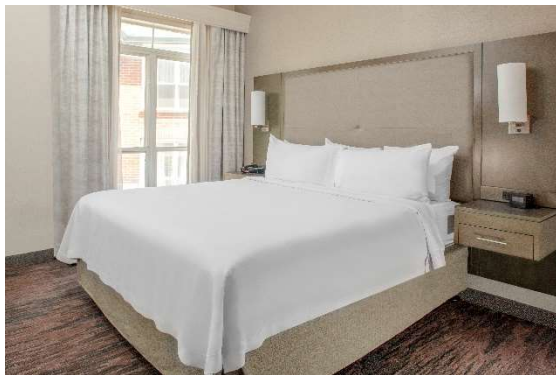
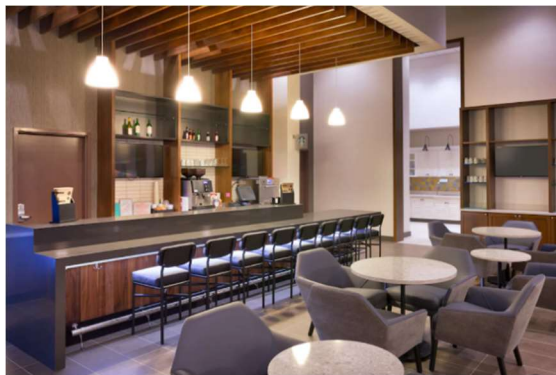


NEXPOINT HOSPITALITY TRUST

NEXPOINT
HOSPITALITY TRUST



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

For the years ended December 31, 2023 and December 31, 2022

(All amounts are expressed in U.S. Dollars and shown in thousands except unit and per unit amounts)

Dated: April 30, 2024

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PART I

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION

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

The information contained herein includes both a discussion of 2023 and 2022 results and post-fourth quarter 2023 results, as well as forward-looking statements and projections.

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

- expectations regarding lodging industry performance, including fluctuations in lodging supply and demand;
- forecasts relating to changes in RevPAR across the U.S. hotel industry in the segments in which NHT owns hotels;
- anticipated developments in NHT’s specific submarkets;
- expectations of fluctuations in NOI Margins in the upcoming quarters at the properties;
- impairment and recovery of NHT’s assets;
- anticipated improvements in asset management at NHT’s hotel or life science properties related to maximizing revenue, minimizing expenses at the properties; and
- anticipated acquisitions and dispositions, if any.

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

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

When relying on forward-looking statements to make decisions, NHT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties. Forward-looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved.

Unless stated otherwise or the context otherwise requires, references in this report to “we,” “our,” “us,” means NHT and its consolidated subsidiaries.

NON-IFRS FINANCIAL MEASURES

NHT has included certain non-IFRS financial measures throughout this MD&A. Management believes that in addition to conventional measures prepared in accordance with International Financial Reporting Standards (“**IFRS**”), investors in the real estate and lodging industries use these non-IFRS financial measures to evaluate NHT’s performance, its ability to generate cash flows and its 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. These terms are not recognized under IFRS; as a result, they do not have standardized meanings prescribed by IFRS and may not be comparable to measures used by other issuers in the real estate or lodging industries. The non-IFRS financial measures used in this MD&A include funds from operations (“**FFO**”), core funds from operations (“**Core FFO**”), adjusted funds from operations (“**AFFO**”), earnings before interest, taxes, depreciation, and amortization (“**EBITDA**”), net operating income (“**NOI**”), net operating income margin (“**NOI Margin**”), Debt, Debt to Gross Real Estate Value Ratio, and Gross Real Estate Value.

FFO, CFFO and AFFO

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

“**Core FFO**” means FFO with certain adjustments which are either not likely to occur on a regular basis or are otherwise not representative of the ongoing operating performance of NHT’s portfolio. Core FFO adjusts FFO to remove items such as losses on extinguishment of debt and modification costs (includes prepayment penalties incurred and the write-off of unamortized deferred financing costs and fair market value adjustments of assumed debt related to the retirement of debt and costs incurred in connection with a debt modification that are expensed), distributions to redeemable Class B Units (the “**Class B Units**”) of NHT Operating Partnership, LLC (the “**OP**”) and casualty-related expenses.

“**AFFO**” means Core FFO with certain adjustments in order to arrive at a more refined measure of the operating performance of the portfolio. There is no industry standard definition of AFFO, and practice is divergent across the industry. AFFO adjusts Core FFO to remove items such as equity-based compensation expense and the amortization of deferred financing costs incurred in connection with obtaining long-term debt financing, and to account for the ongoing maintenance requirements of our properties by reducing Core FFO for a capital expenditure reserve. We believe AFFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other real estate investment trusts that are not as involved in the aforementioned activities.

