions precedent.

(Expressed in U.S. dollars)

(i) Acquisition:

On Closing, it is assumed that subsidiaries of the Issuer will indirectly acquire the Initial Portfolio for an aggregate purchase price of $127,500,000, of which $122,000,000 will be paid in cash with the balance attributed to a $5,500,000 earnout amount, (payment of which is conditional on the renewal by Lodging Enterprises of key contracts) subject to working capital and capital expenditure adjustments in cash. The purchase price has been negotiated between the Issuer and the sellers and is supported by third party appraisals.

Net assets acquired using the purchase method of accounting based on preliminary allocations are as follows:

Property and equipment[(1)]	$130,939,101
Intangibles	8,199,821
Deferred income tax asset	1,967,282
Deferred income tax liability	(2,075,928)
Trade and other receivables	1,128,277
Other assets	218,283
Deposits	81,755
Accounts payable and accrued expenses	(2,754,285)
Net assets acquired	$137,704,306
Consideration:	
Cash	$133,286,102
Deferred compensation[(2)]	4,918,204
Cash provided by seller	(500,000)
	$137,704,306

Note 1: Purchase price of $127,500,000 less intangibles, plus estimated capital expenditure adjustments up to the Closing of the acquisition.

Note 2: Pursuant to the conditional purchase agreement, $5,500,000 of the purchase price of the Initial Portfolio is subject to an earnout provision upon achievement of certain performance based targets prior to December 31, 2015. To the degree earned, the Issuer's indirect U.S. subsidiary has the option of paying such amount in cash or Units, or a combination thereof, by January 20, 2016. This deferred compensation has been recorded at a present value of $4,918,204 using a 3.5% discount rate.

The actual calculation and allocation of the purchase price for the acquisition outlined above will be based on the assets purchased and liabilities assumed at the effective date of the acquisition and other information available at that date. Accordingly, the actual amounts for each of these assets and liabilities will vary from the amounts disclosed above and the variation may be material.

(ii) Debt:

On Closing, the Issuer intends to continue the working relationship with a U.S. chartered bank that is one of the current lenders to the third party sellers of the Initial Portfolio. On Closing, it is contemplated that an indirect subsidiary of the Issuer will enter into new agreements to finance a portion of the Initial Portfolio as follows:

Term loan

An indirect subsidiary of the Issuer will enter into a term loan to finance a portion of the Initial Portfolio in the amount of $70,000,000, and incur financing costs of $350,000 which will be amortized over the term of the term loan. This term loan is contemplated to bear interest at a fixed rate of 4.85%, amortized over 15 years, maturing five years following Closing and secured by first charges over the Initial Portfolio.

(Expressed in U.S. dollars)

Construction facility

It is contemplated that the same U.S. chartered bank providing the term loan will provide the indirect U.S. subsidiary of the Issuer a $10,000,000 construction facility for up to 75% of the costs relating to land acquisition and the construction of new facilities, and incur financing costs of $50,000 which will be expensed. This construction facility is contemplated to require payments of interest only for up to 24 months based on the 30 day LIBOR rate plus 3.0%, with a 4.0% floor and be secured by first charges over the included new facilities under development. As development of new facilities is completed, it is contemplated that the portion of the construction facility relating to those completed new facilities will be removed from the construction facility and negotiated into an additional term loan with the lender. On Closing, it is assumed that $1,469,153 of the construction facility will be utilized towards financing 75% of the construction costs incurred to that date on one property under development.

(iii) Sources and uses of cash:

The Issuer's sources and uses of cash after the completion of the transactions contemplated in the Offering are as follows:

Sources:	
Proceeds from the Offering, net	$ 76,280,000
Proceeds from the issuance of Units	799,999
Initial capital contributions upon formation	101
Term loan, net	69,650,000
Construction facility, net	1,419,153
Cash provided by seller	500,000
	$148,649,253
Uses:	
Purchase of Initial Portfolio	$133,286,102
General and working capital purposes	15,363,151
	$148,649,253

(b) Rooms revenue:

Forecast rooms revenue is generated from both existing contracts with North American railroad companies containing a minimum occupancy guarantee based on a negotiated number of rooms per day or per month at a predetermined rate, and from the provision of rooms to the general public. Room rates are determined by management, with reference to the operating plans and budgets, historical data for the location, available economic data and revenue per available room research data. Expected room occupancy and customer composition is specifically estimated in advance on a month by month basis for each location.

Based on the above, Management has forecast a 3% increase in rooms revenue for existing properties, driven by management's assumptions for increases in room occupancy combined with changes in average room rates. To support its assumptions, management compared its estimate to historical room occupancy results for the related properties and published hotel industry trend data.

Revenues for new properties are estimated by management based on comparison to the ratios from similar sized locations, management's assessment of the location's specific market conditions and historical experience with opening new properties.

(c) Food revenue and expenses (food expenses included in cost of sales):

During the forecast periods, food revenue is forecast to increase in line with management's estimate of a standard cost of living increase of 3% over the corresponding month in the prior period. To support its assumptions, management compared its estimate to room occupancy projections for the related properties and to historical consumer price index reports published by government agencies.

(d) Rental and other revenue:

Revenue from other fees and income is forecast in line with the underlying railroad contracts governing these items, which stipulate a certain allowable increase for each subsequent year, which the forecast estimates to be approximately 1.25% as an average the over historical results.

(e) Hotel expenses:

Hotel expenses have been forecast with reference to the operating plans and budgets and historical data adjusted for management's estimates, revised fixed rate utility contracts, insurance and service contracts, anticipated changes in property tax rates and other market trends.

Hotel expenses for new properties are estimated by management based on comparison to the ratios from similar sized locations and management's assessment of the location's specific market conditions.

(f) Operating expenses:

Operating expenses include cost of sales and are forecast based on management's best estimates, with reference to actual historical results and where necessary, increases in historical amounts are based on management's estimated average of 3% over the corresponding month in the prior period. To support its assumptions, management compares its estimate to room occupancy projections and to historical consumer price index reports published by government agencies. Management assumes no unusual increases to ongoing operating expenses for existing properties and has estimated general and administrative expenses relating to its new locations by reference to historical information and comparable properties.

(g) Energy, insurance and property tax expenses:

Energy, property taxes and insurance expenses have been forecast with reference to historical data adjusted for management's estimates revised fixed rate utility contracts, insurance and service contracts, anticipated changes in property tax rates and other market trends.

(h) Property maintenance:

Costs are historically constant and management has estimated an average increase of 3% over the corresponding month in the prior period. To support its assumptions, management compares its estimate to room occupancy projections for the related properties and to historical consumer price index reports published by government agencies. Management assumes no unusual increases to ongoing repairs and maintenance for existing properties and has estimated maintenance and repair for its new locations by reference to historical information and comparable properties.

(i) Depreciation and amortization:

Depreciation and amortization includes $5,255,809 of depreciation on property and equipment and $1,670,984 of amortization on intangibles, reflecting the impact of depreciation on the acquired values of property and equipment and amortization on the intangibles acquired, and their revised estimated useful lives.

(j) Corporate and administrative expenses:

Salary and benefits, legal fees, audit fees, director fees, annual report costs, transfer agent fees, insurance, other expenses and costs of being a public entity are forecast to be $1,620,500 per annum.

Pursuant to the Master Hotel Management Agreement between the Issuer and the Master Hotel Manager operating Subsidiaries of the Issuer will enter into Hotel Management Agreements with the Hotel Managers, under which the Hotel Managers will be responsible for the hotel management of the Properties owned by such subsidiaries.

Under the Master Hotel Management Agreement and the Hotel Management Agreements, the operating Subsidiaries of the Issuer will be responsible for reimbursing the Hotel Managers for any operating expenses and direct costs incurred by such Hotel Managers on behalf of the operations of the

Properties and their lodging businesses, including salary and benefit costs of hotel staff and other operating expenses. Each of the Hotel Management Agreements will also provide for the payment by the applicable operating Subsidiary of a base hotel management fee to the applicable Hotel Manager during the term of the agreement in an amount equal to 3.50% of gross revenues. In addition, the Hotel Managers will collectively receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the applicable Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the Independent Directors of the General Partner, acting reasonably. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned. Each Hotel Manager will also be entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures.

In addition, the Hotel Managers will be entitled to an accounting, administration and purchasing fee. The IPO Hotel Manager will be entitled to $15,000 per Property for each of the first and second years following the Closing, $20,000 per Property in the third year following the Closing and $25,000 per Property in each year thereafter. For Properties acquired other than the Initial Portfolio, the applicable Hotel Managers will be entitled to an accounting, administration and purchasing fee of $25,000 per Property per year. For the purposes of this paragraph (i), capitalized terms not otherwise defined shall have the meanings ascribed to them in the Prospectus of the Issuer dated February 12, 2013.

(k) Finance costs:

Interest expense comprises interest on the term loan and the construction facility, and amortization of costs incurred to enter into the agreements for these loans.

Finance costs consist of interest on the financing arranged by the Issuer. On Closing, the Issuer is expected to obtain a term loan secured against the Initial Portfolio in the amount of $70,000,000 at a fixed interest rate of 4.85%. In addition, the Issuer will have access to a $10,000,000 construction facility with a floating interest rate based on 30-day LIBOR plus 3.0%, with a floor of 4.0%.

On Closing, it is assumed that $1,469,153 of the construction facility will be utilized towards financing 75% of the construction costs incurred to that date on one property under development, and an additional $1,148,453 will be utilized to complete the development. Interest incurred by use of the construction facility will be capitalized to the cost of the new property. Upon completion of the construction of the new property, it is assumed that the related portion of the construction facility utilized of $2,617,606 will be converted to an additional term loan at the same interest rate and terms as the existing term loan.

As part of obtaining the term loan and the construction facility, the Issuer is expected to incur costs of $350,000 for the origination fee for the term loan which will be amortized to financing costs over the term of the related debt. An origination fee of $50,000 for the construction facility will be paid at Closing. $13,088 relating to the rolling of the construction facility into an additional term loan during the period upon completion of the property under development at the time of Closing will be expensed when incurred.

(l) Acquisitions and dispositions within the Initial Portfolio and the Issuer:

This financial forecast does not reflect any potential acquisitions or dispositions within the Initial Portfolio or within the Issuer other than the acquisitions discussed in note 4(b) above. However, it is possible that the Issuer will make acquisitions and dispositions during the forecast period which will only be undertaken on a basis considered by management to be advantageous to the Issuer and as approved by the directors of the General Partner.

(m) Income taxes:

The Issuer assumes that the U.S. REIT will qualify as a REIT, effective on the date of its incorporation, as described in note 3(o). The Issuer also assumes that the U.S. REIT will distribute as dividends all of its taxable income to its shareholders each taxation year. Accordingly, no provision for current or deferred income taxes has been recorded in the financial forecast with respect to income projected to be earned by the U.S. REIT.

Tax expense is recorded for certain subsidiaries of the Issuer, other than the U.S. REIT, which are taxable in the U.S. The tax expense is comprised of current tax expense and deferred income tax expense/deferred income tax expense recovery, using an estimated average combined U.S. federal and state income tax rate of 40%.

(n) Lease payments:

The forecast lease payment between a taxable REIT subsidiary ("**Subsidiary**") of the U.S. REIT to the U.S. REIT is estimated based on certain assumptions. The actual lease payment between the Subsidiary and the U.S. REIT may differ, depending on a number of factors including completion of a transfer pricing study with respect to the lease arrangement. Accordingly, the amount of the actual lease payment may vary from the amount forecasted, and such variation may be material.

(o) Basic and diluted net earnings per unit:

Net earnings per unit information is calculated based on the weighted average number of units assumed to be outstanding for each of the periods included in this financial forecast. The weighted average number of units assumed to be outstanding for basic and diluted net earnings per unit is 9,100,000.

(p) Currency swap:

At Closing, the Issuer will enter into a currency swap contract with a Canadian chartered bank to limit its exposure to fluctuations in the foreign exchange rate between the U.S. dollar versus the Canadian dollar, as it relates to unitholder distributions to be made in Canadian dollars. The currency swap will be for a two-year term at the forward exchange rate in effect at the time of entering the currency swap contract. $700,000 Canadian dollars is required as cash collateral to establish the contract, and any additional exchange rate exposure in excess of $250,000 Canadian dollars will require further collateral in increments of $250,000 Canadian dollars. This cash collateral will be utilized by the Canadian chartered bank to unwind the contract in the event that the required collateral is not maintained by the Issuer, or it will be refunded, with interest, to the Issuer at the conclusion of the contract. No gains or losses have been recognized relating to the currency swap in the forecast period.

(q) Other matters:

No significant changes in economic conditions and government legislation with respect to taxes, including realty taxes, other than announced changes, are anticipated during the forecast period.

5. RELATED PARTY TRANSACTIONS

The Chief Executive Officer of the General Partner has joint control over Tower Rock Hotels & Resorts Inc., the counterparty to the Master Hotel Management Agreement to be entered into on Closing. In accordance with note 4(i) above, the management fees to be paid pursuant to the Master Hotel Management Agreement are estimated to be $2,496,005 during the forecast period.

RECONCILIATION OF NON-IFRS FORECAST

The following table reconciles forecast net earnings and comprehensive income to FFO, AFFO and NOI. See "*Non-IFRS Measures*" and "*Financial Forecast*".

	Three-month period ending				Twelve month period ending
	March 31 2013	**June 30 2013**	**September 30 2013**	**December 31 2013**	**December 31 2013**
Net earnings and comprehensive income	$ 504,325	$1,625,468	$1,668,048	$1,076,585	$ 4,874,426
Add/(Deduct)					
Depreciation and amortization	1,652,067	1,721,098	1,776,814	1,776,814	6,926,793
Income taxes – deferred	(148,033)	(148,033)	(148,033)	(148,033)	(592,132)
Funds From Operations (FFO)	**$2,008,359**	**$3,198,533**	**$3,296,829**	**$2,705,366**	**$ 11,209,087**
Add/(Deduct)					
Amortization of deferred finance costs	17,500	17,500	17,500	17,500	70,000
Capital expenditure reserve	(306,564)	(338,473)	(346,616)	(327,998)	(1,319,651)
Adjusted Funds From Operations (AFFO)	**$1,719,295**	**$2,877,560**	**$2,967,713**	**$2,394,868**	**$ 9,959,436**

Forecast NOI reconciliation	
Revenue	55,393,478
Hotel expenses	(43,468,595)
Depreciation and amortization	6,926,793
Forecast NOI[1]	**$ 18,851,676**

(1) Forecast NOI is prior to Hotel Manager fees of $2,496,005.

RECONCILIATION OF NOI TO FORECAST NOI

Below is a reconciliation of NOI for the twelve-month period ended September 30, 2012 to the NOI for the forecast twelve-month period ending December 31, 2013. This reconciliation is illustrative in nature and has been prepared by management as a supplement for the reader to the financial forecast. The assumptions used in respect of revenues and expenses in order to arrive at the figures below constitute forward-looking information. While these assumptions are considered reasonable by the management as of the date of this prospectus, they are inherently subject to significant uncertainties and contingencies that may affect the outcome of the forward-looking information. Investors should use caution when considering such forward-looking information, and the Issuer cautions readers not to place undue reliance on these statements. See "*Forward-Looking Information*".

NOI for the twelve months ended September 30, 2012[(1)(2)]	**$16,244,586**
Increase in NOI from additional properties	2,222,631
Increase in NOI from existing properties[(3)]	525,658
Removal of NOI relating to property not acquired with Initial Portfolio	(141,199)
Forecast NOI for the twelve months ending December 31, 2013[(4)(5)]	**$18,851,676**

(1) Calculated by adding the applicable amount for the nine-month period ended September 30, 2012 to the twelve month period ended December 31, 2011 and subtracting the nine month period ended September 30, 2011.

(2) Actual occupancy during the twelve month period ended September 30, 2012 was 83.8% (85.8% for Initial Portfolio).

(3) Includes approximately $68,000 of NOI from a property that is currently closed, but the railroad operator continues to make payments pursuant to the minimum occupancy guarantee.

(4) Forecast occupancy for the twelve month period ending December 31, 2013 is 88.5%.

(5) Forecast NOI is prior to Hotel Manager fees of $2,496,005.

THE SECURITIES OFFERED

The REIT LP Agreement

The rights and obligations of the Unitholders are governed by the REIT LP Agreement among the GP, the Seed Capital Investors and all persons who become holders of Units as provided therein. The REIT LP Agreement will be amended and restated in its entirety concurrently with the Closing. The following is a summary of certain material provisions of the REIT LP Agreement, as amended and restated on Closing. **This summary does not purport to be complete and reference should be to the REIT LP Agreement itself, a copy of which will be filed on SEDAR.**

Capitalized terms in this summary which are not defined in this prospectus are defined in the REIT LP Agreement.

Units

The Issuer is authorized to issue an unlimited number of Units. Each Unit entitles the Unitholder to the same rights and obligations as any other Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholders.

Each Unit represents an equal undivided beneficial interest in and to all distributions from the Issuer including to Distributable Cash and an allocation of Net Income, Taxable Income, Net Loss, Taxable Loss or other amounts, in accordance with the REIT LP Agreement, as well as an undivided beneficial interest in all assets of the Issuer in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the Issuer.

Interests of Unitholders

Each Unit when issued shall vest indefeasibly in the holder thereof. The interest of each Unitholder shall be determined by the number of Units registered in the name of the Unitholder. The issued and outstanding Units may be subdivided or consolidated from time to time without the approval of Unitholders, provided that a subdivision or consolidation of Units will not affect the Proportionate Share of any Unitholder.

Consideration for Units

No Units shall be issued other than as fully paid and non-assessable. A Unit shall not be fully paid until the consideration therefore has been received in full by or on behalf of the Issuer. The consideration for any Unit shall be paid in money or in property or in past services that are not less in value than the fair equivalent of the money that the Issuer would have received if the Unit had been issued for money. In determining whether property or past services are the fair equivalent of consideration paid in money, the GP may take into account reasonable charges and expenses of organization and reorganization and payments for property and past services reasonably expected to benefit the Issuer.

No Pre-Emptive Rights

There are no pre-emptive rights attaching to the Units.

Fractional Units

If any person becomes entitled to a fraction of a Unit, such person shall not be entitled to receive a certificate therefore. Fractional Units shall not, except to the extent that they may represent in the aggregate one or more whole Units, entitle the holders thereof to notice of or to attend or to vote at, meetings of Unitholders. Subject to the foregoing, such fractional Units shall have attached thereto the rights, restrictions, conditions and limitations attaching to whole Units in the proportion that they bear to a whole Unit.

Allotment and Issue

The GP may allot and issue Units at such time or times and in such manner (including, without limitation, pursuant to any plan from time to time in effect relating to reinvestment by Unitholders of distributions of the Issuer in Units) and for such consideration and to such person or class of persons as the GP in its sole discretion shall determine. In the event that Units are issued in whole or in part for a consideration other than money, the resolution of the GP allotting and issuing such Units shall express the fair equivalent in money of the other consideration received.

Rights, Warrants and Options

The Issuer may create and issue rights, warrants or options or other instruments or securities to subscribe for fully paid Units which rights, warrants, options, instruments or securities may be exercisable at such subscription price or prices and at such time or times as the GP may determine. A right, warrant, option, instrument or security shall not be a Unit and a holder thereof shall not be a Unitholder.

The Issuer may also issue new Units pursuant to any incentive or option plan established by the Issuer from time to time.

Transferability

The Units are freely transferable and, except in limited circumstances set forth in the REIT LP Agreement, the GP shall not impose any restriction on the transfer of Units by any Unitholder except with the consent of such Unitholder.

Transfers of Units

Units are fully transferable at the expense of the transferee. A Unit is not, however, transferable in part. A transferee of a Unit will become a Unitholder and shall be subject to the obligations and entitled to the rights of Unitholders under the REIT LP Agreement on the date on which the Record of Unitholders maintained by the GP pursuant to the *Limited Partnerships Act* (Ontario) (the "**Record**") is updated to reflect that the transferee is a Unitholder.

A registered Unitholder may transfer all or a part of his, her or its Units upon delivery to the Partnership GP or to the Transfer Agent of the certificate therefor, properly endorsed or accompanied by a duly executed instrument of transfer or power of attorney and accompanied by all necessary transfer or other taxes imposed by law, together with such evidence of the genuineness of such endorsement, execution and authorization and other matters that may reasonably be required by the Partnership GP or the Transfer Agent. Upon such delivery the transfer shall be recorded on the register or branch transfer registers and a new unit certificate for the Units shall be issued to the transferee and a new certificate for the balance of Units not transferred shall be issued to the transferor, if applicable. The transferee, by executing the transfer, agrees to be bound by the REIT LP Agreement as a Unitholder as if the transferee had personally executed the REIT LP Agreement.

Transfers of beneficial ownership of Units represented by a global certificate registered in the name of "CDS & Co." will be effected through the records maintained by CDS for such global certificate or its nominee (with respect to interests of participants) and on the records of the participants (with respect to interests of persons other than participants). Beneficial owners who are not participants in CDS's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interests in a global certificate, may do so only through participants in CDS's book-entry system.

The ability of a beneficial owner of an interest in a Unit represented by a global certificate to pledge the Unit or otherwise take action with respect to such holder's interest in a Unit represented by a global certificate (other than through a participant) may be limited due to the lack of a physical certificate.

Distributions of Distributable Cash

To the extent cash flow permits, the Issuer will pay and distribute all Distributable Cash.

Distributable Cash will be distributed as follows:

(a) first, to the GP 0.01 % of the Distributable Cash to a maximum of $100 per annum; and

(b) as to the balance, to the Unitholders, *pro rata* in accordance with their respective Proportionate Shares.

All distributions shall be paid by the Issuer only to Unitholders as of the particular Record Date set for such distribution.

Payment of Distributions

Any distribution shall be made directly by the GP on behalf of the Issuer or through the Transfer Agent or through any other person or agent, as approved by the GP, to the Unitholders as of the particular Record Date set for such distribution. Any taxes withheld or paid by the Issuer or a Subsidiary in respect of a Unitholder shall be treated either as a distribution to such Unitholder or as a general expense of the Issuer, as determined by the GP in its sole discretion, and the GP shall report to the Unitholders on an annual basis the amount of such taxes withheld or paid. For greater certainty, distributions made shall constitute full payment and satisfaction of the Issuer's liability in respect of such distribution, regardless of any claim of any person who may have an interest in such distribution by reason of an assignment or otherwise. In the event of any overpayment to a Unitholder, such overpayment will be refunded by such Unitholder to the Issuer, and any underpayment will be paid by the Issuer to the Unitholders within 30 days of the final determination of such underpayment or overpayment. Notwithstanding the foregoing, the GP may in its sole and unfettered discretion elect to not distribute Distributable Cash in any period or to reduce the amount of any distribution of Distributable Cash in whole or in part.

Distributions upon Dissolution

Upon the dissolution of the Issuer, the assets of the Issuer will be liquidated and the proceeds thereof will be distributed as follows:

(a) to pay any costs involved in the sale of the assets of the Issuer and to pay all amounts required to discharge any mortgages or encumbrances registered against the assets;

(b) to pay all expenses incurred in the winding-up of the Issuer;

(c) to pay all of the liabilities of the Issuer;

(d) to establish such reserves as the GP considers necessary;

(e) to return to the GP the balance in its capital account; and

(f) to pay the balance to the Unitholders, pro rata in accordance with their respective Proportionate Shares.

Such distribution may be made in cash or in kind or partly in each, all as the GP in its sole discretion may determine.

Allocation of Income and Losses

Where Distributable Cash was paid in respect of a Fiscal Year, the Net Income and Taxable Income of the Issuer in respect of that Fiscal Year shall be allocated among all Partners that were Partners at any time in the Fiscal Year on the following basis:

(a) first, to the GP 0.01% of the Net Income and Taxable Income of the Issuer to a maximum of $100 per annum; and

(b) as to the balance, to the Unitholders, as a class, and to each Unitholder an amount equal to the balance multiplied by a fraction, the numerator of which is the sum of the distributions received by such Unitholder in respect of the Fiscal Year and the denominator of which is the total distributions made by the Issuer to the Unitholders as a group in respect of the Fiscal Year.

Where no Distributable Cash was paid in respect of a Fiscal Year, Net Income and Taxable Income of the Issuer in respect of that Fiscal Year shall be allocated among all Partners that were Partners at any time in the Fiscal Year on the following basis:

(a) first, to the GP 0.01% of the Net Income and Taxable Income of the Issuer to a maximum of $100 per annum; and

(b) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such Fiscal Year, pro rata in accordance with their respective Proportionate Shares as at the end of each month, the balance divided by 12.

Net Loss and Taxable Loss of the Issuer in respect of that Fiscal Year shall be allocated among all Partners that were Partners at any time in the Fiscal Year on the following basis:

(a) first, to the GP 0.01% of the Net Loss and Taxable Loss of the Issuer to a maximum of $100 per annum; and

(b) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such Fiscal Year, pro rata in accordance with their respective Proportionate Shares as at the end of each month, the balance divided by 12.

The GP shall have the discretion, but not the obligation, acting in good faith, to allocate income, loss and other amounts on a basis which ensures a fair distribution among Unitholders after taking into consideration any matters that may be relevant.

Each Unitholder at any time in each Fiscal Year will be allocated his, her or its share of such Net Income and Taxable Income or Net Loss and Taxable Loss for such Fiscal Year in accordance with the REIT LP Agreement. Where a Unitholder assigns a Unit prior to the end of the Fiscal Year, the portion of Net Income and Taxable Income, or Net Losses and Taxable Loss which would have been attributed to such assigning Partner shall continue to be so allocable in accordance with the REIT LP Agreement, instead of being allocated to the assignee who holds the Unit at the end of the Fiscal Year. For greater certainty, any Person who was a Unitholder at any time during a Fiscal Year but who has transferred all of such Person's Units before the last day of that Fiscal Year may be deemed to be a partner of the Issuer on the last day of such Fiscal Year for the purposes of subsection 96(1) of the Tax Act. Where a Unit was initially subscribed for after the beginning of the Fiscal Year, Net Income and Taxable Income, or Net Losses and Taxable Loss for the entire Fiscal Year will be allocated to the holder thereof in accordance with the mechanics of the provisions of the REIT LP Agreement on account of the portion of the Fiscal Year that the person was a Unitholder.

The GP has been designated as the tax matters partner for all Canadian and U.S. federal income tax purposes, and state or provincial equivalents. The GP, acting as tax matters partner, in its reasonable discretion and from time to time may modify the manner in which Net Income, Taxable Income, Net Loss and Taxable Loss are allocated to or among the Unitholders and their capital accounts and for tax purposes in order that in the reasonable judgment of the GP, and in its sole discretion, such allocations will reasonably reflect the purpose of the REIT LP Agreement and the intention of the parties; provided, however, that no such modification shall materially and adversely affect the amounts distributable to any Partner.

If applicable, for U.S. federal income tax purposes, allocations of Net Income, Taxable Income, Net Loss and Taxable Loss for each Fiscal Year or other relevant period of the Issuer shall be allocated among the Unitholders as set out in the REIT LP Agreement except to the extent: (i) that any such allocations would not have substantial economic effect or are not in accordance with the interests of the Unitholders in the Issuer (in each case, as determined pursuant to Section 704(b) of the Internal Revenue Code) or (ii) otherwise required by applicable law or by reason of tax elections made by the GP on behalf of the Issuer, and, in the case of either clause (i) or (ii), the GP shall adjust allocations as necessary so as to comply with the requirements of Sections 704(b) and 704(c) of the Internal Revenue Code and the regulations promulgated thereunder, relevant provisions of law or elections made by the GP on behalf of the Issuer (as applicable).

Additional Capital Contributions

No Unitholder is required to make additional capital contributions to the Issuer over and above the purchase price paid for such Units.

Voting

Each Unit has attached to it the right to exercise one vote at meetings of the Issuer. Certain powers, relating generally to the existence and fundamental powers of the Issuer may be exercisable only by way of a Special Resolution passed by the Unitholders.

Annual Meeting

There shall be an annual meeting of the Unitholders at such time and place as the GP shall prescribe for the purpose of electing directors of the GP, receiving audited financial statements, appointing or removing the auditors of the Issuer and transacting such other business as the GP may determine or as may properly be brought before the meeting. The annual meeting shall be held after delivery to the Unitholders of the annual report and, in any event, within 180 days after the end of each fiscal year of the Issuer. See *"Governance and Management of the Issuer – Voting Trust Agreement"*.

Other Meetings

The GP shall have power at any time to call special meetings of the Unitholders at such time and place as the GP may determine. Unitholders holding in the aggregate not less than 10% of the outstanding Units of the Issuer may requisition the GP in writing to call a special meeting of the Unitholders for the purposes stated in the requisition.

Notice of Meeting

Notice of all meetings of the Unitholders shall be mailed or delivered by the Transfer Agent of the Issuer to the Unitholders each director of the GP and to the auditors of the Issuer not less than 21 nor more than 50 days (or within such other number of days as required by law or relevant stock exchange) before the meeting. Such notice shall specify the time when, and the place where, such meeting is to be held and shall state briefly the general nature of the business to be transacted at such meeting and shall otherwise include such information as would be provided to shareholders of a corporation governed by the *Canada Business Corporations Act* in connection with a meeting of shareholders. Any adjourned meeting, other than a meeting adjourned for lack of a quorum, may be held as adjourned without further notice. Notwithstanding the foregoing, a meeting of Unitholders may be held at any time without notice if all of the Unitholders are present or represented thereat or those not so present or represented have waived notice. Any Unitholder (or a duly appointed proxy thereof) may waive any notice required to be given under the REIT LP Agreement, and such waiver, whether given before or after the meeting, shall cure any default in the giving of such notice. Attendance at a meeting of Unitholders shall constitute a waiver of notice unless the Unitholder or other person attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not properly called.

Chairperson

The chairperson of any annual or special meeting shall be the chairman of the GP or any other director of the GP specified by resolutions of the GP or, in the absence of any director, any person appointed as chairperson of the meeting by the Unitholders present.

Quorum

A quorum for any meeting of Unitholders shall be individuals present not being less than two in number and being Unitholders or representing by proxy Unitholders who hold in the aggregate not less in aggregate than 5% of the total number of outstanding Units provided that if the Issuer has only one Unitholder, the Unitholder present in person or by proxy constitutes a meeting and a quorum for such meeting. If a quorum is present at the opening of a meeting, the Unitholders may proceed with the business of the meeting, notwithstanding that a quorum is not present throughout the meeting. The Chairman of any meeting at which a quorum of Unitholders is present may, with the consent of the majority of the Unitholders present in person or by proxy, adjourn at such meeting and no notice of any such adjournment need be given. In the event of such quorum not being present at the appointed place on the date for which the meeting is called within 30 minutes after the time fixed for the holding of such meeting, the meeting, if called by request of Unitholders, shall be terminated and, if otherwise called, shall stand adjourned to such day being not less than seven days later and to such place and time as may be appointed by the chairperson of the meeting. If at such adjourned meeting a quorum as above defined is not present, the Unitholders present either personally or by proxy shall form a quorum, and any business may be brought before or dealt with at such an adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same.

Matters Requiring Approval of Unitholders

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

The following actions and/or amendments, among others, require the approval of two-thirds of the votes cast by Unitholders at a meeting called for such purpose:

(a) any amendment to the provisions of the REIT LP Agreement dealing with amendments to the REIT LP Agreement;

(b) any exchange, reclassification or cancellation of all or part of the Units;

(c) the addition, change or removal of the rights, privileges, restrictions or conditions attached to the Units, including:

  (i) the removal or change of rights to distributions;

  (ii) the addition or removal of or change to conversion privileges, options, voting, transfer or pre-emptive rights; or

  (iii) the reduction or removal of a distribution preference or liquidation preference;

(d) any constraint of the issue, transfer or ownership of Units or the change or removal of such constraint, except as provided herein;

(e) any amendment to the articles of the GP to change either the maximum or minimum number of directors of the GP;

(f) any distribution of the Issuer's property upon its termination;

(g) any amendment relating to the powers, duties, obligations, liabilities or indemnification of the GP;

(h) any sale or transfer of the assets of the Issuer as an entirety or substantially as an entirety (other than as part of an internal reorganization of assets of the Issuer as approved by the GP);

(i) the combination, amalgamation or arrangement of any of the Issuer or its Subsidiaries with any other entity (other than as part of an internal reorganization of the assets of the Issuer approved by the GP);

(j) dissolving the Issuer, except as otherwise provided for in the REIT LP Agreement;

(k) any amendment to the investment guidelines or operating policies of the Issuer, except for any amendments aimed at ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the GP or over the Issuer; or

(l) any matter required to be passed by a Special Resolution under the REIT LP Agreement.

Limitation on Authority of Unitholders

A Unitholder may from time to time inquire as to the state and progress of the business of the Issuer and may provide comment as to its management; however, no Unitholder shall take part in the control or management of the business of the Issuer, execute any document which binds or purports to bind the Issuer, the GP or any other Unitholder as such or have any authority to undertake any obligation or responsibility on behalf of the Issuer (except that the GP may act on behalf of the Issuer notwithstanding that it may also be a Unitholder).

Liability of the Partners

The Issuer was formed in order for Unitholders to benefit from liability limited to the extent of their capital contributions to the Issuer together with their pro rata share of the undistributed income of the Issuer. Unitholders may lose the protection of limited liability by taking part in the control of the business of the Issuer and may be liable to third parties as a result of false or misleading statements in the public filings made pursuant to the *Limited Partnerships Act* (Ontario).

The GP will indemnify the Unitholders against any costs, damages, liability or loss incurred by a Unitholder that result from such Unitholder not having limited liability, except where the lack or loss of limited liability is caused by some action of such Unitholder or a change in any applicable legislation. However, the GP has nominal assets. Consequently, it is unlikely that the GP will have sufficient assets to satisfy any claims pursuant to this indemnity.

In all cases other than the possible loss of limited liability, no Unitholder will be obligated to pay any additional assessment on or with respect to the Units held or purchased by him, her or it; however, the Unitholders and the GP may be bound to return to the Issuer such part of any amount distributed to them as may be necessary to restore the capital of the Issuer to its existing amount before such distribution if, as a result of such distribution, the capital of the Issuer is reduced and the Issuer is unable to pay its debts as they become due.

ESCROWED SECURITIES

The following securities will be held in escrow:

Type of Security	Number of Securities Held in Escrow	Percentage of Class
Units	500,000	5.5%

The 400,000 Units (the "**Escrowed Units**") issued to various subscribers, including the Principals and directors and officers of the GP (collectively, the "**Seed Capital Investors**") on November 6, 2012 and the 100,000 Units to be issued to the principals of the O'Neill Group under this prospectus will be held in escrow pursuant to an escrow agreement (the "**Escrow Agreement**") to be entered into on or before the Closing among the Issuer, the GP and Computershare Investor Services Inc., as escrow agent. Pursuant to the terms of the Escrow Agreement, the Escrowed Units will not be released until after the date that is 18 months following the Closing of the Offering (the "**Escrow Expiry Date**"). 1/3 of the Escrowed Units will be released six months after the Escrow Expiry Date, another 1/3 of the Escrowed Units will be released 12 months after the Escrow Expiry Date and the remaining Escrowed Units will be released 18 months after the Escrow Expiry Date.

THE U.S. REIT

The U.S. REIT, upon formation following Closing, will be authorized to issue an unlimited number of Common Shares, an unlimited number of ROC Shares and an unlimited number of Class B Shares.

Common Shares

The rights accorded to the holders of the Common Shares will be set out in the charter of the U.S. REIT and will include the following:

Voting

The holders of the Common Shares shall be entitled to one vote in respect of each Common Share held, at any annual or extraordinary general meeting of the shareholders of the U.S. REIT.

Dividends

The holders of the Common Shares shall be entitled, in the absolute discretion of the directors of the U.S. REIT, to receive dividends, as and when declared by the directors, out of assets of the U.S. REIT properly available for the payment of dividends.

Participation on Winding-Up

The holders of the Common Shares shall be entitled to the remaining property and assets of the U.S. REIT upon the liquidation, dissolution or winding-up of the U.S. REIT.

The ROC Share

The U.S. REIT may issue a single ROC Share to the Issuer. The rights accorded to the holder of the ROC Share will be set out in the charter of the U.S. REIT and will include the following:

Redemptions

The ROC Share or any fraction thereof is redeemable at the option of the U.S. REIT pursuant to the U.S. REIT's Charter. The redemption amount of the ROC Share shall be fixed at a stated dollar value (the "**ROC Share Redemption Amount**"), payable in cash on the redemption date (or if earlier, the date of the U.S. REIT's liquidation, dissolution or winding-up or the date that the ROC Share has been redeemed in full). Each redemption of any fraction of the whole of the ROC Share shall result in a *pro tanto* reduction in the ROC Share Redemption Amount in respect of the remaining portion of the ROC Share (such reduced redemption amount is referred to as the "**Residual Redemption Amount**"). The ROC Share Redemption Amount will be equal to the amount of the capital contribution by the Issuer to acquire the ROC Share. The redemption of any fraction of the whole of the ROC Share will constitute a reduction of stated capital under Maryland law.

Dividends

The ROC Share shall be entitled to a fixed, cumulative, and compounding dividend on the ROC Share Redemption Amount or Residual Redemption Amount, as applicable, which dividend shall be based on an arm's length rate. Unpaid dividends shall accumulate and compound at such prescribed rate. Any partial redemptions of the ROC Share shall not trigger the payment of unpaid accumulated dividends. Rather, dividends shall continue to accumulate, with compounding, on the Residual Redemption Amount until the ROC Share has been redeemed in full. Accumulated dividends are payable at the discretion of the directors of the U.S. REIT but all unpaid accumulated dividends must be paid no later than the earlier of the redemption date or the time of full and final redemption of the ROC Share. Dividends on the Common Shares may be paid in priority to a full or partial redemption of the ROC Share or the payment of accumulated dividends on the ROC Share, provided that the directors of the U.S. REIT have determined that the payment of such dividends on the Common Share would not impair the U.S. REIT's ability to pay the ROC Share Redemption Amount or Residual Redemption Amount, as the case may be, plus any accumulated and unpaid dividends with respect to the ROC Share.

Liquidation

Upon the liquidation, dissolution or winding-up of the U.S. REIT, the holder of the ROC Share shall be entitled to the sum of all accumulated and unpaid dividends and the ROC Share Redemption Amount or Residual Redemption Amount, as the case may be, in priority to any payment to the holders of the Common Shares.

Voting

The holder of the ROC Share shall be entitled to a vote at any annual or extraordinary general meeting of the shareholders of the U.S. REIT. Such vote shall represent 10% of the total voting power of all classes of stock of the U.S. REIT that are entitled to vote. Any partial redemptions of the ROC Share shall not affect the voting power of such share.

Transfers

The ROC Share may not be transferred unless such transfer is of the whole ROC Share. The transfer of a fractional share is not permitted.

Convertibility

The ROC Share may not be converted into share(s) of any other class or series of stock of the U.S. REIT.

Book-entry system

No certificate shall be issued to the holder of the ROC Share to evidence the holder's ownership of such share. The ROC Share shall be maintained through a book-based system in which the U.S. REIT's share register and book entries would show the number of shares outstanding (one ROC Share), and, in respect of the share, the distributions on account of full or partial redemptions of the share, other distributions of capital, and distributions on account of cumulative dividends.

Class B Shares

Pursuant to the Code, in order to qualify as a REIT, the U.S. REIT must be beneficially owned by at least 100 persons. In order to meet this test, the U.S. REIT, on or before January 30, 2014, will issue its Class B Shares to between 100 and 125 persons, for a subscription price of $1,000 per Class B Share. The U.S. REIT anticipates offering Class B Shares by way of private placement to accredited investors in the U.S. Shareholders holding Class B Shares will contribute $1,000 in capital per Class B Share purchased. Shareholders holding Class B Shares will earn an annual percentage return, cumulative but not compounded, calculated on their net equity in the U.S. REIT, which annual rate will be established by the U.S. REIT upon the issuance of the Class B Shares, but is expected to be in the range of 12.5% per annum. Such annual return will be paid to the holders of the Class B Shares in priority to the payment of dividends on either the Common Shares or the ROC Share.

Priority

Each Class B Share is entitled to a liquidation preference (the "**Liquidation Preference**") of $1,000 per Class B Share, subject to adjustment as described under "*Liquidation*" below (the "**Liquidation Value**"). With respect to distributions, including the distribution of the U.S. REIT's assets upon dissolution, liquidation, or winding-up, the Class B Shares will be senior to all other classes and series of shares of the U.S. REIT, whether such class or series is now existing or is created in the future, to the extent of the aggregate Liquidation Value and all accrued but unpaid distributions and any Redemption Premium (defined below) on the Class B Shares. Holders of the Class B Shares will not, however, participate in any appreciation in the value of the U.S. REIT.

Distributions

Distributions on each Class B Share will accrue on a daily basis at an annual rate to be determined by the U.S. REIT, but which is expected to be in the range of 12.5%. Distributions will accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the U.S. REIT legally available for the payment of distributions. Such distributions shall be cumulative such that all accrued and unpaid distributions shall be fully paid or declared with funds irrevocably set apart before any dividend, distribution or payment may be made to holders of U.S. REIT shares. If at any time the U.S. REIT pays less than the total amount of distributions then accrued with respect to the Class B Shares, such payment will be distributed ratably among the holders of the Class B Shares on the basis of the number of Class B Shares owned by each such holder. Distributions on the Class B Shares will be payable semi-annually on June 30 and December 31 of each year.

Voting

Except to the extent required by the *Maryland General Corporation Law* or other applicable law, shareholders holding Class B Shares will not be entitled to vote at meetings of the shareholders of the U.S. REIT.

Redemption

At any time and from time to time, at the election of the U.S. REIT, the U.S. REIT may redeem, out of funds legally available therefor, all or a portion of the Class B Shares for cash at a redemption price equal to $1,000.00 per share plus all accrued and unpaid dividends thereon to and including the date fixed for redemption, plus a redemption premium per share (each, a "**Redemption Premium**") calculated as follows based on the date fixed for redemption: (a) until December 31, 2015, $100; and (ii) thereafter, no Redemption Premium.

Liquidation

In the event of any dissolution, liquidation, or winding-up of the U.S. REIT (a "**Liquidation Event**"), Shareholders holding Class B Shares will be entitled to receive *pro rata* in cash out of the assets of the U.S. REIT available therefor, before any distribution of the assets may be made to the holders of the Common Shares and the ROC Share, an amount equal to the Liquidation Value, plus any cumulative dividends (and any interest thereon), plus, if applicable, the Redemption Premium described above. Upon payment of such amount, the holders of the Class B Shares will have no other rights or claims to any of the remaining assets of the U.S. REIT either upon distribution of such assets or upon dissolution, liquidation, or winding-up.

If upon any Liquidation Event the available assets of the U.S. REIT are insufficient to pay the full amount of the Liquidation Preference on all outstanding Class B Shares, the Shareholders holding Common Shares and the ROC Share shall contribute back to the U.S. REIT any distributions or other payments received from the U.S. REIT in connection with a Liquidation Event to the extent necessary to enable the U.S. REIT to pay all sums payable to the Shareholders holding Class B Shares. If, notwithstanding the funds received from the Shareholders holding U.S. REIT Shares, the available assets of the U.S. REIT are still insufficient to pay the full amount payable with respect to all outstanding Class B Shares, then the Shareholders holding Class B Shares shall share ratably in any distribution of assets in proportion to the full Liquidation Preference to which they would otherwise be respectively entitled.

The U.S. REIT, in its sole discretion, may elect not to pay the shareholders holding Class B Shares the sums due immediately upon a Liquidation Event but instead may choose to first distribute such amounts as may be due to the Shareholders holding Common Shares and the ROC Share. If the U.S. REIT elects to exercise this option, it shall first establish a reserve in an amount equal to 200% of all amounts owed to the shareholders holding Class B Shares. In the event that the sum held in the reserve is insufficient to pay all amounts owed to the shareholders holding Class B Shares, the Shareholders holding Common Shares and the ROC Share shall contribute back to the U.S. REIT any distributions or other payments received from the U.S. REIT in connection with a Liquidation Event to the extent necessary to enable the U.S. REIT to pay all sums payable to the shareholders holding Class B Shares.

A consolidation or merger of the U.S. REIT with one or more entities, a sale or transfer of all or substantially all of the U.S. REIT's assets, or an exchange of the Shares of the U.S. REIT for equity interests of another entity shall not be deemed a dissolution, liquidation, or winding-up of the U.S. REIT.

Conversion

No Class B Share is convertible into shares of any other class or series.

Restrictions on Transfer

The Class B Shares will not be registered (or qualified) under the United States Securities Act of 1933, as amended from time to time (the "**1933 Act**"), or applicable state securities laws. Accordingly, such Class B Shares may not be offered, sold, transferred or delivered, directly or indirectly, unless such shares are registered under the 1933 Act and any other applicable state securities laws, or an exemption from registration under the 1933 Act and any other applicable state securities laws is available.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Overview

The following management's discussion and analysis of Lodging Enterprises' results of operations and financial conditions should be read in conjunction with the audited financial statements of Lodging Enterprises and related notes thereto contained elsewhere in this prospectus. The financial statements of Lodging Enterprises have been prepared in accordance with IFRS.

The reporting periods of Lodging Enterprises are the three and nine month periods ended September 30, 2012 and 2011, and the years ended December 31, 2011, 2010 and 2009. Lodging Enterprises operates in one business segment, owing and operating hotel and related restaurant properties in the U.S. All amounts are presented in U.S. dollars, which is the Issuer's functional currency. This discussion contains forward-looking statements. See "*Forward-Looking Information*" for a discussion of the risks, uncertainties and assumptions relating to these statements.

The objective of this MD&A is to provide a prospective purchaser of Units with an analysis of the historical assets, liabilities, revenues and operating expenses, including mortgage interest, of Lodging Enterprises for the above-mentioned periods. However, less emphasis has been placed on analyzing the impact of changes in the statement of financial position as Lodging Enterprises' audited financial statements do not reflect the Issuer's proposed asset base, capital structure and income tax status, which will differ significantly from that of the historical results of operations of Lodging Enterprises.

As at September 30, 2012, Lodging Enterprises owned 30 hotel properties, leased one hotel property, had one property held for sale, and had three properties under development. These properties are located across 19 states. Lodging Enterprises operated lodging facilities at the following properties during the periods presented:

	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009
Owned properties	31	30	29
Leased property	1	1	1

	As at September 30, 2012	As at September 30, 2011
Owned properties	30	31
Leased property	1	1
Property held for sale[(1)]	1	—

(1) The property held for sale was sold on November 30, 2012 and is therefore excluded from the acquisition of the Initial Properties contemplated in this prospectus and excluded from results relating to the Initial Portfolio, but the results of this property are included in the historical results of Lodging Enterprises. The Initial Properties, together with their related assets and liabilities, are to be indirectly acquired by the Issuer upon completion of the Offering of Units by the Issuer.

Lodging Enterprises has long-term contracts with several of the largest U.S. railroad operators. This provides Lodging Enterprises with a recurring and stable revenue stream. During the three and nine months ended September 30, 2012, revenues from one customer represented approximately $6.7 million and $19.9 million respectively (2011 – $6.9 million and $20.1 million) of Lodging Enterprises' total revenues or 49.6% and 51.7% respectively of Lodging Enterprises' total revenues (2011 – 51.3% and 53.0%). During the year ended December 31, 2011, revenues from one customer represented approximately $26.4 million (2010 – $25.0 million; 2009 – $24.8 million) of Lodging Enterprises' total revenues or 52.4% of Lodging Enterprises' total revenues (2010 – 52.2%; 2009 – 53.2%).

