*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus supplement, together with the accompanying short form base shelf prospectus to which it relates dated February 16, 2017, as amended or supplemented, and each document incorporated by reference into the short form base shelf prospectus and into this prospectus supplement, constitutes an offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or any state securities laws and may not be offered or sold in the United States except in compliance with exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus supplement does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States. See "Plan of Distribution".*

Information has been incorporated by reference in this prospectus supplement from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of American Hotel Income Properties REIT LP, 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1, Telephone (604) 630-3134, and are also available electronically at www.sedar.com.*

PROSPECTUS SUPPLEMENT
TO THE SHORT FORM BASE SHELF PROSPECTUS DATED FEBRUARY 16, 2017

New Issue **June 2, 2017**

AMERICAN HOTEL
INCOME PROPERTIES REIT LP

Cdn$190,026,000
18,360,000 Units

and

US$42,500,000
5.00% Convertible Unsecured Subordinated Debentures

This prospectus supplement ("**Prospectus Supplement**") and the accompanying short form base shelf prospectus dated February 16, 2017 (the "**Base Prospectus**") qualifies the distribution (the "**Offering**") of: (i) 18,360,000 limited partnership units (the "**Initial Units**") of American Hotel Income Properties REIT LP (the "**REIT**") as well as the limited partnership units of the REIT issuable under the Unit Over-Allotment Option (as defined below) (collectively with the Initial Units, the "**Offered Units**") at a price of Cdn$10.35 per Offered Unit (the "**Unit Offering Price**"); and (ii) US$42,500,000 aggregate principal amount of 5.00% convertible unsecured subordinated debentures of the REIT (the "**Initial Debentures**") as well as the 5.00% convertible unsecured subordinated debentures of the REIT issuable under the Debenture Over-Allotment Option (as defined below) (collectively with the Initial Debentures, the "**Debentures**") at a price of US$1,000 per Debenture (the "**Debenture Offering Price**").

The Offering is being made pursuant to an underwriting agreement dated June 2, 2017 (the "**Underwriting Agreement**") among the REIT and CIBC World Markets Inc., National Bank Financial Inc., TD Securities Inc., Canaccord Genuity Corp., BMO Nesbitt Burns Inc., Scotia Capital Inc., RBC Dominion Securities Inc., Haywood Securities Inc. and Industrial Alliance Securities Inc. (collectively, the "**Underwriters**").

The Debentures will be due on June 30, 2022 (the "**Maturity Date**") and will bear interest at an annual rate of 5.00% payable semi-annually in arrears on June 30 and December 31 of each year (or the immediately following business day if any interest payment date would not otherwise be a business day) (an "**Interest Payment Date**"),

commencing on December 31, 2017. The December 31, 2017 interest payment will represent accrued interest for the period from the closing of the Offering (the "**Offering Closing**") to, but excluding, December 31, 2017. The Debentures will be governed by a trust indenture (the "**Indenture**") to be dated as of the Closing Date (as defined below) and to be entered into between the REIT and Computershare Trust Company of Canada (the "**Indenture Trustee**").

Debenture Conversion Privilege

Each Debenture will be convertible into limited partnership units of the REIT ("**Units**") at the option of the holder of the Debenture ("**Debentureholder**") at any time prior to the close of business on the earlier of (i) the business day immediately preceding the business day preceding the Maturity Date; and (ii) if called for redemption, the business day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of US$9.25 per Unit (the "**Conversion Price**"), being a conversion rate of approximately 108.1081 Units for each US$1,000 principal amount of Debentures (representing a premium of approximately 21% to the reference Unit price of US$7.67 per Unit, being Cdn$10.35 per Unit based on an exchange rate of US$1.00 equals Cdn$1.35 as at May 31, 2017, the date the Offering was publicly announced), subject to adjustment in certain events in accordance with the terms of the Indenture. Holders converting their Debentures will receive a cash payment of accrued and unpaid interest thereon for the period from the last Interest Payment Date prior to conversion (or the date of issue of the Debentures if there has not yet been an Interest Payment Date) to and including the last record date declared for determining the holders of Units entitled to receive distributions on Units prior to such conversion. Notwithstanding the foregoing, no Debenture may be converted during the five business days preceding an Interest Payment Date or on the business day preceding the Maturity Date. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events are set out under "Description of Debentures – Conversion Privilege".

The Debentures may not be redeemed by the REIT prior to June 30, 2020, except in certain limited circumstances following a Change of Control (as defined herein). On or after June 30, 2020 and prior to June 30, 2021, the Debentures may be redeemed by the REIT, in whole or in part from time to time at the option of the REIT, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption on not more than 60 days' and not less than 30 days' prior written notice, provided that the Current Market Price (as defined herein) on the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after June 30, 2021 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of the REIT at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption on not more than 60 days' and not less than 30 days' prior written notice. The REIT will pay the redemption price and all accrued and unpaid interest in cash.

If, on April 15, 2022, the outstanding principal amount of the Debentures plus accrued and unpaid interest exceeds the sum of (i) the Available Cash (as defined herein) of the REIT as at March 31, 2022; plus (ii) US$10,000,000, the REIT may, at its option, on not more than 60 days and not less than 40 days prior notice, subject to applicable regulatory approval and provided no Event of Default (as defined herein) has occurred and is continuing, elect to satisfy its obligation to pay the principal amount of the Debentures which are due on the Maturity Date, in whole or in part, by issuing freely tradeable Units to the holders of the Debentures. If the REIT exercises the Unit Payment Right (as defined herein), the REIT shall repay that portion of the principal amount of the Debentures in cash as determined by the General Partner to be available for repayment and not reserved to: (i) operate the affairs of the REIT in a prudent and businesslike manner that is consistent with past practices; (ii) maintain periodic distributions on the Units at the then current level; and (iii) maintain compliance with all applicable covenants and agreements of the REIT and its subsidiaries, and the remainder of the principal amount of the Debentures will be repaid in accordance with the Unit Payment Right. Any accrued and unpaid interest up to, but excluding, the Maturity Date will be paid in cash. The number of Units to be issued will be determined by dividing the aggregate principal amount of the outstanding Debentures which have matured by 95% of the Current Market Price on the Maturity Date. See "Description of Debentures – Unit Payment Right".

Within 30 days following the occurrence of a Change of Control, the REIT will be required to make an offer to purchase for cash all of the Debentures then outstanding for a price equal to 101% of the principal amount thereof plus accrued and unpaid interest thereon to, but excluding, the date of purchase. Debentureholders may accept this offer in whole or in part. See "Description of Debentures – Change of Control".

There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this Prospectus Supplement. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation. An investment in the Debentures is subject to a number of risks. Prospective investors should consider the risk factors described under "Risk Factors" and elsewhere in this Prospectus Supplement as well as in the documents incorporated by reference into this Prospectus Supplement and the Base Prospectus. The Units are traded on the Toronto Stock Exchange (the "**Exchange**") under the symbol HOT.UN. The REIT has applied to list the Offered Units, the Debentures and the Units issuable pursuant to the terms of the Debentures on the Exchange. Listing is subject to the REIT fulfilling all of the requirements of the Exchange. On May 30, 2017, the business day immediately preceding the date of the announcement of the Offering, the closing price of the Units on the Exchange was Cdn$10.72 per Unit. On June 1, 2017, the last business day prior to the filing of this Prospectus Supplement, the closing price of the Units on the Exchange was Cdn$10.24 per Unit.

Price: Cdn$10.35 per Initial Unit

Price: US$1,000 per Initial Debenture

	Price to Public[1]	**Underwriters' Fee**[2][3]	**Net Proceeds to the REIT**[4]
Per Initial Unit	Cdn$10.35	Cdn$.414	Cdn$9.936
Total Initial Units ..	Cdn$190,026,000	Cdn$7,601,040	Cdn$182,424,960
Per Initial Debenture..............	US$1,000	US$37.50	US$962.50
Total Initial Debentures............	US$42,500,000	US$1,593,750	US$40,906,250
Aggregate of Initial Units and Initial Debentures[5]..........	Cdn$247,401,000	Cdn$9,752,603	Cdn$237,648,398

(1) The Unit Offering Price and Debenture Offering Price were each determined by negotiation between the Underwriters and the REIT with reference to the market price of the Units on the Exchange and other factors.

(2) The REIT has agreed to pay the Underwriters an aggregate fee of 4.0% of the gross proceeds from the issuance of the Offered Units (the "**Unit Underwriters' Fee**") and US$37.50 per Debenture, or 3.75% of the gross proceeds from the sale of the Debentures (the "**Debenture Underwriters' Fee**" and together with the Unit Underwriters' Fee, the "**Underwriters' Fee**").

(3) The REIT has granted to the Underwriters over-allotment options, exercisable for a period of 30 days from the Offering Closing to purchase up to an additional 2,754,000 limited partnership units (the "**Over-Allotment Units**") of the REIT sold hereunder (the "**Unit Over-Allotment Option**") and up to an additional US$6,375,000 aggregate principal amount of 5.00% convertible unsecured subordinated debentures (the "**Over-Allotment Debentures**") of the REIT sold hereunder (the "**Debenture Over-Allotment Option**"; and together with the Unit Over-Allotment Option, the "**Over Allotment-Options**"), in each case, on the same terms as set out above with respect to the Initial Units and the Initial Debentures, respectively, solely to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Options are exercised in full, the total aggregate "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the REIT" will be Cdn$284,511,150, Cdn$11,215,493 and Cdn$273,295,657, respectively, based on an exchange rate of US$1.00 = Cdn$1.35 as at May 31, 2017. This Prospectus Supplement, together with the Base Prospectus, qualifies the grant of the Over-Allotment Options and the distribution of the Over-Allotment Units and the Over-Allotment Debentures issuable upon exercise of the Over-Allotment Options. A purchaser who acquires Offered Units or Debentures forming part of the Underwriters' over-allocation position acquires those Offered Units or Debentures, as applicable, under this Prospectus Supplement and the Base Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Options or secondary market purchases. See "Plan of Distribution".

(4) Before deducting expenses of the Offering which are estimated to be Cdn$1,400,000. The REIT will pay these expenses and the Underwriters' Fee (as defined below) from the proceeds of the Offering.

(5) Based on an exchange rate of US$1.00 = Cdn$1.35 as at May 31, 2017.

The following table sets out the options that have been issued to the Underwriters and which are outstanding:

Underwriters' Position	Maximum Number of Securities Available	Exercise Period / Acquisition Date	Exercise Price
Unit Over-Allotment Option	2,754,000 Over-Allotment Units	30 days after Offering Closing	Cdn$10.35
Debenture Over-Allotment Option	US$6,375,000 principal amount of Over-Allotment Debentures	30 days after Offering Closing	US$1,000

The Underwriters, as principals, conditionally offer the Offered Units and the Debentures, subject to prior sale, if, as and when issued by the REIT and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters on behalf of the REIT by Farris, Vaughan, Wills & Murphy LLP and as to certain legal matters on behalf of the Underwriters by Blake, Cassels & Graydon LLP. The REIT has been advised by the Underwriters that, in connection with the Offering, the Underwriters may effect transactions which stabilize or maintain the market price of the Units and/or the Debentures at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time. See "Plan of Distribution". **After the Underwriters have made reasonable effort to sell all of the Initial Units and all of the Initial Debentures at the Unit Offering Price and the Debenture Offering Price, as applicable, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Offered Units or Debentures remaining unsold. Any such reduction will not affect the proceeds received by the REIT. See "Plan of Distribution".**

Subscriptions for Offered Units and Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Offered Units and the Debentures will be issued electronically through the non-certificated inventory system and held by, or on behalf of, CDS Clearing and Depository Services Inc. ("**CDS**") or its successor (collectively, the "**Depository**"), as custodian for the direct and indirect participants of the Depository. The date of the Offering Closing is expected to occur on or about June 9, 2017, or such later date as the REIT and the Underwriters may agree, but in any event not later than June 30, 2017 (the "**Closing Date**"). The purchaser of Offered Units and Debentures will receive only a customer confirmation from a registered dealer that is a participant in the CDS depository service and from or through which the Offered Units or Debentures, as applicable, are purchased.

An investment in the Offered Units and the Debentures is subject to a number of risks. See "Risk Factors" for a more complete discussion of these risks as well as the REIT's assessment of those risks and their potential consequences.

Unitholders resident in Canada 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 REIT allocated to the Unitholder by the REIT for the Fiscal Year (as defined herein) of the REIT ending in or on the Unitholder's taxation year. Such allocation may bear no relation to the cash distributions made by the REIT 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 REIT in a year which exceed the amount of income for income tax purposes allocated to the Unitholder by the REIT 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 after-tax return to an investor from an investment in Units will depend in part on the Unitholder's ability to recognize for purposes of the Tax Act (as defined herein) U.S. taxes paid directly or indirectly by the REIT or by the Unitholder through foreign tax credits or foreign tax deductions under the Tax Act. **See "Principal Canadian Federal Income Tax Considerations". Prospective purchasers of the Offered Units should consult their tax advisors with respect to the income tax considerations in their circumstances.**

No person is authorized by the REIT to provide any information or to make any representation other than as contained in this Prospectus Supplement and the Base Prospectus in connection with the issue and sale of the securities offered hereunder.

The REIT's long-term objectives are to: (i) generate stable and growing cash distributions from hotel properties substantially in the U.S.; (ii) enhance the value of its assets and maximize the long-term value of the properties through active management; and (iii) expand its asset base and increase its AFFO (as defined below) 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 REIT's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1. The registered office of American Hotel Income Properties REIT (GP) Inc., the general partner of the REIT, is located at 25th Floor – 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3.

Each of W. Michael Murphy, Richard Frank and Minaz Abji: (i) is a director of the General Partner; (ii) resides outside of Canada; and (iii) has appointed the REIT as its agent for service of process in Canada. Colliers International Valuation & Advisory Services, LLC: (i) is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction; and (ii) has appointed Colliers Macaulay Nicolls Inc. of 1140 Bay Street, Toronto, Ontario M5S 2B4 as its agent for service of process in Canada. Keiter: (i) is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction; and (ii) has appointed the REIT as its agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

TABLE OF CONTENTS OF PROSPECTUS SUPPLEMENT

DOCUMENTS INCORPORATED BY REFERENCE S-1
MARKETING MATERIALS S-3
EXCHANGE RATE INFORMATION S-3
ABOUT THIS PROSPECTUS SUPPLEMENT S-3
MEANINGS OF CERTAIN REFERENCES S-3
PRESENTATION OF FINANCIAL STATEMENTS S-4
THIRD PARTY INFORMATION S-4
FORWARD-LOOKING STATEMENTS S-4
ELIGIBILITY FOR INVESTMENT S-6
COMMONLY USED TERMS S-8
THE REIT AND ITS OPERATING SUBSIDIARIES S-16
BUSINESS OF THE REIT S-19
RECENT DEVELOPMENTS S-20
ACQUISITION OF THE EASTERN SEABOARD PORTFOLIO S-20
DISTRIBUTION HISTORY S-29
PRIOR SALES S-30
TRADING PRICE AND VOLUME S-31
USE OF PROCEEDS S-32
CONSOLIDATED CAPITALIZATION OF THE REIT S-33
PLAN OF DISTRIBUTION S-33
DESCRIPTION OF THE UNITS S-35
DESCRIPTION OF THE DEBENTURES S-36
EARNINGS COVERAGE RATIO S-42
PRINCIPAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS S-43
PRINCIPAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS S-51
EXCHANGE OF TAX INFORMATION S-74
RISK FACTORS S-74
AUDITORS, TRANSFER AGENT AND REGISTRAR S-79
LEGAL PROCEEDINGS S-79
EXPERTS S-79
PURCHASER'S STATUTORY RIGHTS S-80
PURCHASER'S CONTRACTUAL RIGHTS S-80
INDEX TO FINANCIAL STATEMENTS F-1
CERTIFICATE OF THE REIT C-1
CERTIFICATE OF THE UNDERWRITERS C-2

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Prospectus Supplement and the Base Prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein and therein by reference may be obtained on request without charge from the Chief Financial Officer of American Hotel Income Properties REIT LP, 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 or by accessing such documents under the REIT's profile on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com.

This Prospectus Supplement is incorporated by reference into the Base Prospectus as of the date hereof and only for the purposes of the distribution of the Offered Units and the Debentures offered hereby. Other documents are also incorporated or deemed to be incorporated by reference into the Base Prospectus and reference should be made to the Base Prospectus for full details. See "Documents Incorporated by Reference" in the Base Prospectus.

The following documents of the REIT, filed with the securities commissions or similar authorities in each of the provinces of Canada, are specifically incorporated by reference into and form an integral part of this Prospectus Supplement and the Base Prospectus, provided that such documents are not incorporated by reference to the extent that their contents are modified or superseded by a statement contained in this Prospectus Supplement, the Base Prospectus or in any other subsequently filed document that is also incorporated by reference in this Prospectus Supplement or the Base Prospectus, as further described below:

(a) the annual information form of the REIT dated March 27, 2017 for the year ended December 31, 2016;

(b) the audited annual consolidated financial statements of the REIT for the years ended December 31, 2016 and December 31, 2015, together with the auditors' report thereon and the notes thereto;

(c) the management's discussion and analysis of the REIT for the year ended December 31, 2016;

(d) the unaudited condensed consolidated interim financial statements of the REIT for the three-month period ended March 31, 2017;

(e) the management's discussion and analysis of the REIT for the three-month period ended March 31, 2017;

(f) the business acquisition report of the REIT dated January 31, 2017 with respect to the REIT's indirect acquisition of the Midwestern 3 Embassy Suites Portfolio;

(g) the management information circular of the REIT dated April 7, 2017 issued in connection with the annual and special meeting of the Unitholders held on May 10, 2017;

(h) the material change report of the REIT dated June 2, 2017 with respect to the Offering and the REIT's agreement to indirectly acquire the Eastern Seaboard Portfolio; and

(i) the "template version" (as such term is defined in National Instrument 41-101 – *General Prospectus Requirements* of the Canadian Securities Administrators) of each of the term sheets for the Offering dated May 31, 2017 and filed May 31, 2017.

Any material change reports (excluding confidential material change reports), business acquisition reports, interim financial statements, annual financial statements and the auditors' report thereon, management's discussion and analysis of financial condition and results of operations in respect of the periods covered by such interim or annual financial statements and management information circulars (excluding those portions that are not required pursuant to National Instrument 44-101 – *Short Form Prospectus Distributions* of the Canadian Securities Administrators to be incorporated by reference herein) and all other documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* of the Canadian Securities Administrators, which are filed by the REIT with a securities commission or similar authority in any of the provinces of Canada after the date of this Prospectus Supplement and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this Prospectus Supplement and the Base Prospectus.

Any statement contained in the Base Prospectus, this Prospectus Supplement or in a document incorporated or deemed to be incorporated by reference in the Base Prospectus or this Prospectus Supplement shall be deemed to be modified or superseded, for purposes of the Base Prospectus and this Prospectus Supplement, to the extent that a statement contained herein or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein or in the Base Prospectus modifies or supersedes that statement. Any such modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be considered in its unmodified or unsuperseded form to constitute part of the Base Prospectus or this Prospectus Supplement; rather only such statement as so modified or superseded shall be considered to constitute part of the Base Prospectus or this Prospectus Supplement.

Neither the REIT nor the Underwriters have provided, or otherwise authorized any other person to provide, investors with information other than as contained or incorporated by reference in the Base Prospectus or this Prospectus Supplement. If an investor is provided with different or inconsistent information, he or she should not rely on it.

MARKETING MATERIALS

Any "template version" of any "marketing materials" (as such terms are defined under applicable Canadian securities laws) that are utilized by the Underwriters in connection with the Offering are not part of this Prospectus Supplement to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this Prospectus Supplement. Any template version of any marketing material that has been, or will be, filed on SEDAR before termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this Prospectus Supplement. The marketing materials can be viewed under the REIT's profile on SEDAR at www.sedar.com.

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the high, low, average and period-end noon spot rates of exchange for US$1.00, expressed in Canadian dollars, published by the Bank of Canada:

	Year Ended December 31		
	2016	**2015**	**2014**
	(Cdn$)	**(Cdn$)**	**(Cdn$)**
Highest rate during the period	1.4589	1.3990	1.1643
Lowest rate during the period	1.2544	1.1728	1.0614
Average rate for the period	1.3248	1.2787	1.1045
Rate at the end of the period	1.3427	1.3840	1.1601

Where there is a conversion of U.S. dollars to Canadian dollars in this Prospectus Supplement, the conversion was based on a rate of exchange of US$1.00 equals Cdn$1.35, unless otherwise noted. On June 1, 2017, the single rate of exchange posted by the Bank of Canada for conversion of U.S. dollars into Canadian dollars was US$1.00 equals Cdn$1.35.

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of the securities the REIT is offering and also adds to and updates certain information contained in the Base Prospectus and the documents incorporated by reference therein. The second part, the Base Prospectus, gives more general information, some of which may not apply to the securities offered hereunder.

An investor should rely only on the information contained in this Prospectus Supplement and the Base Prospectus (including the documents incorporated by reference herein and therein) and should not rely on parts of the information contained in this Prospectus Supplement and the Base Prospectus (including the documents incorporated by reference herein and therein) to the exclusion of others. The REIT has not, and the Underwriters have not, authorized anyone to provide investors with additional or different information. The REIT 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. The information contained in this Prospectus Supplement and the Base Prospectus (including the documents incorporated by reference herein and therein) is accurate only as at the date of this Prospectus Supplement or the date of the Base Prospectus or the date of the document incorporated by reference herein or therein, as applicable, regardless of the time of delivery of this Prospectus Supplement or any sale of the Offered Units or the Debentures. The REIT's business, financial condition, results of operations and prospects may have changed since the date of this Prospectus Supplement.

MEANINGS OF CERTAIN REFERENCES

Certain terms used in this Prospectus Supplement are defined under "Commonly Used Terms". Except as otherwise stated in this Prospectus Supplement, all dollar amounts in this Prospectus Supplement are stated in U.S. dollars.

The REIT's investment and operating activities are limited because the REIT's investment and operating activities are carried out by its direct and indirect Subsidiaries, including the U.S. REIT. For simplicity, the REIT uses terms in this Prospectus Supplement to refer to the investments and operations of the REIT and its direct and

indirect Subsidiaries, including the U.S. REIT, as a whole. Accordingly, in this Prospectus Supplement, unless the context otherwise requires, the "REIT" is referring to the REIT and its direct and indirect Subsidiaries, including the U.S. REIT, as a whole. When the REIT uses expressions such as "the REIT's operations", the REIT is referring to the REIT's indirect operations, as carried out by its direct and indirect Subsidiaries, including the U.S. REIT, as a whole. When the REIT uses expressions such as "the REIT's portfolio" or "the REIT owns" in relation to the Properties, the REIT is referring to the REIT'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 REIT uses expressions such as "the REIT operates", the REIT is referring to the REIT's indirect operations, as carried out by its direct and indirect Subsidiaries, including the U.S. REIT.

References to "management" in this Prospectus Supplement mean the persons acting in the capacities of the REIT's Chief Executive Officer, President, Chief Financial Officer, Chief Investment Officer and Vice President, Finance. Any statements in this Prospectus Supplement made by or on behalf of management are made in such persons' capacities as officers of the General Partner or as officers of certain of the REIT's subsidiaries, as applicable, and not in their personal capacities.

PRESENTATION OF FINANCIAL STATEMENTS

The consolidated and combined financial statements of the Eastern Seaboard Portfolio that are included in this Prospectus Supplement and the combined financial statements of the Midwestern 3 Embassy Suites Portfolio that are incorporated by reference herein have been prepared in accordance with U.S. GAAP. The consolidated financial statements of the REIT that are included in this Prospectus Supplement, including consolidated financial statements that are incorporated by reference herein, have been prepared in accordance with IFRS. Accordingly, the presentation of the consolidated and combined financial statements of the Eastern Seaboard Portfolio and the combined financial statements of the Midwestern 3 Embassy Suites Portfolio may vary in a material way from financial statements prepared in accordance with IFRS. Management has reviewed the consolidated and combined financial statements of the Eastern Seaboard Portfolio and the combined financial statements of the Midwestern 3 Embassy Suites Portfolio and has determined that there are no material U.S. GAAP to IFRS measurement differences applicable to the consolidated and combined financial statements of the Eastern Seaboard Portfolio included in this Prospectus Supplement or to the combined financial statements of the Midwestern 3 Embassy Suites Portfolio which are incorporated by reference herein. For further details, see the unaudited *pro forma* condensed consolidated financial statements of the REIT as at and for the three months ended March 31, 2017 and for the year ended December 31, 2016, together with the notes thereto, which form part of this Prospectus Supplement and the unaudited *pro forma* condensed consolidated financial statements of the REIT as at and for the nine months ended September 30, 2016 and for the year ended December 31, 2015, together with the notes thereto, which are incorporated by reference herein.

THIRD PARTY INFORMATION

This Prospectus Supplement and the Base Prospectus, including documents incorporated by reference herein and therein, includes market share information, industry data and forecasts obtained from independent industry publications, market research and analyst reports, surveys and other publicly available sources. Although the REIT and the Underwriters believe these sources to be generally reliable, market and industry data is subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this data is not guaranteed. The REIT and the Underwriters have not independently verified any of the data from third party sources referred to in this Prospectus Supplement or the Base Prospectus, including documents incorporated by reference herein and therein, nor ascertained the underlying assumptions relied upon by such sources.

FORWARD-LOOKING STATEMENTS

This Prospectus Supplement contains forward-looking information. Statements other than statements of historical fact contained in this Prospectus Supplement 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 REIT'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 REIT's future economic performance. The REIT has based these forward-looking statements on the REIT's current expectations about future events. Some of the specific forward-looking statements in this Prospectus Supplement include, but are not limited to, statements with respect to: the expected timing for closing the Offering; the expected use of proceeds of the Offering; the expected expenses of the Offering; the REIT's intention to pay the expenses of the Offering from the proceeds of the Offering; the REIT entering into the Indenture and the expected terms of the Indenture and the Debentures to be issued thereunder; the potential acquisition of the Eastern Seaboard Portfolio and the details thereof; the means by which the REIT expects to fund the acquisition of the Eastern Seaboard Portfolio; the expected cost of PIPs for the Eastern Seaboard Portfolio; the expected closing date for the acquisition of the Eastern Seaboard Portfolio; the capitalization rate and purchase price at which the Eastern Seaboard Portfolio would be acquired; the REIT's intention to partially fund the acquisition of the Eastern Seaboard Portfolio with additional debt financing from the Eastern Seaboard Loans and the expected terms thereof; the expectation that the U.S. REIT will enter into the Loan Agreements with respect to the Eastern Seaboard Portfolio and the expected terms thereof; the acquisition of the Eastern Seaboard Portfolio will continue to shift AHIP's overall portfolio to larger markets and branded hotels; the degree to which the acquisition of the Eastern Seaboard Portfolio is expected to be accretive; estimated reserve requirements for modified capital reserve expenditures for the Eastern Seaboard Portfolio; the REIT's intention to include adequate reserves in its cash flow to fund ongoing capital expenditure requirements for the Eastern Seaboard Portfolio; expectations that the Branded Hotels and the Rail Hotels will continue to provide a platform on which to expand the REIT's business and activities through a combination of accretive acquisitions, organic growth and participation in strategic development opportunities; the REIT's intention to continuously monitor future guidance from the IRS and/or CRA and comply with any future changes in guidance as they relate to the REIT; the listing of the Offered Units, the Debentures and the Units issuable pursuant to the terms of the Debentures on the Exchange; the REIT applying to list on the Exchange the Units issuable pursuant to the Unit Interest Payment Election, if the REIT makes such election; the REIT's intention to provide stable, sustainable and growing cash flows through operation of the Properties and the REIT's other stated objectives; the REIT's intention that all investments and acquisitions will be accretive to the REIT's AFFO per Unit; the REIT's intention to make regular monthly cash distributions; the expected timing of the record and payment dates for monthly distributions; the REIT's business and growth strategies and its ability to execute such strategies, including by, among other things, making additional acquisitions of properties in the REIT's target markets; the manner in which future acquisitions of the REIT will be undertaken; statements related to PIPs; future maturities and amortization periods on long term debt and estimated useful lives of the REITs assets; the expected tax treatment of the REIT's distributions to Unitholders; the eligibility for investment of the Offered Units, Debentures and Units acquired under the terms of the Debentures; the REIT's access to available sources of debt and equity financing; expectations for Units to be considered "regularly traded" on an established securities market; expectations, including anticipated trends and challenges, in respect of the hotel sector in the REIT's target markets; the REIT's intention 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; the expected level of foreign tax, if any, payable on amounts that give rise to the REIT's distributable income and the REIT's expectations and intentions with respect to other tax related matters set out under "Principal Canadian Federal Income Tax Considerations" and "Principal United States Federal Income Tax Considerations"; the possibility that Unitholders and Debentureholders may be required to provide certain information regarding their investment in the REIT for the purpose of the exchange of information in accordance with FATCA and/or CRS Legislation; and the REIT's expectations with respect to the Existing Portfolio.

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 REIT believes that the expectations and assumptions reflected in such forward-looking information are reasonable, the REIT can give no assurance that these expectations and assumptions 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 expectations and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this Prospectus Supplement as well as the following: the satisfactory timing and receipt of regulatory approval with respect to the Offering and any third party approvals and consents required for the acquisition of the Eastern Seaboard Portfolio; the successful integration of the Eastern Seaboard Portfolio into the REIT's existing portfolio, if acquired by the REIT; the successful completion of the Offering; the ability to secure CMBS and mortgage for future acquisitions; the successful completion of the

Eastern Seaboard Loans; expectations and assumptions related to capitalization rates, fees and reserves and replacement costs for the Eastern Seaboard Portfolio; capital markets will provide the REIT with readily available access to equity and/or debt financing on terms acceptable to the REIT; the REIT's future level of indebtedness and the REIT's future growth potential will remain consistent with the REIT's current expectations; there will be no changes to tax laws adversely affecting the REIT's financing capability, operations, activities, structure or distributions; the REIT will retain and continue to attract qualified and knowledgeable personnel as the REIT expands the REIT's portfolio and business; the impact of the current economic climate and the current global financial conditions on the REIT's operations, including the REIT's financing capability and asset value, will remain consistent with the REIT's current expectations; there will be no material changes to government and environmental regulations adversely affecting the REIT's operations; 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; the U.S. REIT will continue to qualify as a real estate investment trust under the Code; and the SIFT Measures in the Tax Act will continue to not apply to the REIT.

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 risks and uncertainties, including, but not limited to, the factors discussed under "Risk Factors". Consequently, actual results and events may vary significantly from those included in or contemplated or implied by such statements.

Readers are cautioned that the preparation of financial statements, including *pro forma* financial statements, if any, in accordance with International Financial Reporting Standards in Canada, requires management of the REIT to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses.

The forward-looking information contained in this Prospectus Supplement is expressly qualified in its entirety by these cautionary statements. All forward-looking information in this Prospectus Supplement is as of the date of this Prospectus Supplement (or in the case of forward-looking information contained in the Base Prospectus or a document incorporated by reference herein or therein, as of the date of such document). The REIT 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 REIT's actual results to differ from current expectations, see "Risk Factors".

ELIGIBILITY FOR INVESTMENT

In the view of KPMG, in its capacity as tax advisor to the REIT, and in the opinion of Blakes, counsel to the Underwriters, based on the provisions of the Tax Act in force on the date hereof and the Proposed Amendments, the Debentures, the Offered Units and any Units acquired under the terms of the Debentures will be qualified investments under the Tax Act for trusts governed by Plans at a particular time (except that the Debentures will not be a qualified investment for a deferred profit sharing plan to which the REIT has made a contribution), provided that, at that time, the Debentures, the Offered Units and any Units acquired under the terms of the Debentures, respectively, are listed on a "designated stock exchange" for purposes of the Tax Act (which includes the Exchange).

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 Debentures, the Offered Units and any Units acquired under the terms of the Debentures held in the TFSA, RRSP or RRIF are a "prohibited investment" as defined in the Tax Act for the TFSA, RRSP or RRIF. Debentures, the Offered Units and any Units acquired under the terms of the Debentures will generally not be a "prohibited investment" for a trust governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, does not deal at arm's length with the REIT for purposes of the Tax Act or has a "significant interest" as defined in the Tax Act in the REIT. Generally, a holder or annuitant will have a significant interest in the REIT if the holder or annuitant, or the holder or annuitant together with persons and partnerships not dealing at arm's length with the holder or annuitant, own partnership interests of the REIT having a fair market value of 10% or more of the fair market value of all partnership interests of the REIT. In addition, Units will not be a "prohibited investment" if the Units are "excluded property" as defined in the Tax Act. If certain Proposed Amendments to the Tax Act released by the Minister of Finance on March 22, 2017 are enacted as proposed, the prohibited investment rules will extend to: (i) trusts governed by RDSPs and the holders thereof; and (ii) trusts governed by RESPs and the subscribers thereof. Holders of a TFSA or RDSP, annuitants of

an RRSP or RRIF and subscribers of an RESP should consult their own tax advisors in regards to the application of these rules in their particular circumstances.

COMMONLY USED TERMS

In this Prospectus Supplement the following words and phrases have the following meanings unless the context otherwise requires:

"**5 Percent Exception**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**5-year Loan**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Debt Financing for the Acquisition of the Eastern Seaboard Portfolio";

"**10-year Loans**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Debt Financing for the Acquisition of the Eastern Seaboard Portfolio";

"**75 percent gross income test**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**95 percent gross income test**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**100 Shareholder Requirement**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Active Business Exception**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**ADR**" means, for a hotel property or properties, the total hotel room revenues for such property or properties divided by total number of rooms sold at such property or properties in a given period divided by the number of days in the period;

"**Affiliate**" or "**Associate**" means, where used to indicate a relationship with any person: (i) a partner, other than a unitholder, of that person; (ii) 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; (iii) 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 (iv) 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 six months;

"**AFFO**" has the meaning ascribed to it under "Non-IFRS Measures" in the AIF;

"**AHIP Enterprises**" means AHIP Enterprises LLC, a limited liability company formed in Delaware;

"**AHIP Properties**" means AHIP Properties LLC, a limited liability company formed in Delaware;

"**AIF**" means the annual information form of the REIT dated March 27, 2017 for the year ended December 31, 2016, a copy of which is available on SEDAR at www.sedar.com;

"**allowable capital loss**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**AML**" means AHIP Management Ltd., a company incorporated under the *Business Corporations Act* (British Columbia);

"**Available Cash**" means the consolidated cash and cash equivalents balance (excluding restricted cash) of the REIT as determined in accordance with IFRS *plus* cash financing committed by a third party lender and accepted by the REIT on or before April 15, 2022 to be received by the REIT at least 15 days prior to the Maturity Date, provided the terms of such cash financing permit the REIT to repay all or a portion of the principal amount of the Debentures on the Maturity Date;

“**Base Prospectus**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

“**Beneficial Debenture Owner**” has the meaning ascribed thereto under “Description of the Debentures – Book-Entry System for Debentures”;

“**Blakes**” means Blake, Cassels & Graydon LLP;

“**Board**” means the board of directors of the General Partner;

“**Borrower**” has the meaning ascribed to it under “Acquisition of the Eastern Seaboard Portfolio – Debt Financing for the Acquisition of the Eastern Seaboard Portfolio”;

“**Branded Hotels**” means, collectively, premium select service hotels owned by the REIT, which have franchise lodging agreements with leading hotel franchisors;

“**CBCA**” means the *Canada Business Corporations Act* and the regulations thereto, as amended;

“**CDS**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

“**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”;

“**Change of Control**” has the meaning ascribed thereto under “Description of the Debentures – Change of Control” of this Prospectus Supplement;

“**Closing Date**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

“**CMBS**” means commercial mortgage-backed securities debt;

“**Code**” means the *Internal Revenue Code of 1986* and the regulations thereunder, as amended;

“**Colliers**” means Colliers International Valuation & Advisory Services, LLC;

“**Consolidated Net Worth**” means the Unitholders’ Equity of the REIT and its Subsidiaries determined on a consolidated basis in accordance with IFRS;

“**Conversion Price**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

“**CRA**” means Canada Revenue Agency;

“**CRS Legislation**” has the meaning ascribed to it under “Exchange of Tax Information”;

“**Current Market Price**” means the volume weighted average trading price for the Units on the Exchange converted daily into U.S. dollars at the Bank of Canada single rate of exchange for such date, and such U.S. dollar prices averaged for the 20 consecutive trading days ending five trading days prior to the applicable date;

“**Debenture 5 Percent Exception**” has the meaning ascribed thereto under “Principal United States Federal Income Tax Considerations”;

“**Debenture Certificates**” has the meaning ascribed thereto under “Description of the Debentures – Book-Entry System for Debentures”;

“**Debenture Offer**” has the meaning ascribed thereto under “Description of the Debentures – Change of Control” of this Prospectus Supplement;

“**Debenture Offer Price**” has the meaning ascribed thereto under “Description of the Debentures – Change of Control” of this Prospectus Supplement;

“**Debenture Offering Price**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Debenture Over-Allotment Option**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Debenture Underwriters' Fee**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Debentureholder**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Debentures**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Depository**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Developer**" means SunOne Developments Inc.;

"**DFA Rules**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**Eastern Seaboard Appraisal**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Independent Appraisal of the Eastern Seaboard Portfolio";

"**Eastern Seaboard Loans**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Overview";

"**Eastern Seaboard Portfolio**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Overview";

"**Eastern Seaboard PSA**" means the Agreement of Purchase and Sale dated May 3, 2017, and amended on May 31, 2017, among the U.S. REIT and the Eastern Seaboard Sellers, pursuant to which the REIT intends to indirectly acquire the Eastern Seaboard Portfolio, as such agreement is amended, restated and/or supplemented from time to time;

"**Eastern Seaboard Sellers**" means, collectively, MCRS Allentown LLC, MCRS Bethlehem LLC, MCRS Brookhaven LLC, MCRS Dover LLC, MCRS Egg Harbor LLC, MCRS Egg Harbor 2 LLC, MCRS Milford LLC, MCRS Mt. Laurel LLC, MCRS Neptune LLC, MCRS Wall LLC, MCRB Arundel 1 LLC, MCRB Arundel 2 LLC, MCRB Arundel 3 LLC, MCRB Arundel 4 LLC, MCRB White Marsh 1 LLC, MCRB White Marsh 2 LLC, MCRB White Marsh 3 LLC and MCRB White Marsh 4 LLC;

"**ECI**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**EIK**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Employee Exception**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**Event of Default**" has the meaning ascribed thereto under "Description of the Debentures – Events of Default";

"**Exchange**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Exchange Publicly Traded Exception**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Existing Portfolio**" means the portfolio of 95 hotel properties located in 30 states in the U.S. and currently indirectly owned by the REIT;

"**FAPI**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**FAPI Exceptions**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**FAT**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**FATCA**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**FDAP**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**FF&E**" means furniture, fixtures and equipment;

"**Fiscal Year**" means each fiscal year of the REIT;

"**foreign tax credit**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**foreign tax deduction**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**GDP**" means gross domestic product;

"**General Partner**" means American Hotel Income Properties REIT (GP) Inc., a corporation incorporated under the CBCA;

"**Hotel Manager**" has the meaning ascribed to it under "Business of the REIT – Management";

"**Hotel TRSs**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**HVS**" means MM&R Valuation Services, Inc. d/b/a HVS;

"**hybrid entities**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**IFRS**" means International Financial Reporting Standards in Canada;

"**IGA**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**IML Enterprises**" means IML Enterprises, LLC, a limited liability company formed in Delaware;

"**IML Properties**" means IML Properties LLC, a limited liability company formed in Delaware;

"**Indenture**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Indenture Trustee**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Indirect Exception**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**Initial Debentures**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Initial Units**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Interest Obligation**" has the meaning ascribed thereto under "Description of the Debentures – Interest Payment Election" of this Prospectus Supplement;

"**Interest Payment Date**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Interest Rate**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Debt Financing for the Acquisition of the Eastern Seaboard Portfolio";

"**IRS**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**ITSI**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**KPMG**" means KPMG LLP;

"**Lender**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Debt Financing for the Acquisition of the Eastern Seaboard Portfolio";

"**Loan Agreements**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Debt Financing for the Acquisition of the Eastern Seaboard Portfolio";

"**Lodging Enterprises**" means Lodging Enterprises, LLC, a limited liability company formed in Delaware;

"**Lodging Properties**" means Lodging Properties LLC, a limited liability company formed in Delaware;

"**LP Agreement**" means the limited partnership agreement of the REIT dated as of October 12, 2012, and subsequently amended, or amended and restated, as applicable, as of February 20, 2013 and June 9, 2015;

"**Master Hotel Manager**" has the meaning ascribed to it under "Business of the REIT – Management";

"**Maturity Date**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Midwestern 3 Embassy Suites Portfolio**" means the portfolio of three Embassy Suites by Hilton hotel properties located in proximity to Columbus, Cleveland and Cincinnati, Ohio indirectly acquired by the REIT on January 19, 2017;

"**Midwestern Portfolio**" means the portfolio of nine hotel properties located in Illinois, Iowa, Kansas, Missouri and Oklahoma indirectly acquired by the REIT on June 18, 2015;

"**NC/FL Portfolio**" means the portfolio of four hotel properties located in North Carolina and Florida indirectly acquired by the REIT on November 25, 2014;

"**NC/GA Portfolio**" means a portfolio of four hotel properties located in North Carolina and Georgia, three of which properties were indirectly acquired by the REIT on July 3, 2014, with the fourth hotel property indirectly acquired by the REIT on July 11, 2014;

"**NCI**" has the meaning ascribed to it under "Description of the Units – Book-Entry, Delivery and Form";

"**Non-Exempt Gains**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Non-U.S. Unitholders**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Not-Closely Held Requirement**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Oak Tree Inn Hotels**" means, collectively, select service hotels owned by the REIT that have rail crew lodging agreements and are operated under the "Oak Tree Inn" brand;

"**Occupancy**" means, for a hotel property or properties, the total number of hotel rooms sold at such hotel property or properties in a given period divided by the total number of rooms available at such hotel property or properties during such period;

"**Offered Units**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Offering**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Offering Closing**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Oklahoma Portfolio**" means the portfolio of four hotel properties located in Oklahoma indirectly acquired by the REIT on November 3, 2014;

"**ordinary REIT dividends**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Other Indebtedness**" means all indebtedness (including any indebtedness to trade creditors), liabilities and obligations of the REIT, whether outstanding at the date of the Indenture or thereafter created, incurred, assumed or guaranteed that is not Senior Indebtedness;

"**Over-Allotment Debentures**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Over-Allotment Options**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Over-Allotment Units**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Participant**" has the meaning ascribed to it under "Description of the Units – Book Entry, Delivery and Form";

"**Phase I ESA Report**" means a Phase I environmental site assessment report;

"**PIPs**" means brand-mandated property improvement plans;

"**Pittsburgh Portfolio**" means the portfolio of four hotel properties located in metropolitan Pittsburgh, Pennsylvania indirectly acquired by the REIT on November 21, 2013;

"**Plans**" means RRSPs, RRIFs, RESPs, deferred profit sharing plans, RDSPs or TFSAs, each as defined in the Tax Act;

"**Preferred Units**" has the meaning ascribed to it under "Recent Developments – Amendment and Restatement of the LP Agreement";

"**Property**" means, at any time and from time to time, each of the properties indirectly owned and operated by the U.S. REIT or other Subsidiary of the REIT;

"**Proposed Amendments**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**Prospectus Supplement**" means this Prospectus Supplement;

"**qualifying income exception**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Rail Hotel Manager**" means TR Lodging Enterprises Inc.;

"**Rail Hotels**" means, collectively, select service hotel properties owned by the REIT that have rail crew lodging agreements;

"**Rail Portfolio**" means the portfolio of five rail crew lodging facilities indirectly acquired by the REIT on September 16, 2015 that were subsequently converted into Oak Tree Inn Hotels;

"**RDSPs**" means registered disability savings plans, as defined in the Tax Act;

"**REC**" means recognized environmental condition;

"**Regulations**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**REIT**" means American Hotel Income Properties REIT LP;

"**RESPs**" means registered education savings plans, as defined in the Tax Act;

"**RevPAR**" means, for a hotel property or properties, revenue per available room, which is equal to the product of Occupancy and ADR for such hotel property or properties;

"**RRIFs**" means registered retirement income funds, as defined in the Tax Act;

"**RRSPs**" means registered retirement savings plans, as defined in the Tax Act;

"**Section 754 election**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Section 1441 FDAP Withholding**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Section 1445 Withholdings**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Section 1446 Withholdings**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Senior Indebtedness**" has the meaning ascribed to it under "Description of the Debentures – Subordination";

"**SIFT Measures**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**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;

"**Sunstone**" means Sunstone Realty Advisors Inc., a British Columbia corporation;

"**Sunstone Embassy Suites Portfolio**" means the portfolio of two Embassy Suites by Hilton hotel properties located in Tempe, Arizona and Dallas, Texas indirectly acquired by the REIT on January 6, 2017;

"**Sunstone Group**" means Sunstone, its principals 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;

"**taxable capital gain**" has the meaning ascribed to it under "Principal Canadian Federal Income Tax Considerations";

"**Term**" has the meaning ascribed to it under "Acquisition of the Eastern Seaboard Portfolio – Debt Financing for the Acquisition of the Eastern Seaboard Portfolio";

"**Texas Portfolio**" means the portfolio of three hotel properties located in Texas indirectly acquired by the REIT on October 27, 2014;

"**TFSAs**" means tax free savings accounts, as defined in the Tax Act;

"**Treaty**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**TRS**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Underwriters**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Underwriters' Fee**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Underwriting Agreement**" means the underwriting agreement dated June 2, 2017 between the REIT and the Underwriters, as such agreement is amended, restated and/or supplemented from time to time;

"**Unit**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Unit Interest Payment Election**" has the meaning ascribed thereto under "Description of the Debentures – Interest Payment Election" of this Prospectus Supplement;

"**Unit Offering Price**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Unit Over-Allotment Option**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Unit Payment Right**" has the meaning ascribed thereto under "Description of the Debentures – Unit Payment Right" of this Prospectus Supplement;

"**Unit Underwriters' Fee**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement;

"**Unitholders**" means the holders of Units;

"**Unitholders' Equity**" means, in respect of any entity other than a corporation (including a partnership), the aggregate amount of equity (including partnership equity) as shown on the most recent quarterly or annual balance sheet of such entity calculated in accordance with IFRS;

"**U.S. GAAP**" means generally accepted accounting principles in the United States;

"**U.S. Publicly Traded Exception**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**U.S. REIT**" means American Hotel Income Properties REIT Inc., a Maryland corporation;

"**U.S. Securities Act**" has the meaning ascribed to it under "Plan of Distribution";

"**U.S. TIN**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**USRPI**" has the meaning ascribed to it under "Principal United States Federal Income Tax Considerations";

"**Virginia Portfolio**" means the portfolio of four hotel properties located in Virginia indirectly acquired by the REIT on March 12, 2014; and

"**working capital**" means at any time, the sum of cash and cash equivalents, restricted cash, loan receivables, trade and other receivables and other assets less the sum of accounts payable and accrued liabilities, current portion of term loans and deferred compensation payable.

THE REIT AND ITS OPERATING SUBSIDIARIES

American Hotel Income Properties REIT LP

The REIT is a limited partnership formed under the *Limited Partnerships Act* (Ontario) on October 12, 2012 and is governed by the LP Agreement. The REIT's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 and its registered office is located at 25th Floor – 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3.

American Hotel Income Properties REIT (GP) Inc.

The General Partner is a corporation incorporated on September 6, 2012 under the CBCA. The General Partner's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 and its registered office is located at 25th Floor – 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3. The General Partner is the general partner of the REIT.

American Hotel Income Properties REIT Inc.

U.S. REIT is a corporation incorporated in Maryland on February 15, 2013. The head office of the U.S. REIT is located at 8080 East Central, Suite 180, Wichita, Kansas 67206. The U.S. REIT's registered office is located at c/o The Corporation Trust Incorporated, 351 West Camden Street, Baltimore, Maryland 21201. The U.S. REIT elected to be a real estate investment trust pursuant to the Code commencing with its first taxable year ended December 31, 2013 and it intends to maintain such election in the current and future years.

In order to accommodate the requirements of lenders, to segregate risks of ownership of the Existing Portfolio, and to comply with qualification requirements as a real estate investment trust under the Code, the U.S. REIT owns the Existing Portfolio through wholly-owned direct and indirect Subsidiaries of the U.S. REIT (including, among other Subsidiaries, Lodging Properties, IML Properties and direct Subsidiaries of AHIP Properties), which in turn lease the Existing Portfolio to other wholly-owned direct and indirect Subsidiaries of the U.S. REIT (including Lodging Enterprises, IML Enterprises and direct Subsidiaries of AHIP Enterprises, respectively). Lodging Enterprises, IML Enterprises and direct Subsidiaries of AHIP Enterprises continue to operate the Existing Portfolio through arrangements with direct Subsidiaries of the Master Hotel Manager.

Any additional acquisitions of properties by the U.S. REIT are expected to be undertaken through one or more wholly-owned Subsidiaries of the U.S. REIT in a similar manner to acquisitions previously completed by the REIT. See "Business of the REIT".

AHIP Management Ltd.

AML is a corporation incorporated on November 13, 2015 under the *Business Corporations Act* (British Columbia). AML's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 and its registered office is located at 25th Floor, 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3. AML is a wholly-owned Subsidiary of the U.S. REIT and effective as of January 1, 2016, became the employer of certain key executive officers of the REIT and various other support staff. AML provides the services of such persons to the REIT and its Subsidiaries through: (i) a services agreement between AML and the REIT; (ii) a services agreement between AML and the U.S. REIT; and (iii) a secondment agreement between AML and the U.S. REIT.

Lodging Properties LLC

Lodging Properties was formed in Delaware on November 1, 2012 and is a wholly-owned Subsidiary of the U.S. REIT. Lodging Properties owns the real estate underlying the Rail Hotels (other than those forming part of the Rail Portfolio) and leases it to Lodging Enterprises. Lodging Properties is domiciled in the U.S. and its head office is located at 8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o RL&F Service Corp., 920 North King Street, 2nd Floor, Wilmington, New Castle County, Delaware 19801.

