



**Form 51-102F4
Business Acquisition Report**

ITEM 1 IDENTITY OF COMPANY

1.1 Name and Address of Company

American Hotel Income Properties REIT LP (“**AHIP**”)
Suite 1660, 401 West Georgia Street
Vancouver, British Columbia V6B 5A1

1.2 Executive Officer

The following executive officer of AHIP is knowledgeable about the significant acquisition and this report:

Azim Lalani
Chief Financial Officer
Phone: (604) 630-3134

ITEM 2 DETAILS OF ACQUISITION

2.1 Nature of Business Acquired

AHIP indirectly acquired (the “**Acquisition**”) three hotels on July 3, 2014 and a fourth hotel on July 11, 2014 (collectively the “**Acquisition Properties**”), located in North Carolina and Georgia, pursuant to a purchase and sale agreement dated March 28, 2014 (the “**Purchase Agreement**”), a copy of which is filed on SEDAR at www.sedar.com.

The Acquisition Properties represent a total of 387 guest rooms located in North Carolina and Georgia and consist of two Fairfield Inn & Suites (a brand controlled by Marriott International Inc.), one SpringHill Suites (a brand controlled by Marriott International Inc.) and one Hampton Inn (a brand controlled by Hilton Worldwide Inc.). The Acquisition Properties are located in Asheboro, North Carolina (one Fairfield Inn & Suites hotel and one Hampton Inn hotel), Pinehurst, North Carolina (one SpringHill Suites hotel) and Kingsland, Georgia (one Fairfield Inn & Suites hotel), proximate to transportation hubs and other major demand generators such as military bases, manufacturing facilities, medical centers and golf and leisure attractions. The Acquisition Properties cater primarily to corporate travelers seeking select-service lodging.

2.2 Date of Acquisition

The effective dates of the Acquisition were July 3 and July 11, 2014.

2.3 Consideration

The aggregate purchase price for the Acquisition Properties was approximately US\$30.5 million (the “**Purchase Price**”) (including a payment into escrow of US\$1.22 million, and excluding customary closing and post-closing acquisition adjustments and the funding of a US\$1.5 million restricted cash reserve established by AHIP for brand mandated property improvement plans (the “**PIPs**”) related to the Acquisition Properties).

AHIP funded the payment of the Purchase Price and the financing of the PIPs using a combination of cash proceeds from AHIP’s bought deal offering of units that closed on June 4, 2014 (as described in AHIP’s short form prospectus dated May 29, 2014, a copy of which is filed on SEDAR at www.sedar.com) (the “**June 2014 Offering**”) and the assumption of separate commercial mortgage-backed securities (“**CMBS**”) debt on each of the Asheboro, North Carolina Hampton Inn hotel (the “**Asheboro Assumed Loan**”) and the Pinehurst, North Carolina SpringHill Suites hotel (the “**Pinehurst Assumed Loans**”) and a single new CMBS financing on the two Fairfield Inn & Suites hotels (the “**New Loan**”).

Specifically, AHIP funded the payment of the Purchase Price through a combination of approximately: (i) US\$11.5 million from the cash proceeds remaining from AHIP’s June 2014 Offering; (ii) US\$5.6 million net proceeds from the Asheboro Assumed Loan (gross loan amount of US\$5.7 million, net of US\$0.1 million of estimated financing costs); (ii) US\$7.5 million net proceeds from the Pinehurst Assumed Loan (gross loan amount of US\$7.7 million, net of US\$0.2 million of estimated financing costs); and (iii) US\$5.8 million net proceeds from the New Loan (gross loan amount of US\$6.0 million, net of US\$0.2 million of estimated financing costs). The US\$1.5 million of restricted cash required for PIPs was financed with cash proceeds remaining from AHIP’s June 2014 Offering.

The Asheboro Assumed Loan commenced on July 8, 2011 and is scheduled to mature on August 1, 2018. The interest rate on the Asheboro Assumed Loan is locked at 5.69% per annum, and the loan is collateralized, defaulted and secured by a first-priority mortgage encumbering the Asheboro, North Carolina Hampton Inn hotel.

The Pinehurst Assumed Loan commenced on January 7, 2014 and is scheduled to mature on February 1, 2024. The interest rate on the Pinehurst Assumed Loan is locked at 5.28% per annum, and the loan is collateralized, defaulted and secured by a first-priority mortgage encumbering the Pinehurst, North Carolina SpringHill Suites hotel.

AHIP indirectly entered into the New Loan with a major international bank for US\$6.0 million pursuant to the terms of a loan agreement. The initial term of the Loan is 10 years, which commenced on July 3, 2014 and is scheduled to mature on July 6, 2024. The interest rate on the loan is locked at 4.72% per annum, and the Loan is cross-collateralized, cross-defaulted and secured by a first-priority mortgage encumbering each of the two Fairfield Inn & Suites hotels.

2.4 Effect on Financial Position

AHIP presently has no plans or proposals for material changes in the business or affairs of AHIP or the acquired business which may have a significant effect on the financial performance or financial position of AHIP.

2.5 Prior Valuations

AHIP was not required by securities legislation or the Toronto Stock Exchange to obtain a valuation opinion with respect to the Acquisition Properties. However, the Purchase Price for the Acquisition Properties was supported by an independent appraisal report (the “**Appraisal**”). The Appraisal was obtained by AHIP prior to the Acquisition and was prepared by a qualified and independent appraiser using established industry valuation methodologies.

AHIP retained Cushman & Wakefield, Inc. (the “**Appraiser**”) to provide the Appraisal on the fair market value of the Acquisition Properties. In its Appraisal dated as of April 24, 2014, the Appraiser reported an aggregate market value of US\$31.4 million and an aggregate prospective market value upon stabilization of US\$34.5 million for the Acquisition Properties. The appraised values give no consideration to a portfolio discount or premium and are subject to certain assumptions and limiting conditions.

A copy of the Appraisal has been filed on SEDAR at www.sedar.com.

2.6 Parties to Transaction

The Acquisition Properties were indirectly acquired by AHIP from an unaffiliated and independent third party through an arm’s length transaction.

2.7 Date of Report

August 13, 2014.

ITEM 3 FINANCIAL STATEMENTS

The following financial statements are attached as Schedule “A” hereto and constitute and form an integral part of this report:

- (a) Unaudited *pro forma* consolidated financial statements of AHIP as at and for the three months ended March 31, 2014 and for the year ended December 31, 2013 together with the notes thereto.
- (b) Unaudited financial statements of Asheboro Hospitality, LLC as at and for the three months ended March 31, 2014 and 2013 together with the notes thereto.
- (c) Unaudited financial statements of Hotels at Executive Way, LLC as at and for the three months ended March 31, 2014 and 2013 together with the notes thereto.
- (d) Unaudited financial statements of BPR Pinehurst, LLC as at and for the three months ended March 31, 2014 and 2013 together with the notes thereto.
- (e) Unaudited financial statements of Krishna Kingsland Properties, Inc. as at and for the three months ended March 31, 2014 and 2013 together with the notes thereto.
- (f) Audited financial statements of Asheboro Hospitality, LLC as at and for the years ended December 31, 2013 and 2012 together with the notes thereto and the audit report of Keiter CPAs thereon dated June 27, 2014.
- (g) Audited financial statements of Hotels at Executive Way, LLC as at and for the years ended December 31, 2013 and 2012 together with the notes thereto and the audit report of Keiter CPAs thereon dated June 27, 2014.
- (h) Audited financial statements of BPR Pinehurst, LLC as at and for the years ended December 31, 2013 and 2012 together with the notes thereto and the audit report of Keiter CPAs thereon dated June 27, 2014.
- (i) Audited financial statements of Krishna Kingsland Properties, Inc. as at for the years ended December 31, 2013 and 2012 together with the notes thereto and the audit report of Keiter CPAs thereon dated June 27, 2014.

Keiter CPAs, the auditors of the Acquisition Properties, have not provided their consent to include their audit reports in this report.

KPMG LLP, the auditors of the AHIP, have not provided their consent to include their audit reports by reference in this report.

Bonadio & Co., LLP, have not provided their consent to include their audit reports by reference in this report.

SCHEDULE A - FINANCIAL STATEMENTS

American Hotel Income Properties REIT LP

Unaudited <i>pro forma</i> consolidated financial statements as at and for the three months ended March 31, 2014 and the year ended December 31, 2013 together with the notes thereto	A-2
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The Acquisition Properties

Unaudited financial statements of Asheboro Hospitality, LLC as at and for the three months ended March 31, 2014 and 2013 together with the notes thereto	A-3
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Audited financial statements of Krishna Kingsland Properties, Inc. as at and for the years ended December 31, 2013 and 2012 together with the notes thereto and the audit report of Keiter CPAs thereon dated June 27, 2014....	A-10

Keiter CPAs, the auditors of the Acquisition Properties, have not provided their consent to include their audit reports in this report.

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Pro Forma Condensed Consolidated Financial Statements of

AMERICAN HOTEL INCOME PROPERTIES REIT LP

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013

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

American Hotel Income Properties REIT LP

**Pro Forma Condensed Consolidated Statement of Financial Position
As at March 31, 2014**

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

	American Hotel Income Properties REIT LP (Note 1)	Southeastern Portfolio (Schedule A) (Note 1)	(Note 4)	Pro Forma Adjustments	Pro Forma Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 8,331,738	\$ 288,586	(a) (b) (c)	\$ (13,885,461)	\$ (5,265,137)
Restricted cash	12,353,480	-	(b)	1,763,938	14,117,418
Trade and other receivables	2,050,124	114,492	(a) (c)	(72,214)	2,092,402
Prepays and deposits	1,046,132	819,692	(c)	(819,692)	1,046,132
Other assets	389,795	-		-	389,795
Total current assets	24,171,269	1,222,770		(13,013,429)	12,380,610
NON-CURRENT ASSETS					
Property, buildings and equipment	223,144,651	20,182,043	(a) (c)	10,317,957	253,644,651
Mezzanine loans receivable	485,416	-		-	485,416
Intangible assets	8,405,258	325,300	(b) (c)	(28,629)	8,701,929
Deferred income tax asset	2,477,607	-		-	2,477,607
Total non-current assets	234,512,932	20,507,343		10,289,328	265,309,603
TOTAL ASSETS	\$ 258,684,201	\$ 21,730,113		\$ (2,724,101)	\$ 277,690,213
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 6,955,991	\$ 394,295	(a) (c)	\$ (245,693)	\$ 7,104,593
Construction facility	1,612,365	-		-	1,612,365
Current portion of term loans	3,569,193	-		-	3,569,193
Current portion of term loans - Southeastern Portfolio	-	826,636	(a) (c)	(595,609)	231,027
Total current liabilities	12,137,549	1,220,931		(841,302)	12,517,178
NON-CURRENT LIABILITIES					
Term loans	126,237,299	-		-	126,237,299
Southeastern Term Loans	-	21,028,571	(a) (c)	(2,402,188)	18,626,383
Contingent consideration	5,135,164	-		-	5,135,164
Deferred compensation	460,023	-		-	460,023
Preferred shares	125,000	-		-	125,000
Deferred income tax liability	1,812,794	-		-	1,812,794
Total non-current liabilities	133,770,280	21,028,571		(2,402,188)	152,396,663
TOTAL LIABILITIES	\$ 145,907,829	\$ 22,249,502		\$ (3,243,490)	\$ 164,913,841
EQUITY / PARTNERS' CAPITAL					
Equity	-	(519,389)	(c)	519,389	-
Partners' capital	112,776,372	-		-	112,776,372
	112,776,372	(519,389)		519,389	112,776,372
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$ 258,684,201	\$ 21,730,113		\$ (2,724,101)	\$ 277,690,213

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

American Hotel Income Properties REIT LP

Pro Forma Condensed Consolidated Statement of Income and Comprehensive Income

For the three months ended March 31, 2013

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

	American Hotel Income Properties REIT LP	Southeastern Portfolio January 1 to March 31, 2014		Pro Forma Adjustments	Pro Forma Consolidated
	(Note 1)	(Note 1) (Schedule B)	(Note 4)		
Revenue					
Rooms	\$ 14,654,275	\$ 1,668,290	(f)	\$ 1,456,235	\$ 17,778,800
Food	2,398,913	5,115		-	2,404,028
Rental and other	170,028	-	(f)	(575)	169,453
	<u>17,223,216</u>	<u>1,673,405</u>		<u>1,455,660</u>	<u>20,352,281</u>
Hotel expenses					
Operating expenses	8,737,620	903,636	(f) (i)	835,095	10,476,351
Energy	1,103,441	90,804	(f)	53,845	1,248,090
Property maintenance	977,620	55,229	(f)	91,586	1,124,435
Property taxes and insurance	1,023,621	64,142	(f)	58,506	1,146,269
Depreciation and amortization	2,353,766	267,755	(f) (j)	158,005	2,779,526
	<u>14,196,068</u>	<u>1,381,566</u>		<u>1,197,037</u>	<u>16,774,671</u>
Results from operating activities	3,027,148	291,839		258,623	3,577,610
Corporate and administrative	2,027,004	-	(f) (k)	149,233	2,176,237
Loss on disposal of property and equipment	-	-		-	-
Business acquisition costs	368,893	-	(l)	(57,633)	311,260
Income before finance costs and income taxes	631,251	291,839		167,023	1,090,113
Finance income	(28,992)	-		-	(28,992)
Finance costs	1,566,032	256,740	(f) (n)	151,513	1,974,285
Net finance costs	<u>1,537,040</u>	<u>256,740</u>		<u>151,513</u>	<u>1,945,293</u>
Current income tax expense	-	-	(o)	(36,496)	(36,496)
Deferred income tax expense/recovery	(145,959)	-	(o)	(11,139)	(157,098)
	<u>(145,959)</u>	<u>-</u>		<u>(47,635)</u>	<u>(193,594)</u>
Net (loss)/income and comprehensive (loss)/income	\$ (759,830)	\$ 35,099		\$ 63,145	\$ (661,586)
Basic and diluted weighted average net (loss)/income per unit	\$ (0.05)	\$ -			\$ (0.05)
Basic number of units outstanding	14,437,800	-		-	14,437,800

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

American Hotel Income Properties REIT LP

Pro Forma Condensed Consolidated Statement of Income and Comprehensive Income
For the twelve months ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

	American Hotel Income Properties REIT LP (Note 1)	Lodging Enterprises January 1 to February 20, 2013 (Note 1)	Virginia Portfolio January 1 to December 31, 2013 (Note 1) (Schedule C)	Pittsburgh Portfolio January 1 to June 30, 2013 (Note 1) (Schedule D)	Pittsburgh Portfolio July 1 to December 31, 2012 (Note 1) (Schedule G)	Southeastern Portfolio January 1 to December 31, 2013 (Note 1) (Schedule H)	(Note 4)	Pro Forma Adjustments	Pro Forma Consolidated
Revenue									
Rooms	\$ 38,211,563	\$ 5,290,261	\$ 10,020,872	\$ 7,864,482	\$ 8,118,705	\$ 7,382,971	(g)	\$ (1,277,435)	\$ 75,611,419
Food	8,944,522	1,249,202	-	-	-	-		-	10,193,724
Rental and other	896,408	325,829	13,663	43,030	49,077	28,170	(g) (h)	33,488	1,389,665
	<u>48,052,493</u>	<u>6,865,292</u>	<u>10,034,535</u>	<u>7,907,512</u>	<u>8,167,782</u>	<u>7,411,141</u>		<u>(1,243,947)</u>	<u>87,194,808</u>
Hotel expenses									
Operating expenses	24,635,591	3,940,271	4,467,811	3,438,883	3,712,574	3,808,938	(g) (i)	(37,585)	43,966,483
Energy	2,419,345	462,723	421,920	301,771	281,243	381,700	(g)	(64,820)	4,203,882
Property maintenance	2,630,001	363,016	488,107	209,826	162,654	286,254	(g)	(85,557)	4,054,301
Property taxes and insurance	2,322,687	377,203	369,419	376,439	360,663	276,827	(g)	(94,891)	3,988,347
Depreciation and amortization	6,367,867	682,692	1,113,087	876,009	940,533	999,143	(g) (j)	(465,103)	10,514,228
	<u>38,375,491</u>	<u>5,825,905</u>	<u>6,860,344</u>	<u>5,202,928</u>	<u>5,457,667</u>	<u>5,752,862</u>		<u>(747,956)</u>	<u>66,727,241</u>
Results from operating activities	9,677,002	1,039,387	3,174,191	2,704,584	2,710,115	1,658,279		(495,991)	20,467,567
Corporate and administrative	4,861,909	-	-	395,376	408,388	-	(g) (k)	538,755	6,204,428
Loss on disposal of property and equipment	142,353	-	-	-	-	-		-	142,353
Business acquisition costs	2,226,060	-	-	-	-	-	(l)	559,070	2,785,130
Income before finance costs and income taxes	2,446,680	1,039,387	3,174,191	2,309,208	2,301,727	1,658,279		(1,593,816)	11,335,656
Finance income	(146,265)	(1,260)	(89)	-	-	-	(m)	1,349	(146,265)
Finance costs	3,662,765	364,122	1,032,278	1,010,882	1,021,797	853,830	(g) (n)	355,564	8,301,238
Net finance costs	<u>3,516,500</u>	<u>362,862</u>	<u>1,032,189</u>	<u>1,010,882</u>	<u>1,021,797</u>	<u>853,830</u>		<u>356,913</u>	<u>8,154,973</u>
Current income tax expense	-	-	-	-	-	-	(o)	135,740	135,740
Deferred income tax expense/(recovery)	(752,314)	-	-	-	-	-	(g) (o)	123,922	(628,392)
	<u>(752,314)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>259,662</u>	<u>(492,652)</u>
Net (loss)/income and comprehensive (loss)/income	\$ (317,506)	\$ 676,525	\$ 2,142,002	\$ 1,298,326	\$ 1,279,930	\$ 804,449		\$ (2,210,391)	\$ 3,673,335
Basic and diluted weighted average net (loss)/income per unit	\$ (0.03)	\$ -	\$ -	\$ -	\$ -	\$ -			\$ 0.25
Basic number of units outstanding	10,058,647	-	-	-	-	-	(p)	4,379,153	14,437,800

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

1. REPORTING ENTITY

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

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

- i) acquiring common shares and, where applicable, a ROC Share of American Hotel Income Properties REIT Inc. (the “U.S. REIT”), a ROC Share being defined as a share in the capital of the U.S. REIT which is designated within such capital as a preferred share;
- ii) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of AHIP and making distributions to Unitholders (a Unitholder is defined as a person at any time that is a limited partner in AHIP and who is the beneficial owner of one or more Units); and
- iii) in connection with the undertaking set out above, reinvesting income and gains of AHIP and taking other actions besides the mere protection and preservation of AHIP's property.

