AMERICAN HOTEL INCOME PROPERTIES REIT LP

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS AND OPERATIONS AND FINANCIAL CONDITION
For the three months and six months ended June 30, 2014
(Expressed in U.S. Dollars)

Dated: August 14, 2014

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FORWARD-LOOKING DISCLAIMER

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

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results. Those risks and uncertainties include, among other things, risks related to: general economic conditions; unit prices; liquidity; tax risk; ability to access capital markets; competition for real property investments; environmental matters and changes in legislation. Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions and information currently available; however, management can give no assurance that actual results will be consistent with these forward-looking statements. Additional information about risks and uncertainties is contained in AHIP's annual information form for the year ended December 31, 2013 available on SEDAR at www.sedar.com.

Factors and assumptions that were applied in drawing conclusions and could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and AHIP's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities, and statements regarding AHIP's future economic performance. AHIP has based these forward-looking statements on AHIP's current expectations about future events.

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

These forward-looking statements are made as of August 14, 2014 and AHIP assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

BASIS OF PRESENTATION

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") of American Hotel Income Properties REIT LP ("AHIP") for the three months and six months ended June 30, 2014 has been prepared and includes material financial information as of August 14, 2014. This MD&A should be read in conjunction with AHIP's audited consolidated financial statements for the year ended December 31, 2013 and the unaudited condensed consolidated interim financial statements for the three months and six months ended June 30, 2014, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

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

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

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AHIP's Board of Directors, upon recommendation of its Audit Committee, approved the contents of this MD&A on August 14, 2014.

NON-IFRS MEASURES

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

a) Debt to Gross Book Value

AHIP believes that debt to gross book value is an important supplemental measure of financial condition.

"Debt" means the face value (excluding deferred financing costs) of the construction facility, term loans, contingent consideration and deferred compensation payable as at June 30, 2014.

"Gross book value" means, at any time, the book value of the total assets of AHIP, as shown on its then most recent consolidated statement of financial position, plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets) shown thereon or in the notes thereto, less deferred income tax liabilities.

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

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

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

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

c) Core FFO per Unit and Core AFFO per Unit

Management believes that the computation of FFO per Unit and AFFO per Unit includes certain items that are not indicative of the results provided by AHIP's operating portfolio and affect the comparability of AHIP's period-over-period performance. These items include the dilutive impact of the June 2014 Unit offering. Therefore, in addition to FFO per Unit and AFFO per Unit, management uses Core FFO per Unit and Core AFFO per Unit to exclude such items. Management believes that Core FFO per Unit and Core AFFO per Unit are useful supplemental measures,

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however, these may not be comparable to the adjusted or modified FFOs per Unit or AFFOs per Unit of other REITs.

d) Net Operating Income ("NOI")

AHIP believes NOI is an important measure of operating performance of real estate properties.

"NOI" is defined as revenue less operating expenses (excluding depreciation and amortization).

e) Furniture, Fixtures and Equipment Reserves ("FFE Reserves")

FFE Reserves are calculated as three percent of room revenues for the Oak Tree Inn Hotels and four percent of total revenues for the Branded Hotels.

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

AHIP calculates EBITDA as net income (loss) and comprehensive income (loss) before income taxes, depreciation and amortization, gains (or losses) from sales of hotel properties and equipment, finance costs and business acquisition costs.

g) Interest Coverage Ratio

AHIP calculates the interest coverage ratio as EBITDA for the period divided by interest expensed during the period. Specifically, interest expense is computed as net finance costs less non-cash items including accretion of contingent consideration and amortization of deferred financing costs. The interest coverage ratio is a measure of AHIP's ability to service its debt.

h) Same Property Metrics

Same property metrics represent operating results for the same properties over both reporting periods, and is intended to measure the period-over-period performance of the same asset base. These metrics adjust for the impact of properties that have been sold or acquired during the current period.

i) Average Daily Rate ("ADR")

A measure of the average rate paid for room sold.

j) Revenue Per Available Room ("RevPAR")

RevPAR is the total guest room revenue divided by the total number of available guest rooms and is affected by the amount of unoccupied available rooms. It can also be determined by Occupancy multiplied by ADR.

OVERVIEW

About AHIP

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

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

(a) acquiring common shares and, 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;

(b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of AHIP and making distributions to unitholders; and

(c) in connection with the undertaking set out above, reinvesting income and gains of AHIP and taking other actions besides the mere protection and preservation of AHIP's property.

The principal business of AHIP is to issue units of AHIP ("Units") and to acquire and hold shares of the U.S. REIT. The U.S. REIT was established, among other things, for the purposes of indirectly acquiring and owning hotel real estate properties in the U.S.

AHIP's long-term objectives are to:

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

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

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

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

Recent Developments

a) Opening of the Oak Tree Inn Jefferson City, Missouri on February 4, 2014

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

b) Acquisition of four hotel properties in Virginia on March 12, 2014 (the "Virginia Portfolio")

On March 12, 2014, AHIP completed the acquisition of four hotel properties located in Virginia for an aggregate purchase price of approximately $37.2 million, excluding post-acquisition adjustments and brand mandated property improvement plans. The Virginia Portfolio is comprised 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). The properties are located in Harrisonburg, Emporia and South Hill, Virginia, near transportation hubs and other major demand generators such as James Madison University, manufacturing facilities, distribution centres, and medical centres. The properties cater primarily to corporate travelers seeking select-service lodging and fit within AHIP's Branded Hotels operating segment.

In connection with the acquisition of the Virginia Portfolio, AHIP entered into a 10 year fixed rate loan agreement with a major international bank for a $24.5 million loan. The interest rate is 4.97% per annum. The loan is interest-only for the first four years and thereafter, a constant monthly payment of principal and interest will be due and payable over a 30-year amortization schedule, subject to prepayment provisions. AHIP was required to establish and fund $6.0 million in cash reserves to cover property improvement plans and other planned capital improvements for

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the Virginia Portfolio. An ongoing FF&E Reserve will also be required to be funded. The FF&E reserve has been waived for the initial 12 months on three of the properties and for the first 24 months for the fourth property.

c) Opening of the Oak Tree Inn Santa Teresa, New Mexico on May 6, 2014

On May 1, 2014, AHIP acquired the new 56 room Oak Tree Inn hotel and Penny's Diner from SunOne pursuant to the Master Development Agreement for $5.1 million. The property is secured by a long term railway contract and opened for business on May 6, 2014. The acquisition was funded by a combination of cash, mortgage debt and Units.

d) Completion of Cdn$50.7 million Unit Issuance on June 4, 2014

On June 4, 2014, AHIP completed a public offering of 4,900,000 Units, on a bought deal basis, at a price of Cdn$10.35 per Unit, for total gross proceeds of Cdn$50,715,100. Included in the closing were 552,000 Units (Cdn$5,713,200) from a partial exercise of the over-allotment option. As described in the short form prospectus dated May 29, 2014, AHIP intends to use the net proceeds of the offering to: (i) acquire from SunOne, upon completion of construction, three previously announced hotel developments as described below; (ii) partially fund the acquisition of two additional railway lodging facilities which will require renovations to meet Oak Tree Inn quality standards; (iii) partially fund the potential acquisition of two high-quality nationally-branded hotel portfolios; and (iv) fund working capital and general corporate purposes.