Lodging Enterprises, LLC

Lodging Enterprises was formed in Delaware on April 18, 2008 and is a wholly-owned Subsidiary of the U.S. REIT. It leases real estate from Lodging Properties to operate the Rail Hotels (other than those forming part of

the Rail Portfolio). Lodging Enterprises is domiciled in the U.S. and its head office is located at 8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

IML Properties LLC

IML Properties was formed in Delaware on June 10, 2015 and is a wholly-owned Subsidiary of the U.S. REIT. It owns the real estate underlying the Rail Portfolio and leases it to IML Enterprises. IML Properties is domiciled in the U.S. and its head office is located at 8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

IML Enterprises LLC

IML Enterprises was formed in Delaware on June 10, 2015 and is a wholly-owned Subsidiary of the U.S. REIT. It leases real estate from IML Properties to operate the Rail Portfolio. IML Enterprises is domiciled in the U.S. and its head office is located at 8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

AHIP Properties LLC

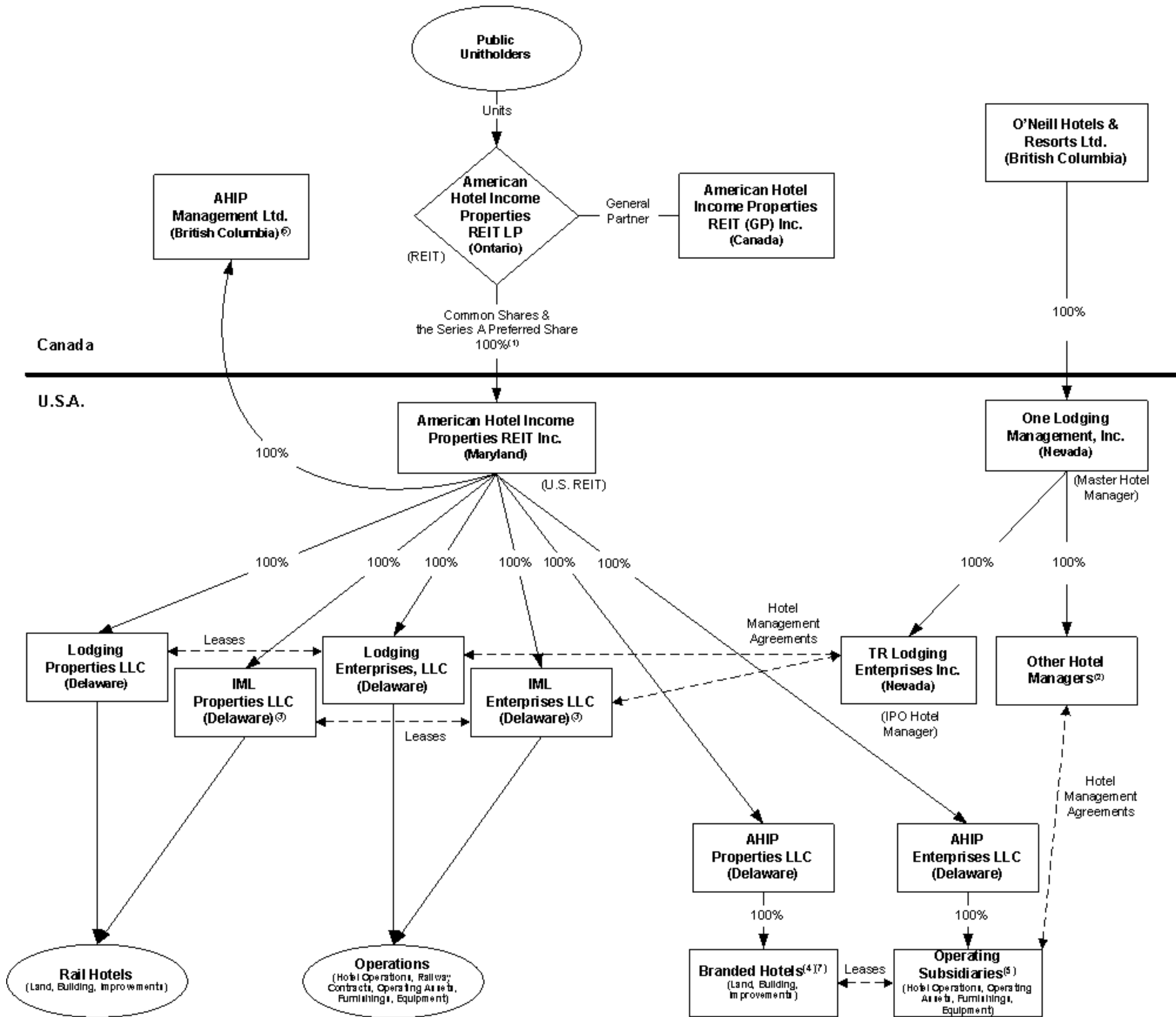
AHIP Properties was formed in Delaware on August 27, 2013 and is a wholly-owned Subsidiary of the U.S. REIT. It owns the real estate underlying the Branded Hotels (other than the hotel properties comprising the Sunstone Embassy Suites Portfolio) through its direct and indirect Subsidiaries and leases it to various Subsidiaries of AHIP Enterprises. AHIP Properties is domiciled in the U.S. and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

AHIP Enterprises LLC

AHIP Enterprises was formed in Delaware on August 27, 2013 and is a wholly-owned Subsidiary of the U.S. REIT. In the case of the Branded Hotels (other than the hotel properties comprising the Sunstone Embassy Suites Portfolio), a Subsidiary of AHIP Enterprises leases the applicable real estate from a Subsidiary of AHIP Properties to operate the hotel. AHIP Enterprises is domiciled in the U.S. and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

Organizational Structure

The following diagram depicts the current organizational structure of the REIT, the General Partner and the REIT's direct and indirect operating Subsidiaries and Affiliates:



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(1) The U.S. REIT also has 658 shares of Series B cumulative non-voting, non-participating preferred stock issued and outstanding, each with a par value of US$1,000 and bearing a cumulative dividend rate of 12.5% per annum.
(2) Each of the Branded Hotels is managed by a separate, direct, wholly owned Subsidiary of the Master Hotel Manager through an individual hotel management agreement entered into with a direct, wholly owned Subsidiary of AHIP Enterprises.
(3) IML Properties owns the Rail Portfolio and leases the properties comprising such portfolio to IML Enterprises.
(4) Each of the Branded Hotels (except the hotel properties comprising the Sunstone Embassy Suites Portfolio) is owned by a separate, direct, wholly owned Subsidiary of AHIP Properties. The Branded Hotels currently consist of the hotels comprising the Pittsburgh Portfolio, the Virginia Portfolio, the NC/GA Portfolio, the Texas Portfolio, the Oklahoma Portfolio, the NC/FL Portfolio, the Midwestern Portfolio, the Florida Portfolio, the Florida/Tennessee Portfolio, the Florida 6 Portfolio, the Sunstone Embassy Suites Portfolio and the Midwestern 3 Embassy Suites Portfolio.
(5) Each of the Branded Hotels is leased by a separate, direct, wholly owned Subsidiary of AHIP Enterprises from, except in the case of the hotel properties comprising the Sunstone Embassy Suites Portfolio, a direct Subsidiary of AHIP Properties.
(6) AML is a wholly owned Subsidiary of the U.S. REIT and effective as of January 1, 2016, is the employer of certain key executive officers of the REIT and various other support staff.
(7) The hotel properties comprising the Sunstone Embassy Suites Portfolio, which form part of the REIT's portfolio of Branded Hotels, are owned indirectly by the REIT through the U.S. REIT's direct Subsidiaries EST 2011 L.P. and ESD DFW South L.P.

BUSINESS OF THE REIT

The REIT currently owns 95 hotel properties located in 30 states across the U.S., representing an aggregate of 9,383 guestrooms. The REIT's growth strategy is to focus on transportation-oriented hotels located in secondary markets in the U.S. in close proximity to railroads, airports, highway interchanges, transportation hubs and other major demand generators providing select and limited-service lodging to corporate, transient travelers, crew and contractual customers.

The REIT structures its operations in two operating and reportable segments: (i) the Branded Hotels, which have franchise agreements with certain of the world's leading hotel brands; and (ii) the Rail Hotels, which have rail crew lodging agreements with large U.S. railway companies.

Branded Hotels

The REIT's portfolio of Branded Hotels is currently comprised of 49 premium select service hotel properties representing a total of 5,497 guestrooms. The Branded Hotels are geographically diversified among 15 states in the U.S. The average age of the Branded Hotels is approximately 16 years (including major renovations).

The Branded Hotels are located near airports, highway interchanges and other transportation hubs and major demand generators such as universities, manufacturing facilities, distribution centres and medical centres. The Branded Hotels cater primarily to corporate travelers seeking select-service hotels. The REIT focuses on acquiring existing hotels with top-quality brands with leading hotel franchisors, including, without limitation, Marriott, Hilton and Intercontinental Hotels Group.

Management expects the Branded Hotels to continue to provide a platform on which to expand the REIT's business and activities through focusing on accretive acquisitions.

Rail Hotels

The REIT's portfolio of Rail Hotels is currently comprised of 46 select service properties representing a total of 3,886 guestrooms. The Rail Hotels are geographically diversified among 23 states in the U.S. and each of the properties has been built to a high standard of quality, is well maintained, and has been acquired for less than management's estimate of its replacement cost at the time of acquisition. Management believes that the Rail Hotels comprise the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry. The average age of the Rail Hotels is approximately 17 years (including major renovations).

The Rail Hotels 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, BNSF and CSX) and CP, to provide lodging accommodations for railroad employees under contracts stipulating guaranteed minimum revenues, give the Rail Hotels a recurring and stable revenue stream. All of the properties are currently operated under the REIT's own "Oak Tree Inn" brand and were specifically designed or 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 properties were purpose-built and feature a standard design, including a two or three storey wood framed building with interior or exterior corridors and stucco or vinyl siding exteriors. Management estimates that approximately 72% of room revenues in the Rail Hotels are currently covered under contracts containing minimum revenue guarantees.

Management expects the Rail Hotels to continue to provide a platform on which to expand the REIT's business and activities through a combination of organic growth, participation in strategic development opportunities and accretive acquisitions.

Management

The REIT is internally managed by an experienced senior management team. Each of the Rail Hotels and the Branded Hotels is externally operated by a wholly-owned Subsidiary (each, a "**Hotel Manager**") of ONE Lodging Management, Inc. (formerly Tower Rock Hotels & Resorts Inc.) (the "**Master Hotel Manager**"). The Master Hotel Manager is a wholly-owned Subsidiary of O'Neill Hotels & Resorts Ltd.

Hotel Development

The REIT has entered into a master development agreement with the Developer (an Affiliate of each of O'Neill Hotels & Resorts Ltd. and the Sunstone Group) and Sunstone O'Neill Hotel Management Inc. pursuant to which the REIT's Subsidiaries have preferential rights to acquire properties that are developed by Developer from time to time.

For a more detailed description of the business of the REIT, investors should refer to pages 20 – 33 under the heading "Business of AHIP" in the AIF which is incorporated by reference herein and available on SEDAR at www.sedar.com.

RECENT DEVELOPMENTS

The following is a summary of recent developments involving the REIT since March 31, 2017, being the last day of the most recent quarter in respect of which the REIT has filed interim financial statements and management's discussion and analysis.

Amendment and Restatement of the LP Agreement

At the annual and special meeting of Unitholders held on May 10, 2017, the Unitholders passed a special resolution approving the amendment and restatement of the LP Agreement to authorize the REIT to create and issue a new class of preferred equity securities in unlimited series ("**Preferred Units**"), with such designation, rights, privileges, restrictions and conditions attached to each series as determined by the Board. For a summary of the proposed amendments to the LP Agreement related to the Preferred Units, investors should refer to pages 41 – 44 under the heading "Particulars of Other Matters to Be Acted Upon – Amendment and Restatement of the LP Agreement" in the REIT's management information circular dated April 7, 2017, which is incorporated by reference herein and available on SEDAR at www.sedar.com.

Election of Minaz Abji to the Board

At the annual and special meeting of Unitholders held on May 10, 2017, the Unitholders elected Mr. Minaz Abji to the Board of the General Partner. Mr. Abji is currently a Senior Advisor at Host Hotels and Resorts, an S&P and Fortune 500 lodging focused real estate investment trust listed on the NYSE, where he served as Executive Vice President Asset Management from 2003 to 2017. Prior to joining Host Hotels and Resorts, Mr. Abji held various roles at Canadian Hotel Income Properties REIT, a Canadian REIT located in Vancouver, British Columbia including President and Executive Vice President and Chief Operating Officer. Mr. Abji also gained significant hotel operating experience with Starwood Hotels and Resorts as Area Managing Director in Canada. He has also been involved with the American Hotel and Lodging Association in various leadership capacities including as a board member and Chair of the Audit Committee. He has an undergraduate degree in hotel administration from George Brown College, an MBA from Rockhurst University and completed the Advanced Management Program at Harvard University.

ACQUISITION OF THE EASTERN SEABOARD PORTFOLIO

Overview

On May 31, 2017, the REIT announced that it had agreed to acquire, through the U.S. REIT, a portfolio of 18 premium branded Marriott and Hilton hotels containing 2,187 guestrooms located in Maryland, New Jersey, New York, Connecticut and Pennsylvania (the "**Eastern Seaboard Portfolio**") for approximately US$407.4 million, including approximately US$12.4 million for PIPs and excluding customary closing and post closing adjustments.

The Eastern Seaboard Portfolio is being acquired at a weighted-average capitalization rate of approximately 7.9% on trailing twelve months net operating income (after inclusion of all hotel management fees, brand franchise fees, a 4.0% FF&E reserve and the PIPs). The 18 hotels are being acquired for approximately US$186,000 per guestroom, inclusive of the cost of the PIPs, which is below management's estimate of replacement cost.

The REIT expects to fund the purchase price for the Eastern Seaboard Portfolio, including the PIPs, using a combination of a portion of the net proceeds of the Offering (see "Use of Proceeds") and four new CMBS loans in the aggregate amount of US$236.2 million (collectively, the "**Eastern Seaboard Loans**"). The Eastern Seaboard Loans are expected to have terms of 5 and 10 years, with interest-only payments for up to five years of the term and then amortized over a 30-year period for the remaining portion of the term. The Eastern Seaboard Loans are

expected to have a weighted average fixed interest rate of approximately 4.55% for the entire term and will be secured by seventeen of the eighteen hotel properties in the Eastern Seaboard Portfolio. In addition, the lender has agreed to provide an FF&E reserve waiver for the first two years. For further details, see "– Debt Financing for the Acquisition of the Eastern Seaboard Portfolio".

The hotel properties comprising the Eastern Seaboard Portfolio are strategically located in larger population centers along the north eastern seaboard of the United States near major transportation corridors and a variety of commercial, manufacturing, information-technology, medical, education, sports and leisure demand generators. Other attractive features include the portfolio's location within a heavily urbanized region within the U.S. in high barrier to entry markets and the portfolio's high proportion (approximately 69%) of suite guestrooms, which typically command higher ADR and better operating margins. According to published reports, the Northeast corridor from Connecticut to Maryland generates approximately 20% of the nation's GDP.

The following table sets out certain key characteristics of the Eastern Seaboard Portfolio:

Hotel	Location	Year Built	# of Rooms	Occupancy (2016)	Average Daily Rate (2016)	RevPAR (2016)
Homewood Suites	Allentown, PA	2010	108	90.5%	$132.12	$119.58
Fairfield Inn & Suites Baltimore/White Marsh[(1)]	Baltimore, MD	2008	116	82.2%	$115.64	$95.02
Hampton Inn Baltimore/White Marsh	Baltimore, MD	1997	127	79.1%	$125.61	$99.34
Hilton Garden Inn Baltimore/White Marsh	Baltimore, MD	1999	155	81.7%	$132.73	$108.39
Residence Inn Baltimore/White Marsh	Baltimore, MD	2003	131	87.7%	$124.48	$109.22
SpringHill Suites Long Island	Bellport, NY	2006	128	84.0%	$130.91	$110.00
Homewood Suites	Bethlehem, PA	2006	113	89.7%	$124.23	$111.39
Homewood Suites Dover Rockway	Dover, NJ	2009	108	84.1%	$124.47	$104.71
Homewood Suites Atlantic City Egg Harbour	Egg Harbour Township, NJ	2012	120	86.3%	$122.35	$105.62
Residence Inn Atlantic City Egg Harbour	Egg Harbour Township, NJ	2008	101	83.0%	$128.34	$106.50
Hampton Inn & Suites Baltimore/Arundel Mills/BWI Airport	Hanover, MD	2002	130	86.2%	$126.15	$108.78
Residence Inn Baltimore/Arundel Mills/BWI Airport	Hanover, MD	2003	131	86.4%	$129.95	$112.33
SpringHill Suites Baltimore/Arundel Mills/BWI Airport	Hanover, MD	2006	128	86.4%	$116.06	$100.30
TownePlace Suites Baltimore/Arundel Mills/BWI Airport	Hanover, MD	2006	109	86.9%	$114.78	$99.77
Hilton Garden Inn Milford	Milford, CT	2009	120	83.4%	$113.69	$94.85
Residence Inn Mount Laurel at Bishop's Gate	Mount Laurel, NJ	2007	144	85.5%	$121.20	$103.67
Residence Inn Neptune at Gateway Centre	Neptune City, NJ	2007	105	85.3%	$138.60	$118.20
Courtyard Wall at Monmouth Shores Corporate Park	Wall Township, NJ	2007	113	79.3%	$130.33	$103.35
Total/Weighted Average			**2,187**	**84.8%**	**$125.07**	**$106.09**

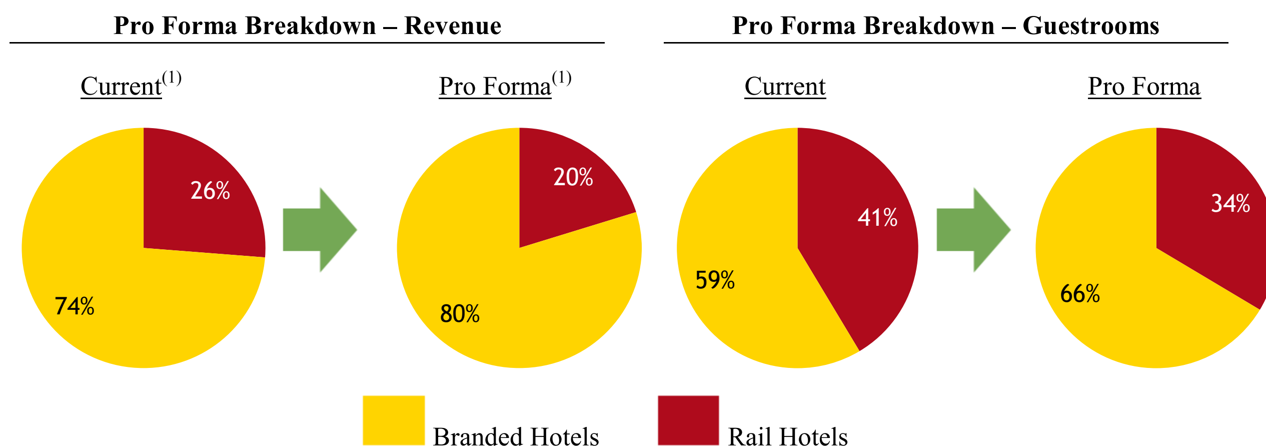
(1) This hotel is subject to a ground lease, which has a purchase option effective April 2018.

The REIT currently expects the acquisition of the Eastern Seaboard Portfolio to close in the second half of June 2017, subject to customary closing conditions and documentation and expects the acquisition to be immediately accretive to AFFO per Unit.

Certain historical combined financial statements for the Eastern Seaboard Portfolio and *pro forma* condensed consolidated financial statements of the REIT which give effect to the acquisition of the Eastern Seaboard Portfolio are included in this Prospectus Supplement (see "Index to Financial Statements").

Pro Forma Portfolio

The acquisition of the Eastern Seaboard Portfolio will continue to shift AHIP's overall portfolio to larger markets and branded hotels.



(1) Based on figures for the three months ended March 31, 2017.

Independent Appraisal of the Eastern Seaboard Portfolio

The REIT retained Colliers to provide an independent appraisal of the combined fair market value of the 18 hotel properties comprising the Eastern Seaboard Portfolio (the "**Eastern Seaboard Appraisal**"). Colliers reports that the aggregate as-is appraised value of the Eastern Seaboard Portfolio as of May 12, 2017 was US$398.9 million. The as-is appraised value is subject to the assumptions and limiting conditions as described in the Eastern Seaboard Appraisal.

Colliers confirms that the Eastern Seaboard Appraisal was prepared in accordance with, and is subject to, the requirements of the *Financial Institutions Reform, Recovery, and Enforcement Act* and the Uniform Standards of Professional Appraisal Practice, as provided by the Appraisal Foundation. The Dictionary of Real Estate Appraisal, 6th 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 own 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 Colliers or its Affiliates was 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 Eastern Seaboard Portfolio, Colliers relied on operating and financial data provided by the Eastern Seaboard Sellers, including detailed reports on occupancies and average daily rates, which also included data on current and historic financial information provided by the Eastern Seaboard Sellers. Colliers believes that the Eastern Seaboard 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, Colliers 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. Colliers visited each hotel property comprising the Eastern Seaboard Portfolio 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 its review, and other relevant facts, Colliers considered such applicable data to be reasonable and supportable.

In appraising the Eastern Seaboard Portfolio, Colliers assumed, among other things, that freehold title to 17 of the hotel properties and the leasehold interests in one of the hotel properties, as applicable, 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 Eastern Seaboard 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 Eastern Seaboard Appraisal is based on various assumptions of future expectations and while Colliers' internal forecasts of net operating income for the hotel properties comprising the Eastern Seaboard Portfolio is considered by Colliers to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future. See "Risk Factors".

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 Eastern Seaboard Appraisal. See "Risk Factors".

A copy of the Eastern Seaboard Appraisal has been filed on SEDAR and is available at www.sedar.com.

Environmental Site Assessment of the Eastern Seaboard Portfolio

Each of the hotel properties comprising the Eastern Seaboard Portfolio have been the subject of a Phase I ESA Report conducted by independent environmental consultants. The Phase I ESA Reports were completed for the Eastern Seaboard Portfolio in May 2017. The Phase I ESA Reports were prepared in general accordance with standard practices for environmental site assessments.

The purpose of the Phase I ESA Reports was to identify any RECs at the hotel properties comprising the Eastern Seaboard Portfolio, which means the presence or likely presence of any hazardous substances or petroleum products on such properties 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 such properties or into the ground, groundwater or surface water of such properties. 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 hotel properties comprising the Eastern Seaboard Portfolio that warranted further environmental assessment investigation. Notwithstanding the foregoing, the independent environmental consultant did identify a controlled REC at one of the properties. A "controlled REC" refers to a REC resulting from a past release of hazardous substances or petroleum products that has been addressed to the satisfaction of the applicable regulatory authority, with hazardous substances or petroleum products allowed to remain in place subject to the implementation of required controls. A portion of this property on which the hotel is situated was formerly developed as part of a municipal landfill and groundwater contamination was identified. Remedial activities were conducted. The landfill received initial regulatory closure in 2007. Regulatory approval was then received to redevelop the areas formerly used for landfill operations. The hotel was constructed on the subject property in 2008 concurrent with the development of adjacent properties. Currently, a third party is responsible for all monitoring activities on all of the parcels of the former landfill.

Management is not aware of any material non-compliance with environmental laws at any of the hotel properties comprising the Eastern Seaboard Portfolio that would have a material adverse effect on the REIT. Management is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the hotel properties comprising the Eastern Seaboard Portfolio that would materially adversely affect the REIT.

Property Condition Assessments for the Eastern Seaboard Portfolio

Property condition assessments were prepared for each of the hotel properties comprising the Eastern Seaboard Portfolio to determine and document the existing condition of each building. The assessments included the major building operating components and systems of the 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 hotel properties comprising the Eastern Seaboard Portfolio were completed in May 2017.

The reports estimated aggregate requirements for modified capital reserve expenditures in the amount of approximately US$1.3 million to be completed in the short term (i.e. within 180 days of the assessment) and approximately US$31.3 million over the next 12 years, excluding any costs associated with any brand-mandated PIPs. Categories for modified capital reserve expenditures included, without limitation, the site, exteriors, roofing, interiors, plumbing systems, heating, ventilation and air conditioning, fire protection and elevators.

Based on the reports, each of the hotel properties comprising the Eastern Seaboard Portfolio was determined to be in generally good condition. In addition, the REIT will include adequate reserves in its cash flow to fund ongoing capital expenditure requirements for the Eastern Seaboard Portfolio.

Eastern Seaboard PSA

The following is a summary of the material attributes and characteristics of the Eastern Seaboard PSA. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms of the Eastern Seaboard PSA, which has been filed on SEDAR at www.sedar.com.

Purchase Price

The REIT, through the U.S. REIT, has agreed to acquire the Eastern Seaboard Portfolio from the Eastern Seaboard Sellers for an aggregate purchase price of US$395.0 million. Management expects to satisfy the purchase price for the Eastern Seaboard Portfolio, including the additional cost of the PIPs of approximately US$12.4 million, by a combination of: (i) approximately US$171.2 million from the net proceeds of the Offering; and (ii) approximately US$236.2 million from the new Eastern Seaboard Loans. The total purchase price is subject to customary closing and post-closing adjustments for rents, real estate taxes and other items of income and expenses with respect to the Eastern Seaboard Portfolio as set forth in the Eastern Seaboard PSA. Pursuant to the terms of the Eastern Seaboard PSA, the U.S. REIT was required to pay an aggregate of US$9.0 million in deposits (collectively, the "**Deposit**") into an escrow account administered by a third party escrow agent appointed pursuant to the terms of the Eastern Seaboard PSA. In accordance with the terms of the Eastern Seaboard PSA, the Deposit will be applied against the purchase price for the Eastern Seaboard Portfolio at closing. However, if the Eastern Seaboard PSA is terminated, the Deposit will either be refunded to the U.S. REIT or paid to the Eastern Seaboard Sellers, depending on the circumstances of the termination (see "– Termination and Related Rights" below).

Representations, Warranties and Covenants

The Eastern Seaboard PSA contains representations, warranties and covenants typical of those contained in acquisition agreements negotiated between parties dealing at arm's length and which are customary for purchase agreements in respect of transactions of this nature. The representations and warranties relating to the Eastern Seaboard Sellers and the Eastern Seaboard Portfolio are provided by the Eastern Seaboard Sellers in favour of the U.S. REIT and include, among other things, representations and warranties as to: good standing of the Eastern Seaboard Sellers; title to the property; due authorization; binding agreement; non-contravention of contracts; leases; equipment leases and service contracts; litigation; condemnation actions; environmental matters; management and franchise agreements; ground lease for the Fairfield Inn & Suites White Marsh; employee matters; no violation of laws; taxation matters; and financial records. Covenants of the Eastern Seaboard Sellers include, without limitation: various covenants with respect to maintaining the condition of the Eastern Seaboard Portfolio and conducting business thereat in the ordinary course of business during the interim period prior to completion of the acquisition of the Eastern Seaboard Portfolio by the U.S. REIT (including maintaining certain prescribed levels of supplies); cooperating with the U.S. REIT in obtaining certain third party consents, permits and licences required for the completion of the acquisition; to use diligent and commercially reasonable efforts to obtain the consent to the assignment of the ground lease for the Fairfield Inn & Suites White Marsh; maintaining its current insurance coverage over the properties comprising the Eastern Seaboard Portfolio until closing; and terminating the

management agreements with the existing managers of each of the hotel properties comprising the Eastern Seaboard Portfolio prior to closing as well as certain operating leases.

The representations and warranties relating to the U.S. REIT are provided by the U.S. REIT in favour of the Eastern Seaboard Sellers and include, among other things, representations and warranties as to: good standing of the U.S. REIT; due authorization; litigation; non-contravention; and the U.S. REIT's ability to obtain consent to the assignment of the ground lease for the Fairfield Inn & Suites White Marsh. Covenants of the U.S. REIT include, without limitation: to apply for and obtain new franchise agreements for each of the hotels comprising the Eastern Seaboard Portfolio; to use commercially reasonable efforts to transfer all licences and permits for the hotel properties comprising the Eastern Seaboard Portfolio; to use diligent and commercially reasonable efforts to obtain the consent to the assignment of the ground lease for the Fairfield Inn & Suites White Marsh; and to offer employment to employees of the hotels comprising the Eastern Seaboard Portfolio upon closing of the acquisition of such hotels, subject to certain exceptions.

Conditions

The obligation of the U.S. REIT to complete the transactions contemplated by the Eastern Seaboard PSA is subject to various conditions for the exclusive benefit of the U.S. REIT to be fulfilled or performed at or prior to the closing date of the acquisition, including, among other things, conditions relating to: the truth and accuracy of the Eastern Seaboard Sellers' representations and warranties; the Eastern Seaboard Sellers' compliance with, or performance of, all of the material covenants and obligations required of the Eastern Seaboard Sellers on or before closing of the transactions contemplated by the Eastern Seaboard PSA, including the delivery of all closing documents; the consent to the assignment of the ground lease for the Fairfield Inn & Suites White Marsh shall have been obtained and the lessor shall have issued an estoppel certificate to the lender of the Eastern Seaboard Loans; the consents to the acquisition shall have been obtained in respect of two hotels requiring local authority consents; the management agreements with the existing managers of each of the hotel properties comprising the Eastern Seaboard Portfolio shall have been terminated; all operating leases at the hotel properties comprising the Eastern Seaboard Portfolio shall have been terminated; no order or injunction of any court or any administrative agency nor any statute, rule or regulation being in effect as of closing which restrains or prohibits the transfer of the Eastern Seaboard Portfolio or the consumption of any other transactions contemplated by the Eastern Seaboard PSA; and the U.S. REIT shall have received title insurance policy commitments from its title insurance policy provider (subject to certain permitted exceptions).

The obligation of the Eastern Seaboard Sellers to complete the transactions contemplated by the Eastern Seaboard PSA is subject to various conditions for the exclusive benefit of the Eastern Seaboard Sellers to be fulfilled or performed at or prior to the closing date of the acquisition, including, among other things, conditions relating to: the truth and accuracy of the U.S. REIT's representations and warranties; the U.S. REIT's compliance with, or performance of, all material covenants and obligations required of the U.S. REIT on or before closing of the transactions contemplated by the Eastern Seaboard PSA, including the delivery of all closing documents; the consent to the assignment of the ground lease for the Fairfield Inn & Suites White Marsh shall have been obtained and the lessor shall have issued an estoppel certificate to the lender of the Eastern Seaboard Loans and the applicable Eastern Seaboard Seller having been released from any liability under such ground lease post closing; no order or injunction of any court or any administrative agency nor any statute, rule or regulation being in effect as of closing which restrains or prohibits the transfer of the Eastern Seaboard Portfolio or the consumption of any other transactions contemplated by the Eastern Seaboard PSA; and the Eastern Seaboard Sellers being satisfied that new franchise agreements have been entered into by the U.S. REIT (or its Subsidiaries) such that no termination fees are or shall be payable by the Eastern Seaboard Sellers pursuant to the existing franchise agreements for the Eastern Seaboard Portfolio.

Indemnities

Subject to the limitations described below, each of the Eastern Seaboard Sellers has agreed to indemnify the U.S. REIT for losses arising or resulting from, among other things: the material inaccuracy or breach of any representation or warranty of such Eastern Seaboard Seller in the Eastern Seaboard PSA; the failure of such Eastern Seaboard Seller to perform any of its material covenants in the Eastern Seaboard PSA.

The indemnification obligations of each Eastern Seaboard Seller to the U.S. REIT under the Eastern Seaboard PSA are subject to a number of limitations, including a specified minimum aggregate claim threshold and

an overall liability cap for each hotel property based on a percentage of the aggregate purchase price for the Eastern Seaboard Portfolio apportioned to such hotel (subject to certain specified exceptions).

The U.S. REIT has agreed to indemnify the Eastern Seaboard Sellers for losses arising or resulting from, among other things: the material inaccuracy or breach of any representation or warranty of the U.S. REIT in the Eastern Seaboard PSA; the failure of the U.S. REIT to perform any of its material covenants in the Eastern Seaboard PSA.

The obligations of the Eastern Seaboard Sellers and the U.S. REIT in relation to these indemnities are subject to a specified survival period of 270 days following the closing date of the acquisition (subject to certain specified exceptions).

There can be no assurance of recovery by the U.S. REIT from the Eastern Seaboard Sellers directly or through the indemnity provided under the Eastern Seaboard PSA. There can be no assurance that the assets of the Eastern Seaboard Sellers will be sufficient to satisfy any claims against them. Only the U.S. REIT will be entitled to bring a claim or action for misrepresentation or breach of contract under the Eastern Seaboard PSA and purchasers of the Offered Units and Debentures under this Prospectus Supplement will not have any contractual rights or remedies under the Eastern Seaboard PSA. See "Risk Factors". Purchasers of Offered Units and Debentures will, however, have certain statutory rights and, in the case of purchasers of Debentures, contractual rights against the REIT under applicable securities laws. See "Purchaser's Statutory Rights" and "Purchaser's Contractual Rights".

Termination and Related Rights

The U.S. REIT waived its inspection period termination right pursuant to the Eastern Seaboard PSA on May 31, 2017.

In addition to certain other termination rights in favour of the U.S. REIT and the Eastern Seaboard Sellers set out in the Eastern Seaboard PSA, the Eastern Seaboard PSA may be terminated by:

1. U.S. REIT on or prior to the closing date, if any of the conditions precedent in favour of the U.S. REIT in the Eastern Seaboard PSA have not been satisfied or waived by the U.S. REIT on or before the closing date for the acquisition of the Eastern Seaboard Portfolio;

2. U.S. REIT on or prior to the closing date, if there is a material breach or default by the Eastern Seaboard Sellers in the performance of their obligations under the Eastern Seaboard PSA to cause the sale of the Eastern Seaboard Portfolio on the closing date and such material breach or default has not been cured within five days of written notice of such material breach or default; or

3. the Eastern Seaboard Sellers on the closing date, if there is a material breach or default by the U.S. REIT in the performance of its obligations under the Eastern Seaboard PSA and such material breach or default has not been cured within five days of written notice of such material breach or default.

If the U.S. REIT terminates the Eastern Seaboard PSA for the reasons set out in paragraph 1 or 2 above, the Deposit will be refunded to the U.S. REIT. In addition, if a default of the Eastern Seaboard Sellers under paragraph 2 above is material and is not capable of remedy by specific performance, and the U.S. REIT elects in good faith to terminate the Eastern Seaboard PSA following the five day cure period, then the Eastern Seaboard Sellers shall promptly reimburse the U.S. REIT, up to a maximum amount of US$1.0 million, for the U.S. REIT's documented, out-of-pocket costs and expenses incurred in connection with the Eastern Seaboard PSA. If the Eastern Seaboard Sellers terminate the Eastern Seaboard PSA for the reasons set out in paragraph 3 above, the Deposit will be paid to the Eastern Seaboard Sellers.

In the event that the condition precedent in favour of the Eastern Seaboard Sellers with respect to the Eastern Seaboard Sellers not being required to pay any franchise termination fees is not satisfied following the U.S. REIT exercising its right under the Eastern Seaboard PSA to extend the time permitted for obtaining new franchise agreements as a result of:

1. U.S. REIT not diligently pursuing the issuance of new franchise or license agreements; U.S. REIT not acting reasonably or in good faith to satisfy any of franchisors' customary requirements consistent with any such franchisor's franchise disclosure documents; or any franchisor not approving U.S. REIT as a

franchisee or licensee, as applicable, for any reason other than a Franchisor Cause Event (as defined below), then the Eastern Seaboard Sellers shall have the right to terminate the Eastern Seaboard PSA and the Deposit will be paid to the Eastern Seaboard Sellers; or

2. Franchisor Cause Event, then the U.S. REIT shall have the right to terminate the Eastern Seaboard PSA and the Deposit will be refunded to the U.S. REIT.

For the purposes of the Eastern Seaboard PSA, a "**Franchisor Cause Event**" means that any of the relevant franchisor(s) no longer issue franchises or licenses for the relevant brands for the hotels comprising the Eastern Seaboard Portfolio or refuse to issue any franchises or licenses for such brands for any and all applicants.

If prior to the closing of the transactions under the Eastern Seaboard PSA, (a) condemnation proceedings are commenced against all or any material portion of the property of any hotel comprising part of the Eastern Seaboard Portfolio or (b) the property of any such hotel is damaged by fire or other casualty to the extent that the cost of repairing such damage is five percent, or more, of the portion of the aggregate purchase price allocated to such hotel, the U.S. REIT shall have the right, upon notice in writing to the applicable Eastern Seaboard Seller delivered within five business days after receipt of actual, written notice of such condemnation, fire or other casualty, to terminate the Eastern Seaboard PSA, whereupon the Deposit shall be returned immediately to the U.S. REIT, and the U.S. REIT and the Eastern Seaboard Sellers shall not have any further liability to the other under the Eastern Seaboard PSA except for those liabilities which expressly survive the termination of such agreement. If U.S. REIT does not elect, or is not entitled, to terminate the Eastern Seaboard PSA, the aggregate purchase price shall not be reduced except as set forth below, but U.S. REIT shall be entitled to an assignment of all of the Eastern Seaboard Sellers' share of the proceeds of fire or other casualty insurance proceeds (if any) payable with respect to the period after closing or of the condemnation award, as the case may be, and the Eastern Seaboard Sellers shall have no obligation to repair or restore such property; provided, however, that the purchase price shall be reduced by an amount equal to the sum of the "deductible" applied by the Eastern Seaboard Sellers' insurer with respect to such fire or casualty. If U.S. REIT proceeds to closing under the Eastern Seaboard PSA in such circumstances, the Eastern Seaboard Sellers shall not compromise, settle or adjust any claims to such proceeds or awards, without U.S. REIT's prior written consent, which shall not be unreasonably withheld, conditioned or delayed.

Debt Financing for the Acquisition of the Eastern Seaboard Portfolio

The U.S. REIT has formed 34 new indirect wholly owned limited liability companies, each of which will be a special purpose bankruptcy-remote entity acceptable to the Lender (defined below) that will satisfy all applicable rating agency criteria, the sole and exclusive purpose of which will be the ownership and operations of the respective hotel properties comprising the Eastern Seaboard Portfolio (individually and collectively, the "**Borrower**").

The U.S. REIT has obtained four non-binding term sheets from a major international bank (the "**Lender**") for the Eastern Seaboard Loans, which are expected to consist of four separate loan pools in the amounts of US$69.6 million, US$57.7 million, US$52.4 million (together the "**10-year Loans**") and US$56.5 million (the "**5-year Loan**") to be made to the Borrower, and the U.S. REIT intends to enter into four loan agreements (collectively, the "**Loan Agreements**") with respect to the Eastern Seaboard Loans prior to the closing of the acquisition of the Eastern Seaboard Portfolio. The initial term of the 10-year Loans is expected to be 10 years and for the 5-year Loan is expected to be five years, (in each case, the "**Term**"). The "**Interest Rate**" on the 10-year Loans is expected to be calculated on the closing date by adding 225-230 basis points to the greatest of (a) the yield on the 10-year on-the-run swap rate, (b) the 10-year U.S. Treasury rate or (c) 2.25%. The on-the-run 10-year swap rate is the 10-year U.S. Treasury rate, plus the 10-year swap spread. The "**Interest Rate**" on the 5-year Loan is expected to be calculated on the closing date by adding 268 basis points to the greatest of (a) the yield on the 5-year on-the-run swap rate, (b) the 5-year U.S. Treasury rate or (c) 1.80%. The on-the-run 5-year swap rate is the 5-year U.S. Treasury rate, plus the 5-year swap spread.

The Eastern Seaboard Loans are expected to be secured by a first-priority mortgage encumbering seventeen of the eighteen hotel properties comprising the Eastern Seaboard Portfolio, a first-priority security interest in all the business assets and personal property used in or useful in the operation of seventeen of the eighteen hotel properties comprising the Eastern Seaboard Portfolio and a first-priority security interest in all accounts that are held by a manager for the benefit of the Borrower on seventeen of the eighteen Acquisition Properties. The Lender will have the right to sell, assign, syndicate, securitize or participate in the Eastern Seaboard Loans, in whole or in part, without the consent of the Borrower or the REIT, and the Borrower and REIT will be required to cooperate in a reasonable manner with any such sale, assignment, syndication, securitization or participation.

The 10-year Loans are expected to be interest-only for the first five years of their Terms and the 5-year Loan is expected to be interest only for the first two and a half years of its Term; thereafter, in each case, a constant monthly payment of principal and interest will be due and payable in an amount sufficient to fully amortize such loans over a 30-year amortization schedule, subject to certain prepayment provisions.

The Eastern Seaboard Loan Agreements are expected to include, among other things, conditions that the Borrower: (i) have a debt service coverage not less than 1.25x through the remainder of the respective Terms; and (ii) the U.S. REIT maintain a minimum net worth of US$100.0 million.

At the closing of the Eastern Seaboard Loans, the Borrower will be required to establish and fund reserves to cover the payment of, among other things, all of the costs required by the PIPs for seventeen of the eighteen hotel properties comprising the Eastern Seaboard Portfolio (such amounts are currently estimated by management to be approximately US$12.4 million in aggregate). The Borrower will also be required to establish and fund, on a monthly basis throughout the Term, separate reserves for, among other things, property taxes and furniture, fixtures and equipment.

DISTRIBUTION HISTORY

Distribution Policy

The REIT's current policy is to declare and pay monthly cash distributions. The declaration of distributions is subject to the discretion of the Board and will be evaluated periodically and may be revised.

Distributions are made by cheque payable to or to the order of a Unitholder or by electronic funds transfer or by such other manner of payment approved by the General Partner from time to time. The payment, if made by cheque, is conclusively deemed to have been made upon hand-delivery of a cheque to the Unitholder or to his, her or its agent duly authorized in writing or upon the mailing of a cheque by prepaid first-class mail addressed to the Unitholder at his, her or its address as it appears on the register of Unitholders unless the cheque is not paid on presentation. The General Partner 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 General Partner and/or the REIT and/or the U.S. REIT 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 nonresident 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 REIT 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 REIT) 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".

Previous Distributions

The REIT declared and paid the following cash distributions to Unitholders from May 31, 2016 to May 31, 2017 as per the following table:

Period	Record Date	Payment Date	Distribution Per Unit	Amount (000s)
May 2016	May 31, 2016	June 15, 2016	US$0.054	US$1,888
June 2016	June 30, 2016	July 15, 2016	US$0.054	US$1,917
July 2016	July 29, 2016	August 12, 2016	US$0.054	US$2,435
August 2016	August 31, 2016	September 15, 2016	US$0.054	US$2,435
September 2016	September 30, 2016	October 14, 2016	US$0.054	US$2,453
October 2016	October 31, 2016	November 15, 2016	US$0.054	US$2,435
November 2016	November 30, 2016	December 15, 2016	US$0.054	US$2,435
December 2016	December 30, 2016	January 13, 2017	US$0.054	US$3,060
January 2017	January 31, 2017	February 15, 2017	US$0.054	US$3,165
February 2017	February 28, 2017	March 15, 2017	US$0.054	US$3,160
March 2017	March 31, 2017	April 13, 2017	US$0.054	US$3,162
April 2017	April 28, 2017	May 15, 2017	US$0.054	US$3,166
May 2017	May 31, 2017	June 15, 2017	US$0.054	US$3,166

The REIT intends to continue to make monthly distributions to Unitholders of record on the last business day of each month. Distributions will typically be paid within 15 days following the end of each month. The REIT may also make additional distributions in excess of monthly distributions during the year, as the General Partner may determine. The first distribution that will be reflected in the Offered Units is expected to be the distribution made by the REIT on July 14, 2017 to Unitholders of record as of June 30, 2017.

Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the REIT intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future. See "*Risk Factors*".

PRIOR SALES

No Units, or any securities convertible into or exchangeable into Units, have been issued by the REIT within the last 12 months, other than as set out below.

On June 2, 2016, the REIT issued 114,511 Units at a price of Cdn$10.27 per Unit in connection with the closing of the REIT's indirect acquisition from the Developer of the 24-room expansion at the Oak Tree Inn Hotel located in Hermiston, Oregon.

On July 26, 2016, the REIT completed a bought deal offering of Units issuing a total of 10,000,400 Units, including 1,304,400 Units from a full exercise of the over-allotment option, at a price of Cdn$10.35 per Unit for gross proceeds of approximately Cdn$103.5 million.

On December 22, 2016, the REIT completed a bought deal offering of Units issuing a total of 11,281,500 Units, including 1,471,500 Units from a full exercise of the over-allotment option, at a price of Cdn$10.20 per Unit for gross proceeds of approximately Cdn$115.1 million.

On December 23, 2016, the REIT issued a total of 2,330 Units with a grant date fair value of Cdn$10.75 per Unit to certain officers of the General Partner upon the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan. These awards were originally granted to such persons on May 6, 2015 and became fully vested on December 23, 2016. The grant date fair value of Cdn$10.75 per Unit was calculated using the weighted average price at which the Units traded on the Exchange during the period of the five most recent trading days ending on the trading day immediately prior to the grant date.

On December 23, 2016, the REIT issued a total of 4,053 Units with a grant date fair value of Cdn$10.43 per Unit to certain officers of the General Partner upon the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan. These awards were originally granted to such persons on March 30, 2016 and became fully vested on December 23, 2016. The grant date fair value of Cdn$10.43 per Unit was

calculated using the weighted average price at which the Units traded on the Exchange during the period of the five most recent trading days ending on the trading day immediately prior to the grant date.

On January 6, 2017, the REIT issued 2,242,761 Units at a price of Cdn$10.3099 per Unit as partial consideration for the acquisition of the Sunstone Embassy Suites Portfolio.

On March 15, 2017, the REIT issued a total of 2,945 Units with a grant date fair value of Cdn$10.75 per Unit to certain officers of the General Partner upon the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan. These awards were originally granted to such persons on May 6, 2015 and became fully vested on March 15, 2017. The grant date fair value of Cdn$10.75 per Unit was calculated using the weighted average price at which the Units traded on the Exchange during the period of the five most recent trading days ending on the trading day immediately prior to the grant date.

On March 15, 2017, the REIT issued a total of 3,858 Units with a grant date fair value of Cdn$10.43 per Unit to certain officers of the General Partner upon the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan. These awards were originally granted to such persons on March 30, 2016 and became fully vested on March 15, 2017. The grant date fair value of Cdn$10.43 per Unit was calculated using the weighted average price at which the Units traded on the Exchange during the period of the five most recent trading days ending on the trading day immediately prior to the grant date.

On March 16, 2017, the REIT granted a total of 149,787 Units of restricted stock with a grant date fair value of Cdn$10.63 per Unit of restricted stock to certain executive officers of the General Partner. The Units of restricted stock were issued as awards under the REIT's securities-based compensation plan. The grant date fair value of Cdn$10.63 per Unit of restricted stock was calculated using the volume weighted average price at which the Units had traded on the Exchange during the five most recent trading days ending on the trading day immediately prior to the grant date.

TRADING PRICE AND VOLUME

The Units are listed and posted for trading on the Exchange under the symbol HOT.UN. The following table sets out the price range and trading volume of the Units, for the months set out below, as reported by the Exchange:

	Price Range		
Month	**High (Cdn$)**	**Low (Cdn$)**	**Total Volume**
June 2016	10.58	10.20	1,261,997
July 2016	10.78	10.27	3,591,100
August 2016	11.12	10.30	4,357,370
September 2016	11.25	10.79	2,544,198
October 2016	11.14	10.45	1,841,703
November 2016	10.77	10.15	2,203,501
December 2016	10.60	10.12	4,811,012
January 2017	10.53	10.32	2,627,422
February 2017	10.84	10.38	2,083,837
March 2017	10.87	10.50	1,762,877
April 2017	10.92	10.56	2,096,137
May 2017	10.89	10.61	2,382,374
June 1	10.29	10.22	1,177,331

USE OF PROCEEDS

The total net proceeds from the sale of the Initial Units and the Initial Debentures under this Offering are estimated to be approximately Cdn$236.2 million (or approximately Cdn$271.9 million if the Over-Allotment Options are exercised in full) after deducting the Underwriters' Fee of approximately Cdn$9.8 million (or approximately Cdn$11.2 million if the Over-Allotment Options are exercised in full) and the expenses of the Offering which are estimated to be Cdn$1,400,000. The foregoing figures are based on an exchange rate of US$1.00 = Cdn$1.35 as at May 31, 2017.

The net proceeds of the Offering are expected to be used: (i) as to approximately Cdn$231.1 million, to partially fund the potential acquisition of the Eastern Seaboard Portfolio (see "Acquisition of the Eastern Seaboard Portfolio"); and (ii) as to the balance, if any, to fund working capital, potential future acquisitions and for general corporate purposes (which includes, among other things, funding of capital expenditures, paying down indebtedness, providing mezzanine financing for new development projects and payment of deposits for potential acquisitions).

Use of Unallocated Funds if the Acquisition of the Eastern Seaboard Portfolio does not Occur

To the degree that the acquisition of the Eastern Seaboard Portfolio does not occur, the REIT intends for such unallocated funds to be used for future acquisitions, capital expenditures and/or general corporate and working capital purposes (which include, among other things, funding of capital expenditures, paying down indebtedness, providing mezzanine financing for new development projects and payment of deposits for potential acquisitions).

Use of Proceeds from the Over-Allotment Options

It is the REIT's current intention to use the net proceeds received by the REIT on the exercise of the Over-Allotment Options, if exercised: to partially fund the acquisition of additional hotel properties over the next 12 months; and/or for general corporate and working capital purposes (which include, among other things, funding of capital expenditures, paying down indebtedness, providing mezzanine financing for new development projects and payment of deposits for potential acquisitions).

Retaining Broad Discretion

The REIT will retain broad discretion in allocating (based on sound business principles) the net proceeds from the Offering not applied in the manner set out above and the REIT's actual use of the net proceeds may vary depending on its operating and capital needs from time to time and may be used, without limitation, to further the REIT's business objectives. Any unallocated funds will be initially added to its general working capital.

CONSOLIDATED CAPITALIZATION OF THE REIT

The following table sets out the consolidated capitalization of the REIT as at March 31, 2017, and the *pro forma* consolidated capitalization of the REIT as at March 31, 2017 after giving effect to the completion of the acquisition of the Eastern Seaboard Portfolio and after giving effect to the Offering but without giving effect to the exercise of the Over-Allotment Options.

	Outstanding as At March 31, 2017 (US$000s)			
	Actual (unaudited)	**Offering (unaudited)**	**Acquisition of the Eastern Seaboard Portfolio (unaudited)**	**As adjusted for the Offering and the acquisition of the Eastern Seaboard Portfolio (unaudited)**
Indebtedness				
Term loan (gross)	469,655	–	–	469,655
Eastern Seaboard Loans	–	–	236,200	236,200
Debentures	–	42,500	–	42,500
Partners' Capital				
Units	411,333	140,760[(1)]	–	552,093[(1)(2)(3)]
Total capitalization	**880,988**	**183,260**[(1)]	**236,200**	**1,300,448**[(1)(2)(3)]

(1) This amount does not include a deduction for costs related to the Offering, including the Underwriters' Fee, which costs are charged directly to Partners' Capital. Based on an exchange rate of US$1.00 = Cdn$1.35 as at May 31, 2017.

(2) The number of Units issued and outstanding as at March 31, 2017 was 58,623,606 and the number of Units issued and outstanding after giving effect to the Offering and excluding those Over-Allotment Units issued pursuant to any exercise, in full or in part, by the Underwriters of the Unit Over-Allotment Option will be 76,983,606.

(3) In the event the Over-Allotment Options are exercised in full, the outstanding amount of Debentures will be US$48,875,000, Partners' Capital will be US$573,207, total capitalization will be US$1,327,937 (in each case, based on an exchange rate of US$1.00 = Cdn$1.35 as at May 31, 2017) and the number of Units issued and outstanding after giving effect to the Offering will be 79,737,606.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the REIT has agreed to issue and sell, and the Underwriters have agreed to purchase on the date of the Offering Closing, subject to the terms and conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the REIT by Farris, Vaughan, Wills & Murphy LLP and on behalf of the Underwriters by Blakes: (i) 18,360,000 Initial Units at the Unit Offering Price for total gross consideration of Cdn$190,026,000 payable in cash to the REIT against delivery of the Initial Units; and (ii) US$42,500,000 principal amount of Initial Debentures at the Debenture Offering Price payable in cash to the REIT against delivery of the Initial Debentures. The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion pursuant to the "regulatory out", "material adverse change out", "disaster out" and "tax out" provisions in the Underwriting Agreement. The Underwriters are, however, obligated to take up and pay for all of the Initial Units and Initial Debentures if any of the Offered Units or Debentures are purchased under the Underwriting Agreement.

The Unit Offering Price for the Initial Units and the Debenture Offering Price for the Initial Debentures were each determined by negotiation between the Underwriters and the REIT with reference to the market price of the Units on the Exchange and other factors. The REIT has agreed to pay the Underwriters a commission of: (i) Cdn$0.414 per Initial Unit, or 4.0% of the gross proceeds from the sale of the Initial Units, being an aggregate of Cdn$7,601,040; and (ii) US$37.50 per Initial Debenture, or 3.75% of the gross proceeds from the sale of the Initial Debentures, being an aggregate of US$1,593,750 (being Cdn$2,151,563, based on an exchange rate of US$1.00 = Cdn$1.35 as at May 31, 2017). In the event the Offering is not completed, the REIT will reimburse the Underwriters for certain expenses incurred in connection with the Offering. The REIT has also granted to the Underwriters, for a period of 30 days following the Offering Closing: (i) the Unit Over-Allotment Option to purchase up to 2,754,000 Over-Allotment Units at the Unit Offering Price payable in immediately available funds against delivery of such additional Over-Allotment Offered Units; and (ii) the Debenture Over-Allotment Option to purchase up to US$6,375,000 aggregate principal amount of Over-Allotment Debentures at the Debenture Offering Price payable in immediately available funds against delivery of such Over-Allotment Debentures, in each case, to cover over-allocations and for market stabilization purposes, if any. If the Unit Over-Allotment Option is exercised,

the Underwriters will receive a fee of Cdn$0.414 per Over-Allotment Unit purchased pursuant to the Unit Over-Allotment Option, or 4.0% of the gross proceeds from the sale of such Over-Allotment Units. If the Debenture Over-Allotment Option is exercised, the Underwriters will receive a fee of US$37.50 per Over-Allotment Debenture purchased pursuant to the Debenture Over-Allotment Option or 3.75% of the gross proceeds from the sale of the Over-Allotment Debentures.