The weighted average remaining term on the occupancy guarantee contracts with railroad operators at the closing of the Offering is approximately 3.5 years. During the periods presented, there were no contract terminations.

Selected Historical Financial and Operating Information

The following discussion highlights selected financial information for Lodging Enterprises for the three and nine month periods ended September 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009. This information has been compiled from, and should be read in conjunction with, the unaudited condensed interim financial statements, the audited financial statements, and notes thereto included elsewhere in this prospectus.

(millions of dollars)	Three month periods ended September 30 (unaudited)		Nine month periods ended September 30 (unaudited)		Years ended December 31		
	2012	2011	2012	2011	2011	2010	2009
Revenue:							
Rooms	$10.5	$10.4	$30.0	$29.7	$39.6	$37.5	$ 36.6
Food	2.8	2.7	7.8	7.4	9.9	9.8	9.3
Rental and other	0.2	0.3	0.7	0.7	1.0	0.6	0.6
	13.5	13.4	38.5	37.8	50.5	47.9	$ 46.5
Cost of sales:	5.9	5.7	17.0	16.5	22.2	21.2	19.8
Gross profit	$ 7.6	$ 7.7	$21.5	$21.3	$28.3	$26.7	$ 26.7
General and administrative	1.1	1.1	3.4	3.3	4.4	4.1	3.9
Energy	0.7	0.7	1.9	1.9	2.5	2.4	2.3
Property maintenance	0.7	0.9	2.1	2.4	3.2	2.6	2.5
Property taxes and insurance	0.6	0.5	1.8	1.6	2.2	2.1	2.3
Depreciation	1.3	1.2	3.9	3.7	5.0	4.6	4.2
	4.4	4.4	13.1	12.9	17.3	15.8	15.2
Results from operating activities	$ 3.2	$ 3.3	$ 8.4	$ 8.4	$11.0	$10.9	$ 11.5
Net finance costs	(1.8)	(2.3)	(4.7)	(5.4)	(6.4)	(5.9)	(13.0)
Earnings from operations before other income	$ 1.4	$ 1.0	$ 3.7	$ 3.0	$ 4.6	$ 5.0	$ (1.5)
Other income	—	—	0.3	—	—	—	—
Net earnings (loss) and comprehensive income (loss)	$ 1.4	$ 1.0	$ 4.0	$ 3.0	$ 4.6	$ 5.0	$ (1.5)

Discussion for the Three and Nine Month Periods Ended September 30, 2012 and 2011

The following discussion highlights selected financial information for Lodging Enterprises for the three and nine month periods ended September 30, 2012 and 2011. This information has been compiled from, and should be read in conjunction with the unaudited condensed interim financial statements and notes thereto included elsewhere in this prospectus.

Total revenue for the three months ended September 30, 2012 was $13.5 million as compared to $13.4 million for the same period in 2011. This increase of $0.1 million or 1.0% resulted from higher room and food revenues, offset by lower revenues from ancillary sources. Further detail is provided below.

Rooms revenue and cost of sales

	Three months ended September 30				Nine months ended September 30			
	2012	2011	Variance	%	2012	2011	Variance	%
Available room nights	230,552	230,552	—	—	686,475	684,155	—	—
Rooms occupied	197,845	204,954	(7,109)	(3.5)%	572,481	582,411	(9,930)	(1.7)%
Average occupancy rate	85.8%	88.9%			83.4%	85.1%		
Revenue per available room	$ 45.32	$ 45.14	$ 0.18	0.4%	$ 42.96	$ 42.56	$ 0.40	0.9%
Revenue per occupied room	$ 52.81	$ 50.78	$ 2.03	4.0%	$ 43.69	$ 43.43	$ 0.26	0.6%
(millions of dollars)								
Rooms revenue	$ 10.5	$ 10.4	$ 0.1	1.0%	$ 30.0	$ 29.7	$ 0.3	1.0%
Rooms cost of sales	3.6	3.5	0.1	2.9%	10.3	10.2	0.1	1.0%
Gross profit	$ 6.9	$ 6.9	$ —	—%	$ 19.7	$ 19.5	$ 0.2	1.0%

Rooms revenue consists of contracted railway lodging revenue, commercial lodging revenue, and charges for transportation and diner fees included in certain railway customer contracts. Rooms cost of sales consists of direct costs to service those rooms.

For the three months ended September 30, 2012 versus the same period in 2011:

- Rooms revenue was $10.5 million compared to $10.4 million, representing an increase of $0.1 million or 1.0%. The higher room rates in 2012 were offset by the decrease in number of rooms occupied in the same period in 2011.
- Rooms cost of sales was $3.6 million compared to $3.5 million, representing an increase of $0.1 million or 2.9%. The increase is due to marginally higher payroll costs and higher promotional costs arising from an increase in complimentary breakfasts and travel agent commissions.
- Gross profit on rooms was $6.9 million in both periods.

For the nine months ended September 30, 2012 versus the same period in 2011:

- Rooms revenue was $30.0 million compared to $29.7 million, representing an increase of $0.3 million or 1.0%. The increase is due to a 2.7% increase in room rates, offset by a decrease of 1.7% in number of rooms occupied.
- Rooms cost of sales was $10.3 million compared to $10.2 million, representing an increase of $0.1 million or 1.0%. The increase is due to higher staff payroll costs plus an increase in fees paid in travel agent commissions.
- Gross profit on rooms was $19.7 million compared to $19.5 million, representing an increase of $0.2 million or 1.0%. The increase is due to the changes described above.

Food revenue and cost of sales

	Three months ended September 30				Nine months ended September 30			
(millions of dollars)	2012	2011	Variance	%	2012	2011	Variance	%
Food revenue	$2.8	$2.7	$0.1	3.7%	$7.8	$7.4	$0.4	5.4%
Food cost of sales	2.3	2.2	0.1	4.5%	6.6	6.3	0.3	4.8%
Gross profit	$0.5	$0.5	$ —	—%	$1.2	$1.1	$0.1	9.1%

Food revenue consists primarily of the food sales from the diners and it includes revenues from food provided in meeting rooms. Food cost of sales consists of direct costs to operate the diners.

For the three months ended September 30, 2012 versus the same period in 2011:

- Food revenue was $2.8 million compared to $2.7 million, representing an increase of $0.1 million or 3.7%. The increase is due to higher volume of food sales at the diner locations. During the period, no new diner locations were added to the operations.
- Food cost of sales was $2.3 million compared to $2.2 million, representing an increase of $0.1 million or 4.5%. The increase is due to higher labour costs.
- Gross profit on food was $0.5 million for both periods.

For the nine months ended September 30, 2012 versus the same period in 2011:

- Food revenue was $7.8 million compared to $7.4 million, representing an increase of $0.4 million or 5.4%. The increase is due to higher food sales in the diners. No new diner locations were added to operations during the period.
- Food cost of sales was $6.6 million compared to $6.3 million, representing an increase of $0.3 million or 4.8%. The increase is due to higher food costs and higher labour costs.
- Gross profit on food was $1.2 million compared to $1.1 million, representing an increase of $0.1 million or 9.1%. The increase is due to the changes described above.

Rental and other revenue and cost of sales

(millions of dollars)	Three months ended September 30				Nine months ended September 30			
	2012	2011	Variance	%	2012	2011	Variance	%
Rental and other revenue	$0.2	$0.3	$(0.1)	(33.3%)	$0.7	$0.7	$ —	0.0%
Rental and other cost of sales	—	—	—	—	0.1	—	0.1	—
Gross profit	$0.2	$0.3	$(0.1)	(33.3%)	$0.6	$0.7	$(0.1)	(14.3%)

Rental and other revenue includes vending machine sales, gift shop sales, laundry services, room damages, and specified contracted services for certain railway customers. Rental and other cost of sales consists of direct costs to providing such services.

For the three months ended September 30, 2012 versus the same period in 2011:

- Rental and other revenue was $0.2 million compared to $0.3 million, representing a decrease of $0.1 million or 33.3%. The nature of this revenue stream is ancillary to Lodging Enterprises' primary lodging business and is more ad-hoc in nature.

For the nine months ended September 30, 2012 versus the same period in 2011:

- Rental and other revenue was $0.7 million for both periods.
- Rental and other cost of sales was $0.1 million compared to $0.0 million, representing an increase of $0.1 million. The increase is due to higher costs of providing such services.

General and administrative expenses

(millions of dollars)	Three months ended September 30				Nine months ended September 30			
	2012	2011	Variance	%	2012	2011	Variance	%
General and administrative	$1.1	$1.1	$—	—%	$3.4	$3.3	$0.1	3.0%

General and administrative expenses include head office salaries, legal and professional fees and various office and administrative costs.

For the three months ended September 30, 2012, general and administrative expenses were $1.1 million for both periods. For the nine months ended September 30, 2012, general and administrative expenses were $3.4 million compared to $3.3 million for the same period in 2011, representing an increase of $0.1 million or 3.0%. The increase is due to higher salaries and higher marketing expenses during the period.

Energy expense

(millions of dollars)	Three months ended September 30				Nine months ended September 30			
	2012	2011	Variance	%	2012	2011	Variance	%
Energy	$0.7	$0.7	$—	—%	$1.9	$1.9	$—	—%

Energy expense is comprised of electric, gas, sewer and water bills.

For the three months ended September 30, 2012, energy expense was $0.7 million for both periods. This is due to lower gas costs offset by higher electric and water costs.

For the nine months ended September 30, 2012, energy expense was $1.9 million for both periods. This is due to lower electric and gas costs offset by higher water costs.

Property maintenance expenses

(millions of dollars)	Three months ended September 30				Nine months ended September 30			
	2012	2011	Variance	%	2012	2011	Variance	%
Property maintenance	$0.7	$0.9	$(0.2)	(22.2%)	$2.1	$2.4	$(0.3)	(12.5%)

Property maintenance expenses include maintenance personnel wages and maintenance and repair expenses.

For the three months ended September 30, 2012, property maintenance expenses were $0.7 million compared to $0.9 million for the same period in 2011, representing a decrease of $0.2 million or 22.2%. The decrease is due to fewer one-time maintenance expenses incurred in the three months ended September 30, 2012 than in the prior period.

For the nine months ended September 30, 2012, property maintenance expenses were $2.1 million compared to $2.4 million for the same period in 2011, representing a decrease of $0.3 million or 12.5%. The decrease is due to fewer one-time maintenance expenses incurred in the nine months ended September 30, 2012 than in the prior period.

Property taxes and insurance expense

	Three months ended September 30				Nine months ended September 30			
(millions of dollars)	2012	2011	Variance	%	2012	2011	Variance	%
Property taxes and insurance	$0.6	$0.5	$0.1	20.0%	$1.8	$1.6	$0.2	12.5%

Property taxes and insurance expense includes real estate tax and personal property tax.

For the three months ended September 30, 2012, property taxes and insurance expense was $0.6 million compared to $0.5 million for the same period in 2011, representing an increase of $0.1 million or 20%.

For the nine months ended September 30, 2012, property taxes and insurance expense was $1.8 million compared to $1.6 million for the same period in 2011, representing an increase of $0.2 million or 12.5%. The increase is due to increases in real estate taxes over the prior period.

Depreciation expense

	Three months ended September 30				Nine months ended September 30			
(millions of dollars)	2012	2011	Variance	%	2012	2011	Variance	%
Depreciation	$1.3	$1.2	$0.1	8.3%	$3.9	$3.7	$0.2	5.4%

For the three months ended September 30, 2012, depreciation expense was $1.3 million compared to $1.2 million for the same period in 2011, representing an increase of $0.1 million or 8.3%. The increase is due to property and equipment additions during third quarter of 2012 as compared to the prior period.

For the nine months ended September 30, 2012, depreciation expense was $3.9 million compared to $3.7 million for the same period in 2011, representing an increase of $0.2 million or 5.4%. The increase is due to property and equipment purchased in the nine months ended September 30, 2012 as compared to the prior period.

Finance costs

	Three months ended September 30				Nine months ended September 30			
(millions of dollars)	2012	2011	Variance	%	2012	2011	Variance	%
Finance costs	$1.8	$2.3	$(0.5)	(21.7%)	$4.7	$5.4	$(0.7)	(13.0%)

Finance costs are comprised of the following components:

	Three months ended September 30				Nine months ended September 30			
(millions of dollars)	2012	2011	Variance	%	2012	2011	Variance	%
Interest expense	$0.7	$0.7	$ —	—%	$2.0	$2.3	$(0.3)	(13.0%)
Distribution to preferred unitholders	0.7	1.0	(0.3)	(30.0%)	1.6	1.9	(0.3)	(15.8%)
Distribution to common unitholders	0.5	0.6	(0.1)	(16.7%)	1.1	1.2	(0.1)	(8.3%)
Finance costs	$1.9	$2.3	$(0.4)	(17.4%)	$4.7	$5.4	$(0.7)	(13.0%)

For the three months ended September 30, 2012, finance costs were $1.8 million compared to $2.3 million for the same period in 2011, representing a decrease of $0.5 million or 21.7%, resulting from lower distributions to the unitholders.

For the nine months ended September 30, 2012, finance costs were $4.7 million compared to $5.4 million for the comparative period in 2011, representing a decrease of $0.7 million or 13.0%. The reduction is comprised of lower interest expense on the notes payable during the period and lower distributions to the unitholders.

Net earnings

	Three months ended September 30				Nine months ended September 30			
(millions of dollars)	2012	2011	Variance	%	2012	2011	Variance	%
Net earnings	$1.4	$1.0	$0.4	40.0%	$4.0	$3.0	$1.0	33.3%

For the three months ended September 30, 2012, the net earnings were $1.4 million compared to net earnings of $1.0 million for the same period in 2011, representing an increase of $0.4 million.

For the nine months ended September 30, 2012, the net earnings were $4.0 million compared to net earnings of $3.0 million for the same period in 2011, representing an increase of $1.0 million. The increase in both periods is attributable to the reasons noted above, specifically lower finance costs and lower property maintenance costs.

Cash flows from operating, financing and investing activities

Lodging Enterprises' primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of Lodging Enterprises' obligations through current cash, cash flows from operations and refinancing of mortgages.

The following table provides an overview of Lodging Enterprises' cash flows from operating, financing and investing activities for the nine month period ended September 30, 2012 and for the comparative period in 2011.

	For the nine months ended September 30	
(millions of dollars)	2012	2011
Net change in cash related to:		
Operating	$10.0	$ 7.9
Investing	(3.1)	(1.5)
Financing	(5.9)	(5.9)
Net change in cash during the period	$ 1.0	$ 0.5

The improvement in net cash flow generated for the nine months ended September 30, 2012 compared to the same period in 2011 was the result of the following factors:

- Operating – the increase in operating cash flow for the nine months ended September 30, 2012 compared to the same period in 2011 is due to mainly to an increase in occupancy and food sales during the fiscal 2012 resulting in an increase in net operating income;
- Investing – 2012 cash outflow is higher than 2011 due to increased capital expenditures during the period; and
- Financing – 2012 cash outflow is higher due to higher repayment of notes payment during the period as compared to 2011, offset by lower cash interest paid.

As at September 30, 2012, Lodging Enterprises had two properties under development and one property under discussion to be acquired:

Under development:

- ***Oak Tree Inn Glenwood, 220 15th Street SE, Glenwood, MN 56334*** – The 56-room hotel opened on January 23, 2013.

- ***Oak Tree Inn Livonia, 7875 and 8233 Airline Hwy., Livonia, LA 70755*** – The 42-room hotel at 7875 Airline Hwy was constructed in 1996. A new-build 60-room Oak Tree Inn is being constructed at 8233 Airline Hwy and is anticipated to open in April 2013.
- ***Best Western Kansas City Inn, 501 Southwest Boulevard, Kansas City, KS 66103*** – The 112-room hotel opened in 1981 and was expanded in 1985. Lodging Enterprises purchased this property on December 28, 2012 and it is scheduled to be converted to Oak Tree Inn standards by March 1, 2013.

During the periods presented, Lodging Enterprises has not recorded any revenues from the above-noted properties, but it has recognized expenses incurred in the due diligence process for the Best Western Kansas City Inn as well as construction costs in Glenwood and in Livonia. During the nine months ended September 30, 2012, Lodging Enterprises capitalized $1.7 million in construction-in-progress for these properties. There were no costs incurred on these properties prior to January 1, 2012. Lodging Enterprises expects to invest a total of $3.5 million in the new development of the Livonia property and plans to fund 75% of this amount ($2.6 million) through a construction loan which management intends to roll into new mortgage financing upon completion of the development (see "*Debt Strategy and Indebtedness – Debt Composition*"), with the remaining amount ($0.9 million) to be funded with cash from the Offering and available working capital.

Financial position as at September 30, 2012 compared to December 31, 2011

Total assets increased by $0.3 million due primarily to increases in cash and receivables balances as at September 30, 2012 as compared to December 31, 2011. During the period ended September 30, 2012, Lodging Enterprises invested $3.1 million in property and equipment additions, of which $1.7 million was construction costs on properties under development. This increase in property and equipment was offset by $3.9 million of depreciation charges in the period.

As at September 30, 2012, Lodging Enterprises reclassified its Barstow, CA property ("**Barstow**") from property and equipment to asset held for sale as Lodging Enterprises was actively searching for a buyer for that property. On November 30, 2012, Barstow was sold at a settlement price of $2.0 million before commissions and other selling costs.

Total liabilities decreased by $3.8 million primarily due to repayment on the notes payable during the period ended September 30, 2012.

(millions of dollars)	September 30 2012	December 31 2011	Variance	%
Total assets	$107.1	$106.8	$ 0.3	0.3%
Total liabilities	$118.5	$122.3	$(3.8)	(3.1%)

Liquidity, capital resources and contractual commitments

Lodging Enterprises manages its liquidity risk through monitoring the repayment dates and refinancing dates of its notes payable, monitoring its debt covenants and managing its cash flows. Lodging Enterprises' objective is to maintain sufficient available credit facilities to fund ongoing operational and capital requirements.

A summary of the future debt obligations of Lodging Enterprises as at September 30, 2012, which will not be assumed by the Issuer upon Closing, is as follows:

	(millions)
2012	$ 1.3
2013	30.2
2014	5.0
2015	16.2
2016	7.7
Thereafter	11.5
	$71.9

Lodging Enterprises' Term Note I matures April 1, 2013, therefore, the remaining principal balance is shown as a current liability as at September 30, 2012. Lodging Enterprises obtained a letter from the bank dated December 14, 2012 that allowed the maturity date of Term Note I to be considered as extending into 2014 for the purpose of one of the financial covenant calculations. Upon Closing, Lodging Enterprises expects to repay its notes payable, and the Issuer will negotiate new debt as described under "*Debt Strategy and Indebtedness*". Lodging Enterprises will be accessing this new financing in order to complete the properties under development.

Lodging Enterprises has operating leases for its office facility, office equipment and automobiles. The future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2012 were:

	(millions)
2012	$0.3
2013	0.2
2014	0.1
	$0.6

Each of the Initial Properties is supported by a contract with a railroad operator. In general, the contracts establish take-or-pay minimums on the number of rooms reserved, and stipulate a fixed or inflation-adjusting room rate or a room rate adjustment based on a mutually agreeable metric with the railway operator. However, Lodging Enterprises frequently sell rooms to the railroad operator in excess of the minimum daily or monthly room guarantee. Contracts also feature a 'must stay' provision that prohibits railroad employees from using competing hotels within a specified radius for accommodation. Rooms not utilized by railroads can be sold to other guests.

Lodging Enterprises has an agreement under which it leases a lodging property and related restaurant from a railroad company that it operates for that railroad company. Lodging Enterprises is responsible for the routine maintenance and improvement of the property (up to $1,000 total per month) and the ongoing operation of the property. The agreement covers 60 rooms and specifies certain quality and service standards. The room rental rates are negotiated annually, with any change not to exceed the increase in the consumer price index and not to be less than the charges in effect for the previous year. The railroad company pays for all property taxes, utilities and property insurance, and any additional maintenance and improvement of the property. This agreement is renewed annually. The property sustained flood damage in October 2012 and was closed, and the agreement remains in effect.

Subsequent events:

(a) Sale of property:

On November 30, 2012, Lodging Enterprises sold its Barstow Super 8 Motel for $2.0 million before commissions and other selling costs. The property is shown as "asset held for sale" in the September 30, 2012 statement of financial position.

(b) Purchase of property:

On December 28, 2012, Lodging Enterprises completed the purchase of the 112 room Best Western Kansas City Inn hotel located in Kansas City, KS.

(c) Sale of Lodging Enterprises:

Pursuant to a conditional purchase agreement (the "**Purchase Agreement**") signed with a third party purchaser and dated November 19, 2012, Lodging Enterprises' common and preferred unitholders intend to sell all of their units in Lodging Enterprises. The purchase is subject to due diligence and the receipt of financing by the purchaser. The aggregate purchase price for Lodging Enterprises is $127,500,000, of which $122,000,000 will be paid in cash with the balance attributed to the $5,500,000 earnout amount (payment of which is conditional on the renewal by Lodging Enterprises of key contracts), subject to working capital and capital expenditure adjustments in cash.

On November 19, 2012, the third party purchaser paid an initial deposit in the amount of $250,000 pursuant to the Purchase Agreement. The deposit will be refunded to the purchaser upon completion of the purchase contemplated above by February 20, 2013. If the purchase contemplated above is not completed by February 20, 2013, the deposit will be forfeited to the unitholders.

Discussion of the Years Ended December 31, 2011, 2010 and 2009

The following discussion highlights selected financial information for Lodging Enterprises for the years ended December 31, 2011, 2010 and 2009. This information has been compiled from, and should be read in conjunction with, the audited financial statements and notes thereto included elsewhere in this prospectus.

Total revenue for the year ended December 31, 2011 as compared to the prior year increased by $2.1 million or 5.6%. This increase was across all of Lodging Enterprises' revenue sources, but was primarily driven by the increase in room revenues. Total revenue for the year ended December 31, 2010 as compared to the prior year increased by $0.9 million or 2.5%, also predominately due to an increase in room revenues. Further detail is provided below.

Rooms revenue and cost of sales

	Years ended December 31				Years ended December 31			
	2011	2010	Variance	%	2010	2009	Variance	%
Available room nights	914,407	889,594	25,113	2.8%	889,594	878,621	10,973	1.2%
Rooms occupied	778,340	730,313	48,027	6.6%	730,313	674,909	55,404	8.2%
Average occupancy rate	85.1%	82.1%			82.1%	76.8%		
Revenue per available room	$ 43.27	$ 42.19	$ 1.08	2.6%	$ 42.19	$ 41.70	$ 0.49	1.2%
Revenue per occupied room	$ 50.85	$ 51.39	$ (0.54)	(1.1%)	$ 51.39	$ 54.29	$ (2.90)	(5.3%)
(millions of dollars)								
Rooms revenue	$ 39.6	$ 37.5	$ 2.1	5.6%	$ 37.5	$ 36.6	$ 0.9	2.5%
Rooms cost of sales	13.6	12.8	0.8	6.3%	12.8	11.7	1.1	9.4%
	$ 26.0	$ 24.7	$ 1.3	5.3%	$ 24.7	$ 24.9	$ (0.2)	(0.8%)

Room revenue consists of contracted railway lodging revenue, commercial lodging revenue, and charges for transportation and diner fees included in certain railway customer contracts. Room cost of sales consists of direct costs to service those rooms.

For the year ended December 31, 2011 versus the same period in 2010:

Rooms revenue was $39.6 million compared to $37.5 million, representing an increase of $2.1 million or 5.6%. The increase is due to 6.6% increase in occupancy rates offset by a 1.1% decrease in average daily room rates. This is consistent with higher volume of contracted railroad customers which increases overall revenues and occupancy rates, while depressing the average daily room rate.

- Rooms cost of sales was $13.6 million compared to $12.8 million, representing an increase of $0.8 million or 6.3%. The increase is directly correlated to the increase in room revenue.
- Gross profit on rooms was $26.0 million compared to $24.7 million, representing an increase of $1.3 million or 5.3%. The increase is due to the changes described above.

For the year ended December 31, 2010 versus the same period in 2009:

- Rooms revenue was $37.5 million compared to $36.6 million, representing an increase of $0.9 million or 2.5%. The increase is due to more rooms occupied during the period, tempered by lower room rates.
- Rooms cost of sales was $12.8 million compared to $11.7 million, representing an increase of $1.1 million or 9.4%. The primary reason for this increase is higher promotional costs arising from an increase in complimentary breakfasts and travel agent commissions. During the year ended December 31, 2010, these costs represented 2.6% of room revenue, as compared to 2.0% of rooms revenue for the same period in 2011.
- Gross profit on rooms was $24.7 million compared to $24.9 million, representing a decrease of $0.2 million or 0.8%. The decrease is due to the changes described above.

Food revenue and cost of sales

(millions of dollars)	Years ended December 31				Years ended December 31			
	2011	**2010**	**Variance**	**%**	**2010**	**2009**	**Variance**	**%**
Food revenue	$9.9	$9.8	$0.1	1.0%	$9.8	$9.3	$0.5	5.4%
Food cost of sales	8.5	8.4	0.1	1.2%	8.4	8.1	0.3	3.7%
	$1.4	$1.4	$ —	—%	$1.4	$1.2	$0.2	16.7%

Food revenue consists primarily of the food sales from the diners and includes revenues from food provided in meeting rooms. Food cost of sales consists of direct costs to operate the diners.

For the year ended December 31, 2011 versus the same period in 2010:

- Food revenue was $9.9 million compared to $9.8 million, representing an increase of $0.1 million or 1.0%. The increase is due to higher food sales during the period.
- Food cost of sales was $8.5 million compared to $8.4 million, representing an increase of $0.1 million or 1.2%. This increase is directly correlated to the increase in food revenue.
- Gross profit on food was $1.4 million for both periods. This is due to the changes described above.

For the year ended December 31, 2010 versus the same period in 2009:

- Food revenue was $9.8 million compared to $9.3 million, representing an increase of $0.5 million or 5.4%. The increase is due to higher food sales during the period resulting from higher occupancy at adjacent lodging properties.
- Food cost of sales was $8.4 million compared to $8.1 million, representing an increase of $0.3 million or 3.7%. The increase is due to higher food and labour costs associated with the increase in food revenue.
- Gross profit on food was $1.4 million compared to $1.2 million, representing an increase of $0.2 million or 16.7%. The increase is due to the changes described above.

Rental and other revenue and cost of sales

(millions of dollars)	Years ended December 31				Years ended December 31			
	2011	**2010**	**Variance**	**%**	**2010**	**2009**	**Variance**	**%**
Rental and other revenue	$1.0	$0.6	$0.4	66.7%	$0.6	$0.6	$—	—%
Rental and other cost of sales	0.1	—	0.1	—%	—	—	—	—%
	$0.9	$0.6	$0.3	50.0%	$0.6	$0.6	$—	—%

Rental and other revenue includes vending machine sales, gift shop sales, laundry service, room damages, and specified contracted services for certain railway customers. Rental and other cost of sales consists of direct costs to providing such services.

For the year ended December 31, 2011 versus the same period in 2010:

- Rental and other revenue was $1.0 million compared to $0.6 million, representing an increase of $0.4 million or 66.7%. The nature of this revenue stream is ancillary to Lodging Enterprises' primary lodging business and is more ad-hoc in nature. During the year ended December 31, 2011, Lodging Enterprises had increased sales from these revenue sources primarily from an increase in contracted services to the railway customers.

For the year ended December 31, 2010 versus the same period in 2009:

- Rental and other revenue was $0.6 million for both periods. This is due to consistent level of income from Lodging Enterprises' ancillary revenue sources.

General and administrative expenses

(millions of dollars)	Years ended December 31				Years ended December 31			
	2011	**2010**	**Variance**	**%**	**2010**	**2009**	**Variance**	**%**
General and administrative	$4.4	$4.1	$0.3	7.3%	$4.1	$3.9	$0.2	5.1%

General and administrative expenses include head office salaries, legal and professional fees and various office and administrative costs.

For the year ended December 31, 2011, general and administrative expenses were $4.4 million compared to $4.1 million for the same period in 2010, representing an increase of $0.3 million or 7.3%. The increase is due to higher head office salaries.

For the year ended December 31, 2010, general and administrative expense were $4.1 million compared to $3.9 million for the same period in 2009, representing an increase of $0.2 million or 5.1%. The increase is due to higher professional fees and salaries.

Energy expense

(millions of dollars)	Years ended December 31				Years ended December 31			
	2011	**2010**	**Variance**	**%**	**2010**	**2009**	**Variance**	**%**
Energy	$2.5	$2.4	$0.1	4.2%	$2.4	$2.3	$0.1	4.3%

Energy expense is comprised of electric, gas, sewer and water bills.

For the year ended December 31, 2011, energy expense was $2.5 million compared to $2.4 million for the same period in 2010, representing an increase of $0.1 million or 4.2%. This is due to general increases in energy costs.

For the year ended December 31, 2010, energy expense was $2.4 million compared to $2.3 million for the same period in 2009, representing an increase of $0.1 million or 4.3%. This is due to general increases in energy costs.

Property maintenance expenses

(millions of dollars)	Years ended December 31				Years ended December 31			
	2011	**2010**	**Variance**	**%**	**2010**	**2009**	**Variance**	**%**
Property maintenance	$3.2	$2.6	$0.6	23.1%	$2.6	$2.5	$0.1	4.0%

Property maintenance expenses include maintenance personnel wages and maintenance and repair expenses.

For the year ended December 31, 2011, property maintenance expenses were $3.2 million compared to $2.6 million for the same period in 2010, representing an increase of $0.6 million or 23.1%. The increase is due to higher one-time maintenance expenses relating to remediation work performed in the year ended December 31, 2011 than in the prior year.

For the year ended December 31, 2010, property maintenance expenses were $2.6 million compared to $2.5 million for the same period in 2009, representing an increase of $0.1 million or 4.0%. The increase is due to higher maintenance expenditures for the buildings and equipment.

Property taxes and insurance expense

(millions of dollars)	Years ended December 31				Years ended December 31			
	2011	**2010**	**Variance**	**%**	**2010**	**2009**	**Variance**	**%**
Property taxes and insurance	$2.2	$2.1	$0.1	4.8%	$2.1	$2.3	$(0.2)	(8.7%)

Property taxes and insurance expense includes real estate tax and personal property tax.

For the year ended December 31, 2011, property taxes expense was $2.2 million compared to $2.1 million in the prior period, representing an increase of $0.1 million or 4.8%.

For the year ended December 31, 2010, property taxes and insurance expense was $2.1 million compared to $2.3 million for the same period in 2009, representing a decrease of $0.2 million or 8.7%. The decrease is due to an adjustment to the worker's compensation premiums in 2010 based on Lodging Enterprises' claims history at that time.

Depreciation expense

	Years ended December 31				Years ended December 31			
(millions of dollars)	2011	2010	Variance	%	2010	2009	Variance	%
Depreciation	$5.0	$4.6	$0.4	8.7%	$4.6	$4.2	$0.4	9.5%

For the year ended December 31, 2011, depreciation expense was $5.0 million compared to $4.6 million for the same period in 2010, representing an increase of $0.4 million or 8.7%. The increase is due to property and equipment additions during 2011 as compared to the prior year.

For the year ended December 31, 2010, depreciation expense was $4.6 million compared to $4.2 million for the same period in 2009, representing an increase of $0.4 million or 9.5%. The increase is due to property and equipment purchased during 2010 as compared to 2009.

Finance costs

	Years ended December 31				Years ended December 31			
(millions of dollars)	2011	2010	Variance	%	2010	2009	Variance	%
Finance costs	$6.4	$5.9	$0.5	8.5%	$5.9	$13.0	$(7.1)	(54.6%)

Finance costs are comprised of the following components:

	Years ended December 31				Years ended December 31			
(millions of dollars)	2011	2010	Variance	%	2010	2009	Variance	%
Interest expense	$2.9	$3.9	$(1.0)	(25.6%)	$3.9	$ 3.8	$ 0.1	2.6%
Distribution to preferred unitholders	2.1	1.2	0.9	75.0%	1.2	5.5	(4.3)	(78.2%)
Distribution to common unitholders	1.4	0.8	0.6	75.0%	0.8	3.7	(2.9)	(78.4%)
Finance costs	$6.4	$5.9	$ 0.5	8.5%	$5.9	$13.0	$(7.1)	(54.6%)

For the year ended December 31, 2011, finance costs were $6.4 million compared to $5.9 million for the same period in 2010, representing an increase of $0.5 million or 8.5%.

For the year ended December 31, 2010, finance costs were $5.9 million compared to $13.0 million for the comparative period in 2009, representing a decrease of $7.1 million or 54.6%. The reduction is due to significantly lower distributions to the unitholders in 2010 as compared to 2009.

Net earnings

	Years ended December 31				Years ended December 31			
(millions of dollars)	2011	2010	Variance	%	2010	2009	Variance	%
Net earnings	$4.6	$5.0	$(0.4)	(8.0%)	$5.0	$(1.5)	$6.5	433.3%

For the year ended December 31, 2011, the net earnings were $4.6 million compared to net earnings of $5.0 million for the same period in 2010, representing a decrease of $0.4 million. The decrease in net earnings is due to higher expenses across all areas of operations, most notably in property maintenance expenses and finance costs, partially offset by higher revenues in 2011 as compared to the prior year.

For the year ended December 31, 2010, the net earnings were $5.0 million compared to net loss of $1.5 million for the same period in 2009, representing an increase of $6.5 million. The increase in net earnings is attributable to the decrease in finance costs in 2010 as compared to 2009.

Cash flows from operating, financing and investing activities

Lodging Enterprises' primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of Lodging Enterprises' obligations through current cash, cash flows from operations and refinancing of mortgages.

The following table provides an overview of Lodging Enterprises' cash flows from operating, financing and investing activities:

	For the years ended December 31		
(millions of dollars)	2011	2010	2009
Net change in cash related to:			
Operating	$11.5	$12.7	$ 6.8
Investing	(2.0)	(5.7)	(4.0)
Financing	(7.8)	(8.0)	(4.5)
Net change in cash during the period	$ 1.7	$ (1.0)	$(1.7)

The improvement in net cash flow generated for the year ended December 31, 2011 compared to the same period in 2010 was the result of the following factors:

- Operating – the decrease in operating cash flow for the year ended December 31, 2011 compared to the same period in 2010 is due mainly to decrease in net earnings;
- Investing – 2011 cash outflow is lower than 2010 due to lower capital expenditures; and
- Financing – 2011 cash outflow is lower than 2010 due to lower cash interest paid during the year.

The improvement in net cash flow generated for the year ended December 31, 2010 compared to the same period in 2009 was the result of the following factors:

- Operating – the increase in operating cash flow for the year ended December 31, 2010 compared to the prior year is due to the net earnings position during 2010 as compared to net loss for 2009;
- Investing – 2010 cash outflow is higher than 2009 due to higher capital expenditure in 2009; and
- Financing – 2010 cash outflow is higher due to Lodging Enterprises receiving net proceeds from a note payable during 2009, but there was new financing for Lodging Enterprises during the year in 2010.

Summary of Quarterly Results

In accordance with item 1.5 of Form 51-102F1 – Management's Discussion & Analysis, quarterly information has not been presented as Lodging Enterprises did not previously prepare financial statements on a quarterly basis. The impact of seasonality on Lodging Enterprises' financial performance is reduced due to its significant contract-driven revenue source.

Transactions with related parties

During each of the years ended December 31, 2011, 2010 and 2009, Lodging Enterprises paid $0.01 million, $0.02 million and $0.03 million, respectively, to an entity associated with a shareholder of Lodging Enterprises for taxation services. During each of the nine months ended September 30, 2012 and 2011, Lodging Enterprises paid $0.01 million and $0.02 million, respectively, to an entity associated with a shareholder of Lodging Enterprises for taxation services.

Lodging Enterprises performed monthly bookkeeping services for a company owned by a shareholder of Lodging Enterprises. During each of the years ended December 31, 2011, 2010 and 2009, Lodging Enterprises received $0.02 million for these services. During each of the nine months ended September 30, 2012 and 2011, Lodging Enterprises received $0.01 million for these services.

Critical accounting policies and estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of income and expenses during the financial reporting period. Actual results may differ from these estimates. For a full list of accounting policies used in the preparation of the financial statements for the three and nine months ended September 30, 2012 and 2011 and the audited financial statements for the years ended December 31, 2011 and 2010 and 2009, please refer to "Note 3 – Significant accounting policies" of the respective financial statements contained elsewhere within this prospectus.

Risks and uncertainties

There are business risks associated with Lodging Enterprises and ownership of the Initial Portfolio. See "Risk Factors".

Off-Balance Sheet Arrangements

None.

Financial Instruments and Other Instruments

(i) Financial assets:

Lodging Enterprises' financial assets are comprised of cash and cash equivalents, restricted cash and trade and other receivables. Lodging Enterprises classifies these financial assets as loans and receivables.

Lodging Enterprises 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:

Lodging Enterprises has the following non-derivative financial liabilities: accounts payables and accrued expenses, notes payable, common units and preferred units. Lodging Enterprises 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 Lodging Enterprises becomes a party to the contractual provisions of the instrument.

Lodging Enterprises derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through the profit or loss. The put feature of the common units and the conversion feature of the preferred units are accounted for as derivatives and initially recognized at fair value and subsequently re-measured at fair value. Gains or losses arising from the change in fair values are recognized in the statement of income and comprehensive income.

(iii) Fair values

The carrying values of Lodging Enterprises' cash and cash equivalents, trade and other receivables, other assets, and accounts payables and accrued expenses approximate their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of notes 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. The carrying values of Lodging Enterprises' notes payable approximate their fair values.

The fair value of the put option rights held by the common unit holders at each period end is $nil as the redemption price is based on the market value at the time of redemption. The fair value of the conversion rights held by the preferred unit holders at each period end is $nil as it would be disadvantageous for the preferred unitholders to convert.

The fair value of the common and preferred units is estimated based on an ongoing assessment of Lodging Enterprises' value by taking into consideration general business and economic conditions and Lodging Enterprises' performance.

(iv) 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 Lodging Enterprises on terms that Lodging Enterprises would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

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

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

(v) Risk management:

Refer to note 11 "Financial instruments" in the notes to the audited financial statements for the years ended December 31, 2011 and 2010 and 2009.

Liquidity, capital resources and contractual commitments

A summary of the future debt obligations of Lodging Enterprises as at December 31, 2011, which will not be assumed by the Issuer upon Closing, is as follows:

	(millions)
2012	$ 5.2
2013	30.2
2014	5.0
2015	16.2
2016	7.7
Thereafter	11.5
	$75.8

During the year ended December 31, 2009, Lodging Enterprises was in violation of two covenants contained in the Sixth Amended and Restated Credit Facilities dated April 1, 2011:

(a) At December 31, 2009, the Term Note I had a maturity date of August 1, 2010 and accordingly the full Term Note I balance of $26,458,117 was classified as a current liability. As a result, Lodging Enterprises was not in compliance with one of its financial ratios.

(b) Lodging Enterprises did not deliver to the bank audited financial statements within 180 days of Lodging Enterprises' fiscal year end.

Lodging Enterprises obtained a letter from the bank dated July 7, 2010 that waived the above covenant violations by allowing the maturity date of Term Note I to be considered as extending beyond December 31, 2010 and by extending the deadline for audited statements from 180 days after fiscal year-end to 210 days.

Future Accounting Policy Changes

(i) IFRS 9 – Financial Instruments:

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

(ii) IFRS 10 – Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Issuer is currently evaluating the impact of IFRS 10 on its financial statements.

(iii) IFRS 12 – Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Issuer is currently evaluating the impact of IFRS 12 on its financial statements.

(iv) IFRS 13 – Fair Value Measurement:

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Issuer is currently evaluating the impact of IFRS 13 on its financial statements.

(v) IAS 1 – Presentation of Financial Statements:

In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The objective of IAS 1 is to set out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The effective date of this standard is January 1, 2013 but early adoption is permitted. The Issuer is currently evaluating the impact of IAS 1 on its financial statements.

INVESTMENT GUIDELINES AND OPERATING POLICIES

Investment Guidelines

The REIT LP Agreement will provide that the assets of the Issuer may only be invested, and the Issuer shall not permit the assets of any Subsidiary to be invested otherwise than, with the approval of the GP and in accordance with the following investment guidelines:

(a) The Issuer will not make any investment, take action or omit to take any action that would result in Units not being a "qualified investment" for investment by Plans.

(b) The Issuer shall not make any investments or take any action or omit to take any action which would cause the Issuer to be a "SIFT partnership" within the meaning of the Tax Act (or proposed amendments thereto) at any time during a Taxation Year.

(c) The Issuer shall cause the U.S. REIT to only make investments and adopt operating policies and undertake activities that will allow the U.S. REIT to meet all requisite organizational, operational, income, asset and distribution requirements for the U.S. REIT to qualify as a REIT under the Code.

(d) The Issuer shall not make investments or undertake activities that will cause the Issuer to be actually engaged in a U.S. trade or business for U.S. federal income tax purposes, or to generate income treated as effectively connected with a U.S. trade or business other than amounts attributable to USRPI in connection with the investment in U.S. REIT or similar Subsidiary.

(e) The Issuer shall not acquire any interest in real property directly and in the case of indirect interests in real property, the Issuer shall not indirectly acquire any interest in a single real property if, after giving effect to the proposed acquisition, the cost of such acquisition will exceed 15% of the Issuer's Gross Book Value.

(f) Except as otherwise permitted, the Issuer may only invest in indirect interests (including ownership and leasehold interests) in Suitable Properties in the U.S. and Canada and such other investments and activities related or incidental thereto as are consistent with the investment restrictions and guidelines of the Issuer and approval by a majority of the directors of the GP from time to time.

(g) Except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, securities issued by Subsidiaries or Affiliates, and except as otherwise permitted pursuant to the investment guidelines and operating policies of the Issuer, the Issuer may not hold securities other than to the extent such securities would constitute an indirect investment in real property (as determined by the GP).

(h) The Issuer may, with the prior approval of the GP, indirectly invest in a joint venture arrangement for the purposes of indirectly owning interests or investments otherwise permitted to be held by the Issuer; provided that such joint venture arrangement contains terms and conditions which, in the opinion of management, are commercially reasonable, including such terms and conditions relating to restrictions on the transfer, acquisition and sale of the Issuer's interest and any joint venturer's interest in the joint venture arrangement, provisions to provide liquidity to the Issuer, provisions to limit the liability of the Issuer and its Unitholders to third parties, and provisions to provide for the participation of the Issuer in the management of the joint venture arrangement. For purposes hereof, a joint venture arrangement is an arrangement between the Issuer and one or more other persons pursuant to which the Issuer indirectly conducts an undertaking for one or more of the purposes set out in the investment guidelines of the Issuer and in respect of which the Issuer may hold its interest jointly or in common or in another manner with others through the ownership of securities of a corporation or other entity, including a limited partnership or a limited liability company.

(i) The Issuer shall not invest, directly or indirectly, in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property.

(j) The Issuer will not invest, indirectly, in operating businesses unless an indirect investment is incidental to a transaction: (i) where revenue will be derived indirectly, principally from the Suitable Properties; or (ii) which principally involves the ownership, maintenance, improvement, leasing, operation or management indirectly, of Suitable Properties (in each case as determined by the board of directors of the GP) including for greater certainty any business relating to hotel, lodging or other activity ancillary to such business conducted on or in connection with the Suitable Properties.

(k) The Issuer may, with the prior approval of the GP, invest, directly or indirectly, by way of mezzanine loans, in the development of new Suitable Properties, with rights to cause a Subsidiary to acquire such properties on pre-agreed terms.

(l) The Issuer may invest, directly or indirectly, in immovable hypothecs, mortgages, hypothecary bonds or mortgage bonds (including a participating or convertible immovable hypothec or mortgage) and similar instruments where:

(i) the hypothec, mortgage, hypothecary bond or mortgage bond is issued by a Subsidiary;

(ii) the immovable property, which is security therefor, is income producing real property which otherwise complies with the other investment guidelines of the Issuer adopted from time to time in accordance with the guidelines set out herein;

(iii) the immovable hypothec or mortgage is an immovable hypothec or mortgage registered on title to the real property which is security therefor; and

(iv) the aggregate value of the investments of the Issuer in these instruments, after giving effect to the proposed investment, will not exceed 20% of the adjusted Unitholders' equity.

The Issuer may invest, directly or indirectly, in immovable hypothecs or mortgages which are not first ranking for the purposes of providing, directly or indirectly, financing in connection with a transaction in which a Subsidiary of the Issuer is the vendor or with the intention of using such hypothec or mortgage as part of a method for subsequently indirectly acquiring an interest in or control of a real property or a portfolio of properties.

(m) The Issuer may invest an amount (which, in the case of an amount invested to indirectly acquire real property, is the purchase price less the amount of any indebtedness assumed or incurred by the Issuer) up to 15% of the Gross Book Value of the Issuer in investments which do not comply with one or more of the operating policies.

Operating Policies

The REIT LP Agreement will provide that the operations and affairs of the Issuer shall be conducted in accordance with the following policies, the whole subject to the investment guidelines above. For the purpose of these policies, the assets, liabilities and transactions of a corporation, trust or other entity wholly or partially owned by the Issuer (an "**investee**") will be deemed to be those of the Issuer on a proportionate consolidated basis. In applying these guidelines, the Issuer will cause each investee to adhere to operating policies, and the Issuer will otherwise manage its investments in its investees, such that it shall remain in compliance with the operating policies. In addition, any references in the below guidelines to investment in real property will be deemed to include an investment in a joint venture:

(a) The Issuer 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" shall have the meaning ascribed thereto by National Instrument 81-102 adopted by the Canadian Securities Administrators, as amended from time to time.

(b) The Issuer may engage, indirectly, in construction or development of Suitable Properties, businesses or assets in order to maintain its indirect interests in real properties in good repair or to enhance the income-producing potential of Suitable Properties, businesses or assets in which the Issuer has an indirect interest, provided that the aggregate value of investments in properties under development, including advances of mezzanine loans, after giving effect to the proposed investment in the development or mezzanine loan will not exceed 5% of the Issuer's Gross Book Value.

(c) Unless otherwise approved by the board of directors of the GP, title to each real property shall be held by and registered in the name of an entity owned, directly or indirectly, by the Issuer or jointly-owned, directly or indirectly, by a Subsidiary of the Issuer, with joint venturers or a corporation which is a nominee of a Subsidiary of the Issuer which holds registered title to such real property pursuant to a nominee agreement with a Subsidiary of the Issuer.

(d) The Issuer shall not, directly or indirectly, incur or assume any indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total consolidated indebtedness of the Issuer would be more than 60% of the Issuer's Gross Book Value (excluding convertible debentures) and 65% of the Issuer's Gross Book Value (including convertible debentures). For the purposes of this paragraph, the term "indebtedness" means any obligation of the Issuer or its Subsidiaries for borrowed money, including the face amount outstanding under any convertible debentures but excluding any premium in respect of indebtedness assumed, directly or indirectly, by the Issuer for which the Issuer or its Subsidiaries has the benefit of an interest rate subsidy, but only to the extent an amount receivable has been excluded in the calculation of Gross Book Value with respect to such interest rate subsidy, provided that:

(i) an obligation will constitute indebtedness only to the extent that it would appear as a liability on the consolidated statement of financial position of the Issuer in accordance with IFRS;

(ii) indebtedness excludes trade accounts payable, distributions payable to Unitholders, accrued liabilities arising in the ordinary course of business and short-term acquisition credit facilities; and

(iii) indebtedness excludes any amount shown on the consolidated statement of financial position of the Issuer in accordance with IFRS in respect of the Units, if they shall be characterized as a liability under IFRS.