e) Acquisition of four hotel properties in North Carolina and Georgia in July 2014 (the "Southeastern Portfolio")

On July 3, 2014, AHIP announced the acquisition of the first three hotels in the Southeastern Portfolio. The three properties included a 111-room Hampton Inn and 87-room Fairfield Inn & Suites located in Asheboro, North Carolina and an 82-room Fairfield Inn & Suites located in Kingsland, Georgia. On July 11, 2014, AHIP announced the acquisition of the fourth hotel, a 107-room SpringHill Suites hotel in Pinehurst, North Carolina. The four hotels were acquired for an aggregate purchase price of $30.5 million before customary closing and post-acquisition adjustments and excluding a $1.5 million brand mandated property improvement plan. The acquisition was funded using a combination of cash from AHIP's June 2014 bought deal offering of Units, the assumption of existing CMBS loans of approximately $13.4 million on the SpringHill Suites and Hampton Inn properties and new CMBS debt on the two Fairfield Inn & Suites properties of $6.0 million.

f) New hotel developments opening in 2014

The following properties were previously approved by AHIP's Board of Directors and are presently under construction by SunOne Developments Inc. ("SunOne") pursuant to the Master Development Agreement:

i) *Oak Tree Inn Brunswick, Maryland*

On August 23, 2013, AHIP announced the commitment with SunOne to purchase a new 25-room Oak Tree Inn and Penny's Diner located in Brunswick, Maryland for $2.8 million. The property will be secured by a long-term railway contract and is expected to open in September 2014.

ii) *Oak Tree Inn Glendive, Montana*

On November 7, 2013, AHIP announced the commitment with SunOne to purchase a new 50-room Oak Tree Inn hotel and Penny's Diner located in Glendive, Montana for $4.9 million. The property is secured by a long-term railway contract and is expected to open in November 2014.

iii) *Oak Tree Inn Wellington, Kansas*

On November 7, 2013, AHIP announced the commitment with SunOne to purchase a new 110-room Oak Tree Inn hotel located in Wellington, Kansas for $7.4 million. The property will be secured by a long-term railway contract and is expected to open in December 2014.

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Outlook

Following the acquisition of the Southeastern Portfolio, AHIP's portfolio is comprised of 47 hotels located in 22 states across the U.S., representing an aggregate of 3,958 rooms, excluding the three properties (or 185 rooms) currently under development through SunOne.

AHIP's operating properties include 35 hotels which operate under AHIP's flagship "Oak Tree Inn" brand, seven under the "Hampton Inn" banner (a Hilton brand), three under the "Fairfield Inn" banner (a Marriott brand), one under the "Residence Inn" banner (a Marriott brand) and one under the SpringHill Suites banner (a Marriott brand). The Hilton and Marriott branded properties are classified in the "Branded Hotels" operating segment. The Oak Tree Inn Hotels have been specifically designed for railway employee lodging customers while providing transient customers with a superior quality, select service experience. The Branded Hotels are located near transportation hubs and other demand generators that cater primarily to corporate-transient travelers. Management estimates that approximately 75% of the total available room-nights within the Oak Tree Inn portfolio are covered under contracts containing minimum occupancy guarantees. The Branded Hotels are supported by distribution networks of two of the largest hotel brands in the world. In addition, Hampton Inn was recognized by Hotel Management Magazine as the number one limited service hotel chain for the second year in a row in their annual survey published on April 21, 2014.

AHIP continues to evaluate opportunities to acquire additional high quality economy, select service and extended stay hotel assets in the U.S. on an accretive basis. Management remains focused on augmenting its portfolio and since the last quarter has examined and evaluated over $800 million of for-sale hotel inventory. Preliminary offers have been tendered on multiple hotel portfolios in the South Western and South Eastern U.S. and AHIP is in its initial phase of due diligence evaluating some of those opportunities. The Pittsburgh Portfolio, Virginia Portfolio and Southeastern Portfolio are representative examples of the good physical quality assets and strong in-place cash flow / yield that AHIP is targeting in its acquisitions.

In January 2014, at America's Lodging Investment Summit, PKF Hospitality Research ("PKF-HR") projected national U.S. RevPAR growth of 6.6% in 2014 followed by a further 7.5% increase in 2015. In addition, in April 2014, STR reported Q1 2014 RevPAR growth of 6.8%, which was in line with the PKF projections.

The second quarter results for 2014 for the top 25 markets in the U.S. exceeded those forecasts. STR reported that industry occupancy increased by 3.6% to 68.1% and ADR rose by 4.4% to $115.46 resulting in a RevPAR increase of 8.2%. The growth is due in part from limited new supply and hoteliers' improved pricing power. Demand has recovered in 44 of the top-50 U.S. markets that PKF-HR monitors, while supply remains below the long-run average in 47 of the top-50 markets. Management expects the Branded Hotels operating performance for 2014 to be consistent with the projected growth in the U.S. lodging industry. According to PKF Consulting USA, LLC's Annual Hospitality Investment Survey, "Lodging profits are up, debt is more readily available at attractive terms, capitalization rates are stable and investors are heartened by strong lodging metrics – expect values and sales activity to continue to increase".

The Oak Tree Inn Hotels will have modest total RevPAR growth arising from contractual cost of living rate increases negotiated in the various railway contracts and higher occupancies from railway employees caused by higher shipping volumes. According to Rail Time Indicators on July 3, 2014, "U.S. Railroads originated in June, the highest number of shipments of intermodal units in history. For the second quarter, U.S. intermodal traffic was up 8%".

Some of the key initiatives for AHIP in 2014 include:

- Advance existing negotiations and enter into new negotiations to close on approximately $200 million of accretive acquisitions in 2014
- Achieve a minimum Cdn$250 million market capitalization by the end of 2014
- Maintain an overall leverage of approximately 50-55% of gross book value
- Maintain Unit distributions and a conservative AFFO payout ratio below 85%

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Management believes that AHIP has entered the hotel market at an opportune time. Hotels in secondary and tertiary markets continue to sell at or below replacement cost, ADR and occupancy rates continue to be strong and management expects RevPAR to grow by 6% for the hotel industry in 2014 as the cycle extends. U.S. CMBS debt availability is at historic underwriting levels for hotels with approximately $13 billion of debt extended in 2013, which is anticipated to increase in 2014.

Since the end of the last quarter, spreads over the 10 year fixed swap rate have compressed by approximately 25 bps. Additionally, longer term 10 year interest only mortgages are also being offered. Collectively, this type of financing provides a highly accretive environment for hotel acquisitions priced in the 8.0% capitalization rate range with conservative leverage in the 50% range. With hotel supply growth slowly returning to the long term average of 2.1% by 2017 (as predicted by a PKF LLC Survey), we believe that this cycle will continue and AHIP will be able to grow to a minimum market capitalization of Cdn$250 million through accretive acquisitions to provide additional liquidity and scale to further strengthen AHIP’s foundation for continued growth.