Subscriptions for Offered Units and Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

The Underwriters propose to offer the Offered Units and the Debentures to the public in Canada initially at the Unit Offering Price and the Debenture Offering Price, respectively, stated on the cover page of this Prospectus Supplement. Without affecting the firm obligation of the Underwriters to purchase the Initial Units and Initial Debentures in accordance with the Underwriting Agreement, the Underwriters may decrease the Unit Offering Price of the Offered Units or the Debenture Offering Price of the Debentures which they sell under this Prospectus Supplement after they have made a reasonable effort to sell all the Initial Units at the Unit Offering Price and the Initial Debentures at the Debenture Offering Price, as applicable. The sale by the Underwriters of Offered Units or the Debentures at a price of less than the Unit Offering Price or Debenture Offering Price, as applicable, will have the effect of reducing the compensation realized by the Underwriters by the amount that the aggregate price paid by the purchasers for the Offered Units or Debentures is less than the gross proceeds paid by the Underwriters to the REIT for the Offered Units or Debentures, as applicable. The Underwriters will inform the REIT if the Unit Offering Price or Debenture Offering Price is decreased.

This Prospectus Supplement, together with the Base Prospectus, qualifies the distribution of the Offered Units and the Debentures, the grant of the Over-Allotment Options, the Over-Allotment Units and Over-Allotment Debentures issuable upon the exercise of the Over-Allotment Options and the Units issuable upon the conversion of the Debentures. A purchaser who acquires Offered Units or Debentures forming part of the Underwriters' over-allotment positions acquires those Offered Units or Debentures, as applicable, under this Prospectus Supplement and the Base Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Options or secondary market purchases.

The REIT has agreed to indemnify the Underwriters and each of their shareholders, directors, officers, employees, partners, agents and each other person, if any, controlling the Underwriters against certain liabilities including, without limitation, civil liabilities under Canadian provincial securities legislation and to contribute to any payments the Underwriters may be required to make in respect thereof.

During a period ending 90 days after the date of the Offering Closing, the REIT and its Subsidiaries will not offer, sell or issue for sale any Units (other than pursuant to the exercise of the Over-Allotment Option, any securities-based compensation plans of the REIT and the Units issued upon conversion of the Debentures) or financial instruments or securities convertible into, or exercisable or exchangeable for, Units or agree to, or announce, any such offer, sale or issuance, without the prior written consent of CIBC World Markets Inc. on behalf of the Underwriters, which consent may not be unreasonably withheld.

Pursuant to policy statements of the securities regulatory authority in Ontario, the Underwriters may not, throughout the period of distribution, bid for or purchase Units or Debentures. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of the Units or the Debentures. These exceptions include a bid or purchase permitted under the rules of the applicable regulatory authorities relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first mentioned exception, in connection with the Offering, the Underwriters may effect transactions which stabilize or maintain the market price of the Units and/or the Debentures at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time.

The REIT has applied to list the Offered Units, the Debentures and the Units issuable pursuant to the terms of the Debentures on the Exchange. Listing is subject to the REIT fulfilling all of the requirements of the Exchange. The Offering Closing is conditional on receipt of approval from the Exchange to list the Offered Units, Debentures and Units issuable upon conversion of the Debentures.

The Offering Closing is expected to take place on or about June 9, 2017 or on any other date which may be mutually agreed upon in writing by the REIT and the Underwriters, but no later than June 30, 2017.

The Offered Units and Debentures have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the "**U.S. Securities Act**"), or any state securities laws, and accordingly may not be offered or sold within the United States (as defined in Regulation S under the U.S. Securities Act) except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement permits the Underwriters, acting through their registered United States broker-dealer Affiliates, to offer and resell the Offered Units and the Debentures in the United States to "qualified institutional buyers" (as defined in Rule 144A under the U.S. Securities Act), provided such offers and sales are made in accordance with Rule 144A under the U.S. Securities Act, and in compliance with similar exemptions under applicable state securities laws. The Underwriting Agreement also provides that the Underwriters will offer and sell the Offered Units and the Debentures outside the United States only in accordance with Rule 903 of Regulation S under the U.S. Securities Act.

This Prospectus Supplement does not constitute an offer to sell or a solicitation of an offer to buy any of the Offered Units or Debentures in the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offered Units or Debentures within the United States. by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the U.S. Securities Act and similar exemptions under applicable state securities laws.

DESCRIPTION OF THE UNITS

Units

The following is a brief summary of all material attributes and characteristics of the Units. The following does not purport to be complete. For a more detailed description of the Units, investors should refer to page 59 under the heading "Capital Structure", pages 59 – 69 under the heading "LP Agreement" and pages 69 – 70 under the heading "Voting Trust Agreement" of the AIF which is incorporated by reference herein and available on SEDAR at www.sedar.com.

The REIT is authorized to issue an unlimited number of Units. As at June 2, 2017, there were 58,623,606 Units issued and outstanding. 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 REIT including to Distributable Cash and an allocation of Net Income, Taxable Income, Net Loss, Taxable Loss or other amounts, each as defined and in accordance with the LP Agreement, as well as an undivided beneficial interest in all assets of the REIT in the event of its termination or winding-up, after payment of all debts, liabilities and liquidation expenses of the REIT.

Each Unit has attached to it the right to exercise one vote at meetings of the REIT. Certain powers, relating generally to the existence and fundamental powers of the REIT may be exercisable only by way of a Special Resolution (as defined in the LP Agreement) passed by the Unitholders.

Book-Entry, Delivery and Form

The Offered Units will be issued electronically through the non-certificated inventory ("**NCI**") system and held by, or on behalf of, the Depository, as custodian for its Participants (defined below).

All Offered Units will be registered in the name of the Depository or its nominee through the NCI system. Purchasers of Offered Units will not receive certificates evidencing the Offered Units. Rather, the Offered Units will be represented only in "book-entry only" form (unless the REIT, in its sole discretion, elects to prepare and deliver certificates evidencing the Offered Units). Beneficial interests in the Offered Units will be represented through book-entry accounts of institutions (including the Underwriters) acting on behalf of beneficial owners, as direct and indirect participants of the Depository (each, a "**Participant**"). Each purchaser of an Offered Unit will receive a customer confirmation of purchase from the Underwriter or registered dealer from whom the Offered Unit is purchased in accordance with the practices and procedures of the selling Underwriter or registered dealer. The

practices of registered dealers may vary but, generally, customer confirmations are issued promptly after execution of a customer order. The Depository will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in Offered Units. If the Depository notifies the REIT that it is unwilling or unable to continue as depository, or if at any time the Depository ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the REIT is unable to locate a qualified successor, beneficial owners of Offered Units holding through the NCI system at such time will receive certificates evidencing the Offered Units.

DESCRIPTION OF THE DEBENTURES

The following is a brief summary of the material attributes and characteristics of the Debentures and certain principal provisions which will be incorporated into the Indenture to be entered into between the REIT and the Indenture Trustee on the Closing Date. This summary does not purport to be complete. For full particulars and additional details on the Debentures, reference should be made to the Indenture. After execution, a copy of the Indenture will be available for inspection at the offices of the REIT and will be filed on SEDAR at www.sedar.com.

General

The Debentures will be issued under the Indenture to be entered into between the REIT and the Indenture Trustee on or prior to the Closing Date. The Debentures will be limited to the aggregate principal amount of US$48,875,000 (including the aggregate principal amount of any Debentures issuable upon exercise of the Debenture Over-Allotment Option). The REIT may, however, from time to time, without the consent of the holders of the outstanding debentures of the REIT, issue debentures (including under the Indenture) in addition to the Debentures offered hereby.

The Debentures will be dated as of the Closing Date and will mature on the Maturity Date. The Debentures will be issuable only in denominations of US$1,000 and integral multiples thereof and will bear interest from and including the date of issue at 5.00% per annum, which will be payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2017. The first interest payment will include interest accrued from the Closing Date to, but excluding, December 31, 2017.

The principal amount of the Debentures will be payable in lawful money of the United States or, in certain limited circumstances, at the option of the REIT and subject to applicable regulatory approval, by the issuance of Units as further described under "– Unit Payment Right". The interest on the Debentures is payable in lawful money of the United States including, at the option of the REIT and subject to applicable regulatory approval, in accordance with the Unit Interest Payment Election as described under "– Interest Payment Election".

The Debentures will be direct obligations of the REIT and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to certain liabilities of the REIT as described under "– Subordination". The Indenture will not restrict the REIT from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

Exchange Listing

The REIT has applied to list the Debentures (including the Debentures issuable pursuant to the Debenture Over-Allotment Option) and the Units issuable upon the conversion or maturity of the Debentures on the Exchange. Listing will be subject to the REIT fulfilling all the listing requirements of the Exchange.

Conversion Privilege

The Debentures will be convertible at the holder's option into fully paid Units at any time prior to the close of business on the earlier of the last business day prior to the business day preceding the Maturity Date and the business day immediately preceding the date specified by the REIT for redemption of the Debentures, at the Conversion Price, being US$9.25 per Unit (representing a premium of approximately 21% to the reference Unit price of US$7.67 per Unit, being Cdn$10.35 per Unit based on an exchange rate of US$1.00 equals Cdn$1.35 as at May 31, 2017, the date the Offering was publicly announced) and representing a conversion rate of approximately 108.1081 Units for each US$1,000 principal amount of Debentures, subject to adjustment upon the occurrence of certain events in accordance with the provisions of the Indenture. Notwithstanding the foregoing, no Debenture may

be converted during the five business days preceding an Interest Payment Date or on the business day preceding the Maturity Date.

Holders converting their Debentures will receive a cash payment of accrued and unpaid interest thereon for the period from the last Interest Payment Date prior to conversion (or the date of issue of the Debentures if there has not yet been an Interest Payment Date) to and including the last record date declared for determining the Unitholders entitled to receive distributions on Units prior to such conversion. In the event that distributions have been suspended (or notice has been given of such suspension), a converting Debentureholder will be entitled to receive a cash payment of accrued and unpaid interest for the period from the last Interest Payment Date prior to the date of conversion to, but excluding, the date of conversion.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Units; (b) the distribution of Units or securities exchangeable or convertible into Units to holders of all or substantially all of the outstanding Units by way of distribution or otherwise; (c) the issuance of options, rights or warrants to all or substantially all holders of Units entitling them to acquire Units or other securities convertible into Units at a price per Unit less than 95% of the Current Market Price on the record date for such issuance; and (d) the distribution to all holders of Units of any securities or assets. There will be no adjustment of the Conversion Price in respect of certain events described in (b), (c) or (d) above if the holders of the Debentures are allowed to participate in such event as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be. The REIT will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, amalgamation, merger, arrangement, acquisition or business combination of the REIT with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the REIT as, or substantially as, an entirety to any other entity, or a liquidation or termination of the REIT, the terms of the conversion privilege shall be adjusted so that each Debentureholder will, after such reclassification, capital reorganization, consolidation, amalgamation, merger, arrangement, acquisition, business combination, sale, conveyance, liquidation or termination, be entitled to receive that number of Units or other securities or property on the exercise of the conversion right that such holder would be entitled to receive if, on the effective date thereof, it had been the registered holder of the number of Units into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, merger, arrangement, acquisition, business combination, sale, conveyance, liquidation or termination.

No fractional Units will be issued on any conversion but in lieu thereof the REIT will satisfy fractional interests by a cash payment equal to the Current Market Price on the relevant date of any fractional interest.

Redemption and Purchase

The Debentures may not be redeemed by the REIT prior to June 30, 2020 (except in certain limited circumstances following a Change of Control). On or after June 30, 2020 and prior to June 30, 2021, the Debentures may be redeemed by the REIT, in whole or in part from time to time, at the option of the REIT on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest thereon up to, but excluding, the date fixed for redemption, provided that the Current Market Price on the date on which the notice of redemption is given is not less than 125% of the Conversion Price.

On or after June 30, 2021 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of the REIT on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest thereon up to, but excluding, the date fixed for redemption.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Indenture Trustee on a *pro rata* basis or in such other manner as the Indenture Trustee deems equitable.

Provided that no Event of Default has occurred and is continuing, and subject to applicable laws, the REIT will have the right under the Indenture to purchase Debentures in the market in the ordinary course, by tender or by private contract.

Payment upon Redemption or Maturity

On the date of redemption or on the Maturity Date, the REIT will repay the indebtedness represented by the Debentures by paying to the Indenture Trustee in lawful money of the United States an amount equal to the aggregate principal amount of the outstanding Debentures which are to be redeemed or which have matured, as applicable, together with accrued and unpaid interest thereon up to, but excluding, the date fixed for redemption or the Maturity Date, as applicable.

Unit Payment Right

If, on April 15, 2022, the outstanding principal amount of the Debentures plus accrued and unpaid interest exceeds the sum of (i) the Available Cash of the REIT as at March 31, 2022; plus (ii) US$10,000,000, the REIT may, at its option, on not more than 60 days and not less than 40 days prior notice, subject to applicable regulatory approval and provided no Event of Default has occurred and is continuing, elect to satisfy its obligation to pay the principal amount of the Debentures which are due on the Maturity Date, in whole or in part, by issuing freely tradeable Units to the holders of the Debentures. Any accrued and unpaid interest up to, but excluding, the Maturity Date will be paid in cash. The number of Units to be issued will be determined by dividing the aggregate principal amount of the outstanding Debentures which have matured by 95% of the Current Market Price on the Maturity Date (the "**Unit Payment Right**"). If the REIT exercises the Unit Payment Right, the REIT shall repay that portion of the principal amount of the Debentures in cash as determined by the General Partner to be available for repayment and not reserved to: (i) operate the affairs of the REIT in a prudent and businesslike manner that is consistent with past practices; (ii) maintain periodic distributions on the Units at the then current level; and (iii) maintain compliance with all applicable covenants and agreements of the REIT and its subsidiaries, and the remainder of the principal amount of the Debentures will be repaid in accordance with the Unit Payment Right.

No fractional Units will be issued on maturity but in lieu thereof the REIT shall satisfy fractional interests by a cash payment equal to the Current Market Price on the Maturity Date of any fractional interest.

The REIT will not, directly or indirectly (through a Subsidiary or otherwise), undertake or announce any rights offering, issuance of securities, subdivision of the Units, dividend or other distribution on the Units or any other securities, capital reorganization, reclassification or any similar type of transaction in which:

(a) the number of securities to be issued;

(b) the price at which securities are to be issued, converted or exchanged; or

(c) any property or cash that is to be distributed or allocated,

is in whole or in part based upon, determined in reference to, related to or a function of, directly or indirectly: (i) the exercise or potential exercise of the Unit Payment Right; or (ii) the Current Market Price determined in connection with the exercise or potential exercise of the Unit Payment Right.

Cancellation

All Debentures redeemed or purchased by the REIT will be surrendered to the Indenture Trustee, will be cancelled and may not be reissued or resold.

Subordination

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness. "**Senior Indebtedness**" will be defined in the Indenture as the principal of and interest on and other amounts in respect of all secured indebtedness for borrowed money of the REIT (whether outstanding at the date of the Indenture or thereafter created, incurred, assumed or guaranteed), other than indebtedness which, by the terms of the contract or instrument creating or evidencing the indebtedness, or pursuant to which the indebtedness is outstanding, is expressed to be *pari passu* with, or subordinate in right of payment to, the Debentures or Other Indebtedness.

Subject to statutory or preferred exceptions or as may be specified by the terms of any particular securities, each debenture of the same series issued under the Indenture will rank *pari passu* with each other debenture of the

same series and all present and future unsecured indebtedness, including Other Indebtedness, except for sinking fund provisions (if any) applicable to different series of debentures.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the REIT, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the REIT, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the REIT, those holders of Senior Indebtedness will receive payment in full before the Debentureholders will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon.

The Indenture will also provide that the REIT will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without any limitation by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures: (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures; or (b) at any time when a default with respect to any Senior Indebtedness permitting the holders thereof to accelerate the maturity thereof has occurred under the Senior Indebtedness and is continuing, unless the Senior Indebtedness has been repaid in full.

The Debentures will also be effectively subordinate to claims of creditors of the REIT and the REIT's Subsidiaries relating to Senior Indebtedness of the REIT or its Subsidiaries for the payment of which the REIT is responsible or liable, whether absolutely or contingently. Specifically, the Debentures will be subordinated and postponed in right of payment to the prior payment in full of all Senior Indebtedness under any credit facility of the REIT.

Change of Control

Within 30 days following the occurrence of a Change of Control, the REIT will be required to make an offer in writing to purchase for cash all of the Debentures then outstanding (the "**Debenture Offer**"), at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest thereon up to, but excluding, the date of purchase (the "**Debenture Offer Price**"). A "**Change of Control**" will be defined in the Indenture as the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction over an aggregate of 66⅔% or more of the then outstanding Units on a fully diluted basis.

The Indenture will contain notification and repurchase provisions requiring the REIT to give written notice to the Indenture Trustee of the occurrence of a Change of Control within 30 days of such event together with the Debenture Offer. The Indenture Trustee will thereafter promptly mail to each holder of Debentures a notice of the Change of Control together with a copy of the Debenture Offer to repurchase for cash all the outstanding Debentures.

If 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control to the Indenture Trustee have been tendered to the REIT pursuant to the Debenture Offer, the REIT will have the right to redeem all the remaining Debentures at the Debenture Offer Price.

Notice of such redemption must be given by the REIT to the Indenture Trustee within ten days following the expiry of the Debenture Offer, and as soon as possible thereafter, by the Indenture Trustee to the holders of the Debentures not tendered pursuant to the Debenture Offer.

Interest Payment Election

Unless an Event of Default has occurred and is continuing, the REIT may elect, from time to time, subject to applicable regulatory approval, to satisfy its obligation to pay interest on the Debentures (the "**Interest Obligation**"), on the Interest Payment Date: (i) in cash; (ii) by delivering sufficient freely tradeable Units to the Indenture Trustee, for sale on behalf of the REIT, to satisfy the Interest Obligation on the Interest Payment Date, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Units (the "**Unit Interest Payment Election**"); or (iii) any combination of (i) and (ii) above.

The Indenture will provide that, upon the REIT making a Unit Interest Payment Election, the Indenture Trustee shall: (i) accept delivery from the REIT of Units; (ii) accept bids with respect to, and consummate sales of, such Units, each as the REIT shall direct in its absolute discretion through the investment banks, brokers or dealers identified by the REIT; (iii) invest the proceeds of such sales in securities issued or guaranteed by the Government of Canada which mature prior to the applicable Interest Payment Date, and use the cash proceeds received from investment in such permitted government securities, together with any additional cash provided by the REIT, to satisfy the Interest Obligation; and (iv) perform any other action necessarily incidental thereto.

The Indenture will set forth the procedures to be followed by the REIT and the Indenture Trustee in order to effect the Unit Interest Payment Election. If a Unit Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive a cash payment equal to the interest owed on their Debentures from the Indenture Trustee out of the proceeds of the sale of Units (plus any amount received by the Indenture Trustee from the REIT) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the REIT in respect of the Interest Obligation.

Neither the REIT's making of the Unit Interest Payment Election nor the consummation of sales of Units will: (a) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date; or (b) entitle such holders to receive any Units in satisfaction of the Interest Obligation.

The Exchange has not approved, conditionally or otherwise, the listing of any Units issued pursuant to the Unit Interest Payment Election. Such approval would be sought by the REIT in the event it elects to make a Unit Interest Payment Election.

Events of Default

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to the Debentures: (a) failure for 15 days to pay interest on the Debentures when due; (b) failure to pay principal or premium, if any, on the Debentures when due whether at maturity, upon redemption, by declaration or otherwise (whether such payment is due in cash, Units or other securities or property or a combination thereof); (c) default in the delivery, when due, of any Units or other consideration payable upon conversion with respect to the Debentures, and the continuance of any such default for 15 days; (d) default in the observance or performance of a material covenant contained in the Indenture and the failure to cure (or obtain a waiver for) such default for a period of 30 days after notice in writing has been given by the Indenture Trustee or by a holder of not less than 25% of the aggregate principal amount of the Debentures to the REIT specifying such default and requiring the REIT to remedy (or obtain a waiver for) such default; (e) certain events of bankruptcy, insolvency or reorganization; and (f) if an event of default occurs or exists under any indenture, agreement or other instrument evidencing or governing indebtedness for borrowed money of the REIT and as a result of such event of default: (i) indebtedness for borrowed money thereunder in excess of the greater of (A) 2% of the Consolidated Net Worth at such time or (B) US$50,000,000 (or the equivalent amount in any other currency), has become due and payable before the date it would otherwise have been due and payable; and (ii) the holders of such indebtedness are entitled to commence, and have commenced, the enforcement of security they hold for such indebtedness (if any) or the exercise of any other creditors' remedies to collect such indebtedness. If an Event of Default has occurred and is continuing, the Indenture Trustee may, in its discretion, and shall, upon request of holders of not less than 25% of the principal amount of the Debentures issued under the Indenture, declare the principal of and interest on all outstanding Debentures issued under the Indenture to be immediately due and payable. In certain cases, the holders of Debentures representing more than 66⅔% of the outstanding principal amount of the Debentures issued under the Indenture may, on behalf of the holders of all the Debentures issued under the Indenture, waive any Event of Default and/or cancel any such declaration upon such terms as such holders shall prescribe.

Offers for Debentures

The Indenture will contain provisions to the effect that if an offer is made for Debentures, which would be a take-over bid for Debentures within the meaning of National Instrument 62-104 – *Take-Over Bids and Issuer Bids* if Debentures were considered equity securities and not less than 90% of the debentures issued under the Indenture (other than debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures issued

under the Indenture held by the holders of Debentures issued under the Indenture who did not accept the offer on the terms offered by the offeror.

Modification

The rights of the holders of the Debentures as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all Debentureholders resolutions passed at meetings of the Debentureholders by votes cast thereat by holders of Debentures representing not less than 66⅔% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the Debentures. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of debentures of each affected series.

Book-Entry System for Debentures

The Debentures will be issued in "book-entry only" form and must be purchased or transferred through a Participant. On the Closing Date, the Indenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee.

Unless the book-entry only system is terminated as described below, a purchaser acquiring a beneficial interest in the Debentures (a "**Beneficial Debenture Owner**") will not be entitled to receive a certificate for Debentures, or, unless requested, for the Units issuable on the conversion, redemption or maturity of the Debentures. Purchasers of Debentures will not be shown on the records maintained by CDS, except through a Participant.

Beneficial interests in Debentures will be represented solely through the book-entry only system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the applicable Debentures are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

Investors should be aware that they (subject to the situations described below): (a) may not have Debentures registered in their name; (b) may not have physical certificates representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

The Debentures will be issued to Beneficial Debenture Owners thereof in fully registered and certificated form (the "**Debenture Certificates**") only if: (a) required to do so by applicable law, including where a Debenture Certificate requires the addition of a legend under applicable securities laws; (b) the book-entry only system ceases to exist; (c) CDS advises the Indenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Debentures and the REIT is unable to locate a qualified successor; (d) the REIT, at its option, decides to terminate the book-entry only system through CDS; or (e) after the occurrence of an Event of Default that is continuing, Participants acting on behalf of Beneficial Debenture Owners representing, in the aggregate, more than 25% of the aggregate principal amount of the Debentures then outstanding advise CDS in writing that the continuation of a book-entry only system through CDS is no longer in their best interest, provided the Indenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Indenture Trustee must notify CDS, for and on behalf of Participants and Beneficial Debenture Owners, of the availability through CDS of Debenture Certificates. Upon surrender by CDS of any global certificates representing the Debentures, and receipt of instructions from CDS for the new registrations, the Indenture Trustee will deliver the Debentures in the form of Debenture Certificates and thereafter the REIT will recognize the holders of such Debenture Certificates as Debentureholders under the Indenture.

Interest on the Debentures will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, interest will be paid by cheque drawn on the General Partner, on behalf of the REIT, and sent by prepaid mail to the registered holder or by such other means as may become customary for the payment of interest. Payment of principal, including payment in the form of Units if applicable, and the interest due, at maturity or on a redemption date, will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, payment of principal, including payment in the form of Units if applicable, and

interest due, at maturity or on a redemption date, will be paid upon surrender thereof at any office of the Indenture Trustee or as otherwise specified in the Indenture.

Neither the REIT nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the Beneficial Debenture Owners or the Debentures held by CDS or any payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and contained in this Prospectus Supplement and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a Participant. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and Beneficial Debenture Owners must look solely to Participants for any payments relating to the Debentures, paid by or on behalf of the REIT to CDS.

Governing Law

Each of the Indenture and the Debentures will be governed by, and construed in accordance with, the laws of the Province of British Columbia.

EARNINGS COVERAGE RATIO

The earnings of the REIT before interest and income tax expense for the 12 months ended December 31, 2016 and March 31, 2017 were approximately US$22.9 million and US$26.1 million, respectively. The REIT's borrowing costs amounted to approximately US$14.7 million and US$14.0 million for the 12 months ended December 31, 2016 and March 31, 2017, respectively, resulting in earnings coverage ratios of 1.56 and 1.87 for such periods, respectively. The figures for the 12 months ended March 31, 2017 include amounts relating to the Midwestern 3 Embassy Suites Portfolio for the period from the date of its acquisition on January 19, 2017 to March 31, 2017.

After giving effect to the Offering as if it had completed on January 1, 2016, but excluding *pro forma* adjustments relating to the acquisition of the Eastern Seaboard Portfolio and the acquisition of the Midwestern 3 Embassy Suites Portfolio, and before any exercise of the Over-Allotment Options, the *pro forma* earnings of the REIT before interest and income tax expense for the 12 months ended December 31, 2016 and March 31, 2017 would have amounted to approximately US$22.9 million and US$26.1 million, respectively, and the *pro forma* borrowing costs of the REIT would have amounted to approximately US$17.5 million and US$16.8 million, respectively, resulting in earnings coverage ratios of 1.30 and 1.55 for such periods, respectively. The figures for the 12 months ended March 31, 2017 include amounts relating to the Midwestern 3 Embassy Suites Portfolio for the period from the date of its acquisition on January 19, 2017 to March 31, 2017.

After giving effect to the Offering and including *pro forma* adjustments for the acquisition of the Eastern Seaboard Portfolio and the acquisition of the Midwestern 3 Embassy Suites Portfolio, as if each had completed on January 1, 2016, and before any exercise of the Over-Allotment Options, the *pro forma* earnings of the REIT before interest and income tax expense for the 12 months ended December 31, 2016 and for the three months ended March 31, 2017 would have amounted to approximately US$51.5 million and US$9.7 million, respectively, and the *pro forma* borrowing costs of the REIT would have amounted to approximately US$31.7 million and US$9.1 million, respectively, resulting in earnings coverage ratios of 1.62 and 1.07 for such periods, respectively.

Under IFRS, the REIT will account for the Debentures as a liability in the consolidated balance sheet, and certain embedded derivatives will be separated from the host liability contract. The interest expense and financing charges related to the host liability contract will be amortized using the effective interest method, while the embedded derivatives will be recorded at fair value at each reporting period.

For purposes of the *pro forma* calculations above, interest expense has been calculated as though the Debentures (excluding the Over-Allotment Debentures) had been accounted for after consideration of the value of the embedded derivatives. Also, for purposes of the calculation, interest expense includes financing charges related to the amortization of debt issuance costs and accretion.

PRINCIPAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

Prospective purchasers of the Offered Units and Debentures should consult their own tax advisors with respect to the Canadian income tax considerations in their circumstances.

In the view of KPMG, tax advisor to the REIT, and in the opinion of 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 the acquisition, holding and disposition of Units and Debentures by a holder who acquires Offered Units and/or Debentures pursuant to this Offering and who, for purposes of the Tax Act and at all relevant times: (i) is resident in Canada for the purposes of the Tax Act; (ii) deals at arm's length with the REIT, the General Partner, the Master Hotel Manager and each of the Underwriters and is not affiliated with the REIT, the General Partner, the Master Hotel Manager, or any of the Underwriters; and (iii) holds the Units and/or Debentures as capital property and will hold the Units issuable upon the conversion or maturity of the Debentures as capital property. Generally, Units and/or Debentures will be considered to be capital property to a holder provided such Units and/or Debentures 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. The Units and Debentures will not be "Canadian securities" for purposes of the election under subsection 39(4) of the Tax Act to have all "Canadian securities" owned by a qualifying holder deemed to be capital property.

This summary is not applicable to a holder: (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 or will hold Units, including Units issuable upon the conversion or maturity of Debentures); (v) that has, directly or indirectly, a "significant interest" as defined in subsection 34.2(1) of the Tax Act in the REIT; (vi) where the U.S. REIT or any other affiliate of the REIT is or becomes a "foreign affiliate" for purposes of the Tax Act (taking into account any "specified provision" described in paragraphs 93.1(1.1)(a) to (d) of the Tax Act) of the holder or, where the holder is a corporation resident in Canada, a corporation that does not deal at arm's length with the holder; (vii) which borrows money to acquire the Units and/or Debentures under this Offering; or (viii) that enters or has entered into a "derivative forward agreement" (as defined in the Tax Act) with respect to the Units and/or Debentures. Any such holders should consult their own tax advisors. This summary assumes that: (i) neither the REIT, nor a Unit thereof is 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 interests in the REIT 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 this short form 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 short form prospectus and in a certificate provided to KPMG and Blakes by the General Partner on behalf of the REIT (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 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 (the "**Proposed Amendments**"). There can be no assurance that the Proposed Amendments 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. Modification or amendment of the Tax Act or Proposed Amendments could significantly alter the status of the REIT and the tax consequences of investing in Units and/or Debentures. **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 income tax considerations applicable to an investment in Units and/or Debentures. The income and other tax consequences of acquiring, holding or disposing of Units and/or Debentures will vary depending on the particular circumstances applicable to each investor. 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 and/or Debentures. The REIT 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 and/or Debentures based on their particular circumstances.

Taxation of Debentureholders

Currency Conversion

The Debentures are denominated in U.S. dollars. For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Debentures generally must be converted into Canadian dollars using the rate of exchange quoted by the Bank of Canada for the day on which the particular amount arose, or such other rate of exchange as is acceptable to the Minister of National Revenue (Canada). The amount of interest required to be included in the income of, and capital gains or capital losses realized by, a Debentureholder may be affected by currency fluctuations.

Interest on Debentures

A Debentureholder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on a Debenture that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the Debentureholder disposes of the Debenture in the year, that accrues or is deemed to accrue to it until the time of disposition) or that has become receivable by or is received by the Debentureholder before the end of that taxation year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was otherwise included in computing the Debentureholder's income for that year or a preceding year.

Any other Debentureholder including an individual (other than certain trusts) will be required to include in computing income for a taxation year all interest on a Debenture that is received or receivable by such Debentureholder in that taxation year (depending upon the method regularly followed by the Debentureholder in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the Debentureholder's income for a preceding taxation year. In addition, if at any time a Debenture should become an "investment contract" (as defined in the Tax Act) in relation to a Debentureholder, such Debentureholder will be required to include in computing the Debentureholder's income for a taxation year all interest (not otherwise required to be included in income) that accrues or is deemed to accrue on the Debenture to the end of any "anniversary day" (as defined in the Tax Act), in that year except to the extent such interest was otherwise included in the Debentureholder's income for that year or a preceding year. For this purpose, an anniversary day means the day that is one year after the day immediately preceding the date of issue of a Debenture, the day that occurs at every successive one year interval from that day and the day on which the Debenture is disposed of.

Any amount paid by the REIT as a penalty or bonus because of the redemption, repayment prior to maturity or purchase for cancellation of a Debenture (for example, where the redemption price or purchase price is in excess of the principal amount) will generally be deemed to be interest (which will be excluded in computing the Debentureholder's proceeds of disposition of the Debenture) received at the time of the payment by the Debentureholder to the extent that such amount can reasonably be considered to relate to, and does not exceed the value at the time of the payment of, the interest that, but for the redemption, repayment prior to maturity or purchase for cancellation, would have been paid or payable by the REIT on the Debenture for a taxation year of the REIT ending after the time of the payment.

Exercise of Conversion Privilege

A Debentureholder that converts a Debenture into Units pursuant to the terms of the Debenture will be considered to have disposed of the Debenture for proceeds of disposition equal to the aggregate of the fair market value of the Units acquired at the time of the conversion and the amount of any cash received in lieu of fractional Units. See "– Disposition of Debentures" for a description of the consequences of disposing of a Debenture. The

Debentureholder will realize a capital gain (or capital loss) on such conversion, computed as described below under the heading “Dispositions of Debentures”. The cost to the Debentureholder of any Units so acquired will be equal to their fair market value at the time of the acquisition, and must be averaged with the adjusted cost base of other Units held as capital property by the Debentureholder immediately before that time for the purposes of calculating the adjusted cost base of such Units. Upon a conversion of a Debenture, interest accrued thereon to the date of conversion will be included in computing the Debentureholder’s income as described above under the heading “Interest on Debentures” and will not be included in computing the Debentureholder’s proceeds of disposition of the Debenture.

Redemption or Repayment of Debentures

If the REIT redeems a Debenture prior to maturity or repays a Debenture upon maturity and the Debentureholder does not exercise the conversion privilege prior to such redemption or repayment, the Debentureholder will be considered to have disposed of the Debenture for proceeds of disposition equal to the amount received by the Debentureholder (other than any portion of such amount received on account of interest) on such redemption or repayment. If the Debentureholder receives Units on repayment, the Debentureholder will be considered to have received proceeds of disposition equal to the aggregate of the fair market of the Units so received and the amount of cash received in lieu of fractional Units. The cost to the Debentureholder of the Units so received will be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the Debentureholder immediately before that time for the purpose of calculating the adjusted cost base of such Units. The Holder may realize a capital gain or capital loss computed as described below under “Disposition of Debentures”.

Disposition of Debentures

Upon a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the Debentureholder’s income, except to the extent such amount was otherwise included in the Debentureholder’s income, and will be excluded in computing the Debentureholder’s proceeds of disposition of the Debenture. If interest has accrued on a Debenture, a Debentureholder who disposes of the Debenture (including on a conversion of the Debenture) for consideration equal to its fair market value will generally be entitled to deduct in computing income for the year of disposition an amount equal to any such interest included in income for that or any preceding year to the extent that no amount was received or became receivable by the Debentureholder in respect of the interest so accrued.

A disposition or deemed disposition of a Debenture by a Debentureholder will generally result in the Debentureholder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described above) are greater (or less) than the aggregate of the Debentureholder’s adjusted cost base thereof and any reasonable costs of disposition. Any such capital gain or capital loss will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Units, which treatment is discussed below under the heading “– Taxation of Capital Gains and Capital Losses”.

Foreign Tax Credits

As set out under “Principal United States Federal Income Tax Considerations”, if the Debenture 5 Percent Exception is not met, a Debentureholder may be subject to U.S. tax on a conversion, redemption, repayment or other disposition of a Debenture. To the extent a Debentureholder is subject to U.S. tax on a disposition of a Debenture, the amount of such tax may be eligible for foreign tax credit, subject to the detailed rules and limitations under the Tax Act, provided 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 Debentureholder also files a U.S. federal income tax return to establish the Debentureholder’s final U.S. income tax liability for the year and the Debentureholder is not entitled to a refund of such withholding tax. 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 a Debentureholder is not entitled to all benefits under the Canada-U.S. Income Tax Convention (the “**Treaty**”), the proceeds receivable on a conversion, redemption, repayment or other disposition of a Debenture may not qualify as U.S. source income for purposes of the Tax Act (including for Canadian foreign tax credit purposes), and, where such Debentureholder is a trust, its 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. See also “Taxation of Unitholders - Foreign Tax Credits and Deductions” for a more detailed discussion on the limitations to foreign tax credits and deductions.

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 a special tax on its "taxable non-portfolio earnings" (as defined in the Tax Act) at a rate that is substantially equivalent to the general income tax rate applicable to Canadian corporations. The "taxable non-portfolio earnings" less such special tax payable by a SIFT partnership is deemed to be a taxable dividend received by the SIFT partnership from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. Any such deemed taxable dividend would be allocated to the partners of a SIFT partnership and be taxable as taxable dividends in their hands. 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 General Partner has represented in the Certificate that it does not expect the REIT to hold any "non-portfolio property". Consequently the General Partner expects, and this summary assumes, that the REIT 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 REIT or its Unitholders.

Taxation of the REIT

Computation of Income or Loss

The REIT is not generally subject to tax under the Tax Act. Each Unitholder of the REIT 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 REIT allocated to it for the REIT's Fiscal Year ending in the Unitholder's taxation year 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 "Taxation of the Unitholders – Limitation on Deductibility of Losses" below). For this purpose, the income or loss of the REIT must be computed for each Fiscal Year as if the REIT 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 Fiscal Year end of the REIT is December 31st.

The income of the REIT 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. An amount will be deemed to be a dividend received by the REIT 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). 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 the income of the REIT but rather applied to reduce the REIT'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 REIT would become a negative amount, the REIT will be deemed to have realized a capital gain equal to such amount.

In the Certificate, the General Partner has stated it intends to consent on behalf of the REIT 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 REIT) 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 REIT 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 General Partner has advised that it intends to include in

computing the REIT'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 "Taxation of the Unitholders - Foreign Tax Credits and Deductions" below).

The General Partner has advised that the REIT 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 REIT 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 REIT 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 Capital Gains and Capital Losses". Where capital losses are realized by the REIT on a disposition (including a redemption) of such shares, such losses may, under certain circumstances, either be suspended or be denied and added to the adjusted cost base to the REIT of the remaining shares of the U.S. REIT based on the relative fair market value of such shares.

The REIT 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 amounts including income (or losses) of the REIT (including any FAPI (as defined below) of a CFA (as defined below) of the REIT, as discussed below) must be calculated in Canadian currency in accordance with the detailed rules in the Tax Act in that regard. Where the REIT holds investments in U.S. dollars or other foreign currencies, income, gains and losses may be realized by the REIT as a consequence of fluctuations in the relative values of the Canadian and foreign currencies. The REIT may enter into foreign currency swap arrangements. Subject to the rules in the Tax Act governing "derivative forward agreements" discussed below (the "**DFA Rules**"), gains and losses on currency hedging transactions may be treated as capital gains and capital losses if the shares of the U.S. REIT are capital property to the REIT provided there is sufficient linkage. Certain Proposed Amendments, if enacted as proposed, would clarify that the DFA Rules generally would not apply to such currency hedging transactions. Where the REIT 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.

The DFA Rules target certain financial arrangements (described in the DFA Rules as "derivative forward agreements") that seek to deliver a return based on an "underlying interest" (other than certain excluded underlying interests) for purposes of the DFA Rules. The DFA Rules are broad in scope and, as enacted, could apply to other agreements or transactions (including certain forward currency hedges (subject to the proposed amendments to the Tax Act discussed in the previous paragraph) and other derivatives). If the DFA Rules were to apply to foreign currency swap arrangements or other derivatives used by the REIT, gains realized in respect of the property underlying such derivatives could be treated as ordinary income rather than capital gains.

In computing its income or loss, the REIT 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 REIT may also deduct any reasonable expenses incurred by it in the course of the issuance of Units and Debentures 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 REIT, including the U.S. REIT or any direct or indirect subsidiary thereof, 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 REIT must be included in computing the income of the REIT for Canadian federal income tax purposes for the Fiscal Year of the REIT in which the taxation year of the CFA ends, whether or not the REIT actually receives a distribution of that FAPI. Dividends received by the REIT from the U.S. REIT or any other CFA will be included in computing the income of the REIT; however, as described in the ensuing paragraphs, a deduction will be available to the extent that the REIT 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 foreign affiliate provisions of the Tax Act (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 principally to persons with which the CFA deals at arm's length for purposes of the Tax Act and the CFA employs more than five employees full time in the active conduct of the business outside of Canada (the "**Employee Exception**"). 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 in a country other than Canada 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 REIT qualify for any one or more of the Active Business Exception, the Employee Exception, or the Indirect Exception (the "**FAPI Exceptions**"), the REIT should not be required to include any amount of FAPI in computing its income for Canadian federal income tax purposes.

To the extent income earned by any CFA of the REIT 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 REIT 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 or any of its Subsidiaries 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 REIT of its shares of the U.S. REIT or other CFA in respect of which the FAPI was included. At such time as the REIT 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 REIT and there will be a corresponding reduction in the adjusted cost base to the REIT 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 previous FAPI inclusion.

Taxation of Unitholders

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 REIT allocated to the Unitholder pursuant to the REIT LP Agreement for the Fiscal Year of the REIT ending in the Unitholder's taxation year or on the Unitholder's taxation year-end. A Unitholder's share of the REIT'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 REIT. See "LP Agreement – Allocation of Income and Losses" at pages 62 – 63 of the AIF incorporated by reference herein and available on SEDAR at www.sedar.com.

In general, a Unitholder's share of any income (or loss) of the REIT 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.

A Unitholder will be required to compute all amounts in Canadian dollars in accordance with the detailed rules in the Tax Act. Pursuant to Proposed Amendments released on September 16, 2016, beginning on March 1, 2017, the relevant exchange rate for converting such amounts will be the single rate quoted by the Bank of Canada on the date such amounts arise or such other rate of exchange as is acceptable to the Minister of National Revenue.

Limitation on Deductibility of Losses

If the REIT incurs losses for purposes of the Tax Act, 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 REIT 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 REIT for any taxation year will be the adjusted cost base of the Unitholder's Units at the relevant time, and where that time is the end of the REIT'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 REIT (or a person or partnership with whom the REIT 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 the impact, in whole or in part, of 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 REIT allocated to such Unitholder to the extent that the Unitholder has an at-risk amount in respect of the REIT in a subsequent year. Where a Unitholder acquired Units from a transferor other than the REIT, the cost to the Unitholder for purposes of determining the Unitholder's "at-risk amount" under the Tax Act is generally the lesser of the Unitholder's cost of the Units and the transferor's adjusted cost base of the Units immediately before that time. Where the adjusted cost base of the Units to the transferor cannot be determined, the initial "at-risk amount" of the Unitholder will generally be nil.

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 REIT allocated to the Unitholder pursuant to the terms of the REIT LP Agreement for Fiscal Years of the REIT ending before the relevant time; less (iii) the aggregate of the *pro rata* share of losses of the REIT allocated to the Unitholder (other than limited partnership losses) for the Fiscal Years of the REIT ending before the relevant time; and less (iv) the Unitholder's distributions from the REIT 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 REIT. 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 REIT.

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 REIT. If, however, a Unitholder is entitled to receive a distribution from the REIT 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 REIT during which the disposition occurred; and (ii) the date of the last distribution made by the REIT to which the Unitholder was entitled. The pro rata share of income (or loss) of the REIT 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. Also see "Taxation of Capital Gains and Capital Losses".

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 "Risk Factors – Canadian and U.S. Tax Related Risk Factors – U.S. Federal Income Tax-Related Risks" in the AIF), 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. See "Taxation of the Unitholders – Foreign Tax Credits and Deductions" for a more detailed discussion on the limitations on foreign tax credits and deductions.

Foreign Tax Credits and Deductions

Foreign taxes paid by the REIT 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 REIT intends to be treated as a partnership for U.S. federal income tax purposes, and for such purposes it is understood and assumed that, 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 REIT, 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, where the Unitholder has a sufficient amount of such income, to the extent permitted by the Tax Act, to the extent that such 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 "Taxation of the Unitholders – 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 to the extent that 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. A Unitholder that is a Plan will not be entitled to a foreign tax credit or foreign tax deduction under the Tax Act in respect of any U.S. tax paid by the Plan (including any withholding tax imposed on distributions paid to the Plan). 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 "Principal United States Federal Income Tax Considerations – Taxation of the REIT and Non-U.S. Unitholders" for further information on the taxation of the REIT 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.

Taxation of Capital Gains and Capital Losses

In general, one-half of a capital gain (a "**taxable capital gain**") realized by a holder on a disposition or deemed disposition of Units or Debentures must be included in computing such holder's income in the taxation year in which the disposition or deemed disposition occurs. In addition, one-half of the proportionate share of capital gains realized by the REIT as allocated to a Unitholder must be included in the Unitholder's income. One-half of a capital loss (an "**allowable capital loss**") realized by a holder on a disposition or deemed disposition of Units or Debentures generally must be deducted by the holder against taxable capital gains of the holder realized in the year of disposition or deemed disposition and any remainder may be deducted against taxable capital gains of the holder 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.

Refundable Tax

A Unitholder which is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) may also be liable to pay an additional refundable tax on the Unitholder's share of certain investment income, including the Unitholder's share of taxable capital gains and dividends on shares of the U.S. REIT, as well as taxable capital gains from dispositions or deemed dispositions of Units by the Unitholder.

A Debentureholder that throughout the relevant taxation year is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on certain investment income for the year including amounts in respect of interest and taxable capital gains on disposition of a Debenture.

Alternative Minimum Tax

A holder who is an individual or trust (except for certain trusts) may be liable for alternative minimum tax on certain amounts including capital gains realized by such holder on a disposition or deemed disposition of Units or Debentures as well as the proportionate share of capital gains realized by the REIT as allocated to such holder.

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 REIT. While the REIT will provide each Unitholder with information required for income tax purposes pertaining to such Unitholder's investment in Units, the REIT 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 REIT in which the Unitholder holds Units or, where the REIT 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 General Partner is required to file the necessary return.

PRINCIPAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

Introduction

In this summary, references to "real estate investment trust" are general references to entities that are treated as real estate investment trusts under the Code.

In the view of KPMG, as tax advisor to the REIT, the following is a general summary of the principal U.S. federal income tax considerations applicable to (1) Non-U.S. Unitholders (defined below) of the purchase, ownership and disposition of the Units offered by this Prospectus Supplement and (2) Non-U.S. Debenture Holders (defined below) of the purchase, ownership and disposition of Debentures offered by this Prospectus Supplement.

Except where noted, with respect to clause (1) of the prior sentence, this summary deals only with Units held as a capital asset (within the meaning of Section 1221 of the Code). Except where noted, with respect to clause (2) of the prior sentence, this summary deals only with Debentures held as a capital asset (within the meaning of Section 1221 of the Code) by a Non-U.S. Debenture Holder who purchases the Debentures on original issuance at the initial offering price. Non-U.S. Debenture Holders who purchase the Debentures at a price lower than the initial

offering price of $1,000 per Debenture may have original issue discount with respect to their purchased Debentures. Such holders should consult with their tax advisors regarding the consequences to them upon the purchase, ownership and disposition of the Debentures. This summary assumes that the Debentures are treated as debt and not as equity for U.S. federal income tax purposes. The discussion below does not address the tax consequences to subsequent purchasers of Debentures.

This summary is based on the facts set out in this Prospectus Supplement and the facts, assumptions and representations set out in a representation letter provided to KPMG by the REIT. This summary is also based upon the relevant provisions of the Code, the regulations under the Code (the "**Regulations**"), the 1980 Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, as amended (the "**Treaty**"), and the judicial and administrative interpretations and pronouncements thereof as currently in effect, all of which are subject to change or differing interpretations, possibly with retroactive effect, and any such changes could affect the U.S. tax consequences described in the summary below.

There can be no assurances that the Internal Revenue Service (the "**IRS**") will not challenge one or more of the tax consequences described below. The REIT has not obtained, nor does it intend to obtain, a ruling from the IRS on any aspect of this offering.

This summary is directed only to prospective purchasers who purchase the Units or Debentures offered by this Prospectus Supplement who are not United States 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 five percent of the Units or Debentures in the REIT 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 or Debentures by either a United States Person or any person who owns (or is considered to own) more than five percent of the Units or Debentures may be materially different than the U.S. federal income tax consequences described in this summary.

References to "**Non-U.S. Unitholders**" and "**Non-U.S. Debenture Holder**" in this summary means non-U.S. persons unless otherwise indicated. As such, for this purpose, a "Non-U.S. Unitholder" and/or "Non-U.S. Debenture Holder" means any person that is not: (i) a U.S. citizen, U.S. permanent resident (green card holder) or individual resident in the United States; (ii) a corporation or other entity taxable as a corporation that is either created or organized under the laws of the United States 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 United States; (iii) an estate, the income of which is subject to United States federal income tax regardless of the source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all of its substantial decisions.

The U.S. federal income tax treatment of a partner in a partnership or other entity treated as a partnership that holds Units or Debentures depends on the status of the partner and the activities of the partnership. Partners in a partnership that owns the Debentures or the Units should consult their tax advisors as to the particular U.S. federal income tax considerations applicable to them.

All Non-U.S. Unitholders and Non-U.S. Debenture Holders are assumed to be residents of Canada entitled to all relevant benefits of the Treaty.

This summary does not consider all of the U.S. federal income tax consequences of the purchase, ownership, and disposition of the Units or the Debentures, is not intended to reflect the particular tax position of any beneficial owner, and is not intended to constitute tax advice. For example, except to the extent specifically provided, this summary does not address the U.S. federal income tax consequences to Non-U.S. Unitholders and/or Non-U.S. Debenture Holders that are subject to special treatment, including, but not limited to, qualified foreign pension funds, financial institutions, broker-dealers, mutual funds, insurance companies, tax-exempt organizations and trusts. This summary also does not address state or local income tax or state or local tax filing matters.

Non-U.S. Unitholders and Non-U.S. Debenture Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of the issues discussed below, in light of their particular circumstances.

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 IRS 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 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 assumes that the REIT is treated as a partnership and that Units in the REIT are "regularly traded" on an "established securities market" for U.S. federal income tax purposes. The U.S. federal income tax consequences of an investment in the Units or Debentures and Units into which the Debentures may be converted to may be materially adversely affected relative to the description in this summary if the REIT 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. Whether the REIT is treated as a partnership in a particular year for U.S. federal income tax purposes depends on the composition of the REIT's gross income for that year. Whether Units 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 the type and amount of the REIT's gross income will allow the REIT to be treated as a partnership for each year for U.S. federal income tax purposes. However, no assurances can be given that the REIT will be treated as a partnership for U.S. federal income tax purposes, whether in its current or in any subsequent year. Management has represented to KPMG that it anticipates that the Units will satisfy the "regularly traded" standards (discussed generally later) for each calendar quarter. In addition, the REIT intends to comply with certain prescribed annual filings and disclosures to the extent the Units are regularly traded solely on the Exchange in a particular quarter. However, given the possibility that actual circumstances may be materially different than those expected at the outset, no assurances can be given that Units will be treated as regularly traded in any particular calendar quarter.

This commentary also summarizes the principal U.S. federal income tax considerations to the U.S. REIT regarding the U.S. REIT's qualification and taxation as a real estate investment trust for U.S. federal income tax purposes. Whether the U.S. REIT qualifies as a real estate investment trust for U.S. federal income tax purposes is dependent on whether it satisfies the various real estate investment trust requirements for each taxable year. Management has represented to KPMG that it intends for the U.S. REIT to qualify as a real estate investment trust for each relevant taxable year and that it has established and follows procedures to regularly monitor real estate investment trust classification and compliance. However, given the highly complex nature of the rules governing real estate investment trusts and the possibility of future changes in circumstances, no assurances can be given that the U.S. REIT will qualify as a real estate investment trust for U.S. federal income tax purposes in any year. The failure of the U.S. REIT to qualify as a real estate investment trust, 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.

This summary also assumes that there are no sales or other dispositions of real estate within one year of the respective property acquisitions by the U.S. REIT.

The present U.S. federal income tax treatment of real estate investment trusts (and the Code, generally) may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The real estate investment trust rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department which may result in statutory changes as well as revisions to regulations and interpretations. According to publicly released statements, a top legislative priority of the new Congress and administration may be to enact significant reform of the Code, including significant changes to taxation of business entities and the deductibility of interest expense and capital investment. There is a substantial lack of clarity around the likelihood, timing and details of any such tax reform and the impact of any potential tax reform on the REIT and U.S. REIT or an investment in the REIT. Any such changes to the tax laws or interpretations thereof, with or without retroactive application, could materially and adversely affect the REIT, U.S. REIT and/or investors. It cannot be predicted how changes in the tax laws might affect the REIT, U.S. REIT, and/or investors. New legislation, Regulations, administrative interpretations, or court decisions could significantly and negatively affect the ability of U.S. REIT to qualify as a real estate investment trust or the U.S. federal income tax consequences to investors and U.S. REIT of such qualification.

The Prospectus Supplement was written to support the promotion or marketing of the transaction(s) or matter(s) addressed in this Prospectus Supplement. All investors should seek advice based on their particular circumstances from their tax advisor(s).

Debentures

On April 4, 2016, the U.S. Treasury Department and the IRS issued proposed Treasury Regulations under Section 385 of the Code (385 Regulations). Such Regulations were finalized on October 21, 2016. Management represents that the REIT is not a controlled partnership within the meaning of Regulation section 1.385-1(c)(1). Accordingly, the 385 Regulations should not apply to the Debentures.

The determination of whether the Debentures are debt for U.S. federal income tax purposes is based on an analysis of all the relevant facts and circumstances. The Debentures are complex financial instruments and their treatment as debt or equity for U.S. federal income tax purposes is uncertain. The REIT intends to treat the Debentures as debt for U.S. federal income tax purposes until they are converted or are repaid. However, no assurance can be given that the IRS or the courts will agree with the treatment of the Debentures as debt.