(e) The Issuer will not, directly or indirectly, guarantee any indebtedness or liabilities of any kind of any person, except indebtedness or liabilities assumed or incurred by a person in which the Issuer holds an interest, directly or indirectly, or by an entity jointly-owned indirectly by the Issuer with joint venturers and operated solely for the purpose of holding a particular property or properties where such indebtedness, if granted by the Issuer directly, would not cause the Issuer to otherwise contravene the guidelines. The Issuer is not required but shall use its reasonable best efforts to comply with this requirement if doing so is necessary or desirable in order to further the initiatives of the Issuer permitted under the REIT LP Agreement.

(f) The Issuer will not invest indirectly in any properties unless a Subsidiary of the Issuer:

(i) will obtain or has received an independent appraisal of each property or an independent valuation of a portfolio of properties that it intends to acquire; and

(ii) will obtain or review a preliminary site investigation report (or reliance letter from an environmental consultant in respect of a preliminary site investigation report) of each real property to be acquired by it, dated within eighteen months of the date of acquisition, and, if the preliminary site investigation report recommends or recommended a Phase II environmental audit be obtained, the Subsidiary shall obtain or review a Phase II environmental audit, in each case by an independent and experienced environmental consultant; as a condition to any acquisition, such audit must be satisfactory to the GP.

Amendments to Investment Guidelines and Operating Policies

The investment guidelines and the operating policies to be set out in the REIT LP Agreement may be amended only by Special Resolution. 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 Issuer or any property of the Issuer shall enact any law, regulation or requirement which is in conflict with any investment guideline of the Issuer then in force (other than the restriction on making any investments, taking action or omitting to take any action that would result in Units not being a "qualified investment" for investment by Plans), such guideline in conflict shall, if the directors on the advice of legal counsel to the GP so resolve, be deemed to have been amended to the extent necessary to resolve any such conflict and, notwithstanding anything to the contrary herein contained, any such resolution of the GP shall not require the prior approval of Unitholders.

Application of Investment Guidelines and Operating Policies

With respect to the investment guidelines and operating policies, where any maximum or minimum percentage limitation is specified in any of the guidelines and policies therein contained, such guidelines and policies shall be applied on the basis of the relevant amounts calculated immediately after the making of such investment or the taking of such action. Any subsequent change relative to any percentage limitation which results from a subsequent change in the Gross Book Value or adjusted Unitholders' equity will not require divestiture of any investment (other than with respect to paragraphs (a) and (b) of the investment guidelines which must be complied with at all times).

DISTRIBUTION POLICY

Monthly Distributions

The Issuer intends to satisfy its monthly distributions to Unitholders using available cash to the maximum extent possible. The amount of cash available for distribution will be equal to the monthly cash receipts of the Issuer less reserves and any other amounts that the GP reasonably considers are required for expenses and other obligations of the Issuer. Distributable Cash will be distributed as follows: first, to the GP 0.01% of the Distributable Cash to a maximum of $100 per annum; and as to the balance, to the Unitholders, *pro rata* in accordance with their respective Proportionate Shares. In connection with the completion of the Offering, the Seed Capital Investors have agreed to subordinate their distributions to the distributions of other Unitholders for a period of 18 months following Closing.

The initial cash distribution, which will be for the period from and including the date of closing of the Offering to March 31, 2013, is expected by management to be paid on April 15, 2013 to Unitholders of record on March 29, 2013 and is estimated to be Cdn$0.096 per Unit (assuming the closing of the Offering occurs on February 20, 2013). Subsequent regular distributions in the estimated amount of Cdn$0.075 per Unit are anticipated to be made for each month thereafter, commencing on or about May 15, 2013.

The Issuer intends to make monthly distributions to Unitholders of record on the last Business Day of each month. Distributions will be paid within 15 days following the end of each month. The Issuer may also make additional distributions in excess of monthly distributions during the year, as the GP may determine.

Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the Issuer intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future.

Distribution Policy

The following outlines the Issuer's expected distribution policy to be contained in the REIT LP Agreement, but is not intended to be a complete description. Reference should be made to the REIT LP Agreement for the full text of the Issuer's distribution policy. The distribution policy (specifically, the requirements of the REIT LP Agreement relating to distributions) may be amended by the GP from time to time.

Distributions shall be made by cheque payable to or to the order of the Unitholder or by electronic fund transfer or by such other manner of payment approved by the GP from time to time. The payment, if made by cheque, shall be conclusively deemed to have been made upon hand-delivery of a cheque to the Unitholder or to his or her agent duly authorized in writing or upon the mailing of a cheque by prepaid first-class mail addressed to the Unitholder at his or her address as it appears on the register of Unitholders unless the cheque is not paid on presentation. The GP may issue a replacement cheque if it is satisfied that the original cheque has not been received or has been lost or destroyed upon being furnished with such evidence of loss, indemnity or other document in connection therewith that it may in its discretion consider necessary.

The GP shall deduct or withhold from distributions payable to any Unitholder all amounts required or permitted by law to be withheld from such distribution and shall remit such taxes to the appropriate governmental authority within the times prescribed by law. Unitholders who are non-resident alien individuals and non-U.S. corporations for U.S. federal income tax purposes will be generally subject to U.S. withholding taxes in respect of any distributions of dividends by the U.S. REIT.

The Issuer intends to consent where necessary to the filing of "consent dividend" elections under section 565 of the Code in respect of shares of the U.S. REIT, where such consent dividends are necessary for the U.S. REIT to distribute any balance of taxable income of the U.S. REIT determined for U.S. tax purposes that has not been distributed by dividends paid with cash. In general terms, a "consent dividend" would give rise to a dividend deemed paid by the U.S. REIT for U.S. tax purposes (without a corresponding amount of cash being distributed to the Issuer) together with the applicable U.S. withholding tax liability to be paid by the U.S. REIT on behalf of its shareholders. See "*Principal Canadian Federal Income Tax Considerations*" and "*Principal United States Federal Income Tax Considerations*".

USE OF PROCEEDS

The net proceeds of the Offering are estimated to be approximately Cdn$76,280,000 after deduction of the Underwriters' Fee and the estimated expenses of the Offering. The Issuer will use approximately Cdn$62,216,949 of the net proceeds of the Offering to indirectly acquire its interest in the Initial Portfolio pursuant to the terms of the Unit Purchase Agreement. In particular, the Issuer will use a portion of the net proceeds to acquire shares of U.S. REIT and the U.S. REIT will, in turn, use such proceeds to indirectly acquire the Initial Portfolio. The Issuer will use any remaining net proceeds to indirectly acquire additional Suitable Properties by making further investments in the U.S. REIT and for general working capital purposes. Management estimates expenses related to the Offering (excluding the Underwriters' Fee) to be approximately Cdn$5,500,000.

The net proceeds of the Over-Allotment Option, if exercised in full, will be approximately Cdn$12,167,000 after deduction of the Underwriters' Fee and the estimated expenses of completing the Over-Allotment Option. The Issuer intends to use the net proceeds received by it on the exercise of the Over-Allotment Option to indirectly acquire additional Suitable Properties by making further investments in the U.S. REIT and for general working capital purposes. Management estimates expenses related to the Over-Allotment Option (excluding the Underwriters' Fee) to be approximately Cdn$100,000.

The GP will be responsible for the supervision of the investment of any unallocated working capital raised from this Offering. Until future acquisitions are identified, negotiated and completed, any unallocated working capital raised from this Offering will be invested in short-term guaranteed investment certificates or similar type investments. The GP will adhere to the Issuer's acquisition strategy and financing strategy described herein and to the Issuer's investment guidelines and operating policies to be contained in the REIT LP Agreement. See "*Growth Strategies*" and "*Investment Guidelines and Operating Policies*".

PLAN OF DISTRIBUTION

General

Pursuant to the Underwriting Agreement between the Issuer, the Sponsor and the Underwriters, the Issuer has agreed to sell and the Underwriters have severally agreed to purchase on Closing 8,700,000 Units at a price of Cdn$10.00 per Unit, if, as and when issued in accordance with the terms and conditions of the Underwriting Agreement.

The Closing is expected to take place on or about February 20, 2013. The obligations of the Underwriters under the Underwriting Agreement are conditional 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. The Underwriters are, however, severally obligated to take up and pay for all of the Units that they have agreed to purchase if any of the Units are purchased under the Underwriting Agreement. The Issuer and the Sponsor have agreed to indemnify the Underwriters and their respective directors, officers, employees and agents against certain liabilities, including civil liabilities under Canadian provincial securities legislation, or to contribute to any payments the Underwriters may be required to make in respect thereof. The indemnification obligations of the Sponsor under the Underwriting Agreement will be secured for a period of 18 months by the 336,000 Units held by Maverick Management Corp., Triple E Investments Ltd. and Darren Investments Inc., Affiliates of the Principals.

The price of the Units was determined by negotiation between the Issuer and the Lead Underwriters. The Issuer has agreed to pay the Underwriters' Fee equal to 6% of the gross proceeds of the Offering, being an aggregate amount of Cdn$5,220,000 (or Cdn$6,003,000 in the event that the Over-Allotment Option is exercised in full by the Underwriters).

The Underwriters propose to offer the Units initially at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Units at the Offering Price, such price may be decreased and may be further changed from time to time to an amount not greater than the Offering Price, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Units is less than the Offering Price.

Pursuant to the Underwriting Agreement, the Underwriters will use their commercially reasonable efforts to distribute the Units to not less than 3,000 Unitholders.

The Issuer has granted the Underwriters the Over-Allotment Option, which is an option to sell up to 1,305,000 additional Units at any time and from time to time up until the date that is 30 days from the Closing Date. If the Over-Allotment Option is exercised in full, the net proceeds to the Issuer after deducting the Underwriters' Fee of Cdn$6,003,000 but prior to deduction of expenses of this Offering will be Cdn$94,047,000.

The Offering is being made in all provinces and territories of Canada. The Units have not been and will not be registered under the 1933 Act, or any state securities laws, and accordingly may not be offered or sold to, or for the account or benefit of, persons in the U.S. or U.S. persons, except pursuant to transactions which are exempt from the registration requirements of the 1933 Act and applicable state securities laws. Each Underwriter has agreed that, except as permitted by the Underwriting Agreement and except as expressly permitted by applicable U.S. federal and state securities laws, it will not offer or sell the Units at any time within the U.S. or to, or for the account or benefit of any U.S. person. Terms used in this paragraph have the meanings given to them by Regulation S under the 1933 Act.

Pursuant to the rules and regulations of certain Canadian securities regulators, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase Units. The foregoing restriction is subject to certain exceptions including: (i) a bid or purchase permitted under the rules of the Exchange relating to market stabilization and passive market activities; and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distributions, provided that the bid or purchase was not engaged in for the purpose of creating an actual or apparent active trading in, or raising the price of such securities. In connection with this Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Units at a level other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

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. The Exchange has conditionally approved the listing of the Units distributed under this Offering on the Exchange under the symbol "HOT.UN". Listing will be subject to the Issuer fulfilling all of the listing requirements of the Exchange on or before May 7, 2013.

In connection with the completion of the Offering, the Issuer has agreed with the Underwriters that it will not issue any Units or securities that are convertible into Units during the 180 days following the Closing, without the prior consent of the Lead Underwriters, such consent not to be unreasonably withheld, other than in connection with: (i) any employee option or purchase plans; or (ii) any potential issuances or payments in Units contemplated in this prospectus.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved by the Underwriters to close the subscription books at any time without notice.

Subscription Procedure

The acceptance of an offer to purchase Units, whether by allotment in whole or in part, by the GP shall constitute a subscription agreement between the subscriber and the Issuer upon the terms and conditions set out in this prospectus and to be set out in the REIT LP Agreement, whereby the subscriber, among other things:

(a) irrevocably authorizes and directs the Underwriters to provide certain information to the GP, including such subscriber's full name, residential address, business or corporation account number, as the case may be, number of units subscribed for and the name and registered representative number of the representative of the Underwriters responsible for such subscription and covenants to provide such information to the Underwriters;

(b) acknowledges that he or she is bound by the terms of the REIT LP Agreement and is liable for all obligations of a limited partner;

(c) makes the representations and warranties set out in the REIT LP Agreement; and

(d) irrevocably nominates, constitutes and appoints the GP as his or her true and lawful attorney with the full power and authority as set out in the REIT LP Agreement.

The foregoing subscription agreement shall be evidenced by delivery of this prospectus to the subscriber, provided that the subscription has been accepted by the GP on behalf of the Issuer. The subscription agreement will have been accepted by the GP upon issuance of the relevant Units on Closing.

A subscriber whose subscription is accepted by the GP will become a limited partner of the Issuer once the subscription has been recorded on the register or one or more of the branch transfer registers maintained by the GP, the Issuer or the Transfer Agent. If a subscription is withdrawn or is not accepted by the GP, all documents and subscription monies will be returned to the subscriber, without interest, within 15 days following such withdrawal or rejection.

Book-Entry System for Units

Units may be represented in the form of one or more fully registered unit certificates held by, or on behalf of, CDS, as custodian of such certificates for the participants of CDS, registered in the name of CDS or its nominee, and registration of ownership and transfers of Units may be effected through the book-based system administered by CDS. Beneficial owners of Units will not, except in certain limited circumstances, be entitled to receive a physical certificate evidencing their ownership of Units and will receive only a customer confirmation from a registered dealer who is a CDS Participant through which the Units were purchased.

PRINCIPAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

You should consult your own professional advisors to obtain advice on the tax consequences that apply to you.

In the view of KPMG LLP ("**KPMG**"), tax advisor to the Issuer, and Blake, Cassels and Graydon LLP ("**Blakes**"), counsel to the Underwriters, the following is a summary, as of the date hereof, of the principal Canadian federal income tax considerations generally applicable under the Tax Act to a Unitholder who acquires Units pursuant to this Offering and who, for purposes of the Tax Act and at all relevant times, is resident in Canada for the purposes of the Tax Act, deals at arm's length and is not affiliated with the Issuer, the GP or the Manager and holds the Units as capital property. Generally, the Units will be considered to be capital property to a Unitholder provided such Units are not held in the course of carrying on a business and have not been acquired in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Unitholder (i) that is a "financial institution" as defined for purposes of the "mark-to-market properties" rules in the Tax Act, (ii) that is a "specified financial institution" as defined in the Tax Act, (iii) which makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act, (iv) an interest in which would be a "tax shelter investment" as defined in the Tax Act (and this summary assumes that no such persons hold Units), (v) that has, directly or indirectly, a "significant interest" as defined in subsection 34.2(1) of the Tax Act in the Issuer, (vi) to which any affiliate of the Issuer is a "foreign affiliate" for purposes of the Tax Act, or (vii) which borrows money to acquire the Units. Any such Unitholders should consult their own tax advisors with respect to an investment in Units.

This summary assumes that (i) the Issuer is not a "tax shelter" or "tax shelter investment", each as defined in the Tax Act, and (ii) Units that represent more than 50% of the fair market value of all interest in the Issuer are held by Unitholders that are not "financial institutions" as defined for purposes of the "mark-to market properties" rules in the Tax Act. However, no assurances can be given in this regard. The tax consequences described herein may be materially and detrimentally different in the event that one or more of these assumptions are not accurate.

This summary describes the principal Canadian federal income tax considerations based on the application of specific provisions of the Tax Act to the transactions described in the Prospectus, and does not address any tax consequences which could arise as a result of any potential application of the general anti-avoidance rule in subsection 245(2) of the Tax Act to any particular transaction or series of transactions. This summary is based on the facts set out in this Prospectus and in a certificate provided to KPMG and Blakes by the Issuer, the GP and the Sponsor (the "**Certificate**"). This summary is also based upon the provisions of the Tax Act in force as of the date hereof and on KPMG's and Blakes' understanding of the publicly available administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") published prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof including Bill C-48 which received first reading in the House of Commons on November 21, 2012 and legislative proposals announced on December 21, 2012 (collectively, the "**Proposed Amendments**"). There can be no assurance that these proposals will be enacted in their current form or at all, or that the CRA will not change its administrative policies and assessing practices.

This summary does not otherwise take into account or anticipate any changes in law or in administrative policies or assessing practices, whether by legislative, governmental or judicial decision or action. There can be no assurances that such changes, if made, might not be retroactive. **This summary also does not take into account provincial, territorial, U.S., state, or other foreign tax legislation or considerations, which may differ significantly from those discussed in this summary.**

This summary is not exhaustive of all possible Canadian federal 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 the particular circumstances applicable to each Unitholder. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Units. The Issuer has not obtained, nor sought, an advance tax ruling from the CRA in respect of this Offering. Prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences of an investment in Units based on their particular circumstances.

The SIFT Measures

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the "**SIFT Measures**"). A "SIFT partnership" (as defined in the Tax Act) will be subject to SIFT tax on its "taxable non-portfolio earnings" (as defined in the Tax Act) at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. The "taxable non-portfolio earnings" less SIFT tax payable by a SIFT partnership will also be included in computing income of the Unitholder for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. The SIFT Measures do not apply to a partnership that does not hold any "non-portfolio property" throughout the taxation year of the partnership. The GP has represented in the Certificate that it does not expect the Issuer to hold any "non-portfolio property". Consequently the GP expects, and this summary assumes, that the Issuer will not be liable to tax under the SIFT Measures.

There can be no assurances that the treatment of SIFT partnerships under the Tax Act will not be changed, or that administrative policies or assessing practices of the CRA will not develop, in a manner which adversely affects the Issuer or its Unitholders.

Taxation of the Issuer

Computation of Income or Loss

The Issuer is not generally subject to tax under the Tax Act. Each Unitholder of the Issuer is required to include or entitled to deduct in computing its income for a particular taxation year its share of the income or loss of the Issuer allocated to it for the Issuer's Fiscal Years ending in or on the Unitholder's taxation year-end, whether or not distributed to the Unitholder in the taxation year, subject to certain loss limitation rules (see "*Limitation on Deductibility of Losses*" below). For this purpose, the income or loss of the Issuer must be computed for each Fiscal Year as if the Issuer were a separate person resident in Canada, and allocated to the Unitholders on the basis of their respective shares of that income or loss as provided for in the REIT LP Agreement, subject to certain provisions of the Tax Act in that regard.

The income of the Issuer for purposes of the Tax Act will include dividends, if any, received or deemed to be received at any time in the Fiscal Year on shares of the U.S. REIT. Under Proposed Amendments, an amount will be deemed to be a dividend received by Issuer on a share of the U.S. REIT where the amount is the share's portion of a pro rata distribution made in respect of all the shares of that class (other than a distribution made in the course of a liquidation and dissolution of the corporation, on a redemption, acquisition or cancellation of the share by the corporation, or on a qualifying return of capital in respect of the share). Under the Proposed Amendments a distribution made by the U.S. REIT in respect of its shares that is a reduction of the paid-up capital of the U.S. REIT may be treated as a qualifying return of capital if an election is made, such that the distribution would not be included in income of Issuer but rather applied to reduce the Issuer's adjusted cost base in the relevant shares. If at any time the adjusted cost base of shares of the U.S. REIT held by the Issuer would become a negative amount, the Issuer will be deemed to have realized a capital gain equal to such amount.

In the Certificate, the GP has stated it intends to consent on behalf of the Issuer where necessary to the filing of "consent dividend" U.S. tax elections under section 565 of the Code in respect of shares of the U.S. REIT, where such consent dividends are necessary for the U.S. REIT to distribute any balance of taxable income for U.S. tax purposes of the U.S. REIT that has not been distributed by dividends paid with cash. In general terms, a "consent dividend" election would give rise to a dividend deemed paid by the U.S. REIT for U.S. tax purposes (without a corresponding amount of cash being distributed to the Issuer) together with a U.S. withholding tax liability to be paid by the U.S. REIT on behalf of its shareholders. The CRA has stated that "consent dividends" under the Code are not dividends received for purposes of the Tax Act. Based on this administrative policy, no amount of consent dividends would be required to be included in the income of the Issuer for purposes of the Tax Act, nor would such consent dividends result in an increase to the adjusted cost base of shares of the U.S. REIT. However, the CRA has also expressed the view that the amount of any U.S. tax remitted by a U.S. corporation on behalf of a shareholder in respect of dividends deemed paid for U.S. tax purposes by virtue of consent dividend elections would constitute a taxable benefit conferred on such shareholder, but such amount would also qualify as non-business income tax for purposes of the provisions of the Tax Act governing foreign tax credits and foreign tax deductions. Consequently, on the basis of the foregoing, the GP has advised that it intends to include in computing the Issuer's income for purposes of the Tax Act any U.S. tax remitted by the U.S. REIT with respect to consent dividend elections, and the amount of any such U.S. tax attributable to a particular Unitholder will be allocated to such Unitholder and should be treated as non-business income tax from a U.S. source in determining such Unitholder's entitlement to foreign tax credits and foreign tax deductions, subject to the detailed rules in the Tax Act in this regard (see "*Foreign Tax Credits and Deductions*" below).

The GP has advised that the Issuer will take the position that any gains and losses realized on a disposition (including a redemption) of any share of the U.S. REIT are capital gains and capital losses. Accordingly, the income of the Issuer for purposes of the Tax Act will also include the taxable capital gain portion of any capital gain (or the allowable capital loss portion of any capital loss), if any, realized by the Issuer during a Fiscal Year on a disposition (including a redemption) of any share of the U.S. REIT. The treatment of capital gains and capital losses is generally described below under "Taxation of Unitholders – Disposition of Units". Where capital losses are realized by the Issuer on disposition (including a redemption) of such shares, such losses may, under certain circumstances, be denied and be added to the adjusted cost base to the Issuer of the remaining shares of the U.S. REIT based on the relative fair market value of such shares.

The Issuer will enter into transactions involving U.S. dollar currency, including receipt of distributions from the U.S. REIT in U.S. dollars. For purposes of the Tax Act, all income (or losses) of the Issuer must be calculated in Canadian currency in accordance with the detailed rules in the Tax Act in that regard. Where the Issuer holds investments in U.S. dollars or other foreign currencies, gains and losses may be realized by the Issuer as a consequence of fluctuations in the relative values of the Canadian and foreign currencies. The Issuer may enter into foreign currency swap arrangements. In accordance with the CRA's published administrative practice, gains and losses on currency hedging transactions may be treated as capital gains and capital losses provided there is sufficient linkage. Where the Issuer enters into derivative transactions other than those that are on account of capital, gains and losses on such derivatives will be treated on income account rather than as capital gains and capital losses.

In computing its income or loss, the Issuer may generally deduct administrative costs and other expenses of a current nature incurred by it for the purpose of earning income from its business or property, provided such expenses are reasonable and otherwise deductible, subject to applicable provisions of the Tax Act. The Issuer may also deduct any expenses incurred by it in the course of the issuance of Units on a five-year straight line basis (subject to pro-ration for short taxation years).

To the extent that any "controlled foreign affiliate" ("**CFA**") of the Issuer, including the U.S. REIT or any direct or indirect subsidiary thereof (including Lodging Properties LLC and Lodging Enterprises) earns income that is characterized as "foreign accrual property income" as defined in the Tax Act ("**FAPI**") in a particular taxation year of the CFA, the FAPI allocable to the Issuer must be included in computing the income of the Issuer for Canadian federal income tax purposes for the Fiscal Year of the Issuer in which the taxation year of the CFA ends, whether or not the Issuer actually receives a distribution of that FAPI. Dividends received by the Issuer from the U.S. REIT or any other CFA will be included in computing the income of the Issuer; however, as described in the ensuing paragraphs, a deduction will be available to the extent that the Issuer has already included such amount in its income as FAPI.

FAPI does not include income from a business carried on by a CFA that is an "active business", within the meaning of the FAPI provisions (the "**Active Business Exception**"). An active business for these purposes excludes an "investment business" which is generally defined as a business the principal purpose of which is to derive income from property (including interest, dividends, rents, royalties or any similar returns or substitutes therefor), and certain other types of investment income. The CRA's interpretation taken in a different context is that a corporation that operates a hotel is generally considered to be in the business of providing services and not in the business of renting real property, and that accordingly, such business is considered to be an active business. KPMG is of the view and Blakes is of the opinion that such interpretation should be applicable in the context of the determination of FAPI and the Active Business Exception. FAPI also does not include income from a business carried on by a CFA where, generally, throughout the period in the taxation year during which the business was carried on the business is the leasing of property and the CFA employs more than five employees full time in the active conduct of the business outside of Canada (the "**Employee Exception**"). The GP has advised that it does not expect that the U.S. REIT or any of the Issuer's Subsidiaries will meet the Employee Exception with respect to individuals involved in hotel operations, as for U.S. tax purposes it is required that such individuals be employed by the Hotel Managers. The GP has also advised that it does not anticipate that the U.S. REIT or any of the Issuer's Subsidiaries will directly employ a sufficient number of other employees throughout the 2013 taxation year to meet the Employee Exception, although the GP anticipates that employment levels may increase in subsequent taxation years. Finally FAPI also does not include income of a CFA that, generally, is derived by the CFA from activities that can reasonably be considered to be directly related to active business activities carried on by certain other CFAs that qualify for the Active Business Exception or the Employee Exception, or that, generally, is derived from amounts that were paid or payable, directly or indirectly, to such CFA by certain other CFAs to the extent that those amounts are for expenditures that were deductible by those other CFAs in computing amounts prescribed to be its earnings or loss from an active business that qualifies for the Active Business Exception or the Employee Exception (the "**Indirect Exception**"). Where the CFAs of the Issuer qualify for any one or more of the Active Business Exception, the Employee Exception, or the Indirect Exception (the "**FAPI Exceptions**"), Issuer should not be required to include any amount of FAPI in computing its income for Canadian federal tax purposes.

If, notwithstanding the foregoing, income earned by any CFA of the Issuer fails to fall within at least one of the FAPI Exceptions throughout a particular taxation year, an amount of FAPI will be required to be included in computing the income of the Issuer for Canadian federal income tax purposes, and a grossed-up amount may be deductible in respect of the "foreign accrual tax" as defined in the Tax Act ("**FAT**") applicable to the FAPI. As the

U.S. REIT intends to qualify as a real estate investment trust for U.S. federal income tax purposes the amount of U.S. federal income tax payable by the U.S. REIT is not expected to be material, and it is not expected that there would be a material FAT deduction available to apply against any FAPI in respect of the U.S. REIT if the U.S. REIT fails to meet one of the FAPI Exceptions throughout a particular year. Any amount of FAPI included in income (net of the amount of any FAT deduction) will increase the adjusted cost base to the Issuer of its shares of the U.S. REIT or other CFA in respect of which the FAPI was included. At such time as the Issuer receives a dividend from the U.S. REIT or other CFA out of this type of income that was previously treated as FAPI (net of the amount of any previous FAT deduction, if any), that dividend will effectively not be included in computing the income of the Issuer and there will be a corresponding reduction in the adjusted cost base to the Issuer of the shares of the U.S. REIT or other CFA, as the case may be, to the extent such adjusted cost base was increased as a result of such FAPI inclusion.

Taxation of the Unit Holders

Allocation of Income or Loss

Subject to the restrictions described under "*Limitation on Deductibility of Losses*", each Unitholder will be required to include (or be entitled to deduct) in computing the Unitholder's income, the Unitholder's proportionate share of the income (or loss) of the Issuer allocated to the Unitholder pursuant to the REIT LP Agreement for the Fiscal Year of the Issuer ending in the Unitholder's taxation year. A Unitholder's share of the Issuer's income must (or loss may) be included (or deducted) in determining the Unitholder's income (or loss) for the year, whether or not any distribution has been made by the Issuer. See "*The Securities Offered – The REIT LP Agreement – Allocation of Income and Losses*".

In general, a Unitholder's share of any income (or loss) of the Issuer from a particular source or from sources in a particular place will be treated as if it were income (or loss) of the Unitholder from that source or from sources in that particular place, and any provisions of the Tax Act applicable to that type of income (or loss) or income (or loss) from that place will apply to the Unitholder.

Limitation on Deductibility of Losses

If the Issuer incurs losses for tax purposes, each Unitholder will be entitled to deduct in the computation of income for tax purposes the Unitholder's pro rata share of any net losses for tax purposes of the Issuer for its Fiscal Year to the extent of the Unitholder's "at-risk amount" within the meaning of the Tax Act. In general, the "at-risk amount" of a Unitholder in respect of the Issuer for any taxation year will generally be the adjusted cost base of the Unitholder's Units at the relevant time, and where that time is the end of the Issuer's Fiscal Year) (subject to certain provisions of the Tax Act), plus any income allocated to the Unitholder for the year, less any amount owing by the Unitholder (or a person or partnership with whom the Unitholder does not deal at arm's length) to the Issuer (or a person or partnership with whom the Issuer does not deal at arm's length), and less the amount of any benefit that the Unitholder (or a person with whom the Unitholder does not deal at arm's length) is entitled to receive or obtain for the purpose of reducing, in whole or in part, any loss of the Unitholder from the investment. A Unitholder's loss that is limited by the at-risk rules under the Tax Act becomes a "limited partnership loss", which is available for indefinite carry forward to be claimed against income from the Issuer allocated to such Unitholder to the extent that the Unitholder has an at-risk amount in respect of the Issuer in a subsequent year.

Adjusted Cost Base of Units

In general, the adjusted cost base of a Unitholder's Units will be equal to: (i) the actual cost of the Units (excluding any portion thereof financed with limited recourse indebtedness); plus (ii) the pro rata share of the income of the Issuer allocated to the Unitholder pursuant to the terms of the REIT LP Agreement for Fiscal Years of the Issuer ending before the relevant time; less (iii) the aggregate of the pro rata share of losses of the Issuer allocated to the Unitholder (other than limited partnership losses) for the Fiscal Years of the Issuer ending before the relevant time; and less (iv) the Unit Holder's distributions from the Issuer made before the relevant time. The adjusted cost base of each of the Units will be subject to the averaging provisions contained in the Tax Act.

A Unitholder will realize a deemed capital gain if, and to the extent that, the adjusted cost base of the Unitholder's Units is negative at the end of any Fiscal Year of the Issuer. In such a case, the adjusted cost base of the Unitholder's Units will be nil at the beginning of the next Fiscal Year of the Issuer.

Disposition of Units

The disposition by a Unitholder of a Unit will result in the realization of a capital gain (or capital loss) by such Unitholder in the amount, if any, by which the proceeds of disposition of the Unit, less any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base of such Unit to the Unitholder. Where a Unitholder disposes of all of its Units, it will no longer be a partner of the Issuer. If, however, a Unitholder is entitled to receive a distribution from the Issuer after the disposition of all such Units, then the Unitholder will be deemed to dispose of the Units at the later of: (i) the end of the Fiscal Year of the Issuer during which the disposition occurred; and (ii) the date of the last distribution made by the Issuer to which the Unitholder was entitled. Pursuant to Proposed Amendment, the pro rata share of income (or loss) of the Issuer for tax purposes for a particular Fiscal Year which is allocated to a Unitholder who has ceased to be a partner will generally be added (or deducted) in the computation of the adjusted cost base of the Unitholder's Units immediately prior to the time of the disposition as if the particular Fiscal Year were a completed Fiscal Year. These rules are complex and Unitholders should consult their own tax advisors for advice with respect to the specific tax consequences to them of disposing of Units.

Furthermore, if (i) a Unitholder holds, or has held, actually or constructively, more than 5% of the outstanding Units, as determined for U.S. federal income tax purposes, or (ii) the regularly traded exception is not satisfied (see "*U.S. Federal Income Tax-Related Risk Factors*"), a Unitholder may be subject to additional U.S. tax on disposition of the Units. The portion of such U.S. tax paid that is not applied as a foreign tax credit may generally not be available as a foreign tax deduction. Where such Unitholders are not entitled to all benefits under the Treaty, 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, where such Unitholders are trusts, their beneficiaries 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 or deduction in respect of such U.S. tax for Canadian tax purposes.

In general, one-half of a capital gain realized by a Unitholder must be included in computing such Unitholder's income as a taxable capital gain. One-half of a capital loss is deducted as an allowable capital loss against taxable capital gains realized in the year and any remainder may be deducted against taxable capital gains in any of the three years preceding the year or any year following the year to the extent and under the circumstances described in the Tax Act.

Alternative Minimum Tax

A Unitholder who is an individual or trust (except for certain trusts) may be liable for alternative minimum tax on certain amounts including capital gains.

Refundable Tax

A Unitholder which is a "Canadian-controlled private corporation" (as defined in the Tax Act) may also be liable to pay an additional refundable tax of 6⅔% on the Unitholder's share of certain investment income, including taxable capital gains and dividends on shares of the U.S. REIT.

Foreign Tax Credits and Deductions

Foreign taxes paid by the Issuer and taxes withheld at source (other than for the account of a particular Unitholder) will be allocated pursuant to the REIT LP Agreement. As set out under "*Principal United States Federal Income Tax Considerations*", the Issuer intends to be treated as a partnership for U.S. federal income tax purposes, and for such purposes, a Unitholder should be considered the relevant taxpayer with respect to U.S. tax withheld on distributions in respect of shares of the U.S. REIT. To the extent the U.S. REIT withholds U.S. tax on distributions to the Issuer, the amount of U.S. tax attributable to a particular Unitholder may be deductible from such Unitholder's Canadian federal income tax otherwise payable for that year (a "**foreign tax credit**"), or may be deductible in computing the Unitholder's income for Canadian tax purposes for that year (a "**foreign tax deduction**"), 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 Unitholder also files a U.S. federal income tax return to establish the Unitholder's final U.S. income tax liability for the year and the Unitholder is not entitled to a refund of such withholding tax.

The U.S. tax paid for a taxation year that is attributable to a particular Unitholder 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

Unitholder's Canadian federal income tax otherwise payable for that year as relates to the Unitholder's share of the non-business income from U.S. sources to the extent that non-business income tax paid has not been deducted in computing the Unitholder's income and, in the case of a Unitholder that is an individual, does not exceed 15% of such share of non-business income. To the extent that such non-business income tax paid by a Unitholder that is an individual exceeds 15% of the Unitholder's share of non-business income from U.S. sources, such excess may generally be deducted by the Unitholder in computing the Unitholder's net income for the purposes of the Tax Act subject to the rules and limitations contained in the Tax Act.

A Unitholder's ability to apply U.S. taxes in the foregoing manner 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. source income or losses, has paid other U.S. taxes or in certain circumstances has not filed a U.S. federal income tax return where required for the relevant taxation year. See also "*Disposition of Units*". Although the foreign tax credit provisions are designed to avoid double taxation, the maximum credit is limited and a Unitholder who is an individual will be limited to a foreign tax deduction where the relevant U.S. tax exceeds 15% of the related U.S. source income as discussed above. Because of this, and because of timing differences in recognition of expenses and income and other factors, there is a risk of double taxation. Prospective purchasers should consult their own tax advisors regarding their ability to claim foreign tax credits or foreign tax deductions.

The foregoing mechanism for recognition of U.S. taxes for purposes of the Tax Act through foreign tax credits or foreign tax deductions does not apply to Unitholders that are Plans. In reference to the matters set out under "*Principal United States Federal Income Tax Considerations*", to the extent that an annuitant, a beneficiary, a subscriber or a holder of a Plan that is a Unitholder files a U.S. federal income tax return and the annuitant, beneficiary, subscriber or holder (rather than the Plan itself) receives a U.S. tax refund of (or claims a foreign tax credit or a foreign tax deduction for an amount in respect of) all or a portion of the amounts withheld by the U.S. REIT, the annuitant, the beneficiary, the subscriber or the holder may, in certain circumstances, be required to include, in computing income for purposes of the Tax Act, or to pay a penalty tax on, an applicable portion of such amount of U.S. tax as a benefit or advantage received out of or under the Plan. Annuitants, beneficiaries, subscribers or holders of Unitholders that are Plans should consult their own tax advisors in this regard.

Reference should be made below to "*Taxation of the Issuer and of the Unitholders*" under "*Principal United States Income Tax Considerations*" for further information on the taxation of the Issuer and the Unitholders for U.S. federal income tax purposes, as such taxation directly affects the Unitholder's entitlement to the foreign tax credits and deductions outlined above.

Tax Reporting Requirements

Each Unitholder will generally be required to file an income tax return reporting such Unitholder's share of the income or loss of the Issuer. While the Issuer will provide each Unitholder with information required for income tax purposes pertaining to such Unitholder's investment in Units, the Issuer will not prepare or file income tax returns on behalf of any Unitholder.

Each person who is a Unitholder in a year will be required to file an information return on or before the last day of March in the following year in respect of the activities of the Issuer in which the Unitholder holds Units or, where the Issuer is dissolved, within 90 days after the dissolution. A return made by any one partner will be deemed to have been made by each partner. Under the REIT LP Agreement, the GP is required to file the necessary return.

Eligibility for Investment

In the view of KPMG, in its capacity as tax advisor to the Issuer, and in the opinion of Blakes, counsel to the Underwriters, provided that, at all relevant times, the Units are listed on a "designated stock exchange" as defined in the Tax Act (which includes the Toronto Stock Exchange), the Units will be qualified investments under the Tax Act for trusts governed by Plans.

Notwithstanding the foregoing, a holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are a "prohibited investment" as defined in the Tax Act for the TFSA, RRSP or RRIF. The Units will not be a "prohibited investment" for trusts governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Issuer for purposes of the Tax Act, (ii) has a "significant interest" as defined in the Tax Act in the Issuer, or (iii) has a "significant interest" as defined in the Tax Act in a corporation, partnership or trust with which the Issuer does not deal at arm's length for purposes of the Tax Act. Generally, a holder or annuitant, as the case may be, will not have a significant interest in the Issuer unless the holder or annuitant, as the case may be, holds interests as a member of the Issuer that have a fair market value of 10% or more of the fair market value of the interests of all members in the Issuer, either alone or together with persons and partnerships with which the holder or annuitant, as the case may be, does not deal at arm's length. Proposed Amendments released on December 21, 2012 propose to delete the condition in (iii) above. In addition, pursuant to the Proposed Amendments, the Units will generally not be a "prohibited investment" if the Units are "excluded property" as defined in the Proposed Amendments for trusts governed by a TFSA, RRSP or RRIF. Holders or annuitants should consult their own tax advisors with respect to whether Units would be prohibited investments, including with respect to whether the Units would be "excluded property" as defined in the Proposed Amendments.

PRINCIPAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

Introduction

In this summary, references to "REIT" are general references to entities that are treated as real estate investment trusts under the Internal Revenue Code of 1986, as amended (the "**Code**").

In the view of KPMG LLP, in its capacity as tax advisor to Issuer, the following is a general summary of the principal U.S. federal income tax considerations applicable to Unitholders (defined below) of the purchase, ownership and disposition of the Units offered by the Prospectus.

Assumptions

This summary assumes that Issuer is treated as a partnership for U.S. federal income tax purposes and that Units in Issuer are "regularly traded" on an "established securities market" at all relevant times for U.S. federal income tax purposes. In particular, management has represented that, under applicable security law, the OTC QX is a market reflected by the existence of an interdealer quotation system within the meaning of Treas. Reg. sec. 1.897-1(m)(3). As such, this summary assumes that the OTC QX is an "established securities market" for U.S. federal income tax purposes. This summary assumes that the Units would be considered "regularly traded" on an established securities market at all relevant times for U.S. federal income tax purposes. However, no assurances can be given that Units in Issuer will be treated as regularly traded in any particular calendar quarter.

The U.S. federal income tax consequences of an investment in Units may be materially adversely affected relative to the description in this summary if Issuer is not treated as a partnership or if its Units are not considered to be regularly traded on an established securities market for U.S. federal income tax purposes. If Units in Issuer are regularly traded on an established securities market, whether Issuer is treated as a partnership in a particular year for U.S. federal income tax purposes depends on the composition of Issuer's gross income for that year. Whether Units in Issuer are regularly traded on an established securities market for U.S. federal income tax purposes depends, in part, on the extent to which Units actually trade in a particular quarter.

Management has represented to KPMG that it expects that although the Units in Issuer will be regularly traded on an established securities market, the type and amount of Issuer's gross income will allow Issuer to be treated as a partnership for each year for U.S. federal income tax purposes. However, no assurances can be given that Issuer will be treated as a partnership for U.S. federal income tax purposes, whether in its first or in any subsequent year.

Management has also represented to KPMG that it anticipates the volume of trading in the Units and the number and the distribution of Unitholders will exceed the "regularly traded" standards (discussed generally later) set out by the U.S. Department of the Treasury and the U.S. Internal Revenue Service (the "**IRS**") for each calendar quarter. Additionally, to the extent the Units are traded solely on the TSX in a particular quarter, management has represented to KPMG that Issuer intends to comply with the annual filings and disclosures that are pre-requisites for units that are solely traded on an established securities market situated outside the U.S. to be considered to be "regularly traded" for U.S. federal income tax purposes. However, given the possibility that actual circumstances may be materially different than those expected at the outset, no assurances can be given that Units in Issuer will be treated as regularly traded in any particular calendar quarter.

This commentary also summarizes, in a general way, the principal U.S. federal income tax considerations to the U.S. REIT regarding its qualification and taxation as a REIT for U.S. federal income tax purposes.

Whether the U.S. REIT qualifies as a REIT for U.S. federal income tax purposes is dependent on whether it satisfies the various REIT requirements for each taxable year, including, but not limited to, certain organizational, operational, gross income, asset and distribution requirements (see below "*Requirements for REIT Qualification*").

Management has represented to KPMG that it intends for the U.S. REIT to qualify as a REIT for each relevant taxable year and that it will establish procedures to regularly monitor REIT classification and compliance. However, given the highly complex nature of the rules governing REITs and the possibility of future changes in circumstances, no assurances can be given that the U.S. REIT will qualify as a REIT for U.S. federal income tax purposes, whether in its first taxable year or in any subsequent year. The failure of the U.S. REIT to qualify as a REIT, in its first or in any subsequent taxable year, may result in materially reduced distributions to Unitholders and U.S. federal income tax consequences that are not described in this summary.

Limitations

This summary is directed only to prospective purchasers who purchase the Units offered by this Prospectus who are not U.S. persons under the Code and who do not own (and who are not considered to own) for U.S. federal income tax purposes more than 5% of the Units in Issuer that are listed for trading on an established securities market at any time. The U.S. federal income tax consequences of an investment in the Units by either a U.S. Person or any person who owns (or is considered to own) more than 5% of the Units will be materially different than the U.S. federal income tax consequences described in this summary.

This summary also assumes that there are no sales of real estate within one year of the respective property acquisitions by the U.S. REIT.

The summary does not deal with all aspects of U.S. federal income taxation that may be relevant to the specific circumstances of a particular Unitholder. For example, this summary does not cover all aspects of U.S. estate and gift taxation that may be relevant to the specific circumstances of a particular Unitholder. Likewise, except to the extent specifically provided, the summary does not address the U.S. federal income tax consequences to Unitholders that are subject to special treatment, including but not limited to, financial institutions, broker-dealers, mutual funds, insurance companies, tax-exempt organizations and trusts.

Finally, this summary does not address state or local income tax or state or local tax filing matters.

"Unitholder" Defined

This summary is directed only to prospective non-U.S. Unitholders and references to "Unitholders" in this summary mean non-U.S. Unitholders unless otherwise indicated. As such, for this purpose, a "Unitholder" means any Issuer Unitholder that is not: (i) a U.S. citizen, U.S. permanent resident (green card holder) or individual resident in the U.S.; (ii) a U.S. partnership; (iii) a corporation or other entity taxable as a corporation that is either created or organized under the laws of the U.S. or a political subdivision thereof or that is for other reasons treated as if were taxable as a corporation created or organized under the laws of the U.S.; (iv) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (v) a trust, if a court within the U.S. is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of its substantial decisions.

All Unitholders are assumed to be residents of Canada entitled to all relevant benefits of the 1980 U.S.-Canada Income Tax Convention, as amended (the "**Treaty**").

Special Considerations Applicable to RRSPs and to TFSAs

For purposes of this summary, except as otherwise specifically noted, references to "nonresident alien individuals" include certain registered retirement savings plans ("**RRSPs**"), specifically those with Canadian resident annuitants which are organized as contractual arrangements or as trusts and which are neither exempt from seizure by creditors of the annuitant nor spousal RRSPs. In addition, references to "nonresident alien individuals" also include tax-free savings accounts ("**TFSAs**") that are held by Canadian individuals and which are organized as contractual arrangements or trusts which are not exempt from seizure by creditors of the holder.

The U.S. federal income tax treatment and classification of RRSPs and TFSAs is complex, is not free from doubt and is dependent upon the terms of the specific RRSP or TFSA. This summary assumes RRSPs and TFSAs are treated as either grantor trusts, or as investments of the individual annuitants which are not separate entities from the individuals for U.S. federal income tax purposes. As such, this summary assumes the individual annuitants or holders are treated as the owners of the RRSPs or the TFSAs assets for U.S. federal income tax purposes. There is, however, a risk that the U.S. tax authorities might take a different position from that taken in the summary. In such event, the U.S. federal income tax consequences with respect to such RRSPs and TFSAs may be different from those described below.

Investors that are RRSPs or TFSAs should consult their own tax advisors as to the U.S. federal, state, and local income and non-U.S. tax consequences to them as a result of their status either as an RRSP or as a TFSA.

This summary is of a general nature only and does not consider all possible U.S. federal income tax considerations of an investment in Units. This summary also does not consider state, local or non-U.S. tax consequences. This summary does not constitute an opinion to prospective Unitholders and is not intended to be legal or tax advice to prospective purchasers of Units.

No ruling has been sought from the IRS on any aspect of this Offering.

This summary is based on the facts set out in this prospectus and the facts, assumptions and representations set out in a representation letter provided to KPMG by the Issuers. This summary is also based upon the relevant provisions of the Code, the regulations under the Code (the "Regulations"), the Treaty, as amended and the judicial and administrative interpretations and pronouncements thereof as currently in effect. These authorities are subject to change retroactively and/or prospectively and any such changes could affect the U.S. tax consequences described in the summary below.

Each investor should consult his, her or its own tax advisor as to the U.S. federal, state, and local income and other tax consequences to it of the purchase, ownership and disposition of the Units taking into consideration his, her or its own particular circumstances.

ANY TAX ADVICE IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN BY KPMG TO BE USED AND IT CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER. THE PROSPECTUS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTION(S) OR MATTER(S) ADDRESSED IN THIS PROSPECTUS. ALL TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM THEIR INDEPENDENT TAX ADVISOR(S).

Summary

The discussion which follows is a general overview of the principal U.S. federal income tax consequences of dispositions by Unitholders of interests in Issuer, of distributions received by Unitholders and of dispositions by Issuer of interests in the U.S. REIT. The discussion assumes that Issuer is treated as a partnership and the U.S. REIT qualifies as a REIT for U.S. federal income tax purposes for each year.

Taxation of the Issuer and of Unitholders

Taxation of the Issuer

Entity Classification Rules

The Code prescribes the classification of various organizations for U.S. federal income tax purposes. A business entity that is not automatically classified as a corporation and that has at least two members may generally elect to be treated as either a partnership or as a corporation for U.S. federal income tax purposes. In general, a business entity such as Issuer that is organized in Canada is automatically classified as a corporation only if it is a corporation as a matter of corporate law, or if all of its members have limited liability with respect to the entity's debts. In the case of a business entity that is a partnership, such partnership is automatically classified as a corporation only if its units are publicly traded and certain exemptions are not met.

A business entity is an organization that is formed to carry on business, to divide its profits amongst its participants and which engages in activities beyond the mere co-ownership of investment property.

An organization that merely protects and conserves properties for the benefit of its unitholders is generally classified as a trust rather than as a business entity for U.S. federal income tax purposes.