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

AHIP's Units are listed on the Toronto Stock Exchange under the symbol HOT.UN and the OTCQX under the symbol AHOTF.

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

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

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

Concurrent with the closing of the IPO, AHIP indirectly acquired the outstanding share capital in a portfolio comprising an aggregate of 32 hotel properties located in 19 states (the “**Oak Tree Inn hotels**”), predominantly in smaller towns throughout the U.S. A substantial portion of the revenue of the Oak Tree Inn hotels is generated through lodging agreements with several railroad companies.

b) October 2013 Offering and acquisition of Pittsburgh hotels

On October 31, 2013, AHIP completed the public offering of 3,967,500 subscription receipts (“**Subscription Receipts**”) on a bought-deal basis, inclusive of 517,500 Subscriptions Receipts related to an over-allotment option, at a price of Cdn\$10.15 per Subscription Receipt for gross proceeds to AHIP of Cdn\$40.3 million (US\$38.3 million) (the “**October 2013 Offering**”), as described in AHIP's short form prospectus dated October 24, 2013, as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada.

On November 21, 2013, AHIP used the proceeds from the October 2013 Offering to indirectly acquire four hotel properties located in metropolitan Pittsburgh, Pennsylvania (the “**Pittsburgh Portfolio**”). The Pittsburgh Portfolio comprise an aggregate of 471 guest rooms and consists of three hotels under the “Hampton Inn” flag (a Hilton brand), and one hotel under the “Residence Inn” flag (a Marriott brand).

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

c) Acquisition of Virginia hotels and related debt financing

On March 12, 2014, AHIP completed the acquisition of the four hotel properties located in Virginia (the "**Virginia Portfolio**") for an aggregate purchase price of \$37.2 million, including \$1.48 million for defeasance of existing debt and \$0.1 million for additional land, and excluding post-acquisition adjustments and brand mandated property improvement plans ("**PIPs**") as disclosed in Note 4(a). The Virginia Portfolio is comprised of an aggregate of 403 guest rooms and consists of three hotels under the "Hampton Inn" flag (a Hilton brand), and one hotel under the "Fairfield Inn & Suites" flag (a Marriott brand).

AHIP entered into a loan agreement with a major international bank for a \$24.5 million loan. See note 4(d) below.

d) June 2014 Offering

e) On June 4, 2013, AHIP completed the public offering of 4,900,000 Units on a bought-deal basis, inclusive of 552,000 Units related to the exercise of the related over-allotment option, at a price of Cdn\$10.35 per Unit for gross proceeds to AHIP of Cdn\$50.7 million (US\$46.4 million) (the "**June 2014 Offering**"), as described in AHIP's short form prospectus dated May 29, 2014, as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada. Acquisition of Southeastern Portfolio hotels and related debt financing

AHIP indirectly acquired three hotels on July 3, 2014 and a fourth hotel on July 11, 2014 (collectively the "**Southeastern Portfolio**"). The Southeastern Portfolio hotels are located in North Carolina and Georgia and consist of 387 guest rooms. The hotels consist of two Fairfield Inn & Suites (a Marriott brand), one SpringHill Suites (a Marriott brand) and one Hampton Inn (a Hilton brand).

The Southeastern Portfolio was acquired for \$30.5 million before customary closing and post-acquisition adjustments, excluding \$1.5 million required for the completion of the PIPs, which will be completed by the seller for a fixed-price. AHIP funded the purchase price for the Southeastern Portfolio using a combination of cash from AHIP's June 2014 Offering, the assumption of commercial mortgage-backed securities ("**CMBS**") debt on two of the hotel properties, and new CMBS debt on the remaining two hotels. The two assumed loans have principal balances of approximately \$7.7 million and \$6.0 million, respectively, bear interest at 5.28% and 5.69%, and are scheduled to mature on February 1, 2024 and August 1, 2018, respectively. The new \$6.0 million CMBS mortgage has a 10-year term with a fixed interest rate of 4.72% and matures on July 6, 2024. See note 4(d) below.

2. BASIS OF PRESENTATION

a) Basis of presentation:

These unaudited pro forma condensed consolidated financial statements of AHIP have been prepared by management in accordance with the recognition and measurement principles of International Financial Reporting Standards ("**IFRS**") and incorporate the principal accounting policies used to prepare the consolidated financial statements of AHIP for the year ended December 31, 2013.

These unaudited pro forma condensed consolidated financial statements should be read in conjunction with the following financial statements (the "**Entity Financial Statements**"):

- i) Audited financial statements for AHIP, filed on SEDAR (www.sedar.com):
 - audited consolidated financial statements as of December 31, 2013 of AHIP
- ii) Unaudited financial statements for AHIP, filed on SEDAR (www.sedar.com):
 - unaudited condensed consolidated interim financial statements as of March 31, 2014 of AHIP
- iii) Unaudited financial statements for the Pittsburgh Portfolio, included in the short form prospectus relating to the October 2013 Offering filed on SEDAR (www.sedar.com):

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
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- unaudited financial statements as of June 30, 2013 of Hamister Hospitality Cranberry I, LP
- unaudited financial statements as of June 30, 2013 of Hamister Hospitality Cranberry II, LP
- unaudited financial statements as of June 30, 2013 of Hamister Hospitality Greentree, LP
- unaudited financial statements as of June 30, 2013 of Hamister Hospitality Pitt Airport, LP
- iv) Audited financial statements for the Pittsburgh Portfolio, included in the short form prospectus relating to the October 2013 Offering filed on SEDAR (www.sedar.com):
 - audited financial statements as of December 31, 2012 of Hamister Hospitality Cranberry I, LP
 - audited financial statements as of December 31, 2012 of Hamister Hospitality Cranberry II, LP
 - audited financial statements as of December 31, 2012 of Hamister Hospitality Greentree, LP
 - audited financial statements as of December 31, 2012 of Hamister Hospitality Pitt Airport, LP
- v) Audited financial statements for the Virginia Portfolio, included in the amended business acquisition report dated May 20, 2014 relating to the acquisition of the Virginia Portfolio on March 12, 2014 and filed on SEDAR (www.sedar.com):
 - audited financial statements as of December 31, 2013 of Eighty Five, LLC
 - audited financial statements as of December 31, 2013 of Ninety Five, LLC
 - audited financial statements as of December 31, 2013 of Dominion Hotel Company
 - audited financial statements as of December 31, 2013 of Valley Motel Company
- vi) Unaudited financial statements for the Southeastern Portfolio, included elsewhere in this document:
 - unaudited financial statements as of March 31, 2014 of Asheboro Hospitality, LLC
 - unaudited financial statements as of March 31, 2014 of Hotels at Executive Way, LLC
 - unaudited financial statements as of March 31, 2014 of BPR Pinehurst, LLC
 - unaudited financial statements as of March 31, 2014 of Krishna Kingsland Properties, Inc.
- vii) Audited financial statements for the Virginia Portfolio, included elsewhere in this document:
 - audited financial statements as of December 31, 2013 of Asheboro Hospitality, LLC
 - audited financial statements as of December 31, 2013 of Hotels at Executive Way, LLC
 - audited financial statements as of December 31, 2013 of BPR Pinehurst, LLC
 - audited financial statements as of December 31, 2013 of Krishna Kingsland Properties, Inc.

The historical financial statements detailed in (iii), (iv), (v), (vi) and (vii) 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, the following adjustments were made to these U.S. GAAP statements:

- Elimination of selected historical asset, liability and equity accounts. See note 4(c).
- Reclassification of the historical income statement accounts to classify these accounts by nature in the structure of AHIP. See note 4(e).

The unaudited pro forma condensed consolidated statement of financial position of AHIP as at March 31, 2014 has been prepared using information derived from the unaudited consolidated statement of financial position of AHIP as at March 31, 2014, the unaudited balance sheet of the Southeastern Portfolio as at March 31, 2014, and the adjustments and assumptions outlined in note 4 below.

The unaudited pro forma condensed consolidated statement of income and comprehensive income of AHIP for the three months ended March 31, 2014 has been prepared using information derived from the unaudited condensed consolidated interim statement of comprehensive loss of AHIP for the three months ended March 31, 2014, the unaudited statements of

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operations of the Southeastern Portfolio for the three months ended March 31, 2014, and the adjustments and assumptions outlined in note 4 below.

The unaudited pro forma condensed consolidated statement of income and comprehensive income of AHIP for the year ended December 31, 2013 has been prepared using information derived from the audited consolidated statement of loss and comprehensive loss of AHIP for the year ended December 31, 2013, the unaudited statements of operations of the Pittsburgh Portfolio for the six months ended June 30, 2013 and 2012, the audited statement of operations of the Pittsburgh Portfolio for the year ended December 31, 2012, the audited statement of income of the Virginia Portfolio for the year ended December 31, 2013, the audited statement of income of the Southeastern Portfolio for the year ended December 31, 2013, and the adjustments and assumptions outlined in note 4 below.

The unaudited pro forma condensed consolidated statement of financial position gives effect to the transactions in note 4 as if they had occurred on March 31, 2014. The unaudited pro forma condensed consolidated statement of income and comprehensive income for the three months ended March 31, 2014 gives effect to the transactions in note 4 as if they had occurred on January 1, 2013. The unaudited pro forma condensed consolidated statement of income and comprehensive income for the year ended December 31, 2013 gives effect to the transactions in note 4 as if they had occurred on January 1, 2013.

The unaudited financial information relating to the Oak Tree Inn hotels provided for the period from January 1, 2013 to February 20, 2013 has not been audited or reviewed by an independent accountant. The portfolio of Oak Tree Inn hotels was acquired by AHIP on February 20, 2013, therefore this information has been included to provide a full year of operating results relating to the twelve month period ended December 31, 2013.

These unaudited pro forma condensed consolidated financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or the financial position of AHIP. The unaudited pro forma condensed consolidated financial statements are not a forecast or projection of future results. The actual financial position and results of operations of AHIP for any future period will vary from the amounts set forth in these unaudited pro forma condensed consolidated financial statements and such variation may be material.

These unaudited pro forma condensed consolidated financial statements as at and for the three months ended March 31, 2014 and for the year ended December 31, 2013 were authorized for issue on August 13, 2014.

b) Basis of measurement:

These unaudited pro forma condensed consolidated financial statements have been prepared on a historical cost basis.

c) Functional and presentation currency:

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

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

d) Measurement uncertainty (use of estimates):

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

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

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Significant areas of estimates include the following:

i) Business combinations

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

ii) Depreciation and amortization

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited pro forma condensed consolidated financial statements have been prepared in accordance with IFRS and reflect the following principal accounting policies expected to be used to prepare AHIP's financial statements:

a) Property, buildings and equipment:

i) Recognition and measurement:

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

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

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

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

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i) Subsequent costs:

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

ii) Depreciation

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

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

b) Intangible assets:

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

i) Recognition and measurement

AHIP's intangible assets consist of:

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

ii) Amortization

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

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

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

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c) Impairment of non-financial assets:

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

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

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

d) Financial instruments:

i) Financial assets:

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

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

ii) Financial liabilities:

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

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

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

iii) Impairment of financial assets:

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial

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recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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

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

e) Cash and cash equivalents:

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

f) Restricted cash:

Pursuant to the terms of the loan agreements, AHIP must maintain certain cash reserves on deposit with the lenders in respect of future capital expenditures.

g) Provisions:

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

h) Revenue recognition:

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

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

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

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i) Finance income and finance costs:

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

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

j) Deferred offering and acquisition costs:

Professional, consulting, regulatory, registration and other costs directly attributable to issuing equity instruments are recorded as deferred offering costs until the equity transaction is completed, if the completion of the transaction is considered likely. The transaction costs of an equity transaction are deducted from partners' capital. Costs related to the acquisition of a business and costs related to evaluating potential acquisitions are expensed in the period incurred.

k) Debt financing fees:

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

l) Net income (loss) per unit:

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

m) Income taxes:

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

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

AHIP filed an election to be treated as a partnership for U.S. federal income tax purposes. In addition, at least 90% of AHIP's gross income is expected to be qualifying income within the meaning of U.S. Internal Revenue Code (the "**Code**") section

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7704 and AHIP is not required to register as an investment company under the Investment Company Act of 1940. As such, it is generally not subject to U.S. federal income tax under the Code. Furthermore, the U.S. REIT intends to make and maintain an election to be taxed as a real estate investment trust ("REIT") under the Code for its first taxation year ending December 31, 2013 and in future taxation years. In order for the U.S. REIT to qualify as a REIT under the Code, it must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its stockholders equal to a minimum of 90% of its taxable income, computed without regards to a dividends paid deduction and net capital gains. The U.S. REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed to its stockholders annually. Management believes that all REIT conditions necessary to eliminate income taxes for the U.S. REIT for the reporting period have been met. Accordingly no provision for U.S. federal income taxes has been made for the U.S. REIT. Even though the U.S. REIT qualifies for taxation as a REIT, it may also be subject to certain state and local taxes. These amounts are not expected to be material to the consolidated financial statements.

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

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

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

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

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

n) Securities-based compensation plan (the "**Compensation Plan**")

AHIP has a Compensation Plan that provides for the granting of Units to directors, officers, employees or consultants of AHIP, the General Partner or any of their respective affiliates, or other persons as the compensation committee may determine. Unvested Units are recorded in equity as contributed surplus and compensation expense is recorded over the

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vesting period at amortized cost on a straight-line basis based on the fair value of the Units on the grant date. Once vested, the Units are reclassified from contributed surplus to Units issued.

o) Segment reporting

AHIP's operating segments are organized based on type of customer serviced and are reported in a manner consistent with the internal reporting provided to the AHIP's Board of Directors.

4. 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) Acquisition:

AHIP acquired three of the hotels in the Southeastern Portfolio on July 3, 2014 and acquired the fourth hotel in this portfolio on July 11, 2014 for an aggregate cash purchase price of \$30,397,676, subject to working capital and other adjustments as described below. The purchase price has been negotiated between AHIP and the third party sellers and is supported by third party appraisals.

Net assets acquired using the purchase method of accounting based on preliminary allocations are as follows (excludes business acquisition costs of \$559,070. See note 4(l) below):

Property and equipment.....	\$ 30,500,000
Cash provided by seller	4,000
Trade and other receivables.....	42,278
Accounts payable and accrued expenses	(148,602)
Net assets acquired	<u>\$ 30,397,676</u>

Financed by:

Cash.....	\$ 11,540,266
2014 Term Loan, net	18,857,410
	<u>\$ 30,397,676</u>

The purchase price adjustments exclude post-acquisition adjustments and approximately \$1,513,938 of brand mandated property improvement plans ("PIPs"), of which \$1,763,938 (which includes a lender mandated premium of \$250,000) were fully financed on the closing date.

The actual calculation and allocation of the purchase price for the acquisition outlined above is still to be finalized by AHIP and will be based on the assets purchased and liabilities assumed at the effective date of the acquisition and other information available at that date. Accordingly, the actual amounts for each of these assets and liabilities will vary from the pro forma amounts disclosed above and the variations may be material.

b) Brand costs:

\$1,513,938 of PIPs were fully funded on closing of the acquisition of the Southeastern Portfolio, in addition to a lender mandated premium of \$250,000, for a total of \$1,763,938 recorded as restricted cash. \$296,671 was capitalized to franchise fees relating to costs incurred to transfer and secure the branding on the hotels in the Southeastern Portfolio.

c) Historical accounts:

Elimination of selected historical asset, liability and equity accounts relating to the Southeastern Portfolio.

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d) Southeastern Term Loans:

AHIP, through certain of its subsidiaries, assumed existing CMBS debt on each of two of the hotel properties (“**Assumed Loans**”), and secured new CMBS debt on the remaining two hotels (“**New Loan**”) (collectively the “**Southeastern Term Loans**”). The Assumed Loans have principal balances of approximately \$7.7 million and \$6.0 million, respectively, bear interest at a fixed rate of 5.28% and 5.69%, and are scheduled to mature on February 1, 2024 and August 1, 2018, respectively. The New Loan is a \$6.0 million CMBS mortgage for a 10-year term with a fixed interest rate of 4.72% and matures on July 6, 2024.

i) Security

The Southeastern Term Loans are guaranteed by the U.S. REIT. The Southeastern Term Loans are secured by (a) a first-priority mortgage, and only the New Loan is cross-collateralized over two of the four properties of the Southeastern Portfolio; (b) a first-priority security interest in all the business assets and personal property used in or useful in the operation of the Southeastern Portfolio and a first-priority security interest in all accounts that are held by a manager for the benefit of the borrower or the Southeastern Portfolio.

ii) Term

Southeastern Term Loans will amortize over 25-30 years and are subject to prepayment penalties. The New Loan will be amortized as interest-only for the first two years of the ten year term; thereafter, a constant monthly payment of principal and interest will be due and payable in an amount sufficient to fully amortize over the 30-year amortization period.