Management believes AHIP has proven its ability to execute its business plan, with hotel results in line with management's expectations; new hotels in the Oak Tree Inn portfolio coming online in 2014 are on target and on budget; the acceleration of negotiations and finalization of agreements for the construction of new hotels within the Oak Tree Inn portfolio secured by long term railway contracts; and the acquisition of the Pittsburgh Portfolio in November 2013, the Virginia Portfolio in March 2014 and the Southeastern Portfolio in July 2014. With substantial accretive acquisition targets available for AHIP’s Branded Hotels portfolio, and continuing strength in the railway industry supporting the Oak Tree Inn Hotels, AHIP is focused on accelerating the momentum throughout 2014 and beyond.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

(US$000s unless otherwise noted and except per unit amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30 , 2014	Six months ended June 30, 2013
Number of rooms[(1)]	3,571	2,564	3,571	2,564
Number of properties[(1)]	43	33	43	33
Number of restaurants[(1)]	24	23	24	23
Available room nights	323,001	230,624	608,956	328,280
Properties under development[(1)]	3	1	3	1
Rooms under development[(1)]	185	60	185	60
Occupancy rate	84.9%	83.6%	81.6%	82.5%
Average daily room rate ("ADR")	$ 71.10	$ 56.55	$ 68.76	$ 56.67
Revenue per available room ("RevPAR")	$ 60.36	$ 47.27	$ 56.08	$ 46.76
Revenues	$ 22,541	$ 13,640	$ 39,764	$ 19,214
Net operating income ("NOI")	$ 8,043	$ 4,815	$ 13,423	$ 6,759
Net income (loss) and comprehensive income (loss)	$ 651	$ 638	$ (109)	$ (405)
EBITDA	$ 6,285	$ 3,722	$ 9,639	$ 5,059
Funds from operations ("FFO")	$ 4,440	$ 2,605	$ 6,438	$ 3,424
FFO per unit (basic and diluted) – As Reported	$ 0.28	$ 0.25	$ 0.42	$ 0.43
Core FFO per unit (basic and diluted)	$ 0.31	$ 0.25	$ 0.44	$ 0.43
Adjusted funds from operations ("AFFO")	$ 4,098	$ 2,369	$ 5,998	$ 3,106
AFFO per unit (basic and diluted) – As Reported	$ 0.26	$ 0.23	$ 0.39	$ 0.39
Core AFFO per unit (basic and diluted)	$ 0.28	$ 0.23	$ 0.41	$ 0.39
Distributions declared – US$	$ 3,334	$ 2,288	$ 6,277	$ 3,271
AFFO payout ratio	81.4%	96.6%	104.7%	105.3%
Debt to gross book value[(1)]	45.2%	47.2%	45.2%	47.2%
Interest coverage ratio	3.7x	4.3x	3.1x	3.9x
Weighted average loan interest rate[(1)]	4.88%	4.84%	4.88%	4.84%
Weighted average loan term to maturity[(1)]	6.64 years	4.62 years	6.64 years	4.62 years
Number of units outstanding[(1)]	19,467,547	10,405,000	19,467,547	10,405,000
Weighted average number of units outstanding – As Reported	15,973,922	10,405,000	15,210,104	7,923,712
Weighted average number of units outstanding – Core	14,520,075	10,405,000	14,479,165	7,923,712
Same property occupancy	85.0%	83.6%	82.1%	82.5%
Same property ADR	$ 56.96	$ 56.26	$ 56.80	$ 56.40
Same property RevPAR	$ 48.40	$ 47.02	$ 46.66	$ 46.54

Notes:
(1) At period end

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Operational and Financial Highlights

The increase in occupancy, ADR, RevPAR, revenues and NOI can be attributed to changes within the portfolio. Specifically, the acquisition of the Branded Hotels consisting of the Virginia Portfolio of 4 hotels and 403 guestrooms on March 12, 2014 and the Pittsburgh Portfolio of 4 hotels and 471 guestrooms on November 21, 2013. In addition, the opening of new Oak Tree Inn Hotels in Santa Teresa, New Mexico (56 rooms) in May 2014, Jefferson City, Missouri (77 rooms) in February 2014 and the inclusion of a full 6 months of operating results during 2014 also contributed to improved operating results. For 2013, the Oak Tree Inn Hotel portfolio results were for only the 130 day period from the acquisition date (February 20, 2013) to June 30, 2013.

FFO was $4.4 million for the current quarter compared to $2.6 million for the quarter ended June 30, 2013. FFO was $6.4 million for the six month period ended June 30, 2014 compared to $3.4 million for same period in 2013. The increase was due to higher NOI arising from the addition of new hotels in the portfolio. Business acquisition costs were higher in the current period due to higher transactional activity, namely the acquisition of the Southeastern Portfolio in July 2014, compared to the prior period. On a per unit basis, FFO – As Reported reflects the higher portfolio NOI. In June 2014, AHIP completed a Unit offering that resulted in the issuance of 4,900,000 Units to be utilized to fund acquisitions. As at June 30, 2014, the cash was yet to be deployed and as a result, the issuance of Units had a dilutive impact on FFO per Unit and AFFO per Unit. In order to eliminate the dilutive impact of the Unit offering, management has also calculated Core FFO per Unit and Core AFFO per Unit as it improves the comparability of operating results between reporting periods. FFO per Unit – As Reported was $0.28 and $0.42 for the three months and six months ended June 30, 2014, compared to $0.25 and $0.43 for the same periods last year. Core FFO per Unit was $0.31 and $0.44 for the three months and six months ended June 30, 2014, compared to $0.25 and $0.43 for the same periods last year.

AFFO was $4.1 million for the current quarter compared to $2.4 million for the quarter ended June 30, 2013. AFFO was $6.0 million for the six month period ended June 30, 2014 compared to $3.1 million for same period in 2013. The increase was due to higher NOI arising from new hotels being added to the portfolio offset by a higher capital expenditure reserve reflecting higher revenues. On a per unit basis, management has calculated AFFO per Unit – As Reported and Core AFFO per Unit to remove the dilutive impact arising from undeployed cash balances on hand at June 30, 2014. AFFO per Unit –As Reported was $0.26 and $0.39 per unit for the three months and six months ended June 30, 2014, compared to $0.23 and $0.39 for the same periods last year. Core AFFO per Unit was $0.28 and $0.41 for the three months and six months ended June 30, 2014, compared to $0.23 and $0.39 for the same periods last year.

RESULTS OF OPERATIONS

Seasonality of Hotel Business

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

Based on 2013 actual, total same-property revenues, the seasonality of AHIP's revenues had the following distribution:

Hotel Segment	Q1 2013	Q2 2013	Q3 2013	Q4 2013	TOTAL
Rail	23.6%	25.4%	26.5%	24.5%	100.0%
Pittsburgh	20.6%	27.4%	28.6%	23.4%	100.0%
Virginia	20.3%	26.9%	27.6%	25.2%	100.0%
AVERAGE	**21.4%**	**26.6%**	**27.7%**	**24.3%**	**100.0%**

Furthermore, the seasonality of revenues also has an impact on earnings, specifically EBITDA margin, due to certain fixed expenditures such as property taxes, insurance and energy. Based on historical information previously disclosed, the impact of seasonality on normalized EBITDA margin is summarized below:

Hotel Segment	Q1 2013	Q2 2013	Q3 2013	Q4 2013	AVERAGE
Rail	22.4%	28.8%	28.6%	26.1%	26.5%
Pittsburgh	23.7%	31.5%	32.9%	26.9%	28.8%
Virginia	23.3%	31.0%	31.8%	29.0%	28.8%
AVERAGE	**23.1%**	**30.4%**	**31.1%**	**27.3%**	**28.0%**

Operations

The following discussion highlights selected financial information for AHIP for the three months and six months ended June 30, 2014 and June 30, 2013. This information has been compiled from, and should be read in conjunction with, the condensed consolidated interim financial statements and related notes to the financial statements.