NOI

“**NOI**” means total revenues from properties (being the sum of revenues from rooms, food and beverage and other revenue) less hotel operating expenses as presented in the Statement of Income (Loss) and Comprehensive Income (Loss) prepared in accordance with IFRS.

“**NOI Margin**” means NOI divided by the total revenues from properties as presented in the Statement of Income (Loss) and Comprehensive Income (Loss) prepared in accordance with IFRS.

EBITDA

“**EBITDA**” means earnings before interest, taxes, depreciation, and amortization. We believe EBITDA is useful to an investor in evaluating our performance because it provides investors with an indication of our ability to incur and service debt, to satisfy general operating expenses, to make capital expenditures and to fund other cash needs or reinvest cash into our business. We also believe it helps investors meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our asset base (primarily depreciation and amortization) from our operating results.

Other Terms

“Debt” means the total principal amounts outstanding by NHT under mortgages payable, mezzanine debt and term preferred equity which under IFRS is accounted for as a liability, and for greater certainty excludes the Class B Units.

“Debt to Gross Real Estate Value Ratio” is calculated by dividing Debt by Gross Real Estate Value.

“Gross Real Estate Value” means, at any time, the fair value of the real estate held by NHT, before accounting for depreciation, as determined by the most recent appraisal, plus unrestricted cash.

“Initial Portfolio” means the 11 hospitality assets located in the U.S. that NHT was initially created to acquire. These assets include the Dallas Hilton Garden Inn, Addison HomeWood Suites, Plano HomeWood Suites, Beaverton DoubleTree, Bend DoubleTree, Olympia DoubleTree, Tigard DoubleTree, Vancouver DoubleTree, St. Pete Marriott, and the Nashville Holiday Inn Express.

“Current Portfolio” as of December 31, 2023, means the properties in the Initial Portfolio minus the DT Bend, DT Beaverton, DT Vancouver, DT Olympia, and Nashville Holiday Inn Express properties along with the additions of the Hyatt Place Park City and the Hampton Inn & Suites Bradenton.

SELECT INDUSTRY TERMS

In this MD&A, we use certain terms commonly used in the hotel and lodging industry, including the following:

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

“ADR Index” refers to NHT’s ranking in regard to ADR as compared to the competitor set in a submarket, as calculated by Smith Travel Research, Inc. (“STR”).

“Food and Beverage Revenue” means revenue generated from the sale of food and/or beverage offerings.

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

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

“Occupancy Index” refers to NHT’s ranking in regard to occupancy as compared to the competitor set in a submarket, as calculated by STR.

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

“RevPAR Index” refers to NHT’s ranking in regard to RevPAR as compared to the competitor set in a submarket, as calculated by STR.

APPROVAL BY THE BOARD OF TRUSTEES

The Board of Trustees of NHT (the **“Board”**), upon recommendation of its Audit Committee, approved the contents of this MD&A for release on April 24, 2024.

PART II

OVERVIEW OF NHT

NHT is an unincorporated, open-ended real estate investment trust (“**REIT**”) established pursuant to a declaration of trust under the laws of the Province of Ontario. NHT was created for the purpose of acquiring its Initial Portfolio, to raise capital to acquire additional U.S. located hospitality assets that meet its investment objectives and criteria and to own, renovate and operate its portfolio of income-producing hotel properties. NHT is externally managed by NexPoint Real Estate Advisors VI, L.P. (the “**Advisor**”), which has been formed for the sole purpose of managing NHT and its subsidiaries.

NHT has elected to be treated as a REIT under U.S. tax laws. In general, a REIT is not subject to any entity level federal income tax provided that it satisfies various organization and operational requirements to continue to qualify as a REIT under the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”). Even if NHT continues to qualify as a REIT under the Code, it nonetheless may be subject to certain state and local income, franchise, and property taxes. Substantially all business will be conducted through the OP, NHT’s operating partnership, which is a Delaware limited liability company. NHT owns its properties through the OP and its subsidiaries. In order for NHT to qualify as a REIT for U.S. federal income tax purposes under the Code, NHT cannot operate any of its hotels and therefore, each of NHT’s properties are leased to taxable REIT subsidiaries (the “**TRS Entities**”) which have, in turn, engaged eligible independent contractors (as defined in the Code), which are affiliates of Aimbridge Hospitality Holdings, LLC (the “**Manager**”), to manage the day-to-day operations of the hotels.