The Assumed Loans may not be prepaid from month one through to two years after the inception of the New Loan. After such time and until two months before the end of the term, the Assumed Loans may be prepaid by defeasance on 30 days’ notice to the lender of the applicable Assumed Loan by: (i) depositing an amount sufficient to purchase U.S. Treasury securities whose cash flows are equal to and occur on or before the successive remaining scheduled interest and principal payment dates required under the applicable Assumed Loan including the full outstanding principal amount due on the maturity date; (ii) granting the applicable Assumed Loan lender a perfected security interest in the securities with an opinion of counsel to such effect; and (iii) paying all costs incurred in such transfer.

The New Loan may not be prepaid from month one through to the earlier of (a) month 36 or (b) two years after the securitization of the entire New Loan. After such time and until three months before the end of the Term, the New Loan may be prepaid by defeasance on 60 days’ notice to the lender by: (i) depositing an amount sufficient to purchase U.S. Treasury securities whose cash flows are equal to and occur on or before the successive remaining scheduled interest and principal payment dates required under the New Loan including the full outstanding principal amount due on the maturity date; (ii) granting the lender of the New Loan a perfected security interest in the securities with an opinion of counsel to such effect; and (iii) paying all costs incurred in such transfer.

iii) Financial and other covenants

The Southeastern Term Loans include various financial and other covenants including the requirement for the borrower to establish and fund reserves to cover the payment of, among other things, all of the costs required by the brand mandated property improvement plans and other planned capital improvements for the properties comprising the Southeastern Portfolio. In addition, an ongoing FF&E reserve of 4% gross revenues will be required, but under the New Loan this is waived for the initial 12 months only on the two applicable properties of the Southeastern Portfolio.

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e) Reclassification of historical accounts:

Reclassification of the historical income statement accounts of the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio to classify these accounts by nature in the structure of AHIP. See Supplemental Schedules A to H.

f) Adjustment to historical results of the Virginia Portfolio:

The Virginia Portfolio was acquired on March 12, 2014. Given that a full three months of results for the Virginia Portfolio are represented in the unaudited pro forma condensed consolidated statement of income and comprehensive income of AHIP for the three months ended March 31, 2014, the following estimated amounts (that have not been subject to audit or review) attributable to the Virginia Portfolio for the 70 days ended March 11, 2014 have been included:

	For the 70 days ended March 11, 2014
Revenue	
Rooms revenue.....	\$ 1,456,235
Other revenue	(575)
	<u>1,455,660</u>
Hotel expenses	
Operating expenses.....	644,996
Energy.....	53,845
Property maintenance	91,586
Property taxes and insurance	58,506
Depreciation and amortization.....	158,005
	<u>1,006,938</u>
Income from operating activities	<u>448,722</u>
Corporate and administrative.....	45,025
Finance costs.....	136,291
Net income.....	<u>\$ 267,406</u>

g) Adjustment to historical results of the Pittsburgh Portfolio:

The Pittsburgh Portfolio was acquired on November 21, 2013. Given that a full twelve months of results for the Pittsburgh Portfolio are represented through the addition of Supplemental Schedule D and Supplemental Schedule G in the unaudited pro forma condensed consolidated statement of income and comprehensive income of AHIP, the following amounts (that have not been subject to audit or review) attributable to the Pittsburgh Portfolio for the 41 days ended December 31, 2013 have been removed:

	For the 41 days ended December 31, 2013
Revenue	
Rooms revenue.....	\$ 1,277,435
Other revenue	14,080
	<u>1,291,515</u>
Hotel expenses	
Operating expenses.....	757,496
Energy.....	64,820
Property maintenance	85,557
Property taxes and insurance	94,891

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

	For the 41 days ended December 31, 2013
Depreciation and amortization.....	192,658
	1,195,422
Income from operating activities	96,093
Corporate and administrative.....	99,066
Finance costs.....	221,280
Loss before income taxes.....	(224,253)
Deferred income tax recovery.....	119,808
Net loss	\$ (104,445)

h) Other revenue:

Additional annual revenue of \$47,568 associated with existing telecommunication subleases assumed at one of the hotels in the Virginia Portfolio.

i) Operating expenses:

For the three months ended March 31, 2014, operating expenses have been increased by \$190,099, which include the following:

- Additional franchise fees of \$10,121 payable to the franchising entities of the Virginia Portfolio and the Southeastern Portfolio
- Estimated additional hotel operating expenses of \$179,978 related to the Virginia Portfolio and the Southeastern Portfolio

For the year ended December 31, 2013, operating expenses have been increased by \$719,911, which include the following:

- Additional franchise fees of \$367,911 payable to the franchising entities the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio
- Estimated additional hotel operating expenses of \$352,000 related to the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio

j) Depreciation and amortization:

For the three months ended March 31, 2014, depreciation and amortization has been reduced by \$47,524, comprising the removal of \$267,755 of historical depreciation on property and equipment, the addition of \$212,814 of depreciation on property and equipment, and the addition of \$7,417 of amortization on franchise fees, to reflect the impact of depreciation on the acquired values of property and equipment and amortization on the intangible assets acquired and franchise fees paid, and their revised estimated useful lives.

For the year ended December 31, 2013, depreciation and amortization has been reduced by \$272,445, comprising the removal of \$4,611,464 of historical depreciation on property and equipment, the addition of \$4,001,618 of depreciation on property and equipment, the addition of \$216,426 of amortization on intangible assets, and the addition of \$120,975 of amortization on franchise fees, to reflect the impact of depreciation on the acquired values of property and equipment and amortization on the intangible assets acquired and franchise fees paid, and their revised estimated useful lives.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

k) Corporate and administrative expenses:

Corporate and administrative expenses have been increased by \$104,208 for the three months ended March 31, 2014 and \$637,821 for the year ended December 31, 2013 relating to hotel management fees. Pursuant to the Master Hotel Management Agreement between AHIP and Tower Rock Hotels & Resorts Inc. (“**Master Hotel Manager**”), each operating subsidiaries of AHIP entered into Hotel Management Agreements with the hotel managers specific to each subsidiary (each a “**Hotel Manager**”), under which the Hotel Managers will be responsible for the hotel management of the Properties owned by such subsidiary.

Under the Master Hotel Management Agreement and the Hotel Management Agreements, the operating subsidiaries of AHIP are responsible for reimbursing the Hotel Managers for any operating expenses and direct costs incurred by such Hotel Managers on behalf of the operations of the properties and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses. Each of the Hotel Management Agreements also provides for the payment by the applicable operating subsidiary of a base hotel management fee to the applicable Hotel Manager during the term of the agreement in an amount equal to 3.50% of gross revenues. In addition, commencing in 2014, the Hotel Managers will be eligible to receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the applicable Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the independent directors of the General Partner, acting reasonably. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned. Each Hotel Manager will also be entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures.

The Hotel Managers are entitled to an accounting, administration and purchasing fee. The Hotel Manager is entitled to \$15,000 per property acquired by AHIP at the time of the IPO (the “**IPO Portfolio**”) for each of the first and second years following the IPO, \$20,000 per property in the third year following the closing, and \$25,000 per property in each year thereafter. For properties acquired other than the IPO Portfolio, the applicable Hotel Managers are entitled to an accounting, administration and purchasing fee of \$25,000 per property per year.

The increase of \$104,208 in corporate and administrative expenses for the three months ended March 31, 2014 is calculated as follows:

- Adjustment to remove \$49,761 of management fees recorded in the historical information of the Southeastern Portfolio.
- Additional hotel management fee relating the Southeastern Portfolio estimated to be \$109,517.
- Administrative fee relating to the three months for the Southeastern Portfolio estimated to be \$44,452.
- The capital expenditure fee will be capitalized as incurred.
- The incentive fee is expected to be \$nil.

The increase of \$637,821 in corporate and administrative expenses for the year ended December 31, 2013, is calculated as follows:

- Adjustment to remove \$1,144,431 of management fees recorded in the historical information of the Pittsburgh Portfolio and the Southeastern Portfolio.
- Additional hotel management fee relating to the period from January 1, 2013 to February 20, 2013 for the Oak Tree Inn hotels, and for the twelve months for the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio estimated to be \$1,415,184.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

- Administrative fee relating to the period from January 1, 2013 to February 20, 2013 for the Oak Tree Inn hotels, and for the twelve months for the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio estimated to be \$367,068.
- The capital expenditure fee will be capitalized as incurred.
- The incentive fee is expected to be \$nil.

l) Business acquisition costs:

Total business acquisition costs related to the acquisition of the Southeastern Portfolio are estimated as \$559,070, which has been included in the pro forma condensed statement of income and comprehensive income for the year ended December 31, 2013. Business acquisition costs of \$57,633 that were expensed in the operating results of AHIP for the three months ending March 31, 2014, have been removed from the pro forma condensed statement of income and comprehensive income for the period.

m) Finance income:

Finance income has been adjusted to remove \$1,349 of historic interest income relating to the period from January 1, 2013 to February 20, 2013 for the Oak Tree Inn hotels, and for the twelve months ended December 31 for the Virginia Portfolio.

n) Finance costs:

For the three months ended March 31, 2014 the increase of \$15,222 in finance costs is calculated as follows:

- Adjustment to remove historic financing costs of \$256,740 relating to the three months for the Southeastern Portfolio.
- Amortization of deferred financing costs of \$13,225 relating to the three months for the Southeastern Portfolio.
- Financing costs of \$258,737 relating to interest on the term loans for three months for the Southeastern Term Loans for the three months relating to the Southeastern Portfolio.

For the year ended December 31, 2013 the increase of \$576,844 in finance costs is calculated as follows:

- Adjustment to remove historic financing costs of \$4,282,909 relating to the period from January 1, 2013 to February 20, 2013 for the Oak Tree Inn hotels, and for the twelve months for the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio.
- Amortization of deferred financing costs of \$155,621 relating to the period from January 1, 2013 to February 20, 2013 for the Oak Tree Inn hotels, and for the twelve months for the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio.
- Financing costs of \$4,691,557 relating to interest on the term loans for the period from January 1, 2013 to February 20, 2013 for the Oak Tree Inn hotels and for the twelve months for the Pittsburgh Portfolio, the Virginia Portfolio and the Southeastern Portfolio.
- Financing costs of \$12,575 relating to interest on \$2,250,000 of the construction facility utilized in 2013 that converted to term financing on December 21, 2013.

o) Income taxes:

Tax expense is recorded for certain subsidiaries of AHIP, other than the U.S. REIT, which are taxable in the U.S. The tax expense is comprised of current tax expense (which has been decreased by \$36,496 for the three months ended March 31, 2014 and increased by \$135,740 for the year ended December 31, 2013) and a deferred income tax recovery (which has been increased by \$11,139 for the three months ended March 31, 2014 and decreased by \$4,114 for the year ended December 31,

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

2013, the latter adjustment which is in addition to the \$119,808 reduction made in note 4(g) above). Current tax expense was determined based on the AHIP's properties being separately leased by separate wholly owned subsidiaries of the U.S. REIT, at an arm's-length lease rate as estimated by management, to other wholly owned subsidiaries that are taxable REIT subsidiaries ("TRSs") of the U.S. REIT. The actual lease payment between the TRSs and U.S. REIT may differ, depending on a number of factors.

AHIP has concluded that the U.S. REIT qualified as a real estate investment trust effective on the date of its incorporation on February 20, 2013 and will continue to qualify as a real estate investment trust by meeting the applicable REIT conditions, as described in note 3(m). AHIP also assumes that the U.S. REIT will distribute substantially all of its taxable income to its stockholders each taxation year.

p) Units outstanding:

Adjustment to Units outstanding as at December 31, 2013 to reflect balance as if outstanding for the twelve months ended December 31, 2013.

5. PARTNER'S CAPITAL

The capital of AHIP consists of an unlimited number of limited partnership units of AHIP and the interest held by the General Partner. The General Partner has made a capital contribution of \$100 to AHIP and has no further obligation to contribute capital.

6. COMMITMENTS

a) Operating leases:

AHIP has entered into operating leases for its office facility, office equipment and automobiles. Future minimum lease payments under non-cancelable operating leases as of March 31, 2014 are as follows:

	Operating leases
2014	\$ 255,225
2015	221,325
2016	159,984
2017	76,367

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

b) Lodging agreements:

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

c) Lodging facility agreements, mezzanine financing and purchase commitments

AHIP has entered into agreements with SunOne Developments Inc. (“**SunOne**”) to purchase four Oak Tree Inn hotels and one Penny’s Diner, each secured by a 10-year railway contract. Two of these railway contracts meet the definition of Qualifying New Contract, described in the Purchase Agreement dated November 19, 2012 (the “**Purchase Agreement**”) relating to the purchase of the original portfolio of Oak Tree Inn hotels, as a bona fide written agreement for guaranteed room rentals comprising financial and other terms substantially consistent with other similar contracts between the Oak Tree Inn hotels and any American or Canadian railway company with national operations that meet minimum contract term and revenue objectives. AHIP shall determine whether the contract satisfies the requirements of a Qualifying New Contract per the Purchase Agreement and shall provide the sellers of the original portfolio of Oak Tree Inn hotels with a computation notice within 10 business days following December 31, 2015

These hotels will be financed and developed in accordance with an agreement between SunOne and AHIP (the “**Master Development Agreement**”). Pursuant to the Master Development Agreement, AHIP will provide to SunOne mezzanine loans for the construction of four hotels and to commit to the purchase of these hotels upon substantial completion at a purchase price that is the greater of: (i) 95% of the fair market value of the property, as determined by an independent third-party appraiser; and (ii) the actual construction cost of the project. AHIP has agreed to provide mezzanine financing to SunOne and, upon completion, purchase the hotels as noted below:

As at March 31, 2014

Property under development	Expected completion date	Total deferred compensation payable	Mezzanine financing available	Mezzanine loan amount drawn	Unfunded commitment	Committed purchase price
Santa Teresa, NM	May 2014*	\$ 250,000	\$ 650,000	\$ 346,223	\$ 303,777	\$ 5,130,000
Brunswick, MD	September 2014	-	392,000	65,789	326,211	2,755,000
Wellington, KS	November 2014	-	931,000	-	931,000	7,410,000
Glendive, MT	December 2014	250,000	638,000	73,404	564,596	4,940,000
		\$ 500,000	\$ 2,611,000	\$ 485,416	\$ 2,125,584	\$ 20,235,000

* opened May 6, 2014

7. RELATED PARTY TRANSACTIONS

a) Hotel Manager

AHIP has entered into a hotel management agreement with various wholly owned subsidiaries of Tower Rock Hotels & Resorts Inc. (the “Hotel Managers”), a company indirectly controlled by a director of the General Partner to manage and operate the hotel properties on the terms and conditions described in note 4(k).

Total management fees of \$712,517 and administrative fees of \$204,452 are included in these pro forma consolidated financial statements for the three months ended March 31, 2014.

Total management fees of \$3,097,027 and administrative fees of \$806,694 are included in these pro forma consolidated financial statements for the year ended December 31, 2013.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2014 and for the year ended December 31, 2013
(Expressed in U.S. dollars) (Unaudited)

In addition, fees of \$17,692 for the three months ended March 31, 2014 were capitalized to property, buildings and equipment and fees of \$213,206 for the year ended December 31, 2013 were capitalized to property, buildings and equipment.

b) Property development:

AHIP entered into the Master Development Agreement with SunOne, a company controlled by a director of the General Partner, pursuant to which SunOne provides exclusive development services to AHIP as described in note 6(c).