(US$000s unless otherwise noted and except per unit amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenues	$ 22,541	$ 13,640	$ 39,764	$ 19,214
Hotel expenses	14,498	8,825	26,341	12,455
Net operating income	8,043	4,815	13,423	6,759
Depreciation and amortization	2,738	1,773	5,092	2,545
Income from operating activities	5,305	3,042	8,331	4,214
Corporate and administrative	1,758	1,093	3,784	1,700
Loss on disposal of property and equipment	247	-	247	-
Business acquisition costs	543	322	912	1,483
Income before finance costs and income taxes	2,757	1,627	3,388	1,031
Finance income	(20)	(18)	(49)	(24)
Finance costs	1,865	959	3,431	1,425
Income before income taxes	912	686	6	(370)
Current income tax expense (recovery)	-	(24)	-	34
Deferred income tax expense	261	72	115	1
Net income (loss) and comprehensive income (loss)	$ 651	$ 638	$ (109)	$ (405)
Basic and diluted net income (loss) per unit	$ 0.04	$ 0.06	$ (0.01)	$ (0.05)
Basic weighted average number of units outstanding	15,973,922	10,405,000	15,210,104	7,923,712
Diluted weighted average number of units outstanding	16,018,015	10,405,000	15,261,361	7,923,712

The increase in revenues, expenses and NOI can be attributed to hotel acquisitions. Hotel expenses consist of hotel operating expenditures including labour costs, energy, property maintenance, property taxes and insurance.

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Depreciation and amortization expenses consist of depreciation charges on property, buildings and equipment, and amortization of intangible assets. Depreciation and amortization expenses for the quarter were $2.7 million compared to $1.8 million in the prior year. Depreciation and amortization expenses for the six months ended June 30, 2014 were $5.1 million compared to $2.5 million in the prior year. The increased amounts were caused by the acquisition of hotel properties. As a percentage of total revenues, depreciation and amortization was 12.1% and 13.0% in the three and six months ended June 30, 2014, respectively, compared to 12.8% and 13.2% for the three and six month periods ended June 30, 2013.

Corporate and administrative expenses consist of hotel management fees, salaries and benefits, directors fees, foreign exchange gains and losses, securities based compensation, professional fees and office expenses. Corporate and administrative expenses were $1.8 million and $3.8 million for the three and six months ended June 30, 2014, respectively, compared to $1.1 million and $1.7 million for the three and six month periods ended June 30, 2013:

(US$000s)	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Hotel management fees	$ 973	$ 598	$ 1,736	$ 851
Salaries, benefits and directors fees	220	228	502	339
Foreign exchange losses (gains)	(50)	(11)	271	(126)
Stock based compensation	148	-	390	-
Professional fees	276	180	550	240
Office and general	191	98	335	396
Total corporate and administrative expenses	$ 1,758	$ 1,093	$ 3,784	$ 1,700

The increase in corporate and administrative expenses can be attributed to the acquisition of hotels resulting in higher property management fees. In addition, one-off items such as foreign exchange gains and losses coupled with the impact of the securities based compensation related to the grants issued to certain AHIP employees in December 2013 also contributed to changes between periods.

Business acquisition costs consist primarily of professional fees directly attributable to the acquisition of hotel properties. Under IFRS, all transactional costs are expensed in the period incurred irrespective of the final outcome of the acquisition. Business acquisition costs were $543,000 and $912,000 for the three and six months ended June 30, 2014, respectively, compared to $322,000 and $1.5 million for the three and six months ended June 30, 2013, respectively. The difference is due to the specific transactions undertaken during each period. For 2014, the acquisition of the Virginia Portfolio in March 2014 and the Southeastern Portfolio in July 2014 had an impact on costs during the current year. The acquisition of the 32 hotel Oak Tree Inn portfolio in February 2013 had an impact on the prior year.

Finance costs consist of interest on term loans, preferred share dividends, non-cash accretion on contingent consideration and amortization of debt issuance costs offset by interest income.

Net finance costs were $1.8 million and $3.4 million for the three and six months ended June 30, 2014, respectively, compared to $0.9 million and $1.4 million for the same periods in 2013. The increased amounts were caused by the acquisition of hotel properties and related financing including the addition of a $38.0 million mortgage for the Pittsburgh Portfolio in November 2013 and a $24.5 million mortgage for the Virginia Portfolio in March 2014.

AHIP is a not a SIFT limited partnership pursuant to the Income Tax Act (Canada). Under the Income Tax Act (Canada), as long as AHIP meets prescribed conditions relating to the nature of its assets and revenue, it is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. As a result, current income taxes have not been recognized in the consolidated financial statements for the current quarter. AHIP's indirect subsidiaries, Lodging Enterprises LLC and AHIP Enterprises LLC are taxable subsidiaries of the U.S. REIT and were subject to current income tax in the prior year.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of the intangible assets and contingent consideration for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. AHIP has used a blended rate of 40% to calculate its related deferred income tax provisions.

Total Portfolio Operating Statements

(US$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Number of rooms	3,571	2,564	3,571	2,564
Number of properties	43	33	43	33
Number of restaurants	24	23	24	23
Available room nights	323,001	230,624	608,956	328,280
Occupied rooms	274,223	192,752	496,671	270,905
Occupancy %	84.9%	83.6%	81.6%	82.5%
Average daily room rate ("ADR")	$ 71.10	$ 56.55	$ 68.76	$ 56.67
Revenue per available room ("RevPAR")	$ 60.36	$ 47.27	$ 56.08	$ 46.76
Revenues				
Rooms	$ 19,496	$ 10,901	$ 34,150	$ 15,352
Food and beverage	2,861	2,609	5,260	3,656
Other	184	130	354	206
TOTAL REVENUES	22,541	13,640	39,764	19,214
Expenses				
Operating expenses	11,231	6,837	19,969	9,659
Energy	961	644	2,064	881
Property maintenance	1,145	738	2,123	1,028
Taxes and insurance	1,161	606	2,185	887
TOTAL EXPENSES	14,498	8,825	26,341	12,455
NET OPERATING INCOME ("NOI")	$ 8,043	$ 4,815	$ 13,423	$ 6,759
NOI Margin %	35.7%	35.3%	33.8%	35.2%

Overall portfolio occupancy was 84.9% and 81.6% for the three and six months ended June 30, 2014, respectively, compared to 83.6% and 82.5% for the same periods ended June 30, 2013. The increase in occupancy is due to the impact of the Branded Hotels that were acquired in November 2013 and March 2014 coupled with higher occupancy at the Oak Tree Inn properties. For the most recent quarter, the Branded Hotels had an average occupancy rate of 84.7%.

ADR increased to $71.10 for the current quarter compared to $56.55 for the same period last year. ADR for the six months ended June 30, 2014 increased to $68.76 compared to $56.67 for the same period last year. The increase in ADR reflects the impact of the Branded Hotels on the portfolio. For the most recent quarter, the Branded Hotels had an ADR of $113.33.