Certain Publicly Traded Partnerships Treated as Corporations

A business entity that is otherwise classified as a partnership for U.S. federal income tax purposes may be treated as a corporation if interests in the entity are traded on an established securities market. However, partnership classification is retained for publicly traded partnerships if 90% or more of the partnership's income is "qualifying income" for each year and it is not required to register as an investment company under the *Investment Company Act of 1940* (the qualifying income exception). Qualifying income includes interest, dividends and gain from the disposition of shares of corporations that are treated as REITs for U.S. federal income tax purposes. A partnership is deemed to meet the qualifying income test if it inadvertently fails to meet the test, takes steps to meet the test no later than a reasonable time after the discovery of the failure, and the partnership agrees to certain terms and conditions that may be imposed on it by the Internal Revenue Service.

Management has represented to KPMG that it expects that 90% or more of Issuer's gross income will consist of qualifying income each year, that it expects the Issuer to meet the qualifying income exception and that Issuer will not elect to be treated as a corporation for U.S. federal income tax purposes. Therefore, Issuer should be treated as a partnership for U.S. federal income tax purposes. If this is not the case, the U.S. federal income tax consequences will differ significantly from those described below and distributions to Unitholders may be materially lower than if Issuer were treated as a flow-through entity for U.S. federal income tax purposes.

The Issuer is Expected to be a Flow-Through Entity

A business entity that is treated as a partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax. Rather, the distributive share of the partnership's income, gains, losses, deductions and credits is generally taken into account separately by each interest holder in the partnership. In that regard, the character of distributions received by Issuer from the U.S. REIT and gains recognized by Issuer on the sale or exchange (or on the deemed sale or exchange) of its U.S. REIT shares is generally determined as if such distributions and gains were recognized directly by the Unitholders.

Taxation of Unitholders as Partners

The following describes, in general terms, the U.S. federal income taxation to Unitholders of gains and losses from the disposition of Units, of income and gains derived by Issuer from the U.S. REIT and from dispositions by the Issuer of interests in the U.S. REIT. This description assumes Issuer is classified as a partnership and the U.S. REIT qualifies as a REIT for U.S. federal income tax purposes.

Disposition of Units

A non-U.S. person's gain from the disposition of a United States Real Property Interest ("**USRPI**") is generally subject to U.S. tax, withholding and filing requirements and is not exempt under the Treaty. A USRPI generally includes shares in corporations organized in the U.S., such as the U.S. REIT, the fair market value of whose interests in real property located in the U.S., at any time in a five year testing period, equals or exceeds 50% of the fair market value of the sum of its interests in real property located in the U.S., its interests in real property located outside the U.S. and its other assets used or held for use in a trade or business.

Under a "look-through" rule, a non-U.S. person's gain from disposition of an interest in an entity treated as a partnership for U.S. federal income tax purposes, wherever organized, is treated as gain from disposition of an interest in a USRPI to the extent gain on the disposition of the partnership interest is attributable to USRPIs owned by the partnership.

Exception from USRPI Classification – 5% Shareholders

The Code exempts from the general USRPI rule shares of a U.S. corporation that are regularly traded on an established securities market by a non-U.S. person who owns 5% or less of such class at the time of disposition and who also owned 5% or less of such class at all times in the immediately preceding five year period. An established securities market includes national securities exchanges outside the U.S. that are officially recognized, sanctioned or supervised by governmental authority and should include the TSX Venture Exchange. An established securities market also includes an over-the-counter market that is reflected by the existence of an interdealer quotation system. Management has represented that, under applicable security law, the OTC QX is a market reflected by the existence of an interdealer quotation system. As such, the OTC QX should be an "established securities market" for U.S. federal income tax purposes. Constructive ownership and attribution rules apply for purposes of determining whether a person qualifies for the 5% exception.

Regulations extend the exemption from USRPI classification, above, for certain shares of a corporation that are regularly traded on an established securities market, to partnership units that are regularly traded on an established securities market. As in the case of the exception applicable to shares of a U.S. corporation, the USRPI exception for partnership units applies only to non-U.S. persons who own 5% or less of the class of regularly traded partnership units at the time of disposition and who also owned 5% or less of such class at all times in the immediately preceding five year period. Similar to shares in a corporation, complex constructive ownership and attribution rules apply for purposes of determining whether a person qualifies for the 5% exception.

The U.S. withholding, reporting and filings that would otherwise apply to a non-U.S. person's disposition of a USRPI (discussed generally below under "*FIRPTA Tax, Withholding and Filing Requirements on Sale of Units if Units Are Not Regularly Traded*") do not apply to dispositions of a class of publicly traded partnership interests by non-U.S. persons who satisfy the 5% or lower ownership requirement. As such, Unitholders who do not otherwise have a U.S. tax reporting or filing requirement would not have one as a result of a sale or other disposition of their Units in the Issuer provided they owned (and were considered to own) 5% or less of the Units that were listed for trading at the time of disposition and at all times during the immediately preceding five year period and the Issuer met the regularly traded requirements for the quarter in which the disposition is made. Likewise, the transferee would not be required to withhold and remit 10% of the sales proceeds (including any consideration such as assumption of debt) to the Internal Revenue Service.

In general terms, the Regulations consider units in a partnership to be regularly traded in a particular quarter if each of four tests is met.

First, trades are effected, other than in de minimis quantities, on at least 15 days during the calendar quarter.

Second, the aggregate number of units traded in the calendar quarter as a percentage of the average number of units in such class outstanding during the calendar quarter equals or exceeds a minimum threshold. The minimum quarterly threshold is 2.5% if the average number of partners of record is 2,500 or more and 7.5% otherwise. Although not entirely free from doubt, a partner of record for this purpose is likely to include the beneficial Unitholder rather than a nominee or custodian.

Third, 100 or fewer persons do not own or constructively own 50% or more of the outstanding class of partnership units at any time in the calendar quarter.

Fourth, the partnership units are traded in registered form and the partnership maintains records of the beneficial owner of the units at all times and also meets certain reporting requirements, which include identifying each person who, at any time in the year, was the beneficial owner of more than 5% of any class of units in the partnership that are traded.

Where the Units are regularly traded on both the TSX and an U.S. established securities market during the calendar year, such as the OTC QX, the aforementioned four tests generally should not need to be met for such calendar year.

Management has represented to KPMG that it expects Units in the Issuer to satisfy the regularly traded standards of the Regulations in each quarter commencing with the first closing of this Offering. Management has also represented to KPMG that it has procedures in place to limit the likelihood that the standards of the Regulations will not be met. However, since certain of the requirements are based on factual matters and future events that are beyond Management's control, Management cannot provide assurances that each of the requirements in the Regulations will be met for each quarter in a particular Unitholder's holding period. Accordingly, the comments which follow summarize, in a general way, the taxation, withholding and reporting requirements applicable to the disposition of Units in the event Units in the Issuer are not considered to be regularly traded on an established securities market in the quarter in which the disposition occurs and are, therefore, treated as gains from the sale or exchange of a USRPI, in whole or in part. These same taxation, withholding and reporting requirements would generally also apply to the disposition of Units by a Unitholder who owns (or is considered to own) more than 5% of the listed class of Units at the time of disposition or at any time in the immediately preceding five year period.

FIRPTA Tax, Withholding and Filing Requirements on Sale of Units if Units Are Not Regularly Traded

Gain on the disposition of a USRPI by a nonresident alien or foreign corporation generally is treated as "effectively connected with the conduct of a trade or business within the United States" ("**ECI**") and the taxable amount (gain reduced in most cases by allocable deductions) is subject to U.S. federal income tax at graduated rates ("**FIRPTA Tax**"). All or a portion of the gain of a Unitholder from the sale of Units in the Issuer is expected to be treated as gain from the disposition of a USRPI if the Units are not considered to be regularly traded on an established securities market in the calendar quarter in which the disposition occurs. The maximum applicable FIRPTA Tax for long-term capital gains of nonresident individual Unitholders (including RRSPs and TFSAs), subject to alternative minimum tax, is generally 20% for gains recognized after 2012, generally with no reductions of rates under the Treaty. The gain on disposition of Units in the Issuer will be treated as long-term capital gains if the sold Units had been held by the Unitholder for more than one year. The corresponding rate for foreign corporate Unitholders (or for business entities that are treated as foreign corporations for U.S. federal income tax purposes), subject to alternative minimum tax, is 35% and is also not generally eligible for a reduced rate under the Treaty.

A transferee acquiring a USRPI from a non-U.S. person is generally required to deduct, withhold and remit to the IRS a tax equal to 10% of the purchase price of a USRPI ("**Section 1445 Withholding**"). This withholding may be reduced or eliminated with the appropriate facts if an application for a withholding certificate is timely filed with the IRS requesting a reduction in withholdings and a withholding certificate is received from the IRS. A withholding certificate might be issued by the IRS if a Unitholder establishes that the actual tax on the sale proceeds is expected to be less than 10% of the sales price because, for example, the Unitholder suffers a loss on the sale. However, no assurance can be given that the IRS will approve a withholding certificate application.

A Unitholder that sells or otherwise disposes of Units in the Issuer to which the FIRPTA Tax applies is required to file a U.S. federal income tax return for the year of disposition (Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations) and may claim the Section 1445 Withholding tax withheld by the transferee as a credit against the Unitholder's final U.S. federal income tax liability for the year by showing proof of withholding (Form 8288-A). However, the U.S. federal income tax return must generally be filed no later than two years after the tax is withheld for excess withholdings to be recovered. A Unitholder that sells or otherwise disposes of Units in the Issuer to which the FIRPTA Tax applies is required to file a U.S. federal income tax return without regard to the amount of tax withheld. A U.S. taxpayer identification number is required to file a U.S. federal income tax return.

The U.S. tax consequences described above would also generally apply to the disposition of Units by a Unitholder who owns (or who is considered to own) more than 5% of the listed class of Units at the time of disposition or at any time in the immediately preceding five year period.

FIRPTA Tax, Withholding and Filing Requirements on a Unitholder's Distributive Share of the Issuer's USRPI Gains

The exception from USRPI treatment for 5% or less ownership interests in a class of partnership units that are considered to be regularly traded on an established securities market only applies to gain from the disposition by the non-U.S. person of such partnership interests. It does not extend to other gains recognized (or considered to be recognized) by a Unitholder attributable to the actual or deemed disposition of USRPIs that may result from an investment in the Issuer ("**Non-Exempt Gains**") unless the gain is attributable to shares of the U.S. REIT that are themselves regularly traded on an established securities market.

A Unitholder may recognize Non-Exempt Gains from one of three main sources, even if the Issuer meets the regularly traded on an established securities market requirements of the Regulations and the Unitholder has owned 5% or less of the Issuer's listed Units throughout a five year holding period. These three main categories of Non-Exempt Gains are:

A Unitholder's distributive share of distributions made by the U.S. REIT attributable to the sale or exchange of USRPIs by the U.S. REIT (e.g., the U.S. REIT's disposition of the Initial Properties);

Distributions made by the U.S. REIT in excess of both its earnings and profits and the Issuer's adjusted basis in the shares of the U.S. REIT; and

Gain from the sale or exchange by the Issuer of its shares of the U.S. REIT.

The Issuer's adjusted basis for purposes of calculating its Non-Exempt Gains is generally calculated with reference to the original cost of its U.S. REIT shares, less certain adjustments (mostly notably a reduction for distributions in excess of the U.S. REIT's earnings and profits). The adjusted basis of a partnership's assets is not generally adjusted to reflect gains and losses recognized by its partners unless the partnership files a special election

("**Section 754 election**"). The Issuer does not expect to file a Section 754 election. Accordingly, the Issuer does not expect gains and losses recognized by its Unitholders to affect the amount of its Non-Exempt Gains from the disposition (or the deemed disposition) of its U.S. REIT shares.

Generally, the taxable amount (gain reduced by deductions in most cases) of such Non-Exempt Gain is subject to the FIRPTA Tax to the Unitholders at the graduated rates referred to earlier (maximum rate of 20% for gains recognized through the Issuer by nonresident alien individuals after 2012 and 35% for gains recognized through the Issuer by foreign corporations, subject to alternative minimum tax), is not eligible for a reduced rate under the Treaty and is subject to withholding at source, as described generally below.

To the extent the gain to the Unitholders is the result of a sale of a USRPI by the U.S. REIT, the gain from such sale attributable to a distribution to the Unitholder who is a nonresident alien individual will be treated as long-term capital gain only if the underlying USRPI was held by the U.S. REIT for more than one year. In addition, even if the USRPI was held by the U.S. REIT for more than one year, the portion of the gain attributable to depreciation previously taken with respect to such USRPI will be taxed to a nonresident alien individual Unitholder at a rate of 25%. Gains which are attributable to distributions to a non-resident alien individual of short-term capital gains are taxed at graduated income tax rates up to 39.6% after 2012.

Additionally, a corporate Unitholder may be subject to U.S. branch profits tax (paid with its U.S. tax return) on its distributive share of distributions made by the U.S. REIT to the Issuer attributable to the sale or exchange of USRPIs by the U.S. REIT. U.S. branch profits tax is imposed in addition to regular federal income tax at the rate of 30% on a calculated amount, but is reduced under the Treaty to 5% of earnings attributable to a permanent establishment in excess of a Cdn$500,000 cumulative exemption amount for certain residents of Canada. A corporate Unitholder would be required to file Form 8833 with its U.S. tax return to disclose its claim of entitlement to the reduced 5% rate of U.S. branch profits tax under the Treaty. Corporate Unitholders should consult with their own advisors to determine whether they are potentially liable for U.S. branch profits taxes on their distributive shares of distributions by the U.S. REIT attributable to dispositions by the U.S. REIT of USRPIs and their eligibility for a reduced rate under the Treaty.

A publicly traded partnership that has ECI must withhold and remit U.S. withholding tax ("**Section 1446 Withholdings**") on any distributions made to foreign partners (using procedures generally applicable to U.S. tax withholding on U.S. source fixed or determinable, annual or periodic income), and must file annually with the IRS Form 1042 and a Form 1042-S for each Unitholder. Withholdings must be made at the highest rate of tax, without regard to the preferential rates of tax, including those applicable to an individual's capital gains. The highest rates of tax and the required rates of Section 1446 Withholdings are 39.6% after 2012 for nonresident alien individuals and 35% for corporations. The Issuer will be required to withhold Section 1446 Withholdings at 39.6% after 2012 for any Non-Exempt Gains included in the distributive shares of nonresident alien individual Unitholders and 35% for any Non-Exempt Gains included in the distributive shares of foreign corporate Unitholders.

Distributions made by the U.S. REIT to the Issuer that are attributable to the sale or exchange of USRPIs by the U.S. REIT, distributions made by the U.S. REIT in excess of both its earnings and profits and the Issuer's adjusted basis in U.S. REIT shares and the sale or exchange by the Issuer of shares of the U.S. REIT may also be subject to withholding on the part of the U.S. REIT or the purchaser, as the case may be ("**Section 1445 Withholdings**"). In the case of the sale or exchange of USRPIs by the U.S. REIT, Section 1445 Withholdings are required at a rate of 35% of distributions made by the U.S. REIT attributable to such sale or exchange of USRPIs by the U.S. REIT. In the case of distributions made by the U.S. REIT in excess of both its earnings and profits and the Issuer's adjusted basis in U.S. REIT shares, Section 1445 Withholdings are required at a rate of 10% of the portion of such distribution in excess of both the U.S. REIT's earnings and profits and the Issuer's adjusted basis in the U.S. REIT shares. Finally, in the case of the sale or exchange by the Issuer of shares of the U.S. REIT, Section 1445 Withholdings are required at a rate of 10% of the amount realized on such sale or exchange by the Issuer of the shares of the U.S. REIT. Under Regulations, the Issuer may claim as a credit against its liability for Section 1446 Withholdings amounts withheld under Code Section 1445.

Management has represented to KPMG that it intends to take all reasonable steps necessary to limit the Issuer from recognizing Non-Exempt Gains that may cause a Unitholder to have ECI and, therefore, a U.S. tax return filing requirement. For example, management has represented to KPMG that any dispositions of properties by the U.S. REIT will, to the extent practicable, be made by way of a non-recognition transaction. Likewise, management has represented to

KPMG that the Issuer has no plans to sell its U.S. REIT shares or to cause it to make distributions in excess of the sum of the U.S. REIT's earnings and profits and the Issuer's adjusted basis in its shares of the U.S. REIT. Management has also represented that the U.S. REIT has no plans to sell its Lodging Enterprises units or to cause it to make distributions in excess of the sum of Lodging Enterprises' earnings and profits and the U.S. REIT's adjusted basis in its units of Lodging Enterprises. However, no assurances can be given that Non-Exempt Gains will not be included in a particular Unitholder's distributive share of the Issuer income in a particular year. As such, no assurances can be given that a Unitholder will not have U.S. tax return filing obligations in one or more years arising as a result of an investment in the Issuer (and no assurances can be given that a Unitholder will not be subject to the U.S. withholding tax rules described above).

Distributions made by the U.S. REIT to the Issuer that are in excess of U.S. earnings and profits but that are not in excess of the Issuer's adjusted basis in its U.S. REIT shares are treated as a non-taxable return of capital for U.S. federal income tax purposes. However, such distributions may be subject to Section 1445 Withholdings at a 10% rate unless the Issuer obtains a withholding certificate from the Internal Revenue Service and the withholding certificate waives the Section 1445 Withholdings. The Issuer has represented to KPMG that it intends to file for a withholding certificate for each U.S. REIT distribution that includes a non-taxable return of capital. However, no assurances can be given that the Internal Revenue Service will approve such a withholding certificate application. A nonresident alien individual or a foreign corporation that derives ECI (including amounts received as a partner through a partnership) is generally required to make quarterly payments of estimated U.S. tax and is required to file a U.S. federal income tax return. A partner in a partnership may generally take its distributive shares of Section 1446 Withholdings and Section 1445 Withholdings into account in determining whether estimated tax payments are required.

Unitholders may claim Section 1446 Withholdings and Section 1445 Withholdings as credits against their final U.S. federal income tax liabilities. However, claims for refunds of overpayments of such withholdings must generally be made by filing a U.S. federal income tax return (Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations) within two years of the date the tax was paid and by showing proof of withholdings by attaching Form 8805 (Form 1042-S in the case of a publicly traded partnership) for Section 1446 Withholdings and Form 8288-A for Section 1445 Withholdings. Unitholders are required to file a U.S. federal income tax return to report their distributive shares of Non-Exempt Gains without regard to the amount of tax withheld. Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

Unitholders' Distributive Share of the Issuer's Non-ECI Income

In General

A nonresident alien individual and a foreign corporation are generally subject to U.S. federal income tax on fixed or determinable, annual or periodic income ("**FDAP**") received from U.S. sources, including U.S. source dividends to the extent not effectively connected with the conduct of a U.S. trade or business. U.S. source FDAP is generally subject to 30% U.S. tax applied to the gross amount (with no allowance for deductions) of FDAP ("**FDAP Tax**") unless a lower rate applies to the gross amount of FDAP under an applicable U.S. treaty. FDAP that is effectively connected with the conduct of a U.S. trade or business is generally subject to the U.S. tax rules and filings requirements applicable to Non-Exempt Gains, discussed earlier.

FDAP Tax is Withheld at Source

The 30% tax on the gross amount of U.S. source FDAP payments to a nonresident alien individual or foreign corporation is generally collected through withholdings at source ("**Section 1441 FDAP withholding**"). Withholding at source is also required when U.S. source FDAP payments are made to a partnership, such as the Issuer, which is organized outside the U.S. and which has foreign partners. Withholding is generally required at a 30% rate, unless a lower rate applies under an applicable U.S. treaty and certain documentation requirements are met. The documentation requirements are generally designed to provide withholding agents with sufficient information to enable them to allocate income amongst partners, to identify the beneficial owners of the income and to establish such beneficial owners' residence and entitlement to a treaty-reduced rate of withholding for U.S. federal income tax purposes. A withholding agent which has deducted and withheld U.S. federal income tax on FDAP on behalf of the Issuer is required to file information Form 1042-S on behalf of the Issuer with respect to each partner to whom a payment was made (or deemed made).

U.S. backup withholding is generally not required for FDAP payments made to non-U.S. Unitholders provided certain requirements are met to evidence the Unitholders' non-U.S. status.

Treaty Reduced Rates of U.S. Tax on FDAP

U.S. source FDAP payments that would otherwise be subject to 30% withholding at source when paid to a foreign partnership (such as the Issuer) are treated as being made directly to the partners of the foreign partnership in certain circumstances. For example, a payment made to a foreign partnership with foreign partners is treated as made directly to a foreign partner if the foreign partnership satisfies certain documentation requirements and a foreign clearing organization or the financial institution through which the partner beneficially owns its partnership interest is a "qualified intermediary" that can reliably associate the payment with documentation that establishes the beneficial owner as a foreign person entitled to a reduced rate of withholding under an applicable U.S. treaty. Withholding is made at the reduced treaty rate of withholding where the required documentation is in place and the requirements for a reduced rate of withholding are satisfied.

Reduced rates of withholding tax on FDAP payments are not available under the Treaty unless the beneficial owner is a qualified resident of Canada under the Treaty.

A resident of Canada (within the meaning of the Treaty) who is a natural person generally is entitled to all of the benefits of the Treaty.

Similarly, an RRSP generally is entitled to all of the benefits of the Treaty if its sole beneficiary is an individual resident in Canada.

A TFSA, on the other hand, is not entitled to benefits, as an entity or arrangement, under the Treaty. Instead income received by a TFSA is treated as received by the beneficiary of the TFSA and the TFSA should be disregarded for U.S. federal income tax purposes. The beneficiary or annuitant of the TFSA may, however, be eligible for Treaty-reduced withholding tax rates.

Whether a corporation resident in Canada is entitled to all of the benefits of the Treaty depends on a number of factors. Corporations resident in Canada that intend to invest in the Issuer should consult their own tax advisors to determine whether they are eligible for Treaty-reduced rates of tax.

Anti-Hybrid Rules

The source and character of a partner's distributive share of income received through a partnership is normally determined as if such item were realized directly by the partner. However, Treaty-reduced rates of withholding tax on FPAP payments are not available under either the Code or the Treaty if amounts are paid by or through certain entities ("**hybrid entities**") that are treated as fiscally transparent by one jurisdiction and not by the other (the "**Anti-Hybrid Rules**"). The U.S. REIT, Lodging Enterprises, and the Issuer should not be treated as hybrid entities either under the Code or under the Treaty. Accordingly, Unitholders should be eligible for Treaty-reduced rates on their distributive shares of FDAP received through the Issuer to the same extent as if they had received such FDAP directly.

Ordinary REIT Dividends

Distributions out of a REIT's current or accumulated earnings and profits that are not attributable to gain from the sale or exchange of USRPI ("**ordinary REIT dividends**") are generally treated as U.S. source FDAP and are subject to 30% withholding tax at source with no allowance for deductions.

As discussed above, a Canadian resident Unitholder's distributive share of FDAP from the Issuer may be subject to a Treaty-reduced rate of tax if the Unitholder is also a "qualifying person" under the Treaty. The extent to which the 30% tax U.S. tax on FDAP is reduced under the Treaty depends on the nature of the FDAP, certain characteristics of the recipient and the level of the recipient's ownership in the Issuer.

All or substantially all of the FDAP received by the Issuer is expected to be dividends from the U.S. REIT. Further, this summary is directed to Unitholders who do not own (and who are not considered to own) more than 5% of the Units that are eligible for trading on an exchange. Accordingly, the commentary which follows is mainly limited to FDAP income that is ordinary dividends from the U.S. REIT received by Unitholders who own (and who are considered to own) 5% or less of the Issuer's listed Units.

The applicable Treaty rates of U.S. withholding tax on a Unitholder's distributive share of ordinary REIT dividends that are not ECI should be zero for RRSPs and 15% for individuals, including TFSAs. Corporate Unitholders should consult with their own tax advisors to determine whether they are eligible for the 15% Treaty-reduced rate. Certain residents of Canada may not be eligible for Treaty-reduced rates of withholding on their distributive shares of the U.S. REIT's ordinary dividends. In general, Treaty-reduced rates are not available on a Unitholder's distributive share of the U.S. REIT's ordinary dividends if the Unitholder beneficially owns, through the Issuer, a greater than 10% interest in the U.S. REIT. A Unitholder that has sufficient proof of withholding may generally recover any excess withholding by filing a U.S. federal income tax return for the year in which the distribution is received (Form 1040-NR for nonresident alien individuals and Form 1120-F for foreign corporations), provided the return is filed no later than two years after the tax is withheld. A Unitholder must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

Gift and Estate Tax

Gift Tax

Nonresident individuals for gift tax purposes (referred to as non-domiciliary individuals) are subject to U.S. gift tax on gifts of real property and tangible personal property located within the U.S., unless a deduction or exclusion is available. Gifts of intangible property by non-domiciliary individuals are generally not subject to the gift tax, even if the intangibles are located in the U.S. (e.g., U.S. stocks and bonds).

A gratuitous transfer of a partnership interest by a non-domiciliary individual will not be subject to U.S. gift tax (regardless of where the partnership interest is situated) if the partnership interest is considered intangible personal property. The Internal Revenue Service and the courts have accepted, in other contexts, that an interest in a partnership should be treated as intangible personal property. However, there is no clear guidance on whether a partnership interest is intangible property for gift tax purposes. Moreover, the Internal Revenue Service has placed this issue on its "no-rule" list.

The U.S. gift tax rules relating to partnership interests are complex and are unsettled. As such, Unitholders should consult with their own tax advisors for more specific information and advice regarding their U.S. gift tax exposure before making a gift of a Unit.

Estate Tax

A non-domiciliary individual is taxed at death on the fair market value of the individual's gross estate, less certain deductions and exclusions. The gross estate of a non-domiciliary is limited to certain tangible and intangible property situated in the U.S. For example, stocks and bonds of corporations organized in the U.S. and real property located in the U.S. are included in a non-domiciliary individual's U.S. estate.

The transfer of a partnership interest by a non-domiciliary at death will not be subject to U.S. estate tax if the partnership is not considered to be situated in the U.S. The place where a partnership interest is situated is not addressed in the Code and the issue has not been judicially resolved. However, the Internal Revenue Service has ruled that a partnership interest is situated "where the partnership business is carried on."

Substantially all of the Issuer's assets will be comprised of shares of the U.S. REIT, which will be considered property situated in the U.S. for U.S. estate tax purposes. As such, the Internal Revenue Service may take the view that the Issuer's business is carried on in the U.S. and that Units owned by a non-domiciliary individual Unitholder will constitute property having an estate tax situs in the U.S., subject to the payment of U.S. estate tax by such Unitholder's estate (with possible full or partial Treaty relief) based upon the fair market value of such Units at the time of death.

The U.S. estate tax rules relating to partnership interests are complex and remain unsettled. As such, Unitholders should consult with their own tax advisors for more specific information and advice regarding their specific U.S. estate tax exposures (and any potential relief under the Treaty) should such Unitholders hold Units at the time of their deaths.

Federal Income Taxation of the U.S. REIT

The U.S. REIT intends to elect to be a REIT commencing with its first taxable year. However, qualifying as a REIT depends on an entity meeting various REIT requirements each taxable year. As such, there is no assurance that the U.S. REIT will qualify as a REIT. The failure of the U.S. REIT to qualify as a REIT in its first or in any subsequent taxable year may result in materially reduced distributions to Unitholders and U.S. federal income tax consequences that are not described in this summary.

The following describes the general REIT qualification rules and the significant U.S. federal income tax consequences to a business entity electing to be treated as a REIT.

The sections of the Code and Regulations relating to qualification and operation as a REIT are highly technical and complex. The following discussion sets out, in very general terms, the material aspects of the Code and Regulations that govern the U.S. federal income tax treatment of the U.S. REIT and its non-U.S. interest holders.

A business entity that qualifies and timely elects to be taxed as a REIT is not generally subject to U.S. federal income tax on its income and capital gains that it distributes to its interest holders each year. However, it would remain subject to U.S. federal income tax in certain circumstances.

For example:

- Undistributed taxable income (including undistributed net capital gains) will be taxed at the regular rates for corporations.
- The U.S. REIT may be required to apportion items of tax preference and other differently treated items, if any, to its shareholders.
- The U.S. REIT is subject to the highest corporate income tax rate on net income from a sale or other disposition of "foreclosure property" (i.e., generally property acquired through foreclosure or after default on a loan secured by the property or a lease of the property) held primarily for sale to customers in the ordinary course of business and on other non-qualifying income earned from foreclosure property.
- The U.S. REIT is subject to a 100% tax on net income from "prohibited transactions". Prohibited transactions are generally sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.
- The U.S. REIT is subject to a 100% tax on certain transactions with its taxable REIT subsidiaries (defined generally below) if such transactions are not at "arm's-length", as defined.
- If the U.S. REIT fails to satisfy either the 75% or 95% gross income test (as discussed below) but has nonetheless maintained its qualification as a REIT because it has met certain other requirements, the U.S. REIT will be subject to a 100% tax on an amount equal to the greater of the amount by which it fails the 75% or 95% test multiplied by a fraction calculated to reflect the U.S. REIT's profitability.
- If the U.S. REIT (1) fails to satisfy any of the REIT asset tests (as discussed below), other than a de minimis failure of the 5% or 10% REIT asset test (as described more fully below), it may continue to qualify as a REIT if it meets certain other requirements and it pays a tax equal to the greater of $50,000 or the highest corporate income tax rate multiplied by the net income from the non-qualifying assets for the period of time it failed to satisfy the asset tests; or (2) fails to satisfy REIT requirements other than the gross income and asset tests and meets certain other requirements, it will have to pay $50,000 for each failure in order to remain a REIT.
- The U.S. REIT is subject to a 4% excise tax on the excess of the required distribution for a calendar year over the sum of amounts distributed and amounts retained on which U.S. federal income tax was paid. The required distribution for this purpose is at least 85% of its ordinary income, 95% of its capital gain net income, and any undistributed amounts from prior periods.

Requirements for REIT Qualification

To qualify as a REIT, a business entity must timely elect to be treated as a REIT and must meet certain organizational, operational, income, asset and distribution requirements, discussed in very general terms below.

Organizational Requirements

The Code defines a REIT as a corporation, trust or association that:

1. Is managed by one or more trustees or directors;
2. Issues transferable stock or transferable certificates as evidence of its beneficial ownership;
3. Would be taxed as a domestic corporation but for the REIT provisions of the Code;
4. Is neither a financial institution nor an insurance company;
5. Is beneficially owned by at least 100 persons ("**100 Shareholder Requirement**");
6. Not more than 50% of the value of its outstanding equity interests is owned, directly or indirectly by attribution, by five or fewer "individuals" (which may also include certain entities, as defined in the Code), during the last half of the taxable year ("**Not-Closely Held Requirement**"); and
7. Satisfies the asset and income requirements, described below.

Conditions (1) to (4) described above must be met for the entire taxable year. The 100 Shareholder Requirement must be met for at least 335 days of a 12-month taxable year or for a proportionate number of days if the taxable year is less than 12 months. The Not-Closely Held Requirement is generally measured at the individual level through the application of constructive ownership rules. The 100 Shareholder Requirement, on the other hand, is generally measured at the actual shareholder level. Both the 100 Shareholder Requirement and the Not-Closely Held Requirement are waived for the first taxable year for which a REIT election is made.

A REIT's taxable year must be the calendar year. As well, a REIT cannot have earnings and profits as of the close of any REIT taxable year which were accumulated in a non-REIT taxable year. As discussed more fully below under "Annual Distribution Requirements", the U.S. REIT is required to make dividend distributions equal to at least 90% of REIT taxable income, determined without regard to the deduction for dividends paid and by excluding any net capital gain, plus 90% of the excess of net income from foreclosure property over the tax imposed on such income, less "excess non-cash income". A REIT is also required to maintain certain records pertinent to its qualified REIT status.

REIT Subsidiaries

A qualified REIT subsidiary is a corporation (other than a taxable REIT subsidiary) if 100% of the stock of the entity is owned by the REIT. The separate existence of a qualified REIT subsidiary is disregarded for U.S. federal income tax purposes. All the assets, liabilities, income, deductions, and credits of a qualified REIT subsidiary are treated as though they are owned or earned directly by the REIT.

A "taxable REIT subsidiary" ("**TRS**") is treated as a separate entity and is taxed as a regular corporation. A TRS is usually formed to earn nonqualified REIT income or to hold nonqualified REIT assets. A TRS is an entity (other than a real estate investment trust) in which the REIT directly or indirectly owns stock and for which a joint election is timely made by the REIT and by the subsidiary. A corporation (other than a real estate investment trust) of which a TRS directly or indirectly owns more than 35% of the voting power or value of the securities will itself be automatically treated as a TRS.

An entity will not qualify as a TRS if it directly or indirectly operates or manages a "qualified lodging facility" or a "qualified health care property" or directly or indirectly provides to another person under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care property is operated, unless such rights are provided (in the TRS's capacity as a licensee, franchisee or similar capacity) to an "eligible independent contractor" (EIK) (as defined below) to operate or manage a lodging facility or health care property and such lodging facility or health care property is either owned by the TRS or leased to the TRS by its parent REIT. A "qualified lodging facility" means a hotel, motel or any establishment more than one-half of the dwelling units in which are used on a transient basis and in which no authorized gambling activities are conducted. A qualified lodging facility also includes any customary amenities and facilities operated as part of, or associated with, the lodging facility so long as such amenities and facilities are customary for other properties of a comparable size and class owned by other owners unrelated to such REIT.

A TRS is not considered to operate or manage a qualified lodging facility or a qualified health care property solely because it possesses a license or permit or similar instrument enabling it to do so or employs individuals working at such facilities or properties located outside the U.S., provided that an EIK (defined below) is responsible for the daily supervision and direction of such individuals on behalf of the TRS pursuant to a management agreement or similar contract.

An EIK is a person (or entity) that satisfies the following requirements: (i) is, or is related to, a person who is engaged in the active trade or business of operating and managing qualified lodging facilities for any person who is not a related person with respect to the REIT or the TRS at the time of entering into a management agreement or other similar service contract with the TRS to operate its qualified lodging facility, (ii) does not own, directly or indirectly, more than 35% of the REIT's stock, and (iii) not more than 35% of such person is owned, directly or indirectly, by one or more persons owning 35% or more of the REIT's stock. For purposes of determining whether those ownership limits are satisfied, actual ownership as well as constructive ownership under the rules of IRC section 318 (with certain modifications) are taken into account.

The U.S. REIT and Lodging Enterprises intend to timely file a joint election for Lodging Enterprises to be treated as a TRS of the U.S. REIT. Upon acquiring the Initial Properties, which the U.S. REIT believes, constitute qualified lodging facilities, the U.S. REIT intends to lease the Initial Properties to Lodging Enterprises. The U.S. REIT intends for each lease to be treated as a true lease for U.S. federal income tax purposes. As such, the lease income paid by Lodging Enterprises to the U.S. REIT is intended to qualify as rents from real property discussed below under *Annual Income Requirements*.

Lodging Enterprises intends to contract IPO Hotel Manager to manage and operate the Initial Properties. The U.S. REIT and Lodging Enterprises believe, and currently intend to take all steps reasonably practicable to ensure that Lodging Enterprises has not engaged in and will not engage in, directly or indirectly, operating or managing the Initial Properties and that IPO Hotel Manager (and any subcontractor of IPO Hotel Manager) has qualified and will continue to qualify as an EIK with respect to Lodging Enterprises and the U.S. REIT.

In order for the base rent, percentage rent and additional charges paid by the TRS to constitute "rents from real property" for the purposes of the 75% and the 95% gross income tests (see discussion under *"Annual Income Requirements"* below), the leases between the TRS and the REIT must be respected as true leases for U.S. federal income tax purpose and not treated as service contracts, joint ventures or some other type of arrangement. 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 (e.g., 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 (e.g., 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 (e.g., appreciation) with respect to the property.

In addition, IRC section 7701(e) provides that a service contract or a partnership agreement in form should be treated as a lease of property if the contract should be properly treated as such, taking into account all relevant factors. Since the determination of whether a service contract should be treated as a lease is inherently factual, the presence or absence of any single factor may not be dispositive in every case.

Dividends from Lodging Enterprises to the U.S. REIT should qualify for the purposes of the 95% gross income test but not for the purposes of the 75% gross income test (see discussion under *"Annual Income Requirements"* below).

As mentioned above, certain transactions, such as lease payments, between the U.S. REIT and Lodging Enterprises (as a TRS of the U.S. REIT) are subject to a 100% tax to the extent the IRS were able to assert successfully that a deduction for such item(s) by Lodging Enterprises could be reduced under specified arm's length standards required by the IRC. Such tax would be *in lieu* of an actual reduction of the deducted item.

The U.S. REIT and Lodging Enterprises intend that transactions between themselves reflect arm's-length standards required by the IRC. They also intend that any leases between the U.S. REIT (and/or the U.S. REIT's qualified subsidiary REIT) and Lodging Enterprises will be structured with the intent to qualify as true leases for U.S. federal income tax purposes. For example, with respect to each lease to be entered into by the U.S. REIT and Lodging Enterprises:

- The U.S. REIT (as the lessor) and Lodging Enterprises (as the lessee) intend for their relationship to be that of a lessor and lessee, and such relationship will be documented by a lease agreement;
- The lessee will have the right to exclusive possession and use and quiet enjoyment of the properties covered by the lease during the term of the lease;
- The lessee will bear the cost of, and will be responsible for, day-to-day maintenance and repair of the properties other than the cost of certain capital expenditures, and will dictate through the hiring of the hotel managers, how the properties are operated and maintained;
- The lessee will benefit from any savings and will bear the burdens of any increases in the costs of operating the properties during the term of the lease;
- In the event of damage or destruction to the properties, the lessee will be at economic risk because it will bear the economic burden of the loss in income from operation of the properties subject to the right, in certain circumstances, to terminate the lease if the lessor does not restore the properties to their prior condition;
- The lessee will indemnify the lessor against all liabilities imposed on the lessor during the term of the lease by reason of (A) injury to persons or damage to property occurring at the properties or (B) the lessee's use, management, maintenance or repair of the properties;
- The lessee will be obligated to pay, at a minimum, substantial base rent for the period of use of the properties under the lease;
- The lessee will stand to incur substantial losses or reap substantial gains depending on how successfully it, through the hotel managers, who work for the lessee during the terms of the leases, operates the properties;
- The lessor believes that the lessee reasonably expected, at the times the leases were entered into and subsequently renewed or extended, to derive a meaningful profit, after expenses and taking into account the risks associated with the lease, from the operation of the properties during the term of its leases; and
- Upon termination of each lease, the applicable property is expected to have a remaining useful life of at least 20% of its expected useful life on the date the lease was entered into, and a fair market value of at least 20% of its fair market value on the date the lease was entered into.

However, no assurances can be given that the IRS will not challenge the belief that each lease is based on "arm's-length" terms and/or recharacterize a lease as a service or partnership agreement. If any lease were recharacterized as service or partnership agreement, or disregarded altogether for U.S. federal income tax purposes, all or part of the payments that the lessor receives from the lessees would not be considered rent or would not otherwise satisfy the various requirements for qualification as "rents from real property". In that case, the U.S. REIT likely would not be able to satisfy either the 75% or 95% gross income test described below, and as a result, would lose its REIT status.

Annual Income Requirements

The U.S. REIT must meet the following two gross income test requirements, excluding gross income from prohibited transactions and certain hedging transactions, annually:

1. At least 75% of the U.S. REIT's gross income ("**75% gross income test**"), excluding gross income from prohibited transactions and certain hedging transactions, must be derived from:
    - Rents from real property, as defined;
    - Interest on obligations secured by mortgages on real property;

- Gain from the sale of real property that is not held primarily for sale;
- Income and gain derived from "foreclosure property" (as previously described);
- Income from certain temporary investments (described below); and
- Certain other real estate-related income.

2. At least 95% of the U.S. REIT's gross income ("**95% gross income test**"), excluding gross income from prohibited transactions and certain hedging transactions, must be income of a passive-type, including:
    - Income described in the 75% test, above;
    - Dividends, including dividends from a TRS;
    - Interest (whether or not secured by a mortgage); and
    - Gain from the sale or disposition of stock or securities not held primarily for sale.

Certain Types of Income

Rents from Real Property: Generally, "**rents from real property**" means the gross amounts received for the use of real property. "**Rents from real property**" includes:

1. Rents from interests in real property;
2. Charges for services customarily furnished or rendered (i.e., services customarily provided in the geographic area in connection with the rental of space for occupancy) in connection with the rental of real property, whether or not those charges are separately stated;
3. Rent attributable to personal property that is leased in connection with a lease of real property provided that the rent attributable to personal property does not exceed 15% of the total rental amount; and
4. Rents received from a TRS (which would otherwise be disqualified as related party rents), provided that certain conditions are satisfied.

"**Rents from real property**" does not include, among other categories of real property-related rental income,

1. Any amount received or accrued that is based upon profits of any person either in whole or in part, directly or indirectly. However, an amount is not so excluded solely by being based on a fixed percentage or percentages of sales or if it is based on the net income of a tenant which derives substantially all of its income with respect to such property from subleasing substantially all of such property, to the extent that the rents paid by the subtenants would qualify as rents from real property, if earned directly by the REIT;
2. Any amounts received from a tenant that is directly or indirectly 10% owned (based on voting power or value for a corporate entity or assets or net profits for a non-corporate entity) by the REIT, except in certain cases for amounts received from a taxable TRS; and
3. Impermissible tenant service income ("**ITSI**").

Generally, ITSI means, with respect to a property, any amount received or accrued directly or indirectly by a REIT for furnishing or rendering services to its tenants or for managing or operating the property. However, if such services are rendered or furnished, or such management or operation is provided through (1) an "independent contractor" (as defined) from whom the REIT does not derive or receive any income; or (2) a TRS of the REIT, then such services, management or operation is not treated as furnished, rendered or provided by the REIT for purposes of determining whether they create ITSI. In addition, certain customary property management services may be provided directly by the REIT without causing amounts to be treated as ITSI. Nonetheless, if the amount of ITSI as determined under the preceding rules exceeds 1% of all amounts received or accrued directly or indirectly during the taxable year by the REIT with respect to such property, then all such amounts received with respect to the property are treated as ITSI.

Property Held Primarily for Sale: A REIT is subject to a 100% tax on its net income from "prohibited transactions". A prohibited transaction includes the sale of property held primarily for sale to customers in the ordinary course of business other than a foreclosure property. Whether property is held primarily for sale to customers in the ordinary course of business depends on the facts and circumstances. However, a prohibited transaction is deemed not to include the sale of property that is a real estate asset and is held primarily for sale to customers in the ordinary course of business if:

1. The Issuer has owned the property (consisting of land and improvements) for two years or longer for the production of rental income;

2. The aggregate expenditures of a capital nature made by the REIT or its partner on the property during the two-year period prior to the sale do not exceed 30% of the property's net selling price; and

3. The Issuer (a) makes no more than seven sales of property during the taxable year, (b) the aggregate tax bases of the properties sold during the year does not exceed 10% of the aggregate tax bases of all the REIT's assets, determined as of the beginning of the tax year, or (c) the fair market value of the properties sold during the taxable year does not exceed 10% of the fair market value of all of the REIT's assets, determined as of the beginning of the tax year. If the REIT relies on the percentage of tax bases or fair market value test to avoid prohibited transaction treatment, then substantially all the marketing and development expenditures with respect to the property must be made through an independent contractor in a prescribed manner.

Income from certain temporary investments: Interest income on obligations not secured by real property and certain other investment income may qualify under the 75% gross income test if it is "qualified temporary investment income". Qualified temporary investment income is limited to certain investment income from stock or a debt instrument that is attributable to the temporary investment of new capital and is received or accrued during the one-year period beginning on the date the REIT receives such new capital. The same one year period also limits the time such temporary investments are treated as real estate assets for asset testing purposes.

Quarterly Asset Requirements

At the end of each quarter, the U.S. REIT must meet certain asset requirements, generally as follows:

- At least 75% of the value of the U.S. REIT's gross assets must consist of real estate assets (which generally include qualified temporary investments, described above, interests in real property, interest in mortgages and shares in other REITs), cash, cash items, and U.S. Government securities.
- Not more than 25% of the value of its total assets may consist of securities, other than U.S. Government securities and securities that qualify as real estate assets.
- Not more than 25% of the value of its total assets may consist of securities of TRSs (see earlier discussion).
- Not more than 5% of its total assets may consist of securities of one issuer (other than interests in TRSs, U.S. Government securities and securities that qualify as real estate assets).
- The U.S. REIT may not hold securities that make up more than 10% of total voting power or value of the outstanding securities of any one issuer (except for interests in TRSs, U.S. Government securities, securities that qualify as real estate assets and, for the 10% value limitation purposes, certain exempted securities).

If the U.S. REIT meets the asset tests at the close of any quarter, it will not lose its REIT status if it fails to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values of assets owned in the immediately preceding quarter (including a failure caused solely by a change in the foreign currency exchange rate used to value a foreign asset). If, on the other hand, the U.S. REIT fails the asset test because of the acquisition of an asset, the failure can be cured by disposing of non-qualifying assets within 30 days after the close of the quarter. Under certain circumstances, the U.S. REIT may avoid REIT disqualification after the 30-day cure period by disposing of sufficient non-qualifying assets (or otherwise meeting such asset tests) within six months of the last day of the quarter in which the U.S. REIT first identifies the violation and by taking certain other steps. The procedures for curing asset test violations following the 30-day cure period generally are available in the case of *de minimis* violations of the 5% and 10% (vote or value) tests, and for other asset test violations that were due to reasonable cause and not due to willful neglect. In the case of non-*de minimis* violations that are due to reasonable cause, the REIT may be liable for a tax (as discussed above).

If the U.S. REIT fails to satisfy the REIT requirements, other than the gross income tests and the asset tests, it may avoid REIT disqualification if such a failure is due to reasonable cause and not due to willful neglect and the U.S. REIT pays $50,000 for each such failure.

A REIT that is disqualified as a REIT cannot generally again elect to become a REIT prior to the fifth taxable year beginning after the first taxable year for which the termination is effective unless it can establish the disqualification was due to reasonable cause and not due to willful neglect. A corporation that elects REIT status and which is later disqualified as a REIT becomes subject to U.S. federal income tax as a U.S. corporation.

Annual Distribution Requirements

The U.S. REIT is required annually to take a dividends paid deduction at least equal to the sum of (1) 90% of its REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain); and (2) 90% of the excess of net income from foreclosure property over the tax imposed on such income, minus "excess non-cash income". Generally, a distribution is treated as a dividend that may qualify for the dividends paid deduction only to the extent it is paid from current or accumulated earnings and profits of the U.S. REIT and provided it is not treated as a preferential dividend.

Generally, a dividend paid during the taxable year is taken into account in the same year, for purposes of the dividends paid deduction. However, dividends paid in the immediately subsequent year are treated as if distributed on December 31 of the prior year if the dividends were declared in October, November or December of the prior year, the dividends were payable to "stockholders" of record on a specified date in such a month, and the dividends were actually distributed during January of the immediately subsequent year.

A dividend is also taken into account for the prior year if it is declared before the U.S. REIT timely files its federal income tax return for such year, it is actually paid in the 12-month period following the close of the prior year, it is paid not later than the first regular dividend payment after such declaration, and the U.S. REIT timely files an election. To the extent the U.S. REIT relies on this election for more than 15% of its ordinary income or more than 5% of its capital gain net income, it may be subject to 4% excise tax on such excess late distributions. Finally, the U.S. REIT and its holders of common interest (i.e., consent stock) may agree to deem a dividend (consent dividend) to occur if certain conditions are met and if consents to such treatment are timely filed. The amount specified as a consent dividend generally is considered as (a) distributed in money by the U.S. REIT to the shareholder on December 31 of the taxable year of the U.S. REIT and (b) contributed to the capital of the U.S. REIT by the shareholder on the same day. Any U.S. withholding tax applicable to the consent dividend will be required to be withheld and timely remitted by the U.S. REIT. However, amounts specified in consents filed by shareholders are not treated as consent dividends to the extent that they would constitute a preferential dividend, or they would not constitute a dividend as defined in Code section 316 (because e.g., the amount exceeds the U.S. REIT's earnings and profits).