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

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

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE A

Southeastern Portfolio

	A	B	C	D	A to D		A to D
Balance Sheets as at March 31, 2014	Asheboro Hospitality, LLC	Hotels at Executive Way, LLC	BPR Pinehurst, LLC	Krishna Kingsland Properties, Inc.	COMBINED	(note 4e)	COMBINED (Reclassified)
CURRENT ASSETS							
Cash and cash equivalents	\$ 92,993	\$ 22,374	\$ 77,038	\$ 96,181	\$ 288,586	\$ -	\$ 288,586
Accounts receivable	19,740	29,466	51,018	14,268	114,492	(114,492)	-
Trade and other receivables	-	-	-	-	-	114,492	114,492
Prepaid expenses	-	-	-	8,865	8,865	(8,865)	-
Prepays and deposits	-	-	-	-	-	819,692	819,692
Mortgage escrows	254,060	-	551,356	-	805,416	(805,416)	-
Total current assets	366,793	51,840	679,412	119,314	1,217,359	5,411	1,222,770
PROPERTY AND EQUIPMENT, NET	6,111,458	4,886,155	5,092,793	4,091,637	20,182,043	(20,182,043)	-
Property, buildings and equipment	-	-	-	-	-	20,182,043	20,182,043
OTHER ASSETS							
Intangible assets, net	62,233	44,709	187,733	30,625	325,300	-	325,300
Deposits	-	-	5,411	-	5,411	(5,411)	-
Total other assets	62,233	44,709	193,144	30,625	330,711	(5,411)	325,300
	\$ 6,540,484	\$ 4,982,704	\$ 5,965,349	\$ 4,241,576	\$ 21,730,113	\$ -	\$ 21,730,113
CURRENT LIABILITIES							
Current maturities of long-term debt	\$ 128,281	\$ 211,874	\$ 99,407	\$ 387,074	\$ 826,636	\$ (826,636)	\$ -
Accounts payable and accrued liabilities	-	-	-	-	-	394,295	394,295
Accounts payable	55,916	37,797	41,879	35,680	171,272	(171,272)	-
Accrued expenses	57,898	60,877	45,277	31,944	195,996	(195,996)	-
Guest deposits	13,470	2,257	9,601	1,699	27,027	(27,027)	-
Current portion of term loans - Southeastern Portfolio	-	-	-	-	-	826,636	826,636
Total current liabilities	255,565	312,805	196,164	456,397	1,220,931	-	1,220,931
LONG-TERM DEBT							
Southeastern Term Loans	-	-	-	-	-	21,028,571	21,028,571
Long-term debt, less current maturities	5,572,891	4,235,805	7,631,726	3,588,149	21,028,571	(21,028,571)	-
EQUITY	712,028	434,094	(1,862,541)	197,030	(519,389)	-	(519,389)
	\$ 6,540,484	\$ 4,982,704	\$ 5,965,349	\$ 4,241,576	\$ 21,730,113	\$ -	\$ 21,730,113

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE B

Southeastern Portfolio

	A	B	C	D			
	Asheboro Hospitality, LLC	Hotels at Executive Way, LLC	BPR Pinehurst, LLC	Krishna Kingsland Properties, Inc.	A to D COMBINED	(note 4e)	A to D COMBINED (Reclassified)
Statements of Income for the quarters ended March 31, 2014							
Revenue:							
Rooms	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,668,290	\$ 1,668,290
Rental and other	-	-	-	-	-	5,115	5,115
Hotel operations	489,060	322,573	409,432	447,225	1,668,290	(1,668,290)	-
Other income	1,973	402	601	2,139	5,115	(5,115)	-
Total revenue	491,033	322,975	410,033	449,364	1,673,405	-	1,673,405
Hotel expenses:							
Operating expenses	-	-	-	-	-	903,636	903,636
Energy	-	-	-	-	-	90,804	90,804
Property maintenance	-	-	-	-	-	55,229	55,229
Property taxes and insurance	-	-	-	-	-	64,142	64,142
Depreciation and amortization	-	-	-	-	-	267,755	267,755
	-	-	-	-	-	1,381,566	1,381,566
Operating expenses:							
Hotel operating expenses	231,742	199,620	207,733	241,807	880,902	(880,902)	-
Depreciation and amortization	49,959	60,194	85,764	71,838	267,755	(267,755)	-
Franchise expenses	71,291	38,362	45,426	30,133	185,212	(185,212)	-
Taxes and licenses	15,793	12,419	9,529	9,956	47,697	(47,697)	-
Total expenses	368,785	310,595	348,452	353,734	1,381,566	-	1,381,566
Operating income	122,248	12,380	61,581	95,630	291,839	-	291,839
Finance income	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	(256,740)	(256,740)
Net finance costs	-	-	-	-	-	(256,740)	(256,740)
Other expense:							
Interest expense	(81,395)	(51,120)	(95,775)	(28,450)	(256,740)	256,740	-
	40,853	(38,740)	(34,194)	67,180	35,099	-	35,099
Net income (loss)	\$ 40,853	\$ (38,740)	\$ (34,194)	\$ 67,180	\$ 35,099	\$ -	\$ 35,099

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE C

Virginia Portfolio

	A	B	C	D	A to D		A to D
Statements of Operations for the	Eighty Five,	Ninety Five,	Dominion	Valley Motel	A to D		A to D
year ended December 31, 2013	LLC	LLC	Hotel	Company	COMBINED	(note 4e)	COMBINED
			Company				(Reclassified)
Revenue:							
Rooms	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,020,872	\$ 10,020,872
Rental and other	-	-	-	-	-	13,663	13,663
Hotel operations	1,637,986	2,180,256	2,241,947	3,960,683	10,020,872	(10,020,872)	-
Other income	5,222	957	1,989	5,495	13,663	(13,663)	-
Total revenue	1,643,208	2,181,213	2,243,936	3,966,178	10,034,535	-	10,034,535
Hotel expenses:							
Operating expenses	-	-	-	-	-	4,467,811	4,467,811
Energy	-	-	-	-	-	421,920	421,920
Property maintenance	-	-	-	-	-	488,107	488,107
Property taxes and insurance	-	-	-	-	-	369,419	369,419
Depreciation and amortization	-	-	-	-	-	1,113,087	1,113,087
	-	-	-	-	-	6,860,344	6,860,344
Operating expenses:							
Hotel operating expenses	677,209	1,074,115	1,065,219	1,580,789	4,397,332	(4,397,332)	-
Depreciation and amortization	240,145	242,387	378,169	252,386	1,113,087	(1,113,087)	-
Franchise expenses	144,339	230,108	244,096	448,344	1,066,887	(1,066,887)	-
Taxes and licenses	38,165	62,157	58,964	123,752	283,038	(283,038)	-
Total expenses	1,099,858	1,608,767	1,746,448	2,405,271	6,860,344	-	6,860,344
Operating income	543,350	572,446	497,488	1,560,907	3,174,191	-	3,174,191
Finance income	-	-	-	-	-	89	89
Finance costs	-	-	-	-	-	(1,032,278)	(1,032,278)
Net finance costs	-	-	-	-	-	(1,032,189)	(1,032,189)
Other income (expense):							
Interest income	-	89	-	-	89	(89)	-
Interest expense	(128,392)	(264,055)	(136,218)	(503,613)	(1,032,278)	1,032,278	-
	414,958	308,480	361,270	1,057,294	2,142,002	-	2,142,002
Net income	\$ 414,958	\$ 308,480	\$ 361,270	\$ 1,057,294	\$ 2,142,002	\$ -	\$ 2,142,002

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE D

Pittsburgh Portfolio

	A	B	C	D			A to D COMBINED	A to D COMBINED (Reclassified)
Statements of Operations for the six months ended June 30, 2013	Hamister Hospitality Cranberry I, LP	Hamister Hospitality Cranberry III, LP	Hamister Hospitality Greentree, LP	Hamister Hospitality Pitt Airport, LP	A to D COMBINED	(note 4e)		
Rooms revenue	\$ 1,898,730	\$ 1,645,069	\$ 2,032,999	\$ 2,287,684	\$ 7,864,482	\$ -	\$ 7,864,482	-
Other revenue	2,973	29,849	3,693	6,515	43,030	-	43,030	-
	1,901,703	1,674,918	2,036,692	2,294,199	7,907,512	-	7,907,512	-
Hotel expenses								
Operating expenses	-	-	-	-	-	3,438,883	3,438,883	-
Energy	-	-	-	-	-	301,771	301,771	-
Property maintenance	-	-	-	-	-	209,826	209,826	-
Property taxes and insurance	-	-	-	-	-	376,439	376,439	-
Depreciation and amortization	-	-	-	-	-	876,009	876,009	-
	-	-	-	-	-	5,202,928	5,202,928	-
Labor	284,655	248,210	300,057	330,292	1,163,214	(1,163,214)	-	-
Payroll taxes and benefits	53,673	49,123	51,275	54,523	208,594	(208,594)	-	-
Rooms expense	203,429	119,416	238,703	286,438	847,986	(847,986)	-	-
Repairs and maintenance	52,533	51,913	64,594	40,786	209,826	(209,826)	-	-
Sales and marketing	36,203	19,709	34,064	37,028	127,004	(127,004)	-	-
Administrative	111,348	94,924	115,480	122,945	444,697	(444,697)	-	-
Franchise fees	170,195	89,638	182,275	205,280	647,388	(647,388)	-	-
Property taxes and insurance	64,355	82,025	124,089	105,970	376,439	(376,439)	-	-
Utilities	75,345	70,830	89,332	66,264	301,771	(301,771)	-	-
Total operating expenses	1,051,736	825,788	1,199,869	1,249,526	4,326,919	(4,326,919)	-	-
	849,967	849,130	836,823	1,044,673	3,580,593	(876,009)	2,704,584	-
Corporate and administrative	-	-	-	-	-	395,376	395,376	-
Finance costs	-	-	-	-	-	1,010,882	1,010,882	-
Management fees	95,085	83,746	101,835	114,710	395,376	(395,376)	-	-
Interest	243,274	281,232	234,886	251,490	1,010,882	(1,010,882)	-	-
Depreciation and amortization	247,802	216,912	202,630	208,665	876,009	(876,009)	-	-
Net income	\$ 263,806	\$ 267,240	\$ 297,472	\$ 469,808	\$ 1,298,326	\$ -	\$ 1,298,326	-

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE E

Pittsburgh Portfolio

	A	B	C	D			A to D
Statements of Operations for the year ended December 31, 2012	Hamister Hospitality Cranberry I, LP	Hamister Hospitality Cranberry III, LP	Hamister Hospitality Greentree, LP	Hamister Hospitality Pitt Airport, LP	A to D COMBINED	(note 4e)	A to D COMBINED (Reclassified)
Rooms revenue	\$ 4,135,352	\$ 3,702,307	\$ 4,096,327	\$ 4,292,992	\$ 16,226,978	\$ -	\$ 16,226,978
Other revenue	11,293	66,654	8,099	14,095	100,141	-	100,141
	4,146,645	3,768,961	4,104,426	4,307,087	16,327,119	-	16,327,119
Hotel expenses							
Operating expenses	-	-	-	-	-	7,209,966	7,209,966
Energy	-	-	-	-	-	577,229	577,229
Property maintenance	-	-	-	-	-	330,567	330,567
Property taxes and insurance	-	-	-	-	-	716,942	716,942
Depreciation and amortization	-	-	-	-	-	1,847,456	1,847,456
	-	-	-	-	-	10,682,160	10,682,160
Labor	613,562	586,708	634,659	643,446	2,478,375	(2,478,375)	-
Payroll taxes and benefits	98,067	99,104	98,527	99,702	395,400	(395,400)	-
Rooms expense	461,907	273,732	540,007	593,925	1,869,571	(1,869,571)	-
Repairs and maintenance	73,781	95,249	97,389	64,148	330,567	(330,567)	-
Sales and marketing	47,671	40,610	39,169	48,854	176,304	(176,304)	-
Administrative	242,541	192,401	224,082	232,900	891,924	(891,924)	-
Franchise fees	370,386	275,162	367,779	385,065	1,398,392	(1,398,392)	-
Property taxes and insurance	128,016	163,095	226,348	199,483	716,942	(716,942)	-
Utilities	146,483	135,023	160,586	135,137	577,229	(577,229)	-
Total operating expenses	2,182,414	1,861,084	2,388,546	2,402,660	8,834,704	(8,834,704)	-
	1,964,231	1,907,877	1,715,880	1,904,427	7,492,415	(1,847,456)	5,644,959
Corporate and administrative	-	-	-	-	-	816,355	816,355
Finance costs	-	-	-	-	-	2,053,754	2,053,754
Management fees	207,332	188,448	205,221	215,354	816,355	(816,355)	-
Interest	494,479	571,278	477,135	510,862	2,053,754	(2,053,754)	-
Depreciation and amortization	498,898	457,715	437,646	453,197	1,847,456	(1,847,456)	-
Net income	\$ 763,522	\$ 690,436	\$ 595,878	\$ 725,014	\$ 2,774,850	\$ -	\$ 2,774,850

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE F

Pittsburgh Portfolio

	A	B	C	D			A to D	
Statements of Operations for the six months ended June 30, 2012	Hamister Hospitality Cranberry I, LP	Hamister Hospitality Cranberry III, LP	Hamister Hospitality Greentree, LP	Hamister Hospitality Pitt Airport, LP	A to D COMBINED	(note 4e)	A to D COMBINED (Reclassified)	-
Rooms revenue	\$ 2,129,693	\$ 1,874,930	\$ 1,993,133	\$ 2,110,517	\$ 8,108,273	\$ -	\$ 8,108,273	
Other revenue	5,686	35,562	3,945	5,871	51,064	-	51,064	
	2,135,379	1,910,492	1,997,078	2,116,388	8,159,337	-	8,159,337	
Hotel expenses								
Operating expenses	-	-	-	-	-	3,497,392	3,497,392	
Energy	-	-	-	-	-	295,986	295,986	
Property maintenance	-	-	-	-	-	167,913	167,913	
Property taxes and insurance	-	-	-	-	-	356,279	356,279	
Depreciation and amortization	-	-	-	-	-	906,923	906,923	
	-	-	-	-	-	5,224,493	5,224,493	
Labor	295,118	276,530	293,797	297,710	1,163,155	(1,163,155)	-	
Payroll taxes and benefits	55,106	52,290	50,924	52,666	210,986	(210,986)	-	
Rooms expense	224,173	134,764	259,142	281,105	899,184	(899,184)	-	
Repairs and maintenance	37,226	47,509	48,742	34,436	167,913	(167,913)	-	
Sales and marketing	20,533	21,718	18,594	22,609	83,454	(83,454)	-	
Administrative	126,728	94,276	110,977	111,430	443,411	(443,411)	-	
Franchise fees	190,278	139,309	178,818	188,797	697,202	(697,202)	-	
Property taxes and insurance	63,424	80,890	112,226	99,739	356,279	(356,279)	-	
Utilities	79,748	68,971	80,323	66,944	295,986	(295,986)	-	
Total operating expenses	1,092,334	916,257	1,153,543	1,155,436	4,317,570	(4,317,570)	-	
	1,043,045	994,235	843,535	960,952	3,841,767	(906,923)	2,934,844	
Corporate and administrative	-	-	-	-	-	407,967	407,967	
Finance costs	-	-	-	-	-	1,031,957	1,031,957	
Management fees	106,769	95,525	99,854	105,819	407,967	(407,967)	-	
Interest	248,521	287,031	239,730	256,675	1,031,957	(1,031,957)	-	
Depreciation and amortization	245,517	226,008	214,927	220,471	906,923	(906,923)	-	
Net income	\$ 442,238	\$ 385,671	\$ 289,024	\$ 377,987	\$ 1,494,920	\$ -	\$ 1,494,920	

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE G

Pittsburgh Portfolio

	A	B	C	D			A to D	
Statements of Operations for the six months ended December 31, 2012	Hamister Hospitality Cranberry I, LP	Hamister Hospitality Cranberry III, LP	Hamister Hospitality Greentree, LP	Hamister Hospitality Pitt Airport, LP	A to D COMBINED	(note 4e)	A to D COMBINED (Reclassified)	-
Rooms revenue	\$ 2,005,659	\$ 1,827,377	\$ 2,103,194	\$ 2,182,475	\$ 8,118,705	\$ -	\$ 8,118,705	
Other revenue	5,607	31,092	4,154	8,224	49,077	-	49,077	
	2,011,266	1,858,469	2,107,348	2,190,699	8,167,782	-	8,167,782	
Hotel expenses								
Operating expenses	-	-	-	-	-	3,712,574	3,712,574	
Energy	-	-	-	-	-	281,243	281,243	
Property maintenance	-	-	-	-	-	162,654	162,654	
Property taxes and insurance	-	-	-	-	-	360,663	360,663	
Depreciation and amortization	-	-	-	-	-	940,533	940,533	
	-	-	-	-	-	5,457,667	5,457,667	
Labor	318,444	310,178	340,862	345,736	1,315,220	(1,315,220)	-	
Payroll taxes and benefits	42,961	46,814	47,603	47,036	184,414	(184,414)	-	
Rooms expense	237,734	138,968	280,865	312,820	970,387	(970,387)	-	
Repairs and maintenance	36,555	47,740	48,647	29,712	162,654	(162,654)	-	
Sales and marketing	27,138	18,892	20,575	26,245	92,850	(92,850)	-	
Administrative	115,813	98,125	113,105	121,470	448,513	(448,513)	-	
Franchise fees	180,108	135,853	188,961	196,268	701,190	(701,190)	-	
Property taxes and insurance	64,592	82,205	114,122	99,744	360,663	(360,663)	-	
Utilities	66,735	66,052	80,263	68,193	281,243	(281,243)	-	
Total operating expenses	1,090,080	944,827	1,235,003	1,247,224	4,517,134	(4,517,134)	-	
	921,186	913,642	872,345	943,475	3,650,648	(940,533)	2,710,115	
Corporate and administrative	-	-	-	-	-	408,388	408,388	
Finance costs	-	-	-	-	-	1,021,797	1,021,797	
Management fees	100,563	92,923	105,367	109,535	408,388	(408,388)	-	
Interest	245,958	284,247	237,405	254,187	1,021,797	(1,021,797)	-	
Depreciation and amortization	253,381	231,707	222,719	232,726	940,533	(940,533)	-	
Net income	\$ 321,284	\$ 304,765	\$ 306,854	\$ 347,027	\$ 1,279,930	\$ -	\$ 1,279,930	

Supplemental Schedules to the Pro Forma Condensed Consolidated Financial Statements

SUPPLEMENTAL SCHEDULE H

Southeastern Portfolio

	A	B	C	D			-
Statements of Income for the year ended December 31, 2013	Asheboro Hospitality, LLC	Hotels at Executive Way, LLC	BPR Pinehurst, LLC	Krishna Kingsland Properties, Inc.	A to D COMBINED	(note 4e)	A to D COMBINED (Reclassified)
Revenue:							
Rooms	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,382,971	\$ 7,382,971
Rental and other	-	-	-	-	-	28,170	28,170
Hotel operations	2,425,901	1,509,754	2,021,606	1,425,710	7,382,971	(7,382,971)	-
Other income	9,521	4,141	7,248	7,260	28,170	(28,170)	-
Total revenue	2,435,422	1,513,895	2,028,854	1,432,970	7,411,141	-	7,411,141
Hotel expenses:							
Operating expenses	-	-	-	-	-	3,808,938	3,808,938
Energy	-	-	-	-	-	381,700	381,700
Property maintenance	-	-	-	-	-	286,254	286,254
Property taxes and insurance	-	-	-	-	-	276,827	276,827
Depreciation and amortization	-	-	-	-	-	999,143	999,143
	-	-	-	-	-	5,752,862	5,752,862
Operating expenses:							
Hotel operating expenses	1,059,620	793,912	1,021,491	870,244	3,745,267	(3,745,267)	-
Depreciation and amortization	197,333	240,315	275,292	286,203	999,143	(999,143)	-
Franchise expenses	299,828	147,439	225,007	121,807	794,081	(794,081)	-
Taxes and licenses	65,780	54,680	42,183	43,956	206,599	(206,599)	-
Total expenses	1,622,561	1,236,346	1,563,973	1,322,210	5,745,090	7,772	5,752,862
Operating income	812,861	277,549	464,881	110,760	1,666,051	(7,772)	1,658,279
Finance income	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	(853,830)	(853,830)
Net finance costs	-	-	-	-	-	(853,830)	(853,830)
Other expense:							
Interest expense	(334,303)	(211,474)	(186,221)	(121,832)	(853,830)	853,830	-
Other expense	-	(7,772)	-	-	(7,772)	7,772	-
	478,558	58,303	278,660	(11,072)	804,449	-	804,449
Net income (loss)	\$ 478,558	\$ 58,303	\$ 278,660	\$ (11,072)	\$ 804,449	\$ -	\$ 804,449