In the event the Debentures are recharacterized as equity, the payments on the Debentures likely would constitute guaranteed payments for the use of capital that are treated as made from sources outside the United States for U.S. federal income tax purposes, provided (as is expected) the REIT is not engaged or deemed engaged in a trade or business in the United States. In such case, Non-U.S. Debenture Holders should be taxed in a similar manner as described below under "Taxation of Interest Earned on the Debentures". However, the treatment of guaranteed payments for source and U.S. withholding tax purposes is uncertain and the IRS may disagree with his treatment. In the event that the Debentures are recharacterized as equity and the payments on the Debentures would not be properly treated as non-U.S. source guaranteed payments for the use of capital, the tax consequences should be as described under "Taxation of Non-U.S. Unitholders as Partners."

The REIT has not sought any rulings concerning the treatment of the Debentures and the tax consequences described below are not binding on the IRS or the courts, either of which could disagree with the explanations or conclusions contained in this summary. Accordingly, prospective Non-U.S. Debenture Holders should consult with their tax advisors regarding the consequences to them of the possible recharacterization of the Debentures for U.S. federal income tax purposes.

Unless stated otherwise, the remainder of this discussion assumes the Debentures are characterized as debt for U.S. federal income tax purposes.

Taxation of Interest Earned on the Debentures

The REIT is assumed to be treated as a business entity organized outside the United States that is treated as a partnership and that is not subject to U.S. federal income tax (see later discussion "Taxation of the REIT and Non-U.S. Unitholders"). Further, Management has represented (and this summary assumes) that the REIT will not be engaged in a trade or business in the United States at any time during any taxable year. Further, although the REIT may receive U.S. source interest on the U.S. REIT Note, resulting in a financing arrangement under the "conduit financing" rules, those rules should not be applicable based on the assumption that, generally, the Non-U.S. Debenture Holders would be eligible for the portfolio interest exemption of the Code (and/or exempt under the Treaty) if they had received U.S. source interest directly from the REIT. As a result, interest paid on the Debentures by the REIT to Non-U.S. Debenture Holders should be treated as non-U.S. source interest income. Non-U.S. source interest income is not generally subject to U.S. federal income tax and does not result in a U.S. federal income tax filing requirement to a Non-U.S. Debenture Holder unless the interest income is treated as effectively connected with a U.S. trade or business ("**ECI**") of the Non-U.S. Debenture Holder.

Non-U.S. source interest income that is treated as ECI of a Non-U.S. Debenture Holder is generally subject to U.S. federal income tax on a net income basis at graduated rates, in the same manner as for U.S. persons. However, if the interest income is not considered to be attributable to a permanent establishment which the Non-U.S. Debenture Holder has (or is considered to have) in the United States ("**U.S. PE**"), it will not generally be subject to U.S. tax (although certain U.S. tax filings not described in this commentary are required to establish the exemption). If the Non-U.S. Debenture Holder earning interest that is ECI is a corporation, the interest may also be subject to an additional branch profits tax of 30 percent. The branch profits tax rate is generally 5 percent under the Treaty, but may be reduced to zero if a "branch termination" exception applies or if the Non-U.S. Debenture

Holder's aggregate amount of such interest and all other amounts earned by the Holder that are attributable to such U.S. PE does not exceed a CA$500,000 cumulative exemption amount. The branch profits tax is described in further detail under "Disposition of Units."

In general, if the terms of a debt instrument entitle a holder of such debt instrument to receive payments (other than fixed periodic interest) that in total exceed the issue price of such debt instrument by more than a de minimis amount, the holder is required to include such excess amount in his or her gross income as "original issue discount" over the term of the instrument for U.S. federal income tax purposes. The Debentures should not be considered to be issued with original issue discount for U.S. federal income tax purposes.

Sale, Exchange, Redemption, Conversion or other Disposition of Debentures

A non-U.S. person's gain from the disposition of a United States Real Property Interest ("**USRPI**") is generally treated as ECI and is 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 United States, such as the U.S. REIT, the fair market value of whose interests in real property located in the United States, at any time in a five year testing period, equals or exceeds 50 percent of the fair market value of the sum of its interests in real property located in the United States, its interests in real property located outside the United States 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 the 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 the 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, such as the U.S. REIT stock owned by the REIT. A debt instrument, such as a Debenture, that is convertible into equity of a partnership is considered an interest in the partnership "other than solely as a creditor" and its disposition is treated in a manner similar to the disposition of an interest in a partnership owning USRPIs. Hence, gain from the disposition (including a retirement) of the Debenture should be treated as gain from the disposition of a USRPI to the extent attributable to gain of USRPI's owned by REIT under the "look-through" rule. Payments attributable to accrued interest are, however, taxed as previously described under "Taxation of Interest Earned on the Debentures" other than as gain.

Therefore, subject to the "Debenture 5 Percent Exception" described below, gain on the sale or exchange of the Debentures by a Non-U.S. Debenture Holder generally should be treated as ECI. The taxable amount (gain reduced by allocable deductions, if any) is subject to U.S. federal income tax at graduated rates (and possibly U.S. branch profits tax for a foreign corporate Non-U.S. Debenture Holder), similar to the tax consequences described under "Disposition of Units" with respect to Units not considered "regularly traded on an established securities market."

In addition, a Non-U.S. Debenture Holder realizing such ECI should be required to file a U.S. federal income tax return for the year of disposition (and must obtain a U.S. taxpayer identification number, "**U.S. TIN**").

5 Percent Exception May Apply to Gain on Debenture

A Non-U.S. Debenture Holder should not be subject to U.S. federal income tax and should not generally have a U.S. federal income tax filing requirement on the disposition of the Debentures as long as the Units continue to be regularly traded on an established securities market (see later discussion "Disposition of Units"), and provided also one of the following two conditions is satisfied (collectively, the "**Debenture 5 Percent Exception**"):

1. In the event that the Debentures are themselves considered to be regularly traded on an established securities market (see "Disposition of Units" for when a class of interest is considered to be regularly traded on an established securities market) and the Non-U.S. Debenture Holder does not hold, actually or constructively, more than 5 percent of the outstanding Debentures at any time during the shorter of the five-year period ending on the date of the disposition or the period the Debentures are held (the Traded Debenture 5 Percent Exception); or

2. The Debentures are not themselves considered to be regularly traded on an established securities market, but on the date such Debentures are acquired by the Non-U.S. Debenture Holder, such Debentures have a fair market value less than or equal to 5 percent of the fair market value of the REIT's total outstanding

Units and this ownership test continues to be met if a holder subsequently purchases additional Debentures (the Non-Traded Debenture 5 Percent Exception).

Complex constructive ownership and attribution rules apply in determining whether a person qualifies for the Debenture 5 Percent Exception.

Purchaser's Withholding Obligations

A purchaser is generally required to withhold 15 percent U.S. tax upon the purchase of Debentures from a Non-U.S. Debenture Holder. However, a purchaser of Debentures is not required to withhold tax if the Debentures are themselves considered "regularly traded on an established securities market," regardless of whether the selling Non-U.S. Debenture Holder owns more than 5 percent (actually or constructively) of all of the Debentures outstanding. Management is not certain whether the Debentures themselves will be considered "regularly traded on an established securities market."

A purchaser of Debentures is required to withhold and remit to the IRS 15 percent of the amount received from the sale if the Debentures are not themselves considered regularly traded and on the date the Debentures are acquired by the selling holder the Debentures had a fair market value greater than 5 percent of the fair market value of the REIT's total outstanding Units (i.e., the selling holder did not meet the Non-Traded Debenture 5 Percent Exception). A purchaser may not be able to determine whether a seller of the Debenture meets the Non-Traded Debenture Exception and, therefore, may be required to withhold and remit to the IRS 15 percent of the amount realized from the sale upon the purchase of Debentures. A Non-U.S. Debenture Holder that has sufficient proof of withholding may generally recover any excess withholding by filing a U.S. federal income tax return (with a U.S. TIN), provided the return is filed no later than two years after the tax is withheld.

Conversion of Debentures

A conversion of the Debentures into Units by a Non-U.S. Debenture Holder that meets the Debenture 5 Percent Exception generally should not be subject to U.S. federal income tax for the reasons stated above.

A Non-U.S. Debenture Holder that does not meet the Debenture 5 Percent Exception prior to the conversion and does not meet the Unit 5 Percent Exception after the conversion generally should not be subject to U.S. federal income tax if such Holder has no ECI for the tax year of the conversion and files a nonrecognition notice with the IRS within 20 days of the conversion. Non-U.S. Debenture Holders that do not meet the Debenture 5 Percent Exception prior to the conversion but meet the Unit 5 Percent Exception after the conversion should generally be subject to U.S. federal income tax in the same manner as described under "Disposition of Units".

Non-U.S. Debenture Holders, whether or not they meet the Debenture 5 Percent Exception, may still be subject to U.S. federal income tax if either the:

- Non-U.S. Debenture Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are also met. In this case, the gain, which may be offset by U.S. source capital losses, is subject to a flat 30 percent tax; or
- Gain is effectively connected with the conduct by the Non-U.S. Debenture Holder of a trade or business within the United States unless such Holder is a resident under the Treaty (or another U.S. income tax treaty) and is not considered to be attributable to a permanent establishment which the Non-U.S. Debenture Holder has, or is considered to have, in the United States. Gain attributable to a U.S. permanent establishment is subject to tax as previously described under "Taxation of Interest Earned on the Debentures" with respect to ECI.

Taxation of the REIT and Non-U.S. Unitholders

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 the REIT 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.

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 a publicly traded partnership if 90 percent 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 real estate investment trusts 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 IRS.

Management has represented to KPMG that it believes the REIT met the qualifying income exception that it expects the REIT will continue to meet the qualifying income exception in the current and all future tax years, and that the REIT will not elect to be treated as a corporation for U.S. federal income tax purposes. Therefore, the REIT 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 the REIT were treated as a flow-through entity for U.S. federal income tax purposes.

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 the REIT from the U.S. REIT and gains recognized by the REIT 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, payments and gains were recognized directly by the Unitholders, without regard to whether any distributions are or will be received from the REIT.

Pursuant to the Bipartisan Budget Act of 2015, if the IRS makes audit adjustments to income tax returns of the REIT for tax years beginning after 2017, it may collect any resulting taxes (including any applicable penalties and interest) directly from the REIT. The REIT will generally have the ability to shift any such tax liability to its Unitholders in accordance with their interests in the REIT during the year under audit. Pursuant to this new legislation, the REIT will designate a person (i.e., its general partner) to act as the partnership representative who shall have the sole authority to act on behalf of the REIT with respect to dealings with the IRS under these new audit procedures.

Taxation of Non-U.S. Unitholders as Partners

The following describes, in general terms, the U.S. federal income taxation to Non-U.S.Unitholders of gains and losses from the disposition of Units, of income and gains derived by the REIT from the U.S. REIT and from dispositions by the REIT of interests in the U.S. REIT. This description assumes the REIT is classified as a partnership and the U.S. REIT qualifies as a real estate investment trust for U.S. federal income tax purposes.

Disposition of Units

As mentioned earlier, 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, such as the U.S. REIT stock owned by the REIT. As such, gain on the sale or exchange of the Units by a Non-U.S. Unitholder is generally ECI and the taxable amount of ECI (gain reduced in most cases by allocable deductions) is subject to U.S. federal income tax at graduated rates. To the extent the Units are acquired by a Non-U.S. Unitholder cash basis taxpayer (or an accrual taxpayer who elects so) in a currency other than U.S. dollars, the Non-U.S. Unitholder's U.S. tax basis of the Units should generally equal the U.S. dollar value of the foreign

currency on the settlement date of the acquisition. Likewise, to the extent the amount realized upon a disposition of Units by a cash basis taxpayer (or an accrual taxpayer who elects so) are in a currency other than U.S. dollars, the amount realized generally should equal the U.S. dollar value of the foreign currency on the settlement date of the disposition. A Non-U.S. Unitholder is required to file a U.S. federal income tax return using its U.S. TIN for the year of disposition. Additionally, a corporate Non-U.S. Unitholder may be subject to U.S. branch profits tax on gain recognized from the disposition of a USRPI. U.S. branch profits tax is imposed in addition to regular federal income tax at the rate of 30 percent on the foreign corporation's "dividend equivalent amount" determined in accordance with Section 884 of the Code, subject to reduction under the Treaty for eligible corporations to the applicable dividend withholding rate under the Treaty (i.e., 5 percent of earnings attributable to a permanent establishment in excess of a Cdn$500,000 cumulative exemption amount). Corporate Non-U.S. Unitholders should consult with their advisors to determine whether they are potentially liable for U.S. branch profits taxes on the sale or other disposition of their Units and their eligibility for a reduced rate under a treaty, including any relevant filing requirements.

Exception from USRPI Classification – Unitholders Holding Not More than 5 Percent

If the Units are considered "regularly traded on an established securities market," gains recognized from the disposition of such partnership Units would not be subject to U.S. federal income tax nor would they generally result in a U.S. federal income tax filing requirement to a Non-U.S. Unitholder who did not hold, actually or constructively, more than 5 percent of the outstanding Units at any time during the shorter of the five-year period ending on the date of disposition or the period during which such Units were held (the "**Unit 5 Percent Exception**"). Complex constructive ownership and attribution rules apply in determining whether a person qualifies for the Unit 5 Percent Exception. In addition, a purchaser of Units from a Non-U.S. Unitholder is not required to withhold tax if the Units are considered "regularly traded on an established securities market," regardless of whether the selling Non-U.S. Unitholder met the Unit 5 Percent Exception.

An established securities market includes national securities exchanges outside the United States that are officially recognized, sanctioned or supervised by governmental authority and should include the Exchange. An established securities market also includes an over-the-counter market that is reflected by the existence of an interdealer quotation system. An interdealer quotation system is any system of general circulation to brokers and dealers which regularly disseminates quotations of stocks and securities by identified brokers or dealers, other than by quotation sheets which are prepared and distributed by a broker or dealer in the regular course of business and which contain only quotations of such broker or dealer.

In general terms, the Regulations consider units in a partnership traded on the Exchange to be regularly traded in a particular quarter if each of four tests is met (the "**Exchange Publicly Traded Exception**").

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 percent if the average number of partners of record is 2,500 or more and 7.5 percent 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 percent 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 owners 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 percent of any class of units in the partnership that are traded.

Where the Units are regularly traded on both the Exchange and a U.S. established securities market, such as the OTCQX, during a calendar year (the "**U.S. Publicly Traded Exception**"), the aforementioned four tests generally should not need to be met for such calendar year.

Under the U.S. Publicly Traded Exception, unlike the Exchange Publicly Traded Exception, there is no specific requirement as to the volume of trading that must occur. The Regulations provide that a class of interests

(such as the Units) that is traded on an established securities market located in the United States is considered to be regularly traded for any calendar quarter during which it is regularly quoted by brokers or dealers making a market in such interest. A broker or dealer makes a market in a class of interests only if the broker or dealer holds himself out to buy or sell interests in such class at the quoted price.

Management has represented that it has received legal advice that under applicable U.S. securities laws the OTCQX tiers of OTC Markets Group Inc. are over-the-counter markets that have an interdealer quotation system of general circulation to brokers and dealers which regularly disseminates quotations of stocks and securities by identified brokers or dealers, other than by quotation sheets prepared and distributed by a broker or dealer in the regular course of business and which contain only quotations of such broker or dealer. As such, the OTCQX tiers of OTC Markets Group Inc. should be treated as an "established securities market" located in the United States. Neither the Code, the applicable Regulations, administrative pronouncements nor judicial decisions provide guidance as to the frequency or duration with which the Units must be quoted and traded during a calendar quarter to be considered "regularly traded" on an established securities market located in the United States. Due to the lack of guidance, investors are cautioned that there can be no assurance that the IRS will concur that the U.S. Publicly Traded Exception is satisfied by the REIT at any time.

Management has represented to KPMG that it believes that the Units have satisfied the regularly traded standards of the Regulations in previous taxable years, and management expects the Units to continue to satisfy such standards. Management has also represented to KPMG that it has and will continue to have procedures in place to limit the likelihood that the regularly traded 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 during a particular Non-U.S. Unitholder's holding period.

If the Units are not considered "regularly traded on an established securities market", the sale of Units by a Non-U.S. Unitholder generally would be subject to U.S. federal income tax at normal graduated rates with respect to gain recognized, including any U.S. branch profits tax with respect to a corporate Non-U.S. Unitholder, as described earlier. In addition, a purchaser of Units would be required to withhold tax at the rate of 15 percent of the amount realized from the sale and to report and remit such tax to the IRS. Such withheld amount would not be an additional tax but would be a credit against the Non-U.S. Unitholder's U.S. federal income tax liability arising from the sale, and the Non-U.S. Unitholder would be required to obtain a U.S. TIN and file a U.S. federal income tax return. Furthermore, even though management expects that the Units will satisfy the regularly traded standards of the Regulations, a prospective purchaser of Units may disagree with this position.

Non-U.S. Unitholders that meet the 5 Percent Exception may still be subject to U.S. federal income tax if either:

1. The Non-U.S. Unitholder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are also met; or

2. The gain is effectively connected with the conduct by the Non-U.S. Unitholder of a trade or business within the United States unless such Unitholder is a resident under the Treaty (or another U.S. income tax treaty) and such gain is not considered to be attributable to a permanent establishment which the Non-U.S. Unitholder has, or is considered to have, in the United States.

FIRPTA Tax, Withholding and Filing Requirements on a Non-U.S. Unitholder's Distributive Share of the REIT's USRPI Gains

The Unit 5 Percent Exception only applies to gain from the disposition by a non-U.S. person of a partnership interest. It generally does not extend to other gains recognized (or considered to be recognized) by a Non-U.S. Unitholder attributable to the actual or deemed disposition of USRPIs that may result from an investment in the REIT ("**Non-Exempt Gains**").

As the REIT is a Canadian limited partnership and is not currently a "qualified shareholder" (within the meaning of Section 897(k)(2) of the Code), a Non-U.S. Unitholder may recognize Non-Exempt Gains from one of three main sources, even if the REIT meets the regularly traded on an established securities market requirements of the Regulations and the Non-U.S. Unitholder owned 5 percent or less of the REIT's listed Units throughout a five year holding period. These three main categories of Non-Exempt Gains are:

1. A Non-U.S. 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;

2. Distributions made by the U.S. REIT in excess of both its earnings and profits and the REIT's adjusted basis in the shares of the U.S. REIT; and

3. Gain from the sale or exchange by the REIT of its shares of the U.S. REIT.

With respect to the first category, Non-Exempt Gain resulting from gain recognized by the U.S. REIT upon a disposition of any of its properties (including USRPIs) will be determined by reference to the U.S. REIT's tax basis therein. Such basis is not adjusted to take into account the price at which the Units are offered or sold.

With respect to the second and third categories, the REIT'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 REIT does not expect to file a Section 754 election. Accordingly, the REIT does not expect gains and losses recognized by its Non-U.S. Unitholders to affect the amount of its Non-Exempt Gains from the disposition (or the deemed disposition) of its U.S. REIT shares. To the extent the REIT recognizes Non-Exempt Gains, a Non-U.S. Unitholder's distributive share of such income in the particular year may not be proportionate to a Non-U.S. Unitholder's distributive share of cash distributions for such year.

Generally, the taxable amount (gain reduced by deductions in most cases) of such Non-Exempt Gain is subject to tax to the Non-U.S. Unitholders at graduated rates with a maximum rate of 20 percent for long term capital gains recognized through the REIT by nonresident alien individuals and a maximum rate of 35 percent for gains recognized through the REIT 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 Non-U.S. 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 a nonresident alien individual Unitholder's gain attributable to depreciation previously taken with respect to such USRPI will be taxed at a maximum rate of 25 percent. Non-Exempt Gains from the second and third categories are long-term capital gains only if the distribution or sale is in respect of shares in the U.S. REIT held by the REIT for more than one year. Gains which are attributable to distributions to a non-resident alien individual of short-term capital gains are taxed at graduated income tax rates of up to 39.6 percent.

Additionally, a corporate Non-U.S. Unitholder may be subject to U.S. branch profits tax on its distributive share of distributions made by the U.S. REIT to the REIT attributable to the sale or exchange of USRPIs by the U.S. REIT, as previously discussed. Corporate Non-U.S. Unitholders should consult with their tax 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 a treaty, including any relevant filing requirements.

A publicly traded partnership that has ECI generally must withhold and remit U.S. withholding tax ("**Section 1446 Withholdings**") on any distributions of ECI made to non-U.S. 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 Non-U.S. Unitholder. Section 1446 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. Hence, the REIT will be required to withhold Section 1446 Withholdings at 39.6

percent for any Non-Exempt Gains included in the distributive shares of nonresident alien individual Unitholders and 35 percent for any Non-Exempt Gains included in the distributive shares of corporate Non-U.S. Unitholders.

As discussed above, Non-Exempt Gains may result from distributions made by the U.S. REIT to the REIT 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 REIT's adjusted basis in its U.S. REIT shares, and the sale or exchange by the REIT of shares of the U.S. REIT. Such Non-Exempt Gains generally are 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 percent 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 REIT's adjusted basis in the U.S. REIT shares, Section 1445 Withholdings are required at a rate of 15 percent of the portion of such distribution in excess of both the U.S. REIT's earnings and profits and the REIT's adjusted basis in the U.S. REIT shares. Finally, in the case of the sale or exchange by the REIT of shares of the U.S. REIT, Section 1445 Withholdings are required at a rate of 15 percent of the amount realized on such sale or exchange.

Under the Regulations, the REIT may claim as a credit against its liability for Section 1446 Withholdings the amount of Section 1445 Withholdings.

Management has represented to KPMG that it intends to take all reasonable steps necessary to limit the REIT from recognizing Non-Exempt Gains that may cause a Non-U.S. 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 REIT has no plans to sell its U.S. REIT shares nor does the U.S. REIT have plans to make distributions in excess of the sum of its earnings and profits and the REIT'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 units of Lodging Enterprises, AHIP Enterprises, or IML Enterprises, or to cause any such entity to make a distribution in excess of the sum of its earnings and profits and the U.S. REIT's adjusted basis in its units. However, no assurances can be given that Non-Exempt Gains will not be included in a particular Non-U.S. Unitholder's distributive share of the REIT's income in a particular year. As such, no assurances can be given that a Non-U.S. Unitholder will not have U.S. tax return filing obligations in one or more years arising as a result of an investment in the REIT (and no assurances can be given that a Non-U.S. Unitholder will not be subject to the U.S. withholding tax rules described above).

Distributions made by the U.S. REIT to the REIT that are in excess of U.S. earnings and profits but that are not in excess of the REIT'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 15 percent rate unless the REIT obtains a withholding certificate from the IRS and the withholding certificate waives the Section 1445 Withholdings. The REIT 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 IRS 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 Non-U.S. Unitholder may generally take its distributive share of Section 1446 Withholdings and Section 1445 Withholdings into account in determining whether estimated tax payments are required.

Non-U.S. 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 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. Non-U.S. Unitholders are required to file a U.S. federal income tax return, with a U.S. TIN, to report their distributive shares of Non-Exempt Gains without regard to the amount of tax withheld.

Non-U.S. Unitholders' Distributive Share of the REIT's Non-ECI Income

Nonresident alien individuals and non-U.S. corporations are generally subject to U.S. federal income tax on fixed or determinable, annual or periodic income received from U.S. sources ("**FDAP**"), 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 percent U.S. tax applied to the gross amount (with no allowance for deductions) of FDAP 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 ECI, discussed earlier.

The 30 percent tax on the gross amount of U.S. source FDAP payments to a nonresident alien individual or non-U.S. corporation is generally collected through withholding 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 REIT, which is organized outside the United States and which has non-U.S. partners. Withholding is generally required at a 30 percent rate, unless a lower rate applies under an applicable U.S. treaty and certain documentation requirements are met. A withholding agent which has deducted and withheld U.S. federal income tax on FDAP on behalf of the REIT is required to file information Form 1042-S on behalf of the REIT with respect to each partner to whom a payment was made (or deemed made).

Treaty Reduced Rates of U.S. Tax on FDAP

U.S. source FDAP payments that would otherwise be subject to the 30 percent Section 1441 FDAP Withholding at source when paid to a non-U.S. partnership (such as the REIT) are treated as being made directly to the partners of the non-U.S. partnership in certain circumstances. For example, a payment made to a non-U.S. partnership with non-U.S. partners is treated as made directly to a non-U.S. partner if the non-U.S. partnership satisfies certain documentation requirements and a non-U.S. clearing organization (or a 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 non-U.S. 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 Section 1441 FDAP Withholding tax on FDAP payments are not available under the Treaty unless the beneficial owner is a "qualifying person" under the Treaty. A resident of Canada (within the meaning of the Treaty) who is a natural person generally is a qualifying person 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.

Likewise, income received by a TFSA should be 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 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 REIT should consult their tax advisors to determine whether they are eligible for Treaty-reduced rates of tax.

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 FDAP 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 U.S. REIT and its taxable REIT subsidiaries and the REIT should not be treated as hybrid entities either under the Code or under the Treaty. Accordingly, Non-U.S. Unitholders should be eligible for Treaty-reduced rates on their distributive shares of FDAP paid by the U.S. REIT and received through the REIT to the same extent as if they had received such FDAP directly.

Ordinary REIT Dividends

Distributions out of a real estate investment trust'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 the 30 percent Section 1441 FDAP Withholding tax at source with no allowance for deductions.

A Canadian resident Unitholder's distributive share of ordinary REIT dividends from the U.S. REIT may be subject to a Treaty-reduced rate of tax if such Unitholder is also a "qualifying person" under the Treaty. The applicable Treaty rates of Section 1441 FDAP Withholding on a Canadian resident Unitholder's distributive share of ordinary REIT dividends from the U.S. REIT that are not ECI should be zero for RRSPs and 15 percent for individuals, including TFSAs. Canadian resident corporate Unitholders should consult with their tax advisors to determine whether they are eligible for the 15 percent 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 Canadian resident Unitholder's distributive share of the U.S. REIT's ordinary dividends if that Unitholder beneficially owns, through the REIT, a greater than 10 percent interest in the U.S. REIT.

A Non-U.S. Unitholder that has sufficient proof of withholding may generally recover any excess withholding by filing a U.S. federal income tax return (with a U.S. TIN) for the year in which the distribution is received, provided the return is filed no later than two years after the tax is withheld.

U.S. Source Interest Income

Some or all of the net proceeds from the issuance of the Debentures may be used by the REIT to acquire an unsecured subordinated, non-convertible note (the U.S. REIT Note). This commentary assumes the U.S. REIT Note is treated as debt for U.S. federal income tax purposes. A Non-U.S. Unitholder's distributive share of non-contingent interest income on the U.S. REIT Note that is not ECI of a Non-U.S. Unitholder is generally not subject to the 30 percent FDAP Tax and is exempt from U.S. withholding tax under either the Treaty or the U.S. "portfolio interest exemption."

However, for the portfolio interest exemption to apply to such non-contingent interest income, the following requirements must be met:

- The Non-U.S. Unitholder does not actually (or constructively) own 10 percent or more of the total combined voting power of U.S. REIT's voting stock within the meaning of the Code and the Regulations;
- The Non-U.S. Unitholder is not a "controlled foreign corporation" that is "related" to U.S. REIT through stock ownership;
- The Non-U.S. Unitholder is not a bank; and
- The Non-U.S. Unitholder provides certain certification that it is not a U.S. person.

The 385 Regulations generally should not apply to the U.S. REIT Note as it is held by the REIT, which management represents is not a controlled partnership. Nonetheless, the determination of whether the U.S. REIT Note is debt for U.S. federal income tax purposes is also based on an analysis of all of the relevant facts and circumstances. There is no clear authority characterizing a similar arrangement as debt for U.S. federal income tax purposes. Consequently, there can be no assurance that this position will not be challenged by the IRS. If the U.S. REIT Note was successfully recharacterized by the IRS as equity, then the interest payments would be treated as distributions by U.S. REIT and would potentially be taxable as discussed under "Taxation of Non-U.S. Unitholders as Partners."

Interest Deduction Allocated from the REIT

Interest deductions attributable to the Debentures which are allocated from the REIT to the Unitholders should not generally be available to offset the U.S. taxable income recognized by the REIT and allocated to Non-U.S. Unitholders (i.e., Non-Exempt Gains, ordinary REIT dividends, interest income).

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 United States, unless a deduction

or exclusion is available. Gifts of intangible property made by non-domiciliary individuals are generally not subject to the gift tax, even if the intangibles are located in the United States (e.g., U.S. stocks and bonds). Intangible property includes shares of stock issued by a corporation and debt obligations. Thus, if a Debenture is respected as a debt obligation, a gratuitous transfer of a Debenture by a non-domiciliary individual should not be subject to U.S. gift tax.

A gratuitous transfer of a partnership interest (such as a Unit or a Debenture if it is not respected as a debt obligation) 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 IRS 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 IRS has placed this issue on its "no-rule" list.

The U.S. gift tax rules relating to partnership interests are complex and unsettled. As such, Non-U.S. Unitholders and Non-U.S. Debenture Holders should consult with their tax advisors for more specific information and advice regarding their U.S. gift tax exposure before making a gift of a Unit or a Debenture.

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 United States. For example, stocks and bonds of corporations organized in the United States and real property located in the United States are included in a non-domiciliary individual's U.S. estate.

The transfer of a partnership interest (such as a Unit or perhaps a Debenture if it is not respected as a debt obligation) 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 United States. The place where a partnership interest is situated is not addressed in the Code and the issue has not been judicially resolved. However, the IRS has ruled that a partnership interest is situated "where the partnership business is carried on."

Substantially all of the REIT's assets will be comprised of shares of the U.S. REIT, which will likely be considered property situated in the United States for U.S. estate tax purposes. As such, the IRS may take the view that the REIT's business is carried on in the United States and that Units (or Debentures if they are not respected as debt obligations) owned by a non-domiciliary individual Unitholder will constitute property having an estate tax situs in the United States, 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 (or Debentures) at the time of death.

The transfer of a debt obligation by a non-domiciliary at death will not be subject to U.S. estate tax if the obligation is not considered to be situated in the United States. Generally, debt obligations are situated in the United States if the primary obligor is a U.S. person. Moreover, a debt obligation does not constitute property having a U.S. estate tax situs if the interest thereon would be eligible for the portfolio interest exemption if received by the decedent at the time of his death. However, there is no clear guidance with respect to the treatment of debt obligations with a conversion feature. Therefore, even if the Debentures are respected as debt obligations, the IRS may not agree that the Debentures are exempt from U.S. estate tax, even though the REIT is not a U.S. person and even if interest paid on the Debentures qualifies for the portfolio interest exemption with respect to the decedent.

The U.S. estate tax rules relating to partnership interests and debt obligations are complex and remain unsettled. As such, Non-U.S. Unitholders and Non-U.S. Debenture Holders should consult with their tax advisors for more specific information and advice regarding their specific U.S. estate tax exposure (and any potential relief under the Treaty) should such Non-U.S. Unitholders hold Units or Non-U.S. Debenture Holders hold Debentures at the time of their deaths.

U.S. Federal Income Taxation of the U.S. REIT

Management represented to KPMG that it believes that the U.S. REIT met the requirements to qualify as a real estate investment trust in all previous taxable years and that it expects that U.S. REIT will continue to meet the requirements to qualify as a real estate investment trust in the current and all future years. Management further represented that the U.S. REIT elected to be taxed as a real estate investment trust commencing with its first taxable year ended December 31, 2013 and that it intends to maintain such election to be taxed as a real estate investment

trust in the current and future years. However, qualifying as a real estate investment trust depends on an entity meeting various requirements each taxable year. As such, there is no assurance that the U.S. REIT will qualify as a real estate investment trust. The failure of the U.S. REIT to qualify as a real estate investment trust in any 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 real estate investment trust qualification rules and the significant U.S. federal income tax consequences to a business entity electing to be taxed as a real estate investment trust.

The sections of the Code and the Regulations relating to qualification and operation as a real estate investment trust are highly technical and complex. The following discussion sets out, in very general terms, the material aspects of the Code and the Regulations that govern the U.S. federal income tax treatment of the U.S. REIT.

A business entity that qualifies and timely elects to be taxed as a real estate investment trust 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 subject to “alternative minimum tax” on items of tax preference, if any.

- 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 percent tax on net income from “prohibited transactions.” Prohibited transactions are generally sales or other dispositions of property, other than foreclosure property, held as inventory or primarily for sale to customers in the ordinary course of business.

- The U.S. REIT is subject to a 100 percent tax on certain transactions with its taxable REIT subsidiaries (defined generally below) if such transactions are not at “arm’s-length,” as defined in the Code.

- If the U.S. REIT fails to satisfy either the 75 percent or 95 percent gross income test (as discussed below) but has nonetheless maintained its qualification as a real estate investment trust because it has met certain other requirements, the U.S. REIT will be subject to a 100 percent tax on an amount equal to the greater of the amount by which it fails the 75 percent or 95 percent 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 real estate investment trust asset tests (as discussed below), other than a de minimis failure of the 5 percent or 10 percent real estate investment trust asset test (as described more fully below), it may continue to qualify as a real estate investment trust 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 real estate investment trust 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 real estate investment trust.

- The U.S. REIT is subject to a 4 percent 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 percent of its ordinary income, 95 percent of its capital gain net income, and any undistributed amounts from prior periods.

- If the U.S. REIT acquires appreciated assets from a "C-corporation" (i.e., a corporation generally subject to corporate income tax) in a transaction in which the adjusted tax basis of the assets in U.S. REIT's hands is determined by reference to the adjusted tax basis of the assets in the hands of the C-corporation, the U.S. REIT may be subject to tax on such appreciation at the highest corporate income tax rate then applicable if it subsequently recognizes gain on a disposition of such assets during the five-year period following its acquisition from the C-corporation. The results described in this paragraph assume that the C-corporation will not elect in lieu of this treatment to be subject to an immediate tax when the asset is acquired by the U.S. REIT.

Requirements for Real Estate Investment Trust Qualification

To qualify as a real estate investment trust, a business entity must timely elect to be treated as a real estate investment trust and must meet certain organizational, operational, income, asset and distribution requirements, discussed in very general terms below.

Organizational Requirements

The Code defines a real estate investment trust 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 real estate investment trust provisions of the Code;

4. Is neither a financial institution nor an insurance company;

5. Is beneficially owned by at least 100 persons (the "**100 Shareholder Requirement**");

6. Not more than 50 percent 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 (the "**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 real estate investment trust election is made.

A real estate investment trust's taxable year must be the calendar year. A real estate investment trust cannot have earnings and profits as of the close of any real estate investment trust taxable year that were accumulated in a non-real estate investment trust taxable year. As discussed more fully below under the heading "Annual Distribution Requirements," the U.S. REIT is required to make dividend distributions (other than capital gain dividends) equal to at least 90 percent of real estate investment trust taxable income, determined without regard to the deduction for dividends paid and by excluding any net capital gain, plus 90 percent of the excess of net income from foreclosure property over the tax imposed on such income, less "excess non-cash income." A real estate investment trust is also required to maintain certain records pertinent to its qualified real estate investment trust status.

REIT Subsidiaries

A "qualified REIT subsidiary" is a corporation (other than a taxable REIT subsidiary) 100 percent of the stock of which is owned by the real estate investment trust. 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 real estate investment trust.

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 real estate investment trust income or to hold nonqualified real estate investment trust assets. A TRS is an entity taxed as a corporation (other than a real estate investment trust) in which the real estate investment trust directly or indirectly owns stock and for which a joint election is timely made by the real estate investment trust and by the subsidiary. A corporation (other than a real estate investment trust) of which a TRS directly or indirectly owns more than 35 percent 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 " lodging facility" or a "health care facility" 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 facility is operated, unless such rights are provided (in the TRS' capacity as a licensee, franchisee or similar capacity) to an "eligible independent contractor" ("**EIK**") (as defined below) to enable it to operate or manage a lodging facility or health care facility and such lodging facility or health care facility is either owned by the TRS or leased to the TRS by its parent real estate investment trust. A "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. A 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 the real estate investment trust. A "qualified lodging facility" means any lodging facility in which no authorized gambling activities are conducted.

A TRS is not considered to operate or manage a qualified lodging facility or a qualified health care facility 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) it 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 real estate investment trust 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) it does not own, directly or indirectly, more than 35 percent of the REIT's stock, and (iii) not more than 35 percent of such person is owned, directly or indirectly, by one or more persons owning 35 percent or more of the real estate investment trust's stock. For purposes of determining whether those ownership limits are satisfied, actual ownership as well as constructive ownership under the rules of Section 318 of the Code (with certain modifications) are taken into account. The U.S. REIT and Lodging Enterprises have timely filed, the U.S. REIT and AHIP Enterprises have timely filed, and the U.S. REIT and IML Enterprises have timely filed, a joint election for Lodging Enterprises, AHIP Enterprises, and IML Enterprises (together the "**Hotel TRSs**") each to be treated as a TRS of the U.S. REIT. The lodging and hotel properties, which the U.S. REIT believes constitute qualified lodging facilities, are leased by the U.S. REIT to the Hotel TRSs, which engage EIKs to operate such facilities.

Lodging Enterprises and IML Enterprises have contracted the Rail Hotel Manager to manage and operate the Oak Tree Inn Hotels and the Rail Portfolio, respectfully. AHIP Enterprises contracted the Master Hotel Manager to manage and operate the Branded Hotels. The U.S. REIT and the Hotel TRSs believe that they have taken, and intend to continue to take, all steps reasonably practicable to ensure that the Hotel TRSs have not engaged in, and will not engage in, directly or indirectly, the operation or management of the respective lodging and/or hotel properties, and that Rail Hotel Manager and Master Hotel Manager (and any subcontractors thereof) have qualified and will continue to qualify as EIKs with respect to the Hotel TRSs and the U.S. REIT.

In order for the base rent, percentage rent and additional charges paid by the Hotel TRSs to U.S. REIT to constitute "rents from real property" for the purposes of the 75 percent and the 95 percent gross income tests (see discussion under *Annual Income Requirements* below), the leases between the Hotel TRSs and the U.S. REIT must be respected as true leases for U.S. federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. The U.S. REIT intends for each lease to the Hotel TRSs be treated as a true lease for U.S. federal income tax purposes. The determination of whether the leases are true leases for U.S. federal income tax purposes depends upon an analysis of all the surrounding facts and circumstances. In making such a determination, courts have considered a variety of factors, including the following:

- The intent of the parties;

- The form of the agreement;
- The degree of control over the property that is retained by the property owner (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, Section 7701(e) of the Code 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.

Any leases between the U.S. REIT (and/or the U.S. REIT's qualified REIT subsidiary) and the Hotel TRSs have been, or 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 entered into, or to be entered into, by the U.S. REIT and the Hotel TRSs:

- The U.S. REIT (as the lessor) and the applicable Hotel TRS (as the lessee) intend for their relationship to be that of a lessor and lessee, and such relationship is, or will be, documented by a lease agreement;
- The lessee has, or 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 has borne, or will bear, the cost of, and is, or will be, responsible for day-to-day maintenance and repair of the properties other than the cost of certain capital expenditures, and has dictated, or 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 to or destruction of 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 is, or 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 percent of its expected useful life on the date the lease was entered into, and a fair market value of at least 20 percent 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 a 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 percent or 95 percent gross income test described below, and as a result, would lose its real estate investment trust status.

Dividends from the Hotel TRSs to the U.S. REIT should qualify for the purposes of the 95 percent gross income test but not for the purposes of the 75 percent 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 the Hotel TRSs (as TRSs of the U.S. REIT) and fees for services performed by the Hotel TRSs and/or other TRSs for or on behalf of the U.S. REIT, are subject to a 100 percent tax to the extent the IRS were able to assert successfully that a deduction for such item(s) by the TRSs or recognition of income by the TRSs, as applicable, could be reduced, or increased, in the case of fees, under specified arm's length standards required by the Code. Such tax would be in lieu of an actual reduction of the deducted item or increase to TRS income.

The U.S. REIT and the Hotel TRSs intend that transactions between the U.S. REIT and the Hotel TRSs reflect arm's-length standards required by the Code.

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 and foreign currency transactions, annually:

1. At least 75 percent of the U.S. REIT's gross income (the "**75 percent gross income test**"), excluding gross income from prohibited transactions and certain hedging and foreign currency transactions, must be derived from:
   (a) Rents from real property, as defined in the Code;
   (b) Interest on obligations secured by mortgages on real property or on interests in real property and for taxable years beginning after December 31, 2015, interest on obligations secured by mortgages on both real property and personal property provided the fair market value of such personal property does not exceed 15 percent of the total fair market value of real property and personal property combined;
   (c) Gain from the sale of real property that is not held primarily for sale;
   (d) Income and gain derived from "foreclosure property" (as previously described);
   (e) Income from certain temporary investments (described below); and
   (f) Certain other real estate-related income.

2. At least 95 percent of the U.S. REIT's gross income (the "**95 percent gross income test**"), excluding gross income from prohibited transactions and certain hedging and foreign currency transactions, must be derived from:
   (a) Income described in the 75 percent gross income test, above;
   (b) Dividends, including dividends from a TRS;
   (c) Interest (whether or not secured by a mortgage); and
   (d) 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 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 percent 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 real estate investment trust;

2. Any amounts received from a tenant that is directly or indirectly 10 percent or more 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 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 real estate investment trust 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" from whom the real estate investment trust does not derive or receive any income; or (2) a TRS of the real estate investment trust, then such services, management or operation is not treated as furnished, rendered or provided by the real estate investment trust for purposes of determining whether they create ITSI. In addition, certain customary services may be provided directly by the real estate investment trust without causing amounts to be treated as ITSI. Nonetheless, if the amount of ITSI as determined under the preceding rules exceeds 1 percent of all amounts received or accrued directly or indirectly during the taxable year by the real estate investment trust 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 real estate investment trust is subject to a 100 percent tax on its net income from "prohibited transactions." A prohibited transaction includes the sale of property held as inventory or primarily for sale to customers in the ordinary course of business other than a foreclosure property. Whether property is held as inventory or 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 if:

1. The real estate investment trust 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 real estate investment trust or its partner on the property during the two-year period prior to the sale do not exceed 30 percent of the property's net selling price; and

3. The real estate investment trust (a) makes no more than seven sales of property during the taxable year, (b) the aggregate tax basis of the properties sold during the year does not exceed 10 percent of the aggregate tax basis of all the real estate investment trust'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 percent of the fair market value of all of the real estate investment trust's assets, determined as of the beginning of the tax year. Alternatively, effective for taxable years beginning after December 18, 2015, the real estate investment trust satisfies (b) or (c) by substituting 10 percent with 20 percent provided that the average of its total sales over a three-year period does not exceed 10 percent (determined by reference either to the tax basis or fair market value of the properties as appropriate). If the real estate investment trust relies on the percentage of tax basis 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 or TRS in a prescribed manner.

Income from Certain Temporary Investments

Interest income on obligations not secured by real property and ancillary personal property, and certain other investment income may qualify under the 75 percent 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 real estate investment trust 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 percent 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, interests in mortgages on real property or on interests in real property, and shares in other real estate investment trusts and debt instruments issued by publicly offered real estate investment trusts), cash, cash items, and U.S. Government securities. For this purpose, real estate assets also include personal property leased with real property if the fair market value of such personal property does not exceed 15 percent of the total fair market value of all personal and real property combined leased under such lease.

- Not more than 25 percent 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 percent of the value of its total assets may consist of securities of TRSs (see earlier discussion) (reduced to 20 percent for taxable years starting after December 31, 2017).

- Not more than 5 percent 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).

- Effective for taxable years beginning after December 31, 2015, not more than 25 percent of the value of its total assets may be represented by "nonqualified publicly offered REIT debt instruments".

- The U.S. REIT may not hold securities that make up more than 10 percent 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 percent 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 real estate investment trust status if it fails to satisfy the asset tests at the end of a later quarter solely by reason of changes in 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 real estate investment trust 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 percent and 10 percent (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 U.S. REIT may be liable for a tax (as discussed above).

If the U.S. REIT fails to satisfy the real estate investment trust requirements, other than the gross income tests and the asset tests, it may avoid real estate investment trust 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 real estate investment trust that is disqualified as a real estate investment trust cannot generally again elect to become a real estate investment trust 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 real estate investment trust status and which is later disqualified as a real estate investment trust becomes subject to U.S. federal income tax as a U.S. corporation.

Annual Distribution Requirements

The U.S. REIT is required annually to distribute dividends (excluding capital gain dividends) in an amount at least equal to the sum of (i) 90 percent of its real estate investment trust taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain); and (ii) 90 percent 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. However, to the extent the U.S. REIT does pay a preferential dividend, the Treasury Secretary may provide an appropriate remedy to cure a preferential dividend in lieu of disallowing the dividends paid deduction if the Treasury Secretary determines that the preferential dividend is inadvertent or is due to reasonable cause and not due to willful neglect, or the failure is a type of failure identified by the IRS as being of so described.

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 percent of its ordinary income and more than 5 percent of its capital gain net income, it may be subject to 4 percent 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 Section 316 of the Code (because, for example, the amount exceeded the U.S. REIT's earnings and profits).

The U.S. REIT may choose to treat certain dividends 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 U.S. REIT's net capital gain for the year. In addition, the aggregate amount of capital gain dividends and certain qualified dividends designated by the U.S. REIT in a tax year is limited to the aggregate

amount of dividends paid by the U.S. REIT with respect to such 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 necessary 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 real estate investment trust 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.

U.S. Foreign Account Tax Compliance Act ("FATCA")

FATCA is U.S. tax legislation that generally imposes certain U.S. reporting and information gathering requirements, as well as a 30 percent withholding tax applied to certain payments received by a "foreign financial institution". Canada has incorporated the principles of FATCA into Canadian law by entering into an intergovernmental agreement ("**IGA**") with the U.S. and amending the Tax Act to include Part XVIII "Enhanced International Information Reporting". Part XVIII of the Tax Act requires a "reporting Canadian financial institution" to, amongst other things:

(a) Report to the CRA certain information regarding its U.S. holders and certain U.S. persons that indirectly hold interests in such Canadian financial institution (other than equity and debt interests that are regularly traded on an established securities market); and

(b) Comply with certain reporting, verification, due diligence and other procedures in respect of the financial accounts that it maintains.

In particular, a reporting Canadian financial institution must file, before May 2 of each year, a prescribed information return relating to each "U.S. reportable account" maintained by the institution at any time during the preceding calendar year. Such information will be exchanged by the CRA with the IRS in accordance with the provisions of the IGA. A reporting Canadian financial institution is generally relieved from certain provisions that would otherwise have been applicable to foreign financial institutions under FATCA, including the requirement to impose 30 percent withholding on certain U.S. source payments that it receives on behalf of its individual account holders and certain entity account holders. However, a reporting Canadian financial institution will be required to report to the CRA information about non-compliant account holders and payments made to entity account holders that are "nonparticipating financial institutions". In addition, a reporting Canadian financial institution will generally be required to pass up withholding instructions for certain U.S. source payments that it receives on behalf of certain non-compliant account holders.

Further, unless a reporting Canadian financial institution complies with the reporting requirements under Part XVIII of the Tax Act, it may itself be subject to 30 percent tax on certain payments it receives from U.S. withholding agents.

Pursuant to the IGA, the Tax Act, and published CRA guidance, the REIT may be a reporting Canadian financial institution. Accordingly, the REIT has registered on the IRS portal as a single financial institution and is taking the position that it is a reporting Canadian financial institution for purposes of Part XVIII of the Tax Act. Management of the REIT has represented to KPMG that the REIT has and will continue to take the necessary steps to comply with FATCA, including performing verification, due diligence, and where necessary, reporting procedures in respect of its Unitholders. The REIT will continuously monitor any future guidance from the IRS

and/or the CRA and will comply with any future changes in guidance as they relate to the REIT to ensure that it is fully compliant with any differing or additional requirements that such guidance may dictate.

EXCHANGE OF TAX INFORMATION

In 2016, the Tax Act was amended to include the Organization for Economic Co-operation and Development's Common Reporting Standard (the "**CRS Legislation**"). Pursuant to the CRS Legislation, "Canadian financial institutions" (as defined in the CRS Legislation) are required to have procedures in place to identify accounts held by residents of foreign countries (other than the U.S.) or held by certain entities the "controlling persons" of which are resident in such countries and to report prescribed information to the CRA. Such information would be exchanged on a reciprocal, bilateral basis with the countries in which the account holders or such controlling persons are resident where such countries have agreed to a bilateral information exchange with Canada under the Common Reporting Standard. Under the CRS Legislation, the term "Canadian financial institution" includes certain types of entities that are held for investment purposes and it is possible that the REIT will be considered a Canadian financial institution for purposes of the CRS Legislation. The REIT will monitor the progress of the CRS Legislation and follow guidance provided by the CRA to ensure that the REIT is fully compliant with the CRS Legislation upon coming into force on July 1, 2017. Therefore, after June 30, 2017, Unitholders and Debentureholders might be required to provide certain information regarding their investment in the REIT for the purpose of such information exchange (which information exchange is expected to occur beginning in 2018), unless the investment is held within a Plan.

RISK FACTORS

An investment in the Offered Units and Debentures involves a number of risks. Prior to making an investment in the Offered Units or Debentures, investors should carefully consider the risks described at pages 39-58 under the heading "Risk Factors" of the AIF which is incorporated by reference herein and available on SEDAR at www.sedar.com, the risks identified elsewhere in this Prospectus Supplement the Base Prospectus and the other documents incorporated by reference herein and therein and the risk factors set forth below. The risks described herein are not the only risks facing the REIT. Additional risks and uncertainties not currently known to the REIT, or that the REIT currently deems immaterial, may also materially and adversely affect its business.

Risks Related to the Acquisition of the Eastern Seaboard Portfolio

Completion of the Acquisition of the Eastern Seaboard Portfolio

The completion of the acquisition of the Eastern Seaboard Portfolio is subject to the satisfaction of certain conditions, customary for transactions of its nature. There is no certainty, nor can the REIT provide any assurance, that the aforementioned conditions will be satisfied or, if satisfied, when they will be satisfied. As a result, there can be no assurance that the REIT will complete such acquisition on the basis described in this Prospectus Supplement or by any particular date. If the REIT does not complete such acquisition or any part thereof, the REIT may be subject to a number of risks, including: (i) the price of the Units may decline to the extent that the current market price reflects a market assumption that such acquisition will be completed; (ii) certain costs related to such acquisition, such as legal, accounting and consulting fees, must be paid even if the acquisition is not completed; (iii) if the Offering is completed, the REIT may possess substantial unutilized acquisition capacity, which would cause its financial performance to be negatively impacted until suitable hotel properties are identified for acquisition and such acquisitions are completed; and (iv) there is no assurance that such suitable properties will be available to the REIT in the future or at all.

The Eastern Seaboard PSA may be terminated by the REIT or the Eastern Seaboard Sellers in certain circumstances

The REIT and the Eastern Seaboard Sellers have the right to terminate the Eastern Seaboard PSA in certain circumstances. Accordingly, there is no certainty that the Eastern Seaboard PSA will not be terminated by the REIT or the Eastern Seaboard Sellers. Furthermore, there is no assurance that an event giving rise to a right to terminate the Eastern Seaboard PSA will not occur before the closing date for the transactions contemplated by such agreement and, as a consequence, there can be no assurance that the acquisition of the Eastern Seaboard Portfolio, or any part thereof, will be completed under the Eastern Seaboard PSA, or at all. If the Eastern Seaboard PSA is terminated and the acquisition contemplated thereunder is not completed, in whole or in part, the market price of the

Units may be adversely affected and the REIT may have to pay certain termination or other fees to the Eastern Seaboard Sellers including, without limitation, the loss of the entire amount of the Deposit.

Possible Failure to Realize Expected Returns on the Acquisition of the Eastern Seaboard Portfolio

The acquisition of the Eastern Seaboard Portfolio involves risks that could materially and adversely affect the REIT's business plan, including the failure of such acquisition to realize the results the REIT expects. While management considers such acquisition not to be dilutive to the REIT's AFFO, such determination should not be regarded as a guarantee of future performance or results.

Potential Undisclosed Liabilities Associated with the Acquisition of the Eastern Seaboard Portfolio

The REIT has conducted its due diligence review of the hotel properties comprising the Eastern Seaboard Portfolio. There may be liabilities, including under applicable environmental laws, that the REIT failed to discover or was unable to quantify in the due diligence review prior to the closing of the acquisition of the Eastern Seaboard Portfolio, in whole or in part, and the REIT may not be indemnified for some or all of these liabilities. The subsequent discovery or quantification of any material liabilities could have a material adverse effect on the REIT's business, financial condition or future prospects, which may include diminution in the value of the affected properties or the inability to finance or dispose of the affected properties on acceptable terms.

Historical financial information and pro forma financial information

The historical financial information relating to the Eastern Seaboard Portfolio and the Midwestern 3 Embassy Suites Portfolio included or incorporated by reference in this Prospectus Supplement has been derived from third parties' historical accounting records. The REIT believes that the assumptions underlying the unaudited pro forma consolidated financial statements are reasonable.