The Advisor gives NHT access to an experienced management team and extensive network of industry relationships, as well as a management platform with deep knowledge of real estate assets and markets. The Advisor and its affiliates manage approximately \$14.1 billion of gross real estate investments as of December 31, 2023. The Advisor’s team has over 100 years of combined experience in real estate acquisitions, dispositions, financing, rehab implementation and specific experience in hospitality, including NHT’s strategy. Since inception in 2012, the Advisor’s team has closed \$16.9 billion of U.S. gross real estate transactions across multiple property types including: multifamily, hospitality, single family rental, storage, life sciences, ground leases, office, and retail.

Formation Transaction

(Property names used below are defined in the “Our Portfolio” section in the table provided below)

NHT was formed on December 12, 2018, and began operations on January 8, 2019, when it acquired, directly and indirectly, 11 hotel properties, through the contribution of those properties directly by various contributing unitholders and indirectly by contributions to the OP (collectively referred to in this MD&A as the “**Formation Transaction**”). Since the Formation Transaction is accounted for under IFRS as a common control transaction, NHT is deemed to have begun operations on January 8, 2019.

On January 8, 2019, through a series of transactions, the hotels were indirectly contributed by four different groups of affiliated parties to the OP. The contributed assets and assumed liabilities are currently held by the OP through its subsidiaries. Each hotel property is leased to the TRS Entities under a long-term lease arrangement in exchange for the payment of the agreed upon rent amount.

Initial Public Offering (“IPO”) and Listing

On March 27, 2019, NHT filed a final prospectus with the Ontario Securities Commission, as principal regulator, registering 917,700 units for distribution to the public and an additional 3,452,014 units for distribution to non-affiliated parties in consideration for their share of contributions in the Formation Transaction (and together with the 917,700 units and units issued to the Contributors the “**Units**”). On March 29, 2019, NHT closed its IPO, issuing 917,700 units to public unitholders at \$5.00 per Unit, raising gross proceeds of \$4,588. On March 29, 2019, the TSX Venture Exchange (the “**TSXV**”) issued preliminary approval to NHT to list its Units and on April 3, 2019, the Units began trading under the ticker NHT.U (U.S. dollar ticker). NHT’s Units are priced in U.S. dollars, our Consolidated Financial Statements (as defined herein) are presented in U.S. dollars and our distributions, if any, are paid in U.S. dollars.

NHT Objectives and Strategy

The objectives of NHT are to:

- (a) provide unitholders with an opportunity to invest in real estate assets, including, but not limited to, a portfolio of extended-stay, select-service and efficient full-service hotels located in attractive U.S. markets and competitively positioned to outperform the industry as a whole;
- (b) potentially acquire non-hospitality real estate assets on an opportunistic basis;
- (c) provide unitholders with predictable, sustainable, and growing tax efficient cash distributions;
- (d) enhance the value of NHT's assets and maximize the long-term value of the Units through active asset and property management programs and procedures; specifically, acquiring assets that require repositioning through value-add initiatives, development of assets, and capital recycling into hospitality and other real estate asset classes on an opportunistic basis;
- (e) expand the asset base of NHT and increase NHT's FFO, Core FFO and AFFO per Unit primarily through acquisitions and improvements of its properties using targeted and strategic capital expenditures; and
- (f) sell assets at the opportune time to allow NHT to meet its strategic objectives.

NHT aims to achieve its investment objectives by acquiring real estate assets, including hotel properties that will offer a high current yield and in many cases are underperforming assets with the potential to increase in value through investments in capital improvements, a market-based recovery, brand repositioning, revenue enhancements, operational improvements, addressing expense inefficiencies, and exploiting excess land or underutilized spaces. The Advisor targets markets that have a stable yet growing and reliable demand base and limited present and future competitive supply growth. NHT invests in real estate assets, including hotel properties located in areas that it believes exhibit strong economic attributes such as job growth, strong business or transitory travel and leisure travel.

Select-service, limited-service and extended stay hotel properties, which comprise a majority of NHT's portfolio, typically do not include amenities provided in full-service hotel properties; therefore, these properties primarily derive their revenues from hotel room rentals and, to a lesser extent, from restaurants, meeting spaces and other similar income streams. Extended-stay hotel properties are generally high-quality, residential style hotels that offer a package of services and amenities for extended-stay business and leisure travelers. NHT looks to opportunistically invest in efficient full-service hotel properties, although it does not intend for such properties to comprise a substantial portion of its portfolio in the long-term. Full-service hotel properties generally provide a full complement of guest amenities including restaurants, large meeting facilities, concierge, room service and porter service or valet parking. NHT may also originate or make investments in debt related to targeted hotel properties.