AHIP achieved revenues and NOI of $22.5 million and $8.0 million, respectively, for the three months ended June 30, 2014 compared to $13.6 million and $4.8 million, respectively, for the same period in 2013. For the six month period ended June 30, 2014, revenues and NOI increased to $39.8 million and $13.4 million, respectively, from revenues and NOI of $19.2 million and $6.8 million, respectively, for the six month period ended June 30, 2013. The increase in revenues and NOI can be attributed to the acquisition of the Branded Hotels, specifically the Virginia Portfolio of 4 hotels and 403 guestrooms on March 12, 2014 and the Pittsburgh Portfolio of 4 hotels and 471 guestrooms on November 21, 2013. In addition, the opening of new Oak Tree Inn Hotels in Santa Teresa, New Mexico (56 rooms) in May 2014, Jefferson City, Missouri (77 rooms) in February 2014 and the inclusion of a full 6 months of operating results during 2014 also contributed to higher operating results. For 2013, the Oak Tree Inn hotel portfolio results were for only the 130 day period from the acquisition date (February 20, 2013) to June 30, 2013.

Oak Tree Inn Hotels Operating Statements

(US$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Number of rooms	2,697	2,564	2,697	2,564
Number of properties	35	33	35	33
Number of restaurants	24	23	24	23
Available room nights	243,467	230,624	478,770	328,280
Occupied rooms	206,858	192,752	393,661	270,905
Occupancy %	85.0%	83.6%	82.2%	82.5%
Average daily room rate ("ADR")	$ 57.34	$ 56.55	$ 57.01	$ 56.67
Revenue per available room ("RevPAR")	$ 48.72	$ 47.27	$ 46.88	$ 46.76
Revenues				
Rooms	$ 11,862	$ 10,901	$ 22,444	$ 15,352
Food and beverage	2,861	2,609	5,260	3,656
Other	105	130	231	206
TOTAL REVENUES	14,828	13,640	27,935	19,214
Expenses				
Operating expenses	7,747	6,837	14,605	9,659
Energy	706	644	1,590	881
Property maintenance	909	738	1,663	1,028
Taxes and insurance	855	606	1,647	887
TOTAL EXPENSES	10,217	8,825	19,505	12,455
NET OPERATING INCOME ("NOI")	$ 4,611	$ 4,815	$ 8,430	$ 6,759
NOI Margin %	31.1%	35.3%	30.2%	35.2%

For the current quarter, increases in occupancy and ADR reflects the addition of new Oak Tree Inn properties at Santa Teresa, New Mexico and Jefferson City, Missouri during the year coupled with contractual increases in rates. For the six month period ended June 30, 2014, overall occupancy and ADR were consistent with prior periods.

Total revenues for the six month ended June 30, 2014 were higher than the same period last year as 2014 results included a full six months (or 181 days) of operations. The 2013 results included operations from the acquisition date of February 20, 2013 to June 30, 2013 (or 130 days).

NOI margin for the current quarter was 31.1% compared to 35.3% in the prior period. The decrease in margin during the current quarter reflects higher hotel operating expenses due to the addition of hotel specific personnel and increased benefit costs, higher property maintenance costs arising from non-recurring, and weather related property insurance claims at certain properties. Taxes and insurance expenses were higher due to increases in property and liability premiums from the most recent insurance renewal on November 1, 2013 coupled with higher property taxes at certain properties. For the six month period ended June 30, 2014, higher energy prices, reflecting the unusually

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cold winter season during the first quarter of 2014, had a further dampening impact on margins compared to the same period in the prior year.

Branded Hotels Operating Statements

(US$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Number of rooms	874	-	874	-
Number of properties	8	-	8	-
Number of restaurants	-	-	-	-
Available room nights	79,534	-	130,186	-
Occupied rooms	67,365	-	103,010	-
Occupancy %	84.7%	-	79.1%	-
Average daily room rate (“ADR”)	$ 113.33	-	$ 113.64	-
Revenue per available room (“RevPAR”)	$ 95.98	-	$ 89.92	-
Revenues				
Rooms	$ 7,634	-	$ 11,706	-
Food and beverage	-	-	-	-
Rooms	79	-	123	-
TOTAL REVENUES	7,713	-	11,829	-
Expenses				
Operating expenses	3,484	-	5,364	-
Energy	255	-	474	-
Property maintenance	236	-	460	-
Taxes and insurance	306	-	538	-
TOTAL EXPENSES	4,281	-	6,836	-
NET OPERATING INCOME (“NOI”)	$ 3,432	-	$ 4,993	-
NOI Margin %	44.5%	-	42.2%	-

The Branded hotels consist of the 4 Pittsburgh hotels acquired in November 2013 and the 4 Virginia hotels acquired in March 2014.

The higher NOI margin than the Oak Tree Inn hotels reflects the rooms only and transient guests focus of these limited service, branded properties, which have higher average rates and NOI margins.

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Same Property Operating Metrics

The following table presents same property operating metrics for the three months and six months ended June 30, 2014 and June 30, 2013, respectively. Same property calculations exclude the Livonia, Santa Teresa and Jefferson City Oak Tree Inn Hotels and the Pittsburgh and Virginia Properties, which were not owned by AHIP throughout each of the periods presented.

(US$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Number of rooms	2,564	2,535	2,564	2,534
Number of properties	33	33	33	33
Number of restaurants	23	23	23	23
Available room nights	233,324	230,624	458,684	328,280
Occupied rooms	198,259	192,752	376,777	270,905
Occupancy %	85.0%	83.6%	82.1%	82.5%
Average daily room rate ("ADR")	$ 56.96	$ 56.26	$ 56.80	$ 56.40
Revenue per available room ("RevPAR")	$ 48.40	$ 47.02	$ 46.66	$ 46.54
Revenues				
Rooms	$ 11,293	$ 10,845	$ 21,400	$ 15,279
Food and beverage	2,809	2,607	5,208	3,654
Other	105	$169	230	246
TOTAL REVENUES	14,207	13,621	26,838	19,179
Expenses				
Operating expenses	7,425	6,832	14,118	9,702
Energy	674	644	1,541	881
Property maintenance	872	719	1,595	1,009
Taxes and insurance	845	606	1,625	845
TOTAL EXPENSES	9,816	8,801	18,879	12,437
NET OPERATING INCOME ("NOI")	$ 4,391	$ 4,820	$ 7,959	$ 6,742
NOI Margin %	30.9%	35.4%	29.7%	35.2%

For the current quarter and six months ended June 30, 2014, occupancy and ADR were consistent with prior periods reflecting the overall stability of the railway hotels.

Total revenues for the six month ended June 30, 2014 were higher than the same period last year as 2014 results included a full six months (or 181 days) of operations. The 2013 results included operations from the acquisition date of February 20, 2013 to June 30, 2013 (or 130 days).

NOI margin for the current quarter was 30.9% compared to 35.4% in the prior period. The decrease in margin during the current quarter reflects higher hotel operating expenses due to the addition of hotel specific personnel, higher property maintenance costs arising from non-recurring, and weather related property insurance claims at certain properties. Taxes and insurance expenses were higher due to increases in property and liability premiums from the most recent insurance renewal on November 1, 2013 coupled with higher property taxes at certain properties.

For the six month period ended June 30, 2014, higher energy prices, reflecting the unusually cold winter season, during the first quarter of 2014 had a further dampening impact on margins compared to the same period in the prior year.