The unaudited pro forma consolidated financial statements and related pro forma financial information included or incorporated by reference in this Prospectus Supplement, however, may not reflect what the REIT's financial position, results of operations or cash flows would have been had the REIT been a standalone entity owning the Eastern Seaboard Portfolio or the Midwestern 3 Embassy Suites Portfolio during the historical periods presented or what the REIT's financial position, results of operations or cash flows will be in the future.

In preparing the pro forma financial information included in and incorporated by reference in this Prospectus Supplement, the REIT has given effect to, among other items, the Offering and the completion of the acquisition of the Eastern Seaboard Portfolio and the acquisition of the Midwestern 3 Embassy Suites Portfolio. The estimates used in the pro forma financial information may not be similar to the REIT's actual performance going forward, and any differences may be material.

Interim operations of the Eastern Seaboard Portfolio

The REIT does not currently control or operate the Eastern Seaboard Portfolio and will not control or operate such assets until completion of the acquisition of such properties. Accordingly, the Eastern Seaboard Portfolio and its performance may be adversely affected by events that are outside the REIT's control, including as a result of decisions or acts made or taken by the Eastern Seaboard Sellers, prior to completing such acquisition without consulting with or obtaining the consent of the REIT.

No Financing Condition in the Eastern Seaboard PSA

There exists no condition for financing under the Eastern Seaboard PSA which the REIT can rely on to terminate such agreement. The REIT has not yet obtained a firm commitment from a lender to provide the CMBS or other debt financing for the acquisition of the Eastern Seaboard Portfolio which, together with a combination of the REIT's cash on hand and the net proceeds of the Offering, would provide enough funds to pay the expected purchase price for such acquisition and related transaction expenses. If the CMBS or other debt financing for the acquisition of the Eastern Seaboard Portfolio cannot be obtained or does not close, then the REIT may not have enough funds and cash on hand to complete such acquisition, which could have a material adverse effect on the REIT.

Debt Financing Terms

The CMBS financing or other mortgage debt for the acquisition of the Eastern Seaboard Portfolio if obtained by the REIT, will be subject to certain restrictive conditions that limit the discretion of management with respect to certain business matters, including financial covenants that require the REIT to meet certain financial ratios, financial condition tests and other restrictive covenants. A failure to comply with the obligations in the agreements governing such CMBS financing or new mortgage debt could result in a default which, if not cured or waived, may lead to a termination of such agreement.

Use of Property Appraisals

Caution should be exercised in the evaluation and use of the Eastern Seaboard Appraisal prepared by Colliers. A valuation is an estimate of market value. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Eastern Seaboard Appraisal is based on various assumptions of future expectations. Some of these assumptions may not materialize or may differ materially from actual experience in the future.

The Units may not necessarily trade at values determined solely by reference to the underlying value of the REIT's real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the initial appraisal of the value of the REIT's properties or the value of such properties from time to time.

Risks Related to the Offering

Use of Proceeds

The REIT intends to use the net proceeds from the Offering as set out under "Use of Proceeds" in this Prospectus Supplement. The use of proceeds as set out herein are based on the current expectations of management of the REIT; however, there may be circumstances where, for business reasons, a reallocation of funds may be necessary as determined at the discretion of the REIT, and there can be no assurance as of the date of this Prospectus Supplement as to how those funds may be reallocated.

To the extent that any of the net proceeds of this Offering remain uninvested pending their intended use, or are used to pay down indebtedness with a low interest rate, this Offering may result in substantial dilution, on a per Unit basis, to the REIT's net income and other measures used by the REIT.

Cash Distributions are Not Guaranteed

There can be no assurance regarding the amount of income to be generated by the Properties. The ability of the REIT to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the tenants of the Properties and any capital expenditure requirements. Unlike fixed-income securities, there is no obligation of the REIT to distribute to Unitholders any fixed amount, and reductions in, or suspensions of, cash distributions may occur that would reduce yield based on the Unit Offering Price. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions and allocations for tax purposes may change over time and may affect the after-tax return for investors. See "Principal Canadian Federal Income Tax Considerations".

Dilution

The number of Units the REIT is authorized to issue is unlimited. Subject to the rules of any applicable stock exchange on which the Units are listed and applicable securities laws, the REIT may, in its sole discretion, issue additional Units from time to time (including, without limitation, pursuant to the REIT's securities-based compensation plan or any other incentive compensation plan that may be introduced in the future), and the interests of the holders of Units may be diluted thereby.

Unit Offering Price and Debenture Offering Price

The Unit Offering Price and the Debenture Offering Price were each established by negotiation among the REIT and the Underwriters with reference to the market price of the Units and other factors, and may not be indicative of the price at which the Units or the Debentures will trade following the completion of the Offering.

Eligibility for Investment

Subject to the qualifications and assumptions discussed under the heading "Eligibility for Investment", the Offered Units, the Debentures and the Units issuable under the terms of the Debentures will be qualified investments under the Tax Act for Plans. However, there can be no assurance that the Offered Units, the Debentures or the Units issuable under the terms of the Debentures will continue to be qualified investments or tax laws relating to qualified investments will not be changed. If the Offered Units, the Debentures, or the Units issuable under the terms of the Debentures 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 RESP, the RESP may have its registration revoked. However, pursuant to the Proposed Amendments released by the Minister of Finance on March 22, 2017, an RESP would no longer be revocable if it holds securities that are not a qualified investment for the RESP.

Tax Consequences

Tax filings made or to be made by the REIT, including those related to income and expenses as well as those arising out of acquisition or disposition transactions, involve interpretations of the Tax Act and Code which, if interpreted differently or challenged by taxing authorities, could result in tax liabilities to the REIT, Unitholders, or Debentureholders. Further, the acquisition and disposition of businesses and assets by the REIT often involve various structuring events to complete the transactions in a tax efficient manner and, consequently, involve interpretations of the Tax Act and Code which, if interpreted differently or challenged by taxing authorities, could result in tax liabilities to the REIT, Unitholders, or Debentureholders.

There may be an enactment, promulgation or public announcement of a change or proposed change in tax law (including a specific proposal to amend the Tax Act or Code publicly announced by the Department of Finance (Canada) or the Minister of Finance of Canada or the IRS, respectively) or applicable case law or written and published interpretative guidance or policy of the CRA or the IRS or provincial or state equivalent that could result in a material impairment of, or materially adversely affect, the operations or financial or tax position of the REIT or its Subsidiaries.

Other Tax Matters

This Prospectus Supplement contains no representation or warranty with respect to income tax considerations in Canada, the U.S. or other jurisdictions, which may be relevant to a decision to invest in the Units or the Debentures nor should any of the information set out herein be construed to be tax advice to any prospective purchaser of the Offered Units or Debentures. Prospective purchasers of the Offered Units and Debentures should consult their own tax advisors with respect to the tax consequences of an investment in the Offered Units, the Debentures and the Units issuable under the terms of the Debentures in their particular circumstances.

Risks Related to the Debentures

The REIT may not be able to Satisfy Interest Payments on the Debentures

The likelihood that purchasers will receive the payments owing to them in connection with the Debentures will be dependent upon the financial health and creditworthiness of the REIT and the ability of the REIT to earn

revenues. The Debentures are subordinated to any Senior Indebtedness. This subordination may significantly reduce the possibilities for purchasers of obtaining payment of the amounts owed under the Debentures.

Market for Debentures

There is currently no market through which the Debentures may be sold. Even though an application has been made to list the Debentures (including any Debentures that may be issued pursuant to the Debenture Over-Allotment Option) on the Exchange, there can be no assurance that such listing application will be accepted by the Exchange and that a secondary market for trading in the Debentures will develop or that any secondary market, which does develop, will continue. Also, there can be no assurances that any such secondary market will be active.

Inability to Purchase on a Change of Control

The REIT will be required to offer to purchase all outstanding Debentures upon the occurrence of a Change of Control. However, it is possible that, following a Change of Control, the REIT will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. See "Description of Debentures – Change of Control".

Redemption prior to Maturity

The Debentures may be redeemed, at the option of the REIT, on and after June 30, 2020 and prior to the Maturity Date at any time and from time to time (provided that, in the case of any redemption between June 30, 2020 and June 30, 2021, the Current Market Price of the Units is not less than 125% of the Conversion Price upon payment of the principal, together with any accrued and unpaid interest). Debentureholders should assume that this redemption option will be exercised if the REIT is able to refinance at a lower interest rate or it is otherwise in the interest of the REIT to redeem the Debentures.

Conversion Following Certain Transactions

In the case of certain transactions, each Debenture will become convertible into securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction, as more fully described under the heading "Description of Debentures – Conversion Privilege". This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future.

Conversion Following Certain Transactions

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the REIT and its creditworthiness.

Subordination of Debentures

The Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all of the REIT's Senior Indebtedness. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the REIT, the assets that serve as collateral for any Senior Indebtedness would be made available to satisfy the obligations of the creditors of such Senior Indebtedness before being available to pay the REIT's obligations to Debentureholders. Accordingly, all or a substantial portion of the REIT's assets could be unavailable to satisfy the claims of the Debentureholders.

Dilution on Redemption

The REIT may, in certain circumstances, determine to redeem outstanding Debentures for Units or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Units. The issuance of additional Units may have a dilutive effect on Unitholders and an adverse impact on the price of the Units.

Prevailing Yields on Similar Securities

Prevailing yields on similar securities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline.

No Increased Payments if Withholding is Required

The Indenture will not contain a requirement that the REIT increase the amount of interest or other payments to Debentureholders in the event that the REIT is required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the Debentures (including on a conversion of a Debenture into Units). The General Partner, on behalf of the REIT, does not currently intend to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the Debentures (including a conversion of a Debenture into Units); however, the REIT is not providing any assurances that its intention will not change in the future. Non–residents of Canada should consult their tax advisors regarding the tax consequences of acquiring, holding, converting and disposing of Debentures.

AUDITORS, TRANSFER AGENTS, REGISTRARS AND DEBENTURE TRUSTEE

The auditors of the REIT are KPMG, of Vancouver, British Columbia. KPMG was appointed as auditors of the REIT on October 12, 2012.

The transfer agent and registrar for the Units is Computershare Investor Services Inc. at its principal transfer offices in Vancouver, British Columbia and Toronto, Ontario.

The transfer agent and registrar for the Debentures will be Computershare Trust Company of Canada at its principal transfer offices in Vancouver, British Columbia. Computershare Trust Company of Canada will be the Debenture Trustee pursuant to the Debenture Indenture.

LEGAL PROCEEDINGS

Management is not aware of any legal proceedings of a material nature to which either the REIT or any of its Subsidiaries is a party or of which any of their respective property is the subject matter.

EXPERTS

Certain legal matters in connection with this Offering will be passed upon by Farris, Vaughan, Wills & Murphy LLP, on behalf of the REIT, and by Blakes on behalf of the Underwriters. As of the date of this Prospectus Supplement, the partners and associates of Farris, Vaughan, Wills & Murphy LLP, and the partners and associates of Blakes, beneficially own, directly and indirectly, less than 1% of the outstanding securities of the REIT and its Affiliates.

KPMG, in its capacity as tax advisor to REIT, 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, in its capacity as tax advisor to REIT, has also prepared the summary set out under "Principal United States Federal Income Tax Considerations". As of the date of this Prospectus Supplement, KPMG does not beneficially own, directly or indirectly, any securities of REIT and its Affiliates.

KPMG are also the auditors of the REIT and have confirmed that they are independent with respect to the REIT within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

Colliers is named as having prepared the Sunstone Embassy Suites Appraisal (as defined in the Base Prospectus). See the disclosure in the Base Prospectus under the heading "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Independent Appraisal of the Sunstone Embassy Suites Portfolio". Colliers is also named in this Prospectus Supplement as having prepared the Eastern Seaboard Appraisal. See "Acquisition of the Eastern Seaboard Appraisal – Independent Appraisal of the Eastern Seaboard Portfolio". As at the date of such reports and this Prospectus Supplement, the partners and associates of Colliers beneficially owned, directly and indirectly, less than 1% of the outstanding securities of the REIT and its Affiliates.

HVS is named in the business acquisition report of the REIT dated January 31, 2017 with respect to the REIT's acquisition of the Midwestern 3 Embassy Suites Portfolio as having prepared an aggregate appraisal report in respect of the Midwestern 3 Embassy Suites Portfolio. As at the date of such reports and this Prospectus Supplement, the partners and associates of HVS beneficially owned, directly and indirectly, less than 1% of the outstanding securities of the REIT and its Affiliates.

The auditor of the Midwestern 3 Embassy Suites Portfolio is Keiter, which prepared an auditors' report with respect to the combined financial statements of the Midwestern 3 Embassy Suites Portfolio which is incorporated by reference into this Prospectus Supplement as part of the REIT's business acquisition report dated January 31, 2017 with respect to the REIT's acquisition of the Midwestern 3 Embassy Suites Portfolio. Keiter is also the auditor of the consolidated and combined financial statements of the Eastern Seaboard Portfolio included in this Prospectus Supplement. Keiter complied with the independence professional standards of the American Institute of Certified Public Accountants in preparing such audit reports.

PURCHASER'S STATUTORY RIGHTS

Securities legislation in certain of the provinces 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 certain of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In an offering of convertible securities such as the Debentures, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in a prospectus is limited, in certain provincial securities legislation, to the price at which the convertible security is offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon conversion of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages, or consult with a legal advisor.

PURCHASER'S CONTRACTUAL RIGHTS

Under the Indenture, original purchasers of Debentures will have a non-assignable contractual right of rescission, exercisable against the REIT following the issuance of Units to such purchaser upon the conversion of the Debentures, to receive the Debenture Offering Price paid for each such Debenture upon surrender of the Units if the Base Prospectus or this Prospectus Supplement (including any documents incorporated by reference therein or herein) or any amendments thereto contain a misrepresentation (as such term is defined in the *Securities Act* (British Columbia)), provided such remedy for rescission is exercised within 180 days of the Closing Date, following which this contractual right of rescission shall be subject to the defences, limitations and other provisions described under Part 16 of the *Securities Act* (British Columbia), will be null and void. This contractual right of rescission will be consistent with the statutory right of rescission described under section 131 of the *Securities Act* (British Columbia), and is in addition to any other right or remedy available to original purchasers under section 131 the *Securities Act* (British Columbia) or otherwise at law. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages, or consult with a legal adviser. For greater certainty, this contractual right of rescission is only in connection with a misrepresentation (as such term is defined in the *Securities Act* (British Columbia)) and is not a right to withdraw from an agreement to purchase securities within two business days as provided in securities legislation in certain provinces of Canada.

INDEX TO FINANCIAL STATEMENTS

American Hotel Income Properties REIT LP

Unaudited *pro forma* condensed consolidated financial statements of the REIT as at and for the three months ended March 31, 2017 and for the year ended December 31, 2016, together with the notes thereto F-2

EASTERN SEABOARD PORTFOLIO

Unaudited consolidated and combined financial statements of the Eastern Seaboard Portfolio as of March 31, 2017 and December 31, 2016, and for the three months ended March 31, 2017 and March 31, 2016, together with the notes thereto F-15

Audited consolidated and combined financial statements of the Eastern Seaboard Portfolio for the years ended December 31, 2016 and December 31, 2015, together with the notes thereto and the report of independent accountants thereon F-33

Pro Forma Condensed Consolidated Financial Statements

(Expressed in thousands of U.S. dollars)

(Unaudited)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

As at and for the three months ended March 31, 2017 and for the year ended December 31, 2016

American Hotel Income Properties REIT LP

Pro Forma Condensed Consolidated Statement of Financial Position
As at March 31, 2017
(Expressed in thousands of U.S. dollars) (Unaudited)

	American Hotel Income Properties REIT LP (Note 1)	Eastern Seaboard Portfolio (Note 1)	(Note 3)	Pro Forma Adjustments	Pro Forma Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 20,671	$ 3,589	(a) (b) (c) (d) (e) (j)	$ (6,468)	$ 17,792
Restricted cash	11,834	1,216	(a) (d)	7,033	20,083
Trade and other receivables	8,105	1,050	(a)	(1,050)	8,105
Other assets	7,395	1,622	(a)	(1,622)	7,395
	48,005	7,477		(2,107)	53,375
Restricted cash	21,977	-	(d)	4,123	26,100
Property, buildings and equipment	811,522	304,969	(a) (c)	90,031	1,206,522
Intangible assets	10,817	766	(a) (d)	2,009	13,592
Fair value of interest rate swap contracts	176	-		-	176
Deferred income tax assets	7,342	-		-	7,342
	$ 899,839	$ 313,212		$ 94,056	$ 1,307,107
Liabilities and Partners' Capital					
Current liabilities:					
Accounts payable and accrued liabilities	$ 24,672	$ 4,581	(a)	$ (4,581)	$ 24,672
Current portion of term loans	6,281	135,706	(a)	(135,706)	6,281
Deferred compensation payable	250	-		-	250
	31,203	140,287		(140,287)	31,203
Term loans	454,782	66,815	(a) (c) (e)	168,285	689,882
Debentures	-	-	(b)	38,736	38,736
Deferred compensation payable	307	-		-	307
Preferred shares	125	-		-	125
Deferred income tax liabilities	2,089	-		-	2,089
	488,506	207,102		66,734	762,342
Partners' capital	411,333	106,110	(a) (b) (j)	27,322	544,765
	$ 899,839	$ 313,212		$ 94,056	$ 1,307,107

See accompanying notes to the pro forma condensed consolidated financial statements.

American Hotel Income Properties REIT LP

Pro Forma Condensed Consolidated Interim Statement of Comprehensive Income
For the three months ended March 31, 2017
(Expressed in thousands of U.S. dollars) (Unaudited)

	American Hotel Income Properties REIT LP (Note 1)	Midwestern 3 Embassy Suites Portfolio (Jan 1 to Jan 18, 2017) (Note 1)	Eastern Seaboard Portfolio (Note 1)	(Note 3)	Pro Forma Adjustments	Pro Forma Consolidated
Revenue:						
Rooms	$ 55,502	$ 833	$ 17,693		$ -	$ 74,028
Food and beverage	5,356	265	370		-	5,991
Rental and other	867	22	534		-	1,423
	61,725	1,120	18,597		-	81,442
Hotel expenses:						
Operating expenses	31,307	1,203	5,199	(f)	369	38,078
Energy	2,597	62	909		-	3,568
Property maintenance	2,835	67	778		-	3,680
Property taxes and insurance	4,191	98	1,201		-	5,490
Depreciation and amortization	8,202	140	3,453	(g)	(521)	11,274
Corporate and administrative	-	-	4,361	(h)	(4,361)	-
	49,132	1,570	15,901		(4,513)	62,090
Income from operating activities	12,593	(450)	2,696		4,513	19,352
Corporate and administrative	3,915	24	-	(h) (i)	4,325	8,264
Loss on disposal of property and equipment	(33)	-	-		-	(33)
Business acquisition costs	1,381	-	-		-	1,381
	5,263	24	-		4,325	9,612
Income before undernoted	7,330	(474)	2,696		188	9,740
Finance income	(14)	-	-		-	(14)
Finance costs	5,553	-	2,175	(k)	1,408	9,136
	5,539	-	2,175		1,408	9,122
Income (loss) before income taxes	1,791	(474)	521		(1,220)	618
Current income tax expense	259	-	-		-	259
Deferred income tax expense (recovery)	(850)	-	-		-	(850)
	(591)	-	-		-	(591)
Net income (loss) and comprehensive income (loss)	$ 2,382	$ (474)	$ 521		$ (1,220)	$ 1,209
Basic and diluted net income and comprehensive income per weighted average unit	$ 0.04					$ 0.02
Diluted weighted average number of units outstanding	58,599,242			(l)	18,360,000	76,959,242

See accompanying notes to the pro forma condensed consolidated financial statements.

American Hotel Income Properties REIT LP

Pro Forma Condensed Consolidated Statement of Comprehensive Income
For the year ended December 31, 2016
(Expressed in thousands of U.S. dollars) (Unaudited)

	American Hotel Income Properties REIT LP (Note 1)	**Midwestern 3 Embassy Suites Portfolio (Jan 1 to Dec 31, 2016)** (Note 1) (Schedule A)	**Eastern Seaboard Portfolio** (Note 1)	**(Note 3)**	**Pro Forma Adjustments**	**Pro Forma Consolidated**
Revenue:						
Rooms	$ 157,665	$ 28,441	$ 84,693		$ -	$ 270,799
Food and beverage	14,059	7,848	1,781		-	23,688
Rental and other	1,791	1,687	2,549		-	6,027
	173,515	37,976	89,023		-	300,514
Hotel expenses:						
Operating expenses	85,148	21,063	21,913	(f)	1,308	129,432
Energy	7,383	1,490	3,462		-	12,335
Property maintenance	8,429	1,385	3,334		-	13,148
Property taxes and insurance	8,052	1,778	4,744		-	14,574
Depreciation and amortization	24,351	2,981	13,586	(g)	(2,184)	38,734
Corporate and administrative	-	-	19,743	(h)	(19,743)	-
	133,363	28,697	66,782		(20,619)	208,223
Income from operating activities	40,152	9,279	22,241		20,619	92,291
Corporate and administrative	12,148	1,490	-	(h) (i)	19,170	32,808
Loss on disposal of property and equipment	91	-	-		-	91
Business acquisition costs	5,056	-	-	(j)	2,831	7,887
	17,295	1,490	-		22,001	40,786
Income before undernoted	22,857	7,789	22,241		(1,382)	51,505
Finance income	(368)	-	-		-	(368)
Finance costs	14,685	4,971	8,096	(k)	3,980	31,732
	14,317	4,971	8,096		3,980	31,364
Income (loss) before income taxes	8,540	2,818	14,145		(5,362)	20,141
Current income tax expense	494	-	-		-	494
Deferred income tax expense (recovery)	(1,234)	-	-		-	(1,234)
	(740)	-	-		-	(740)
Net income (loss) and comprehensive income (loss)	$ 9,280	$ 2,818	$ 14,145		$ (5,362)	$ 20,881
Basic and diluted net income and comprehensive income per unit	$ 0.23					$ 0.30
Diluted weighted average number of units outstanding	39,757,170			(l)	29,364,086	69,121,256

See accompanying notes to the pro forma condensed consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements
(Expressed in thousands of U.S. dollars, except unit and per unit amounts) (Unaudited)

As at and for the three months ended March 31, 2017 and for the year ended December 31, 2016

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1. Basis of presentation:

American Hotel Income Properties REIT LP ("**AHIP**") is a limited partnership formed under the *Limited Partnerships Act* (Ontario) to invest in hotel real estate properties substantially in the United States. AHIP was established pursuant to the terms of AHIP's Limited Partnership Agreement dated October 12, 2012 and subsequently amended, or amended and restated, as applicable, on February 20, 2013, June 9, 2015 and May 10, 2017. AHIP's head office and address for service is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia, Canada, V6B 5A1.

Effective May 3, 2017, American Hotel Income Properties REIT Inc. (the "**U.S. REIT**"), a direct subsidiary of AHIP, entered into a purchase and sale agreement (the "**Eastern Seaboard Purchase Agreement**") with MCRS Allentown LLC, MCRB Arundel 1 LLC, MCRB Arundel 2 LLC, MCRB Arundel 3 LLC, MCRB Arundel 4 LLC, MCRS Bethlehem LLC, MCRS Brookhaven LLC, MCRS Dover LLC, MCRS Egg Harbor LLC, MCRS Egg Harbor 2 LLC, MCRS Milford LLC, MCRS Mt. Laurel LLC, MCRS Neptune LLC, MCRS Wall LLC, MCRB White Marsh 1 LLC, MCRB White Marsh 2 LLC, MCRB White Marsh 3 LLC, and MCRB White Marsh 4 LLC (each a "**Seller**" and collectively the "**Sellers**") to acquire 18 Marriott and Hilton branded hotels (the "**Eastern Seaboard Portfolio**") containing 2,187 guestrooms located in Maryland, New Jersey, New York, Connecticut and Pennsylvania (the "**Eastern Seaboard Acquisition**"). Each Seller leases their hotel property to a separate operator entity (namely MCRS Allentown Tenant LLC, MCRB Arundel 1 Tenant LLC, MCRB Arundel 2 Tenant LLC, MCRB Arundel 3 Tenant LLC, MCRB Arundel 4 Tenant LLC, MCRS Bethlehem Tenant LLC, MCRS Brookhaven Tenant LLC, MCRS Dover Tenant LLC, MCRS Egg Harbor Tenant LLC, MCRS Egg Harbor 2 Tenant LLC, MCRS Milford Tenant LLC, MCRS Mt. Laurel Tenant LLC, MCRS Neptune Tenant LLC, MCRS Wall Tenant LLC, MCRB White Marsh 1 Tenant LLC, MCRB White Marsh 2 Tenant LLC, MCRB White Marsh 3 Tenant LLC, and MCRB White Marsh 4 Tenant LLC, collectively the "**Tenants**"). The financial information for the 18 entities comprising the Sellers and the corresponding 18 entities comprising the Tenants has been consolidated and combined in the financial information presented in these unaudited pro forma condensed consolidated financial statements.

The Eastern Seaboard Acquisition is expected to be completed by the end of June 2017, subject to customary closing conditions and documentation.

On May 31, 2017, AHIP announced a public offering (the "**June 2017 Offering**") of i) 18,360,000 limited partnership units ("**Units**") of AHIP, excluding 2,754,000 Units issuable pursuant to the exercise in-full of the related Unit over-allotment option, at a price of Cdn$10.35 per Unit for gross proceeds to AHIP of approximately Cdn$190.0 million (US$140.8 million), excluding approximately Cdn$28.5 million (US$21.1 million) related to the potential exercise in-full of the related over-allotment option, and ii) US$42.5 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures (the "**Debentures**") due on June 30, 2022, excluding the US$6.4 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures issuable under the related Debenture over-allotment option, in each case, as described in AHIP's prospectus supplement dated June 2, 2017 to the short form base shelf prospectus dated February 16, 2017 to which these pro forma condensed consolidated financial statements form a part (the "**Prospectus**").

The Debentures will be due on June 30, 2022 and will bear interest at an annual rate of 5.00% payable semi-annually in arrears on June 30 and December 31 of each year (or the immediately following business day if any interest payment date would not otherwise be a business day) (an "**Interest Payment Date**"), commencing on December 31, 2017. The December 31, 2017 interest payment will represent accrued interest for the period from the closing of the June 2017 Offering to, but excluding, December 31, 2017.

The unaudited pro forma condensed consolidated statement of financial position has been prepared to give effect to the Eastern Seaboard Acquisition and the June 2017 Offering as if they had occurred on March 31, 2017.

The unaudited pro forma condensed consolidated statements of comprehensive income for the three months ended March 31, 2017 and for the year ended December 31, 2016 have been prepared to give effect of the Eastern Seaboard Acquisition, the acquisition of the Midwestern 3 Embassy Suites Portfolio (as defined in the Prospectus) and the June 2017 Offering as if they had occurred on January 1, 2016.

These unaudited pro forma condensed consolidated financial statements should be read in conjunction with the following financial statements:

i) Audited consolidated financial statements for AHIP for the years ended December 31, 2016 and 2015 as filed on SEDAR at www.sedar.com.

ii) Unaudited condensed consolidated interim financial statements for AHIP for the three months ended March 31, 2017 and 2016 as filed on SEDAR at www.sedar.com.

iii) Unaudited combined financial statements for the Midwestern 3 Embassy Suites Portfolio as of September 30, 2016 and December 31, 2015 and for the nine months ended September 30, 2016 and 2015, included in AHIP's short form prospectus dated December 16, 2016 as filed on SEDAR at www.sedar.com.

iv) Unaudited consolidated and combined interim financial statements for the Eastern Seaboard Portfolio as of March 31, 2017 and December 31, 2016, and for the three months ended March 31, 2017 and 2016, included in the Prospectus.

v) Audited consolidated and combined financial statements for the Eastern Seaboard Portfolio as of December 31, 2016 and 2015 and for the years then ended, included in the Prospectus.

The historical financial statements detailed in (iii), (iv) and (v) above have been prepared in accordance with accounting standards generally accepted in the U.S. ("**U.S. GAAP**"). To prepare the unaudited pro forma condensed consolidated financial statements, selected historical asset, liability and equity accounts have been eliminated (see note 3(a) below). In addition, selected historical income statement accounts of the historical financial statements detailed in note 1 (iii), (iv) and (v) above have been reclassified by nature to conform with AHIP's presentation format.

The unaudited pro forma financial information relating to the Midwestern 3 Embassy Suites Portfolio provided for the 18-day period from January 1, 2017 to January 18, 2017 and for the three month period ended December 31, 2016 (see Supplemental Schedule A) has not been audited or reviewed

by an independent accountant. Financial information corresponding to these 18-day and three month periods have not been included in the historical financial statements detailed in (i), (ii) or (iii). The Midwestern 3 Embassy Suites Portfolio was acquired by AHIP on January 19, 2017, therefore pro forma adjustments have been included in these unaudited pro forma condensed consolidated financial statements to provide operating results relating to the twelve month period ended December 31, 2016, and operating results relating to the three month period ended March 31, 2017.

The Eastern Seaboard Acquisition and Midwestern 3 Embassy Suites Portfolio acquisition have been accounted for as business combinations in these pro forma financial statements, which include estimates and assumptions effective June 2, 2017 and are not necessarily indicative of the results that would have occurred had the transactions been completed at the dates indicated nor are they indicative of the future operations results or financial position of AHIP.

2. Significant accounting policies:

The accounting policies applied by AHIP in these pro forma financial statements are the same as those applied by AHIP in its audited consolidated financial statements as of December 31, 2016 and 2015 and for the years then ended, and the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016, in accordance with International Financial Reporting Standards ("**IFRS**"). In addition, the following new accounting policy has been implemented in these pro forma financial statements:

a) Convertible debentures

Convertible debentures issued by AHIP can be converted into AHIP Units at the option of the debenture holder, and the number of Units to be issued does not vary with changes in their fair value.

Upon issuance, convertible debentures are separated into their debt and conversion feature components as it is considered to be a compound financial instrument. The debt component of the convertible debenture is recognized initially at fair value of a similar debt instrument without a conversion feature. Subsequent to initial recognition, the debt component of a compound financial instrument is measured at amortized cost using the effective interest method.

The conversion feature of the convertible debentures is initially recognized at the face value less the fair value of the liability component. As the convertible debentures are convertible into Units at the holder's option, and the Units are equity by definition; accordingly, the conversion feature component of the convertible debentures is also classified as equity. Accordingly, the conversion feature component of the convertible debentures is recorded in partners' capital in the consolidated statement of financial position.

Any directly attributable transaction costs are allocated to the debt and conversion components of the convertible debentures in proportion to their initial carrying amounts.

b) Acquisition statements

The amounts for the Eastern Seaboard Acquisition were obtained from the Eastern Seaboard

Portfolio unaudited consolidated and combined interim financial statements as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016, and the audited consolidated and combined financial statements as of December 31, 2016 and 2015 and for the years then ended (collectively the "**Acquisition Statements**"), which were prepared in accordance with U.S. GAAP. AHIP's management has reviewed the accounting policies of the Acquisition Statements and has not identified any material U.S. GAAP measurement differences in conforming the Acquisition Statements to IFRS that would have an impact on these unaudited pro forma condensed consolidated financial statements. Certain reclassification adjustments were required to align the Acquisition Statements' presentation with AHIP's presentation format, which are identified in Note 3(h) below.

3. Pro forma adjustments:

The pro forma adjustments to the unaudited pro forma condensed consolidated financial statements have been prepared to account for the impact of the transactions as described below.

a) Elimination of historical amounts:

Elimination of selected historical asset, liability and equity balances of the Eastern Seaboard Portfolio as at March 31, 2017 that will not be assumed upon completion of the Eastern Seaboard Acquisition, as follows:

Assets		
Cash and cash equivalents	$	3,589
Restricted cash		1,216
Trade and other receivables		1,050
Other assets		1,622
Property, buildings and equipment		304,969
Intangible assets		766
Liabilities, Partners' Capital and Members' Equity		
Accounts payable and accrued liabilities	$	4,581
Term loans		202,521
Partners' capital		106,110

b) June 2017 Offering:

The pro forma condensed consolidated financial statements assume that AHIP will raise gross proceeds pursuant to the June 2017 Offering of approximately $183,260, through i) the issuance of 18,360,000 Units for gross proceeds of Cdn$190.0 million before estimated costs of Cdn$8.4 million, excluding any exercise of the related Unit over-allotment option, and ii) the issuance of Debentures for gross proceeds of $42,500 before estimated costs of $2,038, excluding any exercise of the related Debenture over-allotment option. Total costs relating to the June 2017 Offering, excluding the related Unit and Debenture over-allotment options, including underwriters' fees, are assumed to be $8,261, of which $1,951 are capitalized to transaction costs and amortized on an effective interest basis over the term of the Debenture and $6,310 are charged directly to the unit issuance costs attributable to unitholders.

The exchange rate used for translation of the June 2017 Offering proceeds from Canadian dollars to U.S. dollars was Cdn$1.00 = US$0.7407 (US$1.00 = Cdn$1.350).

The convertible debentures are convertible at the holder's option at any time into Units at conversion price of $9.25 per Unit, in accordance with the terms of the trust indenture to be dated as of the closing date for the June 2017 Offering, as described more fully in the Prospectus.

The following summarizes the face and carrying values of the Debentures at March 31, 2017:

	Liability Component		**Equity Component**
	Face Value	Carrying Value	Carrying Value
Issuance of Debentures	$ 42,500	$ 40,687	$ 1,813
Transaction costs	-	(1,951)	(87)
Balance as at March 31, 2017	$ 42,500	$ 38,736	$ 1,726

c) Eastern Seaboard Acquisition:

On closing, it is assumed that AHIP will indirectly acquire the Eastern Seaboard Portfolio for an aggregate purchase price of $395,000, subject to customary closing adjustments. The purchase price has been negotiated between AHIP and the Sellers and is supported by independent third party appraisals.

Net assets acquired using the purchase method of accounting based on preliminary allocations are as follows (excludes business acquisition costs of $2,831. See note 3(j) below):

Property, buildings and equipment	$ 395,000
Net assets acquired	$ 395,000
Financed by:	
Cash	$ 159,900
Eastern Seaboard Loans, net (see Note 3(e) below)	235,100
	$ 395,000

The purchase price adjustments exclude customary post-acquisition adjustments (including the finalization of working capital adjustments) and approximately $12.4 million of brand mandated property improvement plans ("**PIPs**"). The actual calculation and allocation of the purchase price for the Eastern Seaboard Acquisition outlined above will be based on the assets purchased and liabilities assumed at the effective date of the Eastern Seaboard 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.

d) Brand costs:

Approximately $12.4 million of PIPs have been fully funded on closing of the acquisition of the Eastern Seaboard Portfolio and have been classified as restricted cash.

$2,775 has been capitalized to franchise fees relating to costs incurred to transfer and secure the branding on the hotels in the Eastern Seaboard Portfolio.

e) Term loans:

AHIP, through certain of its subsidiaries, expects to obtain four new CMBS mortgages on the Eastern Seaboard Portfolio (collectively, the "**Eastern Seaboard Loans**") in the aggregate gross

amount of approximately $236.2 million. The Eastern Seaboard Loans are expected have terms of 5 to 10-years, with interest-only payments for up to five years of the term and then amortized over a 30-year period for the remaining portion of the term with a constant monthly payment of principal and interest. The Eastern Seaboard Loans are expected to be guaranteed by the U.S. REIT and secured by a first-priority mortgage over seventeen of the eighteen hotel properties comprising the Eastern Seaboard Portfolio and a first-priority security interest in all the business assets and personal property used in or useful in the operation of such hotel properties. The Eastern Seaboard Loans will be subject to financial and other covenants and are expected to have a weighted average fixed interest rate of approximately 4.55% for the entire term of the loan. The total fees associated with obtaining the Eastern Seaboard Loans are estimated to be $1,100. Further details with respect to the Eastern Seaboard Loans are described in the Prospectus.

The Midwestern 3 Embassy Suites Portfolio was partially financed with a CMBS mortgage in the amount of $65.0 million, with a fixed interest rate of 4.72% (the "**Midwestern 3 Embassy Suites Loan**"), which is already included in AHIP's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016.

f) Operating expenses:

For the three months ended March 31, 2017, operating expenses have been increased by $369, which include the following:

- Additional franchise costs of $88 payable to the franchising entities ($82 for the Eastern Seaboard Portfolio and $6 for the Midwestern 3 Embassy Suites Portfolio); and
- Additional payroll expenses of $281 related to new positions required ($256 for the Eastern Seaboard Portfolio and $25 for the Midwestern 3 Embassy Suites Portfolio).

For the year ended December 31, 2016, operating expenses have been increased by $1,308, which include the following:

- Additional franchise costs of $578 payable to the franchising entities ($388 for the Eastern Seaboard Portfolio and $190 for the Midwestern 3 Embassy Suites Portfolio); and
- Additional payroll expenses of $730 related new positions required ($342 for to the Eastern Seaboard Portfolio and $388 for the Midwestern 3 Embassy Suites Portfolio).

g) Depreciation and amortization:

For the three months ended March 31, 2017, depreciation and amortization has been reduced by $521, comprising the removal of $3,593 of historical depreciation on property and equipment ($3,453 for the Eastern Seaboard Portfolio and $140 for the Midwestern 3 Embassy Suites Portfolio), the addition of $3,029 of depreciation on property and equipment ($2,866 for the Eastern Seaboard Portfolio and $163 for the Midwestern 3 Embassy Suites Portfolio), and the addition of $43 of amortization on franchise fees ($41 for the Eastern Seaboard Portfolio and $2 for the Midwestern 3 Embassy Suites Portfolio), to reflect the impact of depreciation on the acquired values of property and equipment and amortization on the franchise fees paid and their revised estimated useful lives.

For the year ended December 31, 2016, depreciation and amortization has been reduced by $2,184, comprising the removal of $16,567 of historical depreciation on property and equipment ($13,586 for the Eastern Seaboard Portfolio and $2,981 for the Midwestern 3 Embassy Suites Portfolio), the addition of $14,167 of depreciation on property and equipment ($10,867 for the Eastern Seaboard Portfolio and $3,300 for the Midwestern 3 Embassy Suites Portfolio), and the addition of $216 of amortization on franchise fees ($163 for the Eastern Seaboard Portfolio and $53 for the Midwestern 3 Embassy Suites Portfolio), to reflect the impact of depreciation on the acquired values of property and equipment and amortization on the franchise fees paid and their revised estimated useful lives.

h) Reclassification of historical accounts:

For reclassifications of certain Midwestern 3 Embassy Suites Portfolio historical income statement amounts to conform with the presentation of AHIP's financial statements by nature and category, see Supplemental Schedule A.

For the Eastern Seaboard Portfolio, "Corporate and administrative" expenses in the Acquisition Statements have been reclassified from above "Income from operating activities" to below "Income from operating activities" to conform with the presentation of AHIP's financial statements by nature for the respective periods.

i) Corporate and administrative expenses:

Pursuant to the Master Hotel Management Agreement between AHIP and One Lodging Management, Inc. (formerly Tower Rock Hotels & Resorts Inc.) (the "**Master Hotel Manager**"), as amended, each operating subsidiary of AHIP enters into a hotel management agreement with a subsidiary of the Master Hotel Manager (each a "**Hotel Manager**") specific to each such operating subsidiary of AHIP, under which the Hotel Manager will be responsible for the hotel management of the hotel properties owned by such AHIP operating subsidiary.

The net decrease of $36 in corporate and administrative expenses for the three months ended March 31, 2017 is calculated as follows:

- Adjustment to remove $628 of management fees and general and administrative expenses recorded in the historical information ($604 for the Eastern Seaboard Portfolio and $24 for the Midwestern 3 Embassy Suites Portfolio).
- Addition of hotel management fee of $592 ($558 for the Eastern Seaboard Portfolio and $34 for the Midwestern 3 Embassy Suites Portfolio).

The net decrease of $573 in corporate and administrative expenses for the year ended December 31, 2016, is calculated as follows:

- Adjustment to remove $4,383 of management fees and general and administrative expenses recorded in the historical information ($2,893 for the Eastern Seaboard Portfolio and $1,490 for the Midwestern 3 Embassy Suites Portfolio.
- Addition of hotel management fee of $3,810 ($2,671 for the Eastern Seaboard Portfolio and $1,139 for the Midwestern 3 Embassy Suites Portfolio).

The capital expenditure fee for the Eastern Seaboard Portfolio ($9 for the three months ended March 31, 2017 and $393 for the year ended December 31, 2016) and the capital expenditure

fee for the Midwestern 3 Embassy Suites Portfolio ($16 for the three months ended March 31, 2017 and $321 for the year ended December 31, 2016) will be capitalized as incurred and are excluded from corporate and administrative expenses.

j) Business acquisition costs:

Total business acquisition costs related to the Eastern Seaboard Acquisition included in the pro forma condensed consolidated statement of comprehensive income for the year ended December 31, 2016 are estimated to be $2,831.

k) Finance costs:

For the three months ended March 31, 2017, the increase of $1,408 in finance costs is calculated as follows:

- Adjustment to remove historic financing costs of $2,175 ($2,175 for the Eastern Seaboard Portfolio and $nil for the Midwestern 3 Embassy Suites Portfolio).
- Amortization of deferred financing costs of $30 ($27 for the Eastern Seaboard Portfolio and $3 for the Midwestern 3 Embassy Suites Loan).
- Financing costs relating to interest of $2,840 ($2,687 for the Eastern Seaboard Loans and $153 for the Midwestern 3 Embassy Suites Loan).
- Financing costs relating to the Debentures of $713 (interest of $531, accretion of discount of $84 and amortization of transaction costs of $98).

For the year ended December 31, 2016, the increase of $3,980 in finance costs is calculated as follows:

- Adjustment to remove historic financing costs of $13,067 ($8,096 for the Eastern Seaboard Portfolio and $4,971 for the Midwestern 3 Embassy Suites Portfolio).
- Amortization of deferred financing costs of $165 ($110 for the Eastern Seaboard Portfolio and $55 for the Midwestern 3 Embassy Suites Loan).
- Financing costs relating to interest of $14,046 ($10,927 for the Eastern Seaboard Loans and $3,119 for the Midwestern 3 Embassy Suites Loan).
- Financing costs relating to the Debentures of $2,836 (interest of $2,125, accretion of discount of $321 and amortization of transaction costs of $390).

l) Units outstanding:

Adjustment to Units outstanding:

- as at December 31, 2016 to reflect the 11,281,500 units issued on December 22, 2016 relating to the Midwestern 3 Embassy Suites Portfolio acquisition financing as if outstanding for the entire year ended December 31, 2016.
- as at March 31, 2017 and December 31, 2016 to reflect the 18,360,000 Units issuable under the June 2017 Offering, excluding the 2,754,000 Units issuable pursuant to an exercise in-full of the related Unit over-allotment option for the June 2017 Offering, as if outstanding for the entire three months ended March 31, 2017 and the entire year ended December 31, 2016.

American Hotel Income Properties REIT LP
Supplemental Schedule to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE A
Midwestern 3 Embassy Suites Portfolio
Condensed Statement of Income
(Expressed in thousands of U.S. dollars) (Unaudited)

	January 1 to September 30, 2016 (Note i)	October 1 to December 31, 2016 (Note ii)	Note 3(h)	January 1 to December 31, 2016 Combined
Revenue:				
Rooms	$ 22,154	$ 6,287	$ -	$ 28,441
Food and beverage	5,523	2,325	-	7,848
Rental and other	1,527	160	-	1,687
	29,204	8,772	-	37,976
Hotel expenses:				
Operating expenses	9,699	3,240	8,124	21,063
Energy	-	-	1,490	1,490
Property maintenance	-	-	1,385	1,385
Property taxes and insurance	-	-	1,778	1,778
Depreciation and amortizati	2,236	745	-	2,981
Hotel administrative expens	2,049	803	(2,852)	-
Sales and marketing	2,995	851	(3,846)	-
Utilities	1,139	351	(1,490)	-
Repair and maintenance	1,009	376	(1,385)	-
Franchise fees	1,110	316	(1,426)	-
Taxes and insurance	1,356	422	(1,778)	-
	21,593	7,104	-	28,697
Income from operating activities	7,611	1,668	-	9,279
Corporate and administrative	-	-	1,490	1,490
Management fees	646	193	(839)	-
General and administrative	651	-	(651)	-
	1,297	193	-	1,490
Income before undernoted	6,314	1,475	-	7,789
Finance costs	-	-	4,971	4,971
Interest expense	4,971	-	(4,971)	-
	4,971	-	-	4,971
Net income	$ 1,343	$ 1,475	$ -	$ 2,818

Note i - Financial results obtained from the unaudited combined financial statements for the Midwestern 3 Embassy Suites Portfolio as of September 30, 2016 and December 31, 2015 and for the nine months ended September 30, 2016 and 2015, included in AHIP's short form prospectus dated December 16, 2016 as filed on SEDAR at www.sedar.com.
Note ii - Unaudited financial results obtained from internal management reports of the previous owner.

MCRS Allentown LLC
MCRS Allentown Tenant LLC
MCRB Arundel 1 LLC
MCRB Arundel 1 Tenant LLC
MCRB Arundel 2 LLC
MCRB Arundel 2 Tenant LLC
MCRB Arundel 3 LLC
MCRB Arundel 3 Tenant LLC
MCRB Arundel 4 LLC
MCRB Arundel 4 Tenant LLC
MCRS Bethlehem LLC
MCRS Bethlehem Tenant LLC
MCRS Brookhaven LLC
MCRS Brookhaven Tenant LLC
MCRS Dover LLC
MCRS Dover Tenant LLC
MCRS Egg Harbor 2 LLC
MCRS Egg Harbor 2 Tenant LLC
MCRS Egg Harbor LLC
MCRS Egg Harbor Tenant LLC
MCRS Milford LLC
MCRS Milford Tenant LLC
MCRS Mt. Laurel LLC
MCRS Mt. Laurel Tenant LLC
MCRS Neptune LLC
MCRS Neptune Tenant LLC
MCRS Wall LLC
MCRS Wall Tenant LLC
MCRB White Marsh 4 LLC
MCRB White Marsh 4 Tenant LLC
MCRB White Marsh 2 LLC
MCRB White Marsh 2 Tenant LLC
MCRB White Marsh 1 LLC
MCRB White Marsh 1 Tenant LLC
MCRB White Marsh 3 LLC
MCRB White Marsh 3 Tenant LLC
(collectively the **"Eastern Seaboard Portfolio"** or the **"Companies")**

FINANCIAL REPORT
Consolidated and Combined Interim Financial Statements as of March 31, 2017 and December 31, 2016, and for the Three Months Ended March 31, 2017 and 2016 (Unaudited)

CONTENTS

CONSOLIDATED AND COMBINED INTERIM FINANCIAL STATEMENTS

Consolidated and combined interim statements of financial position	1
Consolidated and combined interim statements of operations	2
Consolidated and combined interim statements of Partners' capital	3
Consolidated and combined interim statements of cash flows	4
Notes to the consolidated and combined interim financial statements	5

Eastern Seaboard Portfolio

Consolidated and Combined Interim Statements of Financial Position
As of March 31, 2017 and December 31, 2016
(Expressed in thousands of U.S. dollars) (Unaudited)

	Notes	March 31 2017	December 31 2016
Assets			
Current assets:			
Cash and cash equivalents		$ 3,589	$ 3,308
Restricted cash		1,216	1,120
Trade and other receivables, net		1,050	947
Other assets		1,622	1,939
		7,477	7,314
Property, buildings and equipment, net	4	304,969	307,709
Intangible assets, net	5	766	785
		$ 313,212	$ 315,808
Liabilities and Partners' Capital			
Current liabilities:			
Accounts payable and accrued liabilities		$ 4,581	3,994
Current portion of term loans	6	135,706	136,423
		140,287	140,417
Term loans, net	6	66,815	67,011
Total liabilities		207,102	207,428
Partners' capital		106,110	108,380
		$ 313,212	$ 315,808

See accompanying notes to the consolidated and combined iterim financial statements.

Eastern Seaboard Portfolio

Consolidated and Combined Interim Statements of Operations
For the three months ended March 31, 2017 and 2016
(Expressed in thousands of U.S. dollars) (Unaudited)

	2017	2016
Revenue:		
Rooms	$ 17,693	$ 17,382
Food and beverage	370	427
Rental and other	534	588
	18,597	18,397
Hotel expenses:		
Operating expenses	5,199	5,016
Energy	909	914
Property maintenance	778	831
Property taxes and insurance	1,201	1,195
Depreciation and amortization	3,453	3,333
Corporate and administrative	4,361	4,398
	15,901	15,687
Income from operating activities	2,696	2,710
Finance costs	2,175	2,002
Net income	$ 521	$ 708

See accompanying notes to the consolidated and combined iterim financial statements.

Eastern Seaboard Portfolio

Consolidated and Combined Interim Statements of Partners' Capital
For the three months ended March 31, 2017 and 2016
(Expressed in thousands of U.S. dollars) (Unaudited)

	2017	2016
Opening balance, January 1	$ 108,380	$ 115,801
Capital contributions	3,194	3,937
Distributions	(5,985)	(6,349)
Net income	521	708
	$ 106,110	$ 114,097

See accompanying notes to the consolidated and combined iterim financial statements.

Eastern Seaboard Portfolio

Consolidated and Combined Interim Statements of Cash Flows
For the three months ended March 31, 2017 and 2016
(Expressed in thousands of U.S. dollars) (Unaudited)

	2017	2016
Cash provided by (used in)		
Operating activities:		
Net income	$ 521	$ 708
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,453	3,333
Provision for bad debts	36	13
Amortization of deferred financing costs	201	161
Changes in operating assets and liabilities:		
Trade and other receivables, net	(139)	(259)
Other assets	318	444
Accounts payable and accrued liabilities	586	578
Net cash provided by operating activities	4,976	4,978
Investing activities:		
Purchase of property, buildings and equipment	(696)	(1,415)
(Funding) drawdown of restricted cash reserve	(95)	404
Net cash used in investing activities	(791)	(1,011)
Financing activities:		
Capital contributions	3,194	3,937
Distributions	(5,985)	(6,349)
Payment on term loans	(1,063)	(979)
Financing costs	(50)	-
Net cash used in financing activities	(3,904)	(3,391)
Increase in cash and cash equivalents	281	576
Cash and cash equivalents, beginning of period	3,308	2,630
Cash and cash equivalents, end of period	$ 3,589	$ 3,206
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,951	$ 1,829

See accompanying notes to the consolidated and combined iterim financial statements.

Eastern Seaboard Portfolio

NOTES TO THE CONSOLIDATED AND COMBINED INTERIM FINANCIAL STATEMENTS

As of March 31, 2017 and December 31, 2016 and for the Three Months Ended March 31, 2017 and 2016

(Expressed in thousands of U.S. dollars) (Unaudited)

Note 1. Nature of business

The Eastern Seaboard Portfolio is comprised of 36 separate limited liability companies formed in accordance with the Delaware Limited Liability Company Act (individually referred to as the “Company” or collectively as the “Companies” in these notes) which collectively own and operate 18 hotel properties located on the eastern seaboard of the United States. Each hotel property is owned and operated by separate limited liability companies, for a total of 18 separate owner entities and 18 separate operator entities. 10 separate owner entities and 10 separate operator entities (each commencing with the letters “MCRS” in the following list) are wholly owned subsidiaries of MCRS Real Estate Investment Trust, Inc. (a Maryland corporation, hereafter referred to as “MCRS REIT”). Eight separate owner entities and eight separate operator entities (each commencing with the letters “MCRB” in the following list) are wholly owned subsidiaries of MCRB Real Estate Investment Trust, Inc. (a Maryland corporation, hereafter referred to as “MCRB REIT”). The entities comprising the Eastern Seaboard Portfolio are as follows:

a) MCRS Allentown LLC owns a 108-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in the city of Allentown in Lehigh County in the state of Pennsylvania, and leases this property to MCRS Allentown Tenant LLC to operate the hotel. Both MCRS Allentown LLC and MCRS Allentown Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “AHS”.

b) MCRB Arundel 1 LLC owns a 130-room Hampton Inn & Suites hotel (a franchise of Hilton Worldwide) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 1 Tenant LLC to operate the hotel. Both MCRB Arundel 1 LLC and MCRB Arundel 1 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “AHI”.

c) MCRB Arundel 2 LLC owns a 131-room Residence Inn hotel (a franchise of Marriott International) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 2 Tenant LLC to operate the hotel. Both MCRB Arundel 2 LLC and MCRB Arundel 2 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “ARI”.

d) MCRB Arundel 3 LLC owns a 128-room SpringHill Suites hotel (a franchise of Marriott International) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 3 Tenant LLC to operate the hotel. Both MCRB Arundel 3 LLC and MCRB Arundel 3 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “ASH”.

e) MCRB Arundel 4 LLC owns a 109-room TownePlace Suites hotel (a franchise of Marriott International) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 4 Tenant LLC to operate the hotel. Both MCRB Arundel 4 LLC and MCRB Arundel 4 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “ATS”.

f) MCRS Bethlehem LLC owns a 113-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in the city of Bethlehem in Lehigh and Northampton counties in the state of Pennsylvania, and leases this property to MCRS Bethlehem Tenant LLC to operate the hotel. Both MCRS Bethlehem LLC and MCRS Bethlehem Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “BHS”.