OUR PORTFOLIO

As of December 31, 2023, NHT's Current Portfolio consists of 8 properties, comprised of 1,146 rooms throughout the U.S. in the full-service, select-service, limited-service and extended stay hospitality categories. Each property has a long-term franchise agreement with Marriott, Hyatt or Hilton sponsored brands. NHT believes each property in the portfolio has the opportunity to generate outsized market share improvements and topline increases as leading full-service, select-service, limited-service or extended stay hotels in their respective submarkets. In addition to organic growth, NHT is expected to realize additional embedded growth from its capital improvement strategy. All of our hotels are operated pursuant to hotel management agreements between our TRS Entities and affiliates of the Manager.

Brand	Location	Name	Chain Scale	Service Scale	Year Built/Last Renovation	Rooms
Hilton Garden Inn	Dallas, Texas	HGI Property	Upscale	Select-Service	1995/2016	240
Hyatt	Park City, Utah	Park City	Upscale	Full-Service	2016	122
Hampton Inn & Suites	Bradenton, Florida	Bradenton	Upscale	Select-Service	1926/2016	119
DoubleTree	Tigard, Oregon	DT Tigard	Upscale	Limited-Service	1996/2019	101
Homewood Suites	Plano, Texas	HWS Plano	Upscale	Extended Stay	1996/2018	99
Homewood Suites	Addison, Texas	HWS Addison	Upscale	Extended Stay	1990/2018	120
Homewood Suites	Irving, Texas	HWS Las Colinas	Upscale	Extended Stay	1990/2018	136
Marriott	St. Petersburg, Florida	St. Pete	Upper Upscale	Full-Service	2001/2021	209
Total Rooms:						1,146

Our typical hotel management agreement requires us to pay a base fee to our hotel manager calculated as a percentage of hotel revenues. In addition, our hotel management agreements generally provide that the hotel manager can earn an incentive fee for revenue or EBITDA over certain thresholds or based on a return over our required preferred return.

Our TRS Entities may employ other hotel managers in the future. We do not have any ownership or economic interest in any of the hotel management companies engaged by our TRS Entities.

Our revenues are derived from hotel operations and consist of room revenue, food and beverage revenue and other hotel operations revenue. Revenues from our other hotel operations consist of ancillary revenues related to meeting rooms, parking fees and other customer services provided at certain of our hotel properties.

PORTFOLIO ACTIVITY

We continuously consider ways in which to refine our portfolio of properties to drive revenue growth and create value for our unitholders. In the normal course of business, we evaluate opportunities to acquire additional real estate properties that meet our investment criteria and opportunities to recycle capital through the disposition of properties. As such, the composition and size of our portfolio of properties may change materially over time. Significant changes to our portfolio of properties would have a material effect on our Consolidated Financial Statements.

The Initial Portfolio was comprised of 11 properties: the HGI Property, DT Beaverton Property, DT Bend Property, DT Olympia Property, DT Tigard Property, DT Vancouver Property, HWS Plano Property, HWS Addison Property, HWS Las Colinas Property, St. Pete Property, and the Nashville Property.

The Current Portfolio includes the Initial Portfolio and the Park City and Bradenton properties, which were acquired in February 2022, minus the DT Beaverton, DT Bend, and DT Vancouver properties which were sold in 2022, and the DT Olympia property and Nashville Holiday Inn Express, which were sold on June 29, 2023 and December 13, 2023, respectively.

Acquisitions

During the year ended December 31, 2023, there were no acquisitions of real property. During the year ended December 31, 2022, NHT acquired the Hyatt Place in Park City, Utah and the Hampton Inn & Suites in Bradenton, Florida.

Dispositions

NHT began marketing the DT Portfolio for sale in March 2022, with the DoubleTree properties of Vancouver, Beaverton and Bend being sold in 2022. During the year ended December 31, 2023, the REIT sold the DT Olympia property on June 29, 2023 for \$12,750. On December 13, 2023, the REIT sold the Nashville Holiday Inn Express for \$116,000. NHT used the proceeds of the sale to retire the outstanding debt associated with the property as well as the Mezzanine loan ("Mezz Loan"). As of December 31, 2023, NHT is continuing to market the DT Tigard property.

TAXATION

NHT is a mutual fund trust pursuant to the Income Tax Act (Canada) (the “ITA”). Under current tax legislation, a mutual fund trust that is not a Specified Investment Flow-Through Trust (“SIFT”) pursuant to the ITA is generally entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to unitholders. NHT intends to qualify as a mutual fund trust that is not a SIFT trust and to make distributions not less than the amount necessary to ensure that NHT will not be liable to pay income taxes.