The U.S. REIT may choose to treat certain dividends to be treated as designated capital gain dividends. The U.S. REIT may designate prior distributions as capital gain dividends in a written notice mailed to shareholders within 30 days of the close of the taxable year, or in its annual report for the taxable year. Capital gain dividends are generally limited to the amount of the REIT's net capital gain for the year. Capital gain dividends are taxed in the hands of the beneficiaries as a gain from the sale or exchange of a capital asset held for more than one year.

Records Maintenance

The U.S. REIT is required to keep such records as are required in order to disclose the actual ownership of its outstanding equity interests. The actual owner of the U.S. REIT's outstanding equity interests is generally the person who is required to include the dividends received from the U.S. REIT in gross income for U.S. federal income tax purposes.

Other Applicable Rules

The U.S. REIT is generally subject to all other provisions of the Code that apply to corporations except to the extent those provisions are inconsistent with the REIT rules. For example, but for the dividends paid deduction and certain modifications to the normal operating rules applicable to corporations, the U.S. REIT generally computes its taxable income in the same way as a U.S. corporation. As such, the U.S. REIT is entitled to deduct ordinary and necessary expenses, including fees, interest, depreciation and amortization computed under the rules of the Code and other amounts that are not properly treated as being on capital account. However, to be deductible, expenses must also meet the clear reflection of income, economic performance and certain other standards.

New IRS Reporting Rules

New U.S. tax rules generally impose a reporting and 30% withholding tax with respect to (a) certain U.S.-source income (including interest and dividends and gross proceeds from the sale or other disposition of property that can produce U.S.-source interest or dividends) ("**withholdable payments**") and (b) "passthrough payments" (generally, withholdable payments and payments that are attributable to withholdable payments) made by non-U.S. financial institutions. The definition of "financial institution" for this purpose is broad and should include the Issuer.

Under the new rules, unless the Issuer enters into an agreement with the IRS pursuant to which it agrees to report to the IRS information regarding the U.S. holders of, and certain U.S. persons that indirectly hold, interests in the Issuer (other than equity and debt interests that are regularly traded on an established securities market), and to comply with other reporting, verification, due diligence and other procedures established by the IRS, the Issuer will be subject to a 30% withholding tax on withholdable payments of U.S.-source interest and dividends made to it after December 31, 2013 and gross proceeds from the sale or other disposition, occurring after December 31, 2016, of property that can produce U.S.-source interest or dividends made to it and on foreign passthrough payments (generally, passthrough payments that are not withholdable payments) made to it after December 31, 2016 by non-U.S. financial institutions that have an agreement with the IRS in effect. In addition, the Issuer may be required to withhold the 30% tax on a portion of the distributions that it makes to Unitholders that fail to provide information requested by the Issuer to comply with the new rules. Non-U.S. financial institutions that have entered into an agreement with the IRS and that hold Units on behalf of a Unitholder may also be required to withhold the 30% tax on foreign passthrough payments that they make with respect to the Units after December 31, 2016, to a non-U.S. financial institution that has not entered into an agreement with the IRS or to a Unitholder that fails to provide information requested by such non-U.S. financial institution to comply with the new rules.

This description is based on guidance issued by the IRS. Future guidance from the IRS as well as a possible intergovernmental agreement between Canada and the United States, may affect the application of these rules to the Units.

RISK FACTORS

Investing in the Issuer's securities involves a high degree of risk. In addition to the other information contained in this prospectus, you should carefully consider the following risk factors before purchasing Units. The occurrence of any of the following risks could materially and adversely affect the Issuer's investments, prospects, cash flows, results of operations or financial condition and the Issuer's ability to make cash distributions to Unitholders. In that event, the value of the Units could decline and investors may lose all or part of their investment. Although the Issuer believes that the risk factors described below are the most material risks that the Issuer faces, they are not the only ones. Additional risk factors not presently known to the Issuer or that the Issuer currently believe are immaterial could also materially and adversely affect the Issuer's investments, prospects, cash flows, results of operations or financial condition and the Issuer's ability to make cash distributions to Unitholders and negatively affect the value of the Units.

Risks Relating to the Issuer, its Business and the Initial Portfolio

Risks of Real Estate Ownership

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

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

(b) *Acquisition Risk* – The Issuer may not acquire all or any of the properties comprising the Initial Portfolio. The acquisition of Properties entails risks that investments will fail to perform in accordance with expectations, including the risks that the Properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired Property up to standards established for the market position intended for that Property may prove inaccurate.

(c) *Financing Risks* – Lodging Properties and Lodging Enterprises have received a commitment letter for the Debt Financing. A Subsidiary of the Issuer intends to partially finance the acquisition of the Initial Portfolio with a drawdown of $70 million from the Term Loan and a drawdown of $1.5 million from the Construction Facility.

Although a portion of the cash flow generated by the Initial Properties will be devoted to servicing such debt, there can be no assurance that the Issuer will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the Issuer 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 Issuer to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could adversely impact the Issuer's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

The Issuer will be subject to the risks associated with debt financing, including the risk that the Debt Financing, which is secured by the Issuer's properties, will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness, which may reduce AFFO. The Construction Facility has a floating interest rate and this will result in fluctuations in the Issuer's cost of borrowing as interest rates change. To the extent that interest rates rise following closing of the Offering, the Issuer's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution.

The Debt Financing will contain covenants that require it to maintain certain financial ratios on a consolidated basis. If the Issuer does not maintain such ratios, its ability to make distributions will be limited.

In addition, the Debt Financing will contain a covenant requiring the Borrowers to maintain guarantees under contracts with railroad operators for at least 60% of the rooms of the Borrowers' hotels.

(d) *Dependence on Contracts with UP and other Railroads for Revenue* – The Issuer is dependent on a minimum number of contracts with large U.S. railroad operators, with UP responsible for approximately 90% of the total rooms guaranteed by U.S. railroad operators. Changes in terms and conditions of such contracts may materially affect future occupancy rates and revenues of the properties in the Initial Portfolio. Following the expiry of the initial term of these contracts, the contracts generally provide for automatic renewals in one-year increments, during which time the contracts may be terminated at the option of the railroad operator on 30 days' written notice. Termination of or failure to renew the contracts may materially affect future occupancy rates and revenues of the properties in the Initial Portfolio. On a historical basis, approximately 5% of contracts have been cancelled. In 2013, there are contracts maturing representing 200 guaranteed rooms per day. Management has not yet entered into negotiations with the railroads for the renewal of these contracts. The large proportion of guaranteed rooms at pre-negotiated rates may also limit the Issuer's ability to increase ADR commensurately with market ADR should ADR rapidly increase in one or more of the markets in which the Initial Properties are located.

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

(f) *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.

(g) *Environmental Matters* – The Issuer is subject to various requirements (including federal, provincial, state and municipal laws, as applicable) relating to environmental matters. Such requirements provide that the Issuer 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 Issuer with respect to the release of such substances from the Issuer's properties to properties owned by third parties, including properties adjacent to the Issuer'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 Issuer'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 Issuer. It is the Issuer'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 Issuer's operating policy to conduct further environmental assessments. Although such environmental assessments provide the Issuer with some level of assurance about the condition of the properties, the Issuer may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the Issuer 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 Issuer's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Environmental laws and other requirements can change and the Issuer may become subject to more stringent environmental laws and other requirements in the future. Compliance with more stringent environmental requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the Issuer's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

(h) *Uninsured Losses* – The U.S. REIT will arrange for comprehensive insurance of the type and in the amounts customarily obtained for properties similar to those to be owned by it, directly or indirectly, and will endeavour to obtain coverage where warranted against earthquakes and floods. However, in many cases certain types of losses are either uninsurable or not economically insurable.

(i) *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 Issuer's current insurance policies expire, the Issuer 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 Issuer is able to renew its policies at levels and with limitations consistent with its current policies, the Issuer cannot be sure that it will be able to obtain such insurance at premiums that are reasonable. If the Issuer is unable to obtain adequate insurance on its properties for certain risks, it could cause the Issuer to be in default under specific covenants on certain of its indebtedness or other contractual commitments that it has which require the Issuer to maintain adequate insurance on its properties to protect against the risk of loss. If this were to occur, or if the Issuer 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 Issuer's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

(j) *Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the Mortgage Loans or to fund changes in any variable rates of interest charged in respect of such loans.

(k) *Joint Ventures* – The U.S. REIT may invest in or be a participant in joint ventures and partnerships with third parties in respect of the Properties. A joint venture or partnership involves certain additional risks which could result in additional financial demands, increased liability and a reduction in the U.S. REIT's control over the Properties and their ability to sell their interests in a Property within a reasonable time frame.

(l) *U.S. Market Factors* – The Properties will be located in the U.S. Although the recession technically ended in June 2009, the U.S. economy has not returned to operating at normal capacity. Concern about the stability of the markets generally and the strength of the economic recovery may lead lenders to reduce or cease to provide funding to businesses and consumers, and force financial institutions to continue to take the necessary steps to restructure their business and capital structures. Weak economic conditions in the U.S. and the uncertainty over the duration of these conditions could have a negative impact on the lodging industry. As a result of current economic conditions, the Issuer could experience weakened demand for hotel rooms, particularly in some markets. Recent improvements in demand trends globally may not continue, and the Issuer's future financial results and growth could be harmed or constrained if the recovery stalls or conditions worsen.

(m) *Liquidity Risk* – Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of the Issuer to respond to changing economic or investment conditions. If the Issuer were to be required to liquidate assets quickly, there is a risk the proceeds realized from such sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances. By specializing in a particular type of real estate, the Issuer 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.

(n) *Changes in Applicable Laws* – The Issuer's operations must comply with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include the HSA, zoning laws, building codes, landlord tenant laws and other laws generally applicable to business operations. Non-compliance with laws could expose the Issuer to liability. Lower revenue growth or significant unanticipated expenditures may result from the Issuer'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 Issuer's properties, including changes to building codes and fire and life-safety codes.

(o) *Laws Benefitting Disabled Persons* – Laws benefiting disabled persons may result in unanticipated expenses being incurred by the Issuer. Under 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. These and other federal, state and local laws may require modifications to the Issuer'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 Issuer believes that the Initial Portfolio properties are substantially in compliance with present requirements, the Issuer may incur unanticipated expenses to comply with the ADA and other applicable legislation in connection with the ongoing operation or redevelopment of the Issuer's properties.

(p) *Fixed Costs and Increased Expenses* – The failure to maintain stable or increasing average room rates combined with acceptable occupancy levels would likely have a material adverse effect on the Issuer's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. 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 any income. If the Issuer is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale. The Issuer is also subject to utility and property tax risk relating to increased costs that the Issuer 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. Any significant increase in these resource costs that the Issuer cannot charge back to the guest may have a material adverse effect on the Issuer's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. The timing and amount of capital expenditures by the Issuer will affect the amount of cash available for distributions to holders of Units. Distributions may be reduced, or even eliminated, at times when the Issuer deems it necessary to make significant capital or other expenditures.

(q) *Access to Capital* – The real estate industry is highly capital intensive. The Issuer 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 Issuer will have access to sufficient capital or access to capital on terms favourable to the Issuer for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, in certain circumstances, the Issuer may not be able to borrow funds due to the limitations set forth in the REIT LP Agreement. In addition, global financial markets have experienced a sharp increase in volatility during recent years. This has been, in part, the result of the re-valuation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as governments continue attempts to restore liquidity to the global economy, no assurance can be given that the combined impact of the significant re-valuations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world in the near to medium term. These market conditions and unexpected volatility or illiquidity in financial markets may inhibit the Issuer's access to long-term financing in the Canadian capital markets. As a result, it is possible that financing which the Issuer 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 Issuer or otherwise, may not be available or, if it is available, may not be available on favourable terms to the Issuer. Failure by the Issuer to access required capital could have a material adverse effect on the Issuer's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

(r) *Degree of Leverage* – The Issuer's degree of leverage could have important consequences to Unitholders. For example, the degree of leverage could affect the Issuer's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general trust purposes, making the Issuer more vulnerable to a downturn in business or the economy in general.

(s) *Litigation Risks* – In the normal course of the Issuer'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 Issuer and as a result, could have a material adverse effect on the Issuer's assets, liabilities, business, financial condition and results of operations. Even if the Issuer 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 Issuer's business operations, which could have a material adverse effect on the Issuer's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

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

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

(u) *Historical Data* – Historical occupancy rates and revenues of Lodging Enterprises are not necessarily an accurate prediction of the future occupancy rates for the Properties within the Initial Portfolio.

(v) *Possible Loss of Limited Liability of Limited Partners* – Limited Partners may lose their limited liability in certain circumstances, including by taking part in the control of the Issuer's business. The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province, but carrying on business in another jurisdiction, have not been authoritatively established. If limited liability is lost, there is a risk that Limited Partners may be liable beyond their contribution and share of the Issuer's undistributed net income in the event of judgment on a claim in an amount exceeding the sum of the GP's net assets and the Issuer's net assets. A transferee of a Unit will become a Limited Partner and shall be subject to the obligations and entitled to the rights of Limited Partners under the REIT LP Agreement on the date on which the GP amends the Issuer's record of Limited Partners to reflect that the transferee is a Limited Partner. See "*The Securities Offered – The REIT LP Agreement – Transfer of Units*".

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

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

The failure of the Developer (or its Subsidiaries, as applicable) to perform its obligations under the Master Development Agreement (and any future development agreements) to identify Suitable Development Opportunities could have a material adverse effect on the Issuer. Moreover, the termination of the Master Development Agreement could have an adverse effect on the Issuer's financial condition and results of operation. See *"Arrangements with the Developer"*.

(x) *No Assurance of Recovery* – Pursuant to the Unit Purchase Agreement, the Sellers have made certain representations and warranties to Lodging Properties with respect to the Initial Portfolio and have agreed to indemnify Lodging Properties on customary terms for losses relating to breaches of certain representations and warranties. The indemnification obligations of the Sellers are subject to a number of limitations, including thresholds for the minimum size of a claim and an overall liability cap of $8.5 million for claims notified to the Sellers in the first 12 months following the Acquisition Closing Date (and $4 million thereafter). In addition, the obligations of the Sellers and Lodging Properties in relation to these indemnities and other matters under the Unit Purchase Agreement are subject to specified survival periods.

There can be no assurance of recovery by Lodging Properties from the Sellers for breach of the representations, warranties and indemnity provided under the Unit Purchase Agreement, as there can be no assurance that the assets of the Sellers will be sufficient to satisfy such obligations. The Issuer may not be able to successfully enforce the indemnity contained in the Unit Purchase Agreement against the Sellers or such indemnity may not be sufficient to fully indemnify the Issuer from third party claims. Only Lodging Properties will be entitled to bring a claim or action for misrepresentation or breach of contract under the Unit Purchase Agreement and purchasers of the Units under this prospectus will not have any contractual rights or remedies under the Unit Purchase Agreement.

(y) *Potential Conflicts of Interest* – The directors of the GP will, from time to time, in their individual capacities, deal with parties with whom the Issuer may be dealing, or may be seeking investments similar to those desired by the Issuer. The interest of these persons could conflict with those of the Issuer. The REIT LP Agreement contains a "conflict of interest" provision requiring the directors of the GP to disclose their interests in certain contracts and transactions and to refrain from voting on those matters. See ''*Governance and Management of the Issuer – Conflict of Interest Provision*''.

Conflicts may exist due to the fact that certain directors of the GP are Principals and affiliated with the Sponsor, the Hotel Managers or the Developer. The Sponsor (and its Affiliates and Associates) and the directors and officers thereof may, from time to time, be engaged, directly or indirectly, for their own account or on behalf of others (including without limitation as trustee, administrator, asset manager or hotel manager of other trusts or portfolios) in hotel industry investments and other activities similar to the activities of the Issuer, the U.S. REIT and their Subsidiaries. Neither the Sponsor, nor any of its Affiliates or Associates (or their respective directors and officers) shall incur or be under any liability to the Issuer, any Unitholder or any annuitant by reason of, or as a result of, any such engagement or competition or the manner in which such person may resolve any conflict of interest or duty arising therefrom. See ''*Governance and Management of the Issuer – Competition with the Issuer*''.

Risks Related to the Hotel and Lodging Industry

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

(z) *Operating Risks* – The Issuer's ability to make distributions to Unitholders may be adversely affected by various operating risks common to the lodging industry, including competition, over-building and dependence on business travel and tourism. The hotels that are owned have different economic characteristics than many other real estate assets. A typical office property, for example, has long-term leases with third-party tenants, which provides a relatively stable long-term stream of revenue. Hotels, on the other hand, generate revenue from guests that typically stay at the hotel for only a few nights, which causes the room rate and occupancy levels at each of the hotels to change every day, and results in earnings that can be highly volatile. In addition, the hotels are subject to various operating risks common to the lodging industry, many of which are beyond the Issuer's control, including, among others, the following:

- competition from other hotels in the markets in which the Issuer operates;
- over-building of hotels in the markets in which the Issuer operates, which results in increased supply and will adversely affect occupancy and revenues at the Issuer's hotels;

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

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

(aa) *Seasonality of the Lodging Industry* – The seasonality of the lodging industry could have a material adverse effect on the Issuer. The lodging industry is seasonal in nature, which can be expected to cause quarterly fluctuations in revenues. The Issuer's quarterly earnings may be adversely affected by factors outside the Issuer's control, including weather conditions and poor economic factors in certain markets in which the Issuer operates. This seasonality can be expected to cause periodic fluctuations in room revenues, occupancy levels, room rates and operating expenses in particular hotels. The Issuer 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 Issuer may have to enter into short-term borrowings in certain quarters in order to make distributions to Unitholders, and the Issuer can provide no assurances that such borrowings will be available on favorable terms, if at all. Consequently, volatility in financial performance resulting from the seasonality of the lodging industry could have a material adverse effect on the Issuer.

(bb) *Cyclical Nature of the Lodging Industry* – The cyclical nature of the lodging industry may cause fluctuations in our operating performance, which could have a material adverse effect on us. The lodging industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

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

Risks Relating to the Offering and the Units

(a) *No Prior Public Market for Units* – Prior to the Offering, no public market existed for the Units. An active and liquid market for the Units may not develop following the completion of the Offering or, if developed, may not be maintained. If an active public market does not develop or is not maintained, investors may have difficulty selling their Units. The initial public offering price of Units was determined by negotiation among the Issuer and the Underwriters and may not be indicative of the price at which the Units will trade following the completion of the Offering. The Issuer cannot assure investors that the market price of Units will not materially decline below the initial public offering price.

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

(c) *Historical Financial Information and Pro Forma Financial Information* – The historical financial information relating to Lodging Enterprises included in this prospectus has been derived from historical accounting records. The Issuer believes that the assumptions underlying the combined financial statements are reasonable. However, the combined financial statements may not reflect what the Issuer's financial position, results of operations or cash flows would have been had the Issuer been a standalone entity during the historical periods presented or what the Issuer's financial position, results of operations or cash flows will be in the future. The Issuer has not made adjustments to its historical financial information to reflect changes that may occur in its cost structure, financing and operations as a result of its acquisition of the Initial Portfolio. In preparing the *pro forma* financial information in this prospectus, the Issuer has given effect to, among other items, the Offering and the Closing. The estimates used in the *pro forma* financial information may not be similar to the Issuer's actual experience as a stand-alone public entity.

(d) *Return on Investment Not Guaranteed* – The Units are equity securities of the Issuer and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the Issuer does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. The Issuer has the ability to reduce or suspend distributions if circumstances so warrant. The ability of the Issuer to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the Issuer and its subsidiaries, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by the Issuer's properties. The market value of the Units will deteriorate if the Issuer is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, the Issuer's cash distributions, to the extent they exceed the amount of income for income tax purposes allocated to the Unitholder by the Issuer for the year, will result in a net reduction of the adjusted cost base of the Unitholder's Units (i.e. tax deferred returns of capital). The Issuer estimates that no part of the monthly cash distributions to be made to Unitholders in 2013 will comprise tax deferred returns of capital but this may change over time, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a holder of Units may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period. AFFO may exceed actual cash available to the Issuer from time to time because of items such as principal repayments and capital expenditures in excess of stipulated reserves identified by the Issuer in its calculation of AFFO and redemptions of Units, if any. The Issuer may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

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

(f) *Currency Exchange Rate Risk* – The Offering Price for Units is denominated in Canadian dollars. The Canadian dollar is not maintained at a fixed exchange rate compared to foreign currencies but rather the value of the Canadian dollar has a floating exchange rate in relation to other currencies. Although investors are Canadian residents and an investment in Units is required to be made in Canadian dollars, the U.S. REIT and its affiliates will conduct business in the U.S. Consequently, income and expense or any ultimate gain on sale will be earned or incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the value of an investment in Units and the return on the original investment may be greater or less than that determined only with reference to U.S. dollars. Accordingly, investors are subject to currency exchange rate risk.

(g) *Non-IFRS Measures* – The financial forecast and 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 issuer. The measures used are meaningful to the investors as they are based on the average investor's individual investment in the entities mentioned.

(h) *The Issuer's Financial Forecast May Not Be Accurate* – In preparing the pro forma financial information included in this prospectus, the Issuer has given effect to, among other items, the Offering and the closing of the Acquisition. The estimates used in the pro forma financial information may not be similar to the Issuer's actual experience. The forecast results contained in this prospectus were prepared using assumptions that reflect management's intended course for the periods covered, given the judgment of management as to the most probable set of economic conditions. There can be no assurance that the assumptions reflected in the forecast will prove to be accurate. Actual results for the forecast period may vary from the forecast results and those variations may be material. The Issuer gives no representation that actual results achieved in the forecast period will be the same, in whole or in part, as those forecast herein. See *"Forward-Looking Information"* and *"Financial Forecast"*.

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

(j) *Dilution* – The number of Units the Issuer is authorized to issue is unlimited. The Issuer may, in the Issuer's sole discretion, issue additional Units from time to time. In addition, if the Earnout Amount is payable, the Issuer may determine to pay the Earnout Amount in Units. Any issuance of Units, including Units issued in consideration for Properties acquired by the Issuer or Units issued in connection with the Earnout Amount, will have a dilutive effect on existing Unitholders.

Canadian and United States Tax Related Risk Factors

Canadian Tax-Related Risk Factors

In general, a Unitholder must include in computing the Unitholder's income, gain, loss and deduction the Unitholder's proportionate share of income of the Issuer allocated to the Unitholder pursuant to the REIT LP Agreement for the Fiscal Year of the Issuer ending with or within the Unitholder's taxation year. See "*Principal Canadian Federal Income Tax Considerations*". However, the cash distributed to a Unitholder may not be sufficient to pay the full amount of such Unitholder's tax liability in respect of its investment in the Issuer because each Unitholder's tax liability depends on such Unitholder's particular tax situation. In addition, the actual amount and timing of distributions will be subject to the discretion of the GP, and the Issuer cannot assure Unitholders that the Issuer will in fact make cash distributions as intended. Even if the Issuer is unable to distribute cash in amounts that are sufficient to fund the Unitholders' tax liabilities, each of the Unitholders will still be required to pay income taxes on its proportionate share of Issuer's income allocated to the Unitholder.

The after-tax return from an investment in Units to a Unitholder will depend on a number of factors including whether or not the underlying income will be FAPI for purposes of the Tax Act and the Unitholder's ability to recognize for purposes of the Tax Act U.S. taxes paid by the Issuer or by the Unitholder through foreign tax credits or foreign tax deductions under the Tax Act (refer to "*Principal 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. source 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 and U.S. federal and state income tax rates that will prevail in future years to apply to applicable sources of income. Furthermore, if (i) a Unitholder holds, or has held, actually or constructively, more than 5% of the outstanding Units, as determined for U.S. federal income tax purposes, or (ii) the regularly traded exception is not satisfied (see U.S. Federal Income Tax-Related Risk Factors), a Unitholder may be subject to additional U.S. tax on disposition of the Units. The portion of such U.S. tax paid that is not applied as a foreign tax credit may generally not be available as a foreign tax deduction. Where such Unitholders are not entitled to all benefits under the Treaty, 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, where such Unitholders are trusts, their beneficiaries 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 or deduction in respect of such U.S. tax for Canadian tax purposes. Unitholders are therefore advised to consult their own tax advisors in regards to foreign tax credits and foreign tax deductions.

Provided that the Units at all relevant times are listed on a "designated stock exchange" (which currently includes the Toronto Stock Exchange), the Units will be qualified investments under the Tax Act for Plans. However, there can be no assurance that tax laws relating to qualified investments will not be changed. If the Units are not or cease to be qualified investments for Plans, a Plan and/or its annuitant, beneficiary or subscriber thereunder or holder thereof may become subject to additional tax or penalties or may be otherwise adversely affected, including, in the case of a registered education savings plan, the registered education savings plan may have its registration revoked.

To the extent that an annuitant, a beneficiary, a subscriber or a holder of a Plan that is a Unitholder files a U.S. federal income tax return and the annuitant, beneficiary, subscriber or holder (rather than the Plan itself) receives a U.S. tax refund of (or claims a foreign tax credit or a foreign tax deduction for an amount in respect of) all or a portion of the amounts withheld by the U.S. REIT, the annuitant, the beneficiary, the subscriber or the holder may, in certain circumstances, be required to include, in computing income for purposes of the Tax Act, or to pay a penalty tax on, an applicable portion of such amount of U.S. tax as a benefit or advantage received out of or under the Plan. Annuitants, beneficiaries, subscribers or holders of Unitholders that are Plans should consult their own tax advisors in this regard.

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

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

If the U.S. REIT, Lodging Enterprises, Lodging Properties, or any other CFA of Issuer fails to meet at least one of the FAPI Exceptions (as defined in "*Principal Canadian Federal Income Tax Considerations*") throughout a particular taxation year, an amount of "foreign accrual property income" ("**FAPI**") may be required to be included in computing the income of the Issuer for Canadian federal income tax purposes. At such time as the Issuer receives a dividend from the U.S. REIT or other relevant CFA out of this type of income that was previously treated as FAPI (net of the amount of any previous "foreign accrual tax" deduction, if any), that dividend will effectively not be included in computing the income of the Issuer and there will be a corresponding reduction in the adjusted cost base to the Issuer of the U.S. REIT or CFA shares to the extent such adjusted cost base was increased as a result of such FAPI. A Unitholder may in certain circumstances face a degree of double-taxation on amounts, if any, that are FAPI when both U.S. and Canadian taxes are considered.

The rules governing the Canadian federal income taxation of Unitholders are complex. The summary in "*Principal Canadian Federal Income Tax Considerations*" does not address or consider all aspects of Canadian federal income tax of an investment in the Issuer and does not consider provincial, territorial, U.S., State, or other foreign tax legislation or considerations. Prospective investors should consult their own professional advisors as to the tax consequences to them of making an investment in, and of holding, Units offered herein.

U.S. Federal Income Tax-Related Risk Factors

The following U.S. tax risks relate to situations described in more detail above in "*Principal United States Federal Income Tax Considerations*". All of the terms below have the same meaning as they do in that section; please refer to that section for more detailed information.

(a) *The tax treatment described in this prospectus depends on the Issuer's status as a partnership for U.S. federal income tax purposes* – There is a risk that for the current year, and for any subsequent year, the Issuer does not meet the "qualifying income" exception (as discussed above) to continue to be treated as a partnership for U.S. federal income tax purposes, and is, thus, treated as a corporation for U.S. federal income tax purposes. Should the Issuer be treated as a corporation for U.S. federal income tax purposes, the income tax consequences will differ significantly from those described and distributions to Unitholders may be materially lower than if the Issuer were treated as a flow-through entity for U.S. federal income tax purposes.

(b) *Unitholders May Recognize Taxable Income Without Receiving Corresponding Cash Distributions* – Because the Issuer is expected to be treated as a partnership for U.S. federal income tax purposes, Unitholders will be required to recognize income in accordance with the Issuer's recognition and allocation of such income. The Issuer may derive taxable income from investments that is not matched by a corresponding distribution of cash. It is also possible that the U.S. federal income tax liability of a Unitholder with respect to its allocable share of the Issuer's income for a particular taxable year could exceed the cash distribution to the Unitholder for the year.

(c) *The tax treatment described in this prospectus, with regard to 5% or smaller holders, depends on the Units being "regularly traded"* – There is a risk that for the current quarter, and for any subsequent quarter, the Issuer may not be considered to be "regularly traded". "Regularly traded" generally requires that more than a de minimis amount of trading occurs during each quarter, certain quarterly volume requirements are satisfied, and less than 50% of the Issuer is owned by 100 or fewer persons at all times. As well, certain other reporting requirements must be met. Should the regularly traded exception not be met, all Unitholders would be taxable upon the disposition of their Units and would also be subject to U.S. tax return filing requirements.

(d) *Non-Exempt Gains recognized by the U.S. REIT or the Issuer will cause Unitholders to be subject to U.S. federal income tax and U.S. filing obligations* – Management intends to take all reasonable steps to limit the Issuer from recognizing Non-Exempt Gains that may cause a Unitholder to recognize ECI and, therefore, a U.S. tax return filing requirement. However, no assurances can be given that Non-Exempt Gains will not be recognized in a particular year. Unitholders who are allocated ECI (including USRPI gains) are required to file a U.S. federal income tax return. Unitholders must obtain a U.S. taxpayer identification number in order to file a U.S. federal income tax return.

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

(f) *U.S. REIT Not Closely-Held Requirement* – 100% of the U.S. REIT common shares will be owned by the Issuer. The Issuer is expected to be widely-held such that five or fewer individuals would not own more than 50% of the value of the U.S. REIT. There is no ownership limitation contained in the REIT LP Agreement, so there can be no guarantee that the U.S. REIT would be able to effectively prevent five or fewer individuals from acquiring more than 50% of the Units and, thereby, indirectly acquiring more than 50% of the value of the U.S. REIT. Management will monitor the ownership of the Issuer on a regular basis to evaluate its ownership so as to prevent a violation of the Not Closely-Held Requirement. See also above U.S. Federal Income Tax-Related Risk Factor – "*It is expected that the U.S. REIT will qualify as a REIT for U.S. federal income tax purposes*".

(g) *Withholding certificates may not be granted by the IRS* – The Issuer and/or the U.S. REIT will be making withholding certificate applications to the IRS to request for a reduction in U.S. federal income tax withholdings that would otherwise apply to an amount that more closely resembles the actual tax liability. No assurance can be given that the IRS will approve a withholding certificate application.

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

(i) *A Unitholder's investment in the Issuer may have U.S. gift and estate tax implications* – The U.S. gift and estate tax rules are complex, and each Unitholder should consult his or her own tax advisor to determine the U.S. gift and estate tax implications.

The rules governing the U.S. federal income taxation of the Issuer, the U.S. REIT, and Unitholders are complex. The summary in "Principal United States Federal Income Tax Considerations" does not address or consider all aspects of U.S. federal income tax of an investment in the Issuer and does not consider state, local, or non-U.S. tax consequences. Prospective investors should consult their own tax advisors to determine the U.S. federal income tax consequences, state, local and/or non-U.S. tax consequences, reporting and any other requirements applicable to their particular situations.

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

MATERIAL CONTRACTS

The material contracts entered into or to be entered into by the Issuer or the U.S. REIT are as follows:

1. the Unit Purchase Agreement described under "*The Acquisition – Unit Purchase Agreement*";
2. the Master Hotel Management Agreement described under "*Arrangements with the Hotel Managers – Hotel Management*";
3. the Hotel Management Agreements described under "*Arrangements with the Hotel Managers – Hotel Management*";
4. the Master Development Agreement described under "*Arrangements with the Developer";*
5. the REIT LP Agreement described under "*The Securities Offered – The REIT LP Agreement*";

6. the Escrow Agreement described under "*Escrowed Securities*";
7. the Voting Trust Agreement described under "*Governance and Management of the Issuer – Voting Trust Agreement*";
8. the Underwriting Agreement described under "*Plan of Distribution*"; and
9. the Seventh Amended and Restated Credit Agreement among Lodging Properties, Lodging Enterprises and a U.S. chartered bank described under "*Debt Strategy and Indebtedness*".

Copies of the foregoing documents are or will be available on SEDAR at www.sedar.com.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as described in this prospectus, neither the GP nor any of its officers or directors, or Unitholder that beneficially owns, or controls or directs more than 10% of the Units, or any Associate or Affiliate of any of the foregoing persons, has or has had any material interest in any transaction within the last three years, or any proposed transaction, that has materially affected or would materially affect the Issuer or the U.S. REIT.

PROMOTER

Sunstone O'Neill Hotel Management Inc. has taken the initiative in founding and organizing the Issuer and is therefore a promoter of the Issuer for the purposes of applicable securities legislation.

PRINCIPAL UNITHOLDERS

To the knowledge of the GP, no person or company will own, directly or indirectly, more than 10% of the Units immediately following Closing.

PRIOR SALES

Except as disclosed below, the Issuer has not issued any Units or securities that are convertible into Units during the 12 months preceding the date of this prospectus:

On October 12, 2012, the GP made a capital contribution of $100.00 and the GP owns a 0.01% interest in the Issuer.

On October 12, 2012, the initial limited partner of the Issuer, Maverick Management Corp., a corporation indirectly owned by the principals of the O'Neill Group, subscribed for one Unit of the Issuer (pre-Consolidation) for $1.00.

On November 6, 2012, 799,999 Units (pre-Consolidation) were issued to the Seed Capital Investors for aggregate gross proceeds of $799,999. The one Unit issued to Maverick Management Corp. and the 799,999 Units issued to the Seed Capital Investors were consolidated on a two-for-one basis on February 12, 2013 (the "**Consolidation**").

LEGAL PROCEEDINGS

The Issuer is currently not involved in any outstanding, threatened or pending litigation that would have a material adverse effect on the Issuer.

LEGAL MATTERS AND INTEREST OF EXPERTS

No professional person providing an opinion in this Prospectus expects to be elected, appointed or employed as a director, senior officer or employee of Issuer, or of an Affiliate of Issuer, or is a promoter of, or of any Affiliate of, Issuer.

Certain legal matters in connection with this Offering will be passed upon by Farris, Vaughan, Wills & Murphy LLP, on behalf of the Issuer, and by Blake, Cassels & Graydon LLP on behalf of the Underwriters. As of the date of this prospectus, none of the partners or associates of Farris, Vaughan, Wills & Murphy LLP, or the partners or associates of Blake, Cassels & Graydon LLP beneficially own, directly and indirectly, any securities of the Issuer and its affiliates.

KPMG LLP, in its capacity as tax advisor to Issuer, and Blakes, counsel to the Underwriters, have jointly prepared the summaries set out under "*Principal Canadian Federal Income Tax Considerations*" and under "*Eligibility for Investment*". KPMG LLP, in its capacity as tax advisor to Issuer, has also prepared the summary set out under "*Principal United States Federal Income Tax Considerations*". As of the date of this prospectus, KPMG LLP did not beneficially own, directly or indirectly, any securities of Issuer and its affiliates.

The C&W Appraisal, CBRE Appraisal and Martens Appraisal have been prepared by Cushman & Wakefield of Illinois, Inc., CBRE, Inc. and Martens Appraisal, respectively. As of the date of this prospectus, none of Cushman & Wakefield of Illinois, Inc., CBRE, Inc. or Martens Appraisal beneficially own, directly and indirectly, any securities of the Issuer.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Issuer's auditors are KPMG LLP, Chartered Accountants, located in Vancouver, British Columbia, who were appointed as the Issuer's auditors on October 12, 2012. The transfer agent and registrar for the Units is Computershare Investor Services Inc. at its principal offices located in Vancouver, British Columbia and Toronto, Ontario.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

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 this 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 adviser.

GLOSSARY OF TERMS

"**75% gross income test**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Federal Income Taxation of the U.S. REIT – Annual Income Requirements*".

"**95% gross income test**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Federal Income Taxation of the U.S. REIT – Annual Income Requirements*".

"**100 Shareholder Requirement**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Federal Income Taxation of the U.S. REIT – Requirements for REIT Qualification*".

"**1933 Act**" has the meaning ascribed to it under "*The U.S. REIT – The Class B Share*".

"**Acquisition Closing Date**" has the meaning ascribed to it under "*The Acquisition – Unit Purchase Agreement*".

"**Active Business Exception**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Issuer*".

"**ADA**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties – Building Condition Assessments*".

"**ADR**" means the product of total revenue from rooms divided by the number of rooms occupied for the given period.

"**Affiliate**" or "**Associate**" means, where used to indicate a relationship with any person,

(a) a partner, other than a Unitholder, of that person,

(b) a trust or estate in which that person has a substantial beneficial interest or for which that person serves as trustee or in a similar capacity,

(c) an entity in respect of which that person beneficially owns or controls, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the entity, or

(d) a relative, including the spouse, of that person or a relative of that person's spouse, where the relative has the same home as that person, and for the purpose of this definition spouse includes a man or woman not married to that person but who is living with that person and has lived with that person as husband or wife for a period of not less than 6 months.

"**AFFO**" has the meaning ascribed to it under "*Non-IFRS Measures*".

"**Anti-Hybrid Rules**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Unitholders' Distributive Share of the Issuer's Non-ECI Income*".

"**Appraisals**" means, collectively, the appraisals prepared by Cushman & Wakefield, CBRE and Martens.

"**Appraisers**" means, collectively, Cushman & Wakefield, CBRE and Martens, and each individually an "**Appraiser**".

"**Audit Committee**" means the audit, finance and risk committee of directors established by the board of directors of the GP.

"**Auditors**" means the firm of chartered accountants appointed as the auditors of the Issuer from time to time in accordance with the provisions hereof and, initially, means KPMG LLP, Chartered Accountants.

"**Blakes**" means Blake, Cassels and Graydon LLP.

"**BNSF**" means Burlington Northern Santa Fe LLC.

"**Business Day**" means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario.

"**C&W Appraisal**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties — Independent Appraisals of the Initial Portfolio*".

"**CAGR**" has the meaning ascribed to it under "*Investment Highlights*".

"**CBRE**" means CBRE, Inc.

"**CBRE Appraisal**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties — Independent Appraisals of the Initial Portfolio*".

"**CDS**" means CDS Clearing and Depositary Services Inc. and its successors.

"**CDS Participant**" means a registered securities dealer which maintains a book record of Units held by CDS on behalf of a Unitholder.

"**Certificate**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations*".

"**CFA**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Issuer*".

"**CHIP REIT**" means Canadian Hotel Income Properties Real Estate Investment Trust.

"**Class B Share**" means a Class B Share of the U.S. REIT.

"**Closing**" means the closing of the Offering.

"**Closing Date**" means the date on which the Closing occurs, which is expected to be on or about February 20, 2013.

"**CMBS**" means Commercial Mortgage Backed Securities.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Common Shares**" means common shares in the capital of the U.S. REIT.

"**Compensation Committee**" means the compensation committee of directors established by the board of directors of the GP.

"**Consolidation**" has the meaning ascribed to it under "*Prior Sales*".

"**Construction Facility**" has the meaning ascribed to it under "*Debt Strategy and Indebtedness – Debt Composition*".

"**CP**" means Canadian Pacific Railway Limited.

"**CRA**" means Canada Revenue Agency.

"**CSX**" means CSX Corporation.

"**Cushman & Wakefield**" means Cushman & Wakefield of Illinois, Inc.

"**Debt Financing**" has the meaning ascribed to it under "*Debt Strategy and Indebtedness – Debt Composition*".

"**December 2012 Proposals**" has the meaning ascribed to it under "*Eligibility for Investment*".

"**Developer**" means SunOne Developments Inc.

"**Development Properties**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties – Independent Appraisals of the Initial Portfolio*".

"**Distributable Cash**" means, for any period, the aggregate of all amounts received by the Issuer in such period, whether by way of dividends, interest or otherwise, from and in respect of its direct and indirect investment in the Securities held by the Issuer, including its investment in any Subsidiaries, less reasonable reserves determined by the GP to be necessary to operate the affairs of the Issuer in a prudent and businesslike manner and less Taxes, if any, payable by the Issuer.

"**Earnout Amount**" has the meaning ascribed to it under "*The Acquisition – Unit Purchase Agreement*".

"**ECI**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Taxation of Unitholders as Partners*".

"**Employee Exception**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Issuer*".

"**Escrow Agreement**" has the meaning ascribed to it under "*Escrowed Securities*".

"**Escrow Expiry Date**" has the meaning ascribed to it under "*Escrowed Securities*".

"**Escrowed Units**" has the meaning ascribed to it under "*Escrowed Securities*".

"**Exchange**" means the Toronto Stock Exchange.

"**Existing Properties**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties – Independent Appraisals of the Initial Portfolio*".

"**FAPI**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Issuer*".

"**FAPI Exceptions**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Issuer*".

"**FAT**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Issuer*".

"**FDAP**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Unitholders' Distributive Share of the Issuer's Non-ECI Income*".

"**FDAP Tax**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Unitholders' Distributive Share of the Issuer's Non-ECI Income*".

"**FIRPTA Tax**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Taxation of Unitholders as Partners*".

"**FFO**" has the meaning ascribed to it under "*Non-IFRS Measures*".

"**Final Prospectus**" means the final version of this prospectus which will be filed by the Issuer with the securities commissions or other securities regulatory authorities in all provinces and territories of Canada.

"**Fiscal Year**" means each fiscal year of the Issuer.

"**foreign tax credit**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Unit Holders – Foreign Tax Credits and Deductions*".

"**foreign tax deduction**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Unit Holders – Foreign Tax Credits and Deductions*".

"**GDP**" has the meaning ascribed to it under "*Investment Highlights*".

"**GP**" means American Hotel Income Properties REIT (GP) Inc., a corporation incorporated under the laws of Canada, in its capacity as the general partner of the Issuer, or any person which is from time to time admitted as the general partner of the Issuer in accordance with the terms of the REIT LP Agreement.

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

"**Hotel Management Agreements**" means the IPO Hotel Management Agreement and any other management agreement made between a Subsidiary of the Issuer and the Master Hotel Manager or one of its Subsidiaries pursuant to the Master Hotel Management Agreement, as such agreements are amended, restated and/or supplemented from time to time.

"**Hotel Managers**" has the meaning ascribed to it under "*Activities of the Issuer and its Subsidiaries*".

"**HSA**" has the meaning ascribed to it under "*Industry Overview – Railroad Lodging Requirements*".

"**HVS**" means HVS Global Hospitality Services.

"**hybrid entities**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Unitholders' Distributive Share of the Issuer's Non-ECI Income*".

"**IFRS**" means International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the Canadian Institute of Chartered Accountants in Part I of The Canadian Institute of Chartered Accountants Handbook – Accounting, as amended from time to time.

"**Independent Director**" means a director who, in relation to the Issuer is independent within the meaning of National Instrument 52-110 – *Audit Committees* and is not related within the meaning of the Tax Act, as replaced or amended from time to time.

"**Indirect Exception**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – Taxation of the Issuer*".

"**Initial Portfolio**" has the meaning ascribed to it under "*Activities of the Issuer and its Subsidiaries*".

"**Initial Property**" has the meaning ascribed to it under "*Activities of the Issuer and its Subsidiaries*".

"**Initial Properties**" has the meaning ascribed to it under "*Activities of the Issuer and its Subsidiaries*".

"**investee**" has the meaning ascribed to it under "*Investment Guidelines and Operating Policies – Operating Policies*".

"**IPO Hotel Management Agreement**" means the agreement to be entered into between Lodging Enterprises and the IPO Hotel Manager pursuant to which the IPO Hotel Manager will provide certain hotel management services to Lodging Enterprises, as such agreement is amended, restated and/or supplemented from time to time.

"**IPO Hotel Manager**" has the meaning ascribed to it under "*Activities of the Issuer and its Subsidiaries*".

"**IRS**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Assumptions*".

“**Issuer**” means American Hotel Income Properties REIT LP and, unless the context otherwise requires, its direct and indirect Subsidiaries including the U.S. REIT, as a whole. See “*Meanings of Certain References*”.

“**ITSI**” means impermissible tenant service income.

“**joint ventures**” means an arrangement between the Issuer and one or more other persons pursuant to which the Issuer, directly or indirectly, conducts an undertaking and in respect of which the Issuer may hold its interest jointly or in common or in another manner with others.

“**KPMG**” means KPMG LLP.

“**Lead Underwriters**” means, collectively, Canacord Genuity Corp. and National Bank Financial Inc.

“**Liquidation Event**” has the meaning ascribed to it under “*The U.S. REIT – Class B Share*s”.

“**Liquidation Preference**” has the meaning ascribed to it under “*The U.S. REIT – Class B Share*s”.

“**Liquidation Value**” has the meaning ascribed to it under “*The U.S. REIT – Class B Share*s”.

“**Lodging Enterprises**” means Lodging Enterprises, LLC.

“**Lodging Properties**” means Lodging Properties LLC.

“**Martens**” means Martens Appraisal, LLC.

“Martens Appraisal” has the meaning ascribed to it under *“Assessment and Valuation of the Initial Properties – Independent Appraisals of the Initial Portfolio”*.

“**Master Development Agreement**” means the agreement to be entered into between the Issuer and SunOne Developments Inc. pursuant to which SunOne Developments Inc. will provide exclusive development services to Subsidiaries of the Issuer, as such agreement is amended, restated and/or supplemented from time to time.

“**Master Hotel Management Agreement**” means the agreement to be entered into between the Issuer and the Master Hotel Manager pursuant to which the Master Hotel Manager (or one or more of its wholly owned Subsidiaries) will provide exclusive hotel management services to certain Subsidiaries of the Issuer, as such agreement is amended, restated and/or supplemented from time to time.

“**Master Hotel Manager**” means Tower Rock Hotels & Resorts Inc.

“**MSI**” means Motel Sleepers, Inc.

“**Net Income**” or “**Net Loss**” means, for accounting purposes, the net income or net loss of the Issuer for a Fiscal Year as determined in accordance with IFRS.

“**NOI**” has the meaning ascribed to it under “*Non-IFRS Measures*”.

“**Nominating and Governance Committee**” means the nomination and governance committee of directors established by the board of directors of the GP.

“**Non-Exempt Gains**” has the meaning ascribed to it under “*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Taxation of Unitholders as Partners*”.

“**Not-Closely Held Requirement**” has the meaning ascribed to it under “*Principal United States Federal Income Tax Considerations – Federal Income Taxation of the U.S. REIT – Requirements for REIT Qualification*”.

“**Offering**” means the initial public offering of Units pursuant to this prospectus.

“**Offering Price**” means Cdn$10.00 per Unit.

"**OHR**" means O'Neill Hotels & Resorts Ltd.

"**O'Neill Group**" means O'Neill Hotels and Resorts Ltd., Robert O'Neill, John O'Neill and the various corporations, limited partnerships, trusts, joint ventures and other entities which are associated with O'Neill Hotels and Resorts Ltd., as the context requires.

"**ordinary REIT dividends**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Unitholders' Distributive Share of the Issuer's Non-ECI Income*".

"**Over-Allotment Option**" means the option granted to the Underwriters pursuant to the Underwriting Agreement to purchase up to 1,305,000 Units at the Offering Price to cover over-allotments, if any, and for market stabilization purposes.

"**Partners**" means the GP and the Unitholders.

"**person**" means and includes any individual, general partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, joint stock company, association, trust, trust company, bank, pension fund, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or other organization or entity, whether or not a legal entity, however designated or constituted.

"**Phase I ESA Report**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties – Environmental Site Assessments*".