Notes continued on next page.

Note 1. Nature of business (continued)

g) MCRS Brookhaven LLC owns a 128-room SpringHill Suites hotel (a franchise of Marriott International) located in the town of Brookhaven in Suffolk County in the state of New York, and leases this property to MCRS Brookhaven Tenant LLC to operate the hotel. Both MCRS Brookhaven LLC and MCRS Brookhaven Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “BSH”.

h) MCRS Dover LLC owns a 108-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in the town of Dover in Morris County in the state of New Jersey, and leases this property to MCRS Dover Tenant LLC to operate the hotel. Both MCRS Dover LLC and MCRS Dover Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “DHS”.

i) MCRS Egg Harbor 2 LLC owns a 120-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in Egg Harbor Township in Atlantic County in the state of New Jersey, and leases this property to MCRS Egg Harbor 2 Tenant LLC to operate the hotel. Both MCRS Egg Harbor 2 LLC and MCRS Egg Harbor 2 Tenant LLC were formed on March 28, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “EHS”.

j) MCRS Egg Harbor LLC owns a 101-room Residence Inn hotel (a franchise of Marriott International) located in Egg Harbor Township in Atlantic County in the state of New Jersey, and leases this property to MCRS Egg Harbor Tenant LLC to operate the hotel. Both MCRS Egg Harbor LLC and MCRS Egg Harbor Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “ERI”.

k) MCRS Milford LLC owns a 120-room Hilton Garden Inn hotel (a franchise of Hilton Worldwide) located in the city of Milford in New Haven County in the state of Connecticut, and leases this property to MCRS Milford Tenant LLC to operate the hotel. Both MCRS Milford LLC and MCRS Milford Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “MHG”.

l) MCRS Mt. Laurel LLC owns a 144-room Residence Inn hotel (a franchise of Marriott International) located in the township of Mt. Laurel, an edge city suburb of Philadelphia, in Burlington County in the state of New Jersey, and leases this property to MCRS Mt. Laurel Tenant LLC to operate the hotel. Both MCRS Mt. Laurel LLC and MCRS Mt. Laurel Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “MRI”.

m) MCRS Neptune LLC owns a 105-room Residence Inn hotel (a franchise of Marriott International) located in Neptune City, a borough in Monmouth County in the state of New Jersey, and leases this property to MCRS Neptune Tenant LLC to operate the hotel. Both MCRS Neptune LLC and MCRS Neptune Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “NRI”.

n) MCRS Wall LLC owns a 113-room Courtyard hotel (a franchise of Marriott International) located in Wall Township in Monmouth County in the state of New Jersey, and leases this property to MCRS Wall Tenant LLC to operate the hotel. Both MCRS Wall LLC and the MCRS Wall Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as “WCY”.

Notes continued on next page.

Eastern Seaboard Portfolio

NOTES TO THE CONSOLIDATED AND COMBINED INTERIM FINANCIAL STATEMENTS

As of March 31, 2017 and December 31, 2016 and for the Three Months Ended March 31, 2017 and 2016

(Expressed in thousands of U.S. dollars) (Unaudited)

Note 1. Nature of business (continued)

o) MCRB White Marsh 4 LLC owns a 116-room Fairfield Inn & Suites hotel (a franchise of Marriott International) located in White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 4 Tenant LLC to operate the hotel. Both MCRB White Marsh 4 LLC and MCRB White Marsh 4 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as "WFI".

p) MCRB White Marsh 2 LLC owns a 155-room Hilton Garden Inn hotel (a franchise of Hilton Worldwide) located in White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 2 Tenant LLC to operate the hotel. Both MCRB White Marsh 2 LLC and MCRB White Marsh 2 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as "WHG".

q) MCRB White Marsh 1 LLC owns a 127-room Hampton Inn & Suites hotel (a franchise of Hilton Worldwide) located in the White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 1 Tenant LLC to operate the hotel. Both MCRB White Marsh 1 LLC and MCRB White Marsh 1 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as "WHI".

r) MCRB White Marsh 3 LLC owns a 131-room Residence Inn hotel (a franchise of Marriott International) located in the White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 3 Tenant LLC to operate the hotel. Both MCRB White Marsh 3 LLC and MCRB White Marsh 3 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined interim financial statements are collectively referred to as "WRI".

Note 2. Basis of presentation

The accompanying consolidated and combined interim financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") as determined by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Summary of significant accounting policies

Concentration of credit risk:

Financial instruments that potentially subject the Companies to concentrations of credit risk consist primarily of cash in excess of insured amounts. The Companies place cash with high quality financial institutions. At times, the Companies may have deposits in excess of $250 within a single financial institution that are not insured by the Federal Deposit Insurance Corporation.

Notes continued on next page.

Note 3. Summary of significant accounting policies (continued)

Cash and cash equivalents:

The Companies consider all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents. The Companies had no cash equivalents for the periods included in these consolidated and combined interim financial statements.

Restricted cash:

Restricted cash represents cash collected from the hotel properties and held in restricted depository accounts, and cash held in escrow relating to brand mandated property improvements as may be required to modernize, rehabilitate, and/or upgrade hotels per franchisors' standards set forth in the applicable franchise agreements.

Trade and other receivables:

Trade and other receivables are stated at the amount management expects to collect from balances outstanding at period-end. Allowances for uncollectible amounts receivable are accrued based on management's assessment of the credit history with customers having outstanding balances and current relationships with those customers, and the allowance for these doubtful accounts that has been netted against trade and other receivables was $60 and $53 as at March 31, 2017 and December 31, 2016, respectively. Trade and other receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Amounts are written off when management believes all collection efforts have been exhausted. Recoveries of amounts previously written off are recorded when received. Interest is not charged on amounts receivable.

Property, buildings and equipment:

Property, buildings and equipment are stated at cost. Depreciation is computed using the straight-line method based on management's estimated useful lives, which range as follows:

	Years
Building	39
Site improvements	39
Equipment	5

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed, the asset account(s) and related accumulated depreciation account(s) are relieved, and any gain or loss is included in operations.

The Companies evaluate assets for impairment in accordance with GAAP, which requires the Companies under certain circumstances to review long-lived assets to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows, the recorded amounts of the assets will be reduced to their fair value. No impairments were identified in the three months ended March 31, 2017 or the year ended December 31, 2016.

Intangible assets:

Intangible assets consist of costs relating to the franchise licensing agreements of the hotel properties, and are amortized using the straight-line method based on the term of the related franchise agreements, which range from 10 to 20 years.

Notes continued on next page.

Note 3. Summary of significant accounting policies (continued)

Revenue recognition:

Revenue associated with room rentals, food and beverage sales, and other revenue at the hotel properties is recognized when services are rendered. Deferred revenue and advance deposits arise as a normal part of business due to advance payments for hotel accommodations.

Income taxes and uncertainties:

As limited liability companies, the Companies elected to be taxed as a partnership and taxable income or loss is allocated to their members. Therefore, no provision or liability for income taxes has been included in these consolidated and combined interim financial statements.

Management has evaluated the Companies' tax positions and concluded that the Companies have no significant financial statement exposure to uncertain income tax positions at March 31, 2017 or December 31, 2016. The Companies are not currently under audit by any tax jurisdiction.

Advertising costs:

Advertising costs (including franchise and affiliation advertising, loyalty programs and promotional costs) are expensed as incurred and totaled $1,009 and $960 for three months ended March 31, 2017 and 2016, respectively.

Deferred financing costs:

Unamortized deferred financing costs of $618 and $768 as at March 31, 2017 and December 31, 2016, respectively, have been included as a deduction of the long-term portion of term loans payable in the consolidated and combined balance sheets.

Financing costs totaling $4,456 to March 31, 2017 ($4,406 to December 31, 2016) incurred in connection with obtaining term loans were capitalized and are being amortized over the term of the related debt. Accumulated amortization was $3,838 and $3,637 as at March 31, 2017 and December 31, 2016, respectively. Amortization is charged to interest expense and was $201 and $161 for three months ended March 31, 2017 and 2016, respectively. Amortization of existing financing costs will continue over the remaining terms of the loans, ranging from 3 months to 3 years.

Fair value measurements:

The Companies follow FASB guidance related to fair value measurements. This guidance provides a framework for measuring fair value under GAAP and defined fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Notes continued on next page.

Note 3. Summary of significant accounting policies (continued)

This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels.

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Other unobservable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The Companies financial instruments consist of cash, restricted cash, trade and other receivables, other assets, accounts payable and accrued liabilities. The carrying amounts of these accounts approximate fair value based on their short-term or highly liquid nature.

New accounting pronouncements:

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The accounting update is effective for the annual period beginning January 1, 2018. Early application is not permitted. The Companies are currently assessing the impact this new guidance may have on the Companies' operations and financial results.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern. The ASU requires management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity's ability to continue as a going concern exists. Management will be required to make this evaluation for both annual and interim reporting periods. The standard states substantial doubt exists when relevant conditions and events, considered in the aggregate, indicate it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The Companies will be required to apply the provisions of ASU 2014-15 for accounting periods beginning after December 15, 2016. The Companies do not expect the new standard to impact the combined financial statements or require further disclosure.

In February 2016, the FASB issued ASU 2016-02, Leases. The new standard introduces a new lease accounting model which requires that substantially all leases be recorded on the balance sheet. The Companies will be required to apply the provisions of ASU 2016-02 for accounting periods beginning after December 15, 2019. Earlier application is permitted. The Companies are currently assessing the impact this new guidance may have on the Companies' operations and financial results.

Notes continued on next page.

Eastern Seaboard Portfolio
NOTES TO THE CONSOLIDATED AND COMBINED INTERIM FINANCIAL STATEMENTS
As of March 31, 2017 and December 31, 2016 and for the Three Months Ended March 31, 2017 and 2016
(Expressed in thousands of U.S. dollars) (Unaudited)

Note 4. Property, buildings and equipment

Property, building and equipment consist of the following:

	March 31, 2017	December 31, 2016
Land	$ 42,952	$ 42,952
Building and site improvements	287,779	287,779
Equipment	39,790	39,205
Construction in progress	170	61
	370,691	369,997
Less – accumulated depreciation	(65,722)	(62,288)
	$ 304,969	$ 307,709

Depreciation expense was $3,433 and $3,313 for the three months ended March 31, 2017 and 2016, respectively.

Note 5. Intangible assets

Intangible assets consist of the following:

	March 31, 2017	December 31, 2016
Franchise fees	$ 1,170	$ 1,170
Other	-	-
	1,170	1,170
Less – accumulated amortization	(404)	(385)
	$ 766	$ 785

Franchise fees are amortized over the terms of the related franchise agreements (ranging from 10 to 20 years). Amortization expense recognized on intangible assets was $19 and $20 for the three months ended March 31, 2017 and 2016, respectively.

Notes continued on next page.

Eastern Seaboard Portfolio

NOTES TO THE CONSOLIDATED AND COMBINED INTERIM FINANCIAL STATEMENTS

As of March 31, 2017 and December 31, 2016 and for the Three Months Ended March 31, 2017 and 2016

(Expressed in thousands of U.S. dollars) (Unaudited)

Note 6. Term loans

Term loans consist of the following:

		March 31, 2017			December 31, 2016		
		Term loan	Current maturities	Long -term portion	Term loan	Current maturities	Long -term portion
AHS, BHS	(a)	$ 19,933	$ 402	$ 19,531	$ 20,000	$ 369	$ 19,631
AHI, ARI, ASH, ATS	(b)	43,859	43,859	-	44,086	44,086	-
BSH	(c)	8,972	8,972	-	9,039	9,039	-
DHS	(d)	11,052	183	10,869	11,098	183	10,915
EHS	(e)	12,162	369	11,793	12,257	369	11,888
ERI, MRI	(f)	28,118	28,118	-	28,282	28,282	-
MHG	(g)	6,856	6,856	-	6,892	6,892	-
NRI	(h)	13,792	228	13,564	13,850	229	13,621
WCY	(i)	11,872	196	11,676	11,921	197	11,724
WFI, WHG, WHI, WRI	(j)	46,523	46,523	-	46,777	46,777	-
		203,139	135,706	67,433	204,202	136,423	67,779
Unamortized portion of deferred financing costs		(618)	-	(618)	(768)	-	(768)
		$ 202,521	$ 135,706	$ 66,815	$ 203,434	$ 136,423	$ 67,011

Estimated future maturities required on term loans as at March 31, 2017 are as follows:

2017	$ 135,360
2018	48,550
2019	402
2020	18,827
2021	-
Thereafter	-
	203,139
Unamortized portion of deferred financing costs	(618)
	$ 202,521

(a) $20,000 term loan to Wells Fargo Bank, National Association, payable in principal monthly installments of $34. before interest at LIBOR plus 3.00%, (3.98% at March 31, 2017 and 3.77% at December 31, 2016), through January 13, 2020, when all outstanding interest and principal amounts are due.

(b) $46,550 term loan to PNC Bank, National Association, payable in total monthly installments of $314 including interest at LIBOR plus 2.75%, (3.73% at March 31, 2017 and 3.52% at December 31, 2016), through December 20, 2017, when all outstanding interest and principal amounts are due.

Notes continued on next page.

Note 6. Term loans (continued)

(c) $10,350 term loan to The Washington Trust Company, payable in total monthly installments of $51 including interest at LIBOR plus 3.05%, (4.03% at March 31, 2017 and 3.82% at December 31, 2016), through July 4, 2017, when all outstanding interest and principal amounts are due.

(d) $11,538 term loan to Bank of America, N.A., payable in principal monthly installments of $16 to August 2016 and $15 to August 2018, before interest at LIBOR plus 3.00%, (3.98% at March 31, 2017 and 3.77% at December 31, 2016), through August 20, 2018, when all outstanding interest and principal amounts are due.

(e) $13,000 term loan to The Washington Trust Company, payable in total monthly installments of $69 including interest at LIBOR plus 2.80%, (3.78% at March 31, 2017 and 3.57% at December 31, 2016), through December 30, 2018, when all outstanding interest and principal amounts are due.

(f) $31,521 term loan to Wells Fargo Bank, National Association, payable in principal monthly installments of $51 to November 2016 and $55 to November 2017, before interest at LIBOR plus 3.50%, (4.48% at March 31, 2017 and 4.27% at December 31, 2016), through December 1, 2017, when all outstanding interest and principal amounts are due.

(g) $8,000 term loan to The Washington Trust Company, payable in total monthly installments of $40 including interest at LIBOR plus 3.25%, (4.23% at March 31, 2017 and 4.02% at December 31, 2016), through July 1, 2017, when all outstanding interest and principal amounts are due.

(h) $14,399 term loan to Bank of America, N.A., payable in principal monthly installments of $20 to August 2016, $19 to August 2018, before interest at LIBOR plus 3.00%, (3.98% at March 31, 2017 and 3.77% at December 31, 2016), through August 20, 2018, when all outstanding interest and principal amounts are due.

(i) $12,394 term loan to Bank of America, N.A., payable in principal monthly installments of $17 to August 2017 and $16 to August 2018, before interest at LIBOR plus 3.00%, (3.98% at March 31, 2017 and 3.77% at December 31, 2016), through August 20, 2018, when all outstanding interest and principal amounts are due.

(j) $50,000 term loan to Bank of America, N.A., payable in total monthly installments of $338 including interest at LIBOR plus 3.25%, (4.23% at March 31, 2017 and 4.02% at December 31, 2016), through December 17, 2017, when all outstanding interest and principal amounts are due.

All promissory notes contain security provisions, including deeds of trust on substantially all the assets of the respective Companies, assignment of the leases, rents and franchise agreements.

Under the provisions of the Companies' term loan agreements, the Companies are subject to certain financial and operational covenants. The Companies were in compliance with these covenants at March 31, 2017 and December 31, 2016.

Interest expense for term loans, included in finance costs in the accompanying consolidated and combined statements of operations, was $1,974 and $1,837 for the three months ended March 31, 2017 and 2016 respectively.

Notes continued on next page.

Eastern Seaboard Portfolio

NOTES TO THE CONSOLIDATED AND COMBINED INTERIM FINANCIAL STATEMENTS

As of March 31, 2017 and December 31, 2016 and for the Three Months Ended March 31, 2017 and 2016

(Expressed in thousands of U.S. dollars) (Unaudited)

Note 7. Transactions with franchisor

The Companies operate under the terms of franchise agreements with subsidiaries of the following franchisors, and the associated costs are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations:

(a) Marriott International:

The Companies operate 10 hotels under separate franchise agreements with subsidiaries of Marriott International, comprising 1,206 rooms, under the following brands: Residence Inn (ARI – 131 rooms, ERI – 101 rooms, MRI – 144 rooms, NRI – 105 rooms, WRI – 131 rooms); Courtyard (WCY – 113 rooms), Springhill Suites (ASH – 128 rooms, BSH – 128 rooms); TownePlace Suites (ATS – 109 rooms); and Fairfield Inn & Suites (WFI – 116 rooms).

The related franchise agreements for these 10 hotels expire between July 2023 and June 2030.

The franchisees are required to pay the franchisor a monthly royalty fee between 4.5% and 5.5% of its gross room revenues as defined by the related agreement. Total royalty fees for these 10 hotels amounted to $499 and $485 for the three months ended March 31, 2017 and 2016, respectively.

The franchisees are required to pay the franchisor a monthly marketing fee between 1.5% and 2.5% of gross room revenues as a contribution to the marketing fund which is maintained and administered by the franchisor. The advertising fees for these 10 hotels amounted to $229 and $222 for the three months ended March 31, 2017 and 2016, respectively.

Other fees paid to the franchisor for these 10 hotels, such as reservation fees, travel agent commissions, education & training, guest relation and loyalty program fees, other advertising and promotion fees, totaled $131 and $128 for the three months ended March 31, 2017 and 2016, respectively.

The Companies are required to modernize, rehabilitate, and/or upgrade the hotel per franchisors' standards set forth in the agreements.

(b) Hilton Worldwide:

The Companies operate eight hotels under separate franchise agreements with subsidiaries of Hilton Worldwide comprising 981 rooms. These hotels operate under the following brands: Homewood Suites (AHS – 108 rooms, BHS – 113 rooms, DHS – 108 rooms, EHS – 120 rooms); Hilton Garden Inn (MHG – 120 rooms, WHG – 155 rooms); and Hampton Inn & Suites (AHI – 130 rooms, WHI – 127 rooms).

The related franchise agreements for these eight hotels expire between December 2024 and December 2032.

The franchisees are required to pay the franchisor a monthly royalty fee between 4.0% and 6.0% of its gross room revenues as defined by the related agreement. Total royalty fees for these eight hotels amounted to $404 and $402 for the three months ended March 31, 2017 and 2016, respectively.

Notes continued on next page.

Note 7. Transactions with franchisor (continued)

The franchisees are required to pay the franchisor a monthly loyalty program fee between 4.0% and 4.3% of gross room revenues as a contribution to the marketing fund which is maintained and administered by the franchisor. The advertising fees for these eight hotels amounted to $337 and $318 for the three months ended March 31, 2017 and 2016, respectively.

Other fees paid to the franchisor for these eight hotels, such as reservation fees, travel agent commissions, education & training, guest relation and loyalty program fees, other advertising and promotion fees, totaled $277 and $254 for the three months ended March 31, 2017 and 2016, respectively.

The Companies are required to modernize, rehabilitate, and/or upgrade the hotel per franchisors' standards set forth in the agreements.

Note 8. Related party transactions

The Companies engaged MCR Investors LLC, a Delaware limited liability company controlled by a director of MCRS REIT and MCRB REIT, to manage and operate the hotel properties. The base management fee outlined in the related management agreement is 3.25% of gross revenues of the respective property. The agreement expires on December 16, 2017, and will automatically renew thereafter for one-year periods, unless one party delivers notice of termination to the other party not less than 90 days prior to the end of the term. In addition to the amounts payable under the related hotel management agreement, the hotel manager is also paid a monthly accounting fee, a monthly revenue management fee, and a monthly E-commerce fee, totaling $3 per property managed.

Total fees paid to MCR Investors LLC during the three months ended March 31, 2017 and 2016 were $773 and $764, respectively, as follows (fees included in trade and other payables amounted to $281 and $233 as at March 31, 2017 and December 31, 2016, respectively):

- Management fees under the agreements totaled $604 and $598 for the three months ended March 31, 2017 and 2016, respectively, and are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations.
- Accounting fees under the agreements totaled $54 for each of the three months ended March 31, 2017 and 2016, and are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations.
- Revenue management fees under the agreements totaled $85 and $81 for the three months ended March 31, 2017 and 2016, respectively, and are included in operating expenses in the accompanying consolidated and combined statements of operations.
- E-commerce fees under the agreements totaled $30 and $31 for the three months ended March 31, 2017 and 2016, respectively, and are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations.

Notes continued on next page.

Eastern Seaboard Portfolio
NOTES TO THE CONSOLIDATED AND COMBINED INTERIM FINANCIAL STATEMENTS
As of March 31, 2017 and December 31, 2016 and for the Three Months Ended March 31, 2017 and 2016
(Expressed in thousands of U.S. dollars) (Unaudited)

Note 9. Commitments and contingencies

Insurance – The Companies maintain comprehensive insurance on the hotel properties, including general liability, business interruption, fire, and extended coverage, including windstorm and flood in the types and amounts management believes are customary for the resort and hotel industry. MCR Investors LLC bills medical, dental, and workers' compensation costs to the respective managed properties.

Litigation – The Companies are not a party to any litigation or claims, other than routine matters arising in the ordinary course of business. The Companies believe that the results of all claims and litigation, individually or in the aggregate, will not have a material effect on the Companies' consolidated and combined interim financial statements.

Leases – WFI is subject to a ground lease agreement with the Cordon Fairfield Business Trust (a Maryland business trust and fee simple owner of the land). The rent year commences on April 1 of each year and the ground lease agreement required payments totaling $36 for each of the three months ended March 31, 2017 and 2016, which are included in operating expenses in the accompanying consolidated and combined statements of operations. The ground lease includes a buyout option open from October 3, 2018 to March 31, 2019 for $1,857, and eight remaining five-year renewal periods, with the next renewal being April 1, 2017. Including all remaining renewal options, the ground lease can be extended up to March 31, 2057, with future payments under the ground lease as at March 31, 2017 (including all renewal options) as follows:

2017	$	120
2018		165
2019		165
2020		165
2021		167
Thereafter		10,546
	$	11,328

Note 10. Subsequent events

In preparing these financial statements, the Companies have evaluated subsequent events and transactions for potential recognition or disclosure through May 30, 2017, the date on which the consolidated and combined interim financial statements were available to be issued. The Companies have determined that other than as described below, there are no other events that require disclosure.

The ground lease relating to WFI (see note 9) was renewed for an additional five-year period commencing April 1, 2017.

On May 3, 2017, the Companies signed a contract of sale for all of the hotels that is the sole source of their revenue. The closing is expected to be no later than July 14, 2017.

MCRS Allentown LLC
MCRS Allentown Tenant LLC
MCRB Arundel 1 LLC
MCRB Arundel 1 Tenant LLC
MCRB Arundel 2 LLC
MCRB Arundel 2 Tenant LLC
MCRB Arundel 3 LLC
MCRB Arundel 3 Tenant LLC
MCRB Arundel 4 LLC
MCRB Arundel 4 Tenant LLC
MCRS Bethlehem LLC
MCRS Bethlehem Tenant LLC
MCRS Brookhaven LLC
MCRS Brookhaven Tenant LLC
MCRS Dover LLC
MCRS Dover Tenant LLC
MCRS Egg Harbor 2 LLC
MCRS Egg Harbor 2 Tenant LLC
MCRS Egg Harbor LLC
MCRS Egg Harbor Tenant LLC
MCRS Milford LLC
MCRS Milford Tenant LLC
MCRS Mt. Laurel LLC
MCRS Mt. Laurel Tenant LLC
MCRS Neptune LLC
MCRS Neptune Tenant LLC
MCRS Wall LLC
MCRS Wall Tenant LLC
MCRB White Marsh 4 LLC
MCRB White Marsh 4 Tenant LLC
MCRB White Marsh 2 LLC
MCRB White Marsh 2 Tenant LLC
MCRB White Marsh 1 LLC
MCRB White Marsh 1 Tenant LLC
MCRB White March 3 LLC
MCRB White Marsh 3 Tenant LLC
(collectively the "Eastern Seaboard Portfolio" or "the Companies")

Financial Report

December 31, 2016 and 2015

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CONTENTS

REPORT OF INDEPENDENT ACCOUNTANTS 1

CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Consolidated and combined statements of financial position 3
Consolidated and combined statements of operations 4
Consolidated and combined statements of Partners' capital 5
Consolidated and combined statements of cash flows 6
Notes to the consolidated and combined financial statements 7

REPORT OF INDEPENDENT ACCOUNTANTS

To the Partners of
Eastern Seaboard Portfolio:

We have audited the accompanying consolidated and combined financial statements of the Eastern Seaboard Portfolio (the “Companies”), which comprise the consolidated and combined statements of financial position as of December 31, 2016 and 2015, and the related consolidated and combined statements of operations, partners’ capital, and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements.

Management's Responsibility for the Consolidated and Combined Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and combined financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and combined 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 is sufficient and appropriate to provide a basis for our audit opinion.

Certified Public
Accountants & Consultants
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Opinion

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Eastern Seaboard Portfolio as of December 31, 2016 and 2015, and the results of its operations, changes in partners' capital and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

May 26, 2017
Glen Allen, Virginia

Eastern Seaboard Portfolio

Consolidated and Combined Statements of Financial Position
As at December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

	Notes	2016	2015
Assets			
Current assets:			
Cash and cash equivalents		$ 3,308	$ 2,630
Restricted cash		1,120	1,248
Trade and other receivables, net		947	968
Other assets		1,939	2,087
		7,314	6,933
Property, buildings and equipment, net	4	307,709	318,445
Intangible assets, net	5	785	869
		$ 315,808	$ 326,247
Liabilities and Partners' Capital			
Current liabilities:			
Accounts payable and accrued liabilities		$ 3,994	$ 3,665
Current portion of term loans	6	136,423	3,985
		140,417	7,650
Term loans, net	6	67,011	202,796
Total liabilities		207,428	210,446
Partners' capital		108,380	115,801
		$ 315,808	$ 326,247

See accompanying notes to the consolidated and combined financial statements.

Eastern Seaboard Portfolio

Consolidated and Combined Statements of Operations
For the years ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

	2016	2015
Revenue:		
Rooms	$ 84,693	$ 81,035
Food and beverage	1,781	1,971
Rental and other	2,549	2,418
	89,023	85,424
Hotel expenses:		
Operating expenses	21,913	21,627
Energy	3,462	3,537
Property maintenance	3,334	3,293
Property taxes and insurance	4,744	4,673
Depreciation and amortization	13,586	14,143
Corporate and administrative	19,743	18,865
	66,782	66,138
Income from operating activities	22,241	19,286
Finance costs	8,096	7,738
Net income	$ 14,145	$ 11,548

See accompanying notes to the consolidated and combined financial statements.

Eastern Seaboard Portfolio

Consolidated and Combined Statements of Partners' Capital
For the years ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

	2016	2015
Opening balance, January 1	$ 115,801	$ 129,025
Capital contributions	12,865	15,193
Distributions	(34,431)	(39,965)
Net income	14,145	11,548
	$ 108,380	$ 115,801

See accompanying notes to the consolidated and combined financial statements.

Eastern Seaboard Portfolio

Consolidated and Combined Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

	2016	2015
Cash provided by (used in)		
Operating activities:		
Net income	$ 14,145	$ 11,548
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,586	14,143
Provision for bad debts	111	109
Amortization of deferred financing costs	637	737
Changes in operating assets and liabilities:		
Trade and other receivables, net	(90)	(348)
Other assets	146	(579)
Accounts payable and accrued liabilities	330	308
Net cash provided by operating activities	28,865	25,918
Investing activities:		
Purchase of property, buildings and equipment	(2,770)	(4,234)
Drawdown of restricted cash reserve	128	1,091
Net cash used in investing activities	(2,642)	(3,143)
Financing activities:		
Capital contributions	12,865	15,193
Distributions	(34,431)	(39,965)
Proceeds from term loans	-	7,077
Payment on term loans	(3,979)	(3,480)
Financing costs	-	(406)
Net cash used in financing activities	(25,545)	(21,581)
Increase in cash and cash equivalents	678	1,194
Cash and cash equivalents, beginning of period	2,630	1,436
Cash and cash equivalents, end of period	$ 3,308	$ 2,630
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 7,450	$ 6,891

See accompanying notes to the consolidated and combined financial statements.

Note 1. Nature of business

The Eastern Seaboard Portfolio is comprised of 36 separate limited liability companies formed in accordance with the Delaware Limited Liability Company Act (individually referred to as the "Company" or collectively as the "Companies" in these notes) which collectively own and operate 18 hotel properties located on the eastern seaboard of the United States. Each hotel property is owned and operated by separate limited liability companies, for a total of 18 separate owner entities and 18 separate operator entities. 10 separate owner entities and 10 separate operator entities (each commencing with the letters "MCRS" in the following list) are wholly owned subsidiaries of MCRS Real Estate Investment Trust, Inc. (a Maryland corporation, hereafter referred to as "MCRS REIT"). Eight separate owner entities and eight separate operator entities (each commencing with the letters "MCRB" in the following list) are wholly owned subsidiaries of MCRB Real Estate Investment Trust, Inc. (a Maryland corporation, hereafter referred to as "MCRB REIT"). The entities comprising the Eastern Seaboard Portfolio are as follows:

a) MCRS Allentown LLC owns a 108-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in the city of Allentown in Lehigh County in the state of Pennsylvania, and leases this property to MCRS Allentown Tenant LLC to operate the hotel. Both MCRS Allentown LLC and MCRS Allentown Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as "AHS".

b) MCRB Arundel 1 LLC owns a 130-room Hampton Inn & Suites hotel (a franchise of Hilton Worldwide) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 1 Tenant LLC to operate the hotel. Both MCRB Arundel 1 LLC and MCRB Arundel 1 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as "AHI".

c) MCRB Arundel 2 LLC owns a 131-room Residence Inn hotel (a franchise of Marriott International) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 2 Tenant LLC to operate the hotel. Both MCRB Arundel 2 LLC and MCRB Arundel 2 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as "ARI".

d) MCRB Arundel 3 LLC owns a 128-room SpringHill Suites hotel (a franchise of Marriott International) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 3 Tenant LLC to operate the hotel. Both MCRB Arundel 3 LLC and MCRB Arundel 3 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as "ASH".

e) MCRB Arundel 4 LLC owns a 109-room TownePlace Suites hotel (a franchise of Marriott International) located in the city of Hanover in Anne Arundel County in the state of Maryland, and leases this property to MCRB Arundel 4 Tenant LLC to operate the hotel. Both MCRB Arundel 4 LLC and MCRB Arundel 4 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as "ATS".

f) MCRS Bethlehem LLC owns a 113-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in the city of Bethlehem in Lehigh and Northampton counties in the state of Pennsylvania, and leases this property to MCRS Bethlehem Tenant LLC to operate the hotel. Both MCRS Bethlehem LLC and MCRS Bethlehem Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as "BHS".

See Report of Independent Accountants. Notes continued on next page.

Note 1. Nature of business (continued)

g) MCRS Brookhaven LLC owns a 128-room SpringHill Suites hotel (a franchise of Marriott International) located in the town of Brookhaven in Suffolk County in the state of New York, and leases this property to MCRS Brookhaven Tenant LLC to operate the hotel. Both MCRS Brookhaven LLC and MCRS Brookhaven Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “BSH”.

h) MCRS Dover LLC owns a 108-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in the town of Dover in Morris County in the state of New Jersey, and leases this property to MCRS Dover Tenant LLC to operate the hotel. Both MCRS Dover LLC and MCRS Dover Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “DHS”.

i) MCRS Egg Harbor 2 LLC owns a 120-room Homewood Suites hotel (a franchise of Hilton Worldwide) located in Egg Harbor Township in Atlantic County in the state of New Jersey, and leases this property to MCRS Egg Harbor 2 Tenant LLC to operate the hotel. Both MCRS Egg Harbor 2 LLC and MCRS Egg Harbor 2 Tenant LLC were formed on March 28, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “EHS”.

j) MCRS Egg Harbor LLC owns a 101-room Residence Inn hotel (a franchise of Marriott International) located in Egg Harbor Township in Atlantic County in the state of New Jersey, and leases this property to MCRS Egg Harbor Tenant LLC to operate the hotel. Both MCRS Egg Harbor LLC and MCRS Egg Harbor Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “ERI”.

k) MCRS Milford LLC owns a 120-room Hilton Garden Inn hotel (a franchise of Hilton Worldwide) located in the city of Milford in New Haven County in the state of Connecticut, and leases this property to MCRS Milford Tenant LLC to operate the hotel. Both MCRS Milford LLC and MCRS Milford Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “MHG”.

l) MCRS Mt. Laurel LLC owns a 144-room Residence Inn hotel (a franchise of Marriott International) located in the township of Mt. Laurel, an edge city suburb of Philadelphia, in Burlington County in the state of New Jersey, and leases this property to MCRS Mt. Laurel Tenant LLC to operate the hotel. Both MCRS Mt. Laurel LLC and MCRS Mt. Laurel Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “MRI”.

m) MCRS Neptune LLC owns a 105-room Residence Inn hotel (a franchise of Marriott International) located in Neptune City, a borough in Monmouth County in the state of New Jersey, and leases this property to MCRS Neptune Tenant LLC to operate the hotel. Both MCRS Neptune LLC and MCRS Neptune Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “NRI”.

n) MCRS Wall LLC owns a 113-room Courtyard hotel (a franchise of Marriott International) located in Wall Township in Monmouth County in the state of New Jersey, and leases this property to MCRS Wall Tenant LLC to operate the hotel. Both MCRS Wall LLC and the MCRS Wall Tenant LLC were formed on September 29, 2010, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “WCY”.

See Report of Independent Accountants. Notes continued on next page.

Note 1. Nature of business (continued)

o) MCRB White Marsh 4 LLC owns a 116-room Fairfield Inn & Suites hotel (a franchise of Marriott International) located in White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 4 Tenant LLC to operate the hotel. Both MCRB White Marsh 4 LLC and MCRB White Marsh 4 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “WFI”.

p) MCRB White Marsh 2 LLC owns a 155-room Hilton Garden Inn hotel (a franchise of Hilton Worldwide) located in White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 2 Tenant LLC to operate the hotel. Both MCRB White Marsh 2 LLC and MCRB White Marsh 2 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “WHG”.

q) MCRB White Marsh 1 LLC owns a 127-room Hampton Inn & Suites hotel (a franchise of Hilton Worldwide) located in the White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 1 Tenant LLC to operate the hotel. Both MCRB White Marsh 1 LLC and MCRB White Marsh 1 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “WHI”.

r) MCRB White Marsh 3 LLC owns a 131-room Residence Inn hotel (a franchise of Marriott International) located in the White Marsh, an unincorporated suburb of Baltimore, in Baltimore County in the state of Maryland, and leases this property to MCRB White Marsh 3 Tenant LLC to operate the hotel. Both MCRB White Marsh 3 LLC and MCRB White Marsh 3 Tenant LLC were formed on October 5, 2012, and for the purposes of presentation within these consolidated and combined financial statements are collectively referred to as “WRI”.

Note 2. Basis of presentation

The accompanying consolidated and combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as determined by Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Summary of significant accounting policies

Concentration of credit risk:

Financial instruments that potentially subject the Companies to concentrations of credit risk consist primarily of cash in excess of insured amounts. The Companies place cash with high quality financial institutions. At times, the Companies may have deposits in excess of $250 within a single financial institution that are not insured by the Federal Deposit Insurance Corporation.

Note 3. Summary of significant accounting policies (continued)

Cash and cash equivalents:

The Companies consider all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents. The Companies had no cash equivalents for the periods included in these consolidated and combined financial statements.

Restricted cash:

Restricted cash represents cash collected from the hotel properties and held in restricted depository accounts, and cash held in escrow relating to brand mandated property improvements as may be required to modernize, rehabilitate, and/or upgrade hotels per franchisors' standards set forth in the applicable franchise agreements.

Trade and other receivables:

Trade and other receivables are stated at the amount management expects to collect from balances outstanding at period-end. Allowances for uncollectible amounts receivable are accrued based on management's assessment of the credit history with customers having outstanding balances and current relationships with those customers, and the allowance for these doubtful accounts that has been netted against trade and other receivables was $53 and $58 as at December 31, 2016 and 2015, respectively. Trade and other receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Amounts are written off when management believes all collection efforts have been exhausted. Recoveries of amounts previously written off are recorded when received. Interest is not charged on amounts receivable.

Property, buildings and equipment:

Property, buildings and equipment are stated at cost. Depreciation is computed using the straight-line method based on management's estimated useful lives, which range as follows:

	Years
Building	39
Site improvements	39
Equipment	5

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed, the asset account(s) and related accumulated depreciation account(s) are relieved, and any gain or loss is included in operations.

The Companies evaluate assets for impairment in accordance with GAAP, which requires the Companies under certain circumstances to review long-lived assets to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows, the recorded amounts of the assets will be reduced to their fair value. No impairments were identified in 2016 or 2015.

Intangible assets:

Intangible assets consist of costs relating to the franchise licensing agreements of the hotel properties, and are amortized using the straight-line method based on the term of the related franchise agreements, which range from 10 to 20 years.

See Report of Independent Accountants. Notes continued on next page.

Note 3. Summary of significant accounting policies (continued)

Revenue recognition:

Revenue associated with room rentals, food and beverage sales, and other revenue at the hotel properties is recognized when services are rendered. Deferred revenue and advance deposits arise as a normal part of business due to advance payments for hotel accommodations.

Income taxes and uncertainties:

As limited liability companies, the Companies elected to be taxed as a partnership and taxable income or loss is allocated to their members. Therefore, no provision or liability for income taxes has been included in the consolidated and combined financial statements.

Management has evaluated the Companies' tax positions and concluded that the Companies have no significant financial statement exposure to uncertain income tax positions at December 31, 2016 or 2015. The Companies are not currently under audit by any tax jurisdiction.

Advertising costs:

Advertising costs (including franchise and affiliation advertising, loyalty programs and promotional costs) are expensed as incurred and totaled $4,679 and $4,430 for years ended December 31, 2016 and 2015, respectively.

Deferred financing costs:

In April 2015, the FASB approved Accounting Standards Update ("ASU") 2015-03, which amends ASC 835, Interest. The standard requires the Companies to present financing costs related to a recognized debt liability as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. These costs are amortized to interest expense over the term of the related debt by a method that approximates the effective interest method. The Companies elected to early adopt this guidance effective December 31, 2015. As a result, unamortized deferred financing costs of $768 and $1,406 as at December 31, 2016 and 2015, respectively, have been included as a deduction of the long-term portion of term loans payable in the consolidated and combined balance sheets.

Financing costs totaling $4,406 incurred in connection with obtaining term loans were capitalized and are being amortized over the term of the related debt. Accumulated amortization was $3,637 and $3,000 as at December 31, 2016 and 2015, respectively. Amortization is charged to interest expense and was $637 and $737 for years ended December 31, 2016 and 2015, respectively. Amortization of existing financing costs will continue over the remaining terms of the loans, ranging from 6 months to 3 years.

Fair value measurements:

The Companies follow FASB guidance related to fair value measurements. This guidance provides a framework for measuring fair value under GAAP and defined fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 3. Summary of significant accounting policies (continued)

This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels.

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Other unobservable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The Companies financial instruments consist of cash, restricted cash, trade and other receivables, other assets, accounts payable and accrued liabilities. The carrying amounts of these accounts approximate fair value based on their short-term or highly liquid nature.

New accounting pronouncements:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The accounting update is effective for the annual period beginning January 1, 2018. Early application is not permitted. The Companies are currently assessing the impact this new guidance may have on the Companies' operations and financial results.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern. The ASU requires management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity's ability to continue as a going concern exists. Management will be required to make this evaluation for both annual and interim reporting periods. The standard states substantial doubt exists when relevant conditions and events, considered in the aggregate, indicate it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The Companies will be required to apply the provisions of ASU 2014-15 for accounting periods beginning after December 15, 2016. The Companies do not expect the new standard to impact the combined financial statements or require further disclosure.

In February 2016, the FASB issued ASU 2016-02, Leases. The new standard introduces a new lease accounting model which requires that substantially all leases be recorded on the balance sheet. The Companies will be required to apply the provisions of ASU 2016-02 for accounting periods beginning after December 15, 2019. Earlier application is permitted. The Companies are currently assessing the impact this new guidance may have on the Companies' operations and financial results.

See Report of Independent Accountants. Notes continued on next page.

Eastern Seaboard Portfolio
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
Years Ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

Note 4. Property, buildings and equipment

Property, building and equipment consist of the following at December 31:

	2016	2015
Land	$ 42,952	$ 42,952
Building and site improvements	287,779	287,752
Equipment	39,205	34,899
Construction in progress	61	1,622
	369,997	367,225
Less – accumulated depreciation	(62,288)	(48,780)
	$ 307,709	$ 318,445

Depreciation expense was $13,508 and $14,065 for the years ended December 31, 2016 and 2015, respectively.

Note 5. Intangible assets

Intangible assets consist of the following at December 31:

	2016	2015
Franchise fees	$ 1,170	$ 1,170
Other	-	6
	1,170	1,176
Less – accumulated amortization	(385)	(307)
	$ 785	$ 869

Franchise fees are amortized over the terms of the related franchise agreements (ranging from 10 to 20 years). Amortization expense recognized on intangible assets was $78 for each of the years ended December 31, 2016 and 2015.

See Report of Independent Accountants. Notes continued on next page.

Eastern Seaboard Portfolio
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
Years Ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

Note 6. Term loans

Term loans consist of the following at December 31:

		2016			2015		
		Term loan	Current maturities	Long -term portion	Term loan	Current maturities	Long -term portion
AHS, BHS	(a)	$ 20,000	$ 369	$ 19,631	$ 20,000	$ -	$ 20,000
AHI, ARI, ASH, ATS	(b)	44,086	44,086	-	44,961	875	44,086
BSH	(c)	9,039	9,039	-	9,323	284	9,039
DHS	(d)	11,098	183	10,915	11,285	187	11,098
EHS	(e)	12,257	369	11,888	12,633	376	12,257
ERI, MRI	(f)	28,282	28,282	-	28,899	617	28,282
MHG	(g)	6,892	6,892	-	7,128	236	6,892
NRI	(h)	13,850	229	13,621	14,083	233	13,850
WCY	(i)	11,921	197	11,724	12,122	201	11,921
WFI, WHG, WHI, WRI	(j)	46,777	46,777	-	47,753	976	46,777
		204,202	136,423	67,779	208,187	3,985	204,202
Unamortized portion of deferred financing costs		(768)	-	(768)	(1,406)	-	(1,406)
		$ 203,434	$ 136,423	$ 67,011	$ 206,781	$ 3,985	$ 202,796

Estimated future maturities required on term loans as at December 31, 2016 are as follows:

2017	$	136,423
2018		48,550
2019		402
2020		18,827
2021		-
Thereafter		-
		204,202
Unamortized portion of deferred financing costs		(768)
	$	203,434

(a) $20,000 term loan to Wells Fargo Bank, National Association, payable in principal monthly installments of $34. before interest at LIBOR plus 3.00%, (3.77% at December 31, 2016 and 3.42% at December 31, 2015), through January 13, 2020, when all outstanding interest and principal amounts are due.

(b) $46,550 term loan to PNC Bank, National Association, payable in total monthly installments of $314 including interest at LIBOR plus 2.75%, (3.52% at December 31, 2016 and 3.17% at December 31, 2015), through December 20, 2017, when all outstanding interest and principal amounts are due.

Note 6. Term loans (continued)

(c) $10,350 term loan to The Washington Trust Company, payable in total monthly installments of $51 including interest at LIBOR plus 3.05%, (3.82% at December 31, 2016 and 3.47% at December 31, 2015), through July 4, 2017, when all outstanding interest and principal amounts are due.

(d) $11,538 term loan to Bank of America, N.A., payable in principal monthly installments of $16 to August 2016 and $15 to August 2018, before interest at LIBOR plus 3.00%, (3.77% at December 31, 2016 and 3.42% at December 31, 2015), through August 20, 2018, when all outstanding interest and principal amounts are due.

(e) $13,000 term loan to The Washington Trust Company, payable in total monthly installments of $69 including interest at LIBOR plus 2.80%, (3.57% at December 31, 2016 and 3.22% at December 31, 2015), through December 30, 2018, when all outstanding interest and principal amounts are due.

(f) $31,521 term loan to Wells Fargo Bank, National Association, payable in principal monthly installments of $51 to November 2016 and $55 to November 2017, before interest at LIBOR plus 3.50%, (4.27% at December 31, 2016 and 3.92% at December 31, 2015), through December 1, 2017, when all outstanding interest and principal amounts are due.

(g) $8,000 term loan to The Washington Trust Company, payable in total monthly installments of $40 including interest at LIBOR plus 3.25%, (4.02% at December 31, 2016 and 3.67% at December 31, 2015), through July 1, 2017, when all outstanding interest and principal amounts are due.

(h) $14,399 term loan to Bank of America, N.A., payable in principal monthly installments of $20 to August 2016, $19 to August 2018, before interest at LIBOR plus 3.00%, (3.77% at December 31, 2016 and 3.42% at December 31, 2015), through August 20, 2018, when all outstanding interest and principal amounts are due.

(i) $12,394 term loan to Bank of America, N.A., payable in principal monthly installments of $17 to August 2017 and $16 to August 2018, before interest at LIBOR plus 3.00%, (3.77% at December 31, 2016 and 3.42% at December 31, 2015), through August 20, 2018, when all outstanding interest and principal amounts are due.

(j) $50,000 term loan to Bank of America, N.A., payable in total monthly installments of $338 including interest at LIBOR plus 3.25%, (4.02% at December 31, 2016 and 3.67% at December 31, 2015), through December 17, 2017, when all outstanding interest and principal amounts are due.

All promissory notes contain security provisions, including deeds of trust on substantially all the assets of the respective Companies, assignment of the leases, rents and franchise agreements.

Under the provisions of the Companies' term loan agreements, the Companies are subject to certain financial and operational covenants. The Companies were in compliance with these covenants at December 31, 2016 and 2015.

Interest expense for term loans, included in finance costs in the accompanying consolidated and combined statements of operations, was $7,454 and $6,945 for the years ended December 31, 2016 and 2015.

Note 7. Transactions with franchisor

The Companies operate under the terms of franchise agreements with subsidiaries of the following franchisors, and the associated costs are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations:

(a) Marriott International:

The Companies operate 10 hotels under separate franchise agreements with subsidiaries of Marriott International, comprising 1,206 rooms, under the following brands: Residence Inn (ARI – 131 rooms, ERI – 101 rooms, MRI – 144 rooms, NRI – 105 rooms, WRI – 131 rooms); Courtyard (WCY – 113 rooms), Springhill Suites (ASH – 128 rooms, BSH – 128 rooms); TownePlace Suites (ATS – 109 rooms); and Fairfield Inn & Suites (WFI – 116 rooms).

The related franchise agreements for these 10 hotels expire between July 2023 and June 2030.

The franchisees are required to pay the franchisor a monthly royalty fee between 4.5% and 5.5% of its gross room revenues as defined by the related agreement. Total royalty fees for these 10 hotels amounted to $2,463 and $2,320 for the years ended December 31, 2016 and 2015, respectively.

The franchisees are required to pay the franchisor a monthly marketing fee between 1.5% and 2.5% of gross room revenues as a contribution to the marketing fund which is maintained and administered by the franchisor. The advertising fees for these 10 hotels amounted to $1,128 and $1,067 for the years ended December 31, 2016 and 2015, respectively.

Other fees paid to the franchisor for these 10 hotels, such as reservation fees, travel agent commissions, education & training, guest relation and loyalty program fees, other advertising and promotion fees, totaled $665 and $664 for the years ended December 31, 2016 and 2015, respectively.

The Companies are required to modernize, rehabilitate, and/or upgrade the hotel per franchisors' standards set forth in the agreements.

(b) Hilton Worldwide:

The Companies operate eight hotels under separate franchise agreements with subsidiaries of Hilton Worldwide comprising 981 rooms. These hotels operate under the following brands: Homewood Suites (AHS – 108 rooms, BHS – 113 rooms, DHS – 108 rooms, EHS – 120 rooms); Hilton Garden Inn (MHG – 120 rooms, WHG – 155 rooms); and Hampton Inn & Suites (AHI – 130 rooms, WHI – 127 rooms).

The related franchise agreements for these eight hotels expire between December 2024 and December 2032.

The franchisees are required to pay the franchisor a monthly royalty fee between 4.0% and 6.0% of its gross room revenues as defined by the related agreement. Total royalty fees for these eight hotels amounted to $1,878 and $1,780 for the years ended December 31, 2016 and 2015, respectively.

Eastern Seaboard Portfolio
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
Years Ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

Note 7. Transactions with franchisor (continued)

The franchisees are required to pay the franchisor a monthly loyalty program fee between 4.0% and 4.3% of gross room revenues as a contribution to the marketing fund which is maintained and administered by the franchisor. The advertising fees for these eight hotels amounted to $1,522 and $1,435 for the years ended December 31, 2016 and 2015, respectively.

Other fees paid to the franchisor for these eight hotels, such as reservation fees, travel agent commissions, education & training, guest relation and loyalty program fees, other advertising and promotion fees, totaled $1,219 and $1,120 for the years ended December 31, 2016 and 2015, respectively.

The Companies are required to modernize, rehabilitate, and/or upgrade the hotel per franchisors' standards set forth in the agreements.

Note 8. Related party transactions

The Companies engaged MCR Investors LLC, a Delaware limited liability company controlled by a director of MCRS REIT and MCRB REIT, to manage and operate the hotel properties. The base management fee outlined in the related management agreement is 3.25% of gross revenues of the respective property. The agreement expires on December 16, 2017, and will automatically renew thereafter for one-year periods, unless one party delivers notice of termination to the other party not less than 90 days prior to the end of the term. In addition to the amounts payable under the related hotel management agreement, the hotel manager is also paid a monthly accounting fee, a monthly revenue management fee, and a monthly E-commerce fee, totaling $3 per property managed.

Total fees paid to MCR Investors LLC during the years ended December 31, 2016 and 2015 were $3,534 and $3,414, respectively, as follows (fees included in trade and other payables amounted to $233 and $218 as at December 31, 2016 and 2015, respectively):

- Management fees under the agreements totaled $2,893 and $2,776 for the years ended December 31, 2016 and 2015, respectively, and are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations.
- Accounting fees under the agreements totaled $216 for each of the years ended December 31, 2016 and 2015, and are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations.
- Revenue management fees under the agreements totaled $308 and $306 for the years ended December 31, 2016 and 2015, respectively, and are included in operating expenses in the accompanying consolidated and combined statements of operations.
- E-commerce fees under the agreements totaled $117 and $116 for the years ended December 31, 2016 and 2015, respectively, and are included in corporate and administrative expenses in the accompanying consolidated and combined statements of operations.

Eastern Seaboard Portfolio
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
Years Ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

Note 9. Commitments and contingencies

Insurance – The Companies maintain comprehensive insurance on the hotel properties, including general liability, business interruption, fire, and extended coverage, including windstorm and flood in the types and amounts management believes are customary for the resort and hotel industry. MCR Investors LLC bills medical, dental, and workers' compensation costs to the respective managed properties.

Litigation – The Companies are not a party to any litigation or claims, other than routine matters arising in the ordinary course of business. The Companies believe that the results of all claims and litigation, individually or in the aggregate, will not have a material effect on the Companies' consolidated and combined financial statements.