ASHEBORO HOSPITALITY, LLC

Financial Statements

March 31, 2014 and 2013

(Unaudited)

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ASHEBORO HOSPITALITY, LLC

BALANCE SHEETS
(Unaudited)
March 31, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 92,993	\$ 113,006
Accounts receivable	19,740	17,824
Mortgage escrows	<u>254,060</u>	<u>152,358</u>
Total current assets	366,793	283,188
PROPERTY AND EQUIPMENT, NET	6,111,458	6,248,804
INTANGIBLE ASSETS, NET	<u>62,233</u>	<u>76,826</u>
	<u>\$ 6,540,484</u>	<u>\$ 6,608,818</u>

See Notes to Financial Statements

ASHEBORO HOSPITALITY, LLC

BALANCE SHEETS, CONTINUED

(Unaudited)

March 31, 2014 and 2013

LIABILITIES AND EQUITY	2014	2013
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 128,281	\$ 121,202
Accounts payable	55,916	56,378
Accrued expenses	57,898	55,408
Guest deposits	13,470	10,784
Total current liabilities	255,565	243,772
 LONG-TERM DEBT, less current maturities	 5,572,891	 5,697,675
 EQUITY		
Retained earnings	712,028	667,371
	\$ 6,540,484	\$ 6,608,818

See Notes to Financial Statements

ASHEBORO HOSPITALITY, LLC
STATEMENTS OF INCOME
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Hotel operations	\$ 489,060	\$ 545,194
Other income	<u>1,973</u>	<u>1,902</u>
Total revenue	<u>491,033</u>	<u>547,096</u>
Operating expenses:		
Hotel operating expenses	231,742	219,230
Depreciation and amortization	49,959	48,826
Franchise expenses	71,291	73,440
Taxes and licenses	<u>15,793</u>	<u>15,793</u>
Total expenses	<u>368,785</u>	<u>357,289</u>
Operating income	122,248	189,807
Other expense:		
Interest expense	<u>(81,395)</u>	<u>(83,054)</u>
Net income	<u>\$ 40,853</u>	<u>\$ 106,753</u>

See Notes to Financial Statements

ASHEBORO HOSPITALITY, LLC
STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 736,175	\$ 690,618
Distributions	(65,000)	(130,000)
Net income	<u>40,853</u>	<u>106,753</u>
Balance, ending	\$ <u>712,028</u>	\$ <u>667,371</u>

See Notes to Financial Statements

ASHEBORO HOSPITALITY, LLC
STATEMENTS OF CASH FLOWS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 40,853	\$ 106,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,959	48,826
(Increase) decrease in assets:		
Accounts receivable	(9,080)	(8,198)
Increase (decrease) in liabilities:		
Accounts payable	17,644	22,326
Accrued expenses	38,290	35,627
Guest deposits	7,060	9,730
Net cash provided by operating activities	<u>144,726</u>	<u>215,064</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(11,887)	(6,364)
Deposits to mortgage escrows, net of disbursements	<u>(33,439)</u>	<u>(34,663)</u>
Net cash used in investing activities	<u>(45,326)</u>	<u>(41,027)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(31,192)	(29,534)
Distributions	<u>(65,000)</u>	<u>(130,000)</u>
Net cash used in financing activities	<u>(96,192)</u>	<u>(159,534)</u>
Net change in cash and cash equivalents	3,208	14,503
Cash and cash equivalents, beginning	<u>89,785</u>	<u>98,503</u>
Cash and cash equivalents, ending	<u>\$ 92,993</u>	<u>\$ 113,006</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 81,395</u>	<u>\$ 83,054</u>

See Notes to Financial Statements

ASHEBORO HOSPITALITY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

Asheboro Hospitality, LLC ("the Company") was formed in February 2011 in the state of North Carolina. The Company's principal business activity is the operation of a 111-room hotel in Asheboro, North Carolina.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Furniture, fixtures and equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Credit risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash. The Company maintains its cash in one financial institution with balances that periodically exceed federally insured limits.

Notes continued on next page.

ASHEBORO HOSPITALITY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$1,435 and \$1,778 for the quarters ended March 31, 2014 and 2013, respectively.

Income taxes:

As a limited liability company, the Company's taxable income or loss is allocated to its members. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at December 31, 2014 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at December 31, 2014 and 2013. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2010.

Use of estimates in the preparation of financial statements:

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 2. Mortgage Escrows

Mortgage escrows are comprised of the following at March 31:

	<u>2014</u>	<u>2013</u>
Reserve for replacements escrow	\$ 180,331	\$ 87,388
Real estate tax escrow	51,802	50,294
Property insurance escrow	<u>21,927</u>	<u>14,676</u>
	\$ <u>254,060</u>	\$ <u>152,358</u>

Under the terms of the promissory note agreement with Wells Fargo (see Note 5), a reserve was deposited with Wells Fargo along with monthly deposits to mortgage escrows. The reserve and escrow balances may be withdrawn by the Company according to the terms of the promissory note agreement.

Notes continued on next page.

ASHEBORO HOSPITALITY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 3. Property and Equipment

Property and equipment consists of the following at March 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 950,000	\$ 950,000
Building	5,867,388	5,867,388
Furniture, fixtures and equipment	<u>262,281</u>	<u>215,752</u>
	7,079,669	7,033,140
Less accumulated depreciation	<u>(968,211)</u>	<u>(784,336)</u>
	<u>\$ 6,111,458</u>	<u>\$ 6,248,804</u>

Depreciation expense was \$46,311 and \$45,178 for the quarters ended March 31, 2014 and 2013, respectively.

Note 4. Intangible Assets

Intangible assets at March 31, 2014 and 2013, consists of \$102,151 in financing fees that are being amortized over the term of the related loan of 7 years (see Note 5). Amortization expense recognized on all amortizable intangibles was \$3,648 in both the quarters ended March 31, 2014 and 2013. Accumulated amortization totaled \$39,918 as of March 31, 2014 and \$25,325 as of March 31, 2013.

Estimated future amortization expense for the next five calendar years is as follows at March 31, 2014:

2014	\$ 14,593
2015	\$ 14,593
2016	\$ 14,593
2017	\$ 14,593
2018	\$ 7,509

Note 5. Long-term Debt

	<u>2014</u>	<u>2013</u>
Promissory note due to Wells Fargo payable in monthly installments of \$37,529, including principal and interest at 5.69%; secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents, an assignment of the franchise agreement guaranteed by several affiliates; matures in August 2018.	\$ 5,701,172	\$ 5,818,877
Less current maturities	<u>128,281</u>	<u>121,202</u>
	<u>\$ 5,572,891</u>	<u>\$ 5,697,675</u>

Under the terms of the promissory note, the Company is required to make monthly deposits for reserves, taxes and insurance and is subject to certain restrictions as defined in the agreement (see Note 2).

Notes continued on next page.

ASHEBORO HOSPITALITY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 5. Long-term Debt (continued)

Future maturities required on long-term debt at March 31, 2014 are as follows for the next five calendar years:

2014	\$	128,281
2015		135,773
2016		143,703
2017		152,097
2018		<u>5,141,318</u>
	\$	<u>5,701,172</u>

Note 6. Related Party Transactions

An affiliate provides management services to the Company. The arrangement provides for a management fee of 3.0% of gross room revenues. Total fees incurred during the quarters ended March 31, 2014 and 2013 were \$14,496 and \$16,628, respectively. Total management fees included in accounts payable on the accompanying balance sheets amounted to \$10,328 and \$9,967 at March 31, 2014 and 2013, respectively.

Note 7. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Hilton Hotels Corporation (Hilton), the franchisor through July 17, 2018. The Company was required to pay the franchisor a monthly royalty fee equal to 4.0% of the Company's gross room revenues as defined by the agreement during the first quarter of 2013. In July 2013, the monthly royalty fee increased to 5%. The royalty fees amounted to \$24,160 and \$21,544 for the quarters ended March 31, 2014 and 2013. The Company must pay the franchisor a monthly advertising program fee equal to 4.0% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$19,420 and \$21,544 for the quarters ended March 31, 2014 and 2013. These fees are included in franchise expenses on the statements of income. Other franchise expenses relate to the Hilton frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Hilton standards set forth in the agreement.

Note 8. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to quarter end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

HOTELS AT EXECUTIVE WAY, LLC

Financial Statements

March 31, 2014 and 2013

(Unaudited)

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HOTELS AT EXECUTIVE WAY, LLC

BALANCE SHEETS
(Unaudited)
March 31, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 22,374	\$ 114,356
Accounts receivable	<u>29,466</u>	<u>14,929</u>
Total current assets	51,840	129,285
PROPERTY AND EQUIPMENT, NET	4,886,155	5,112,566
INTANGIBLE ASSETS, NET	<u>44,709</u>	<u>50,141</u>
	<u>\$ 4,982,704</u>	<u>\$ 5,291,992</u>

See Notes to Financial Statements

HOTELS AT EXECUTIVE WAY, LLC

BALANCE SHEETS, CONTINUED

(Unaudited)

March 31, 2014 and 2013

LIABILITIES AND EQUITY	2014	2013
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 211,874	\$ 202,931
Accounts payable	37,797	30,041
Accrued expenses	60,877	58,071
Guest deposits	2,257	2,784
Total current liabilities	312,805	293,827
 LONG-TERM DEBT, less current maturities	 4,235,805	 4,449,458
 EQUITY		
Retained earnings	434,094	548,707
	\$ 4,982,704	\$ 5,291,992

See Notes to Financial Statements

HOTELS AT EXECUTIVE WAY, LLC
STATEMENTS OF OPERATIONS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Hotel operations	\$ 322,573	\$ 333,524
Other income	<u>402</u>	<u>2,467</u>
Total revenue	<u>322,975</u>	<u>335,991</u>
Operating expenses:		
Hotel operating expenses	199,620	190,978
Depreciation and amortization	60,194	59,973
Franchise expenses	38,362	34,786
Taxes and licenses	<u>12,419</u>	<u>12,419</u>
Total expenses	<u>310,595</u>	<u>298,156</u>
Operating income	<u>12,380</u>	<u>37,835</u>
Other expense:		
Interest expense	<u>(51,120)</u>	<u>(52,692)</u>
Net loss	<u>\$ (38,740)</u>	<u>\$ (14,857)</u>

See Notes to Financial Statements

HOTELS AT EXECUTIVE WAY, LLC
STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 487,834	\$ 975,918
Distributions	(15,000)	(412,354)
Net loss	<u>(38,740)</u>	<u>(14,857)</u>
Balance, ending	\$ <u>434,094</u>	\$ <u>548,707</u>

See Notes to Financial Statements

HOTELS AT EXECUTIVE WAY, LLC
STATEMENTS OF CASH FLOWS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (38,740)	\$ (14,857)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	60,194	59,973
(Increase) decrease in assets:		
Accounts receivable	(2,575)	584
Prepaid expenses	197	-
Increase (decrease) in liabilities:		
Accounts payable	12,952	12,889
Accrued expenses	28,546	23,919
Guest deposits	-	880
Net cash provided by operating activities	<u>60,574</u>	<u>83,388</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(1,493)</u>	<u>(4,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on long-term debt	(52,888)	(51,109)
Distributions paid to members	<u>(15,000)</u>	<u>(412,354)</u>
Net cash used in financing activities	<u>(67,888)</u>	<u>(463,463)</u>
Net change in cash and cash equivalents	(8,807)	(384,075)
Cash and cash equivalents, beginning	<u>31,181</u>	<u>498,431</u>
Cash and cash equivalents, ending	\$ <u>22,374</u>	\$ <u>114,356</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 51,304</u>	<u>\$ 52,358</u>

See Notes to Financial Statements

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

Hotels at Executive Way, LLC ("the Company") was formed in June 2008 in the state of North Carolina. The Company's principal business activity is the operation of an 86-room hotel in Asheboro, North Carolina.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Site improvements	15
Furniture, fixtures and equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$1,925 and \$1,070 for the quarters ended March 31, 2014 and 2013, respectively.

Income taxes:

As a limited liability company, the Company's taxable income or loss is allocated to its members. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at March 31, 2014 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at March 31, 2014 and 2013. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2010.

Use of estimates in the preparation of financial statements:

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 2. Property and Equipment

Property and equipment consists of the following at March 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 604,260	\$ 604,260
Building	4,487,858	4,487,858
Site improvements	185,290	178,090
Furniture, fixtures and equipment	<u>755,426</u>	<u>753,933</u>
	6,032,834	6,024,141
Less accumulated depreciation	<u>(1,146,679)</u>	<u>(911,575)</u>
	<u>\$ 4,886,155</u>	<u>\$ 5,112,566</u>

Depreciation expense was \$58,836 and \$58,615 for the quarters ended March 31, 2014 and 2013, respectively.

Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 3. Intangible Assets

Intangible assets consists of the following at March 31:

	<u>2014</u>	<u>2013</u>
Franchise fees	\$ 50,000	\$ 50,000
Financing costs	<u>14,660</u>	<u>14,660</u>
	64,660	64,660
Less accumulated amortization	<u>(19,951)</u>	<u>(14,519)</u>
	<u>\$ 44,709</u>	<u>\$ 50,141</u>

The franchise fees will be amortized over the life of the franchise agreement (20 years), and the financing fees will be amortized over the life of the note agreement (5 years). Amortization expense recognized on all amortizable intangibles was \$1,358 for both quarters ended March 31, 2014 and 2013.

Estimated future amortization expense for the next five calendar years is as follows at March 31, 2014:

2014	\$ 5,432
2015	\$ 5,432
2016	\$ 5,432
2017	\$ 5,188
2018	\$ 2,500

Note 4. Related Party Transactions

The Company has entered into a management agreement with an affiliate. The agreement is on a month-to-month basis and provides for a management fee of 3.0% of gross revenues as defined in the agreement. Total fees incurred during the quarters ended March 31, 2014 and 2013 were \$9,502 and \$9,959, respectively. Total management fees included in accounts payable on the accompanying balance sheets amounted to \$7,486 and \$7,131 at March 31, 2014 and 2013, respectively.

Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 5. Long-term Debt

	<u>2014</u>	<u>2013</u>
Promissory note due to High Point Bank (HPB) payable in monthly installments of \$30,700, including interest at HPB prime rate plus 1.00% with a floor of 4.50% and a ceiling of 7.50% (4.50% at both March 31, 2014 and 2013), through November 2017 when all outstanding interest and principal are due. Secured by a deed of trust on substantially all the assets of the Company. The note is subject to certain financial covenants.	\$ 3,951,483	\$ 4,134,502
Promissory note due to High Point Bank (HPB) payable in monthly installments of \$3,900, including interest at HPB prime rate plus 1.375% with a floor of 4.875% and a ceiling of 7.50% (4.875% at both March 31, 2014 and 2013), through November 2017 when all outstanding interest and principal are due. Secured by a deed of trust and security agreement on substantially all the assets of the Company. The note is subject to certain financial covenants.	<u>496,196</u>	<u>517,887</u>
	4,447,679	4,652,389
Less current maturities	<u>211,874</u>	<u>202,931</u>
	<u>\$ 4,235,805</u>	<u>\$ 4,449,458</u>

Future maturities required on long-term debt at March 31, 2013 are as follows:

2014	\$ 211,874
2015	221,818
2016	231,766
2017	<u>3,782,221</u>
	<u>\$ 4,447,679</u>

Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 6. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Marriott International, Inc. (Marriott), the franchisor through October 2027. The Company is required to pay the franchisor a monthly royalty fee equal to 4.5% of the Company's gross room revenues as defined by the agreement. The royalty fees amounted to \$14,252 and \$14,939 for the quarters ended March 31, 2014 and 2013. The Company must pay the franchisor a monthly advertising program fee equal to 2.5% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$7,918 and \$8,299 for the quarters ended March 31, 2014 and 2013. These fees are included in franchise expenses on the statement of income. Other franchise expenses relate to the Marriott frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Marriott standards set forth in the agreement.