"**PKF**" means PKF Hospitality Research, LLC.

"**Plans**" means, collectively, trusts governed by RRSPs, RRIFs, registered education savings plans, registered disability savings plans, deferred profit sharing plans and TFSAs, each as defined in the Tax Act.

"**Principals**" has the meaning ascribed to it under "*Arrangements with the Hotel Managers – Exclusivity*".

"**Property**" means, at any time and from time to time, each of the properties indirectly owned and operated from time to time by the U.S. REIT or other Subsidiary of the Issuer.

"**Proportionate Share**", in respect of each Unitholder means that fraction which, as of the date of such determination:

(a) has as its numerator the number of Units held by such Unitholder; and

(b) has as its denominator the aggregate number of Units outstanding.

"**Proposed Amendments**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations*".

"**Proposed Development Opportunity**" has the meaning ascribed to it under "*Arrangements with the Developer*".

"**PWC**" means Pricewaterhouse Coopers LLP.

"**real property**" means property which in law is real property and includes, whether or not the same would in law be real property, leaseholds, mortgages, undivided joint interests in real property (whether by way of tenancy-in-common, joint tenancy, co-ownership, joint venture or otherwise), any interests in any of the foregoing and the securities of trusts, corporations or partnerships the sole or principal purpose and activity of which is to invest in, hold and/or deal in real property.

"**Record**" has the meaning ascribed to it under "*The Securities Offered – The REIT LP Agreement – Transfers of Units*".

"**Record Date**" means the date established by the GP for determining:

(a) the identity of Unitholders entitled to notice of any meeting of Partners or entitled to consent to a Limited Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Partners; or

(b) the identity of Unitholders entitled to receive any report or distribution; and unless otherwise specified by the GP a Record Date shall mean, as of any particular Business Day, the opening of business on such Business Day.

"**RECs**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties – Environmental Site Assessments*".

"**Redemption Premium**" has the meaning ascribed to it under "*The U.S. REIT – Class B Shares*".

"**REIT**" means American Hotel Income Properties REIT LP.

"**REIT LP Agreement**" means the limited partnership agreement of the Issuer dated as of October 12, 2012, as may be amended, restated, modified or supplemented by Closing or otherwise from time to time.

"**related party**" means, with reference to the GP, any of the following:

(a) any person who participates in the management of the GP;

(b) any person who participates in the management of a Property;

(c) the contractor, where the proceeds from the Offering are used to develop a Property;

(d) a promoter or an Affiliate of a promoter;

(e) an Affiliate of a person mentioned in (a), (b) or (c), or a person with whom any such Affiliate is associated, including Limited Partnerships or other real estate entities set up by any such persons; or

(f) any director or officer of a person mentioned in (a), (b), (c), (d) or (e), as well as the persons with whom he or she is associated.

"**Related Parties**" in respect of a particular person means all of the following: Subsidiaries of the particular person; family members of the particular person including spouse, children, grandchildren and parents, and; any other person relevant to attribution rules to section 318 of the Code.

"**rents from real property**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Federal Income Taxation of the U.S. REIT – Annual Income Requirements*".

"**Reserved Units**" has the meaning ascribed to it under "*Executive Compensation – Compensation Discussion and Analysis*".

"**Residual Redemption Amount**" has the meaning ascribed to it under "*The U.S. REIT – The ROC Share*".

"**Restricted Investments**" has the meaning ascribed to it under "*Arrangements with the Hotel Managers – Non-Competition*".

"**RevPAR**" has the meaning ascribed to it under "*Investment Highlights*".

"**ROC Share**" means a share in the capital of the U.S. REIT which is designated within such capital as a preferred share and is issued to the Issuer.

"**ROC Share Redemption Amount**" has the meaning ascribed to it under "*The U.S. REIT – The ROC Share*".

"**RRIF**" means a registered retirement income fund as defined in the Tax Act.

"**RRSP**" means a registered retirement savings plan as defined in the Tax Act.

"**Section 754 election**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Taxation of Unitholders as Partners*".

"**Section 1441 FDAP withholding**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Unitholders' Distributive Share of the Issuer's Non-ECI Income*".

"**Section 1445 Withholding**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Taxation of Unitholders as Partners*".

"**Section 1445 Withholdings**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Taxation of Unitholders as Partners*".

"**Section 1446 Withholdings**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Taxation of the Issuer and of Unitholders – Taxation of Unitholders as Partners*".

"**Securities**" means any shares, units, partnership interests, joint venture interests or other securities of persons which hold real property or interests therein.

"**Seed Capital Investors**" has the meaning ascribed to it under "*Escrowed Securities*".

"**Seller**" means each of SEP III LEI Holdings, L.P. and DMTB Holdings, Inc.

"**Sellers' Representative**" means SEP III LEI Holdings, L.P.

"**SIFT Measures**" has the meaning ascribed to it under "*Principal Canadian Federal Income Tax Considerations – The SIFT Measures*".

"**SIFT tax**" means tax imposed under the Tax Act on "SIFT partnerships" and "SIFT trusts" as these terms are defined in the Tax Act.

"**Special Resolution**" means:

(a) a resolution approved by more than 66⅔% of the votes cast in person or by proxy at a duly constituted meeting of limited partners of the Issuer or at any adjournment thereof, called in accordance with the REIT LP Agreement; or

(b) a written resolution in one or more counterparts signed by limited partners of the Issuer holding in the aggregate more than 66⅔% of the aggregate number of outstanding Units.

"**Sponsor**" means Sunstone O'Neill Hotel Management Inc.

"**Subsequent Properties**" means all Properties other than the Initial Properties.

"**Subsidiary**" includes, with respect to any person, a company, partnership, limited partnership, trust or other entity controlled, directly or indirectly, by such person, company, partnership, limited partnership, trust or other entity.

"**Suitable Development Property**" has the meaning ascribed to it under "*Arrangements with the Developer*".

"**Suitable Properties**" has the meaning ascribed to it under "*Arrangements with the Developer*".

"**Sunstone**" means Sunstone Realty Advisors Inc., a British Columbia corporation.

"**Sunstone Group**" means Sunstone, Darren Latoski, Stephen Evans and the various corporations, limited partnerships, trusts, joint ventures and other entities which are Associated with Sunstone, as the context requires.

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time.

"**Taxable Income**" and "**Taxable Loss**" means, for income tax purposes, the income or loss of the Issuer determined under the Tax Act after applying the following principles, subject to a determination by the GP that such an application generally would not be in the best interest of Unitholders:

(a) deductions in arriving at income or loss for tax purposes will be taken at the earliest time and to the maximum extent permitted by applicable income tax statutes and regulations; and

(b) the recognition of income for tax purposes will be deferred to the maximum extent permitted by applicable income tax statutes and regulations.

"**taxable REIT subsidiary**" or "**TRS**" means a taxable REIT subsidiary as defined in the Code.

"**Taxation Year**" means the taxation year of the Issuer for the purposes of the Tax Act.

"**Taxes**" means all forms of taxation, whether direct or indirect and whether levied by reference to income, profits, gains, net wealth, asset values, turnover, added value or other reference and statutory, governmental, national, federal, state, provincial, local governmental or municipal impositions, duties, contributions and levies (including social security contributions, national insurance contributions and any other payroll taxes), whenever and wherever imposed (whether imposed by way of a withholding or deduction for or on account of tax or otherwise) and in respect of any person, and all penalties, charges, costs and interest relating thereto.

"**Term Loan**" has the meaning ascribed to it under "*Debt Strategy and Indebtedness – Debt Composition*".

"**TFSA**" means a tax-free savings account as defined in the Tax Act.

"**Transfer Agent**" means such company as may from time to time be appointed by the Issuer to act as registrar and transfer agent of the Units, together with any sub-transfer agent duly appointed by the Transfer Agent.

"**Treaty**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – "Unitholder" Defined"*.

"**Underwriters**" means, collectively, the Lead Underwriters and TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., Dundee Securities Ltd., GMP Securities L.P., Macquarie Capital Markets Canada Ltd., Burgeonvest Bick Securities Limited and Haywood Securities Inc.

"**Underwriters' Fee**" means an amount equal to 6% of the gross proceeds of the Offering.

"**Underwriting Agreement**" means the underwriting agreement dated as of February 12, 2013 between the Issuer, the Sponsor and the Underwriters, as more particularly described under "*Plan of Distribution*".

"**Unit**" means a limited partnership unit of the Issuer.

"**Unit Purchase Agreement**" means the unit purchase agreement made as of November 19, 2012 among Lodging Properties, Lodging Enterprises, the Sellers and the Sellers' Representative, as amended on January 21, 2013 and as may be further amended from time to time.

"**Unitholder**" means at any time a person that is a limited partner in the Issuer and who is the beneficial owner of one or more Units.

"**UP**" means Union Pacific Corporation.

"**USPAP**" has the meaning ascribed to it under "*Assessment and Valuation of the Initial Properties – Independent Appraisals of the Initial Portfolio*".

"**U.S. REIT**" means American Hotel Income Properties REIT Inc., a Maryland corporation to be incorporated immediately following the Closing of the Offering.

"**USRPI**" means United States real property interest, as defined in the Code.

"**Voting Trust Agreement**" has the meaning ascribed to it under "*Governance and Management of the Issuer – Voting Trust Agreement*".

"**withholdable payments**" has the meaning ascribed to it under "*Principal United States Federal Income Tax Considerations – Federal Income Taxation of the U.S. REIT – New IRS Reporting Rules*".

INDEX TO FINANCIAL STATEMENTS

AUDITORS' CONSENT

We have read the prospectus dated February 12, 2013 relating to the sale and issue of units of American Hotel Income Properties REIT LP (the "Entity"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of:

- Our report to the Directors of Lodging Enterprises, LLC and the General Partner of the Entity on the financial statements of Lodging Enterprises, LLC, which comprise the statements of financial position as at December 31, 2011, December 31, 2010, December 31, 2009 and January 1, 2009, and the statements of earnings (loss) and comprehensive income (loss), changes in net liabilities attributable to unitholders and cash flows for the years ended December 31, 2011, December 31, 2010 and December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated February 12, 2013.
- Our report to the General Partner of the Entity on the financial statements of the Entity, which comprise the statement of financial position as at October 12, 2012 and the statements of changes in partner's capital and cash flows for the one day period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated February 12, 2013.
- Our report to the General Partner of the Entity on the financial forecast of the Entity, which comprises consolidated statements of forecast net earnings and comprehensive income for each of the three-month periods ending March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013; and for the twelve-months ending December 31, 2013, prepared by management using assumptions with an effective date of February 12, 2013. Our report is dated February 12, 2013.

(signed) KPMG LLP

Chartered Accountants
February 12, 2013
Vancouver, Canada

Pro Forma Consolidated Financial Statements of

AMERICAN HOTEL INCOME PROPERTIES REIT LP

As at and for the nine months ended September 30, 2012 and for the year ended December 31, 2011

(Expressed in U.S. dollars) (Unaudited)

American Hotel Income Properties REIT LP
Pro Forma Consolidated Balance Sheet
As at September 30, 2012
(Expressed in U.S. dollars) (Unaudited)

	Issuer (note 1)	Lodging Enterprises (note 1)	(note 3)	Pro Forma Adjustments	Pro Forma Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$101	$ 4,246,066	(a)(b)(c)(d)(g)	$ 10,416,984	$ 14,663,151
Restricted cash	—	—	(q)	700,000	700,000
Asset held for sale	—	1,922,746	(h)	(1,922,746)	—
Trade and other receivables	—	1,152,160	(h)	(23,883)	1,128,277
Other assets	—	218,283		—	218,283
Total current assets	101	7,539,255		9,170,355	16,709,711
NON-CURRENT ASSETS					
Property and equipment	—	99,495,638	(b)(g)	31,443,463	130,939,101
Intangibles	—	—	(b)	8,199,821	8,199,821
Deferred income tax asset	—	—	(f)	1,967,282	1,967,282
Prepaids and deposits	—	81,755		—	81,755
Total non-current assets	—	99,577,393		41,610,566	141,187,959
TOTAL ASSETS	$101	$107,116,648		$ 50,780,921	$157,897,670
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	$ —	$ 2,809,099	(h)	$ (54,814)	$ 2,754,285
Deferred revenue	—	—		—	—
Current portion of term loan and construction facility	—	30,302,631	(c)(d)(g)	(25,649,563)	4,653,068
Total current liabilities	—	33,111,730		(25,704,377)	7,407,353
NON-CURRENT LIABILITIES					
Term loan	—	41,613,540	(c)(g)	24,852,545	66,466,085
Deferred compensation	—	—	(b)	4,918,204	4,918,204
Deferred income tax liability	—	—	(f)	2,075,928	2,075,928
Common unit liabilities	—	13,375,000	(g)	(13,375,000)	—
Preferred unit liabilities	—	30,000,000	(g)	(30,000,000)	—
Total non-current liabilities	—	85,348,540		(11,888,323)	73,460,217
TOTAL LIABILITIES	$ —	$118,460,270		$(37,592,700)	$ 80,867,570
NET ASSETS ATTRIBUTABLE TO PARTNERS / UNITHOLDERS					
Units	101	—	(a)	77,079,999	77,080,100
Retained earnings	—	(11,343,622)	(d)(g)	11,293,622	(50,000)
	101	(11,343,622)		88,373,621	77,030,100
TOTAL LIABILITIES AND NET ASSETS ATTRIBUTABLE TO PARTNERS / UNITHOLDERS	$101	$107,116,648		$ 50,780,921	$157,897,670

See accompanying notes to the unaudited pro forma consolidated financial statements.

American Hotel Income Properties REIT LP
Pro Forma Consolidated Statement of Income
For the nine months ended September 30, 2012
(Expressed in U.S. dollars) (Unaudited)

	Issuer (note 1)	Lodging Enterprises (note 1)	(note 3)	Pro Forma Adjustments	Pro Forma Consolidated
Revenue					
Rooms	$—	$29,989,865	(h)	$ (527,674)	$29,462,191
Food	—	7,834,572		—	7,834,572
Rental and other	—	655,377	(h)	(890)	654,487
	—	38,479,814		(528,564)	37,951,250
Cost of sales		16,894,510	(h)(o)	(16,894,510)	—
Hotel expenses					
Operating expenses	—	—	(o)	19,998,393	19,998,393
Energy	—	—	(o)	1,825,203	1,825,203
Property maintenance	—	—	(o)	2,029,965	2,029,965
Property taxes and insurance	—	—	(o)	1,746,942	1,746,942
Depreciation and amortization	—	—	(j)(o)	5,062,777	5,062,777
	—	—		30,663,280	30,663,280
Gross profit	—	21,585,304		(14,297,334)	7,287,970
General and administrative	—	3,437,530	(h)(o)	(3,437,530)	—
Energy	—	1,892,448	(h)(o)	(1,892,448)	—
Property maintenance	—	2,081,781	(h)(o)	(2,081,781)	—
Property taxes and insurance	—	1,809,852	(h)(o)	(1,809,852)	—
Depreciation	—	3,933,505	(h)(o)	(3,933,505)	—
	—	13,155,116		(13,155,116)	—
Results from operating activities	—	**8,430,188**		**(1,142,218)**	**7,287,970**
Corporate and administrative	—	—	(i)	2,967,153	2,967,153
Earnings before finance costs, income taxes and other income	—	**8,430,188**		**(4,109,371)**	**4,320,817**
Finance income	—	2,503	(l)	105,807	108,310
Finance costs	—	(4,687,203)	(h)(k)	2,072,238	(2,614,965)
Net finance costs	—	(4,684,700)		2,178,045	(2,506,655)
Other income	—	340,080	(m)	(340,080)	—
Earnings before income taxes	—	**4,085,568**		**(2,271,406)**	**1,814,162**
Income taxes – current	—	—	(n)	(143,175)	(143,175)
Income taxes – deferred	—	—	(n)	444,100	444,100
	—	—		300,925	300,925
Net earnings and comprehensive income	—	**4,085,568**		**(1,970,481)**	**2,115,087**
Basic and diluted weighted average net earnings per unit	$—	$ —			$ 0.23
Basic and diluted weighted average number of units outstanding	1	—	(p)		9,100,000

See accompanying notes to the unaudited pro forma consolidated financial statements.

American Hotel Income Properties REIT LP
Pro Forma Consolidated Statement of Income
For the year ended December 31, 2011
(Expressed in U.S. dollars) (Unaudited)

	Issuer (note 1)	Lodging Enterprises (note 1)	(note 3)	Pro Forma Adjustments	Pro Forma Consolidated
Revenue					
Rooms	$—	$39,576,649	(h)	$ (1,355,715)	$38,220,934
Food	—	9,897,286		—	9,897,286
Rental and other	—	987,381	(h)	(1,147)	986,234
	—	50,461,316		(1,356,862)	49,104,454
Cost of sales		22,141,253	(h)(o)	(22,141,253)	—
Hotel expenses					
Operating expenses	—	—	(o)	25,923,387	25,923,387
Energy	—	—	(o)	2,441,657	2,441,657
Property maintenance	—	—	(o)	3,057,077	3,057,077
Property taxes and insurance	—	—	(o)	2,165,258	2,165,258
Depreciation and amortization	—	—	(j)(o)	6,808,561	6,808,561
	—	—		40,395,940	40,395,940
Gross profit	—	28,320,063		(19,611,549)	8,708,514
General and administrative	—	4,379,586	(h)(o)	(4,379,586)	—
Energy	—	2,543,438	(h)(o)	(2,543,438)	—
Property maintenance	—	3,162,446	(h)(o)	(3,162,446)	—
Property taxes and insurance	—	2,248,233	(h)(o)	(2,248,233)	—
Depreciation	—	4,956,181	(h)(o)	(4,956,181)	—
	—	17,289,884		(17,289,884)	—
Results from operating activities	**—**	**11,030,179**		**(2,321,665)**	**8,708,514**
Corporate and administrative	—	—	(i)	3,926,011	3,926,011
Earnings before finance costs and income taxes	**—**	**11,030,179**		**(6,247,676)**	**4,782,503**
Finance income	—	2,629	(l)	141,783	144,412
Finance costs	—	(6,437,847)	(h)(k)	2,958,250	(3,479,597)
Net finance costs	—	(6,435,218)		3,100,033	(3,335,185)
Earnings before income taxes	**—**	**4,594,961**		**(3,147,643)**	**1,447,318**
Income taxes – current	—	—	(n)	(190,900)	(190,900)
Income taxes – deferred	—	—	(n)	592,133	592,133
	—	—		401,233	401,233
Net earnings and comprehensive income	**—**	**4,594,961**		**(2,746,410)**	**1,848,551**
Basic and diluted weighted average net earnings per unit	$—	$ —			$ 0.20
Basic and diluted weighted average number of units outstanding	1	—	(p)		9,100,000

See accompanying notes to the unaudited pro forma consolidated financial statements.

American Hotel Income Properties REIT LP (the "**Issuer**") is a limited partnership formed under the *Limited Partnership Act* (Ontario) to invest in hotel real estate properties in the U.S. The Issuer was established by and among 8290768 Canada Inc. (renamed American Hotel Income Properties REIT (GP) Inc. on October 26, 2012) (the "**General Partner**"), and Maverick Management Corp. as the initial limited partner, pursuant to the terms of the REIT LP Agreement dated October 12, 2012. The Issuer's head office and address for service is located at is c/o 1690 – 401 West Georgia Street, Vancouver, British Columbia, V6B 5A1.

A copy of the REIT LP Agreement can be obtained from the Issuer during the period of distribution of the Issuer's Units (each a "**Unit**") and will be available following the closing on SEDAR at www.sedar.com. The Issuer is authorized to issue an unlimited number of Units.

The Issuer was established, among other things, for the purposes of:

(a) acquiring Common Shares and, where applicable, a ROC Share of American Hotel Income Properties REIT Inc. (the "**U.S. REIT**"), an entity which is intended to be formed in 2013 in connection with the Closing;

(b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of the Issuer and making distributions to Unitholders; and

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

The principal activity of the Issuer will be to issue Units and to acquire and hold shares of the U.S. REIT. The U.S. REIT will be established, among other things, for the purposes of acquiring, owning and operating hotel real estate properties in the U.S.

Pursuant to a conditional purchase agreement signed with third party sellers and dated November 19, 2012, the Issuer intends to cause an indirect U.S. subsidiary of the Issuer to acquire the outstanding share capital in Lodging Enterprises, LLC ("**Lodging Enterprises**"), which owns a portfolio comprising an aggregate of 32 hotel properties located in 19 states (the "**Initial Portfolio**"). The purchase is subject to the receipt of financing through an initial public offering (the "**Offering**") and the satisfaction or waiver of conditions precedent.

On October 12, 2012, the General Partner made a capital contribution of $100 and the General Partner owns a 0.01% interest in the Issuer.

On October 12, 2012, the initial limited partner of the Issuer, Maverick Management Corp., subscribed for one Unit of the Issuer (pre-consolidation) for $1.

1. BASIS OF PRESENTATION

These pro forma consolidated financial statements of the Issuer have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") and incorporate the principal accounting policies used to prepare the audited statement of income and comprehensive income of the Initial Portfolio for the year ended December 31, 2011.

These pro forma consolidated financial statements have been prepared from the audited statement of financial position of the Issuer as at October 12, 2012 and from the unaudited statement of financial position of Lodging Enterprises as at September 30, 2012, the unaudited statement of income and comprehensive income of Lodging Enterprises for the nine months ended September 30, 2012 and the audited statement of income and comprehensive income of Lodging Enterprises for the year ended December 31, 2011. These financial statements are included elsewhere in this prospectus.

The pro forma consolidated statement of financial position gives effect to the transactions in note 3 as if they had occurred on September 30, 2012. The unaudited statement of income and comprehensive income for the nine months ended September 30, 2012 and the unaudited statement of income and comprehensive income for the year ended December 31, 2011 gives effect to the transactions in note 3 as if they had occurred on January 1, 2011.

These pro forma consolidated financial statements reflect the financial position of the Issuer and do not include the assets, liabilities, revenues and expenses of the Partners.

These pro forma consolidated financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or the financial position of the Issuer.

These pro forma consolidated financial statements as at and for the one day period ended October 12, 2012 were authorized for issue by the General Partner on February 12, 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

The pro forma consolidated financial statements have been prepared in accordance with IFRS and reflect the following principal accounting polices expected to be used to prepare the Issuer's financial statements:

(a) Use of estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of income and expenses during the financial reporting period. 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 following are the key areas of estimation uncertainty that have the most significant effect on the items recognized in these pro forma consolidated financial statements:

(i) Business combinations:

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

(ii) Amortization:

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

(b) Property and equipment:

(i) Recognition and measurement:

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

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

Management has estimated the useful lives of its property and equipment in the determination of depreciation. The estimated useful lives of property and equipment are determined based on various factors including historical data and the Issuer's expected use of the 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.

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

(ii) Subsequent costs:

The cost of replacing a part of an item of property 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 Issuer, 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, as outlined below.

The basis of depreciation and estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Building	Straight-line	40 years
Equipment	Straight-line	5 – 15 years
Automobiles	Straight-line	5 years
Leasehold improvements	Straight line	5 – 40 years

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

(c) Intangibles:

Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss and are amortized on a straight line basis over their estimated useful lives.

Amortization is calculated based on the cost of the asset, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Intangible assets are amortized over the average remaining contractual term of the lodging agreements, with an estimated useful life of five years.

(d) Impairment of non-financial assets:

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

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

Impairment losses are recognized in profit or loss in the period in which the impairment is identified. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(e) Financial instruments:

(i) Financial assets:

The Issuer's financial assets are comprised of cash and cash equivalents, restricted cash and trade and other receivables. Lodging Enterprises classifies these financial assets as loans and receivables.

The Issuer 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 Issuer has the following non-derivative financial liabilities: accounts payables and accrued expenses, term loan, construction facility, common units and preferred units. The Issuer 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 Issuer becomes a party to the contractual provisions of the instrument.

The Issuer 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 Issuer on terms that the Issuer would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

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

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

(f) Derivative financial instruments:

At Closing, the Issuer will enter into a currency swap contract with a Chartered Canadian Bank to limit its exposure to fluctuations in the foreign exchange rate between the U.S. dollar versus the Canadian dollar, as it relates to unitholder distributions to be made in Canadian dollars. This forecast has not designated any derivative financial instruments as hedges. Derivatives are initially recognized at fair value and subsequently re-measured at fair value. Gains and losses arising from the change in fair values are recognized in the statement of income and comprehensive income.

(g) Cash and cash equivalents:

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

(h) Restricted cash:

Restricted cash consists of cash collateral held at a Canadian chartered bank in the name of the Issuer relating to the currency swap (note 3(q)).

(i) Employee benefits:

A 401(k) savings plan is a post-employment benefit plan under which the Issuer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to the plan are recognized in operating expenses in the periods during which services are rendered by employees.

(j) Provisions:

A provision is recognized if, as a result of a past event, the Issuer 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.

(k) Revenue recognition:

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

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

In accordance with various lodging agreements, the Issuer may collect payments in advance of the utilization of a facility. These payments are recorded as deferred revenue until such time as the applicable facility is utilized, at which time, the deferred revenue is recognized as revenue.

(l) Finance income and finance costs:

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

Finance costs comprise interest expense on borrowings and fees related to discretionary use debt financing. Finance costs are recognized in the period in which they are incurred.

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

(m) Operating segments:

The Issuer currently operates in one business segment, owning and operating hotel and related restaurant 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 chief operating decision-maker.

(n) New standards and interpretations issued but not yet adopted:

A number of new standards, and amendments to standards and interpretations, were not effective for the year ended December 31, 2011, the last year for which audited financial statements were prepared for Lodging Enterprises, and have not been applied in preparing these financial statements. None of these is expected to have a significant impact on the financial statements of the Issuer with the exception of the following:

(i) IFRS 9 – financial instruments:

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

(ii) IFRS 13 – fair value measurement:

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. The objective of IFRS 13 is to define fair value, set out in a single IFRS framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Issuer has yet to assess the impact of IFRS 13 on its financial statements.

(o) Income taxes:

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

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

The Issuer intends to make an election to be treated as a partnership for U.S. federal income tax purposes. As such, it is generally not subject to U.S. federal income tax under the U.S. Internal Revenue Code (the "**Code**"). Furthermore, the U.S. REIT, an entity which is to be formed in 2013, intends to timely make and maintain an election as a real estate investment trust ("**REIT**") under the Code in its first taxation year and future taxation years. In order for the U.S. REIT to qualify, it must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its stockholders equal to a minimum of 90% of its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. The U.S. REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed as a dividend to its stockholders annually.

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

The U.S. REIT, through a wholly owned subsidiary, intends to lease its Initial Portfolio to another wholly owned subsidiary, a taxable REIT subsidiary of the U.S. REIT. Certain subsidiaries of the Issuer, other than the U.S. REIT, are taxable in the U.S. For these entities, income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in net earnings except to the extent that they relate to a business combination, or to items recognized directly in equity or in other comprehensive income.

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.

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: 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 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.

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.

(p) Functional and presentation currency:

These financial statements are presented in U.S. dollars, which is the Issuer's functional currency.

3 PRO FORMA ADJUSTMENTS

The pro forma adjustments to the pro forma consolidated financial statements have been prepared to account for the impact of the transactions contemplated by the prospectus as described below.

(a) The Offering:

The pro forma consolidated financial statements include initial capital contribution of $100 from the General Partner and the subscription for one Unit of the Issuer (pre-consolidation) for $1.00 by the initial limited partner of the Issuer, Maverick Management Corp., made on October 12, 2012.

(Expressed in U.S. dollars) (Unaudited)

The pro forma consolidated financial statements also include the $799,999 raised through the issuance of 799,999 Units on November 6, 2012, which will be consolidated on a two-for-one basis upon Closing, and assume the Issuer will raise gross proceeds pursuant to the Offering of approximately $87,000,000 through the issuance of 8,700,000 Units (excluding any over-allotment option). Costs relating to the Offering, including underwriters' fees, are assumed to be $10,720,000 and are charged directly to the net assets attributable to unitholders.

(b) Acquisition:

On closing, it is assumed that subsidiaries of the Issuer will indirectly acquire the Initial Portfolio for an aggregate purchase price of $127,500,000, of which $122,000,000 will be paid in cash with the balance attributed to the $5,500,000 earnout amount (payment of which is conditional on the renewal by Lodging Enterprises of key contracts), subject to working capital and capital expenditure adjustments in cash. The purchase price has been negotiated between the Issuer and the third party sellers and is supported by third party appraisals.

Net assets acquired using the purchase method of accounting based on preliminary allocations are as follows:

Property and equipment(1)	$130,939,101
Intangibles	8,199,821
Deferred income tax asset	1,967,282
Deferred income tax liability	(2,075,928)
Trade and other receivables	1,128,277
Other assets	218,283
Deposits	81,755
Accounts payable and accrued expenses	(2,754,285)
Net assets acquired	$137,704,306
Consideration:	
Cash	$133,286,102
Deferred compensation(2)	4,918,204
Cash provided by seller	(500,000)
	$137,704,306

Note 1: Purchase price of $127,500,000 less intangibles, plus capital expenditure adjustments to Closing.

Note 2: Pursuant to the conditional purchase agreement, $5,500,000 of the purchase price of the Initial Portfolio is subject to an earnout provision upon achievement of certain performance based targets prior to December 31, 2015. To the degree earned, the Issuer's indirect U.S. subsidiary has the option of paying such amount in cash or Units, or a combination thereof, by January 20, 2016. This deferred compensation has been recorded at a present value of $4,918,204 using a 3.5% discount rate.

The actual calculation and allocation of the purchase price for the acquisition outlined above will be based on the assets purchased and liabilities assumed at the effective date of the acquisition 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.

(c) Term loan:

The Issuer intends to continue the working relationship with a U.S. chartered bank that is one of the current lenders to the third party sellers of the Initial Portfolio. On Closing, it is contemplated that an indirect subsidiary of the Issuer will enter into a term loan to finance a portion of the Initial Portfolio in the amount of

(Expressed in U.S. dollars) (Unaudited)

$70,000,000, and incur financing costs of $350,000 which will be amortized over the term of the term loan. This term loan is contemplated to bear interest at a fixed interest rate of 4.85%, amortized over 15 years, maturing five years following Closing and secured by first charges over the Initial Portfolio.

The covenants relating to the term loan and the construction facility (note 3(d)) for the borrowing subsidiaries of the Issuer (subject to negotiation of a final credit agreement), to be measured quarterly, are as follows:

- Fixed Charge Ratio minimum of 1.10.
- Minimum tangible net worth of $62,000,000.
- Total liabilities to net worth of no more than 150%.
- Minimum cash reserves on deposit at the bank of $1,000,000.
- Capital expenditure reserve of 3% of gross room revenue to be accumulated monthly to a depository account at the bank (not to be offset by the cash reserve).
- Maintain guarantees under contracts with railroad operators for at least 60% of the rooms of the hotels.
- Restrictions on the ability to make distributions or pay management fees or leasing expenses if a default or event of default exists under the credit agreement.
- Audited consolidated fiscal year-end financial statements for borrowing subsidiaries of the Issuer, prepared in accordance with US GAAP and quarterly financial statements to be prepared in accordance with US GAAP and in form and substance acceptable to the bank.

(d) Construction facility:

It is contemplated that the same U.S. chartered bank providing the term loan will provide the indirect U.S. subsidiary of the Issuer a $10,000,000 construction facility for up to 75% of the costs relating to land acquisition and the construction of new facilities, and incur financing costs of $50,000 which will be expensed. This construction facility is contemplated to be interest only for up to 24 months, bearing interest based on the 30 day LIBOR rate plus 3.0%, with a 4.0% floor and be secured by first charges over the included new facilities under development. As development of new facilities is completed, it is contemplated that the portion of the construction facility relating to those completed new facilities will be removed from the construction facility and negotiated into an additional term loan with the lender. On Closing, it is assumed that $1,469,153 of the construction facility will be utilized towards financing 75% of the construction costs incurred to that date on one property under development.

The covenants relating to the construction facility are outlined in note 3(c).

(e) Sources and uses of cash:

The Issuer's sources and uses of cash after the completion of the transactions contemplated in the Offering are as follows:

Sources:	
Proceeds from the Offering, net	$ 76,280,000
Proceeds from the issuance of Units	799,999
Initial capital contributions upon formation	101
Term loan, net	69,650,000
Construction facility, net	1,419,153
Cash provided by seller	500,000
	$148,649,253
Uses:	
Purchase of Initial Portfolio	$133,286,102
General and working capital purposes	15,363,151
	$148,649,253

(Expressed in U.S. dollars) (Unaudited)

(f) Deferred income taxes:

Deferred income taxes have been recognized at an estimated average combined federal and state income tax rate of 40% as follows:

- a deferred income tax asset of $1,967,282 relating to the deferred compensation recorded at a present value of $4,918,204.
- a deferred income tax liability of $2,075,928 relating to the net of intangibles recorded at a fair value of $8,199,821 less the related tax basis estimate of $3,010,000.

(g) Historical accounts:

Elimination of the historical asset, liability and equity accounts relating to the third party sellers of the Initial Portfolio.

(h) Excluded property:

A hotel property that was sold on November 30, 2012 is excluded from the acquisition of the Initial Portfolio. The following balances and results included in the respective statements of Lodging Enterprises were removed as a pro forma adjustment:

As at September 30, 2012:

- Asset held for sale of $1,922,746
- Trade and other receivables of $23,883
- Accounts payable and accrued expenses of $54,814

	For the nine months ended September 30, 2012	**For the twelve months ended December 31, 2011**
Rooms revenue	$ 527,674	$1,355,715
Rental and other revenue	890	1,147
Cost of sales	(249,914)	(502,014)
General and administrative expenses	(83,733)	(95,438)
Energy expenses	(67,245)	(101,781)
Property maintenance expenses	(51,816)	(105,369)
Property taxes and insurance	(62,910)	(82,975)
Depreciation	(87,201)	(118,230)
Finance costs	(33,767)	(53,354)
Net earnings	$ 108,022	$ 297,701

(i) Corporate and administrative expenses:

Corporate and administrative expenses have been increased by $2,967,153 for the nine months ended September 30, 2012 and $3,926,011 for the year ended December 31, 2011, which include of the following:

- Salary and benefits, legal fees, audit fees, director fees, annual report costs, transfer agent fees, insurance, other expenses and costs of being a public entity estimated by management to be $1,620,500 per annum.
- Pursuant to the Master Hotel Management Agreement between the Issuer and Tower Rock Hotels & Resorts Inc. ("**Master Hotel Manager**"), operating Subsidiaries of the Issuer will enter into Hotel Management Agreements with the Hotel Managers, under which the Hotel Managers will be responsible for the hotel management of the Properties owned by such subsidiaries.

  Under the Master Hotel Management Agreement and the Hotel Management Agreements, the operating Subsidiaries of the Issuer will be responsible for reimbursing the Hotel Managers for any operating expenses and direct costs incurred by such Hotel Managers on behalf of the operations of the Properties and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses. Each of the Hotel Management Agreements will also provide for the payment by the applicable operating Subsidiary of a base hotel management fee to the applicable Hotel Manager during the term of the agreement in an amount equal to 3.50% of gross revenues. In addition, the Hotel Managers will collectively receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the applicable Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the Independent Directors of the General Partner, acting reasonably. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned. Each Hotel Manager will also be entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures.

In addition, the Hotel Managers will be entitled to an accounting, administration and purchasing fee. The IPO Hotel Manager will be entitled to $15,000 per Property for each of the first and second years following the Closing, $20,000 per Property in the third year following the Closing, and $25,000 per Property in each year thereafter. For Properties acquired other than the Initial Portfolio, the applicable Hotel Managers will be entitled to an accounting, administration and purchasing fee of $25,000 per Property per year.

(i) The hotel management fee for the nine months ended September 30, 2012 and for the year ended December 31, 2011 is assumed to be $1,346,793 and $1,766,146, respectively.

(ii) The accounting and administration and purchasing fee for the nine months ended September 30, 2012 and for the year ended December 31, 2011 is assumed to be $360,000 and $480,000, respectively.

(iii) The capital expenditure fee for the nine months ended September 30, 2012 and for the year ended December 31, 2011 is assumed to be $44,985 and $59,365, respectively.

(iv) The incentive fee for both the nine months ended September 30, 2012 and the year ended December 31, 2011 is assumed to be $0.

(j) Depreciation and amortization:

Depreciation and amortization on the Initial Portfolio has been adjusted to remove $3,933,505 of depreciation on property and equipment for the nine months ended September 30, 2012 and $4,956,181 for the year ended December 31, 2011. Depreciation and amortization has been adjusted to add $3,896,741 of depreciation on property and equipment and $1,253,237 of amortization on intangibles for the nine months ended September 30, 2012 and $5,255,809 of depreciation on property and equipment and $1,670,982 of amortization on intangibles for the year ended December 31, 2011, to reflect the impact of depreciation on the acquired values of property and equipment and amortization on the intangibles acquired, and their revised estimated useful lives.

(k) Finance costs:

Finance costs have been reduced by $2,038,471 for the nine months ended September 30, 2012 and $2,904,896 for the year ended December 31, 2011, which include the following:

- Adjustment to remove $4,653,436 of financing costs for the nine months ended September 30, 2012 and $6,384,493 for the year ended December 31, 2011 on financing items of the third-party sellers expected to be discharged on closing.
- Adjustment to add $2,507,300 of interest expense for the nine months ended September 30, 2012 and $3,323,300 of interest expense for the year ended December 31, 2011, to reflect the impact of interest relating to the term loan during the related period.
- For the nine months ended September 30, 2012 and for the year ended December 31, 2011, the origination fee of $13,088 relating to the rolling of the construction facility into an additional term loan during the period upon completion of the property under development at the time of Closing was expensed.

- Increase of $42,077 of interest expense for the nine months ended September 30, 2012 and $73,209 of interest expense for the year ended December 31, 2011, to reflect relating to the rolling of the construction facility into an additional term loan during the period upon completion of the property under development at the time of Closing.
- Increase of $52,500 for the nine months ended September 30, 2012 and $70,000 for the year ended December 31, 2011, for the amortization of the $350,000 origination fee relating to the term loan.

On Closing, it is assumed that $1,469,153 of the construction facility will be utilized towards financing 75% of the construction costs incurred to that date on one property under development, and an additional $1,148,453 will be utilized towards completion of the development. Interest incurred by use of the construction facility will be capitalized to the cost of the new property. Upon completion of the development of the new property, it is assumed that the related portion of the construction facility utilized of $2,617,606 will be converted to an additional term loan at the same interest rate and terms as the existing term loan.

(l) Finance income:

Finance income has been adjusted to remove $2,503 of interest income for the nine months ended September 30, 2012 and $2,629 for the year ended December 31, 2011, and add interest income of $108,310 and $144,412, respectively, calculated on the cash available for general purposes noted above (note 3(e)) from the Offering after the acquisition of the Initial Portfolio. The Issuer assumes a rate of 0.94%, which is equivalent to the Bank of Canada three month treasury bill as at February 11, 2013.

(m) Other income:

Removal of non-recurring other income of $340,080 for the nine months ended September 30, 2012.

(n) Income taxes:

Tax expense is recorded for certain subsidiaries of the Issuer, other than the U.S. REIT, which are taxable in the U.S. The tax expense is comprised of current tax expense ($143,175 for the nine months ended September 30, 2012 and $190,900 for the year ended December 31, 2011) and a deferred income tax recovery ($444,100 for the nine months ended September 30, 2012 and $592,133 for the year ended December 31, 2011). Current tax expense was determined based on the assumption that a wholly owned subsidiary of the U.S. REIT leased the Initial Portfolio, at an arm's-length lease rate, to another wholly owned subsidiary that is a taxable REIT subsidiary of the U.S. REIT.

The Issuer assumes that on closing and beyond, the U.S. REIT will qualify as a REIT, effective on the date of its incorporation it will meet the REIT conditions, as described in note 2(n). The Issuer also assumes that the U.S. REIT will distribute all of its taxable income to its shareholders each taxation year.

(o) Reclassification of historical accounts:

Reclassification of the historical income statement accounts of the third party sellers of the Initial Portfolio to classify by these accounts by nature in the structure of the Issuer.

(p) Basic and diluted net earnings per unit:

Net earnings per unit information is calculated based on the weighted average number of units assumed to be outstanding. The weighted average number of units outstanding for basic and diluted net earnings per unit is 9,100,000.

(q) Currency swap:

At Closing, the Issuer will enter into a currency swap contract with a Chartered Canadian Bank to limit its exposure to fluctuations in the foreign exchange rate between the U.S. dollar versus the Canadian dollar, as it relates to unitholder distributions to be made in Canadian dollars. The currency swap will be for a two-year term at the forward exchange rate in effect at the time of entering the currency swap contract. $700,000 Canadian dollars is required as cash collateral to establish the contract, and any additional exchange rate exposure in excess of $250,000 Canadian dollars will require further collateral in increments of

(Expressed in U.S. dollars) (Unaudited)

$250,000 Canadian dollars. This cash collateral will be utilized by the Chartered Canadian Bank to unwind the contract in the event that the required collateral is not maintained by the Issuer, or it will be refunded, with interest, to the Issuer at the conclusion of the contract. No gains or losses have been recognized relating to the currency swap.

(r) Foreign currency translation:

The pro forma consolidated financial statements assume the exchange rate between the Canadian dollar and the U.S. dollar to be at par.

4 PARTNER'S CAPITAL

The capital of the Issuer consists of an unlimited number of units of the Issuer and the interest held by the General Partner. The General Partner has made a capital contribution of $100 to the Issuer and has no further obligation to contribute capital.

5 COMMITMENTS

(a) Operating leases:

Lodging Enterprises has entered into operating leases for its office facility, office equipment and automobiles. Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2011 are:

	Operating leases
2012	$289,735
2013	201,857
2014	108,631
	$600,223

(b) Lodging agreements:

Each of the properties of the Initial Portfolio is supported by a contract with a railroad operator. In general, the contracts establish take-or-pay minimums on the number of rooms reserved, and stipulate a fixed or inflation-adjusting room rate or a room rate adjustment based on a mutually agreeable metric with the railway operator. However, Lodging Enterprises frequently sell rooms to the railroad operator in excess of the minimum daily or monthly room guarantee. Contracts also feature a 'must stay' provision that prohibits railroad employees from using competing hotels within a specified radius for accommodation. Rooms not utilized by railroads can be sold to other guests.

Lodging Enterprises has an agreement under which it leases a lodging property and related restaurant from a railroad company that it operates for that railroad company. Lodging Enterprises is responsible for the routine maintenance and improvement of the property (up to $1,000 total per month) and the ongoing operation of the property. The agreement covers 60 rooms and specifies certain quality and service standards. The room rental rates are negotiated annually, with any change not to exceed the increase in the consumer price index and not to be less than the charges in effect for the previous year. The railroad company pays for all property taxes, utilities and property insurance, and any additional maintenance and improvement of the property. This agreement is renewed annually. The property sustained flood damage in October 2012 and was closed, and the agreement remains in effect.

6 RELATED PARTY TRANSACTIONS

The Chief Executive Officer of the General Partner has joint control over Tower Rock Hotels & Resorts Inc., the counterparty to the Master Hotel Management Agreement to be entered into on Closing. As discussed in note 3(i) above, the management fees to be paid pursuant to the Master Hotel Management Agreement for the nine months ended September 30, 2012 and for the year ended December 31, 2011 are assumed to be $1,751,778 and $2,305,511, respectively.

INDEPENDENT AUDITORS' REPORT

To the General Partner of American Hotel Income Properties REIT LP

We have audited the accompanying financial statements of American Hotel Income Properties REIT LP, comprising the statement of financial position as at October 12, 2012, the statements of changes in partner's capital and cash flows for the one day period ended October 12, 2012 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of American Hotel Income Properties REIT LP as at October 12, 2012 and its financial performance and its cash flows for the one day period then ended in accordance with International Financial Reporting Standards.

(signed) KPMG LLP

Chartered Accountants
February 12, 2013
Vancouver, Canada

Financial statements of

AMERICAN HOTEL INCOME PROPERTIES REIT LP

October 12, 2012

(Expressed in U.S. dollars)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Statement of Financial Position
As at October 12, 2012
(Expressed in U.S. dollars)

ASSET	
Cash	$101
PARTNER'S CAPITAL	
Partner contributions	$101

Subsequent events (note 5)

Approved on behalf of the General Partner,
American Hotel Income Properties REIT (GP) Inc.:

"*Robert O'Neill*" Director
Robert O'Neill

"*Stephen Evans*" Director
Stephen Evans

See the accompanying notes to financial statements

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Statement of Changes in Partner's Capital
For the one day ended October 12, 2012
(Expressed in U.S. dollars)

Partner's capital, beginning of period	$ —
Issuance of partner units	101
Partner's capital, end of period	$101

See the accompanying notes to financial statements

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Statement of Cash Flows

For the one day ended October 12, 2012

(Expressed in U.S. dollars)

Financing activities:	
Issuance of partner units	$101
Increase in cash, being cash end of period	$101

See the accompanying notes to financial statements

Notes to Financial Statements
As at and for the one day ended October 12, 2012
(Expressed in U.S. dollars)

American Hotel Income Properties REIT LP (the "**Issuer**") is a limited partnership formed under the *Limited Partnership Act* (Ontario) to invest in hotel real estate properties in the U.S. The Issuer was established by and among 8290768 Canada Inc. (renamed American Hotel Income Properties REIT (GP) Inc. on October 26, 2012) (the "**General Partner**"), and Maverick Management Corp. as the initial limited partner, pursuant to the terms of the REIT LP Agreement dated October 12, 2012. The Issuer's head office and address for service is located at is c/o 1690 – 401 West Georgia Street, Vancouver, British Columbia, V6B 5A1.

A copy of the REIT LP Agreement can be obtained from the Issuer during the period of distribution of the Issuer's Units (each a "Unit") and will be available following the Closing on SEDAR at www.sedar.com. The Issuer is authorized to issue an unlimited number of Units.

The Issuer was established, among other things, for the purposes of:

(a) acquiring Common Shares and, where applicable, a ROC Share of American Hotel Income Properties REIT Inc. (the "**U.S. REIT**"), and entity which is intended to be formed in 2013 in connection with the Closing;

(b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of the Issuer and making distributions to Unitholders; and

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

The principal activity of the Issuer will be to issue Units and to acquire and hold shares of the U.S. REIT. The U.S. REIT will be established, among other things, for the purposes of acquiring, owning and operating hotel real estate properties in the U.S.

On October 12, 2012, the General Partner made a capital contribution of $100 and the General Partner owns a 0.01% interest in the Issuer.

On October 12, 2012, the initial limited partner of the Issuer, Maverick Management Corp., subscribed for one Unit of the Issuer for $1.

1 STATEMENT OF COMPLIANCE

The financial statements of the Issuer have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). The Issuer's financial statements as at and for the one day period ended October 12, 2012 were authorized for issue by the General Partner on February 12, 2013. Going forward, the Issuer's financial reporting year end will be December 31.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation:

The financial statements reflect the financial position of the Issuer and do not include the assets, liabilities, revenues and expenses of the Partners.

(b) Measurement uncertainty (use of estimates):

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the 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.