Leases – WFI is subject to a ground lease agreement with the Cordon Fairfield Business Trust (a Maryland business trust and fee simple owner of the land). The rent year commences on April 1 of each year and the ground lease agreement required payments totaling $144 for both 2016 and 2015, which are included in operating expenses in the accompanying consolidated and combined statements of operations. The ground lease includes a buyout option open from October 3, 2018 to March 31, 2019 for $1,857, and eight remaining five-year renewal periods, with the next renewal being April 1, 2017. Including all remaining renewal options, the ground lease can be extended up to March 31, 2057, with future payments under the ground lease as at December 31, 2016 (including all renewal options) as follows:

2017	$	160
2018		165
2019		165
2020		165
2021		167
Thereafter		10,546
	$	11,368

Note 10. Subsequent events

In preparing these financial statements, the Companies have evaluated subsequent events and transactions for potential recognition or disclosure through May 26, 2017, the date on which the consolidated and combined financial statements were available to be issued. The Companies have determined that other than as described below, there are no other events that require disclosure.

On March 29, 2017, the maturity date of the term loan of $10,350 with The Washington Trust Company (see Note 6c) was extended via amendment to July 4, 2017.

The ground lease relating to WFI (see note 9) was renewed for an additional five-year period commencing April 1, 2017.

On May 3, 2017, the Companies signed a contract of sale for all of the hotels that is the sole source of their revenue. The closing is expected to be no later than July 14, 2017.

CERTIFICATE OF THE REIT

June 2, 2017

The short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

(Signed) ROBERT O'NEILL Chief Executive Officer of the General Partner	(Signed) AZIM LALANI Chief Financial Officer of the General Partner

AMERICAN HOTEL INCOME PROPERTIES REIT (GP) INC.

(as General Partner)

(Signed) ROBERT O'NEILL Chief Executive Officer	(Signed) AZIM LALANI Chief Financial Officer
(Signed) STEPHEN J. EVANS Director	(Signed) CHARLES VAN DER LEE Director

CERTIFICATE OF THE UNDERWRITERS

June 2, 2017

To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada.

CIBC WORLD MARKETS INC.

(Signed) JEFF APPLEBY

NATIONAL BANK FINANCIAL INC.

(Signed) ANDREW WALLACE

TD SECURITIES INC.

(Signed) ARMEN FARIAN

CANACCORD GENUITY CORP.

(Signed) DAN SHEREMETO

BMO NESBITT BURNS INC.

(Signed) JONATHAN LI

SCOTIA CAPITAL INC.

(Signed) JUSTIN BOSA

RBC DOMINION SECURITIES INC.

(Signed) DAVID HOLDEN

HAYWOOD SECURITIES INC.

(Signed) BENG LAI

INDUSTRIAL ALLIANCE SECURITIES INC.

(Signed) VILMA JONES

This prospectus is a short form base shelf prospectus. This short form base shelf prospectus has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**U.S. Securities Act**") or any state securities laws and may not be offered or sold in the United States except in compliance with exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws. This short form base shelf prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States. See "Plan of Distribution".*

Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of American Hotel Income Properties REIT LP, 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1, Telephone (604) 630-3134, and are also available electronically at www.sedar.com.*

SHORT FORM BASE SHELF PROSPECTUS

New Issue **February 16, 2017**

US$500,000,000

Units
Warrants
Debt Securities
Subscription Receipts

This short form base shelf prospectus ("**Prospectus**") relates to the offering for sale by American Hotel Income Properties REIT LP (the "**REIT**") from time to time, during the 25-month period that this Prospectus, including any amendments thereto, remains valid, of up to US$500,000,000 (or its equivalent in Canadian dollars or any other currencies) in the aggregate of: (i) limited partnership units of the REIT ("**Units**"); (ii) warrants ("**Warrants**") to purchase other Securities (as defined below) of the REIT; (iii) debt securities ("**Debt Securities**"), which may consist of bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description and which may be issuable in series; and (iv) subscription receipts ("**Subscription Receipts**") convertible into other Securities of the REIT. The Units, Warrants, Debt Securities and Subscription Receipts are collectively referred to herein as the "**Securities**". The Securities may be offered for sale separately or in combination with one or more other Securities and may be sold from time to time in one or more transactions at a fixed price or prices (which may be changed) or at market prices prevailing at the time of sale, at prices determined by reference to such prevailing market prices or at negotiated prices.

The specific terms of any Securities offered will be described in one or more shelf prospectus supplements (collectively or individually, as the case may be, a "**Prospectus Supplement**"), including, where applicable: (i) in the case of Units, the number of Units offered, the offering price (in the event the offering is a fixed price distribution), the manner of determining the offering price(s) (in the event the offering is a non-fixed price distribution) and any other specific terms; (ii) in the case of Warrants, the number of Warrants being offered, the offering price (in the event the offering is a fixed price distribution), the manner of determining the offering price(s) (in the event the offering is a non-fixed price distribution), the designation, number and terms of the other Securities purchasable upon exercise of the Warrants, and any procedures that will result in the adjustment of those numbers, the exercise price, the dates and periods of exercise and any other specific terms; (iii) in the case of Debt Securities,

the specific designation of the Debt Securities, the aggregate principal amount of the Debt Securities, the maturity, the offering price (in the event the offering is a fixed price distribution), the manner of determining the offering price(s) (in the event the offering is a non-fixed price distribution), whether payment on the Debt Securities will be senior or subordinated to the REIT's other liabilities and obligations, whether the Debt Securities will bear interest, the interest rate or method of determining the interest rate, any interest payment date(s), covenants, events of default, any terms of redemption, any conversion or exchange rights and any other specific terms; and (iv) in the case of Subscription Receipts, the number of Subscription Receipts being offered, the offering price (in the event the offering is a fixed price distribution), the manner of determining the offering price(s) (in the event the offering is a non-fixed price distribution), the terms, conditions and procedures for the conversion of the Subscription Receipts into other Securities, the designation, number and terms of such other Securities, and any other specific terms. A Prospectus Supplement relating to a particular offering of Securities may include terms pertaining to the Securities being offered thereunder that are not within the terms and parameters described in this Prospectus. See "Description of Securities".

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

The REIT may offer and sell the Securities to or through underwriters or dealers purchasing as principals, and may also sell directly to one or more purchasers or through agents or pursuant to applicable statutory exemptions. See "Plan of Distribution". The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, as the case may be, engaged by the REIT in connection with the offering and sale of the Securities, and will set forth the terms of the offering of such Securities, including, to the extent applicable, any fees, discounts or any other compensation payable to underwriters, dealers or agents in connection with the offering, the details of any over-allotment options granted to underwriters, dealers or agents, the method of distribution of the Securities, the initial issue price (in the event that the offering is a fixed price distribution), the proceeds that the REIT will receive and any other material terms of the plan of distribution.

The Securities may be sold from time to time in one or more transactions at a fixed price or prices or at non-fixed prices. If offered on a non-fixed price basis, the Securities may be offered at market prices prevailing at the time of sale (including, without limitation, sales deemed to be "at-the-market distributions" as defined in National Instrument 44-102 – *Shelf Distributions,* including sales made directly on the Toronto Stock Exchange (the "**Exchange**") or other existing trading markets for the Securities), at prices determined by reference to the prevailing price of a specified security in a specified market or at prices to be negotiated with purchasers, in which case the compensation payable to an underwriter, dealer or agent in connection with any such sale will be decreased by the amount, if any, by which the aggregate price paid for the Securities by the purchasers is less than the gross proceeds paid by the underwriter, dealer or agent to the REIT. The price at which the Securities will be offered and sold may vary from purchaser to purchaser and during the period of distribution.

In connection with any offering of Securities, the underwriters, dealers or agents, as the case may be, may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Securities at a level other than those which otherwise might prevail on the open market. Such transactions may be commenced, interrupted or discontinued at any time. See "Plan of Distribution".

The REIT's long-term objectives are to: (i) generate stable and growing cash distributions from hotel properties substantially in the U.S.; (ii) enhance the value of its assets and maximize the long-term value of the properties through active asset management; and (iii) expand its asset base and increase its AFFO (as defined below) 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 issued and outstanding Units of the REIT trade on the Exchange under the symbol HOT.UN. On February 15, 2017, the last trading day prior to the date of this Prospectus, the closing price of the issued and outstanding Units on the Exchange was Cdn$10.69.

Unless otherwise specified in the applicable Prospectus Supplement, each series or issue of Securities (other than Units) will be a new issue of Securities with no established trading market. Accordingly, there is currently no market through which the Securities (other than Units) may be sold and purchasers may not be

able to resell such Securities purchased under this Prospectus. This may affect the pricing of such Securities in the secondary market, the transparency and availability of trading prices, the liquidity of such Securities and the extent of issuer regulation. See "Risk Factors".

Prospective investors should be aware that the purchase of Securities may have tax consequences that may not be fully described in this Prospectus or in any Prospectus Supplement, and should carefully review the tax discussion, if any, in the applicable Prospectus Supplement and in any event consult with a tax adviser.

An investment in the Securities is subject to a number of risks. See "Risk Factors" for a more complete discussion of these risks.

No person is authorized by the REIT to provide any information or to make any representation other than as contained in this Prospectus in connection with the issue and sale of the Securities offered hereunder.

No underwriter has been involved in the preparation of this Prospectus or performed any review of the contents hereof.

The REIT's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1. The registered office of American Hotel Income Properties REIT (GP) Inc., the general partner of the REIT, is located at 25th Floor – 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3.

Each of W. Michael Murphy and Richard Frank: (i) is a director of the General Partner; (ii) resides outside of Canada; and (iii) has appointed the REIT as its agent for service of process in Canada. Colliers International Valuation & Advisory Services, LLC: (i) is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction; and (ii) has appointed Colliers Macaulay Nicolls Inc. of 1140 Bay Street, Toronto, Ontario M5S 2B4 as its agent for service of process in Canada. Keiter: (i) is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction; and (ii) has appointed the REIT as its agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE 1
EXCHANGE RATE INFORMATION 3
ABOUT THIS PROSPECTUS 3
MEANINGS OF CERTAIN REFERENCES 4
THIRD PARTY INFORMATION 4
FORWARD-LOOKING STATEMENTS 4
COMMONLY USED TERMS 6
THE REIT AND ITS OPERATING SUBSIDIARIES 11
BUSINESS OF THE REIT 14
RECENT DEVELOPMENTS 15
DESCRIPTION OF SECURITIES 22
DISTRIBUTION HISTORY 25
PRIOR SALES 26
TRADING PRICE AND VOLUME 27
USE OF PROCEEDS 27
EARNINGS COVERAGE RATIO 28
CONSOLIDATED CAPITALIZATION OF THE REIT 29
PLAN OF DISTRIBUTION 29
PRINCIPAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS 30
PRINCIPAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS 30
RISK FACTORS 31
AUDITORS, TRANSFER AGENT AND REGISTRAR 33
LEGAL PROCEEDINGS 33
LEGAL MATTERS 33
EXPERTS 33
PURCHASER'S STATUTORY RIGHTS 33
PURCHASER'S CONTRACTUAL RIGHTS 34
CERTIFICATE OF THE REIT C-1

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of American Hotel Income Properties REIT LP, 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 or by accessing such documents under the REIT's profile on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com.

The following documents of the REIT, filed with the securities commissions or similar authorities in each of the provinces of Canada, are specifically incorporated by reference into and form an integral part of this Prospectus:

(a) the annual information form of the REIT dated March 17, 2016 for the year ended December 31, 2015;

(b) the audited annual consolidated financial statements of the REIT for the years ended December 31, 2015 and December 31, 2014, together with the auditors' report thereon and the notes thereto;

(c) the management's discussion and analysis of the REIT for the year ended December 31, 2015;

(d) the unaudited condensed consolidated interim financial statements of the REIT for the three-month and nine-month periods ended September 30, 2016;

(e) the management's discussion and analysis of the REIT for the three-month and nine-month periods ended September 30, 2016;

(f) the business acquisition report of the REIT dated January 31, 2017 with respect to the REIT's indirect acquisition of the Midwestern 3 Embassy Suites Portfolio;

(g) the material change report of the REIT dated July 15, 2016 with respect to the REIT's agreement to acquire the Sunstone Embassy Suites Portfolio;

(h) the material change report of the REIT dated July 26, 2016 with respect to the completion of the July 2016 Offering;

(i) the material change report of the REIT dated October 11, 2016 with respect to the amendment to the Master Hotel Management Agreement;

(j) the material change report of the REIT dated November 3, 2016 with respect to the indirect acquisition by the REIT of the Florida/Tennessee Portfolio;

(k) the material change report of the REIT dated November 4, 2016 with respect to the REIT's agreement to indirectly acquire the Florida 6 Portfolio;

(l) the material change report of the REIT dated December 16, 2016 with respect to the REIT's agreement to indirectly acquire the Midwestern 3 Embassy Suites Portfolio;

(m) the material change report of the REIT dated December 22, 2016 with respect to the completion of the December 2016 Offering; and

(n) the management information circular of the REIT dated April 8, 2016 issued in connection with the annual and special meeting of the Unitholders held on May 12, 2016.

Any material change reports (excluding confidential material change reports), business acquisition reports, interim financial statements, annual financial statements and the auditors' report thereon, management's discussion and analysis of financial condition and results of operations in respect of the periods covered by such interim or annual financial statements and management information circulars (excluding those portions that are not required pursuant to National Instrument 44-101 – *Short Form Prospectus Distributions* of the Canadian Securities Administrators to be incorporated by reference herein) and all other documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* of the Canadian Securities Administrators, which are filed by the REIT with a securities commission or similar authority in any of the provinces of Canada after the date of this Prospectus and prior to the termination of any offering of Securities hereunder, shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this Prospectus, to the extent that a statement contained herein or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes that statement. Any such modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be considered in its unmodified or unsuperseded form to constitute part of this Prospectus; rather only such statement as so modified or superseded shall be considered to constitute part of this Prospectus.

Upon a new annual information form and related annual audited consolidated financial statements and management's discussion and analysis being filed by the REIT with, and where required, accepted by, the applicable securities regulatory authorities during the term of this Prospectus: (i) the previous annual information form, the previous annual audited consolidated financial statements and related management's discussion and analysis; (ii) all interim financial statements and related management's discussion and analysis, all material change reports and all business acquisition reports filed by the REIT prior to the commencement of the REIT's financial year in respect of which the new annual information form is filed; and (iii) any business acquisition report for acquisitions completed since the beginning of the financial year in respect of which the new annual information form is filed (unless such report is incorporated by reference into the current annual information form or less than nine months of the acquired business or related businesses operations are incorporated into the REIT's current annual audited consolidated financial statements) shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Upon new interim financial statements and related management's discussion and analysis being filed by the REIT with the applicable securities regulatory authorities in Canada during the term of this Prospectus, all interim financial statements and related management's discussion and analysis filed prior to the new interim consolidated financial statements shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Upon a new information circular relating to an annual meeting of Unitholders being filed by the REIT with applicable securities regulatory authorities in Canada subsequent to the date of this Prospectus and prior to the date on which this Prospectus ceases to be effective, the information circular for the preceding annual meeting of Unitholders and any other information circular filed by the REIT prior to the commencement of the REIT's financial year in respect of which the new annual information form is filed shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of offers and sales of Securities under this Prospectus.

A Prospectus Supplement containing the specific terms of any Securities offered thereunder will be delivered to purchasers of such Securities together with this Prospectus to the extent required under applicable securities laws and will be deemed to be incorporated by reference into this Prospectus as of the date of such Prospectus Supplement solely for the purposes of the Securities offered thereunder.

In addition, certain marketing materials (as that term is defined in applicable Canadian securities legislation) may be used in connection with a distribution of Securities under this Prospectus and the applicable Prospectus Supplement(s). Any "template version" of "marketing materials" (as those terms are defined in applicable Canadian securities legislation) pertaining to a distribution of Securities, and filed by the REIT after the date of the Prospectus Supplement for the distribution and before termination of the distribution of such Securities, will be deemed to be incorporated by reference in that Prospectus Supplement for the purposes of the distribution of Securities to which the Prospectus Supplement pertains.

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the high, low, average and period-end noon spot rates of exchange for US$1.00, expressed in Canadian dollars, published by the Bank of Canada:

	Year Ended December 31		
	2016	**2015**	**2014**
	(Cdn$)	**(Cdn$)**	**(Cdn$)**
Highest rate during the period	1.4589	1.3990	1.1643
Lowest rate during the period	1.2544	1.1728	1.0614
Average rate for the period	1.3248	1.2787	1.1045
Rate at the end of the period	1.3427	1.3840	1.1601

Where there is a conversion of U.S. dollars to Canadian dollars in this Prospectus, the conversion was based on a rate of exchange of US$1.00 equals Cdn$1.3294, unless otherwise noted. On February 15, 2017, the noon rate of exchange posted by the Bank of Canada for conversion of U.S. dollars into Canadian dollars was US$1.00 equals Cdn$1.3084.

ABOUT THIS PROSPECTUS

An investor should rely only on the information contained in this Prospectus (including the documents incorporated by reference herein) and should not rely on parts of the information contained in this Prospectus (including the documents incorporated by reference herein) to the exclusion of others. The REIT has not authorized anyone to provide investors with additional or different information. The REIT will not offer to sell any of the Securities in any jurisdictions where the offer or sale of the Securities is not permitted. The information contained in this Prospectus (including the documents incorporated by reference) is accurate only as at the date of this Prospectus (or the date of the document incorporated by reference herein, as applicable), regardless of the time of delivery of this Prospectus or any sale of the Securities. The REIT's business, financial condition, results of operations and prospects may have changed since the date of this Prospectus.

MEANINGS OF CERTAIN REFERENCES

Certain terms used in this Prospectus are defined under “Commonly Used Terms”. Except as otherwise stated in this Prospectus, all dollar amounts in this Prospectus are stated in U.S. dollars.

The REIT’s investment and operating activities are limited because the REIT’s investment and operating activities are carried out by its direct and indirect Subsidiaries, including the U.S. REIT. For simplicity, the REIT uses terms in this Prospectus to refer to the investments and operations of the REIT and its direct and indirect Subsidiaries, including the U.S. REIT, as a whole. Accordingly, in this Prospectus, unless the context otherwise requires, the “REIT” is referring to the REIT and its direct and indirect Subsidiaries, including the U.S. REIT, as a whole. When the REIT uses expressions such as “the REIT’s operations”, the REIT is referring to the REIT’s indirect operations, as carried out by its direct and indirect Subsidiaries, including the U.S. REIT, as a whole. When the REIT uses expressions such as “the REIT’s portfolio” or “the REIT owns” in relation to the Properties, the REIT is referring to the REIT’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 REIT uses expressions such as “the REIT operates”, the REIT is referring to the REIT’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 REIT’s Chief Executive Officer, President, Chief Financial Officer, Chief Investment Officer and Vice President, Finance. Any statements in this Prospectus made by or on behalf of management are made in such persons’ capacities as officers of the General Partner or as officers of certain of the REIT’s Subsidiaries, as applicable, and not in their personal capacities.

THIRD PARTY INFORMATION

This Prospectus, including documents incorporated by reference herein, includes market share information, industry data and forecasts obtained from independent industry publications, market research and analyst reports, surveys and other publicly available sources. Although the REIT believes these sources to be generally reliable, market and industry data is subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this data is not guaranteed. The REIT has not independently verified any of the data from third party sources referred to in this Prospectus, including documents incorporated by reference herein, nor ascertained the underlying assumptions relied upon by such sources.

FORWARD-LOOKING STATEMENTS

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 REIT’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 REIT’s future economic performance. The REIT has based these forward-looking statements on the REIT’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: the terms of the Securities and any offering made under this Prospectus; the filing of and matters to be set out in one or more Prospectus Supplements; the expected use of the proceeds from the sale of Securities under this Prospectus; estimated reserve requirements for modified capital reserve expenditures for each of the Sunstone Embassy Suites Portfolio; the REIT’s expectation that the excess cash on hand from the December 2016 Offering and the timing and amount of the deployment thereof will not impact the REIT’s ability to achieve its business objectives; the REIT’s intention to include adequate reserves in its cash flow to fund ongoing capital expenditure requirements for the Sunstone Embassy Suites Portfolio; management’s expectation that the REIT will complete a re-organization of the Purchased Entities, which indirectly own the Sunstone Embassy Suites Portfolio; expectations that the Rail Hotels and the Branded Hotels will continue to provide a platform on which to expand the REIT’s business and activities through a combination of organic growth, participation in strategic development

opportunities and accretive acquisitions; the REIT's intention to continuously monitor future guidance from the IRS and/or CRA and comply with any future changes in guidance as they relate to the REIT; the REIT's intention to provide stable, sustainable and growing cash distributions through operation of the Properties and the REIT's other stated objectives; the REIT's intention that all investments and acquisitions will be accretive to the REIT's AFFO per Unit; the REIT's intention to make regular monthly cash distributions; the expected timing of the record and payment dates for monthly distributions; the REIT's business and growth strategies and its ability to execute such strategies, including by, among other things, expanding existing Oak Tree Inns and making additional acquisitions of properties in the REIT's target markets; the manner in which future acquisitions of the REIT will be undertaken; statements related to PIPs; future maturities and amortization periods on long term debt and estimated useful lives of the REITs assets; the expected tax treatment of the REIT's distributions to Unitholders; the REIT's access to available sources of debt and equity financing; expectations for Units to be considered "regularly traded" on an established securities market; expectations, including anticipated trends and challenges, in respect of the hotel sector in the REIT's target markets; the REIT's intention 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; and the REIT's expectations with respect to the Existing Portfolio.

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 REIT believes that the expectations and assumptions reflected in such forward-looking information are reasonable, the REIT can give no assurance that these expectations and assumptions 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 expectations 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: the satisfactory timing and receipt of regulatory approval with respect to the offering of Securities under Prospectus Supplements; the ability to secure CMBS and mortgage for future acquisitions; capital markets will provide the REIT with readily available access to equity and/or debt financing on terms acceptable to the REIT; the REIT's future level of indebtedness and the REIT's future growth potential will remain consistent with the REIT's current expectations; there will be no changes to tax laws adversely affecting the REIT's financing capability, operations, activities, structure or distributions; the REIT will retain and continue to attract qualified and knowledgeable personnel as the REIT expands the REIT's portfolio and business; the impact of the current economic climate and the current global financial conditions on the REIT's operations, including the REIT's financing capability and asset value, will remain consistent with the REIT's current expectations; there will be no material changes to government and environmental regulations adversely affecting the REIT's operations; 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; the U.S. REIT will continue to qualify as a real estate investment trust under the Code; and the SIFT Measures in the Tax Act will continue to not apply to the REIT.

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 risks and uncertainties, including, but not limited to, the factors discussed under "Risk Factors". Consequently, actual results and events may vary significantly from those included in or contemplated or implied by such statements.

Readers are cautioned that the preparation of financial statements, including *pro forma* financial statements, if any, in accordance with International Financial Reporting Standards in Canada, requires management of the REIT to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses.

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 (or in the case of forward-looking information contained in a document incorporated by reference herein, as of the date of such document). The REIT 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 REIT's actual results to differ from current expectations, see "Risk Factors".

COMMONLY USED TERMS

In this Prospectus the following words and phrases have the following meanings unless the context otherwise requires:

"**Affiliate**" or "**Associate**" means, where used to indicate a relationship with any person: (i) a partner, other than a unitholder, of that person; (ii) 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; (iii) 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 (iv) 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 six months;

"**AFFO**" has the meaning ascribed to it under "Non-IFRS Measures" in the AIF;

"**AHIP Enterprises**" means AHIP Enterprises LLC, a limited liability company formed in Delaware;

"**AHIP Properties**" means AHIP Properties LLC, a limited liability company formed in Delaware;

"**AIF**" means the current annual information form of the REIT, a copy of which is available on SEDAR at www.sedar.com;

"**AML**" means AHIP Management Ltd., a company incorporated under the *Business Corporations Act* (British Columbia);

"**Board**" means the board of directors of the General Partner;

"**Branded Hotels**" means, collectively, hotels owned by the REIT, which have franchise lodging agreements with leading hotel franchisors;

"**CBCA**" means the *Canada Business Corporations Act* and the regulations thereto, as amended;

"**CMBS**" means commercial mortgage-backed securities debt;

"**Code**" means the *Internal Revenue Code of 1986* and the regulations thereunder, as amended;

"**Colliers**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Independent Appraisal of the Sunstone Embassy Suites Portfolio";

"**Consideration Units**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview";

"**Contract Renewal**" has the meaning ascribed to it under "Recent Developments – Contract Renewal";

"**CRA**" means Canada Revenue Agency;

"**Dallas Loan**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview";

"**Dallas Property**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview";

"**Debt Securities**" has the meaning ascribed to it on the cover page to this Prospectus;

"**December 2016 Offering**" has the meaning ascribed to it under "Prior Sales";

"**December 2016 Prospectus**" means the final short form prospectus of the REIT dated December 16, 2016, a copy of which has been filed on SEDAR and is available at www.sedar.com;

"**Developer**" means SunOne Developments Inc.;

“**Exchange**” means the Toronto Stock Exchange;

“**Existing Portfolio**” means the portfolio of 96 hotel properties located in 30 states in the U.S. and currently indirectly owned by the REIT;

“**FF&E**” means furniture, fixtures and equipment;

“**Florida 6 Loan**” has the meaning ascribed to it under “Recent Developments – Acquisition of the Florida 6 Portfolio”;

“**Florida 6 Portfolio**” means the portfolio of six hotel properties located in Florida indirectly acquired by the REIT on November 29, 2016;

“**Florida Portfolio**” means the portfolio of three hotel properties located in Ocala, Florida indirectly acquired by the REIT on August 6, 2015;

“**Florida/Tennessee Loan**” has the meaning ascribed to it under “Recent Developments – Acquisition of the Florida/Tennessee Portfolio”;

“**Florida/Tennessee Portfolio**” means the portfolio of four hotel properties located in Florida and Tennessee indirectly acquired by the REIT on October 28, 2016;

“**General Partner**” means American Hotel Income Properties REIT (GP) Inc., a corporation incorporated under the CBCA;

“**HVS**” means MM&R Valuation Services, Inc. d/b/a HVS;

“**IML Enterprises**” means IML Enterprises, LLC, a limited liability company formed in Delaware;

“**IML Properties**” means IML Properties LLC, a limited liability company formed in Delaware;

“**IRS**” means the Internal Revenue Service of the United States;

“**July 2016 Offering**” has the meaning ascribed to it under “Prior Sales”;

“**KPMG**” means KPMG LLP;

“**Lodging Enterprises**” means Lodging Enterprises, LLC, a limited liability company formed in Delaware;

“**Lodging Properties**” means Lodging Properties LLC, a limited liability company formed in Delaware;

“**LP Agreement**” means the limited partnership agreement of the REIT dated as of October 12, 2012, and subsequently amended and restated as of February 20, 2013 and further amended as of June 9, 2015;

“**Master HMA Amendment**” has the meaning ascribed to it under “Recent Developments – Amendment to Master Hotel Management Agreement”;

“**Master Hotel Management Agreement**” means the master hotel management agreement between the REIT and the Master Hotel Manager dated February 20, 2013, as amended on September 30, 2016, a copy of which is available on SEDAR at www.sedar.com;

“**Master Hotel Manager**” has the meaning ascribed to it under “Business of the REIT – Management”;

“**Midwestern 3 Appraisal**” means the combined independent appraisal report of HVS dated December 14, 2016, which reports the combined fair market value of the Midwestern 3 Embassy Suites Portfolio as of November 11, 2016;

“**Midwestern 3 Embassy Suites Portfolio**” means the portfolio of three Embassy Suites by Hilton hotel properties located in proximity to Columbus, Cleveland and Cincinnati, Ohio indirectly acquired by the REIT on January 19, 2017;

“**Midwestern 3 Loan**” has the meaning ascribed to it under “Recent Developments – Acquisition of the Midwestern 3 Embassy Suites Portfolio”;

“**Midwestern 3 PSA**” means the Agreement of Purchase and Sale dated December 8, 2016 among the U.S. REIT and the Midwestern 3 Sellers, pursuant to which the REIT intends to indirectly acquire the Midwestern 3 Embassy Suites Portfolio, as such agreement is amended, restated and/or supplemented from time to time;

“**Midwestern 3 Sellers**” means, collectively, AP/AIM Rivercenter Suites, LLC, AP/AIM Dublin Suites, LLC and AP/AIM Independence Suites, LLC;

“**Midwestern Portfolio**” means the portfolio of nine hotel properties located in Illinois, Iowa, Kansas, Missouri and Oklahoma indirectly acquired by the REIT on June 18, 2015;

“**Nashville Loan**” has the meaning ascribed to it under “Recent Developments – Acquisition of the Nashville Property”;

“**Nashville Property**” has the meaning ascribed to it under “Recent Developments – Acquisition of the Nashville Property”;

“**NC/FL Portfolio**” means the portfolio of four hotel properties located in North Carolina and Florida indirectly acquired by the REIT on November 25, 2014;

“**NC/GA Portfolio**” means a portfolio of four hotel properties located in North Carolina and Georgia, three of which properties were indirectly acquired by the REIT on July 3, 2014, with the fourth hotel property indirectly acquired by the REIT on July 11, 2014;

“**NI 51-102**” means National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators;

“**Oak Tree Inn Hotels**” means, collectively, hotels owned by the REIT that have rail crew lodging agreements and are operated under the “Oak Tree Inn” brand;

“**Offering**” means the offering of Securities issued and sold by the REIT pursuant to this Prospectus;

“**Oklahoma Portfolio**” means the portfolio of four hotel properties located in Oklahoma indirectly acquired by the REIT on November 3, 2014;

“**Phase I ESA Report**” means a Phase I environmental site assessment report;

“**Phase II ESA Report**” means a Phase II environmental site assessment report;

“**PIPs**” means brand-mandated property improvement plans;

“**Pittsburgh Portfolio**” means the portfolio of four hotel properties located in metropolitan Pittsburgh, Pennsylvania indirectly acquired by the REIT on November 21, 2013;

“**Property**” means, at any time and from time to time, each of the properties indirectly owned and operated by the U.S. REIT or other Subsidiary of the REIT;

“**Prospectus**” means this short form base shelf prospectus, including any amendments hereto;

“**Prospectus Supplement**” has the meaning ascribed to it on the cover page to this Prospectus;

“**Purchased Entities**” has the meaning ascribed to it under “Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview”;

“**Rail Hotels**” means, collectively, hotels owned by the REIT that have rail crew lodging agreements;

“**Rail Portfolio**” means the portfolio of five rail crew lodging facilities indirectly acquired by the REIT on September 16, 2015 that were subsequently converted into Oak Tree Inn Hotels;

"**REC**" means recognized environmental condition;

"**REIT**" means American Hotel Income Properties REIT LP, an Ontario limited partnership;

"**Securities**" has the meaning ascribed to it on the cover page to this Prospectus;

"**SIFT Measures**" means the rules in the Tax Act regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors;

"**Subscription Receipts**" has the meaning ascribed to it on the cover page to this Prospectus;

"**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;

"**Sunstone**" means Sunstone Realty Advisors Inc., a British Columbia corporation;

"**Sunstone Embassy Suites Appraisal**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Independent Appraisal of the Sunstone Embassy Suites Portfolio";

"**Sunstone Embassy Suites Portfolio**" means the portfolio of two Embassy Suites by Hilton hotel properties located in Tempe, Arizona and Dallas, Texas indirectly acquired by the REIT on January 6, 2017;

"**Sunstone Embassy Suites PSA**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview";

"**Sunstone Embassy Suites Sellers**" means, collectively, Sunstone (No. 3) Limited Partnership, Sunstone U.S. Hotel (No. 3) Inc., EST 2011 Operations LLC, Sunstone U.S. No. 3H (GP) Limited Partnership, Sunstone Advisors (Delaware) No. 3H Inc., EST 2011 GP, LLC, Sunstone (No. 4) Limited Partnership, Sunstone U.S. Hotel (No. 4) Inc., ESD DFW South 2011 Operations LLC, Sunstone U.S. No 4H (GP) Limited Partnership, Sunstone Advisors (Delaware) No. 4H Inc. and ESD DFW South 2011 GP, LLC;

"**Sunstone Group**" means Sunstone, its principals 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;

"**Tempe Bridge Loan**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview";

"**Tempe Loan**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview";

"**Tempe Property**" has the meaning ascribed to it under "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Overview";

"**Texas Portfolio**" means the portfolio of three hotel properties located in Texas indirectly acquired by the REIT on October 27, 2014;

"**Unitholders**" means the holders of Units;

"**Units**" means the limited partnership units of the REIT;

"**U.S. REIT**" means American Hotel Income Properties REIT Inc., a Maryland corporation;

"**U.S. Securities Act**" has the meaning ascribed to it on the cover page to this Prospectus;

"**Virginia Portfolio**" means the portfolio of four hotel properties located in Virginia indirectly acquired by the REIT on March 12, 2014;

"**Warrants**" has the meaning ascribed to it on the cover page to this Prospectus; and

“**working capital**” means at any time, the sum of cash and cash equivalents, restricted cash, loan receivables, trade and other receivables and other assets less the sum of accounts payable and accrued expenses, current portion of term loans, current portion of deferred income tax liabilities, contingent consideration and deferred compensation payable.

THE REIT AND ITS OPERATING SUBSIDIARIES

American Hotel Income Properties REIT LP

The REIT is a limited partnership formed under the *Limited Partnerships Act* (Ontario) on October 12, 2012 and is governed by the LP Agreement. The REIT's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 and its registered office is located at 25th Floor – 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3.

American Hotel Income Properties REIT (GP) Inc.

The General Partner is a corporation incorporated on September 6, 2012 under the CBCA. The General Partner's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 and its registered office is located at 25th Floor – 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3. The General Partner is the general partner of the REIT.

American Hotel Income Properties REIT Inc.

U.S. REIT is a corporation incorporated in Maryland on February 15, 2013. The head office of the U.S. REIT is located at 8080 East Central, Suite 180, Wichita, Kansas 67206. The U.S. REIT's registered office is located at c/o The Corporation Trust Incorporated, 351 West Camden Street, Baltimore, Maryland 21201. The U.S. REIT elected to be a real estate investment trust pursuant to the Code commencing with its first taxable year ended December 31, 2013 and it intends to maintain such election in the current and future years.

In order to accommodate the requirements of lenders, to segregate risks of ownership of the Existing Portfolio, and to comply with qualification requirements as a real estate investment trust under the Code, the U.S. REIT owns the Existing Portfolio through wholly-owned direct and indirect Subsidiaries of the U.S. REIT (including Lodging Properties, IML Properties and direct Subsidiaries of AHIP Properties), which in turn lease the Existing Portfolio to other wholly-owned direct and indirect Subsidiaries of the U.S. REIT (including Lodging Enterprises, IML Enterprises and direct Subsidiaries of AHIP Enterprises, respectively). Lodging Enterprises, IML Enterprises and direct Subsidiaries of AHIP Enterprises continue to operate the Existing Portfolio through arrangements with direct Subsidiaries of the Master Hotel Manager.

Any additional acquisitions of properties by the U.S. REIT are expected to be undertaken through one or more wholly-owned Subsidiaries of the U.S. REIT in a similar manner to acquisitions previously completed by the REIT. See "Business of the REIT".

AHIP Management Ltd.

AML is a corporation incorporated on November 13, 2015 under the *Business Corporations Act* (British Columbia). AML's head office is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia V6B 5A1 and its registered office is at 25th Floor, 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3. AML is a wholly-owned Subsidiary of the U.S. REIT and effective as of January 1, 2016, is the employer of certain key executive officers of the REIT and various other support staff. AML provides the services of such persons to the REIT and its Subsidiaries through: (i) a services agreement between AML and the REIT; (ii) a services agreement between AML and the U.S. REIT; and (iii) a secondment agreement between AML and the U.S. REIT.

Lodging Properties LLC

Lodging Properties was formed in Delaware on November 1, 2012 and is a wholly-owned Subsidiary of the U.S. REIT. Lodging Properties owns the real estate underlying the Oak Tree Inn Hotels (other than those forming part of the Rail Portfolio) and leases it to Lodging Enterprises. Lodging Properties is domiciled in the U.S. and its head office is located at 8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o RL&F Service Corp., 920 North King Street, 2nd Floor, Wilmington, New Castle County, Delaware 19801.

Lodging Enterprises, LLC

Lodging Enterprises was formed in Delaware on April 18, 2008 and is a wholly-owned Subsidiary of the U.S. REIT. It leases real estate from Lodging Properties to operate the Oak Tree Inn Hotels (other than those forming part of the Rail Portfolio). Lodging Enterprises is domiciled in the U.S. and its head office is located at

8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

IML Properties LLC

IML Properties was formed in Delaware on June 10, 2015 and is a wholly-owned Subsidiary of the U.S. REIT. It owns the real estate underlying the Rail Portfolio and leases it to IML Enterprises. IML Properties is domiciled in the U.S. and its head office is located at 8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

IML Enterprises LLC

IML Enterprises was formed in Delaware on June 10, 2015 and is a wholly-owned Subsidiary of the U.S. REIT. It leases real estate from IML Properties to operate the Rail Portfolio. IML Enterprises is domiciled in the U.S. and its head office is located at 8080 East Central, Suite 180, Wichita, Kansas 67206 and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

AHIP Properties LLC

AHIP Properties was formed in Delaware on August 27, 2013 and is a wholly-owned Subsidiary of the U.S. REIT. It owns the real estate underlying the Branded Hotels (other than the Dallas Property and the Tempe Property) through its direct and indirect Subsidiaries and leases it to various Subsidiaries of AHIP Enterprises. AHIP Properties is domiciled in the U.S. and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

AHIP Enterprises LLC

AHIP Enterprises was formed in Delaware on August 27, 2013 and is a wholly-owned Subsidiary of the U.S. REIT. In the case of the Branded Hotels (other than the Dallas Property and the Tempe Property), a Subsidiary of AHIP Enterprises leases the applicable real estate from a Subsidiary of AHIP Properties to operate the hotel. AHIP Enterprises is domiciled in the U.S. and its registered office is located at c/o Paracorp Incorporated, 2140 S. DuPont Highway, City of Delaware, County of Kent, Delaware 19934.

Organizational Structure

The following diagram depicts the current organizational structure of the REIT, the General Partner and the REIT's direct and indirect operating Subsidiaries and Affiliates:

Public Unitholders
Units
American Hotel Income Properties REIT LP (Ontario)
(REIT)
General Partner
American Hotel Income Properties REIT (GP) Inc. (Canada)
AHIP Management Ltd. (British Columbia)(6)
O'Neill Hotels & Resorts Ltd. (British Columbia)
Common Shares & the Series A Preferred Share 100%(1)
100%
Canada
U.S.A.
American Hotel Income Properties REIT Inc. (Maryland)
(U.S. REIT)
Tower Rock Hotels & Resorts Inc. (Nevada)
(Master Hotel Manager)
100% 100% 100% 100% 100% 100% 100% 100%
Lodging Properties LLC (Delaware)
Leases
IML Properties LLC (Delaware)(3)
Lodging Enterprises, LLC (Delaware)
IML Enterprises LLC (Delaware)(3)
Leases
Hotel Management Agreements
TR Lodging Enterprises Inc. (Nevada)
(IPO Hotel Manager)
Other Hotel Managers(2)
Hotel Management Agreements
AHIP Properties LLC (Delaware)
AHIP Enterprises LLC (Delaware)
100% 100%
Oak Tree Inn Hotels (Land, Building, Improvements)
Operations (Hotel Operations, Railway Contracts, Operating Assets, Furnishings, Equipment)
Branded Hotels(4)(7) (Land, Building, Improvements)
Leases
Operating Subsidiaries(5) (Hotel Operations, Operating Assets, Furnishings, Equipment)

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(1) The U.S. REIT also has 125 shares of Series B cumulative non-voting, non-participating preferred stock issued and outstanding, each with a par value of US$1,000 and bearing a cumulative dividend rate of 12.5% per annum.
(2) Each of the Branded Hotels is managed by a separate, wholly-owned Subsidiary of the Master Hotel Manager through an individual hotel management agreement entered into with a wholly-owned Subsidiary of AHIP Enterprises.
(3) IML Properties owns the hotels comprising the Rail Portfolio and leases these properties to IML Enterprises.
(4) Each of the Branded Hotels (except the Dallas Property and the Tempe Property) is owned by a separate, wholly-owned Subsidiary of AHIP Properties. The Branded Hotels currently consist of the hotels comprising the Pittsburgh Portfolio, the Virginia Portfolio, the NC/GA Portfolio, the Texas Portfolio, the Oklahoma Portfolio, the NC/FL Portfolio, the Midwestern Portfolio, the Florida Portfolio, the Florida/Tennessee Portfolio, the Florida 6 Portfolio, the Sunstone Embassy Suites Portfolio and the Midwestern 3 Embassy Suites Portfolio.
(5) Each of the Branded Hotels (except the Dallas Property and the Tempe Property) is leased by a separate, wholly-owned Subsidiary of AHIP Enterprises from a separate, wholly-owned Subsidiary of AHIP Properties.
(6) AML is a wholly-owned Subsidiary of the U.S. REIT and effective as of January 1, 2016, is the employer of certain key executive officers of the REIT and various other support staff.
(7) The REIT's recent acquisition of the Sunstone Embassy Suites Portfolio is not reflected in the above diagram because the REIT expects to complete a re-organization of the Purchased Entities, which indirectly own the Sunstone Embassy Suites Portfolio. The Sunstone Embassy Suites Portfolio is currently owned indirectly by the REIT through the Purchased Entities and not through the US REIT like its other Properties.

BUSINESS OF THE REIT

The REIT currently owns 96 hotel properties located in 30 states across the U.S., representing an aggregate of 9,467 guestrooms. The REIT's growth strategy is to focus on transportation-oriented hotels located in secondary markets in the U.S. in close proximity to airports, highway interchanges, transportation hubs, railroads and other major demand generators providing select and limited-service lodging to corporate and transient travelers, crew and contractual customers.

The REIT structures its operations in two operating and reportable segments: (i) the Branded Hotels, which have franchise agreements with certain of the world's leading hotel brands; and (ii) the Rail Hotels, which have rail crew lodging agreements with large U.S. railroad companies.

Branded Hotels

The REIT's portfolio of Branded Hotels is currently comprised of 50 hotel properties representing a total of 5,574 guestrooms. The Branded Hotels are geographically diversified among 14 states in the U.S. The average age of the Branded Hotels is approximately 16 years (including major renovations).

The Branded Hotels are located near airports, highway interchanges and other transportation hubs and major demand generators such as universities, manufacturing facilities, distribution centres and medical centres. The Branded Hotels cater primarily to corporate travelers seeking select-service hotels. The REIT focuses on acquiring existing hotels with top-quality brands with leading hotel franchisors, including, without limitation, Hilton, Marriott, and Intercontinental Hotels Group.

Management expects the Branded Hotels to continue to provide a platform on which to expand the REIT's business and activities through focusing on accretive acquisitions.

Rail Hotels

The REIT's portfolio of Rail Hotels is currently comprised of 46 properties representing a total of 3,893 guestrooms. The Rail Hotels are geographically diversified among 23 states in the U.S. and each of the properties has been built to a high standard of quality, is well maintained, and has been acquired for less than management's estimate of its replacement cost at the time of acquisition. Management believes that the Rail Hotels comprise the largest and highest-quality chain of crew lodging facilities presently serving the U.S. freight railroad industry. The average age of the Rail Hotels is approximately 17 years (including major renovations).

The Rail Hotels 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, BNSF and CSX) and CP, to provide lodging accommodations for railroad employees under contracts stipulating guaranteed minimum revenues, give the Rail Hotels a recurring and stable revenue stream. All of the properties are currently operated under the REIT's own "Oak Tree Inn" brand and were specifically designed or 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 properties were purpose-built and feature a standard design, including a two or three storey wood framed building with stucco or vinyl siding exteriors. Management estimates that approximately 75% of room revenues in the Rail Hotels are currently covered under contracts containing minimum revenue guarantees.

Management expects the Rail Hotels to continue to provide a platform on which to expand the REIT's business and activities through a combination of organic growth, participation in strategic development opportunities and accretive acquisitions.

Management

The REIT is internally managed by an experienced senior management team. Each of the Rail Hotels and the Branded Hotels is externally operated by a wholly-owned Subsidiary of Tower Rock Hotels & Resorts Inc. (the "**Master Hotel Manager**"). The Master Hotel Manager is a wholly-owned Subsidiary of O'Neill Hotels & Resorts Ltd.

Hotel Development

The REIT has entered into a master development agreement with the Developer (an Affiliate of each of O'Neill Hotels & Resorts Ltd. and the Sunstone Group) and Sunstone O'Neill Hotel Management Inc. pursuant to which the REIT's Subsidiaries have preferential rights to acquire properties that are developed by the Developer from time to time.

For a more detailed description of the business of the REIT, investors should refer to the disclosure under the heading "Business of AHIP" in the AIF which is incorporated by reference herein and available on SEDAR at www.sedar.com.

RECENT DEVELOPMENTS

The following is a summary of recent developments involving the REIT since September 30, 2016, being the last day of the most recent quarter in respect of which the REIT has filed interim financial statements and management's discussion and analysis.

Acquisition of the Midwestern 3 Embassy Suites Portfolio

On January 19, 2017, the REIT completed the acquisition of the Midwestern 3 Embassy Suites Portfolio for an aggregate purchase price of approximately US$124.0 million, including the expected cost of capital work on acquisition and PIPs. The REIT funded payment of the purchase price for the Midwestern 3 Embassy Suites Portfolio and the financing of the PIPs using a combination of a portion of the net proceeds of the December 2016 Offering and a new US$65.0 million CMBS loan secured against the Midwestern 3 Embassy Suites Portfolio (the "**Midwestern 3 Loan**"). The Midwestern 3 Loan has a 10-year term and has a fixed interest rate of 4.72%. The Midwestern 3 Loan is interest-only for the first three years and will then be amortized over a 30-year term. The lender has provided an FF&E reserve waiver for the first two years.

The Midwestern 3 Embassy Suites Portfolio comprises 782 total guestrooms and consists of: the 284-room Embassy Suites by Hilton Columbus Dublin hotel located in Dublin, Ohio in proximity to Ohio State University; the 271-room Embassy Suites by Hilton Cleveland Rockside hotel located in Independence, Ohio in proximity to numerous health care and professional sports demand generators; and the 227-room Embassy Suites by Hilton Cincinnati Rivercenter hotel located in Covington, Kentucky on the banks of the Ohio River overlooking downtown Cincinnati and near a number of Fortune 500 companies and professional sports demand generators. The Embassy Suites by Hilton Cincinnati Rivercenter hotel is situated on land leased from the city of Covington, with the next renewal of the lease due in 2040.

The REIT completed the acquisition of the Midwestern 3 Embassy Suites Portfolio pursuant to the terms of the Midwestern 3 PSA, a copy of which is available on SEDAR at www.sedar.com.

The REIT filed a form 51-102F4 (a Business Acquisition Report) on January 31, 2017, on SEDAR at www.sedar.com in respect of its acquisition of the Midwestern 3 Embassy Suites Portfolio.

Acquisition of the Sunstone Embassy Suites Portfolio

Overview

On January 6, 2017, the REIT acquired the Sunstone Embassy Suites Portfolio for an aggregate purchase price of approximately US$57.6 million, excluding approximately US$5.7 million in PIPs and customary closing and post-closing adjustments. Specifically, the REIT entered into a purchase and sale agreement dated May 31, 2016, as amended by a first amendment dated July 12, 2016, a second amendment dated September 23, 2016, and a third amendment dated October 24, 2016 (as so amended, the "**Sunstone Embassy Suites PSA**"), with the Sunstone Embassy Suites Sellers, which are Affiliates of Sunstone, to acquire from the Sunstone Embassy Suites Sellers: (i) the direct and indirect Subsidiaries of the Sunstone Embassy Suites Sellers (collectively, the "**Purchased Entities**") which owned the Sunstone Embassy Suites Portfolio prior to closing; and (ii) the tangible and intangible personal property used in the operation of the hotels comprising the Sunstone Embassy Suites Portfolio. See "– Sunstone Embassy Suites PSA" below.

On October 24, 2016, the REIT and the Sunstone Embassy Suites Sellers agreed, pursuant to the third amendment to the Sunstone Embassy Suites PSA, to extend the completion date for the acquisition of the Sunstone

Embassy Suites Portfolio to the later of January 4, 2017 and five business days following the completion of new franchise agreements and the arrangement of financing for the Sunstone Embassy Suites Portfolio, in each case, satisfactory to the REIT. The third amendment followed, and superseded, the second amendment to the Sunstone Embassy Suites PSA, which had extended the completion date for the acquisition of the Sunstone Embassy Suites Portfolio to October 10, 2016. Copies of the second amendment and third amendment to the Sunstone Embassy Suites PSA have been filed on SEDAR and are available at www.sedar.com.

The REIT determined the purchase price of the Sunstone Embassy Suites Portfolio based primarily on the estimated fair value using the direct capitalization income method, which involves applying a capitalization rate to trailing net operating income subject to certain adjustments. It acquired the Sunstone Embassy Suites Portfolio at a weighted average capitalization rate of approximately 8.2% on trailing twelve months net operating income (after including all hotel management fees and a reserve for FF&E, and accounting for PIPs) and at a price below management's estimate of replacement cost.

The REIT funded the purchase price for the Sunstone Embassy Suites Portfolio, including the PIPs, using a combination of cash on hand from the July 2016 Offering and the December 2016 Offering, the issuance to the Sunstone Embassy Suites Sellers of approximately US$17.4 million in Units (being 2,242,761 Units, the "**Consideration Units**"), the assumption of the existing US$19.0 million CMBS loan (the "**Dallas Loan**") and a new US$13.5 million CMBS loan (the "**Tempe Loan**"). The Consideration Units were issued from treasury at a price of Cdn$10.3099 per Unit, which price was based on the 10-day volume-weighted average trading price of the Units on the Exchange prior to the closing date of the acquisition of the Sunstone Embassy Suites Portfolio. The Consideration Units are subject to a four-month hold period. The issuance of the Consideration Units was approved by the Exchange.

The Dallas Loan matures in October 2024 and is interest-only until November 2019 and will then be amortized over a 30-year period for the remaining term. The Dallas Loan has a fixed interest rate of 5.25% per annum. The Tempe Loan is for a 10-year term, interest-only for the first three years and then amortized over a 30-year period for the remaining seven years. The Tempe Loan has a fixed interest rate of 5.14% per annum for the entire term. In addition, the lender of the Tempe Loan has provided an FF&E reserve waiver for the first two years.

In connection with the transaction, on August 5, 2016, the REIT advanced an approximately US$10.2 million bridge loan (the "**Tempe Bridge Loan**") to an indirect Subsidiary of the Sunstone Embassy Suites Sellers to pay off the expiring mortgage on the Tempe Property (as defined below). The Tempe Bridge Loan was interest-only with a fixed interest rate of 8.00% per annum. It was fully secured by a first charge on the Tempe Property with an initial term of 60 days with an option to extend for a further term of up to 90 days. On September 23, 2016, the Sunstone Embassy Suites Sellers exercised their option to extend the maturity date of the Tempe Bridge Loan to January 5, 2017. Outstanding amounts under the Tempe Bridge Loan were repaid at closing of the acquisition of the Sunstone Embassy Suites Portfolio.

The Sunstone Embassy Suites Portfolio consists of the 305 guestroom Embassy Suites by Hilton Dallas DFW Airport South hotel (the "**Dallas Property**") and 224 guestroom Embassy Suites by Hilton Phoenix – Tempe hotel (the "**Tempe Property**"). The Dallas Property is located in Irving, Texas (a suburb of Dallas) which is two miles from Dallas/Fort Worth International Airport, the tenth busiest airport in the world by total passenger traffic. The Tempe Property is located in Tempe, Arizona which is located minutes from Arizona State University, the largest public university by enrollment in the U.S., and Phoenix Sky Harbor International Airport, the 11th largest airport in the U.S. by total passenger traffic.

Mr. Stephen Evans and Mr. Robert O'Neill, both directors of the General Partner, informed the Board of their respective indirect interests in this transaction prior to the Board's approval thereof, and abstained from voting. For further details, see the material change report of the REIT dated July 15, 2016, which is incorporated by reference into this Prospectus and a copy of which has been filed on SEDAR and is available at www.sedar.com.

Sunstone Embassy Suites Portfolio Financial Statements

Securities regulation in Canada requires that a public entity that files a prospectus and that has recently closed a significant acquisition include financial statements or other information about this acquisition in the prospectus, if the inclusion of the financial statements is necessary for the prospectus to contain full, true and plain disclosure of all the material facts relating to the securities being distributed. If such financial statements or other information are required, such requirement must be satisfied by including either: (i) the financial statements or other

information that will be required to be included in, or incorporated by reference into, a business acquisition report filed under Part 8 of NI 51-102; or (ii) satisfactory alternative financial statements or other information.