Note 7. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to quarter end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

BPR PINEHURST, LLC

Financial Statements

March 31, 2014 and 2013

(Unaudited)

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BPR PINEHURST, LLC

BALANCE SHEETS

(Unaudited)

March 31, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 77,038	\$ 152,225
Accounts receivable	51,018	39,460
Mortgage escrows	551,356	-
Total current assets	679,412	191,685
 PROPERTY AND EQUIPMENT, NET	 5,092,793	 5,332,425
 OTHER ASSETS		
Intangible assets, net	187,733	70,894
Deposits	5,411	5,411
Total other assets	193,144	76,305
	\$ 5,965,349	\$ 5,600,415

See Notes to Financial Statements

BPR PINEHURST, LLC
BALANCE SHEETS, CONTINUED
(Unaudited)
March 31, 2014 and 2013

LIABILITIES AND EQUITY	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Line of credit	\$ -	\$ 551,954
Current maturities of long-term debt	99,407	138,804
Accounts payable	41,879	39,301
Accrued expenses	45,277	38,308
Guest deposits	9,601	11,249
	<u>196,164</u>	<u>779,616</u>
Total current liabilities		
	<u>196,164</u>	<u>779,616</u>
 LONG-TERM DEBT		
Long-term debt, less current maturities	<u>7,631,726</u>	<u>3,200,187</u>
 EQUITY		
Retained (deficit) earnings	<u>(1,862,541)</u>	<u>1,620,612</u>
	<u>\$ 5,965,349</u>	<u>\$ 5,600,415</u>

See Notes to Financial Statements

BPR PINEHURST, LLC
STATEMENTS OF OPERATIONS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Hotel operations	\$ 409,432	\$ 425,158
Other income	<u>601</u>	<u>2,745</u>
Total revenue	<u>410,033</u>	<u>427,903</u>
Operating expenses:		
Hotel operating expenses	207,733	236,893
Depreciation and amortization	85,764	68,661
Franchise expenses	45,426	56,687
Taxes and licenses	<u>9,529</u>	<u>9,529</u>
Total expenses	<u>348,452</u>	<u>371,770</u>
Operating income	61,581	56,133
Other expense:		
Interest expense	<u>(95,775)</u>	<u>(51,372)</u>
Net (loss) income	\$ <u><u>(34,194)</u></u>	\$ <u><u>4,761</u></u>

See Notes to Financial Statements

BPR PINEHURST, LLC

STATEMENTS OF CHANGES IN (DEFICIT) EQUITY

(Unaudited)

Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 1,720,166	\$ 1,635,851
Repurchase of membership units	(1,875,972)	-
Distributions	(1,672,541)	(20,000)
Net (loss) income	<u>(34,194)</u>	<u>4,761</u>
Balance, ending	\$ <u>(1,862,541)</u>	\$ <u>1,620,612</u>

See Notes to Financial Statements

BPR PINEHURST, LLC

STATEMENTS OF CASH FLOWS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (34,194)	\$ 4,761
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	85,764	68,661
(Increase) decrease in assets:		
Accounts receivable	(27,361)	(19,703)
Accounts receivable - other	-	80,250
Increase in liabilities:		
Accounts payable	9,718	24,460
Accrued expenses	8,605	21,094
Guest deposits	4,402	6,988
Net cash provided by operating activities	<u>46,934</u>	<u>186,511</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(17,265)	(2,283)
Deposits to mortgage escrows	<u>(23,454)</u>	<u>-</u>
Net cash used in investing activities	<u>(40,719)</u>	<u>(2,283)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (repayments on) line of credit	-	(23,046)
Net proceeds from (payments on) long-term debt	3,374,061	(34,161)
Repurchase of membership units	(1,875,972)	-
Distributions	<u>(1,672,541)</u>	<u>(20,000)</u>
Net cash used in financing activities	<u>(174,452)</u>	<u>(77,207)</u>
Net change in cash and cash equivalents	<u>(168,237)</u>	107,021
Cash and cash equivalents, beginning	<u>245,275</u>	45,204
Cash and cash equivalents, ending	\$ <u>77,038</u>	\$ <u>152,225</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$ <u>113,897</u>	\$ <u>51,372</u>

See Notes to Financial Statements

BPR PINEHURST, LLC
STATEMENTS OF CASH FLOWS, CONTINUED
(Unaudited)
Quarters Ended March 31, 2014 and 2013

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING INFORMATION

On January 7, 2014, the Company refinanced its long term debt. Details of this transaction are as follows:

Loan proceeds	\$ 7,750,000
Good faith deposit	35,000
Less:	
Payoff of existing debt	(3,700,784)
Escrow deposit	(527,902)
Loan fees	(146,507)
Interest expense	(35,746)
	<u> </u>
Proceeds to borrower	<u>\$ 3,374,061</u>

See Notes to Financial Statements

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

BPR Pinehurst, LLC ("the Company") was formed in February 2011 in the state of North Carolina. The Company's principal business activity is the operation of a 107-room hotel in Pinehurst, North Carolina.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Site improvements	15
Furniture, fixtures and equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Credit Risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash. The Company maintains its cash in one financial institution with balances that periodically exceed federally insured limits.

Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$414 for the quarter ended March 31, 2013. There were no advertising expenses for the quarter ended March 31, 2014.

Income taxes:

As a limited liability company, the Company's taxable income or loss is allocated to its members. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at March 31, 2014 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at March 31, 2014 and 2013. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2011.

Use of estimates in the preparation of financial statements:

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 2. Mortgage Escrows

Mortgage escrows are comprised of the following at March 31:

	<u>2014</u>	<u>2013</u>
Reserve for replacements escrow	\$ 513,406	\$ -
Real estate tax escrow	34,316	-
Property insurance escrow	<u>3,634</u>	<u>-</u>
	<u>\$ 551,356</u>	<u>\$ -</u>

Under the terms of the promissory note agreement with CIBC, Inc. (see Note 6), a reserve of \$500,000 and escrows of \$27,902 were to be deposited with CIBC, Inc. at closing along with monthly deposits to mortgage escrows. The \$500,000 deposit and escrow balances may be withdrawn by the Company according to the terms of the promissory note agreement.

Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 3. Property and Equipment

Property and equipment are comprised of the following at March 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 250,000	\$ 250,000
Building	4,232,594	4,232,594
Site improvements	308,000	308,000
Furniture, fixtures and equipment	<u>952,055</u>	<u>928,959</u>
	5,742,649	5,719,553
Less accumulated depreciation	<u>(649,856)</u>	<u>(387,128)</u>
	<u><u>\$ 5,092,793</u></u>	<u><u>\$ 5,332,425</u></u>

Depreciation expense was \$65,916 and \$65,388 for quarters ended March 31, 2014 and 2013, respectively.

Note 4. Intangible Assets

Intangible assets are comprised of the following at March 31:

	<u>2014</u>	<u>2013</u>
Deferred financing costs	\$ 146,507	\$ 35,714
Franchise fees	<u>59,500</u>	<u>59,500</u>
	206,007	95,214
Less accumulated amortization	<u>(18,274)</u>	<u>(24,320)</u>
	<u><u>\$ 187,733</u></u>	<u><u>\$ 70,894</u></u>

The deferred financing costs will be amortized over the life of the note agreement (30 years), and franchise fees will be amortized over the life of the franchise agreement (10 years). Amortization expense, including the write off of the financing fees associated with the Bank of North Carolina note (see Note 6), recognized on all amortizable intangibles was \$19,848 and \$3,273 for the quarters ended March 31, 2014 and 2013, respectively.

Estimated future amortization expense for the next five calendar years is as follows at March 31, 2014:

2014	\$ 10,834
2015	\$ 10,834
2016	\$ 10,834
2017	\$ 10,834
2018	\$ 10,834

Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Quarters Ended March 31, 2014 and 2013

Note 5. Line of Credit

The Company had a revolving line of credit with the Bank of North Carolina (BNC) with a borrowing limit of \$595,000. Interest was charged on borrowings at BNC prime rate plus 0.50% with a floor of 5.25% and a ceiling of 7.50%. The line was secured by a deed of trust on substantially all of the assets of the Company, an assignment of leases and rents and was guaranteed by several affiliates of the Company. There was \$551,954 outstanding on the line at March 31, 2013. In January 2014, the line was repaid in full with proceeds from the CIBC, Inc. promissory note (see Note 6) and closed.

Note 6. Long-term Debt

	<u>2014</u>	<u>2013</u>
Promissory note due to CIBC, Inc. (CIBC) payable in monthly installments of \$42,940, including principal and interest at 5.28%; secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents, an assignment of the franchise agreement, and a lien on the reserve account held at Wells Fargo. The note is guaranteed by several affiliates; matures January 2044.	\$ 7,731,133	\$ -
Promissory note due to Bank of North Carolina (BNC) payable in monthly installments of \$26,094, including interest at BNC prime rate plus 0.50% with a floor of 5.25% and a ceiling of 7.50% (5.25% at March 31, 2013), through April 2016 when all outstanding interest and principal are due. Secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents, an assignment of the franchise agreement, and a lien on the reserve account held at BNC. The note is guaranteed by several affiliates and is subject to certain financial covenants. In January 2014, the note was repaid in full.	-	3,338,991
	<u>7,731,133</u>	<u>3,338,991</u>
Less current maturities	<u>99,407</u>	<u>138,804</u>
	<u>\$ 7,631,726</u>	<u>\$ 3,200,187</u>

Under the terms of the promissory note agreement with CIBC, the Company is required to make monthly deposits for taxes and insurance and is subject to certain restrictions as defined in the agreement (see Note 2).

Future maturities required on long-term debt for the next five calendar years and thereafter at March 31, 2014 are as follows:

2014	\$ 99,407
2015	114,602
2016	120,232
2017	126,736
2018	133,592
Thereafter	<u>7,136,564</u>
	<u>\$ 7,731,133</u>

Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Quarters Ended March 31, 2014 and 2013

Note 7. Repurchase of Membership Units

During the quarter ended March 31, 2014, the Company purchased the membership interests of certain members for \$1,875,972. Amounts paid in excess of the book value of the purchased units were allocated to remaining members ratably.

Note 8. Related Party Transactions

The Company has entered into a management agreement with an affiliate. The agreement provides for a management fee of 3.5% of gross revenues as defined in the agreement, with a minimum of \$5,000 per month, as well as a sales support fee of \$300 per month. Total fees incurred during the quarters ended March 31, 2014 and 2013, were \$12,427 and \$25,139, respectively. Total fees included in accounts payable on the accompanying balance sheets amounted to \$9,416 and \$9,408 at March 31, 2014 and 2013, respectively. The agreement expires in March 2016 but may be renewed upon expiration.

Note 9. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Marriott International, Inc. (Marriott), the franchisor through April 20, 2026. The Company is required to pay the franchisor a monthly royalty fee equal to 5.0% of the Company's gross room revenues as defined by the agreement. The royalty fees amounted to \$20,712 and \$21,129 for the quarters ended March 31, 2014 and 2013, respectively. The Company must pay the franchisor a monthly advertising program fee equal to 2.5% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$10,356 and \$10,563 for the quarters ended March 31, 2014 and 2013, respectively. These fees are included in franchise expenses on the statements of operations. Other franchise expenses relate to the Marriott frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Marriott standards set forth in the agreement. During the year ended 2012, the Company entered into the Marriott renovation incentive program, and upon completion of substantial renovations, the Company earned \$80,250, which was included in accounts receivable – other and hotel operating expenses at December 31, 2012. The amount was received during the quarter ended March 31, 2013.

Note 10. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to quarter end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

KRISHNA KINGSLAND PROPERTIES, INC.

Financial Statements

March 31, 2014 and 2013
(Unaudited)

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KRISHNA KINGSLAND PROPERTIES, INC.

BALANCE SHEETS
(Unaudited)
March 31, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 96,181	\$ 65,359
Accounts receivable	14,268	8,841
Prepaid expenses	8,865	8,963
Total current assets	119,314	83,163
 PROPERTY AND EQUIPMENT, NET	 4,091,637	 4,356,721
 INTANGIBLE ASSETS, NET	 30,625	 33,125
	\$ 4,241,576	\$ 4,473,009

See Notes to Financial Statements

KRISHNA KINGSLAND PROPERTIES, INC.

BALANCE SHEETS, CONTINUED

(Unaudited)

March 31, 2014 and 2013

LIABILITIES AND EQUITY	2014	2013
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 387,074	\$ 371,389
Accounts payable	35,680	30,198
Accrued expenses	31,944	30,660
Guest deposits	1,699	2,053
Total current liabilities	456,397	434,300
 LONG-TERM DEBT, less current maturities	 3,588,149	 3,845,698
 EQUITY		
Common stock; no par value; 1,000 shares authorized, issued and outstanding	1,000	1,000
Retained earnings	196,030	192,011
	197,030	193,011
	\$ 4,241,576	\$ 4,473,009

See Notes to Financial Statements

KRISHNA KINGSLAND PROPERTIES, INC.

STATEMENTS OF INCOME
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Hotel operations	\$ 447,225	\$ 395,706
Other income	<u>2,139</u>	<u>2,084</u>
Total revenue	<u>449,364</u>	<u>397,790</u>
Operating expenses:		
Hotel operating expenses	241,807	205,212
Depreciation and amortization	71,838	71,148
Franchise expenses	30,133	30,606
Taxes and licenses	<u>9,956</u>	<u>10,182</u>
Total expenses	<u>353,734</u>	<u>317,148</u>
Operating income	95,630	80,642
Other expense:		
Interest expense	<u>(28,450)</u>	<u>(28,251)</u>
Net income	<u>\$ 67,180</u>	<u>\$ 52,391</u>

See Notes to Financial Statements

KRISHNA KINGSLAND PROPERTIES, INC.

STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 129,850	\$ 165,922
Distributions	-	(25,302)
Net income	<u>67,180</u>	<u>52,391</u>
Balance, ending	<u>\$ 197,030</u>	<u>\$ 193,011</u>

See Notes to Financial Statements

KRISHNA KINGSLAND PROPERTIES, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

Quarters Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 67,180	\$ 52,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,838	71,148
(Increase) decrease in assets:		
Accounts receivable	(10,344)	2,348
Prepaid expenses	(8,865)	(8,963)
Increase (decrease) in liabilities:		
Accounts payable	3,236	8,219
Accrued expenses	18,003	18,674
Guest deposits	1,699	1,607
Net cash provided by operating activities	<u>142,747</u>	<u>145,424</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(67,134)	(62,152)
Distributions	<u>-</u>	<u>(25,302)</u>
Net cash used in financing activities	<u>(67,134)</u>	<u>(87,454)</u>
Net change in cash and cash equivalents	75,613	57,970
Cash and cash equivalents, beginning	<u>20,568</u>	<u>7,389</u>
Cash and cash equivalents, ending	\$ <u>96,181</u>	\$ <u>65,359</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$ <u>28,450</u>	\$ <u>28,251</u>

See Notes to Financial Statements

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

Krishna Kingsland Properties, Inc. ("the Company") was formed in July 2004 in the state of Georgia. The Company's principal business activity is the operation of an 82-room hotel in Kingsland, Georgia.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Furniture and fixtures	7
Equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

Notes continued on next page.

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Quarters Ended March 31, 2014 and 2013

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$350 and \$425 for the quarters ended March 31, 2014 and 2013, respectively.

Income taxes:

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at March 31, 2014 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at March 31, 2014 and 2013. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2010.

Use of estimates in the preparation of financial statements:

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 2. Property and Equipment

Property and equipment consists of the following at March 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 670,678	\$ 670,678
Building	3,546,056	3,546,056
Furniture and fixtures	1,157,715	1,138,406
Equipment	<u>199,778</u>	<u>199,778</u>
	5,574,227	5,554,918
Less accumulated depreciation	<u>(1,482,590)</u>	<u>(1,198,197)</u>
	<u>\$ 4,091,637</u>	<u>\$ 4,356,721</u>

Depreciation expense was \$71,213 and \$70,523 for the quarters ended March 31, 2014 and 2013, respectively.

Notes continued on next page.

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Quarters Ended March 31, 2014 and 2013

Note 3. Intangible Assets

Intangible assets at March 31, 2014 and 2013, consists of franchise fees that are amortized over the term of the related franchise agreement of 20 years (see Note 6). Amortization expense recognized on all amortizable intangibles was \$625 in both quarters ended March 31, 2014 and 2013.

Estimated future amortization expense for the next five calendar years is as follows at March 31, 2014:

2014	\$	2,500
2015	\$	2,500
2016	\$	2,500
2017	\$	2,500
2018	\$	2,500

Note 4. Long-term Debt

	<u>2014</u>	<u>2013</u>
Promissory note due to United Community Bank (UCB) payable in monthly installments of \$37,417, including principal and interest at 3 month LIBOR rate plus 2.0% (2.23% at March 31, 2014 and 2.28% at March 31, 2013), through July 2017 when all outstanding interest and principal are due; secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents; guaranteed by several affiliates.	\$ 3,624,088	\$ 3,852,964
Promissory note due to United Community Bank (UCB) payable in monthly installments of \$2,952, including principal and interest at the prime rate with a minimum rate of 6.08% (6.08% at both March 31, 2014 and 2013), through July 2017 when all outstanding interest and principal are due; secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents; guaranteed by several affiliates.	<u>351,135</u>	<u>364,123</u>
	3,975,223	4,217,087
Less current maturities	<u>387,074</u>	<u>371,389</u>
	\$ <u>3,588,149</u>	\$ <u>3,845,698</u>

Notes continued on next page.

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Quarters Ended March 31, 2014 and 2013

Note 4. Long-term Debt (continued)

Future maturities required on long-term debt for the next four calendar years at March 31, 2014 are as follows:

2014	\$	387,074
2015		391,803
2016		401,527
2017		<u>2,794,819</u>
	\$	<u>3,975,223</u>

Note 5. Related Party Transactions

An affiliate provides management services to the Company. The arrangement provides for a management fee of 3.0% of gross room revenues. Total fees incurred during the quarters ended March 31, 2014 and 2013 were \$13,336 and \$11,789, respectively. Total management fees in accounts payable amounted to \$8,062 and \$7,583 at March 31, 2014 and 2013, respectively.