NHT has elected to be treated as a REIT under U.S. tax laws. In general, a REIT would not be subject to any entity level federal income tax provided that it satisfies various organization and operational requirements to continue to qualify as a REIT under the Code. Even if NHT continues to qualify as a REIT under the Code, it nonetheless may be subject to certain state and local income, franchise, and property taxes. NHT is subject to numerous organizational and operational requirements including a requirement to make annual distributions equal to a minimum of 90% of its taxable income each year. For NHT to qualify as a REIT under the Code, it cannot operate any of its hotels. Therefore, NHT’s properties are leased to the TRS Entities who in turn engage a professional, third-party hotel management company to manage the hotels.

NHT, through wholly owned subsidiaries, leases the hotels, including future acquisitions to the TRS Entities, which are taxable in the U.S. as a TRS. A TRS is a corporation that has not elected REIT status and has made a joint election with a REIT to be treated as a TRS. As such, it is subject to U.S. federal and state corporate income tax. The income tax effects on the results of the TRS Entities accrue directly to the unitholders of NHT. On December 22, 2017, the Tax Cuts and Jobs Act was passed, which reduced the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. Future regulations and interpretations to be issued by U.S. authorities may also impact NHT’s estimates and assumptions used in calculating its income tax provisions.

For TRS Entities, income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in earnings except to the extent that they relate to a business combination, or to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: (a) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and (b) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

BASIS OF PRESENTATION

This MD&A is for the years ended December 31, 2023 and December 31, 2022, and includes material financial information as of April 30, 2024. This MD&A should be read in conjunction with NHT’s Audited Consolidated Financial Statements and the notes to the Audited Consolidated Financial Statements for the years ended December 31, 2023 and December 31, 2022 (the “**Consolidated Financial Statements**”), which have been prepared in accordance with IFRS. 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 U.S. dollars, unless otherwise noted, and are shown in thousands except Unit and per Unit amounts.

Additional information relating to NHT is available under the REIT’s profile on SEDAR+ at www.sedarplus.ca.

THIRD PARTY INFORMATION

This MD&A includes market information, industry data and forecasts obtained from independent industry publications, market research and analyst reports, surveys, and other publicly available sources. Although NHT’s management believes these sources to be generally reliable, market and industry data is subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary

nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Some of the market information used herein includes forward looking statements regarding expected trends in the industry.

Accordingly, the accuracy and completeness of this data are not guaranteed. NHT has not independently verified any of the data from third party sources referred to in this MD&A nor has NHT ascertained the underlying assumptions relied upon by such sources.

INFLATION

NHT relies on the performance of its hotel portfolio and the ability of its hotel management to increase revenues to keep pace with inflation. NHT's hotel management can change room rates quickly, but competitive pressures may limit the hotel manager's ability to raise room rates. NHT's expenses are subject to inflation and are expected to grow at, or greater than, the general rate of inflation.

SEASONALITY

The lodging industry is seasonal in nature, which can be expected to cause quarterly fluctuations in occupancy rates, room rates, revenues, operating expenses, NOI Margins and cash flows. Historically, occupancies, revenues, and cash flows tend to be higher in the second and third quarters and lower in the first and fourth quarters. Quarterly earnings may also be influenced by factors beyond NHT's control including overall economic cycles and weather conditions as well as unforeseen extraordinary events. To the extent cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenues, NHT expects to utilize cash on hand to pay expenses, service debt, or to make distributions to unitholders. During the COVID-19 pandemic, NHT entered into discussions with all of its lenders regarding potential non-payment of debt service and potential forbearance of payments and covenant waivers.

Extended stay and select-service hotels that have a focus on business travelers tend to underperform during the summer and holiday seasons when business travel is lightest. Because NHT's portfolio focuses primarily on select-service and extended stay assets as well as its unique value add strategy, our portfolio may have different quarterly fluctuation trends as compared to competitors or the lodging sector in general.

PORTFOLIO CONCENTRATION

NHT's portfolio has a large concentration of earnings and NOI in only a few properties which can create large distortions in earnings and NOI from quarter-to-quarter and even year-to-year in the case of unforeseen or uncontrollable events.