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RECONCILIATION OF NON-IFRS OPERATING RESULTS

FUNDS FROM OPERATIONS (FFO)

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

(US$000s unless otherwise noted and except per unit amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income (loss) and comprehensive income (loss)	$ 651	$ 638	$ (109)	$ (405)
Add/(deduct):				
Depreciation and amortization	2,738	1,773	5,092	2,545
Loss on disposal of property and equipment	247	-	247	-
Business acquisition costs	543	122	912	1,283
Foreign exchange losses	-	-	181	-
Deferred income taxes	261	72	115	1
Funds from operations ("FFO")	$ 4,440	$ 2,605	$ 6,438	$ 3,424
Weighted average number of units outstanding – As Reported	15,973,922	10,405,000	15,210,104	7,923,712
FFO per Unit – As Reported	$ 0.28	$ 0.25	$ 0.42	$ 0.43
Weighted average number of units outstanding – Core	14,520,075	10,405,000	14,479,165	7,923,712
Core FFO per Unit	$ 0.31	$ 0.25	$ 0.44	$ 0.43

FFO was $4.4 million and $6.4 million for the three and six months ended June 30, 2014, respectively compared to $2.6 million and $3.4 million for the same periods last year. The increase was due to higher NOI arising from new hotels being added to the portfolio. Business acquisition costs were higher in the current period due to higher transactional activity, namely the acquisition of the Southeastern Portfolio in July 2014, compared to the prior period.

AHIP completed a bought deal Unit offering on June 4, 2014 which resulted in the issuance of 4.9 million Units. The cash proceeds from this offering were unutilized as at June 30, 2014 and created a temporary dilution of the reported FFO per Unit. As a result, management believes that an adjustment for this offering would result in a more accurate reflection of the operating performance for the three months and six month periods ended June 30, 2014.

FFO per Unit – As Reported was $0.28 and $0.42 for the three and six months ended June 30, 2014, respectively, compared to $0.25 and $0.43 for the same period last year. Core FFO per unit was $0.31 and $0.44 per unit for the three and six months ended June 30, 2014, respectively.

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ADJUSTED FUNDS FROM OPERATIONS (AFFO)

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

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

(US$000s unless otherwise noted and except per unit amounts)	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Funds from operations ("FFO")	$ 4,440	$ 2,605	$ 6,438	$ 3,424
Add/(deduct):				
Securities based compensation expense	148	-	390	-
Accretion of contingent consideration	51	49	101	70
Amortization of deferred financing costs	128	38	220	68
FFE reserve	(669)	(323)	(1,151)	(456)
Adjusted Funds from operations ("AFFO")	$ 4,098	$ 2,369	$ 5,998	$ 3,106
Weighted average number of units outstanding – As Reported	15,973,922	10,405,000	15,210,104	7,923,712
AFFO per Unit – As Reported	$ 0.26	$ 0.23	$ 0.39	$ 0.39
Weighted average number of units outstanding – Core	14,520,075	10,405,000	14,479,165	7,923,712
Core AFFO per Unit	$ 0.28	$ 0.23	$ 0.41	$ 0.39

AFFO was $4.1 million and $6.0 million for the three and six months ended June 30, 2014 compared to $2.4 million and $3.1 million for the same periods last year. The increase in AFFO reflects portfolio acquisitions that have occurred between periods.

AFFO per Unit – As Reported was $0.26 and $0.39 for the three and six months ended June 30, 2014 compared to $0.23 and $0.39 for the same periods last year. After adjusting for the dilutive impact of the undeployed cash on hand at June 30, 2014 arising from the June 4, 2014 Unit offering, Core AFFO per unit was $0.28 per unit and $0.41 per unit for the three and six months ended June 30, 2014, respectively.

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SUMMARY OF QUARTERLY RESULTS

In accordance with Item 1.5 of Form 51-102F1 – Management's Discussion & Analysis, quarterly information has been presented for seven quarters only because AHIP was formed on October 12, 2012. Prior to AHIP's acquisition of the Oak Tree Inn Hotels on February 20, 2013, AHIP did not have any operating activities. The results for the three month period ended March 31, 2013 reflect only 39 days of hotel operations.

(US$000s except per Unit amounts)	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Revenues	$ 22,541	$ 17,223	$ 14,495	$ 14,343	$ 13,640	$ 5,574	$ -
Net income (loss) and comprehensive income (loss)	651	(760)	(955)	1,042	639	(1,043)	(455)
Basic and diluted net income (loss) per unit	$ 0.04	$ (0.05)	$ (0.07)	$ 0.10	$ 0.06	$ (0.21)	$ (0.93)

The hospitality industry is subject to seasonality and other risks and uncertainties which result in fluctuations in financial results over reporting periods.

FINANCIAL CONDITION

Liquidity

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

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

The following table provides an overview of AHIP's cash flows from operating, financing and investing activities for the three months and six months ended June 30, 2014 and June 30, 2013:

(US$000s)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net change in cash flow related to:				
Operating activities	$ 4,734	$ 764	$ 6,520	$ 830
Investing activities	(20,045)	(1,918)	(64,410)	(60,781)
Financing activities	42,707	(869)	64,131	83,886
Increase (decrease) in cash flow	$ 27,396	$ (2,023)	$ 6,241	$ 23,935

The increase (decrease) in cash flow for the three months and six months ended June 30, 2014 compared to the same periods in 2013 was due to:

- Operating activities – higher net operating income due to hotel acquisitions
- Investing activities – investment in the Southeastern Portfolio that was completed in early July 2014; acquisition of the Santa Teresa property in May 2014 and the Virginia Portfolio transaction that occurred in March 2014
- Financing activities – net proceeds realized from the completion of the June 4, 2014 Unit offering; additional loan proceeds from term loans offset by distribution payments and loan repayments

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

(US$000s)	2014	2015	2016	2017	2018	Thereafter
Term loans	$ 1,897	$ 3,944	$ 4,131	$ 4,876	$ 54,239	$ 66,925
Operating leases	186	254	193	84	-	-
Deferred compensation payable	-	-	500	-	-	-
Contingent consideration	-	-	5,500	-	-	-
	$ 2,083	$ 4,198	$ 10,324	$ 4,960	$ 54,239	$ 66,925

Debt Strategy

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

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

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

The fixed rate mortgages are expected to be primarily first charge mortgages. Subject to market conditions and AHIP's growth, management currently intends to maintain total indebtedness at approximately 50-55% of AHIP's gross book value. In accordance with AHIP's Limited Partnership Agreement, the maximum debt limit is 60% (65% including convertible debentures) of AHIP's gross book value. As at June 30, 2014, AHIP's debt-to-gross book value was 45.2%.

(US$000s unless otherwise noted)	June 30, 2014	June 30, 2013
Debt	$ 142,012	$ 78,873
Gross Book Value	$ 314,144	$ 167,270
Debt to Gross Book Value	45.2%	47.2%

(US$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
EBITDA	$ 6,285	$ 3,722	$ 9,639	$ 5,059
Interest expense(1)	$ 1,686	$ 860	$ 3,110	$ 1,287
Interest coverage ratio (times)	3.7x	4.3x	3.1x	3.9x

(1) Interest expense is computed as finance costs adjusted for non-cash items including accretion of contingent consideration and amortization of deferred financing costs.