Note 6. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Marriott International, Inc. (Marriott), the franchisor through September 2028. The Company is required to pay the franchisor a monthly royalty fee equal to 4.5% of the Company's gross room revenues as defined by the agreement. The royalty fees amounted to \$20,004 and \$17,683 for the quarters ended March 31, 2014 and 2013, respectively. The Company must pay the franchisor a monthly advertising program fee equal to 2.5% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$11,113 and \$9,824 for the quarters ended March 31, 2014 and 2013, respectively. These fees are included in franchise expenses on the statements of income. Other franchise expenses relate to the Marriott frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Marriott standards set forth in the agreement.

Note 7. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to quarter end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

ASHEBORO HOSPITALITY, LLC

Financial Statements

December 31, 2013 and 2012

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Members of
Asheboro Hospitality, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Asheboro Hospitality, LLC, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

Opinion

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Asheboro Hospitality, LLC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keita", with a stylized, flowing script.

June 27, 2014
Glen Allen, Virginia

ASHEBORO HOSPITALITY, LLC

BALANCE SHEETS

December 31, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 89,785	\$ 98,503
Accounts receivable	10,660	9,626
Mortgage escrows	220,621	117,695
Total current assets	321,066	225,824
 PROPERTY AND EQUIPMENT, NET	 6,145,882	 6,287,618
 INTANGIBLE ASSETS, NET	 65,881	 80,474
	\$ 6,532,829	\$ 6,593,916

See Report of Independent Accountants and Notes to Financial Statements.

ASHEBORO HOSPITALITY, LLC

BALANCE SHEETS, CONTINUED

December 31, 2013 and 2012

LIABILITIES AND EQUITY	2013	2012
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 128,281	\$ 121,202
Accounts payable	38,272	34,052
Accrued expenses	19,607	19,781
Guest deposits	6,410	1,054
Total current liabilities	192,570	176,089
 LONG-TERM DEBT, less current maturities	 5,604,083	 5,727,209
 EQUITY		
Retained earnings	736,176	690,618
	\$ 6,532,829	\$ 6,593,916

See Report of Independent Accountants and Notes to Financial Statements.

ASHEBORO HOSPITALITY, LLC

STATEMENTS OF INCOME

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenue:		
Hotel operations	\$ 2,425,901	\$ 2,313,023
Other income	<u>9,521</u>	<u>7,222</u>
Total revenue	<u>2,435,422</u>	<u>2,320,245</u>
Operating expenses:		
Hotel operating expenses	1,059,620	1,061,467
Depreciation and amortization	197,333	194,951
Franchise expenses	299,828	291,128
Taxes and licenses	<u>65,780</u>	<u>65,044</u>
Total expenses	<u>1,622,561</u>	<u>1,612,590</u>
Operating income	812,861	707,655
Other expense:		
Interest expense	<u>(334,303)</u>	<u>(341,725)</u>
Net income	<u>\$ 478,558</u>	<u>\$ 365,930</u>

See Report of Independent Accountants and Notes to Financial Statements.

ASHEBORO HOSPITALITY, LLC
STATEMENTS OF CHANGES IN EQUITY
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Balance, beginning	\$ 690,618	\$ 701,482
Distributions	(433,000)	(376,794)
Net income	<u>478,558</u>	<u>365,930</u>
Balance, ending	<u>\$ 736,176</u>	<u>\$ 690,618</u>

See Report of Independent Accountants and Notes to Financial Statements.

ASHEBORO HOSPITALITY, LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 478,558	\$ 365,930
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	197,333	194,951
(Increase) decrease in assets:		
Accounts receivable	(1,034)	(9,626)
Increase (decrease) in liabilities:		
Accounts payable	4,220	(7,287)
Accrued expenses	(173)	19,781
Guest deposits	5,356	1,054
Net cash provided by operating activities	684,260	564,803
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(41,005)	-
Deposits to mortgage escrows, net of disbursements	(102,926)	(39,224)
Net cash used in investing activities	(143,931)	(39,224)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(116,047)	(108,625)
Distributions	(433,000)	(376,794)
Net cash used in financing activities	(549,047)	(485,419)
Net change in cash and cash equivalents	(8,718)	40,160
Cash and cash equivalents, beginning	98,503	58,343
Cash and cash equivalents, ending	\$ 89,785	\$ 98,503
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 334,303	\$ 341,725

See Report of Independent Accountants and Notes to Financial Statements.

ASHEBORO HOSPITALITY, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

Asheboro Hospitality, LLC ("the Company") was formed in February 2011 in the state of North Carolina. The Company's principal business activity is the operation of a 111-room hotel in Asheboro, North Carolina.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Furniture, fixtures and equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

See Report of Independent Accountants. Notes continued on next page.

ASHEBORO HOSPITALITY, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$6,345 and \$7,092 for 2013 and 2012, respectively.

Income taxes:

As a limited liability company, the Company's taxable income or loss is allocated to its members. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at December 31, 2013 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at December 31, 2013 and 2012. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2010.

Use of estimates in the preparation of financial statements:

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 2. Mortgage Escrows

Mortgage escrows are comprised of the following at December 31:

	<u>2013</u>	<u>2012</u>
Reserve for replacements escrow	\$ 157,098	\$ 65,576
Real estate tax escrow	36,664	32,537
Property insurance escrow	<u>26,859</u>	<u>19,582</u>
	<u>\$ 220,621</u>	<u>\$ 117,695</u>

See Report of Independent Accountants. Notes continued on next page.

ASHEBORO HOSPITALITY, LLC
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 950,000	\$ 950,000
Building	5,867,388	5,867,388
Furniture, fixtures and equipment	<u>250,393</u>	<u>209,388</u>
	7,067,781	7,026,776
Less accumulated depreciation	<u>(921,899)</u>	<u>(739,158)</u>
	<u>\$ 6,145,882</u>	<u>\$ 6,287,618</u>

Depreciation expense was \$182,740 and \$180,358 for 2013 and 2012, respectively.

Note 4. Intangible Assets

Intangible assets at December 31, 2013 and 2012, consists of financing fees that are amortized over the term of the related loan of 7 years (see Note 5). Amortization expense recognized on all amortizable intangibles was \$14,593 in both 2013 and 2012.

Estimated future amortization expense for the next five years is as follows at December 31, 2013:

2014	\$ 14,593
2015	\$ 14,593
2016	\$ 14,593
2017	\$ 14,593
2018	\$ 7,509

Note 5. Long-term Debt

	<u>2013</u>	<u>2012</u>
Promissory note due to Wells Fargo payable in monthly installments of \$37,529, including principal and interest at 5.69%; secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents, an assignment of the franchise agreement guaranteed by several affiliates; matures in August 2018.	\$ 5,732,364	\$ 5,848,411
Less current maturities	<u>128,281</u>	<u>121,202</u>
	<u>\$ 5,604,083</u>	<u>\$ 5,727,209</u>

Under the terms of the promissory note, the Company is required to make monthly deposits for reserves, taxes and insurance and is subject to certain restrictions as defined in the agreement (see Note 2).

See Report of Independent Accountants. Notes continued on next page.

ASHEBORO HOSPITALITY, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 5. Long-term Debt (continued)

Future maturities required on long-term debt at December 31, 2013 are as follows:

2014	\$	128,281
2015		135,773
2016		143,703
2017		152,097
2018		<u>5,172,510</u>
	\$	<u><u>5,732,364</u></u>

Note 6. Related Party Transactions

An affiliate provides management services to the Company. The arrangement provides for a management fee of 3.0% of gross room revenues. Total fees incurred during 2013 and 2012 were \$74,008 and \$79,474, respectively. Management fees included in accounts payable amounted to \$7,895 and \$8,347 as of December 31, 2013 and 2012, respectively.

Note 7. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Hilton Hotels Corporation (Hilton), the franchisor through July 17, 2018. The Company was required to pay the franchisor a monthly royalty fee equal to 4.0% of the Company's gross room revenues as defined by the agreement during 2012 and through June 2013. In July 2013, the monthly royalty fee increased to 5%. The royalty fees amounted to \$105,098 and \$97,472 for the years ended December 31, 2013 and 2012. The Company must pay the franchisor a monthly advertising program fee equal to 4.0% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$95,743 and \$97,472 for the years ended December 31, 2013 and 2012. These fees are included in franchise expenses on the statements of income. Other franchise expenses relate to the Hilton frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Hilton standards set forth in the agreement.

Note 8. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to year end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

See Report of Independent Accountants.

HOTELS AT EXECUTIVE WAY, LLC

Financial Statements

December 31, 2013 and 2012

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Members of
Hotels at Executive Way, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Hotels at Executive Way, LLC, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

Opinion

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hotels at Executive Way, LLC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keita", with a stylized, flowing script.

June 27, 2014
Glen Allen, Virginia

HOTELS AT EXECUTIVE WAY, LLC

BALANCE SHEETS

December 31, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 31,181	\$ 498,431
Accounts receivable	26,891	15,513
Prepaid expenses	197	-
Total current assets	58,269	513,944
 PROPERTY AND EQUIPMENT, NET	 4,943,498	 5,167,181
 INTANGIBLE ASSETS, NET	 46,067	 51,499
	\$ 5,047,834	\$ 5,732,624

See Report of Independent Accountants and Notes to Financial Statements.

HOTELS AT EXECUTIVE WAY, LLC

BALANCE SHEETS, CONTINUED

December 31, 2013 and 2012

LIABILITIES AND EQUITY	2013	2012
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 211,874	\$ 202,931
Accounts payable	24,845	17,152
Accrued expenses	32,331	34,152
Guest deposits	2,257	1,904
Total current liabilities	271,307	256,139
 LONG-TERM DEBT		
Long-term debt, less current maturities	4,288,693	4,500,567
 EQUITY		
Retained earnings	487,834	975,918
	\$ 5,047,834	\$ 5,732,624

See Independent Accountants Report and Notes to Financial Statements.

HOTELS AT EXECUTIVE WAY, LLC

STATEMENTS OF INCOME

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenue:		
Hotel operations	\$ 1,509,754	\$ 1,448,611
Other income	<u>4,141</u>	<u>4,837</u>
Total revenue	<u>1,513,895</u>	<u>1,453,448</u>
Operating expenses:		
Hotel operating expenses	793,912	747,369
Depreciation and amortization	240,315	236,823
Franchise expenses	147,439	138,271
Taxes and licenses	<u>54,680</u>	<u>54,542</u>
Total expenses	<u>1,236,346</u>	<u>1,177,005</u>
Operating income	<u>277,549</u>	<u>276,443</u>
Other expense:		
Interest expense	(211,474)	(137,211)
Other expense	<u>(7,772)</u>	<u>-</u>
	<u>(219,246)</u>	<u>(137,211)</u>
Net income	<u>\$ 58,303</u>	<u>\$ 139,232</u>

See Report of Independent Accountants and Notes to Financial Statements.

HOTELS AT EXECUTIVE WAY, LLC
STATEMENTS OF CHANGES IN EQUITY
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Balance, beginning	\$ 975,918	\$ 1,030,749
Distributions	(546,387)	(194,063)
Net income	<u>58,303</u>	<u>139,232</u>
Balance, ending	\$ <u>487,834</u>	\$ <u>975,918</u>

See Report of Independent Accountants and Notes to Financial Statements.

HOTELS AT EXECUTIVE WAY, LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 58,303	\$ 139,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	240,315	236,823
(Increase) decrease in assets:		
Accounts receivable	(11,378)	(11,824)
Prepaid expenses	(197)	-
Increase (decrease) in liabilities:		
Accounts payable	7,693	(10,311)
Accrued expenses	(1,821)	26,059
Guest deposits	353	1,904
Net cash provided by operating activities	<u>293,268</u>	<u>381,883</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(11,200)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments on) proceeds from long-term debt	(202,931)	286,831
Payment of financing fees	-	(14,660)
Distributions	<u>(546,387)</u>	<u>(194,063)</u>
Net cash (used in) provided by financing activities	<u>(749,318)</u>	<u>78,108</u>
Net change in cash and cash equivalents	<u>(467,250)</u>	459,991
Cash and cash equivalents, beginning	<u>498,431</u>	<u>38,440</u>
Cash and cash equivalents, ending	<u>\$ 31,181</u>	<u>\$ 498,431</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 212,269</u>	<u>\$ 126,915</u>

See Report of Independent Accountants and Notes to Financial Statements.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

Hotels at Executive Way, LLC ("the Company") was formed in June 2008 in the state of North Carolina. The Company's principal business activity is the operation of an 86-room hotel in Asheboro, North Carolina.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Site improvements	15
Furniture, fixtures and equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

See Report of Independent Accountants. Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$4,000 and \$5,405 for 2013 and 2012, respectively.

Income taxes:

As a limited liability company, the Company's taxable income or loss is allocated to its members. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at December 31, 2013 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at December 31, 2013 and 2012. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2010.

Use of estimates in the preparation of financial statements:

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 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 604,260	\$ 604,260
Building	4,487,858	4,487,858
Site improvements	185,290	178,090
Furniture, fixtures and equipment	<u>753,933</u>	<u>749,933</u>
	6,031,341	6,020,141
Less accumulated depreciation	<u>(1,087,843)</u>	<u>(852,960)</u>
	<u>\$ 4,943,498</u>	<u>\$ 5,167,181</u>

Depreciation expense was \$234,883 and \$234,079 for 2013 and 2012, respectively.

See Report of Independent Accountants. Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

Note 3. Intangible Assets

Intangible assets consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Franchise fees	\$ 50,000	\$ 50,000
Financing costs	<u>14,660</u>	<u>14,660</u>
	64,660	64,660
Less accumulated amortization	<u>(18,593)</u>	<u>(13,161)</u>
	<u>\$ 46,067</u>	<u>\$ 51,499</u>

The franchise fees will be amortized over the life of the franchise agreement (20 years), and the financing fees will be amortized over the life of the note agreement (5 years). Amortization expense recognized on all amortizable intangibles was \$5,432 and \$2,744 in 2013 and 2012, respectively.

Estimated future amortization expense for the next five years is as follows at December 31, 2013:

2014	\$ 5,432
2015	\$ 5,432
2016	\$ 5,432
2017	\$ 5,188
2018	\$ 2,500

Note 4. Related Party Transactions

The Company has entered into a management agreement with an affiliate. The agreement is on a month-to-month basis and provides for a management fee of 3.0% of gross revenues as defined in the agreement. Total fees incurred during 2013 and 2012 were \$44,763 and \$42,855, respectively. Management fees included in accounts payable amounted to \$4,859 and \$4,832 as of December 31, 2013 and 2012, respectively.

See Report of Independent Accountants. Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

Note 5. Long-term Debt

	<u>2013</u>	<u>2012</u>
Promissory note due to High Point Bank (HPB) payable in monthly installments of \$30,700, including interest at HPB prime rate plus 1.00% with a floor of 4.50% and a ceiling of 7.50% (4.50% at both December 31, 2013 and 2012), through November 2017 when all outstanding interest and principal are due. Secured by a deed of trust on substantially all the assets of the Company. The note is subject to certain financial covenants.	\$ 3,998,763	\$ 4,180,265
Promissory note due to High Point Bank (HPB) payable in monthly installments of \$3,900, including interest at HPB prime rate plus 1.375% with a floor of 4.875% and a ceiling of 7.50% (4.875% at both December 31, 2013 and 2012), through November 2017 when all outstanding interest and principal are due. Secured by a deed of trust and security agreement on substantially all the assets of the Company. The note is subject to certain financial covenants.	<u>501,804</u>	<u>523,233</u>
	4,500,567	4,703,498
Less current maturities	<u>211,874</u>	<u>202,931</u>
	<u>\$ 4,288,693</u>	<u>\$ 4,500,567</u>

Future maturities required on long-term debt at December 31, 2013 are as follows:

2014	\$ 211,874
2015	221,818
2016	231,766
2017	<u>3,835,109</u>
	<u>\$ 4,500,567</u>

See Report of Independent Accountants. Notes continued on next page.

HOTELS AT EXECUTIVE WAY, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 6. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Marriott International, Inc. (Marriott), the franchisor through October 2027. The Company is required to pay the franchisor a monthly royalty fee equal to 4.5% of the Company's gross room revenues as defined by the agreement. The royalty fees amounted to \$67,144 and \$64,282 for the years ended December 31, 2013 and 2012. The Company must pay the franchisor a monthly advertising program fee equal to 2.5% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$36,828 and \$35,832 for the fiscal years ended December 31, 2013 and 2012. These fees are included in franchise expenses on the statement of income. Other franchise expenses relate to the Marriott frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Marriott standards set forth in the agreement.

Note 7. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to year end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

See Report of Independent Accountants.

BPR PINEHURST, LLC

Financial Statements

December 31, 2013 and 2012

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Members of
BPR Pinehurst, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of BPR Pinehurst, LLC, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

Opinion

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of BPR Pinehurst, LLC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keita", with a stylized, flowing script.

June 27, 2014
Glen Allen, Virginia

BPR PINEHURST, LLC

BALANCE SHEETS

December 31, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 245,275	\$ 45,204
Accounts receivable	23,657	19,757
Accounts receivable - other	-	80,250
Total current assets	268,932	145,211
 PROPERTY AND EQUIPMENT, NET	 5,141,445	 5,395,530
 OTHER ASSETS		
Intangible assets, net	61,074	74,167
Deposits	5,411	5,411
Total other assets	66,485	79,578
	\$ 5,476,862	\$ 5,620,319

See Report of Independent Accountants and Notes to Financial Statements.

BPR PINEHURST, LLC
BALANCE SHEETS, CONTINUED
December 31, 2013 and 2012

LIABILITIES AND EQUITY	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Line of credit	\$ 446,502	\$ 575,000
Current maturities of long-term debt	146,681	136,990
Accounts payable	32,161	14,841
Accrued expenses	36,672	17,214
Guest deposits	<u>5,199</u>	<u>4,261</u>
Total current liabilities	<u>667,215</u>	<u>748,306</u>
 LONG-TERM DEBT		
Long-term debt, less current maturities	<u>3,089,481</u>	<u>3,236,162</u>
 EQUITY		
Retained earnings	<u>1,720,166</u>	<u>1,635,851</u>
	 <u>\$ 5,476,862</u>	 <u>\$ 5,620,319</u>

See Report of Independent Accountants and Notes to Financial Statements.