The acquisition of the Sunstone Embassy Suites Portfolio is a "significant acquisition" within the meaning of Part 8 of NI 51-102. While the acquisition of the Sunstone Embassy Suites Portfolio does not trigger the asset test or the investment test (as such tests are defined in NI 51-102), it does trigger the profit or loss test (as such test is defined in NI 51-102), thereby requiring the filing of a business acquisition report. Notwithstanding the foregoing, the REIT does not consider the acquisition of the Sunstone Embassy Suites Portfolio to be a "significant acquisition" from a commercial, business, practical and financial perspective for the following reasons: (i) the test for whether or not an acquisition is significant under the profit or loss test produces an anomalous result in this instance that exaggerates the significance of the acquisition of the Sunstone Embassy Suites Portfolio and does not correlate to the actual significance of the acquisition of the Sunstone Embassy Suites Portfolio from a commercial, business, practical or financial perspective; (ii) the expected net operating income of the Sunstone Embassy Suites Portfolio represents a non-significant proportion of the REIT's overall existing net operating income; (iii) the expected revenue of the Sunstone Embassy Suites Portfolio represents a non-significant proportion of the REIT's overall existing revenue; and (iv) the number of guestrooms of the Sunstone Embassy Suites Portfolio represents a non-significant proportion of the REIT's overall existing number of guestrooms.

The REIT believes that the inclusion of financial statements that would be required to be included in, or incorporated by reference into, a business acquisition report in respect of the acquisition of the Sunstone Embassy Suites Portfolio is not necessary in order for this Prospectus to contain full, true and plain disclosure of all material facts relating to the Offered Units since: (i) this Prospectus contains disclosure about the acquisition of the Sunstone Embassy Suites Portfolio; (ii) as a commercial, business, practical or financial matter, the acquisition of the Sunstone Embassy Suites Portfolio is not significant to the REIT; and (iii) a copy of the Sunstone Embassy Suites Appraisal (as defined below) has been filed on SEDAR and is available at www.sedar.com.

In accordance with the above position, the REIT has applied for an exemption from the requirement to prepare a business acquisition report with respect to the acquisition of the Sunstone Embassy Suites Portfolio.

Independent Appraisal of the Sunstone Embassy Suites Portfolio

The REIT retained Colliers International Valuation & Advisory Services, LLC ("**Colliers**") to provide an independent appraisal of the combined fair market value of the two hotel properties comprising the Sunstone Embassy Suites Portfolio (the "**Sunstone Embassy Suites Appraisal**"). Colliers reported that the aggregate as-is appraised value of the Sunstone Embassy Suites Portfolio as of June 1, 2016 was US$62.7 million. The aggregate as-is appraised value of US$62.7 million gives no consideration to a portfolio discount or premium for the Sunstone Embassy Suites Portfolio. The as-is appraised value is subject to the assumptions and limiting conditions as described in the Sunstone Embassy Suites Appraisal.

Colliers confirmed that the Sunstone Embassy Suites 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 adopted by the Appraisal Standards Board of the Appraisal Foundation (United States). The Dictionary of Real Estate Appraisal, 6th 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 own 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 Colliers or its 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 Sunstone Embassy Suites Portfolio, Colliers relied on operating and financial data provided by the Sunstone Embassy Suites Sellers, including detailed reports on occupancies and average daily rates, which also included data on current and historic financial information provided by the Sunstone Embassy Suites Sellers. Colliers believes that the Sunstone Embassy Suites 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, Colliers 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. Colliers visited the Dallas Property and the Tempe 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 its review, and other relevant facts, Colliers considered such applicable data to be reasonable and supportable.

In appraising the Sunstone Embassy Suites Portfolio, Colliers assumed, among other things, that title to each of the Dallas Property and Tempe Property 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 Sunstone Embassy Suites 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 Sunstone Embassy Suites Appraisal is based on various assumptions of future expectations and while Colliers' internal forecasts of net operating income for the Dallas Property and Tempe Property is considered by Colliers to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future. See "Risk Factors".

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 Sunstone Embassy Suites Appraisal. See "Risk Factors".

A copy of the Sunstone Embassy Suites Appraisal has been filed on SEDAR and is available at www.sedar.com.

Environmental Site Assessment of the Sunstone Embassy Suites Portfolio

Each of the hotel properties comprising the Sunstone Embassy Suites Portfolio have been the subject of a Phase I ESA Report conducted by independent environmental consultants. The Phase I ESA Reports were completed for the Sunstone Embassy Suites Portfolio in June 2016. The Phase I ESA Reports were prepared in general accordance with standard practices for environmental site assessments.

The purpose of the Phase I ESA Reports was to identify any RECs at the Dallas Property and the Tempe Property, which means the presence or likely presence of any hazardous substances or petroleum products on such properties 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 such properties or into the ground, groundwater or surface water of such properties. 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 hotel properties comprising the Sunstone Embassy Suites Portfolio that warranted further environmental assessment investigation. Notwithstanding the foregoing, the independent environmental consultant did identify two matters for follow up at the Dallas Property, neither of which warranted the completion of a Phase II ESA Report or resulted in a REC.

Management is not aware of any material non-compliance with environmental laws at any of the hotel properties comprising the Sunstone Embassy Suites Portfolio that management believes would have a material adverse effect on the REIT. Management is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the hotel properties comprising the Sunstone Embassy Suites Portfolio that would materially adversely affect the REIT.

Property Condition Assessments for the Sunstone Embassy Suites Portfolio

Property condition assessments were prepared for each of the hotel properties comprising the Sunstone Embassy Suites Portfolio to determine and document the existing condition of each building. The assessments included the major building operating components and systems of the 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 Dallas Property and the Tempe Property were completed in June 2016.

The reports estimated aggregate requirements for modified capital reserve expenditures in the amount of approximately US$1.5 million to be completed in the short term (i.e. within 180 days of the assessment) and approximately US$7.2 million over the next 12 years, excluding any costs associated with any brand-mandated PIPs. Categories for modified capital reserve expenditures included, without limitation, the site, exteriors, roofing, interiors, plumbing systems, heating, ventilation and air conditioning, fire protection and elevators.

Based on the reports, each of the hotel properties comprising the Sunstone Embassy Suites Portfolio was determined to be in a satisfactory condition commensurate with its age. In addition, the REIT will include adequate reserves in its cash flow to fund ongoing capital expenditure requirements for the Sunstone Embassy Suites Portfolio.

Sunstone Embassy Suites PSA

The following is a summary of the material attributes and characteristics of the Sunstone Embassy Suites PSA. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms of the Sunstone Embassy Suites PSA, which has been filed on SEDAR at www.sedar.com.

Purchase Price

The Sunstone Embassy Suites PSA was amended by a first amendment dated July 12, 2016 to, among other things, reduce the purchase price for the Sunstone Embassy Suites Portfolio from approximately US$58.0 million to approximately US$57.6 million (excluding, in each case, approximately US$5.7 million in PIPs and customary closing and post-closing adjustments). As noted above, the Consideration Units were issued from treasury based on the 10-day volume-weighted average trading price prior to the closing date of the Sunstone Embassy Suites Portfolio and are subject to a four-month hold period. The total purchase price was subject to customary closing and post-closing adjustments for rents, real estate taxes and other items of income and expenses with respect to the Sunstone Embassy Suites Portfolio as set forth in the Sunstone Embassy Suites PSA.

Representations, Warranties and Covenants

The Sunstone Embassy Suites PSA contained representations, warranties and covenants typical of those contained in acquisition agreements negotiated between parties dealing at arm's length and which are customary for purchase agreements in respect of transactions of this nature. The representations and warranties relating to the Sunstone Embassy Suites Sellers, the Sunstone Embassy Suites Portfolio and the Purchased Entities were provided by the Sunstone Embassy Suites Sellers in favour of the REIT and include, among other things, representations and warranties as to: organization and status; power and authorization; non-contravention; solvency; contracts; permits; capitalization; ownership and possession of the hotel properties comprising the Sunstone Embassy Suites Portfolio; compliance with laws; environmental matters; litigation; financial records; tax matters; employee matters; encumbrances; personal property; insurance policies and absence of certain changes. Covenants of the Sunstone Embassy Suites Sellers included, without limitation, various covenants with respect to maintaining the condition of the Sunstone Embassy Suites Portfolio and conducting business thereat in the ordinary course of business during the interim period prior to completion of the acquisition of the Sunstone Embassy Suites Portfolio by the REIT. The representations and warranties related to the REIT were from the REIT in favour of the Sunstone Embassy Suites

Sellers and included, among other things, representations and warranties as to: organization and status, power and authorisation and consents. Covenants of the REIT included, without limitation, to negotiate and pursue in good faith new franchise agreements for each of the hotels comprising the Sunstone Embassy Suites Portfolio and to change the names of the Purchased Entities post closing.

Conditions

The obligation of the REIT to complete the transactions contemplated by the Sunstone Embassy Suites PSA was subject to various conditions for the exclusive benefit of the REIT to be fulfilled or performed at or prior to the closing date of the acquisition, including, among other things, conditions relating to: the truth and accuracy of the Sunstone Embassy Suites Sellers' representations and warranties; the Sunstone Embassy Suites Sellers' compliance with, or performance of, all of the covenants and obligations required of the Sunstone Embassy Suites Sellers by the Sunstone Embassy Suites PSA including the delivery of all closing documents; no material legal or regulatory action shall be pending or threatened to obtain damages in respect of the Sunstone Embassy Suites PSA or restrain or prohibit the completion of the transactions contemplated thereunder; the hotel properties comprising the Sunstone Embassy Suites Portfolio shall be in the same condition at closing as on the date of the Sunstone Embassy Suites PSA, other than changes as a result of ordinary wear and tear; no force majeure event shall have occurred; certain pre-closing reorganizations of the Sunstone Embassy Suites Sellers shall have completed; successful assumption of the Dallas Loan; the REIT's insurer having irrevocably committed to issue applicable title insurance policies for the hotel properties comprising the Sunstone Embassy Suites Portfolio; execution and delivery of a new franchise agreement for the Dallas Property and the Tempe Property; termination of the existing management agreements by the Sunstone Embassy Suites Sellers; all approvals required with respect to the issuance of the Consideration Units having been obtained; and there being no impediment to the simultaneous completion of all purchase transactions under the Sunstone Embassy Suites PSA.

The obligation of the Sunstone Embassy Suites Sellers to complete the transactions contemplated by the Sunstone Embassy Suites PSA was subject to various conditions for the exclusive benefit of the Sunstone Embassy Suites Sellers to be fulfilled or performed at or prior to the closing date of the acquisition, including, among other things, conditions relating to: the truth and accuracy of the REIT's representations and warranties; the REIT's compliance with, or performance of, all of the covenants and obligations required of the REIT by the Sunstone Embassy Suites PSA including the delivery of all closing documents; execution and delivery of a new franchise agreement for the Dallas Property and the Tempe Property; termination of the existing management agreements by the Sunstone Embassy Suites Sellers; and all approvals required with respect to the issuance of the Consideration Units having been obtained.

Indemnities

Subject to the limitations described below, the Sunstone Embassy Suites Sellers have agreed to indemnify the REIT on customary terms for losses arising or resulting from, among other things: any breach of any representation or warranty of the Sunstone Embassy Suites Sellers in the Sunstone Embassy Suites PSA or any other document delivered pursuant thereto; breach or noncompliance by the Sunstone Embassy Suites Sellers of any covenant or agreement of the Sunstone Embassy Suites Sellers in the Sunstone Embassy Suites PSA or any other document delivered pursuant thereto; any claims brought by any third party to the extent arising from acts, omissions or occurrences that occur or accrue in connection with the Sunstone Embassy Suites Portfolio prior to the closing date for the acquisition thereof; any breach of any tax representation or warranty of the Sunstone Embassy Suites Sellers; and any non-compliance of any applicable law relating to fraudulent conveyance or transfer in respect of the transactions contemplated under the Sunstone Embassy Suites PSA.

The indemnification obligations of the Sunstone Embassy Suites Sellers to the REIT under the Sunstone Embassy Suites PSA are subject to a number of limitations, including a minimum aggregate claim threshold of US$50,000 and an overall liability cap of 5% of the aggregate purchase price for the Sunstone Embassy Suites Portfolio (subject to certain specified exceptions). The obligations of the Sunstone Embassy Suites Sellers in relation to these indemnities are subject to a specified survival period of 12 months following the closing date of the acquisition (subject to certain specified exceptions). The indemnification provisions constitute the REIT's sole and exclusive remedies against the Sunstone Embassy Suites Sellers under the Sunstone Embassy Suites PSA (subject to certain specified exceptions).

There can be no assurance of recovery by the REIT from the Sunstone Embassy Suites Sellers directly or through the indemnity provided under the Sunstone Embassy Suites PSA. There can be no assurance that the assets

of the Sunstone Embassy Suites Sellers will be sufficient to satisfy any claims against them. Only the REIT will be entitled to bring a claim or action for misrepresentation or breach of contract under the Sunstone Embassy Suites PSA and purchasers of the Offered Units under this Prospectus will not have any contractual rights or remedies under the Sunstone Embassy Suites PSA. See "Risk Factors". Purchasers of Offered Units will, however, have certain statutory rights against the REIT under applicable securities laws. See "Purchaser's Statutory Rights" and "Purchaser's Contractual Rights".

Contract Renewal

On December 5, 2016, the REIT announced the renewal of six rail crew lodging contracts (the "**Contract Renewal**") with its largest railway customer for a term of six years, effective December 1, 2016. The Contract Renewal encompassed three contracts maturing in 2016, two contracts maturing 2017 and one contract maturing in early 2018, which contracts cover six Oak Tree Inn hotels with a total of 432 guestrooms, or approximately 11.1% of the REIT's total rail crew guestrooms. The term of the renewed contracts commenced on December 1, 2016 and expires on November 30, 2022. The Contract Renewal increased the weighted average remaining term of the REIT's rail crew lodging contracts by 18% from approximately 3.9 years to approximately 4.6 years.

Acquisition of the Nashville Property

On December 1, 2016, the REIT completed its previously announced acquisition of a 104-room rail crew hotel located in Nashville, Tennessee (the "**Nashville Property**") for an aggregate purchase price of approximately US$8.7 million, including approximately US$950,000 of planned capital expenditures to convert the property into an Oak Tree Inn hotel, and excluding closing and post-acquisition adjustments. The Nashville Property features a multi-year, rail crew lodging contract with an existing railway customer that guarantees 58 guestrooms per night. The acquisition was funded with cash-on hand from the July 2016 Offering and with the REIT's revolving line of credit. The REIT obtained mortgage financing on the Nashville Property on December 20, 2016 in the amount of US$4.5 million (the "**Nashville Loan**"), pursuant to an eighth amendment dated December 20, 2016 to the Seventh Amended and Restated Credit Agreement among a U.S. chartered bank and Lodging Properties and Lodging Enterprises dated February 20, 2013, a copy of which is available on SEDAR at www.sedar.com.

Acquisition of the Florida 6 Portfolio

On November 29, 2016, the REIT completed the acquisition the Florida 6 Portfolio for an aggregate purchase price of US$61.0 million, excluding closing and post-acquisition adjustments. The purchase price did not include approximately US$10.6 million for the completion of PIPs. The REIT funded the purchase price for the Florida 6 Portfolio and the PIPs using a combination of cash on hand from the July 2016 Offering and a new US$37.0 million CMBS loan (the "**Florida 6 Loan**"). The Florida 6 Loan is secured by five of the hotel properties in the Florida 6 Portfolio, has a 10-year term, and has a fixed interest rate of 4.99%. In addition, the lender has agreed to provide an FF&E reserve waiver for the first two years.

The Florida 6 Portfolio consists of six hotels containing 559 total guestrooms that were acquired below management's estimate of replacement cost. The hotels comprising the Florida 6 Portfolio have an average age of approximately 14 years and include the following hotels: a 111-room Holiday Inn Express & Suites hotel located in Fort Myers; a 101-room Holiday Inn Express & Suites hotel located in Sarasota; a 100-room Staybridge Suites hotel located in Tampa; an 86-room Wingate by Wyndham hotel located in Tampa; an 81-room Courtyard by Marriott hotel located in Tampa; and an 80-room Fairfield Inn & Suites hotel located in Ocoee, a suburb of Orlando. The six hotels are strategically located in larger population centres on Florida's west coast and in central Florida, near major transportation corridors and a variety of commercial, manufacturing, military, information-technology, medical, education, sports and leisure demand generators.

Acquisition of the Florida/Tennessee Portfolio

On October 27, 2016, the REIT completed the acquisition of the Florida/Tennessee Portfolio for an aggregate purchase price of approximately US$47.0 million excluding approximately US$2.8 million for PIPs and before customary closing and post-acquisition adjustments. The REIT funded the purchase price and the PIPs at closing with cash on hand from the July 2016 Offering. Subsequent to the closing of the REIT's acquisition of the Florida/Tennessee Portfolio, the REIT obtained a new US$27.5 million CMBS loan for the Florida/Tennessee Portfolio, which is secured by three of the properties in the Florida/Tennessee Portfolio (the "**Florida/Tennessee Loan**"). The Florida/Tennessee Loan has a 10-year term and has a fixed interest rate of 4.43%. In addition, the lender has agreed to provide an FF&E reserve waiver for the first two years.

The hotel properties comprising the Florida/Tennessee Portfolio are located in Jacksonville and Lake City, Florida and Chattanooga, Tennessee (two hotels) with a total of 374 guestrooms that were acquired below management's estimate of replacement cost. The Florida/Tennessee Portfolio includes a 109-room Residence Inn hotel located in Chattanooga, two 89-room Fairfield Inn & Suites hotels located in Jacksonville and Lake City, and an 87-room TownePlace Suites hotel located in Chattanooga. The four hotels are franchised by Marriott International and are strategically located near major transportation corridors and a variety of commercial, manufacturing and distribution demand generators. The average age of the hotel properties comprising the Florida/Tennessee Portfolio is approximately seven years.

Amendment to Master Hotel Management Agreement

On October 11, 2016, the REIT announced it had entered into an amendment agreement (the "**Master HMA Amendment**") dated September 30, 2016 with the Master Hotel Manager to amend certain terms of the Master Hotel Management Agreement between the parties. The Master HMA Amendment is effective as and from July 1, 2016, and included, among other amendments, a reduction in the base hotel management fees paid by the REIT to the Master Hotel Manager for all hotels in the REIT's portfolio from 3.5% to 3.0% of gross revenues of the REIT's portfolio for the period from and after July 1, 2016. Further details with respect to the Master HMA Amendment including a summary of its material terms and the process leading to its unanimous approval by the independent members of the Board are set out in the REIT's material change report dated October 11, 2016, which is incorporated by reference into this Prospectus. A copy of the Master HMA Amendment has been filed on SEDAR and is available at www.sedar.com.

DESCRIPTION OF SECURITIES

The following is a brief summary of certain general terms and provisions of the Securities as at the date of this Prospectus. The summary does not purport to be complete and is indicative only. The specific terms of any Securities to be offered under this Prospectus, and the extent to which the general terms described in this Prospectus apply to such Securities, will be set forth in the applicable Prospectus Supplement. Moreover, a Prospectus Supplement relating to a particular offering of Securities may include terms pertaining to the Securities being offered thereunder that are not within the terms and parameters described in this Prospectus.

Units

The following is a brief summary of all material attributes and characteristics of the Units. The following does not purport to be complete. For a more detailed description of the Units, investors should refer to the disclosure under the headings "Capital Structure", "LP Agreement" and "Voting Trust Agreement" of the AIF which is incorporated by reference herein and available on SEDAR at www.sedar.com.

The REIT is authorized to issue an unlimited number of Units. As at February 16, 2017, there were 58,616,803 Units issued and outstanding. 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. Units may be offered separately or together with other Securities, as the case may be.

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

Each Unit has attached to it the right to exercise one vote at meetings of the REIT. Certain powers, relating generally to the existence and fundamental powers of the REIT may be exercisable only by way of a Special Resolution (as defined in the LP Agreement) passed by the Unitholders.

Warrants

The following is a brief summary of certain general terms and provisions of the Warrants that may be offered pursuant to this Prospectus. This summary does not purport to be complete. The particular terms and provisions of the Warrants as may be offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement pertaining to such offering of Warrants, and the extent to which the general terms and provisions described below may apply to such Warrants will be described in the applicable Prospectus Supplement.

Warrants may be offered separately or together with other Securities, as the case may be. Each series of Warrants may be issued under a separate warrant indenture or warrant agency agreement to be entered into between the REIT and one or more banks or trust companies acting as Warrant agent or may be issued as stand-alone contracts. The applicable Prospectus Supplement will include details of the Warrant agreements, if any, governing the Warrants being offered. The Warrant agent, if any, will be expected to act solely as the agent of the REIT and will not assume a relationship of agency with any holders of Warrant certificates or beneficial owners of Warrants. The following sets forth certain general terms and provisions of the Warrants offered under this Prospectus. The specific terms of the Warrants, and the extent to which the general terms described in this section apply to those Warrants, will be set forth in the applicable Prospectus Supplement.

A copy of any warrant indenture or any warrant agency agreement relating to an offering of Warrants will be filed by the REIT with the relevant securities regulatory authorities in Canada after it has been entered into by the REIT.

Each applicable Prospectus Supplement will set forth the terms and other information with respect to the Warrants being offered thereby, which may include, without limitation, the following (where applicable):

- the designation of the Warrants;
- the aggregate number of Warrants offered and the offering price;
- the designation, number and terms of the other Securities purchasable upon exercise of the Warrants, and procedures that will result in the adjustment of those numbers;
- the exercise price of the Warrants;
- the dates or periods during which the Warrants are exercisable;
- the designation and terms of any securities with which the Warrants are issued;
- if the Warrants are issued as a unit with another Security, the date on and after which the Warrants and the other Security will be separately transferable;
- any minimum or maximum amount of Warrants that may be exercised at any one time;
- whether such Warrants will be listed on any securities exchange;
- any terms, procedures and limitations relating to the transferability, exchange or exercise of the Warrants;
- certain material Canadian tax consequences of owning the Warrants; and
- any other material terms and conditions of the Warrants.

Debt Securities

The following is a brief summary of certain general terms and provisions of the Debt Securities that may be offered pursuant to this Prospectus. This summary does not purport to be complete. The particular terms and provisions of the Debt Securities as may be offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement pertaining to such offering of Debt Securities, and the extent to which the general terms and provisions described below may apply to such Debt Securities will be described in the applicable Prospectus Supplement.

Debt Securities may be offered separately or in combination with one or more other Securities. The REIT may, from time to time, issue debt securities and incur additional indebtedness other than through the issuance of Debt Securities pursuant to this Prospectus.

The Debt Securities may be governed by one or more indentures, in each case, between the REIT and a financial institution authorized to carry on business as a trustee.

Each applicable Prospectus Supplement will set forth the terms and other information with respect to the Debt Securities being offered thereby, which may include, without limitation, the following (where applicable):

- the designation, aggregate principal amount and authorized denominations of such Debt Securities;
- the percentage of the principal amount or the price at which such Debt Securities will be issued or whether such Debt Securities will be issued on a non-fixed price basis;
- the date or dates on which such Debt Securities will mature;
- the rate or rates per annum at which such Debt Securities will bear interest (if any), or the method of determination of such rates (if any);
- the dates on which such interest will be payable and the record dates for such payments;
- the credit rating assigned to the Debt Securities by rating agencies (if any);
- the general terms or provisions pursuant to which the Debt Securities are to be issued;
- any redemption, retraction or call terms or terms under which such Debt Securities may be defeased;
- whether such Debt Securities are to be issued in registered form, "book-entry only" form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof;
- any exchange or conversion terms;
- the general terms or provisions, if any, pursuant to which such Debt Securities are to be guaranteed or secured;
- whether such Debt Securities will be senior or subordinated to other liabilities and obligations of the REIT;
- any material covenants included for the benefit of holders of Debt Securities;
- certain material Canadian tax consequences of owning the Debt Securities; and
- any other material terms and conditions of the Debt Securities, including events of default and amendment provisions.

Neither the aggregate principal amount of Debt Securities that will be issued and sold nor the issue price to the public of the Debt Securities has been established, as the Debt Securities will be issued at such times, in such amounts and at such prices as the REIT determines from time to time.

Subscription Receipts

The following is a brief summary of certain general terms and provisions of the Subscription Receipts that may be offered pursuant to this Prospectus. This summary does not purport to be complete. The particular terms and provisions of the Subscription Receipts as may be offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement pertaining to such offering of Subscription Receipts, and the extent to which the general terms and provisions described below may apply to such Subscription Receipts will be described in the applicable Prospectus Supplement.

Subscription Receipts may be offered separately or together with other Securities, as the case may be. The Subscription Receipts may be issued under a subscription receipt agreement.

The applicable Prospectus Supplement will include details of any subscription receipt agreement covering the Subscription Receipts being offered. A copy of any subscription receipt agreement relating to an offering of Subscription Receipts will be filed by the REIT with the relevant securities regulatory authorities in Canada after the REIT has entered into it. The specific terms of the Subscription Receipts, and the extent to which the general terms

described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. This description may include, without limitation, the following (where applicable):

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered;
- the terms, conditions and procedures for the conversion of the Subscription Receipts into other Securities;
- the designation, number and terms of the other Securities that may be exchanged upon conversion of each Subscription Receipt;
- the designation, number and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- terms applicable to the gross or net proceeds from the sale of the Subscription Receipts plus any interest earned thereon;
- certain material Canadian tax consequences of owning the Subscription Receipts; and
- any other material terms and conditions of the Subscription Receipts.

DISTRIBUTION HISTORY

Distribution Policy

The REIT's current policy is to declare and pay monthly cash distributions. The declaration of distributions is subject to the discretion of the Board and will be evaluated periodically and may be revised.

Distributions are made by cheque payable to or to the order of a Unitholder or by electronic fund transfer or by such other manner of payment approved by the General Partner from time to time. The payment, if made by cheque, is conclusively deemed to have been made upon hand-delivery of a cheque to the Unitholder or to his, her or its agent duly authorized in writing or upon the mailing of a cheque by prepaid first-class mail addressed to the Unitholder at his, her or its address as it appears on the register of Unitholders unless the cheque is not paid on presentation. The General Partner 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 General Partner and/or the REIT and/or the U.S. REIT 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 nonresident 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 REIT 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 REIT) together with the applicable U.S. withholding tax liability to be paid by the U.S. REIT on behalf of its shareholders.

Previous Distributions

The REIT declared and paid the following cash distributions to Unitholders from February 1, 2016 to January 31, 2017 as per the following table:

Period	Record Date	Payment Date	Distribution Per Unit	Amount (000s)
February 2016	February 29, 2016	March 15, 2016	Cdn$0.075	Cdn$2,618
March 2016	March 31, 2016	April 15, 2016	Cdn$0.075	Cdn$2,628
April 2016(1)	April 29, 2016	May 13, 2016	US$0.054	US$1,888
May 2016	May 31, 2016	June 15, 2016	US$0.054	US$1,888
June 2016	June 30, 2016	July 15, 2016	US$0.054	US$1,917
July 2016	July 29, 2016	August 12, 2016	US$0.054	US$2,435
August 2016	August 31, 2016	September 15, 2016	US$0.054	US$2,435
September 2016	September 30, 2016	October 14, 2016	US$0.054	US$2,453
October 2016	October 31, 2016	November 15, 2016	US$0.054	US$2,435
November 2016	November 30, 2016	December 15, 2016	US$0.054	US$2,435
December 2016	December 30, 2016	January 13, 2017	US$0.054	US$3,060
January 2017	January 31, 2017	February 15, 2017	US$0.054	US$3,165

(1) Commencing with this distribution, the REIT paid its monthly distribution in U.S. dollars at a rate of US$0.054 per Unit. Prior to that date, the REIT paid monthly distributions in Canadian dollars at a rate of Cdn$0.075 per Unit.

Commencing in April 2016, the REIT paid monthly cash distributions of US$0.054 per Unit to Unitholders rather than the previous Cdn$0.075 per Unit. The REIT intends to continue to make monthly distributions to Unitholders of record on the last business day of each month. Distributions will typically be paid within 15 days following the end of each month. The REIT may also make additional distributions in excess of monthly distributions during the year, as the General Partner may determine.

Cash distributions are not guaranteed and the anticipated return on investment is based upon many performance assumptions. Although the REIT intends to distribute its available cash to Unitholders, such cash distributions are not guaranteed and may be reduced or suspended in the future. See "Risk Factors".

PRIOR SALES

No Units, or any securities convertible into or exchangeable into Units, have been issued by the REIT within the last 12 months, other than as set out below.

On March 31, 2016, the REIT issued a total of 3,895 Units with a grant date fair value of Cdn$10.75 per Unit to certain officers of the General Partner and employees of AML upon the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan. These awards were originally granted to such persons on May 6, 2015 and became fully vested on March 31, 2016. The grant date fair value of Cdn$10.75 per Unit was calculated using the weighted average price at which the Units traded on the Exchange during the period of the five most recent trading days ending on the trading day immediately prior to the grant date.

On March 31, 2016, the REIT granted a total of 95,748 Units of restricted stock with a grant date fair value of Cdn$10.43 per Unit of restricted stock to certain executive officers of the General Partner and employees of AML. The Units of restricted stock were issued as awards under the REIT's securities-based compensation plan. The grant date fair value of Cdn$10.43 per Unit of restricted stock was calculated using the volume weighted average price at which the Units had traded on the Exchange during the five most recent trading days ending on the trading day immediately prior to the grant date.

On April 1, 2016, the REIT issued 59,088 Units at a price of Cdn$10.44 per Unit in connection with the closing of the REIT's indirect acquisition from the Developer of the 24-room expansion at the Oak Tree Inn Hotel located in Hearne, Texas.

On June 2, 2016, the REIT issued 114,511 Units at a price of Cdn$10.27 per Unit in connection with the closing of the REIT's indirect acquisition from the Developer of the 24-room expansion at the Oak Tree Inn Hotel located in Hermiston, Oregon.

On July 26, 2016, the REIT completed a bought deal offering of Units issuing a total of 10,000,400 Units (the "**July 2016 Offering**"), including 1,304,400 Units from a full exercise of the over-allotment option, at a price of Cdn$10.35 per Unit for gross proceeds of approximately Cdn$103.5 million.

On December 22, 2016, the REIT completed a bought deal offering of Units issuing a total of 11,281,500 Units (the "**December 2016 Offering**"), including 1,471,500 Units from a full exercise of the over-allotment option, at a price of Cdn$10.20 per Unit for gross proceeds of approximately Cdn$115.1 million.

On December 23, 2016, the REIT issued a total of 2,330 Units with a grant date fair value of Cdn$10.75 per Unit to certain officers of the General Partner upon the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan. These awards were originally granted to such persons on May 6, 2015 and became fully vested on March 31, 2016. The grant date fair value of Cdn$10.75 per Unit was calculated using the weighted average price at which the Units traded on the Exchange during the period of the five most recent trading days ending on the trading day immediately prior to the grant date.

On December 23, 2016, the REIT issued a total of 4,053 Units with a grant date fair value of Cdn$10.43 per Unit to certain officers of the General Partner on the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan. These awards were originally granted to such persons on March 30, 2016 and became fully vested on December 23, 2016. The grant date fair value of Cdn$10.43 per Unit was calculated using the weighted average price at which the Units traded on the Exchange during the period of the five most recent trading days ending on the trading day immediately prior to the grant date.

On January 6, 2017, the REIT issued the Consideration Units at a price of Cdn$10.3099 per Unit in connection with the closing of the REIT's indirect acquisition of the Sunstone Embassy Suites Portfolio. For further details, see "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio".

TRADING PRICE AND VOLUME

The Units are listed and posted for trading on the Exchange under the symbol HOT.UN. The following table sets out the price range and trading volume of the Units, for the months set out below, as reported by the Exchange:

	Price Range		
Month	**High (Cdn$)**	**Low (Cdn$)**	**Total Volume**
February 2016	10.44	9.90	922,441
March 2016	10.65	10.06	1,581,454
April 2016	10.55	10.05	1,246,581
May 2016	10.45	10.00	1,793,405
June 2016	10.58	10.20	1,261,997
July 2016	10.78	10.27	3,591,100
August 2016	11.12	10.30	4,357,370
September 2016	11.25	10.79	2,544,198
October 2016	11.14	10.45	1,841,703
November 2016	10.77	10.15	2,203,501
December 2016	10.60	10.12	4,811,012
January 2017	10.53	10.32	2,627,422
February 1 - 15, 2017	10.84	10.38	1,231,265

USE OF PROCEEDS

The use of proceeds from the sale of Securities will be described in the applicable Prospectus Supplement relating to a specific offering and sale of Securities. Among other potential uses, the REIT may use the net proceeds from the sale of Securities: (i) for future acquisitions; (ii) to fund working capital and for general corporate purposes (which includes, among other things, funding of capital expenditures, providing mezzanine financing for new development projects and payment of deposits for potential acquisitions); and (iii) to repay any indebtedness of the REIT or its Subsidiaries that may be outstanding from time to time.

Management of the REIT will retain broad discretion in allocating (based on sound business principles) the net proceeds of any offering of Securities under this Prospectus and any applicable Prospectus Supplement and the REIT's actual use of the net proceeds will vary depending on the availability and suitability of acquisition and

investment opportunities and its operating and capital needs from time to time and may be used, without limitation, to further the REIT's business objectives.

The REIT may, from time to time, issue securities (including Securities) other than pursuant to this Prospectus or any Prospectus Supplement.

Use of Proceeds from the December 2016 Offering

In the December 2016 Prospectus, the REIT disclosed that the total net proceeds from the sale of the Units offered under the December 2016 Offering was estimated to be approximately Cdn$109.6 million (inclusive of the estimated net proceeds from the exercise in full of the over-allotment option for the December 2016 Offering) after deducting the underwriters' fees for that offering of approximately Cdn$4.6 million and deducting the estimated expenses of the December 2016 Offering of Cdn$875,000. In the December 2016 Prospectus, the REIT estimated the net proceeds would be used: (i) as to approximately Cdn$78.0 million, to partially fund the acquisition of the Midwestern 3 Embassy Suites Portfolio; and (ii) as to the balance, if any, to fund working capital, potential future acquisitions, and for general corporate purposes.

The table below compares the estimated and actual use of proceeds in connection with the December 2016 Offering for the specific identified uses as at the date of this short form prospectus:

Item	**Estimated Use of Proceeds (Cdn$) (unaudited)**	**Actual Use of Proceeds (Cdn$) (unaudited)**	**Variance (Cdn$) (unaudited)**
Expenses of December 2016 Offering and related overallotment (including underwriters' fees)	$ 5,477,852	$ 5,299,875	$ 177,977
Equity proceeds used for purchase of the Midwestern 3 Embassy Suites Portfolio	78,000,000	80,310,072[1]	(2,310,072)
Equity proceeds used for purchase of the Sunstone Embassy Suites Portfolio	–	5,480,064[2][3]	(5,480,064)
Equity proceeds to fund working capital and for general corporate purposes	31,593,448	23,981,289	7,612,159[4]
TOTAL	**$ 115,071,300**	**$ 115,071,300**	**$ –**

(1) The Canadian dollar equivalent was valued using the closing exchange rate as at January 19, 2017 of US1.00 equals Cdn$1.3314 published by the Bank of Canada.
(2) The Canadian dollar equivalent was valued using the closing exchange rate as at January 6, 2017 of US1.00 equals Cdn$1.3232 published by the Bank of Canada.
(3) Following the completion of the July 2016 Offering, the closing date for the acquisition of the Sunstone Embassy Suites Portfolio was extended to January 2017. In the intervening period, the REIT redeployed a portion of the net proceeds from the July 2016 Offering that was originally allocated for purposes of the REIT's acquisition of the Sunstone Embassy Suites Portfolio. As a result, the REIT used a portion of the net proceeds from the December 2016 Offering to complete the purchase of the Sunstone Embassy Suites Portfolio.
(4) The excess cash on hand from the December 2016 Offering and the timing and amount of the deployment thereof is not expected to impact the REIT's ability to achieve its business objectives.

EARNINGS COVERAGE RATIO

Earnings coverage ratios will be provided as required in the applicable Prospectus Supplement(s) with respect to the issuance of Debt Securities pursuant to this Prospectus.

CONSOLIDATED CAPITALIZATION OF THE REIT

The following table sets out the consolidated capitalization of the REIT as at September 30, 2016, and the *pro forma* consolidated capitalization of the REIT as at September 30, 2016 after giving effect to the completion of the acquisition of the Florida/Tennessee Portfolio, Florida 6 Portfolio, Nashville Property, Sunstone Embassy Suites Portfolio and the Midwestern 3 Embassy Suites Portfolio and after giving effect to the December 2016 Offering.

	Outstanding as At September 30, 2016 (US$000s)	
	Actual (unaudited)	**As adjusted for the December 2016 Offering and the acquisitions of the Florida/Tennessee Portfolio, Florida 6 Portfolio, Nashville Property, Sunstone Embassy Suites Portfolio and the Midwestern 3 Embassy Suites Portfolio (unaudited)**
Indebtedness		
Term loans (gross)	$307,888	$307,888
Florida/Tennessee Loan	–	27,500
Florida 6 Loan	–	37,000
Nashville Loan	–	4,500
Dallas Loan	–	19,000
Tempe Loan	–	13,500
Midwestern 3 Loan	–	65,000
Partners' Capital		
Units.................................	322,990	426,924(1)(2)(3)(4)
Total capitalization..............	**$630,878**	**$901,312**

(1) This amount includes US$86,558,824 attributed to the 11,281,500 Units issued under the December 2016 Offering (based on a rate of exchange of US$1.00 equals Cdn$1.3294).

(2) This amount does not include a deduction for costs related to the December 2016 Offering, including the underwriters' fee for the December 2016 Offering, which costs are charged directly to Partners' Capital.

(3) This amount includes the US$17,375,000 paid by the REIT to the Sunstone Embassy Suites Sellers through the issuance of the Consideration Units as partial payment of the purchase price for the Sunstone Embassy Suites Portfolio.

(4) The number of Units issued and outstanding as at September 30, 2016 was 45,086,159 and the number of Units issued and outstanding after giving effect to the 11,281,500 Units issued under the December 2016 Offering and the issuance of the 2,242,761 Consideration Units (but excluding the 6,383 Units issued on December 23, 2016 upon the vesting of awards previously granted pursuant to the REIT's securities-based compensation plan) is 58,610,420.

PLAN OF DISTRIBUTION

The REIT may from time to time during the 25-month period that this Prospectus, including any amendments hereto, remains valid, offer for sale and issue up to an aggregate of US$500,000,000 (or its equivalent in Canadian dollars or any other currencies) in Securities hereunder.

The REIT may offer and sell the Securities to or through underwriters or dealers purchasing as principals, and may also sell directly to one or more purchasers or through agents or pursuant to applicable statutory exemptions. The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent, as the case may be, engaged by the REIT in connection with the offering and sale of the Securities, and will set forth the terms of the offering of such Securities, including, to the extent applicable, any fees, discounts or any other compensation payable to underwriters, dealers or agents in connection with the offering, the details of any over-allotment option granted to underwriters, dealers or agents, the method of distribution of the Securities, the initial issue price (in the event that the offering is a fixed price distribution), the proceeds that the REIT will receive and any other material terms of the plan of distribution. Any initial offering price and discounts, concessions or commissions allowed or reallowed or paid to dealers may be changed from time to time.

The Securities may be sold from time to time in one or more transactions at a fixed price or prices or at non-fixed prices. If offered on a non-fixed price basis, the Securities may be offered at market prices prevailing at the time of sale (including, without limitation, sales deemed to be "at-the-market distributions" as defined in

National Instrument 44-102 – *Shelf Distributions,* including sales made directly on the Exchange or other existing trading markets for the Securities), at prices determined by reference to the prevailing price of a specified security in a specified market or at prices to be negotiated with purchasers, in which case the compensation payable to an underwriter, dealer or agent in connection with any such sale will be decreased by the amount, if any, by which the aggregate price paid for the Securities by the purchasers is less than the gross proceeds paid by the underwriter, dealer or agent to the REIT. The price at which the Securities will be offered and sold may vary from purchaser to purchaser and during the period of distribution.

In connection with the sale of the Securities, underwriters, dealers or agents may receive compensation from the REIT or from other parties, including in the form of underwriters', dealers' or agents' fees, commissions or concessions. Underwriters, dealers and agents that participate in the distribution of the Securities may be deemed to be underwriters for the purposes of applicable Canadian securities legislation and any such compensation received by them from the REIT and any profit on the resale of the Securities by them may be deemed to be underwriting commissions.

In connection with any offering of Securities, the underwriters, dealers or agents, as the case may be, may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Securities at a level other than those which otherwise might prevail on the open market. Such transactions may be commenced, interrupted or discontinued at any time.

Underwriters, dealers or agents who participate in the distribution of the Securities may be entitled, under agreements to be entered into with the REIT, to indemnification by the REIT against certain liabilities, including liabilities under Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for, the REIT in the ordinary course of business.

The issued and outstanding Units of the REIT trade on the Exchange under the symbol "HOT.UN". On February 15, 2017, the last trading day prior to the date of this Prospectus, the closing price of the issued and outstanding Units was Cdn$10.69.

Unless otherwise specified in the applicable Prospectus Supplement, each series or issue of Securities (other than Units) will be a new issue of Securities with no established trading market. Accordingly, there is currently no market through which the Securities (other than Units) may be sold and purchasers may not be able to resell such Securities purchased under this Prospectus. This may affect the pricing of such Securities in the secondary market, the transparency and availability of trading prices, the liquidity of such Securities and the extent of issuer regulation. See "Risk Factors".

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 permitted to sell such Securities. Unless otherwise specified in the applicable Prospectus Supplement, the Securities have not been and will not be registered under the U.S. Securities Act or any state securities laws. Unless otherwise specified in the applicable Prospectus Supplement, the Securities may not be offered or sold in the U.S. or to, or for the account or benefit of, U.S. persons, unless the Securities are registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration requirements is available. Each underwriter, dealer and agent who participates in the distribution will agree not to sell or offer to sell or to solicit any offer to buy any Securities within the U.S. or to, or for the account or benefit of, a U.S. person, except pursuant to an exemption from the registration requirements of the U.S. Securities Act and any applicable state securities laws. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these Securities in the U.S.

PRINCIPAL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will include a general summary of certain material Canadian federal income tax consequences which may be applicable to a purchaser of the Securities offered thereunder.

PRINCIPAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will include a general summary of certain material United States federal income tax consequences which may be applicable to a purchaser of the Securities offered thereunder.

RISK FACTORS

Before deciding to invest in any Securities, prospective purchasers of the Securities should consider carefully the risk factors and the other information contained and incorporated by reference in this Prospectus and the applicable Prospectus Supplement relating to a specific offering of Securities before purchasing the Securities. An investment in the Securities offered hereunder is speculative and involves a high degree of risk. Information regarding the risks affecting the REIT and its business is provided in the documents incorporated by reference in this Prospectus, including in the REIT's AIF under the heading "Risk Factors". See "Documents Incorporated by Reference".

No Assurance of Active or Liquid Market

No assurance can be given that an active or liquid trading market for the Units will be sustained. If an active or liquid market for the Units fails to be sustained, the prices at which the Units trade may be adversely affected. Whether or not the Units will trade at lower prices depends on many factors, including the liquidity of the Units, prevailing interest rates and the markets for similar securities, general economic conditions and the REIT's financial condition, historic financial performance and future prospects.

There is currently no market through which the Securities (other than the Units) may be sold and purchasers may not be able to resell such Securities. This may affect the pricing of such Securities in the secondary market, the transparency and availability of trading prices, the liquidity of such Securities, and the extent of issuer regulation.

Public Markets and Prices for Securities

The market price of the Units and any other Securities offered hereunder that become listed and posted for trading on the Exchange or any other stock exchange could be subject to significant fluctuations in response to variations in the REIT's operating results or other factors. In addition, fluctuations in the stock market may adversely affect the market price of the Units and any other Securities offered hereunder that become listed and posted for trading on the Exchange or any other stock exchange regardless of the operating performance of the REIT. Securities markets have also experienced significant price and volume fluctuations from time to time. In some instances, these fluctuations have been unrelated or disproportionate to the operating performance of issuers. Market fluctuations may adversely impact the market price of the Units and any other Securities offered hereunder that become listed and posted for trading on the Exchange or any other stock exchange. There can be no assurance of the price at which the Units and any other Securities offered hereunder that become listed and posted for trading on the Exchange or any other stock exchange will trade.

Additional Issuances and Dilution

The REIT may issue and sell additional securities of the REIT to finance its operations or future acquisitions. the REIT cannot predict the size of future issuances of securities of the REIT or the effect, if any, that future issuances and sales of securities will have on the market price of any Securities of the REIT issued and outstanding from time to time. Sales or issuances of substantial amounts of securities of the REIT, or the perception that such sales could occur, may adversely affect prevailing market prices for securities of the REIT issued and outstanding from time to time. With any additional sale or issuance of securities of the REIT, holders will suffer dilution with respect to voting power and may experience dilution in the REIT's earnings per share. Moreover, this Prospectus may create a perceived risk of dilution resulting in downward pressure on the price of the REIT's issued and outstanding Units, which could contribute to progressive declines in the prices of such securities.

The REIT has Broad Discretion in the Use of the Net Proceeds from any Offering

Management of the REIT will have broad discretion with respect to the application of net proceeds received by the REIT from the sale of Securities under this Prospectus or a future Prospectus Supplement and may spend such proceeds in ways that do not improve the REIT's results of operations or enhance the value of the Units or its other securities issued and outstanding from time to time. Any failure by management to apply these funds effectively could result in financial losses that could have a material adverse effect on the REIT's business or cause the price of the securities of the REIT issued and outstanding from time to time to decline.

Historical financial information and pro forma financial information

The historical financial information relating to the Midwestern 3 Embassy Suites Portfolio incorporated by reference into this Prospectus has been derived from third parties' historical accounting records. The REIT believes that the assumptions underlying the unaudited pro forma consolidated financial statements are reasonable.

The unaudited pro forma consolidated financial statements and related pro forma financial information incorporated by reference into this Prospectus, however, may not reflect what the REIT's financial position, results of operations or cash flows would have been had the REIT been a standalone entity owning the Midwestern 3 Embassy Suites Portfolio during the historical periods presented or what the REIT's financial position, results of operations or cash flows will be in the future.

In preparing the pro forma financial information incorporated by reference into this Prospectus, the REIT gave effect to, among other items, the December 2016 Offering and the completion of the acquisition of the Midwestern 3 Embassy Suites Portfolio prior to their completion. The estimates used in the pro forma financial information may not be similar to the REIT's actual performance going forward, and any differences may be material.

Use of Property Appraisals

Caution should be exercised in the evaluation and use of the Sunstone Embassy Suites Appraisal and the Midwestern 3 Appraisal prepared by Colliers and HVS, respectively. A valuation is an estimate of market value. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Sunstone Embassy Suites Appraisal and the Midwestern 3 Appraisal are each based on various assumptions of future expectations. Some of these assumptions may not materialize or may differ materially from actual experience in the future.

The Units may not necessarily trade at values determined solely by reference to the underlying value of the REIT's real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the initial appraisal of the value of the REIT's properties or the value of such properties from time to time.

Tax Consequences

Tax filings made or to be made by the REIT, including those related to income and expenses as well as those arising out of acquisition or disposition transactions, involve interpretations of the Tax Act and Code which, if interpreted differently or challenged by taxing authorities, could result in tax liabilities to the REIT or the Unitholders. Further, the acquisition and disposition of businesses and assets by the REIT often involve various structuring events to complete the transactions in a tax efficient manner and, consequently, involve interpretations of the Tax Act and Code which, if interpreted differently or challenged by taxing authorities, could result in tax liabilities to the REIT or Unitholders.

There may be an enactment, promulgation or public announcement of a change or proposed change in tax law (including a specific proposal to amend the Tax Act or Code publicly announced by the Department of Finance (Canada) or the Minister of Finance of Canada or the IRS, respectively) or applicable case law or written and published interpretative guidance or policy of the CRA or the IRS or provincial or state equivalent that could result in a material impairment of, or materially adversely affect, the operations or financial or tax position of the REIT or its Subsidiaries.

Other Tax Matters

This Prospectus contains no representation or warranty with respect to income tax considerations in Canada, the U.S. or other jurisdictions, which may be relevant to a decision to invest in the Units nor should any of the information set out herein be construed to be tax advice to any prospective purchaser of the Offered Units. Prospective purchasers of the Offered Units should consult their own tax advisors with respect to the tax consequences of an investment in the Offered Units in their particular circumstances.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the REIT are KPMG, of Vancouver, British Columbia. KPMG was appointed as auditors of the REIT on October 12, 2012.

The transfer agent and registrar for the Units is Computershare Investor Services Inc. at its principal transfer offices in Vancouver, British Columbia and Toronto, Ontario.

LEGAL PROCEEDINGS

Management is not aware of any legal proceedings of a material nature to which either the REIT or any of its Subsidiaries is a party or of which any of their respective property is the subject matter.

LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement relating to any Securities offered, certain legal matters in connection with the offering of Securities will be passed upon on behalf of the REIT by Farris, Vaughan, Wills & Murphy LLP. In addition, certain legal matters in connection with any offering of Securities will be passed upon for any underwriters, dealers or agents by counsel to be designated at the time of the offering by such underwriters, dealers or agents, as the case may be.

EXPERTS

Certain legal matters in connection with this Offering will be passed upon by Farris, Vaughan, Wills & Murphy LLP, on behalf of the REIT. As of the date of this Prospectus, the partners and associates of Farris, Vaughan, Wills & Murphy LLP beneficially own, directly and indirectly, less than 1% of the outstanding securities of the REIT and its Affiliates.

KPMG are also the auditors of the REIT and have confirmed that they are independent with respect to the REIT within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

Colliers is named as having prepared the Sunstone Embassy Suites Appraisal. See "Recent Developments – Acquisition of the Sunstone Embassy Suites Portfolio – Independent Appraisal of the Sunstone Embassy Suites Portfolio". As at the date of such reports and this Prospectus, the partners and associates of Colliers beneficially owned, directly and indirectly, less than 1% of the outstanding securities of the REIT and its Affiliates.

HVS is named in the business acquisition report of the REIT dated January 31, 2017, which is incorporated by reference into this Prospectus, as having prepared an aggregate appraisal report in respect of the Midwestern 3 Portfolio. As at the date of such appraisal and this Prospectus, the partners and associates of HVS beneficially owned, directly and indirectly, less than 1% of the outstanding securities of the REIT and its Affiliates.

Keiter is named in the business acquisition report of the REIT dated January 31, 2017, which is incorporated by reference into this Prospectus, as having prepared an auditors' report with respect to the combined financial statements of the Midwestern 3 Embassy Suites Portfolio. As at the date of auditors' report and this Prospectus, the partners and associates of Keiter beneficially owned, directly and indirectly, less than 1% of the outstanding securities of the REIT and its affiliates.

PURCHASER'S STATUTORY RIGHTS

Securities legislation in certain of the provinces 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, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In an offering of Securities that are convertible, exchangeable or exercisable into other securities of the REIT, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the prospectus is limited, in certain provincial securities legislation, to the price at which such Securities are offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon the conversion, exchange or exercise of the Security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

PURCHASER'S CONTRACTUAL RIGHTS

Original purchasers of: (i) Subscription Receipts; (ii) Debt Securities that are convertible, exchangeable or exercisable into other Securities of the REIT; or (iii) Warrants offered separately without other Securities, will have a contractual right of rescission against the REIT in respect of the conversion, exchange or exercise of such a Subscription Receipt, Debt Security or Warrant. The contractual right of rescission will entitle such original purchasers to receive the amount paid upon conversion, exchange or exercise, upon surrender of the underlying Securities gained thereby, in the event that this Prospectus (as supplemented or amended) contains a misrepresentation, provided that both: (i) the conversion, exchange or exercise; and (ii) the exercise of the contractual right of rescission take place within 180 days of the date of the purchase of the aforementioned Subscription Receipts, Debt Securities or Warrants under this Prospectus. This contractual right of rescission will be consistent with the statutory right of rescission described under section 131 of the *Securities Act* (British Columbia), and is in addition to any other right or remedy available to original purchasers under section 131 the *Securities Act* (British Columbia) or otherwise at law.

CERTIFICATE OF THE REIT

February 16, 2017

This short form prospectus, together with the documents incorporated in this prospectus by reference, 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 of Canada.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

(Signed) ROBERT O'NEILL Chief Executive Officer of the General Partner	(Signed) AZIM LALANI Chief Financial Officer of the General Partner

AMERICAN HOTEL INCOME PROPERTIES REIT (GP) INC.

(as General Partner)

(Signed) ROBERT O'NEILL Chief Executive Officer	(Signed) AZIM LALANI Chief Financial Officer
(Signed) STEPHEN J. EVANS Director	(Signed) CHARLES VAN DER LEE Director