COMPETITION

The lodging sector is highly competitive. NHT faces competition from a number of sources, including from Airbnb and from other hotels located in the immediate vicinity of our properties and the broader geographic areas where NHT's hotels are and will be located. NHT's properties compete on the basis of location, room rates, quality, service levels, reputation, and reservations systems, among many factors. NHT also faces competition from alternative lodging options such as Airbnb that have and may continue to add guest accommodations that compete with hotel inventory. Such competition may reduce occupancy rates and revenues of NHT and could have an adverse effect on NHT's business, cash flows, financial condition, and results of operations and NHT's ability to make distributions to unitholders. Increases in the cost to NHT of acquiring hotel properties may adversely affect the ability of NHT to acquire such properties on favourable terms and may otherwise have an adverse effect on NHT's business.

2023 AND 2022 HIGHLIGHTS

1. Paycheck Protection Program ("PPP") Loans

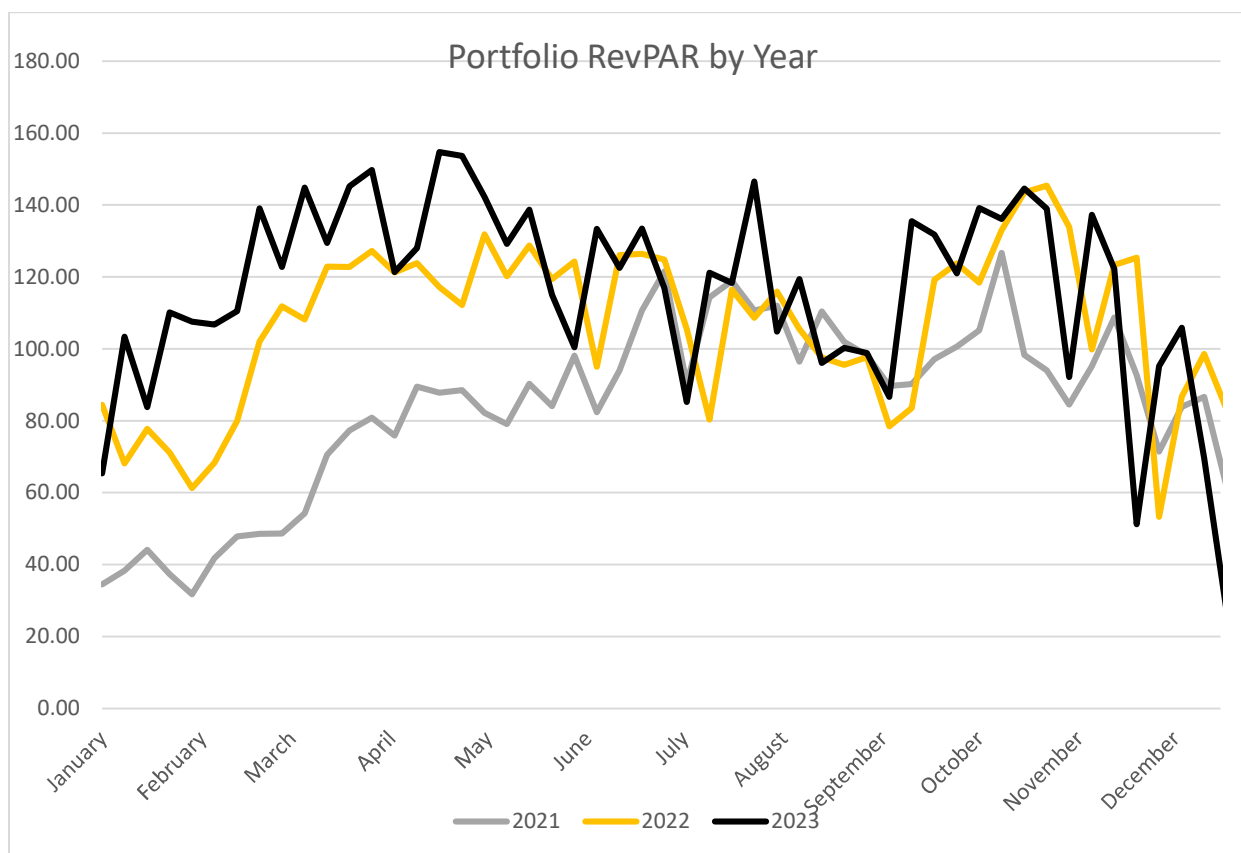
In response to the COVID-19 pandemic and its impact on the hospitality industry, the United States Congress included a special category for hospitality business as it related to qualifying for PPP loans. As a result, the REIT received two PPP loans in the amount of \$3,331 in 2021 and \$4,000 in 2022. In January and February 2022, the U.S. Small Business Administration (the "SBA") granted full forgiveness of the second PPP loans totaling \$4,000 and all accrued interest. The REIT recognized the forgiven second PPP loans and all accrued interest in profit or loss for the year ended December 31, 2022. For the year ended December 31, 2023, there has been no forgiveness for PPP loans. See Note 13 of the Consolidated Financial Statements.