BPR PINEHURST, LLC

STATEMENTS OF INCOME

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenue:		
Hotel operations	\$ 2,021,606	\$ 1,778,913
Other income	<u>7,248</u>	<u>23,670</u>
Total revenue	<u>2,028,854</u>	<u>1,802,583</u>
Operating expenses:		
Hotel operating expenses	1,021,491	873,926
Depreciation and amortization	275,292	237,647
Franchise expenses	225,007	213,870
Taxes and licenses	<u>42,183</u>	<u>40,289</u>
Total expenses	<u>1,563,973</u>	<u>1,365,732</u>
Operating income	464,881	436,851
Other expense:		
Interest expense	<u>(186,221)</u>	<u>(202,358)</u>
Net income	<u>\$ 278,660</u>	<u>\$ 234,493</u>

See Report of Independent Accountants and Notes to Financial Statements.

BPR PINEHURST, LLC

STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Balance, beginning	\$ 1,635,851	\$ 1,581,358
Distributions	(194,345)	(180,000)
Net income	<u>278,660</u>	<u>234,493</u>
Balance, ending	\$ <u>1,720,166</u>	\$ <u>1,635,851</u>

See Report of Independent Accountants and Notes to Financial Statements.

BPR PINEHURST, LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 278,660	\$ 234,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	275,292	237,647
(Increase) decrease in assets:		
Accounts receivable	(3,900)	922
Accounts receivable - other	80,250	(80,250)
Increase in liabilities:		
Accounts payable	17,320	14,841
Accrued expenses	19,458	14,141
Guest deposits	938	4,261
Net cash provided by operating activities	<u>668,018</u>	<u>426,055</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(8,114)</u>	<u>(784,017)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments on) borrowings from line of credit	(128,498)	575,000
Payments on long-term debt	(136,990)	(119,150)
Distributions	<u>(194,345)</u>	<u>(180,000)</u>
Net cash (used in) provided by financing activities	<u>(459,833)</u>	<u>275,850</u>
Net change in cash and cash equivalents	200,071	(82,112)
Cash and cash equivalents, beginning	<u>45,204</u>	<u>127,316</u>
Cash and cash equivalents, ending	<u>\$ 245,275</u>	<u>\$ 45,204</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 168,099</u>	<u>\$ 202,358</u>

See Report of Independent Accountants and Notes to Financial Statements.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

BPR Pinehurst, LLC ("the Company") was formed in February 2011 in the state of North Carolina. The Company's principal business activity is the operation of a 107-room hotel in Pinehurst, North Carolina.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Site improvements	15
Furniture, fixtures and equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

See Report of Independent Accountants. Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$4,441 and \$3,958 for 2013 and 2012, respectively.

Income taxes:

As a limited liability company, the Company's taxable income or loss is allocated to its members. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at December 31, 2013 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at December 31, 2013 and 2012. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2010.

Use of estimates in the preparation of financial statements:

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 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 250,000	\$ 250,000
Building	4,232,594	4,232,594
Site improvements	308,000	308,000
Furniture, fixtures and equipment	<u>934,790</u>	<u>926,676</u>
	5,725,384	5,717,270
Less accumulated depreciation	<u>(583,939)</u>	<u>(321,740)</u>
	<u>\$ 5,141,445</u>	<u>\$ 5,395,530</u>

Depreciation expense was \$262,199 and \$224,554 for 2013 and 2012, respectively.

See Report of Independent Accountants. Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 3. Intangible Assets

Intangible assets consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Franchise fees	\$ 59,500	\$ 59,500
Deferred financing costs	<u>35,714</u>	<u>35,714</u>
	95,214	95,214
Less accumulated amortization	<u>(34,140)</u>	<u>(21,047)</u>
	<u>\$ 61,074</u>	<u>\$ 74,167</u>

Deferred financing costs incurred in connection with securing long-term debt were capitalized and are being amortized over the term of the loan agreement. Franchise fees are being amortized over the life of the agreement (20 years). During January 2014, the Company incurred additional financing costs of \$146,507 related to a promissory note with CIBC, Inc. (see Note 5). The financing fees will be amortized over the life of the note agreement (30 years). Amortization expense recognized on all amortizable intangibles was \$13,093 in both 2013 and 2012.

Estimated future amortization expense, including amortization of the costs incurred related to the CIBC, Inc. note, for the next five years is as follows at December 31, 2013:

2014	\$ 10,630
2015	\$ 10,630
2016	\$ 10,630
2017	\$ 10,630
2018	\$ 10,630

Note 4. Line of Credit

The Company has a revolving line of credit with the Bank of North Carolina (BNC) with a borrowing limit of \$595,000. Interest is charged on borrowings at BNC prime rate plus 0.50% with a floor of 5.25% and a ceiling of 7.50% (5.25% at both December 31, 2013 and 2012). The line is secured by a deed of trust on substantially all of the assets of the Company, an assignment of leases and rents and is guaranteed by several affiliates of the Company. There was \$446,502 and \$575,000 outstanding on the line at December 31, 2013 and 2012, respectively. Subsequent to year end, the line was repaid in full with proceeds from a new promissory note (see Note 5).

See Report of Independent Accountants. Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 5. Long-term Debt

	<u>2013</u>	<u>2012</u>
Promissory note due to Bank of North Carolina (BNC) payable in monthly installments of \$26,094, including interest at BNC prime rate plus 0.50% with a floor of 5.25% and a ceiling of 7.50% (5.25% at both December 31, 2013 and 2012), through April 2016 when all outstanding interest and principal are due. Secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents, an assignment of the franchise agreement, and a lien on the reserve account held at BNC. The note is guaranteed by several affiliates and is subject to certain financial covenants. In January 2014, the note was repaid in full.	\$ 3,236,162	\$ 3,373,152
Less current maturities	<u>146,681</u>	<u>136,990</u>
	<u>\$ 3,089,481</u>	<u>\$ 3,236,162</u>

On January 7, 2014, the Company entered into a \$7,750,000 promissory note agreement with CIBC, Inc. The note is payable in monthly installments of \$42,940 including principal and interest at 5.28%. The note matures in January 2044. Proceeds from this note were used to repay the BNC note and repurchase membership interests. Future maturities required on long-term debt below reflect amounts due under the CIBC, Inc. note and at December 31, 2013 are as follows:

2014	\$ 99,407
2015	114,602
2016	120,232
2017	126,736
2018	133,592
Thereafter	<u>7,155,431</u>
	<u>\$ 7,750,000</u>

Note 6. Related Party Transactions

The Company has entered into a management agreement with an affiliate. The agreement provides for a management fee of 3.5% of gross revenues as defined in the agreement, with a minimum of \$5,000 per month, as well as a sales support fee of \$300 per month. Total fees incurred during 2013 and 2012 were \$73,822 and \$63,249, respectively, and management fees totaling \$8,000 were included in accounts payable as of December 31, 2013. No management fees were accrued as of December 31, 2012. The agreement expires in March 2016 but may be renewed upon expiration.

See Report of Independent Accountants. Notes continued on next page.

BPR PINEHURST, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 7. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Marriott International, Inc. (Marriott), the franchisor through April 20, 2026. The Company is required to pay the franchisor a monthly royalty fee equal to 5.0% of the Company's gross room revenues as defined by the agreement. The royalty fees amounted to \$100,084 and \$89,063 for the fiscal years ended December 31, 2013 and 2012. The Company must pay the franchisor a monthly advertising program fee equal to 2.5% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$50,540 and \$49,462 for the fiscal years ended December 31, 2013 and 2012. These fees are included in franchise expenses on the statement of income. Other franchise expenses relate to the Marriott frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Marriott standards set forth in the agreement. During the year ended 2012, the Company entered into the Marriott renovation incentive program, and upon completion of substantial renovations, the Company earned \$80,250, which is included in accounts receivable – other and hotel operating expenses at December 31, 2012. The balance was fully collected during 2013.

Note 8. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to year end, the Company entered into a \$7,750,000 promissory note with CIBC, Inc (see Note 5). Proceeds from this note were used to payoff existing debt and certain costs were capitalized (see Note 3).

Subsequent to year end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

See Report of Independent Accountants.

KRISHNA KINGSLAND PROPERTIES, INC.

Financial Statements

December 31, 2013 and 2012

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of Krishna Kingsland Properties, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Krishna Kingsland Properties, Inc., which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

Opinion

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Krishna Kingsland Properties, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keita", with a stylized, flowing script.

June 27, 2014
Glen Allen, Virginia

KRISHNA KINGSLAND PROPERTIES, INC.

BALANCE SHEETS

December 31, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,568	\$ 7,389
Accounts receivable	3,924	11,189
Total current assets	24,492	18,578
 PROPERTY AND EQUIPMENT, NET	 4,162,850	 4,427,244
 INTANGIBLE ASSETS, NET	 31,250	 33,750
	\$ 4,218,592	\$ 4,479,572

See Report of Independent Accountants and Notes to Financial Statements.

KRISHNA KINGSLAND PROPERTIES, INC.

BALANCE SHEETS, CONTINUED

December 31, 2013 and 2012

LIABILITIES AND EQUITY	2013	2012
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 387,074	\$ 371,389
Accounts payable	32,444	21,979
Accrued expenses	13,941	11,986
Guest deposits	-	446
Total current liabilities	433,459	405,800
 LONG-TERM DEBT, less current maturities	 3,655,283	 3,907,850
 EQUITY		
Common stock; no par value; 1,000 shares authorized, issued and outstanding	1,000	1,000
Retained earnings	128,850	164,922
	129,850	165,922
	\$ 4,218,592	\$ 4,479,572

See Report of Independent Accountants and Notes to Financial Statements.

KRISHNA KINGSLAND PROPERTIES, INC.

STATEMENTS OF OPERATIONS

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenue:		
Hotel operations	\$ 1,425,710	\$ 1,511,798
Other income	<u>7,260</u>	<u>8,826</u>
Total revenue	<u>1,432,970</u>	<u>1,520,624</u>
Operating expenses:		
Hotel operating expenses	870,244	819,523
Depreciation and amortization	286,203	290,219
Franchise expenses	121,807	130,270
Taxes and licenses	<u>43,956</u>	<u>44,387</u>
Total expenses	<u>1,322,210</u>	<u>1,284,399</u>
Operating income	110,760	236,225
Other expense:		
Interest expense	<u>(121,832)</u>	<u>(138,931)</u>
Net (loss) income	<u>\$ (11,072)</u>	<u>\$ 97,294</u>

See Report of Independent Accountants and Notes to Financial Statements.

KRISHNA KINGSLAND PROPERTIES, INC.

STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Balance, beginning	\$ 165,922	\$ 242,185
Distributions	(25,000)	(173,557)
Net (loss) income	<u>(11,072)</u>	<u>97,294</u>
Balance, ending	<u>\$ 129,850</u>	<u>\$ 165,922</u>

See Report of Independent Accountants and Notes to Financial Statements.

KRISHNA KINGSLAND PROPERTIES, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (11,072)	\$ 97,294
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	286,203	290,219
(Increase) decrease in assets:		
Accounts receivable	7,265	(11,189)
Increase (decrease) in liabilities:		
Accounts payable	10,465	(1,024)
Accrued expenses	1,955	11,986
Guest deposits	(446)	446
Net cash provided by operating activities	<u>294,370</u>	<u>387,732</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(19,309)</u>	<u>(36,703)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(236,882)	(272,676)
Distributions	<u>(25,000)</u>	<u>(173,557)</u>
Net cash used in financing activities	<u>(261,882)</u>	<u>(446,233)</u>
Net change in cash and cash equivalents	13,179	(95,204)
Cash and cash equivalents, beginning	<u>7,389</u>	<u>102,593</u>
Cash and cash equivalents, ending	<u><u>\$ 20,568</u></u>	<u><u>\$ 7,389</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u><u>\$ 121,832</u></u>	<u><u>\$ 138,931</u></u>

See Report of Independent Accountants and Notes to Financial Statements.

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business:

Krishna Kingsland Properties, Inc. ("the Company") was formed in July 2004 in the state of Georgia. The Company's principal business activity is the operation of an 82-room hotel in Kingsland, Georgia.

Basis of accounting:

The accompanying 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").

Cash and cash equivalents:

The Company considers all highly liquid investments and debt instruments purchased with maturities of three months or less to be cash equivalents.

Accounts receivable:

The accounts receivable balance consisted of amounts due from guests at the balance sheet date for room charges and taxes, as well as other miscellaneous accounts receivable. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization of losses on balances outstanding at year-end will be immaterial and an allowance for uncollectible accounts is not necessary. Accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Accounts receivable are written off when management believes all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded when received. Interest is not charged on outstanding accounts receivable.

Property and equipment:

Property 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:

	<u>Years</u>
Building	39
Furniture and fixtures	7
Equipment	7

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 and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Revenue recognition:

Rooms are generally rented to customers on a day by day basis. Revenue is recognized at the end of each day.

See Report of Independent Accountants. Notes continued on next page.

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 1. Nature of Business and Summary of Significant Accounting Policies (continued)

Advertising costs:

The Company expenses all advertising costs as incurred. Advertising expense was \$1,996 and \$1,045 for 2013 and 2012, respectively.

Income taxes:

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

The Company follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position at December 31, 2013 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at December 31, 2013 and 2012. The Company's income tax returns are generally not subject to audit by taxing authorities before the year ended December 31, 2010.

Use of estimates in the preparation of financial statements:

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 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 670,678	\$ 670,678
Building	3,546,056	3,546,056
Furniture and fixtures	1,157,715	1,138,406
Equipment	<u>199,778</u>	<u>199,778</u>
	5,574,227	5,554,918
Less accumulated depreciation	<u>(1,411,377)</u>	<u>(1,127,674)</u>
	<u>\$ 4,162,850</u>	<u>\$ 4,427,244</u>

Depreciation expense was \$283,703 and \$282,094 for 2013 and 2012, respectively.

See Report of Independent Accountants. Notes continued on next page.

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 3. Intangible Assets

Intangible assets at December 31, 2013 and 2012, consists of \$50,000 in franchise fees that are amortized over the term of the related franchise agreement of 20 years (see Note 6). Amortization expense recognized on all amortizable intangibles was \$2,500 in 2013 and \$8,125 in 2012. Accumulated amortization totaled \$18,750 and \$16,250 as of December 31, 2013 and 2012, respectively.

Estimated future amortization expense for the next five years is as follows at December 31, 2013:

2014	\$	2,500
2015	\$	2,500
2016	\$	2,500
2017	\$	2,500
2018	\$	2,500

Note 4. Long-term Debt

	<u>2013</u>	<u>2012</u>
Promissory note due to United Community Bank (UCB) payable in monthly installments of \$37,417, including principal and interest at 3 month LIBOR rate plus 2.0% (2.24% at December 31, 2013 and 2.31% at December 31, 2012), through July 2017 when all outstanding interest and principal are due; secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents; guaranteed by several affiliates.	\$ 3,681,752	\$ 3,911,405
Promissory note due to United Community Bank (UCB) payable in monthly installments of \$2,952, including principal and interest at the prime rate with a minimum rate of 6.08% (6.08% at both December 31, 2013 and 2012), through July 2017 when all outstanding interest and principal are due; secured by a deed of trust on substantially all the assets of the Company, an assignment of leases and rents; guaranteed by several affiliates.	<u>360,605</u>	<u>367,834</u>
	4,042,357	4,279,239
Less current maturities	<u>387,074</u>	<u>371,389</u>
	\$ <u>3,655,283</u>	\$ <u>3,907,850</u>

See Report of Independent Accountants. Notes continued on next page.

KRISHNA KINGSLAND PROPERTIES, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

Note 4. Long-term Debt (continued)

Future maturities required on long-term debt at December 31, 2013 are as follows:

2014	\$	387,074
2015		391,803
2016		401,527
2017		<u>2,861,953</u>
	\$	<u><u>4,042,357</u></u>

Note 5. Related Party Transactions

An affiliate provides management services to the Company. The arrangement provides for a management fee of 3.0% of gross room revenues. Total fees incurred during 2013 and 2012 were \$42,474 and \$45,044, respectively. Management fees included in accounts payable amounted to \$6,356 and \$5,727 at December 31, 2013 and 2012, respectively.

Note 6. Transactions with Franchisor

The Company operates under the terms of a franchise agreement with Marriott International, Inc. (Marriott), the franchisor through September 2028. The Company is required to pay the franchisor a monthly royalty fee equal to 4.5% of the Company's gross room revenues as defined by the agreement. The royalty fees amounted to \$63,711 and \$67,566 for the years ended December 31, 2013 and 2012. The Company must pay the franchisor a monthly advertising program fee equal to 2.5% of gross room revenues as contribution to pay for various programs to benefit the franchise system, as defined by the agreement, which is maintained and administered by the franchisor. The advertising fees amounted to \$34,509 and \$37,795 for the years ended December 31, 2013 and 2012. These fees are included in franchise expenses on the statements of operations. Other franchise expenses relate to the Marriott frequent guest program and reservation fees.

The Company may be required to modernize, rehabilitate, and/or upgrade the hotel per Marriott standards set forth in the agreement.

Note 7. Subsequent Events

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through June 27, 2014, the date which the financial statements were available to be issued.

Subsequent to year end, the Company signed a contract of sale for the hotel that is the sole source of its revenue. The closing is expected to be held in July 2014.

See Report of Independent Accountants.