(c) Allocation of net income or net loss:

Where Distributable Cash is paid in respect of a Fiscal Year, the Net Income and Taxable Income of the Issuer in respect of that Fiscal Year shall be allocated among all Partners that were Partners at any time in the Fiscal Year on the following basis:

(i) first, to the General Partner 0.01% of the Net Income and Taxable Income of the Issuer to a maximum of $100 per annum; and

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

Where no Distributable Cash is paid in respect of a Fiscal Year, Net Income and Taxable Income of the Issuer in respect of that Fiscal Year shall be allocated among Partners that were Partners at any time in the Fiscal Year on the following basis:

(i) first, to the General Partner 0.01% of the Net Income and Taxable Income of the Issuer to a maximum of $100 per annum; and

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

Net Loss and Taxable Loss of the Issuer in respect of a Fiscal Year shall be allocated among all Partners that were Partners at any time in the Fiscal Year on the following basis:

(i) first, to the GP 0.01% of the Net Loss and Taxable Loss of the Issuer to a maximum of $100 per annum; and

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

(d) Functional and presentation currency:

These financial statements are presented in U.S. dollars, which is the Issuer's functional currency. For the purposes of the Subsequent Events disclosure (note 5), the exchange rate between the Canadian dollar and the U.S. dollar is assumed to be at par.

3 PARTNER'S CAPITAL

The capital of the Issuer consists of an unlimited number of units of the Issuer and the interest held by the General Partner. The General Partner has made a capital contribution of $100 to the Issuer and has no further obligation to contribute capital.

4 MANAGEMENT AND OTHER SERVICES

(a) Master Hotel Management Agreement:

Pursuant to the Master Hotel Management Agreement between the Issuer and Tower Rock Hotels & Resorts Inc. ("**Master Hotel Manager**"), operating Subsidiaries of the Issuer will enter into Hotel Management Agreements with the Hotel Managers, under which the Hotel Managers will be responsible for the hotel management of the Properties owned by such subsidiaries.

Under the Master Hotel Management Agreement and the Hotel Management Agreements, the operating Subsidiaries of the Issuer will be responsible for reimbursing the Hotel Managers for any operating expenses and direct costs incurred by such Hotel Managers on behalf of the operations of the Properties and their lodging businesses, including salary and benefit costs of hotel staff and other operating expenses. Each of the Hotel Management Agreements will also provide for the payment by the applicable operating Subsidiary of a base hotel management fee to the applicable Hotel Manager during the term of the agreement in an amount equal to 3.50% of gross revenues. In addition, the Hotel Managers will collectively receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the applicable Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the Independent Directors of the General Partner, acting responsibly. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned. Each Hotel Manager will also be entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures.

In addition, the Hotel Managers will be entitled to an accounting, administration and purchasing fee. The IPO Hotel Manager will be entitled to $15,000 per Property for each of the first and second years following the Closing, $20,000 per Property in the third year following the Closing, and $25,000 per Property in each year thereafter. For Properties acquired other than the Initial Portfolio, the applicable Hotel Managers will be entitled to an accounting, administration and purchasing fee of $25,000 per Property per year.

(b) Voting Trust Agreement:

The General Partner and the Issuer have determined that it is advisable for the Unitholders to have control over the election of the Board of Directors of the General Partner and certain other fundamental matters relating to the General Partner. Accordingly, Maverick Management Corp., Darren Investments Inc. and Triple E Investments Ltd., which own 100% of the outstanding shares of the General Partner will, on or before Closing, enter into a voting trust agreement with a third party trustee (the "**Voting Trust Agreement**") pursuant to which the Unitholders will be provided with the right to vote for the election of directors of the board of directors of the General Partner and in respect of the following:

(i) any sale of all or substantially all of its assets;

(ii) any merger, amalgamation, consolidation, business combination or other material corporate transaction, except in connection with any internal reorganization that does not result in a change of control;

(iii) any plan or proposal for a complete or partial liquidation or dissolution, or any reorganization or any case, proceeding or action seeking relief under any existing laws or future laws relating to bankruptcy or insolvency;

(iv) any amendment to the REIT LP Agreement unless otherwise permitted therein;

(v) any amendment to the charter documents of the General Partner to change the authorized minimum or maximum number of directors;

(vi) any other matter required by an applicable securities regulator, by the Toronto Stock Exchange or by any other applicable stock exchange where the Issuer's securities trade from time to time;

(vii) any other matter required by the Voting Trust Agreement to receive the direction of the limited partners of the Issuer; or

(viii) any commitment or agreement to do any of the foregoing.

The Voting Trust Agreement also contains restrictions on transfers of the shares of the General Partner held by Maverick Management Corp., Darren Investments Inc. and Triple E. Investments Ltd., subject to exceptions for transfer of such shares to Affiliates.

5 SUBSEQUENT EVENTS

(a) Issuance of units:

The Issuer has entered into an underwriting agreement dated February 12, 2013 whereby it will raise gross proceeds of $87,000,000 pursuant to an initial public offering, through the issuance of 8,700,000 Units of the Issuer at a price of $10.00 per unit. Costs relating to the Offering, including an underwriting fee of $5,220,000 are estimated to be the aggregate of $10,720,000 excluding any issuance of Units pursuant to an over-allotment option granted to the underwriters.

On October 12, 2012, the initial limited partner of the Issuer, Maverick Management Corp., subscribed for one Unit of the Issuer (pre-consolidation) for $1.00.

On November 6, 2012, 799,999 Units of the Issuer, which will be consolidated on a two-for-one basis upon Closing, were issued for aggregate gross proceeds of $799,999.

(b) Purchase of Lodging Enterprises:

Pursuant to a conditional purchase agreement (the "**Purchase Agreement**") signed with third party sellers and dated November 19, 2012, the Issuer intends to cause an indirect U.S. subsidiary of the Issuer to acquire the outstanding share capital in Lodging Enterprises, LLC ("**Lodging Enterprises**"), which owns a portfolio comprising an aggregate of 32 hotel properties located in 19 states (the "**Initial Portfolio**"). The purchase is subject to the receipt of financing through the Offering and the satisfaction or waiver of conditions precedent. On Closing, proceeds of the term loan and the construction facility and a portion of the net proceeds from the issuance of the Units from the Offering will be used to acquire the Initial Portfolio. Net proceeds of the Offering which are not required to complete the purchase of the Initial Portfolio will be used by the General Partner for general working capital purposes. The aggregate purchase price for the Initial Portfolio is $127,500,000, of which $122,000,000 will be paid in cash with the balance attributed to the $5,500,000 earnout amount (payment of which is conditional on the renewal by Lodging Enterprises of key contracts), subject to working capital and capital expenditure adjustments in cash. Management has obtained external appraisals in support of the purchase price for the properties in the Initial Portfolio.

On November 19, 2012, an indirect U.S. subsidiary of the Issuer paid an initial deposit in the amount of $250,000 pursuant to the Purchase Agreement. The deposit will be refunded to the indirect U.S. subsidiary of the Issuer upon completion of the purchase of the Initial Portfolio contemplated above by February 20, 2013. If the purchase of the Initial Portfolio is not completed by February 20, 2013, the deposit will be forfeited to the third party sellers.

(c) Financing arrangements

The Issuer intends to continue the working relationship with a U.S. chartered bank that is one of the current lenders to the third party sellers of the Initial Portfolio. On Closing, it is contemplated that an indirect subsidiary of the Issuer will enter into a term loan to finance a portion of the Initial Portfolio in the amount of $70,000,000, and incur financing costs of $350,000 which will be amortized over the term of the term loan. This term loan is contemplated to bear interest at a fixed rate of 4.85%, amortized over 15 years, maturing five years following closing and secured by first charges over the Initial Portfolio.

It is contemplated that the same U.S. chartered bank providing the term loan will provide the indirect U.S. subsidiary of the Issuer a $10,000,000 construction facility for up to 75% of the costs relating to land acquisition and the construction of new facilities, and incur financing costs of $50,000 which will be expensed when incurred. This construction facility is contemplated to be interest only for up to 24 months, bearing interest based on the 30 day LIBOR rate plus 3.0%, with a 4.0% floor and be secured by first charges over the included new facilities under development. As development of new facilities is completed, it is contemplated that the portion of the construction facility relating to those completed new facilities will be removed from the construction facility and negotiated into an additional term loan with the lender. On Closing, it is assumed that $1,469,153 of the construction facility will be utilized towards financing 75% of the construction costs incurred to that date on one property under development.

(Expressed in U.S. dollars)

(d) Sources and uses of cash

The Issuer's sources and uses of cash after the completion of the transactions contemplated in the Offering are as follows:

Sources:	
Proceeds from the Offering, net	$ 76,280,000
Proceeds from the issuance of Units	799,999
Initial capital contributions upon formation	101
Term loan, net	69,650,000
Construction facility, net	1,419,153
Cash provided by seller	500,000
	$148,649,253
Uses:	
Purchase of Initial Portfolio	$133,286,102
General and working capital purposes	15,363,151
	$148,649,253

Condensed Interim Financial Statements of

LODGING ENTERPRISES, LLC

As at and for the three months and nine months ended September 30, 2012 and 2011

(Expressed in U.S. dollars) (Unaudited)

LODGING ENTERPRISES, LLC

Condensed Interim Statements of Financial Position
As at September 30, 2012 and December 31, 2011
(Expressed in U.S. dollars)

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 4,246,066	$ 3,329,840
Asset held for sale (note 4)	1,922,746	—
Trade and other receivables	1,152,160	953,968
Other assets	218,283	254,561
Total current assets	7,539,255	4,538,369
Non-current assets:		
Property and equipment (note 4)	99,495,638	102,214,993
Deposits	81,755	86,255
Total non-current assets	99,577,393	102,301,248
Total assets	$107,116,648	$106,839,617
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (note 5)	$ 2,809,099	$ 2,430,536
Deferred revenue	—	275,708
Current portion of notes payable (note 6)	30,302,631	5,191,763
Total current liabilities	33,111,730	7,898,007
Non-current liabilities:		
Notes payable (note 6)	41,613,540	70,635,800
Common unit liabilities (note 7)	13,735,000	13,735,000
Preferred unit liabilities (note 7)	30,000,000	30,000,000
Total non-current liabilities	85,348,540	114,370,800
Total liabilities	118,460,270	122,268,807
Net liabilities attributable to unitholders	(11,343,622)	(15,429,190)
Total liabilities and net liabilities attributable to unitholders	$107,116,648	$106,839,617

Commitments (note 8)
Subsequent events (note 12)

See accompanying notes to these condensed interim financial statements.

LODGING ENTERPRISES, LLC

Condensed Interim Statements of Earnings and Comprehensive Income
For the three and nine months ended September 30, 2012 and 2011
(Expressed in U.S. dollars) (Unaudited)

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenue:				
Rooms	$10,448,690	$10,408,054	$29,989,865	$29,715,793
Food	2,829,920	2,687,168	7,834,572	7,447,180
Rental and Other	225,039	331,892	655,377	726,248
	13,503,649	13,427,114	38,479,814	37,889,221
Cost of sales	5,897,358	5,737,744	16,894,510	16,538,782
Gross profit	7,606,291	7,689,370	21,585,304	21,350,439
General and administrative	1,083,321	1,012,371	3,437,530	3,322,722
Energy	689,760	693,892	1,892,448	1,916,880
Property maintenance	701,977	876,071	2,081,781	2,385,753
Property taxes and insurance	593,347	541,939	1,809,852	1,619,617
Depreciation	1,308,118	1,228,370	3,933,505	3,698,058
Results from operating activities	3,229,768	3,336,727	8,430,188	8,407,409
Finance income	1,056	637	2,503	1,891
Finance costs (note 9)	(1,849,966)	(2,326,079)	(4,687,203)	(5,354,907)
Net finance costs	(1,848,910)	(2,325,442)	(4,684,700)	(5,353,016)
Earnings from operations before other income	1,380,858	1,011,285	3,745,488	3,054,393
Other income	—	—	340,080	—
Net earnings and comprehensive income	$ 1,380,858	$ 1,011,285	$ 4,085,568	$ 3,054,393
Net earnings per common unit				
Basic	$ 69.04	$ 50.56	$ 204.28	$ 152.72
Diluted	$ 27.62	$ 20.23	$ 81.71	$ 61.09
Distributions per common and preferred units	$ 23.97	$ 32.40	$ 54.19	$ 61.06
Weight average number of units outstanding				
Basic	20,000	20,000	20,000	20,000
Diluted	50,000	50,000	50,000	50,000

See accompanying notes to these condensed interim financial statements.

LODGING ENTERPRISES, LLC

Condensed Interim Statements of Changes in Net Liabilities Attributable to Unitholders
For the nine months ended September 30, 2012 and 2011
(Expressed in U.S. dollars) (Unaudited)

	2012	2011
Net liabilities attributable to unitholders:		
Balance, beginning of period	$(15,429,190)	$(20,024,151)
Net earnings	4,085,568	3,054,393
Balance, end of period	$(11,343,622)	$(16,969,758)

See accompanying notes to these condensed interim financial statements.

LODGING ENTERPRISES, LLC

Condensed Interim Statements of Cash Flows
For the nine months ended September 30, 2012 and 2011
(Expressed in U.S. dollars) (Unaudited)

	2012	2011
Cash provided by (used in):		
Operations:		
Net earnings and comprehensive income	$ 4,085,568	$ 3,054,393
Items not involving cash:		
Depreciation	3,933,505	3,698,058
Interest expense	1,977,508	2,301,977
Loss (gain) on sale of property and equipment	1,913	(2,165)
Bad debts expense	18,959	9,254
	10,017,453	9,061,517
Changes in non-cash operating working capital (note 11)	(57,661)	(1,179,342)
	9,959,792	7,882,175
Investing:		
Additions to property and equipment	(3,144,609)	(1,553,340)
Proceeds from sale of property and equipment	5,800	8,673
	(3,138,809)	(1,544,667)
Financing:		
Repayment of notes payable	(3,873,229)	(3,425,028)
Cash interest paid	(1,980,758)	(2,417,934)
Payment of loan fees	(50,770)	(33,830)
	(5,904,757)	(5,876,792)
Net increase in cash and cash equivalents	916,226	460,716
Cash and cash equivalents, beginning of period	3,329,840	1,720,442
Cash and cash equivalents, end of period	$ 4,246,066	$ 2,181,158

See accompanying notes to these condensed interim financial statements.

1. Reporting entity:

Lodging Enterprises, LLC ("**Lodging Enterprises**") is a private company incorporated on April 18, 2008 under the laws of the State of Kansas. Lodging Enterprises is collectively owned by SEP III LEI Holdings, L.P., a Delaware limited partnership, and DMTB Holdings, Inc. ("**DMTB**"), a Delaware corporation. Lodging Enterprises is domiciled in the U.S. and its registered office is located at 8080 East Central, Suite 180, Wichita, Kansas, 67206.

Lodging Enterprises currently operates 32 hotel properties (the "**Initial Properties**") predominantly located in smaller towns throughout the U.S. A substantial portion of Lodging Enterprises' revenue is generated through lodging agreements with several railroad companies. Lodging Enterprises operates both franchised and non-franchised properties.

2. Basis of presentation:

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("**IASB**"). Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the IASB, have been omitted or condensed. These unaudited condensed interim financial statements should be read in conjunction with Lodging Enterprises' financial statements prepared in accordance with IFRS as issued by the IASB for the year ended December 31, 2011.

These unaudited condensed interim financial statements were approved and authorized for issue by the directors of Lodging Enterprises, LLC on February 12, 2013 and the directors of American Hotel Income Properties REIT (GP) Inc. on February 12, 2013.

3. Significant accounting policies:

These unaudited condensed interim financial statements have been prepared using the same accounting policies as those used in Lodging Enterprises' financial statements for the years ended December 31, 2011 and 2010 and 2009 and have been applied consistently to all periods presented in these unaudited condensed interim financial statements. No new accounting standards were adopted during the period.

(Expressed in U.S. dollars) (Unaudited)

4. Property and equipment:

	Land	Building	Equipment	Computer and telephone equipment	Office furniture and equipment	Automobiles	Leasehold improvements	Construction-in-progress	Total
Cost or deemed cost:									
Balance at January 1, 2011	$14,394,690	$ 84,531,182	$11,833,776	$332,168	$ 7,812	$ 16,931	$ 46,623	$ 2,615,627	$113,778,809
Additions	—	403,767	1,238,428	14,854	—	10,762	—	373,119	2,040,930
Transfers	248,537	2,076,995	637,114	24,400	—		—	(2,987,046)	—
Disposals	—	—	(13,901)	(25,928)	(7,812)	(8,670)	—	—	(56,311)
Balance at December 31, 2011	14,643,227	87,011,944	13,695,417	345,494	—	19,023	46,623	1,700	115,763,428
Balance at January 1, 2012	14,643,227	87,011,944	13,695,417	345,494	—	19,023	46,623	1,700	115,763,428
Additions	—	411,382	1,049,533	16,416	—	16,528	—	1,650,750	3,144,609
Disposals	—	—	—	—	—	(10,766)	—	—	(10,766)
Asset held for sale – Barstow (note 4)	(293,128)	(1,326,885)	(1,152,897)	(65,090)	—	—	—	—	(2,838,000)
Balance at September 30, 2012	**$14,350,099**	**$ 86,096,441**	**$13,592,053**	**$296,820**	**$ —**	**$ 24,785**	**$ 46,623**	**$ 1,652,450**	**$116,059,271**
Depreciation:									
Balance at January 1, 2011	$ —	$ (5,365,799)	$ (3,218,239)	$ (39,419)	$(1,583)	$ (6,773)	$ (8,360)	$ —	$ (8,640,173)
Depreciation for the year	—	(2,766,824)	(2,128,591)	(50,256)	(868)	(4,462)	(5,180)	—	(4,956,181)
Disposals	—	—	13,437	27,696	2,451	4,335	—	—	47,919
Balance at December 31, 2011	—	(8,132,623)	(5,333,393)	(61,979)	—	(6,900)	(13,540)	—	(13,548,435)
Balance at January 1, 2012	—	(8,132,623)	(5,333,393)	(61,979)	—	(6,900)	(13,540)	—	(13,548,435)
Depreciation for the year	—	(2,110,107)	(1,777,523)	(37,897)	—	(4,093)	(3,885)	—	(3,933,505)
Disposals	—	—	—	—	—	3,053	—	—	3,053
Asset held for sale – Barstow (note 4)	—	160,511	720,563	34,180	—	—	—	—	915,254
Balance at September 30, 2012	**$ —**	**$(10,082,219)**	**$ (6,390,353)**	**$ (65,696)**	**$ —**	**$ (7,940)**	**$(17,425)**	**$ —**	**$ (16,563,633)**
Carrying amounts									
At December 31, 2011	$14,643,227	$ 78,879,321	$ 8,362,024	$283,515	$ —	$ 12,123	$ 33,083	$ 1,700	$102,214,993
At September 30, 2012	$14,350,099	$ 76,014,222	$ 7,201,700	$231,124	$ —	$ 16,845	$ 29,198	$ 1,652,450	$ 99,495,638

As at September 30, 2012, Lodging Enterprises reclassified one of its properties to asset held for sale. This property is shown as a current asset and is recorded at the lower of its net book value and its fair value less costs to sell. Refer to note 12.

Land, building, equipment and construction-in-progress have been pledged as collateral against the notes payable (note 6).

(Expressed in U.S. dollars) (Unaudited)

5. Accounts payable and accrued expenses:

	September 30, 2012	December 31, 2011
Accounts payable	$1,361,072	$ 443,005
Accrued expenses:		
Payroll and payroll taxes	391,097	648,713
Sales taxes	276,891	256,625
Property taxes	366,861	656,791
Interest on notes payable	371,098	382,210
Other	42,080	43,192
	$2,809,099	$2,430,536

6. Notes payable:

Lodging Enterprises has notes payable as follows:

	September 30, 2012	December 31, 2011
Term Note I[(a)]	$ 19,851,919	$21,749,824
Term Note II[(b)]	9,275,332	9,914,877
Term Note III[(c)]	6,350,698	6,733,984
Term Note IV[(d)]	10,998,500	11,550,947
Subordinated note payable[(e)]	25,500,608	25,900,654
	71,977,057	75,850,286
Less: current maturities	(30,302,631)	(5,191,763)
Less: unamortized portion of loan fees	(60,886)	(22,723)
	$ 41,613,540	$70,635,800

(a) The current terms of Term Note I are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011. Term Note I is repayable in monthly installments, bearing interest at LIBOR plus 2.5% with a floor of 3.5%, maturing August 1, 2015, with a balloon payment estimated at $12,197,433, plus accrued interest, due on August 1, 2015. The note is collateralized by substantially all lodging properties.

(b) The current terms of Term Note II are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011. Term Note II is repayable in monthly installments, bearing interest at LIBOR plus 2.5% with a floor of 3.5%, maturing on September 1, 2016, with a balloon payment estimated at $5,638,427, plus accrued interest, due on September 1, 2016. The note is collateralized by specific lodging properties.

(c) The current terms of Term Note III are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011, payable repayable in monthly installments, bearing interest at LIBOR plus 2.5% with a floor of 3.5%, maturing on September 1, 2017, with a balloon payment estimated at $3,563,714 due on September 1, 2017. The note is collateralized by specific lodging properties.

(d) The current terms of Term Note IV are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011, payable repayable in monthly installments bearing interest at LIBOR plus 2.5% with a floor of 3.5%, due on June 1, 2019, with a balloon payment estimated at $5,371,688 plus interest due June 1, 2019. The note is collateralized by specific lodging properties.

(e) The current terms of the Subordinated note payable are pursuant to the Second Amendment to the Subordinate Loan Agreement dated April 1, 2011. The Subordinated note payable required interest only payments through April 1, 2011, with monthly principal and interest payments beginning July 1, 2011. The interest rate on the note is LIBOR plus 2.5% with a floor of 3.5%, and matures on April 1, 2013, with a balloon payment estimated at $25,234,244 due on that date. The note is fully guaranteed by the owners of Lodging Enterprises.

The weighted average effective interest rate on Lodging Enterprises' notes payable at September 30, 2012 is 3.5% (December 31, 2011 – 3.5%).

The notes payable contain covenants common to these types of agreements related to tangible net worth and certain financial ratios. Lodging Enterprises is also required to maintain a pool of Lodging Facility Agreements whereby approved railroad companies guarantee a minimum 60% occupancy rate for the facilities covered under this agreement.

(Expressed in U.S. dollars) (Unaudited)

Principal instalments payable within the next five fiscal years and thereafter on notes payable are as follows:

2012	$ 1,318,534
2013	30,193,960
2014	5,001,555
2015	16,185,862
2016	7,739,341
Thereafter	11,537,805
	$71,977,057
Less: unamortized portion of loan fees	(60,886)
Total notes payable	$71,916,171

7. Common and preferred units:

(a) Authorized:

50,000 common units, no par value

30,000 preferred units, $1,000 par value

(b) Issued:

	September 30, 2012	December 31, 2011
Common units:		
20,000 common units	$13,735,000	$13,735,000
Preferred units:		
30,000 preferred units	$30,000,000	$30,000,000

(c) Distributions:

Lodging Enterprises is obligated to distribute to each unitholder an amount equal 43% of the taxable income allocated to them for any taxation year. Based on the current units of interest, distributions are made on the basis of 40% to the Common units and 60% to the Preferred units.

At September 30, 2012 $1,187,048 (December 31, 2011 – $1,200,000) was proposed but not yet paid. Lodging Enterprises did not accrue these distributions.

(d) Common units:

The common units represent 20,000 units of interest in the net assets (liabilities) of Lodging Enterprises. The current holders of the common units have a put option which provides the right to require Lodging Enterprises to redeem all, but not less than all, of the common units for their fair value as mutually agreed upon between the common and preferred unitholders as of the day before the put notice was given. The put option may be exercised at any time during January or June of 2011, 2012 and 2013, if the current common unitholders, reasonably believe the minimum return requirement is met. The minimum return requirement is defined in the First Amended and Restated Limited Liability Company Agreement of Lodging Enterprises, LLC as being when the estimated fair market of the preferred units (or the common units into which they have been converted), on the day before the put notice is given is equal to or greater than an applicable multiple of the stated value of the capital contribution of the original preferred unitholders, subject to downward adjustments for distributions received by the those unitholders on their units. Commencing in 2014, the put option may be exercised at any time during January or June without regard to any minimum return requirement.

(Expressed in U.S. dollars) (Unaudited)

At September 30, 2012, the put option is determined to have $nil (December 31, 2011 – $nil) fair value.

(e) Preferred units:

The preferred units have a par value of $1,000 per unit and represent 30,000 units of interest in the net assets (liabilities) of Lodging Enterprises. Each holder of preferred units may, at any time in its sole discretion, convert all (but not less than all) of its preferred units of interest into common units of interest on a one-for-one basis.

In the event of liquidation or sale of Lodging Enterprises, the preferred units have priority to distributions equal to the amount of any unreturned capital contributions plus any unpaid amount of a preferred return of 13.25%. The undeclared and un-accrued preferred return distributions attributable to the preferred units was approximately $11,157,810 at September 30, 2012 (December 31, 2011 – $8,589,000).

At September 30, 2012, the conversion feature is determined to have $nil (December 31, 2011 – $nil) fair value.

8. Commitments:

(a) Operating leases:

Lodging Enterprises has entered into operating leases for its office facility, office equipment and automobiles.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2012 are:

	Operating leases
2012	$289,735
2013	201,857
2014	108,631
	$600,223

(b) Lodging agreements:

Each of the Initial Properties is supported by a contract with a railroad operator. In general, the contracts establish take-or-pay minimums on the number of rooms reserved, and stipulate a fixed or inflation-adjusting room rate or a room rate adjustment based on a mutually agreeable metric with the railway operator. However, Lodging Enterprises frequently sell rooms to the railroad operator in excess of the minimum daily or monthly room guarantee. Contracts also feature a ‘must stay’ provision that prohibits railroad employees from using competing hotels within a specified radius for accommodation. Rooms not utilized by railroads can be sold to other guests.

Lodging Enterprises has an agreement under which it leases a lodging property and related restaurant from a railroad company that it operates for that railroad company. Lodging Enterprises is responsible for the routine maintenance and improvement of the property (up to $1,000 total per month) and the ongoing operation of the property. The agreement covers 60 rooms and specifies certain quality and service standards. The room rental rates are negotiated annually, with any change not to exceed the increase in the consumer price index and not to be less than the charges in effect for the previous year. The railroad company pays for all property taxes, utilities and property insurance, and any additional maintenance and improvement of the property. This agreement is renewed annually. The property sustained flood damage in October 2012 and was closed, and the agreement remains in effect.

(Expressed in U.S. dollars) (Unaudited)

9. Finance costs:

	Three months ended		Nine months ended	
	September 30, 2012	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Interest expense	$ (651,505)	$ (706,079)	$(1,977,508)	$(2,301,977)
Distributions on preferred units	(719,081)	(972,000)	(1,625,817)	(1,831,758)
Distributions on common units	(479,380)	(648,000)	(1,083,878)	(1,221,172)
	$(1,849,966)	$(2,326,079)	$(4,687,203)	$(5,354,907)

10. Related party transactions:

(a) During the three and nine months ended September 30, 2012, Lodging Enterprises paid $104 and $12,821 (2011 – $2,518 and $17,215) to an entity associated with a shareholder of DMTB Holdings Inc. ("**DMTB**") for taxation services.

Lodging Enterprises performed monthly bookkeeping services for a company associated with a shareholder of DMTB. For the three and nine months ended September 30, 2012, Lodging Enterprises received $4,629 and $13,887 (2011 – $4,407 and $13,221) for these services.

(b) Key management are those persons having authority and responsibility for planning, directing and controlling the activities of Lodging Enterprises, directly or indirectly. Compensation awarded to key management is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Salaries and wages	$157,829	$174,954	$451,311	$458,116
Employee benefits	9,211	8,540	27,720	25,619
	$167,040	$183,494	$479,031	$483,735

11. Supplemental cash flow disclosure:

	Nine months ended	
	September 30, 2012	**September 30, 2011**
Cash (used in) provided by:		
Trade and other receivables	$(217,151)	$ (626,593)
Other assets	36,278	403,355
Deposits	4,500	(1,473)
Accounts payable and accrued expenses	394,420	(150,033)
Deferred revenue	(275,708)	(804,598)
	$ (57,661)	$(1,179,342)

12. Subsequent events:

(a) Sale of property:

Lodging Enterprises operated Barstow Super 8 Motel ("**Barstow**") located at 170 Coolwater Lane, Barstow, CA 92311. During 2012, Management evaluated this property and concluded that it was no longer a core asset in Lodging Enterprises' property portfolio. Management listed Barstow for sale with a hotel broker on February 8, 2012.

On November 30, 2012, this property was sold at a settlement price of $2,020,000 before commissions and other selling costs.

(b) Purchase of property:

On December 28, 2012, Lodging Enterprises completed the purchase of the 112 room Best Western Kansas City Inn hotel located in Kansas City, KS.

(c) Sale of Lodging Enterprises:

Pursuant to a conditional purchase agreement (the "**Purchase Agreement**") signed with third party purchasers and dated November 19, 2012, Lodging Enterprises' common and preferred unitholders intend to sell all of their units in Lodging Enterprises. The purchase is subject to due diligence and the receipt of financing by the purchaser. The aggregate purchase price for Lodging Enterprises is $127,500,000, of which $122,000,000 will be paid in cash with the balance attributed to the $5,500,000 earnout amount (payment of which is conditional on the renewal by Lodging Enterprises of key contracts), subject to working capital and capital expenditure adjustments in cash.

On November 19, 2012, the third party purchaser paid an initial deposit in the amount of $250,000 pursuant to the Purchase Agreement. The deposit will be refunded to the purchaser upon completion of the purchase contemplated above by February 20, 2013. If the purchase contemplated above is not completed by February 20, 2013, the deposit will be forfeited to the unitholders.

Financial Statements of

LODGING ENTERPRISES, LLC

Years ended December 31, 2011 and 2010 and 2009

(Expressed in U.S. dollars)

INDEPENDENT AUDITORS' REPORT

To the Directors of Lodging Enterprises, LLC and the General Partner of American Hotel Income Properties REIT LP

We have audited the accompanying financial statements of Lodging Enterprises, LLC, which comprise the statements of financial position as at December 31, 2011, December 31, 2010, December 31, 2009 and January 1, 2009, and the statements of earnings (loss) and comprehensive income (loss), changes in net liabilities attributable to unitholders and cash flows for the years ended December 31, 2011, December 31, 2010 and December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lodging Enterprises, LLC as at December 31, 2011, December 31, 2010, December 31, 2009 and January 1, 2009, and its financial performance and its cash flows for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 in accordance with International Financial Reporting Standards.

(signed) KPMG LLP

Chartered Accountants
February 12, 2013
Vancouver, Canada

LODGING ENTERPRISES, LLC

Statements of Financial Position
(as restated – see note 15)
As at December 31, 2011, 2010, 2009 and January 1, 2009
(Expressed in U.S. dollars)

	December 31, 2011[(1)]	December 31, 2010[(1)]	December 31, 2009[(1)]	January 1, 2009[(1)]
Assets				
Current assets:				
Cash and cash equivalents	$ 3,329,840	$ 1,720,442	$ 2,764,751	$ 4,553,332
Trade and other receivables	953,968	742,474	492,665	745,719
Other assets	254,561	611,336	667,222	644,119
Total current assets	4,538,369	3,074,252	3,924,638	5,943,170
Non-current assets:				
Property and equipment (note 4)	102,214,993	105,138,636	103,917,875	104,059,259
Deposits	86,255	84,724	85,901	86,015
Total non-current assets	102,301,248	105,223,360	104,003,776	104,145,274
Total assets	$106,839,617	$108,297,612	$107,928,414	$110,088,444
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses (note 5)	$ 2,430,536	$ 2,685,227	$ 2,501,731	$ 2,383,483
Deferred revenue	275,708	1,360,148	2,153,989	2,313,965
Current portion of notes payable (note 6)	5,191,763	4,548,230	28,334,936	14,556,519
Total current liabilities	7,898,007	8,593,605	32,990,656	19,253,967
Non-current liabilities:				
Notes payable (note 6)	70,635,800	75,993,158	56,316,102	70,702,205
Common unit liabilities (note 7)	13,735,000	13,735,000	13,735,000	13,735,000
Preferred unit liabilities (note 7)	30,000,000	30,000,000	30,000,000	30,000,000
Total non-current liabilities	114,370,800	119,728,158	100,051,102	114,437,205
Total liabilities	122,268,807	128,321,763	133,041,758	133,691,172
Net liabilities attributable to unitholders	(15,429,190)	(20,024,151)	(25,113,344)	(23,602,728)
Total liabilities and net liabilities attributable to unitholders	$106,839,617	$108,297,612	$107,928,414	$110,088,444

Commitments (note 8)
Subsequent events (note 14)

(1) Refer to note 15 for an explanation of the effects of the adoption of IFRS (International Financial Reporting Standards).

See accompanying notes to these financial statements.

Approved by the directors of Lodging Enterprises, LLC:

"William Burgess"
William Burgess, Director

Approved by the directors of American Hotel Income Properties REIT (GP) Inc.:

"*Robert O'Neill*"
Robert O'Neill, Director

LODGING ENTERPRISES, LLC

Statements of Earnings (Loss) and Comprehensive Income (Loss)
(as restated – see note 15)
For the years ended December 31, 2011, 2010 and 2009
(Expressed in U.S. dollars)

	2011[(1)]	2010	2009
Revenue:			
Rooms	$39,576,649	$37,530,554	$ 36,641,761
Food	9,897,286	9,794,381	9,298,260
Rental and other	987,381	645,706	606,491
	50,461,316	47,970,641	46,546,512
Cost of sales	22,141,253	21,216,293	19,821,717
Gross Profit	28,320,063	26,754,348	26,724,795
General and administrative	4,379,586	4,123,855	3,854,179
Energy	2,543,438	2,393,353	2,315,724
Property maintenance	3,162,446	2,622,369	2,488,649
Property taxes and insurance	2,248,233	2,087,637	2,342,567
Depreciation	4,956,181	4,574,313	4,178,089
	11,030,179	10,952,821	11,545,587
Finance income	2,629	712	7,358
Finance costs (note 9)	(6,437,847)	(5,864,340)	(13,063,561)
Net finance costs	(6,435,218)	(5,863,628)	(13,056,203)
Net earnings (loss) and comprehensive income (loss)	$ 4,594,961	$ 5,089,193	$ (1,510,616)
Net earnings (loss) per common unit			
Basic	$ 229.75	$ 254.46	$ (75.53)
Diluted	$ 91.90	$ 101.78	$ (75.53)
Distributions per common and preferred units	$ 69.06	$ 40.00	$ 184.00
Weight average number of units outstanding			
Basic	20,000	20,000	20,000
Diluted	50,000	50,000	50,000

(1) Refer to note 15 for an explanation of the effects of the adoption of IFRS (International Financial Reporting Standards).

See accompanying notes to these financial statements.

LODGING ENTERPRISES, LLC

Statements of Changes in Net Liabilities Attributable to Unitholders
(as restated – see note 15)
For the years ended December 31, 2011, 2010 and 2009
(Expressed in U.S. dollars)

	Net liabilities attributable to unitholders
Balance at January 1, 2009	$(23,602,728)
Net loss for the period	(1,510,616)
Balance at December 31, 2009	$(25,113,344)
Balance at January 1, 2010	$(25,113,344)
Net earnings for the period	5,089,193
Balance at December 31, 2010	$(20,024,151)
Balance at January 1, 2011	$(20,024,151)
Net earnings for the period	4,594,961
Balance at December 31, 2011[(1)]	$(15,429,190)

(1) Refer to note 15 for an explanation of the effects of the adoption of IFRS (International Financial Reporting Standards).

See accompanying notes to these financial statements.

LODGING ENTERPRISES, LLC

Statements of Cash Flows
(as restated – see note 15)
For the years ended December 31, 2011, 2010 and 2009
(Expressed in U.S. dollars)

	2011[1]	2010	2009
Cash provided by (used in):			
Operations:			
Net earnings (loss) and comprehensive income (loss)	$ 4,594,961	$ 5,089,193	$(1,510,616)
Items not involving cash:			
Depreciation	4,956,181	4,574,313	4,178,089
Interest expense	2,999,905	3,967,261	4,006,320
(Gain) loss on sale of property and equipment	(2,473)	(40,755)	10,284
Bad debts expense	8,987	18,099	6,884
	12,557,561	13,608,111	6,690,961
Changes in non-cash operating working capital (note 13)	(1,089,979)	(935,473)	76,599
	11,467,582	12,672,638	6,767,560
Investing:			
Additions to property and equipment	(2,040,930)	(5,856,331)	(4,050,078)
Proceeds from sale of property and equipment	10,867	102,011	3,090
	(2,030,063)	(5,754,320)	(4,046,988)
Financing:			
Proceeds from notes payable	—	—	3,729,383
Repayment of notes payable	(4,694,983)	(4,154,642)	(4,377,181)
Cash interest paid	(3,099,308)	(3,750,056)	(3,758,709)
Payment of loan fees	(33,830)	(57,929)	(102,646)
	(7,828,121)	(7,962,627)	(4,509,153)
Net increase (decrease) in cash and cash equivalents	1,609,398	(1,044,309)	(1,788,581)
Cash and cash equivalents, beginning of year	1,720,442	2,764,751	4,553,332
Cash and cash equivalents, end of year	$ 3,329,840	$ 1,720,442	$ 2,764,751

(1) Refer to note 15 for an explanation of the effects of the adoption of IFRS (International Financial Reporting Standards).

See accompanying notes to these financial statements.

1. Reporting entity:

Lodging Enterprises, LLC ("**Lodging Enterprises**") is a private company incorporated on April 18, 2008 under the laws of the State of Kansas. Lodging Enterprises is collectively owned by SEP III LEI Holdings, L.P., a Delaware limited partnership, and DMTB Holdings, Inc. ("**DMTB**"), a Delaware corporation. Lodging Enterprises is domiciled in the U.S. and its registered office is located at 8080 East Central, Suite 180, Wichita, Kansas, 67206.

Lodging Enterprises currently operates 32 hotel properties (the "**Initial Properties**") predominantly located in smaller towns throughout the U.S. A substantial portion of Lodging Enterprises' revenue is generated through lodging agreements with several railroad companies. Lodging Enterprises operates both franchised and non-franchised properties.

2. Basis of presentation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

These are Lodging Enterprises' first financial statements prepared in accordance with IFRS and IFRS1 "First Time Adoption of International Financial Reporting Standards" has been applied.

In these financial statements, the term Previous GAAP refers to U.S. Generally Accepted Accounting Principles. Lodging Enterprises has consistently applied the accounting polices used in the preparation of its opening IFRS statement of financial position as at January 1, 2009 throughout all periods presented, as if these policies had always been in effect.

An explanation of how the transition to IFRS has impacted the reported financial position, financial performance and cash flows of Lodging Enterprises is provided in note 15. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under Previous GAAP to those under IFRS.

These financial statements were approved and authorized for issue by the directors of Lodging Enterprises, LLC on February 12, 2013 and the directors of American Hotel Income Properties REIT (GP) Inc. on February 12, 2013.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in U.S. dollars, which is Lodging Enterprises' functional currency.

(d) Use of estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of income and expenses during the financial reporting period. 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.

Significant areas of estimation include the following:

(i) Property and equipment:

In determining estimates of fair value elected as deemed cost under IFRS 1 for its property and equipment at January 1, 2009, Lodging Enterprises relied on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. To support management's estimates of fair values, Lodging Enterprises obtained third-party valuations. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the carrying amounts could change and, potentially, by a material amount.

Management has also estimated the useful lives of its property and equipment in the determination of depreciation. The estimated useful lives of property and equipment are determined based on various factors including historical data and Lodging Enterprises' expected use of the asset.

(e) Use of judgments:

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in note 7 and 15 with respect to applying the criteria set out in IAS 32 to the classification of common and preferred units.

3. Significant accounting policies:

(a) Property and equipment:

(i) Recognition and measurement:

Lodging Enterprises has elected to use the cost model on a prospective basis under IFRS and has applied the optional exemption to use fair value as deemed cost on January 1, 2009, the date of transition to IFRS. Subsequent to initial recognition, the cost model requires items of property and equipment to be measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2009.

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.

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

(ii) Subsequent costs:

The cost of replacing a part of an item of property 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 Lodging Enterprises, 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, as outlined below.

The basis of depreciation and estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Building	Straight-line	40 years
Equipment	Straight-line	5 - 15 years
Automobiles	Straight-line	5 years
Leasehold improvements	Straight line	5 - 40 years

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 Lodging Enterprises' 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**").

(c) Financial instruments:

(i) Financial assets:

Lodging Enterprises' financial assets are comprised of cash and cash equivalents, restricted cash and trade and other receivables. Lodging Enterprises classifies these financial assets as loans and receivables.

Lodging Enterprises 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:

Lodging Enterprises has the following non-derivative financial liabilities: accounts payables and accrued expenses, notes payable, common units and preferred units. Lodging Enterprises 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 Lodging Enterprises becomes a party to the contractual provisions of the instrument.

Lodging Enterprises derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through the profit or loss. The put feature of the common units and the conversion feature of the preferred units are accounted for as derivatives and initially recognized at fair value and subsequently re-measured at fair value. Gains or losses arising from the change in fair values are recognized in the statement of income and comprehensive income.

(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 Lodging Enterprises on terms that Lodging Enterprises would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

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

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

(d) Cash and cash equivalents:

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

(e) Restricted cash:

Restricted cash consists of a certificate of deposit held in the name of Lodging Enterprises and a city government for possible improvements to a hotel property.

(f) Employee benefits:

A 401(k) savings plan is a post-employment benefit plan under which Lodging Enterprises pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to the plan are recognized as an expense in general and administrative expense in the periods during which services are rendered by employees.

(g) Provisions:

A provision is recognized if, as a result of a past event, Lodging Enterprises 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 Lodging Enterprises' hotels and restaurants. Rental and other income is comprised of fees for property damage, vehicle charges, and maintenance charges at offsite customer locations.

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

In accordance with various lodging agreements, Lodging Enterprises may collect payments in advance of the utilization of a facility. These payments are recorded as deferred revenue until such time as the applicable facility is utilized, at which time, the deferred revenue is recognized as revenue.

(i) Finance income and finance costs:

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

Finance costs comprise interest expense on borrowings and distributions to common and preferred unitholders. Finance costs are recognized in the period in which they are incurred.

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

(j) Income taxes:

Lodging Enterprises has elected to be taxed as an LLC, whereby its income is taxed to its unitholders rather than to Lodging Enterprises.

Lodging Enterprises' distribution policy is to provide quarterly distributions at an amount defined by Lodging Enterprises' operating agreement.

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.

(k) Common units

The Common units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with International Accounting Standard 32, Financial Instruments – Presentation ("**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. The Common units do not meet the conditions of IAS 32 and are, therefore, classified and accounted for as liabilities. Lodging Enterprises has designated the common units as other financial liabilities with initial measurement at fair value and subsequent measurement at amortized cost.

(l) Preferred units

The preferred units may be converted in to common units at the discretion of the holder at any time. As the preferred units are convertible in to a financial instrument that is classified as a liability, the preferred units have been similarly classified. Lodging Enterprises has designated the preferred units as other financial liabilities with initial measurement at fair value and subsequent measurement at amortized cost.

(m) Net earnings (loss) per unit

Basic net earnings (loss) per unit has been calculated based on the weighted average number of common units outstanding.

Diluted net earnings (loss) per unit has been calculated by adjusting the weighted average number of common units based on the conversion feature of the preferred units.

(n) Operating segments:

Lodging Enterprises currently operates in one business segment, owning and operating hotel and related restaurant 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 chief operating decision-maker.

(o) New standards and interpretations issued but not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant impact on the financial statements of Lodging Enterprises with the exception of the following:

(i) IFRS 9 - Financial Instruments:

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

(ii) IFRS 10 - Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. Lodging Enterprises is currently evaluating the impact of IFRS 10 on its financial statements.

(iii) IFRS 12 - Disclosure of Interests in Other Entities:

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. Lodging Enterprises is currently evaluating the impact of IFRS 12 on its financial statements.

(iv) IFRS 13 - Fair Value Measurement:

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. Lodging Enterprises is currently evaluating the impact of IFRS 13 on its financial statements.

LODGING ENTERPRISES, LLC

Notes to Financial Statements
As at and for the years ended December 31, 2011, 2010 and 2009
(Expressed in U.S. dollars)

(v) IAS 1 - Presentation of Financial Statements:

In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The objective of IAS 1 is to set out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The effective date of this standard is January 1, 2013 but early adoption is permitted. Lodging Enterprises is currently evaluating the impact of IAS 1 on its financial statements.

4. Property and equipment:

	Land	Building	Equipment	Computer and telephone equipment	Office furniture and equipment	Automobiles	Leasehold improvement	Construction-in-progress	Total
Cost or deemed cost:									
Balance at January 1 2009	$14,033,370	$81,541,002	$ 7,682,648	$304,199	$ 6,895	$16,931	$ 40,952	$ 433,262	$104,059,259
Additions	—	40,682	1,532,393	36,177	—	—	—	2,440,826	4,050,078
Transfers	151,603	1,722,012	654,243	26,589	—	—	—	(2,554,447)	—
Disposals	—	—	(60,391)	(8,698)	—	—	(1,000)		(70,089)
Balance at December 31, 2009	14,184,973	83,303,696	9,808,893	358,267	6,895	16,931	39,952	319,641	108,039,248
Balance at January 1, 2010	14,184,973	83,303,696	9,808,893	358,267	6,895	16,931	39,952	319,641	108,039,248
Additions	—	74,345	1,666,074	21,894	—	—	—	4,094,018	5,856,331
Transfers	209,717	1,153,141	358,809	27,788	917		6,671	(1,757,043)	—
Disposals	—	—	—	(75,781)	—	—	—	(40,989)	(116,770)
Balance at December 31, 2010	14,394,690	84,531,182	11,833,776	332,168	7,812	16,931	46,623	2,615,627	113,778,809
Balance at January 1, 2011	14,394,690	84,531,182	11,833,776	332,168	7,812	16,931	46,623	2,615,627	113,778,809
Additions	—	403,767	1,238,428	14,854	—	10,762	—	373,119	2,040,930
Transfers	248,537	2,076,995	637,114	24,400	—	—	—	(2,987,046)	—
Disposals	—	—	(13,901)	(25,928)	(7,812)	(8,670)	—	—	(56,311)
Balance at December 31, 2011	**$14,643,227**	**$87,011,944**	**$13,695,417**	**$345,494**	**$ —**	**$19,023**	**$ 46,623**	**$ 1,700**	**$115,763,428**
Depreciation:									
Balance at January 1, 2009	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Depreciation for the year	—	(2,658,785)	(1,462,661)	(47,940)	(766)	(3,387)	(4,550)	—	(4,178,089)
Disposals	—	—	47,978	7,738	—	—	1,000	—	56,716
Balance at December 31, 2009	—	(2,658,785)	(1,414,683)	(40,202)	(766)	(3,387)	(3,550)	—	(4,121,373)
Balance at January 1, 2010	—	(2,658,785)	(1,414,683)	(40,202)	(766)	(3,387)	(3,550)	—	(4,121,373)
Depreciation for the year	—	(2,707,014)	(1,803,556)	(54,730)	(817)	(3,386)	(4,810)	—	(4,574,313)
Disposals	—	—	—	55,513	—	—	—	—	55,513
Balance at December 31, 2010	—	(5,365,799)	(3,218,239)	(39,419)	(1,583)	(6,773)	(8,360)	—	(8,640,173)
Balance at January 1, 2011	—	(5,365,799)	(3,218,239)	(39,419)	(1,583)	(6,773)	(8,360)	—	(8,640,173)
Depreciation for the year	—	(2,766,824)	(2,128,591)	(50,256)	(868)	(4,462)	(5,180)	—	(4,956,181)
Disposals	—	—	13,437	27,696	2,451	4,335	—	—	47,919
Balance at December 31, 2011	**$ —**	**$ (8,132,623)**	**$ (5,333,393)**	**$ (61,979)**	**$ —**	**$ (6,900)**	**$(13,540)**	**$ —**	**$ (13,548,435)**
Carrying amounts									
At January 1, 2009	$14,033,370	$81,541,002	$ 7,682,648	$304,199	$ 6,895	$16,931	$ 40,952	$ 433,262	$104,059,259
At December 31, 2009	$14,184,973	$80,644,911	$ 8,394,210	$318,065	$ 6,129	$13,544	$ 36,402	$ 319,641	$103,917,875
At December 31, 2010	$14,394,690	$79,165,383	$ 8,615,537	$292,749	$ 6,229	$10,158	$ 38,263	$ 2,615,627	$105,138,636
At December 31, 2011	$14,643,227	$78,879,321	$ 8,362,024	$283,515	$ —	$12,123	$ 33,083	$ 1,700	$102,214,993

See note 15 for the effect of IFRS on property and equipment at the transition date.
Land, building, equipment and construction-in-progress have been pledged as collateral against the notes payable (note 6).