2. Renovation at St. Petersburg Marriott

Due to the outbreak of the COVID-19 pandemic, we postponed the planned renovation for the St. Pete Property. Subsequently we requested, and Marriott approved, a reduction in the scope of the planned renovation. Although the renovation is required pursuant to our franchise agreement with Marriott, we received a waiver that allowed us to reduce the scope of the renovation and complete improvements in two phases throughout 2021 and 2022. The first phase of the renovation was completed in November 2021 and included updating bathrooms and public spaces, while the second phase includes updating rooms and décor, conference rooms, expanding food and beverage offerings and the M Club lounge on the property. The second phase of the renovation was delayed from 2022 and began in early 2023 and will continue to be renovated in the first quarter of 2024. These updates will ensure our St. Pete Property continues to conform to current brand standards and provides general improvements to common areas.

3. Improving Outlook for Hospitality and NHT

Since the beginning of 2021, the hospitality sector has seen a dramatic improvement in occupancy, and to a lesser extent, an increase in ADR and RevPAR. NHT has experienced improvements in occupancy, ADR, and RevPAR metrics. The Bradenton and Park City properties were acquired in February 2022 and contribute to the increase in RevPAR as shown in the chart below. The fall towards the end of 2023 was due to the sales of DT Olympia and HIX Nashville properties. The Current Portfolio reached pre-pandemic levels in 2022, and management believes that these properties will continue to be key drivers in the portfolio's RevPAR growth.



DEVELOPMENTS

1. Acquisition of Hyatt Place

On February 15, 2022, NHT acquired the Hyatt Place hotel in Park City, Utah ("Park City"). The Park City property is a 122-room hotel located near the Park City ski mountain. Originally built in 2016, the property is almost exclusively focused on leisure travel, which we believe will outperform in the near-term. Additionally, we

requested, and Hyatt granted, the addition of a destination fee for all guests, which should materially increase NOI achieved pre-pandemic.

2. Acquisition of Hampton Inn & Suites

On February 23, 2022, NHT acquired the 119-room Hampton Inn & Suites hotel located in Bradenton, Florida (“Bradenton”). Bradenton hosts multiple major league baseball teams during spring training and is a leisure destination area year-round given the temperate climate in the winter and access to the beach. This property represents a traditional value-add opportunity for NHT. Over the last several years this property has lost RevPAR index to the competitor set, however, we believe that with the right renovations, Bradenton should be able to close the gap on the competitor set while sitting in the heart of a growing economy in southern Florida.

3. Marketing of DT Portfolio

On March 8, 2022, we launched the marketing process with nationally recognized brokers to sell the remainder of the DT Portfolio. These properties have outperformed versus expectations during the COVID-19 pandemic, and while we maintain an optimistic outlook for these properties, we believe now is the time to transact. We completed all of the originally planned capital expenditures on the properties and believe a sale will achieve a price that will generate returns commensurate with our original expectations. During the year ended December 31, 2022, the REIT sold the DT Bend, DT Beaverton, and DT Vancouver properties for a combined purchase price of \$67.5 million. The REIT then sold the DT Olympia property on June 29, 2023 for \$12.75 million. As of December 31, 2023, DT Tigard remained the final DT property held for sale, and was subsequently sold on April 19, 2024 for \$10.4 million. The REIT used the net proceeds from the sales of DT Bend, DT Beaverton, and DT Vancouver to pay off the balance of the DT Portfolio debt. The REIT will use the proceeds from the final sale to de-lever the rest of the portfolio.

4. Disposition of HIX Nashville

On February 6, 2023, the REIT entered into an agreement with a broker to market the Holiday Inn Express Nashville for sale. This property had outperformed versus expectations during the COVID-19 pandemic, and while management maintained an optimistic outlook for this property, we believed it was time to transact. On August 11, 2023, the REIT entered into an agreement of purchase and sale with NF V Acquisitions, LLC for the sale of the Nashville property. The REIT sold the property on December 13, 2023 for \$116 million in cash for the real and personal property that comprises the property. The REIT retired the entirety of the HIX Nashville debt with the proceeds from the sale as well as the Mezz loan.

5. HUB Research Triangle Park in North Carolina

On February 14, 2022, the REIT made a \$200 deposit on a tract of land at the HUB Research Triangle Park in North Carolina. The REIT may develop a hotel on this site in partnership with a developer that the Advisor has collaborated with previously.