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

(US$000s unless otherwise noted)	Balance at June 30, 2014	Interest Rate	Initial Term (years)	Maturity Date
Construction facility	$ -	4.00%	5	February 20, 2015
Oak Tree Hotel Loans	65,902	4.85%	5	February 20, 2018
Oak Tree Hotel Loan Amendment	2,773	4.00%	10	January 1, 2024
Oak Tree Hotel Loan Amendment - Jefferson City	1,606	4.25%	5	May 1, 2019
Oak Tree Hotel Loan Amendment - Santa Teresa	3,231	4.25%	10	May 1, 2024
Pittsburgh Portfolio Term Loans	38,000	5.02%	10	December 6, 2023
Virginia Portfolio Term Loan	24,500	4.97%	10	April 6, 2024
	$ 136,012			

Capital Resources

As at June 30, 2014, AHIP was in compliance with all of its lending covenants relating to the Oak Tree Hotel Loans, the Pittsburgh Portfolio Term Loans and the Virginia Portfolio Term Loan.

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

Partners' Capital

AHIP is authorized to issue an unlimited number of Units.

On February 20, 2013, AHIP closed its IPO of 9,570,000 Units, including the partial exercise of the over-allotment option, priced at Cdn$10.00 per Unit, for gross proceeds of Cdn$95.7 million (US$94.1 million). On March 1, 2013, the exercise of the remaining balance of the over-allotment option was completed, resulting in the issuance of an additional 435,000 Units at a price of Cdn$10.00 per Unit for gross proceeds of Cdn$4.4 million (US$4.2 million).

On October 31, 2013, AHIP completed an Offering of Subscription Receipts, issuing a total of 3,967,500 Subscription Receipts at a price of Cdn$10.15 per Subscription Receipt for gross proceeds of Cdn$40.3 million (US$38.3 million), which included 517,500 Subscription Receipts related to the overallotment.

On November 21, 2013, upon completion of the acquisition of the Pittsburgh Portfolio hotels, one Unit of AHIP was issued in exchange for each outstanding Subscription Receipt without payment of additional consideration, which resulted in the issuance of 3,967,500 Units.

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

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

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

As at June 30, 2014, there were 19,467,547 Units outstanding. On June 30, 2014, the units were traded on the TSX with a closing ask price of Cdn$10.29, and on the OTCQX with a closing ask price of $9.59. As at August 14, 2014, there were 19,467,547 Units outstanding.

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DISTRIBUTION HISTORY

Distribution Policy

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

Distributions Summary

Distributions totaling Cdn$3.6 million were declared during the three months ended June 30, 2014 (June 30, 2013 – Cdn$2.3 million), of which Cdn$1.5 million was included in accounts payable and accrued liabilities at June 30, 2014 and subsequently paid on July 15, 2014.

AHIP declared and paid cash distributions to Unitholders of record from April 1, 2014 to June 30, 2014 as per the following table:

Month	Record Date	Payment Date	Distribution per Unit (Cdn$)	Amount (Cdn$000s)
April 2014	April 30, 2014	May 15, 2014	$0.075	$1,083
May 2014	May 30, 2014	June 16, 2014	$0.075	$1,093
June 2014	June 30, 2014	July 15, 2014	$0.075	$1,460
			$0.225	$3,636

OFF-BALANCE SHEET ARRANGEMENTS

AHIP does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

The operating subsidiaries of AHIP are responsible for reimbursing Tower Rock for any operating expenses and direct costs incurred with respect to the operations of the properties and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses. The hotel management agreements also provide for an amount equal to 3.5% of gross revenues to be paid. Tower Rock is also entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures (but excluding maintenance and repair expenses). In addition, commencing in fiscal 2014, the hotel manager is eligible to receive an incentive fee up to 15% of the amount by which the gross operating profit of all properties managed by Tower Rock, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the independent directors of the General Partner. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned.

In addition, an annual administration fee of $15,000 is payable for each property acquired on February 20, 2013 for each of the first and second years of the agreement, $20,000 per property in the third year of the agreement, and $25,000 per property in each year thereafter. A fee of $25,000 per property is payable for properties acquired subsequent to February 20, 2013.

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AHIP recorded the following fees charged by Tower Rock in corporate and administrative expenses for the three months and six months ended June 30, 2014 and June 30, 2013.

(US$000s)	**Three Months ended June 30, 2014**	**Three Months ended June 30, 2013**	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Management fees	$ 789	$ 476	$ 1,392	$ 678
Administration fees	184	122	344	173
	$ 973	$ 598	$ 1,736	$ 851

Capital management fees of approximately $23,000 and $41,000 have been capitalized to property, buildings and equipment for the three and six months ended June 30, 2014 compared to approximately $20,000 and $24,000 for the three and six months ended June 30, 2013.

During the three and six months ended June 30, 2014, Tower Rock incurred $6.6 million and $12.3 million during the three and six months ended June 30, 2014, respectively, in direct expenses on behalf of the hotel properties compared to $5.3 million and $6.9 million during the same periods in the prior year. The direct expenses consisted primarily of payroll costs and other general and administrative costs including travel and office expenses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities as at the date of the condensed consolidated interim financial statements, and the reported amounts of income and expenses during the financial reporting period. Actual results may differ from these estimates.

Accounting estimates

Significant areas of estimates include the following:

i) Business combinations

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

ii) Depreciation and amortization

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

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Accounting standards adopted in the period:

The following new accounting standards were adopted by AHIP effective January 1, 2014. The new accounting standard is also expected to be reflected in AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2014.

i) IFRIC 21 – Levies

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

SUBSEQUENT EVENTS

a) Acquisition of the Southeastern Portfolio

On July 3, 2014, AHIP announced the acquisition of three hotels in the Southeastern Portfolio and on July 11, 2014, AHIP acquired the fourth hotel in this portfolio. The Southeastern Portfolio hotels are located in North Carolina and Georgia. The four properties included a 111-room Hampton Inn and 87-room Fairfield Inn & Suites located in Asheboro, North Carolina, an 82-room Fairfield Inn & Suites located in Kingsland, Georgia and a 107-room SpringHill Suites hotel in Pinehurst, North Carolina. The four hotels were acquired for an aggregate purchase price of $30.5 million before customary closing and post-acquisition adjustments and excluding a $1.5 million brand mandated property improvement plan. The acquisition was funded using a combination of cash from AHIP's recent bought deal Unit offering that was completed on June 4, 2014, the assumption of existing CMBS loans of approximately $13.4 million on the SpringHill Suites and Hampton Inn properties and new CMBS debt on the two Fairfield Inn & Suites properties of $6.0 million. The two assumed loans have outstanding principal balances of approximately $7.7 million and $5.7 million, bear interest at 5.28% and 5.69%, and are scheduled to mature on February 1, 2024 and August 1, 2018, respectively. The new CMBS mortgage has a 10 year term with a fixed interest rate of 4.72% and matures on July 6, 2024.

b) Distributions

On July 21, 2014, AHIP announced a cash distribution of Cdn$1.5 million (or Cdn$0.075 per unit), which is equivalent to Cdn$0.90 per Unit on an annualized basis, for the period of July 1, 2014 to July 31, 2014 to be paid to Unitholders of record on July 31, 2014. The distribution will be paid on August 15, 2014.

c) Additional mezzanine financing advanced to SunOne

On July 7, 2014, AHIP advanced $268,000 in additional mezzanine loans receivable to SunOne pursuant to the mezzanine loan agreements with SunOne for the following properties:

(US$000s)	**As at June 30, 2014**			**As at August 14, 2014**	
Properties under development	Total mezzanine financing available	Mezzanine loan amount drawn	Additional loans drawn	Mezzanine loan amount drawn	Mezzanine financing available
Brunswick, MD	$ 392	$ 97	$ 86	$ 183	$ 209
Wellington, KS	931	72	32	103	828
Glendive, MT	638	73	150	224	414
	$ 1,961	$ 242	$ 268	$ 510	$ 1,451

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INTERNAL CONTROLS

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

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

As at June 30, 2014, AHIP's management, under the supervision of its CEO and CFO, has conducted an evaluation of the design of AHIP's DC&P and ICFR, with the exception of the scope of design of DC&P and ICFR as noted below. Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this evaluation, the CEO and CFO concluded that as at June 30, 2014, AHIP's DC&P was designed to provide reasonable assurance that information required to be disclosed by AHIP in reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified therein and AHIP's ICFR was designed to provide reasonable assurance regarding the reliability of the financial reporting and preparation of financial statements for external purposes in accordance with IFRS.