(Expressed in U.S. dollars)

5. Accounts payable and accrued expenses:

	December 31, 2011	December 31, 2010	December 31, 2009	January 1, 2009
Accounts payable	$ 443,005	$ 835,893	$ 517,935	$ 446,011
Accrued expenses:				
Payroll and payroll taxes	648,713	573,960	478,301	454,166
Sales taxes	256,625	251,104	229,218	245,235
Property taxes	656,791	343,025	667,673	621,549
Interest on notes payable	382,210	511,588	500,229	538,235
Other	43,192	169,657	108,375	78,287
	$2,430,536	$2,685,227	$2,501,731	$2,383,483

6. Notes payable:

Lodging Enterprises has notes payable as follows:

	December 31, 2011	December 31, 2010	December 31, 2009	January 1, 2009
Term Note I[(a)]	$21,749,824	$24,180,295	$ 26,458,117	$ 28,619,467
Term Note II[(b)]	9,914,877	10,730,432	11,487,012	12,428,052
Term Note III[(c)]	6,733,984	7,221,804	7,672,180	8,262,345
Term Note IV[(d)]	11,550,947	12,252,014	12,921,878	9,453,357
Subordinated note payable[(e)]	25,900,654	26,160,724	26,160,724	26,584,488
	75,850,286	80,545,269	84,699,911	85,347,709
Less: current maturities	(5,191,763)	(4,548,230)	(28,334,936)	(14,556,519)
Less: unamortized portion of loan fees	(22,723)	(3,881)	(48,873)	(88,985)
	$70,635,800	$75,993,158	$ 56,316,102	$ 70,702,205

(a) The current terms of Term Note I are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011. Term Note I is repayable in monthly installments, bearing interest at LIBOR plus 2.5% with a floor of 3.5%, maturing August 1, 2015, with a balloon payment estimated at $12,197,433, plus accrued interest, due on August 1, 2015. The note is collateralized by substantially all lodging properties.

In prior periods, the terms of Term Note 1 when Lodging Enterprises entered into a Master Credit Facility Agreement and refinanced its note payable (now Term Note I), repayable in monthly installments of $335,247 at interest rate of 6.66%, maturing on August 1, 2010. On June 1, 2009, Lodging Enterprises refinanced and restructured Term Note I so that it was repayable in monthly installments of $286,470 with the balance due on August 1, 2010. On July 7, 2010, Lodging Enterprises extended the maturity date on Term Note I to November 1, 2010, bearing interest at LIBOR plus 3% with a floor of 4.5% and a balance payment due on that date. On November 1, 2010, Lodging Enterprises extended the maturity date from November 1, 2010 to August 1, 2015.

(b) The current terms of Term Note II are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011. Term Note II is repayable in monthly installments, bearing interest at LIBOR plus 2.5% with a floor of 3.5%, maturing on September 1, 2016, with a balloon payment estimated at $5,638,427, plus accrued interest, due on September 1, 2016. The note is collateralized by specific lodging properties.

Previously, Lodging Enterprises amended the notes payable (now Term Note I) of the Master Credit Facility Agreement to convert $13,895,605 from a construction note to Term Note II. This note was repayable in monthly installments of $132,825, including interest at LIBOR plus 2.5%, plus a balloon payment due on that date. On June 1, 2009, the Term Note II interest rate was changed to LIBOR + 3% with a floor of 4.5%, maturing on September 1, 2016 with a balloon payment due on that date.

(c) The current terms of Term Note III are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011, payable repayable in monthly installments, bearing interest at LIBOR plus 2.5% with a floor of 3.5%, maturing on September 1, 2017, with a balloon payment estimated at $3,563,714 due on September 1, 2017. The note is collateralized by specific lodging properties.

Previously, Lodging Enterprises amended the notes payable (now Term Note I) to convert $8,858,000 from a construction note to Term Note III. This note was repayable in monthly installments of $86,643, including interest at LIBOR plus 2.5%, due on September 1, 2017 with a balloon payment due on that date.

(Expressed in U.S. dollars)

(d) The current terms of Term Note IV are pursuant to the Sixth Amended and Restated Credit Agreement dated April 1, 2011, payable repayable in monthly installments bearing interest at LIBOR plus 2.5% with a floor of 3.5%, due on June 1, 2019, with a balloon payment estimated at $5,371,688 plus interest due June 1, 2019. The note is collateralized by specific lodging properties.

In prior periods, the terms of Term Note IV originated on April 12, 2005 when Lodging Enterprises entered into a Master Credit Facility Agreement and this note payable was referred to as the Construction Notes, payable in monthly installments of accrued interest at LIBOR plus 2.5%. On December 18, 2009, Lodging Enterprises amended the these notes payable, now Term Note IV, repayable in monthly installments of $101,455 including interest at LIBOR plus 3% and a balloon payment due June 2019.

On June 1, 2009, the Term Note IV interest rate was changed to LIBOR + 3% with a floor of 4.5%, maturing on June 1, 2019 with a balloon payment due on that date.

(e) The current terms of the Subordinated note payable are pursuant to the Second Amendment to the Subordinate Loan Agreement dated April 1, 2011.

The Subordinated note payable required interest only payments through April 1, 2011, with monthly principal and interest payments beginning July 1, 2011.The interest rate on the note is LIBOR plus 2.5% with a floor of 3.5%, and matures on April 1, 2013, with a balloon payment estimated at $25,234,244 due on that date. The note is fully guaranteed by the owners of Lodging Enterprises.

The Subordinated note payable obtained on April 22, 2008 was due in quarterly installments of $423,748, including interest at 0.5% below prime as periodically adjusted and due on April 1, 2013.On June 1, 2009, the Subordinated note payable was refinanced such that only interest payments were due through April 1, 2011, with monthly principal and interest payments beginning July 1, 2011.The interest rate was at LIBOR plus 3% with a floor of 4.5%, maturing on April 1, 2012, with a balloon payment due on that date.

The weighted average effective interest rate on Lodging Enterprises' notes payable at December 31, 2011 is 3.5%

The notes payable contain covenants related to tangible net worth and certain financial ratios. Lodging Enterprises is also required to maintain a pool of Lodging Facility Agreements whereby approved railroad companies guarantee a minimum 60% occupancy rate for the facilities covered under this agreement.

Principal instalments payable within the next five fiscal years and thereafter on notes payable are as follows:

2012	$ 5,191,763
2013	30,193,960
2014	5,001,555
2015	16,185,862
2016	7,739,341
Thereafter	11,537,805
	$75,850,286
Less: unamortized portion of loan fees	(22,723)
Less current portion of notes payable	(5,191,763)
	$70,635,800

During the year ended December 31, 2009, Lodging Enterprises was in violation of two covenants contained in the Sixth Amended and Restated Credit Facilities dated April 1, 2011:

(a) At December 31, 2009, the Term Note I had a maturity date of August 1, 2010 and accordingly the full Term Note I balance of $26,458,117 was classified as a current liability. As a result, Lodging Enterprises was not in compliance with one of its financial ratios.

(b) Lodging Enterprises did not deliver to the bank audited financial statements within 180 days of Lodging Enterprises' fiscal year end.

Lodging Enterprises obtained a letter from the bank dated July 7, 2010 that waived the above covenant violations by allowing the maturity date of Term Note I to be considered as extending beyond December 31, 2010 and by extending the deadline for audited statements from 180 days after fiscal year-end to 210 days.

7. Common and preferred units:

(a) Authorized:

50,000 common units, no par value
30,000 preferred units, $1,000 par value

(Expressed in U.S. dollars)

(b) Issued:

	December 31, 2011	December 31, 2010	December 31, 2009	January 1, 2009
Common units:				
20,000 (2010 and 2009 – 20,000) – common units	$13,735,000	$13,735,000	$13,735,000	$13,735,000
Preferred units:				
30,000 (2010 and 2009 – 30,000) preferred units	$30,000,000	$30,000,000	$30,000,000	$30,000,000

(c) Distributions:

Lodging Enterprises is obligated to distribute to each unitholder an amount equal 43% of the taxable income allocated to them for any taxation year. Based on the current units of interest, distributions are made on the basis of 40% to the Common units and 60% to the Preferred units.

At December 31, 2011, $1,200,000 (December 31, 2010 – $nil; December 31, 2009 – $nil) was proposed but not yet paid. Lodging Enterprises did not accrue these distributions.

(d) Common units:

The common units represent 20,000 units of interest in the net assets (liabilities) of Lodging Enterprises. The current holders of the common units have a put option which provides the right to require Lodging Enterprises to redeem all, but not less than all, of the common units for their fair value as mutually agreed upon between the common and preferred unitholders as of the day before the put notice was given. The put option may be exercised at any time during January or June of 2011, 2012 and 2013, if the current common unitholder, reasonably believes the minimum return requirement is met. The minimum return requirement is defined in the First Amended and Restated Limited Liability Company Agreement of Lodging Enterprises, LLC as being when the estimated fair market of the preferred units (or the common units into which they have been converted), on the day before the put notice is given is equal to or greater than an applicable multiple of the stated value of the capital contribution of the original preferred unitholders, subject to downward adjustments for distributions received by the those unitholders on their units. Commencing in 2014, the put option may be exercised at any time during January or June without regard to any minimum return requirement.

At December 31, 2011, the put option is determined to have $nil (December 31, 2010 – $nil; December 31, 2009 – $nil; January 1, 2009 – $nil) fair value.

(e) Preferred units:

The preferred units have a par value of $1,000 per unit and represent 30,000 units of interest in the net assets (liabilities) of Lodging Enterprises. Each holder of preferred units may, at any time in its sole discretion, convert all (but not less than all) of its preferred units of interest into common units of interest on a one-for-one basis.

In the event of liquidation or sale of Lodging Enterprises, the preferred units, should they have not elected to convert to common units, will have priority to distributions equal to the amount of any unreturned capital contributions plus any unpaid amount of a preferred return of 13.25%. The undeclared and un-accrued preferred return distributions attributable to the preferred units was approximately $8,589,000 at December 31, 2011 (December 31, 2010 – $5,431,000; December 31, 2009 – $2,119,000; January 1, 2009 – $2,314,000).

At December 31, 2011, the conversion feature is determined to have $nil (December 31, 2010 – $nil; December 31, 2009 – $nil; January 1, 2009 – $nil) fair value.

(Expressed in U.S. dollars)

8. Commitments:

(a) Operating leases:

Lodging Enterprises has entered into operating leases for its office facility, office equipment and automobiles.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2011 are:

	Operating leases
2012	$248,447
2013	201,857
2014	108,631
	$558,935

(b) Lodging agreements:

Each of the Initial Properties is supported by a contract with a railroad operator. In general, the contracts establish take-or-pay minimums on the number of rooms reserved, and stipulate a fixed or inflation-adjusting room rate or a room rate adjustment based on a mutually agreeable metric with the railway operator. However, Lodging Enterprises frequently sell rooms to the railroad operator in excess of the minimum daily or monthly room guarantee. Contracts also feature a ‘must stay’ provision that prohibits railroad employees from using competing hotels within a specified radius for accommodation. Rooms not utilized by railroads can be sold to other guests.

Lodging Enterprises has an agreement under which it leases a lodging property and related restaurant from a railroad company that it operates for that railroad company. Lodging Enterprises is responsible for the routine maintenance and improvement of the property (up to $1,000 total per month) and the ongoing operation of the property. The agreement covers 60 rooms and specifies certain quality and service standards. The room rental rates are negotiated annually, with any change not to exceed the increase in the consumer price index and not to be less than the charges in effect for the previous year. The railroad company pays for all property taxes, utilities and property insurance, and any additional maintenance and improvement of the property. This agreement is renewed annually. The property sustained flood damage in October 2012 and was closed, and the agreement remains in effect.

9. Finance costs:

	December 31, 2011	December 31, 2010	December 31, 2009
Interest expense	$(2,984,917)	$(3,864,340)	$ (3,863,561)
Distributions on preferred shares	(2,071,758)	(1,200,000)	(5,520,000)
Distributions on common shares	(1,381,172)	(800,000)	(3,680,000)
	$(6,437,847)	$(5,864,340)	$(13,063,561)

10. Related party transactions:

(a) During the year, Lodging Enterprises paid $14,260 (2010 – $20,664; 2009 – $34,983) to an entity associated with a shareholder of DMTB for taxation services.

Lodging Enterprises performed monthly bookkeeping services for a company associated with a shareholder of DMTB and received $17,638 during the year for these services (2010 – $16,788; 2009 – $16,296).

(Expressed in U.S. dollars)

(b) Key management are those persons having authority and responsibility for planning, directing and controlling the activities of Lodging Enterprises, directly or indirectly. Compensation awarded to key management is as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Salaries and wages	$605,158	$416,158	$375,759
Employee benefits	37,159	25,232	20,605
	$642,317	$441,390	$396,364

11. Financial instruments:

(a) Comparison of fair value to carrying value:

The carrying values of Lodging Enterprises' cash and cash equivalents, trade and other receivables, other assets, and accounts payables and accrued expenses approximate their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of notes 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. The carrying values of Lodging Enterprises' notes payable approximate their fair values.

The fair value of the put option rights held by the common unit holders at each period end is $nil as the redemption price is based on the market value at the time of redemption. The fair value of the conversion rights held by the preferred unit holders at each period end is $nil as it would be disadvantageous for the preferred unitholders to convert.

On April 22, 2008, SEP II LEI Holdings, LP purchased its 30,000 preferred units of Lodging Enterprises in exchange for $30 million. Lodging Enterprises has recorded the preferred units using this fair value at initial measurement since this was the valuation of Lodging Enterprises as determined between independent parties to the transaction. Subsequent fair value determinations were based on ongoing assessment of Lodging Enterprises' value taking into consideration general business and economic conditions and Lodging Enterprises' performance. The estimated fair value of the preferred units as at December 31, 2011 was $38.6 million (2010 – $35.4 million; 2009 – $32.1 million).

In determining the fair value of the common unit liabilities at initial measurement, Lodging Enterprises first based its assessment of fair value of the entity on the price established in the arm's length sale of preferred units referred to above. Lodging Enterprises then relied upon assumptions regarding general business and economic conditions that prevail and are expected to prevail at the each reporting date in determining the fair values. The estimated fair value of the common units as at December 31, 2011 was $15.7 million (2010 – $8.8 million; 2009 – $12.9 million).

(b) Financial risk management:

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

(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.

As described in note 6, certain of Lodging Enterprises' debt on properties bears interest at floating rates. Fluctuations in interest rates will impact the cost of financing incurred in the future. Lodging Enterprises monitors its interest rate exposure on an ongoing basis.

For the year ended December 31, 2011 every 1% increase or decrease in the applicable interest rates results in a corresponding $758,503 (2010 – $805,453; 2009 – $846,999) decrease or increase in Lodging Enterprises' earnings.

(Expressed in U.S. dollars)

(ii) Credit risk and economic dependence:

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

Lodging Enterprises is exposed to credit risk with respect to trade and other receivables. At December 31, 2011, trade receivables are $463,738 (December 31, 2010 – $447,706; December 31, 2009 – $314,541; January 1, 2009 – $526,987). Amounts past due are $75,916 (December 31, 2010 – $71,871; December 31, 2009 – $70,863; January 1, 2009 – $71,588). The historical bad debt write-off was $6,810 for the year ended December 31, 2011 (2010 – $18,299; 2009 – $6,884).

The risk is mitigated by initiating a prompt collection process.

Major customer:

Revenues from one customer represents approximately $26,441,000 (2010 – $25,040,000; 2009 – $24,779,000) of Lodging Enterprises' total revenues, of which $300,044 (December 31, 2010 – $156,328; December 31, 2009 – $48,373; January 1, 2009 – $47,680) is receivable as at December 31, 2011.

(iii) Liquidity risk:

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

Lodging Enterprises manages liquidity risk through monitoring the repayment dates and refinancing dates of its notes payable, monitoring its debt covenants and managing its cash flows. Lodging Enterprises' objective is to maintain sufficient available credit facilities to fund ongoing operational and capital requirements. Lodging Enterprises also has trade and other receivable of $953,968 (December 31, 2010 – $742,474; December 31, 2009 – $492,665), and cash and cash equivalents of $3,329,840 (December 31, 2010 – $1,720,442; December 31, 2009 – $2,764,751).

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

	Value	Maturity
Accounts payables and accrued expenses	$ 2,430,536	Less than 1 year
Current portion of notes payable	$ 5,191,763	Less than 1 year
Notes payable	$70,658,523	2012 – 2016+

12. Capital management:

	December 31, 2011	December 31, 2010	December 31, 2009
Notes payable	$ 75,827,563	$ 80,541,388	$ 84,651,038
Common unit liabilities	13,735,000	13,735,000	13,735,000
Preferred unit liabilities	30,000,000	30,000,000	30,000,000
Total capital	$119,562,563	$124,276,388	$128,386,038

Lodging Enterprises defines capital as the aggregate of common unit liabilities, preferred unit liabilities, and notes payable. Lodging Enterprises' objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the limited liability company agreement of Lodging Enterprises ("**LLC Agreement**"); complies with existing debt covenants; funds its business strategies; and builds long-term unitholders' value. Lodging Enterprises' capital structure is approved by its unitholders as related to the LLC Agreement and by its board of directors through its periodic reviews. Capital adequacy is monitored by Lodging Enterprises by assessing performance against the approved annual plan throughout the year and by monitoring adherence to investment and debt restrictions contained in the LLC Agreement and debt covenants.

(Expressed in U.S. dollars)

13. Supplemental cash flow disclosure:

	December 31, 2011	December 31, 2010	December 31, 2009
Cash (used in) provided by:			
Trade and other receivables	$ (220,481)	$(267,908)	$ 246,170
Other assets	356,775	55,887	(23,104)
Deposits	(1,531)	1,177	114
Accounts payable and accrued expenses	(140,302)	69,212	13,395
Deferred revenue	(1,084,440)	(793,841)	(159,976)
	$(1,089,979)	$(935,473)	$ 76,599

14. Subsequent events:

(a) Sale of property:

Lodging Enterprises operates Barstow Super 8 Motel ("**Barstow**") located at 170 Coolwater Lane, Barstow, CA 92311, During 2012, Management evaluated this property and concluded that it was no longer a core asset in Lodging Enterprises' property portfolio. Management listed Barstow for sale with a hotel broker on February 8, 2012.

On November 30, 2012, this property was sold at a settlement price of $2,020,000 before commissions and other selling costs.

(b) Purchase of property:

On December 28, 2012, Lodging Enterprises completed the purchase of the 112 room Best Western Kansas City Inn hotel located in Kansas City, KS.

(c) Sale of Lodging Enterprises:

Pursuant to a conditional purchase agreement (the "**Purchase Agreement**") signed with third party purchasers and dated November 19, 2012, Lodging Enterprises' common and preferred unitholders intend to sell all of their units in Lodging Enterprises. The purchase is subject to due diligence and the receipt of financing by the purchaser. The aggregate purchase price for Lodging Enterprises is $127,500,000, of which $122,000,000 will be paid in cash with the balance attributed to the $5,500,000 earnout amount (payment of which is conditional on the renewal by Lodging Enterprises of key contracts), subject to working capital and capital expenditure adjustments in cash.

On November 19, 2012, the third party purchaser paid an initial deposit in the amount of $250,000 pursuant to the Purchase Agreement. The deposit will be refunded to the purchaser upon unilateral termination of the Purchase Agreement by December 8, 2012 or upon completion of the purchase contemplated above by February 20, 2013. If the Purchase Agreement is terminated after December 8, 2012, or the purchase contemplated above is not completed by February 20, 2013, the deposit will be forfeited to the unitholders.

15. Explanation of transition to IFRS:

As stated in note 2(a), these are Lodging Enterprises' first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, December 31, 2010 and December 31, 2009 and in the preparation of an opening IFRS statement of financial position at January 1, 2009 (Lodging Enterprises' date of transition).

In preparing its opening IFRS statement of financial position, Lodging Enterprises has adjusted amounts reported previously in financial statements prepared in accordance with previous U.S. Generally Accepted Accounting Principles ("**Previous GAAP**"). An explanation of how the transition from Previous GAAP to IFRS has affected Lodging Enterprises' financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(Expressed in U.S. dollars)

(a) Elected exemptions from full retrospective application:

In preparing these financial statements in accordance with IFRS 1 – Adoption of International Financial Reporting Standards (IFRS 1), Lodging Enterprises has applied certain optional exemptions from full retrospective application of IFRS:

- Fair value as deemed cost:

Lodging Enterprises has elected to measure its property and equipment at fair value as at the transition date and use that amount as its deemed cost in the opening IFRS statement of financial position.

(b) Reconciliation of Previous GAAP to IFRS:

The following is a reconciliation of Lodging Enterprises' statement of financial position and net assets (liabilities) attributable to unitholders reported in accordance with Previous GAAP to IFRS at the date of transition on January 1, 2009 and at December 31, 2011:

	Note	January 1, 2009 Previous GAAP	Effect of transition to IFRS January 1, 2009	January 1, 2009 IFRS
Assets:				
Current assets:				
Cash and cash equivalents		$ 4,553,332	$ —	$ 4,553,332
Trade and other receivables		745,719	—	745,719
Other assets		644,119	—	644,119
Total current assets		5,943,170	—	5,943,170
Non-current assets:				
Property and equipment	(a)	73,765,268	30,293,991	104,059,259
Deposits		86,015	—	86,015
Other assets	(b)	351,551	(351,551)	—
Total non-current assets		74,202,834	29,942,440	104,145,274
Total assets		$ 80,146,004	$ 29,942,440	$110,088,444
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses		$ 2,383,483	$ —	$ 2,383,483
Deferred revenue		2,313,965	—	2,313,965
Current portion of notes payable		14,556,519	—	14,556,519
Total current liabilities		19,253,967	—	19,253,967
Non-current liabilities :				
Notes payable	(b)	70,791,190	(88,985)	70,702,205
Common unit liabilities	(c)	—	13,735,000	13,735,000
Preferred unit liabilities	(c)	—	30,000,000	30,000,000
Total non-current liabilities		70,791,190	43,646,015	114,437,205
Total liabilities		90,045,157	43,646,015	133,691,172
Net liabilities attributable to unitholders				
Unit capital:				
Common units	(c)	11,006,473	(11,006,473)	—
Preferred units	(c)	30,000,000	(30,000,000)	—
		41,006,473	(41,006,473)	—
Retained earnings (deficit)		(50,905,626)	27,302,898	(23,602,728)
Net liabilities attributable to unitholders		(9,899,153)	(13,703,575)	(23,602,728)
Total liabilities and net liabilities attributable to unitholders		$ 80,146,004	$ 29,942,440	$110,088,444

LODGING ENTERPRISES, LLC

Notes to Financial Statements
As at and for the years ended December 31, 2011, 2010 and 2009
(Expressed in U.S. dollars)

	Note	December 31, 2011 Previous GAAP	Effect of transition to IFRS	December 31, 2011 IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 3,329,840	$ —	$ 3,329,840
Trade and other receivables		953,968	—	953,968
Other assets		254,561	—	254,561
Total current assets		4,538,369	—	4,538,369
Non-current assets:				
Property and equipment	(a)	73,661,879	28,553,114	102,214,993
Deposits		86,255	—	86,255
Other assets	(b)	175,725	(175,725)	—
Total non-current assets		73,923,859	28,377,389	102,301,248
Total assets		$ 78,462,228	$ 28,377,389	$106,839,617
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses		$ 2,430,536	$ —	$ 2,430,536
Deferred revenue		275,708	—	275,708
Current portion of notes payable		5,191,763	—	5,191,763
Total current liabilities		7,898,007	—	7,898,007
Non-current liabilities:				
Notes payable	(b)	70,658,523	(22,723)	70,635,800
Common unit liabilities	(c)	—	13,735,000	13,735,000
Preferred unit liabilities	(c)	—	30,000,000	30,000,000
Total non-current liabilities		70,658,523	43,712,277	114,370,800
Total liabilities		78,556,530	43,712,277	122,268,807
Net liabilities attributable to unitholders				
Unit capital:				
Common units	(c)	11,006,473	(11,006,473)	—
Preferred units	(c)	30,000,000	(30,000,000)	—
		41,006,473	(41,006,473)	—
Retained earnings (deficit)		(41,100,775)	25,671,585	(15,429,190)
Net liabilities attributable to unitholders		(94,302)	(15,334,888)	(15,429,190)
Total liabilities and net liabilities attributable to unitholders		$ 78,462,228	$ 28,377,389	$106,839,617

LODGING ENTERPRISES, LLC

Notes to Financial Statements
As at and for the years ended December 31, 2011, 2010 and 2009
(Expressed in U.S. dollars)

Reconciliation of Net Liabilities Attributable to Unitholders at January 1, 2009 and December 31, 2011:

	Note	Common units	Preferred units	Retained earnings (deficit)	Net liabilities attributable to unitholders
Balance previous GAAP – January 1, 2009		$ 11,006,473	$ 30,000,000	$(50,905,626)	$ (9,899,153)
Effect of transition to IFRS:					
Reclassify units from equity to liabilities	(c)	(11,006,473)	(30,000,000)	—	(41,006,473)
Fair value adjustment to common unit liabilities	(c)			(2,728,527)	(2,728,527)
Fair value adjustment as deemed cost for property and equipment	(a)			30,293,991	30,293,991
Amortize capitalized loan fees	(b)			(262,566)	(262,566)
Balance IFRS – January 1, 2009		$ —	$ —	$(23,602,728)	$(23,602,728)

	Note	Net liabilities attributable to unitholders
Balance previous GAAP – December 31, 2011		$ (94,302)
Cumulative effect of transition to IFRS at January 1, 2009, per above		(13,703,576)
IFRS – adjustments for the period from January 1, 2009 to December 31, 2011:		
Cumulative adjustment to depreciation of property and equipment	(a)	(1,740,875)
Cumulative adjustment to amortization of loan fees	(b)	109,563
		15,334,888
Balance IFRS – December 31, 2011		$(15,429,190)

Reconciliation of net earnings (loss) and comprehensive income (loss) for the year ended December 31, 2011:

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue:				
Rooms		$39,576,649	$ —	$39,576,649
Food		9,897,286	—	9,897,286
Rental and other		987,381	—	987,381
		50,461,316	—	50,461,316
Cost of sales		22,141,253	—	22,141,253
Gross Profit		28,320,063	—	28,320,063
General and administrative		4,379,586	—	4,379,586
Energy		2,543,438		2,543,438
Property maintenance		3,162,446		3,162,446
Property taxes and insurance		2,248,233	—	2,248,233
Depreciation	(a)	4,160,236	795,945	4,956,181
Results from operating activities		11,826,124	(795,945)	11,030,179
Finance income		2,629	—	2,629
Finance costs	(b),(c)	(2,969,930)	(3,467,917)	(6,437,847)
Net finance costs		(2,967,301)	(3,467,917)	(6,435,218)
Net earnings and comprehensive income		$ 8,858,823	$(4,263,862)	$ 4,594,961

(Expressed in U.S. dollars)

	Note	December 31, 2011 Previous GAAP	Effect of transition to IFRS	December 31, 2011 IFRS
Net earnings per common unit				
Basic		$442.94		$229.75
Diluted		$177.18		$ 91.90
Distributions per common and preferred units		$ 69.06		$ 69.06
Weight average number of units outstanding				
Basic		20,000		20,000
Diluted		50,000		50,000

Reconciliation of cash flows for the year ended December 31, 2011:

	Note	December 31, 2011
Cash provided by (used in):		
Operations, previous GAAP		$11,821,204
Cash interest paid		3,099,308
Distributions to unitholders	(c)	(3,452,930)
		11,467,582
Investing, previous GAAP		(2,063,893)
Finance costs related to notes payable		33,830
		(2,030,063)
Financing, previous GAAP		(8,147,913)
Cash interest paid		(3,099,308)
Distributions to unitholders	(c)	3,452,930
Finance costs related to notes payable		(33,830)
		$ (7,828,121)

Notes to the reconciliations:

(a) Property and equipment:

As at the transition date, Lodging Enterprises elected to apply the fair value as deemed cost election to its property and equipment. At the transition date, all property and equipment was appraised at fair value by qualified external valuation professionals. The appraisers were from an independent valuation firm not related to Lodging Enterprises that employs valuation professional who have the appropriate qualifications and recent experience in valuation of properties in the relevant locations.

The external valuations utilized the “Direct Capitalization” method. This method applies the capitalization rate to stabilized net operating income. Fair values are most sensitive to a change in capitalization rates. The minimum capitalization rate was 11.0% and the maximum was 12.5%. The weighted average capitalization rate was 11.5%.

(Expressed in U.S. dollars)

The estimated fair value of Lodging Enterprises' property and equipment as at January 1, 2009 was $104,059,259. This resulted in an increase of $30,293,991 to the carrying value of property and equipment under Previous GAAP as follows:

	Previous GAAP	Fair value on transition date	Increase on transition date
Land	$ 5,127,103	$ 14,033,370	$ 8,906,267
Building	56,471,232	81,541,002	25,069,770
Equipment	11,131,000	7,682,648	(3,448,352)
Computer and telephone equipment	466,347	304,199	(162,148)
Office furniture and equipment	3,721	6,895	3,174
Automobiles	62,458	16,931	(45,527)
Leasehold improvements	70,145	40,952	(29,193)
Construction-in-progress	433,262	433,262	—
	$73,765,268	$104,059,259	$30,293,991

This increase has been recorded as an adjustment to opening retained earnings on the date of transition.

As the carrying value of property and equipment was increased on transition, there is an offsetting corresponding increase in accumulated depreciation of $1,740,875 expense for the period from January 1, 2009 to December 31, 2011. For the year-ended December 31, 2011 the impact arising from the change is summarized as follows:

	December 31, 2011
Increase in depreciation	$(883,325)
Reclassification of existing loan amortization to finance costs	87,380
Adjustment to depreciation on statement of earnings and comprehensive income	$(795,945)

(b) Debt finance fees:

Under Previous GAAP, Lodging Enterprises recorded the costs related to obtaining or refinancing debt as other assets and amortized these costs on a straight-line basis over the term of the related debt. Under IFRS, fees related to obtaining debt financing are capitalized against the related debt and amortized over the term using the effective interest rate method and are included in finance costs.

As a result, on January 1, 2009, other assets of $351,551 was removed by charging $262,566 to opening retained earnings as an IFRS adjustment at the date of transition and the balance of $88,985 was netted against notes payable. At December 31, 2011, the unamortized balance of other assets under the prior GAAP relating to the above amounted to $175,725 while the unamortized amount of $22,723 was netted against notes payable. The cumulative amortization of $109,563 results from amortization of other assets of $175,826 offset by amortization of finance costs of $66,263. The impact arising from the change for the year ended December 31, 2011 is summarized as follows:

	December 31, 2011
Decrease in amortization of loan fees	$ 72,393
Reclassification of loan amortization to finance costs[a]	(87,380)
Adjustment to finance costs on statement of earnings and comprehensive income	$(14,987)

(c) Common units and preferred units:

Under Previous GAAP, Lodging Enterprises recognized common units and preferred units as equity instruments on the statement of financial position. On January 1, 2009, Lodging Enterprises reclassified the common units and preferred units from equity to non-current liabilities. The common units contain a non-discretionary distribution requirement. As a result, the common units do not satisfy the criteria to be recognized as equity instruments under IFRS. Lodging Enterprises determined that the estimated fair value of these liabilities was $13,735,000. This resulted in the difference of $2,278,257 between the book value and the fair value to be recorded as an adjustment to opening net assets (liabilities) of Lodging Enterprises on transition date.

The preferred units are convertible into the common units which are liability classified puttable instruments. As a result, the preferred units do not satisfy the criteria to be recognized as equity instruments under IFRS.

Distributions on the common and preferred units are classified as finance costs as a result. The impact arising from the change is summarized as follows:

	December 31, 2011
Increase in finance costs	$(3,452,930)
Amortization of loan fees[(b)]	(14,987)
Net adjustment to finance costs on statement of earnings and comprehensive income	$(3,467,917)

APPENDIX A

AUDIT, FINANCE AND RISK COMMITTEE CHARTER

AMERICAN HOTEL INCOME PROPERTIES REIT (GP) INC.
TERMS OF REFERENCE FOR THE AUDIT, FINANCE AND RISK COMMITTEE

PURPOSE

American Hotel Income Properties REIT (GP) Inc. (the "**GP**") as general partner of American Hotel Income Properties REIT LP (the "**Issuer**") shall appoint an audit committee (the "**Committee**") to assist the board of directors (the "**Board**") of the GP in fulfilling its responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures on behalf of the Issuer and any of its subsidiaries (collectively, the "**Entities**"), the adequacy of internal accounting controls and procedures, and the quality and integrity of the financial statements of the Entities. In addition, the Committee is responsible for directing the auditors' examination of specific areas, for the selection of the independent auditors of the Entities and for the approval of all non-audit services for which the auditors of the Entities may be engaged.

I. STRUCTURE AND OPERATIONS

The Committee shall be comprised of three members, each of whom shall be a director of the GP and a majority of whom shall be "independent" within the meaning of National Instrument 52-110 – *Audit Committees* ("**NI 52-110**").

Each member of the Committee shall satisfy the "financial literacy" requirement of NI 52-110, by having the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the financial statements of the Issuer.

The members of the Committee shall be annually appointed by the Board and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority of the Board.

II. CHAIR OF THE COMMITTEE

Unless the Board elects a Chair of the Committee, the members of the Committee shall designate a Chair by the majority vote of the full Committee membership.

The Chair of the Committee shall:

(a) Call and conduct the meetings of the Committee;

(b) Be entitled to vote to resolve any ties;

(c) Prepare and forward to members of the Committee the agenda for each meeting of the Committee, and include, in the agenda, any items proposed for inclusion in the agenda by any member of the Committee;

(d) Review with the Chief Financial Officer ("**CFO**") and the auditors for the Issuer any matters referred to the Chair by the CFO or the auditors of the Issuer;

(e) Appoint a secretary, who need not be a member of the Committee, to take minutes of the meetings of the Committee; and

(f) Act in a manner that the Committee meetings are conducted in an efficient, effective and focused manner.

III. MEETINGS

The Committee shall meet at least quarterly or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet with management and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. The Committee may meet privately with outside counsel of its choosing and the CFO of the GP, as necessary. In addition, the Committee shall meet with the external auditors and management quarterly to review the Issuer's financial statements in a manner consistent with that outlined in these Terms.

The Committee may invite to its meetings any partners of the Issuer, management and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

A majority of the Committee members, but not less than two, shall constitute a quorum. A majority of members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may meet by telephone or videoconference and may take action by unanimous written consent with respect to matters that may be acted upon without a formal meeting.

The Committee shall maintain minutes or other records of meetings and activities of the Committee.

Notice of the time and place of every meeting shall be given in writing or electronic communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting provided however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

IV. RESPONSIBILITIES, DUTIES, AUTHORITY

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in these Terms. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board from time to time related to the purposes of this Committee.

The Committee in discharging its oversight role is empowered to investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside counsel, accounting or other advisors for this purpose, including authority to approve the fees payable to such advisors and other terms of retention. In addition, the Committee shall have the authority to communicate directly with both external and internal auditors of the Issuer.

The Committee shall be given full access to the Board, management, employees and others, directly and indirectly responsible for financial reporting, and independent accountants, as necessary, to carry out these responsibilities. While acting within the scope of this stated purpose, the Committee shall have all the authority of the Board.

The Committee shall be responsible for assessing the range of financial and other risks to the business and affairs of the Issuer that the Board shall focus on, and make recommendations to the Board about how appropriate responsibilities for continuing to identify, monitor and manage these risks are to be delegated. The Committee shall review and discuss with management and the internal and external auditors all major financial risk exposures and the steps management has take to monitor/control those exposures. In addition, the Committee shall encourage continuous improvement of, and foster adherence to, the Issuer's financial policies, procedures and practices at all levels in the organization; and provide an avenue of communication among the independent auditors, management and the Board.

Absent actual knowledge to the contrary (which shall promptly reported to the Board), each member of the Committee shall be entitled to rely on: (i) the integrity of those persons or organizations within and outside the Issuer from which it receives information: (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations; and (iii) representations made by management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to the Issuer and its subsidiaries.

V. SPECIFIC RESPONSIBILITIES AND ACTIVITIES

A. Document Reports/Reviews

1. *Annual Financial Statements*. The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination:

   (a) the annual audited consolidated financial statements;

(b) the external auditor's review of the annual consolidated financial statements and their report;

(c) any significant changes that were required in the external audit plan;

(d) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and

(e) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the Issuer.

Following completion of the matters contemplated above, the Committee shall make a recommendation to the Board with respect to the approval of the annual financial statements with such changes contemplated and further recommended, as the Committee considers necessary.

2. *Interim Financial Statements*. The Committee shall review with management and may review with the external auditors, both together and separately, prior to public dissemination, the interim unaudited consolidated financial statements of the Issuer, including to the extent the Committee considers appropriate, a discussion with the external auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Issuer.

3. *Management's Discussion and Analysis*. The Committee shall review with management and the external auditors, both together and separately prior to public dissemination, the annual and interim Management's Discussion and Analysis of Financial Condition and Results of Operations ("**MD&A**") and the Committee shall review with management and may review with the external auditors, interim MD&A.

4. *Approval of Annual MD&A, Interim Financial Statements and Interim MD&A*. The Committee shall make a recommendation to the Board with respect to the approval of the annual MD&A with such changes contemplated and further recommended by the Committee as the Committee considers necessary. In addition, the Committee shall approve the interim financial statements and interim MD&A of the Issuer, if the Board has delegated such function to the Committee. If the Committee has not been delegated this function, the Committee shall make a recommendation to the Board with respect to the approval of the interim financial statements and interim MD&A with such changes contemplated and further recommended as the Committee considers necessary.

5. *Press Releases*. With respect to press releases by the Issuer:

(a) The Committee shall review the Issuer's financial statements, MD&A and annual and interim earnings press releases before the Issuer publicly discloses this information.

(b) The Committee shall review with management, prior to public dissemination, the annual and interim earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted non- IFRS" information) as well as financial information and earnings guidance provided to analysts and rating agencies.

(c) The Committee shall be satisfied that adequate procedures are in place for the review of the Issuer's public disclosure of financial information extracted or derived from the Issuer's financial statements, other than public disclosure referred to in subsection 4, and periodically assess the adequacy of those procedures.

6. *Reports and Regulatory Returns*. The Committee shall review and discuss with management, and the external auditors to the extent the Committee deems appropriate, such reports and regulatory returns of the Issuer as may be specified by law.

7. *Other Financial Information*. The Committee shall review the financial information included in any prospectus, annual information form or information circular with the management and the external auditors, both together and separately, prior to public dissemination, and shall make a recommendation to the Board with respect to the approval of such prospectus, annual information form or information circular with such changes contemplated and further recommended as the Committee considers necessary.

B. Financial Reporting Processes

8. *Establishment and Assessment of Procedures*. The Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the financial statements of the Issuer and assess the adequacy of these procedures annually.

9. *Application of accounting principles*. The Committee shall assure itself that the external auditors are satisfied that the accounting estimates and judgements made by management, and their selection of accounting principles reflect an appropriate application of such accounting principles.

10. *Practices and Policies*. The Committee shall review with management and the external auditors, together and separately, the principal accounting practices and policies of the Issuer.

C. External Auditors

11. *Oversight and Responsibility*. In respect of the external auditors of the Issuer:

    (a) The Committee shall recommend to the Board the external auditors nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer; and the compensation of the external auditors.

    (b) The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Issuer, including the resolution of disagreements between management and the external auditors regarding financial reporting.

12. *Reporting*. The external auditors shall report directly to the Committee and are ultimately accountable to the Committee.

13. *Performance and Review*. The Committee shall annually review the performance of the external auditors and recommend to the Board the appointment of the external auditors or approve any discharge of the external auditors when circumstances warrant, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Issuer.

14. *Annual Audit Plan*. The Committee shall review with the external auditors and management, together and separately, the overall scope of the annual audit plan and the resources the external auditors will devote to the audit. The Committee shall annually review and approve the fees to be paid to the external auditors with respect to the annual audit.

15. *Non-Audit Services*.

    (a) "Non-audit services" means all services performed by the external auditors other than audit services. The Committee shall pre-approve all non-audit services to be provided to the Issuer or its subsidiaries entities by the Issuer's external auditor and permit all non-audit services, other than non-audit services where:

        (i) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the issuer and its subsidiary entities to the Issuer's external auditor during the Fiscal Year in which the services are provided;

        (ii) the issuer or the subsidiary entity of the Issuer, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and

        (iii) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals had been delegated by the Committee.

    (b) The Committee may delegate to one or members of the Committee the authority to grant such pre- approvals for non-audited services. The decisions of such member(s) regarding approval of "non-audit" services shall be reported by such member(s) to the full Committee at its first scheduled meeting following such pre-approval.

    (c) The Committee shall adopt specific policies and procedures for the engagement of the non-audit services if:

        (i) the pre-approval policies and procedures are detailed as to the particular services;

        (ii) the Committee is informed of each non-audit service; and

        (iii) the procedures do not include delegation of the Committee's responsibilities to management.

16. *Independence Review*. The Committee shall review and assess the qualifications, performance and independence of the external auditors, including the requirements relating to such independence of the law governing the Issuer. At least annually, the Committee shall receive from and review with the external auditors, their written statement delineating all relationships with the Issuer and, if necessary, recommend that the Board takes appropriate action to satisfy themselves of the external auditors' independence and accountability to the Committee.

D. Reports to Board

17. *Reports*. In addition to such specific reports contemplated elsewhere in these Terms, the Committee shall report regularly to the Board regarding such matters, including:

    (a) with respect to any issues that arise with respect to the quality or integrity of the financial statements of the Issuer, compliance with legal or regulatory requirements by the Issuer, or the performance and independence of the external auditors of the Issuer;

    (b) following meetings of the Committee; and

    (c) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities.

18. *Recommendations*. In addition to such specific recommendations contemplated elsewhere in these Terms, the Committee shall provide such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make such report.

E. Whistle-Blowing

19. *Procedures*. The Committee shall establish procedures for:

    (a) the receipt, retention and treatment of complaints received by the Issuer regarding questionable accounting, internal accounting controls, or auditing matters; and

    (b) the confidential, anonymous submission by employees and of concerns regarding questionable accounting or auditing matters.

20. *Notice to Employees*.

    (a) To comply with the above, the Committee shall ensure each of the Entities advises all employees, by way of a written code of business conduct and ethics (the "**Code**"), or if such Code has not yet been adopted by the respective board, by way of a written or electronic notice, that any employee who reasonably believes that questionable accounting, internal accounting controls, or auditing matters have been employed by the Entities, or their external auditors is strongly encouraged to report such concerns by way of communication directly to the Chair. Matters referred may be done so anonymously and in confidence.

    (b) None of the Entities shall take or allow any reprisal against any employee for, in good faith, reporting questionable accounting, internal accounting, or auditing matters. Any such reprisal shall itself be considered a very serious breach of this policy.

    (c) All reported violations shall be investigated by the Committee following rules of procedure and process as shall be recommended by outside counsel.

F. General

21. *Access to Counsel*. The Committee shall review, periodically, with outside counsel of its choosing, any legal matter that could have a significant impact on the financial statements, the Issuer's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

22. *Hiring of Partners and Employees of External Auditors*. The Committee shall annually review and approve the Issuer's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Issuer.

23. *General*. The Committee shall perform such other duties and exercise such powers as may, from time to time, be assigned or vested in the Committee by the Board, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.

VI. ANNUAL PERFORMANCE REVIEW EVALUATION

24. The Committee shall perform a review and evaluation, annually, of the performance of the Committee and its members, including a review of the compliance of the Committee with these Terms. In addition, the Committee shall evaluate, annually, the adequacy of these Terms and recommend any proposed changes to the Board.

25. The Committee shall annually review transactions involving directors and officers, including a review of travel expenses and entertainment expenses, related party transactions and any conflicts of interests.

26. Management shall be required to provide the Committee, at least annually, a report on internal controls, including reasonable assurance that such controls are adequate to facilitate reliable and timely financial information. The Committee shall also review and follow-up on any areas of internal control weakness identified by the external auditors with the auditors and management.

CERTIFICATE OF THE ISSUER AND THE PROMOTER

Dated: February 12, 2013

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 each of the provinces and territories of Canada.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

"Robert O' Neill"	*"Robert Hibberd"*
ROBERT O'NEILL Chief Executive Officer of the General Partner	ROBERT HIBBERD Chief Financial Officer of the General Partner

AMERICAN HOTEL INCOME PROPERTIES REIT (GP) INC.
(as General Partner)

"Robert O' Neill"	*"Robert Hibberd"*
ROBERT O'NEILL Chief Executive Officer	ROBERT HIBBERD Chief Financial Officer
"Kevin Grayston"	*"Robert Pratt"*
KEVIN GRAYSTON Director	ROBERT PRATT Director

SUNSTONE O'NEILL HOTEL MANAGEMENT INC.
(as Promoter)

"John O' Neill"	*"Robert O' Neill"*
JOHN O'NEILL President	ROBERT O'NEILL Director

CERTIFICATE OF THE UNDERWRITERS

Dated: February 12, 2013

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 each of the provinces and territories of Canada.

CANACCORD GENUITY CORP.

Per: "*Justin Bosa*"
JUSTIN BOSA

NATIONAL BANK FINANCIAL INC.

Per: "*Glen Hirsh*"
GLEN HIRSH

TD SECURITIES INC.

Per: "*Armen Farian*"
ARMEN FARIAN

BMO NESBITT BURNS INC.

Per: "*Onorio Lucchese*"
ONORIO LUCCHESE

CIBC WORLD MARKETS INC.

Per: "*Jeff Appleby*"
JEFF APPLEBY

SCOTIA CAPITAL INC.

Per: "*Bryce Stewart*"
BRYCE STEWART

DUNDEE SECURITIES LTD.

Per: "*Brad Cutsey*"
BRAD CUTSEY

GMP SECURITIES L.P.

Per: "*Alfred Avanessy*"
ALFRED AVANESSY

MACQUARIE CAPITAL MARKETS CANADA LTD.

Per: "*John Bartkiw*"
JOHN BARTKIW

BURGEONVEST BICK SECURITIES LIMITED

Per: "*Vilma Jones*"
VILMA JONES

HAYWOOD SECURITIES INC.

Per: "*Martin Burian*"
MARTIN BURIAN

AHIP

Oak Tree Inns Feature:

Clean, comfortable,
well-equipped
guest rooms

Comprehensive
noise, light and
temperature controls

Friendly customer service

24-hour food service

Crew shuttle van

Crew lounge

On-site fitness facility

Crew locker room

Crew scheduling
computers

Full internet access

AHIP

AMERICAN HOTEL
INCOME PROPERTIES
REIT LP