In accordance with Section 3.3(1) (b) of NI 52-109, AHIP's CEO and CFO have limited the scope of design of DC&P and ICFR to exclude the controls, policies and procedures related to the Branded Hotel Portfolio, as it was acquired less than 365 days before the last day of the three months ended June 30, 2014. The results of the Branded Hotel Portfolio constitutes approximately 49% and 45% of AHIP's income from operating activities for the three and six months ended June 30, 2014, respectively, included in the condensed consolidated interim financial statements and related notes. AHIP intends to complete the design of DC&P and ICFR for the Branded Hotel Portfolio by December 31, 2014.

CURRENCY SWAP ARRANGEMENTS

A substantial portion of AHIP's investments and operations are conducted in U.S. dollars and AHIP pays distributions to Unitholders in Canadian dollars. Therefore, AHIP has exposure to fluctuations in currency exchange rates. For the three months ended June 30, 2014, AHIP did not enter into any currency swap arrangements. Management will continue to explore opportunities to enter into currency swap arrangements as a currency risk management tool.

RISKS AND UNCERTAINTIES

For a full list and explanation of AHIP's risks and uncertainties, please refer to AHIP's 2013 Annual Information Form (the "AIF") dated March 26, 2014, which is available on SEDAR at www.sedar.com. Although AHIP believes that the risk factors in the AIF are the most material risks that AHIP faces, they are not the only ones. Additional risk factors not presently known to AHIP or that AHIP currently believes are immaterial could also materially and adversely affect AHIP's investments, prospects, cash flows, results of operations or financial condition and AHIP's ability to make cash distributions to Unitholders and negatively affect the value of its Units.

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

ADDITIONAL INFORMATION

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

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DETAILS OF PROPERTY PORTFOLIO

Hotel Address	Location	Number of Rooms	Restaurant
Oak Tree Inn Hotels			
2407 East Holland Avenue	Alpine, TX	40	Yes
3522 N. Highway 59	Bill, WY	112	Yes
3475 Union Road	Buffalo, NY	56	-
1625 Stillwater Avenue	Cheyenne, WV	60	Yes
2300 Valley West Ct.	Clinton, IA	123	-
21233 Coal River Road	Comfort, WY	25	-
1608 W U.S. Business 60	Dexter, MO	109	Yes
4000 Siskiyou Avenue	Dunsmuir, CA	21	Yes
95 Spruce Road	Elko, NV	120	-
2700 N Diers Parkway	Fremont, NE	100	Yes
220 15th St. SE	Glenwood, MN	56	Yes
1170 W. Flaming Gorge Way	Green River, WY	191	Yes
1051 North Market Street	Hearne, TX	116	Yes
1110 SE 4th Street	Hermiston, OR	62	-
1710 Jefferson Street (2)	Jefferson City, MO	77	-
501 SW Boulevard	Kansas City, KS	111	-
7875 Airline Highway	Livonia, LA	42	Yes
8233 Airline Highway(1)	Livonia, LA	60	-
123 Westvaco Road	Low Moor, VA	30	Yes
1127 Pony Express Highway	Marysville, KS	139	Yes
528 S. George Nigh Expressway	McAlester, OK	61	-
777 W Center Street	Milford, UT	75	Yes
128 S. Willow Road	Missouri Valley, IA	41	Yes
707 E. Webster Street	Morrill, NE	97	Yes
451 Halligan Drive	North Platte, NE	111	Yes
22 N. Frontage Street	Pecos, TX	61	-
2005 E. Daley Street	Rawlins, WY	62	Yes
K27 & Commerce Street	Sharon Springs, KS	50	Yes
12 Kitty Hawk Road (5)	Santa Teresa, NM	56	Yes
U.S. 285 & 2nd Street	Vaughn, NM	60	Yes
1177 E. 16th Street	Wellington, KS	80	Yes
1706 N. Park Drive	Winslow, AZ	72	-
98 Moffat Avenue	Yampa, CO	37	Yes
35450 Yermo Road	Yermo, CA	65	Yes
1731 S. Sunridge Drive	Yuma, AZ	119	Yes
TOTAL OAK TREE INN HOTELS	**35 properties**	**2,697**	**24**

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DETAILS OF PROPERTY PORTFOLIO CONTINUED

Hotel Address	Location	Number of Rooms	Restaurant
Branded Hotels			
1308 Freedom Rd. (Residence Inn) (3)	Cranberry Township, PA	96	-
210 Executive Dr. (Hampton Inn) (3)	Cranberry Township, PA	116	-
8514 University Blvd. (Hampton Inn) (3)	Moon, PA	127	-
555 Trumbull Dr. (Hampton Inn) (3)	Pittsburgh, PA	132	-
150 Arnold Dr. (Fairfield Inn & Suites) (4)	South Hill, VA	90	-
898 Wiggins Rd. (Hampton Inn) (4)	Emporia, VA	85	-
85 University Blvd. (Hampton Inn) (4)	Harrisonburg, VA	160	-
43 Covenant Dr. (Hampton Inn) (4)	Harrisonburg, VA	68	-
1319 East King Avenue (Fairfield Inn & Suites) (6)	Kingsland, GA	82	-
1137 E. Dixie Drive (Hampton Inn) (6)	Asheboro, NC	111	-
920 Executive Way (Fairfield Inn & Suites) (6)	Asheboro, NC	87	-
10024 US Highway 15 & 501 (Springhill Suites) (7)	Pinehurst, NC	107	-
TOTAL BRANDED HOTELS	**12 properties**	**1,261**	**-**
GRAND TOTAL	**47 properties**	**3,958**	**24**

Footnotes:

(1) – Opened in May 2013
(2) – Opened on February 4, 2014
(3) – Acquired on November 21, 2013
(4) – Acquired on March 12, 2014
(5) – Opened on May 2, 2014
(6) – Acquired on July 3, 2014
(7) - Acquired on July 11, 2014

DETAILS OF SUNONE HOTELS UNDER DEVELOPMENT

Hotel Address	Location	Number of Rooms	Restaurant
620 Sounder Road	Brunswick, MD	25	Yes
2002 N. Merrill Avenue	Glendive, MT	50	Yes
1004 E 16th Street	Wellington, KS	110	-
TOTAL SUNONE DEVELOPMENTS	**3 Properties**	**185**	**2**

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