6. Investment in Life Sciences II

On September 11, 2023, the REIT acquired \$2,500 worth of beneficial interests in NexPoint Life Sciences II DST (“Life Sciences DST”) a Delaware statutory trust. Life Sciences DST owns a manufacturing and production facility in Philadelphia, PA that is under a triple net lease. It is anticipated that NHT will receive an annual dividend between 4.36% and 4.83% on this investment over the next five years. The REIT believes that the Current Good Manufacturing Practice (“cGMP”) / life sciences manufacturing industry presents an attractive investment opportunity for the REIT on account of (i) growth in the life sciences space; (ii) the benefits of operating a niche, net-lease business; and (iii) the potential for more predictable, steady cash flows and risk adjusted returns. The REIT is currently exploring the possibility of further real estate investments in the cGMP / life sciences manufacturing industry using the remaining proceeds from the sale of HIX Nashville.

MARKET ENVIRONMENT

The U.S. lodging industry’s performance is generally correlated to the performance of the U.S. economy including key metrics such as GDP growth, employment levels and corporate profits as well as consumer spending on leisure activities and vacations. Our strategy differs from competitors in that we try to achieve relative outperformance against the competitors in our sub-markets and we believe we are less correlated to changes or trends in the U.S. economy. Instead, we focus on acquiring quality assets with a near-term history of underperformance related to competitors in the sub-market and that in most cases need a significant capital investment. The assets we acquire are generally underperforming because the prior owner had not invested adequate capital into the property to maintain the property’s

competitiveness or the properties were not efficiently operated to maximize NOI Margins. Through capital investment and improved management, we attempt to recapture the property's performance as compared to the competitor set in its sub-market. Because we are attempting to recapture lost relative performance, we generally believe we can execute our strategy of relative outperformance regardless of macroeconomic trends in the U.S. economy.

According to STR, a reputable third-party provider of data and forecasting for the hotel and lodging industry, in December 2023, U.S. hotel RevPAR was \$79.42, which is up 0.3% from 2022, ADR increased by 2.1% from 2022, and occupancy was 52.6%, which was down 1.8% from 2022. The improvements in RevPAR and ADR from 2022 were primarily due to increases in business and leisure travel.

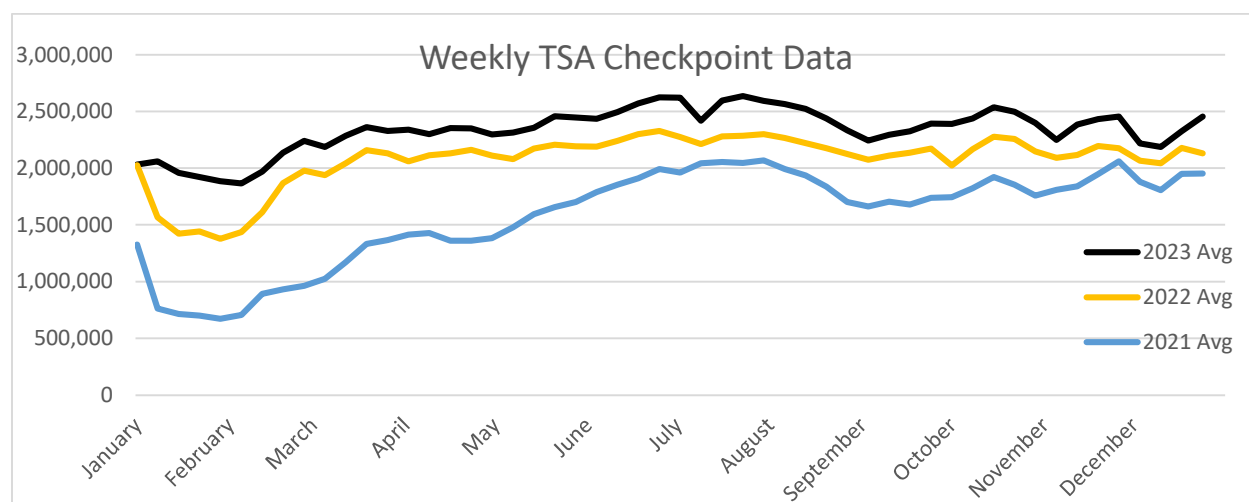
The following table summarizes 2023 RevPAR as compared to 2022, 2021 and 2020 RevPAR in the U.S. hotel industry by chain scale (according to STR) in the segments in which NHT owns hotels, which shows that the industry has recovered since the onset of COVID-19:

Chain Scale Segments	Representative NHT Brands	2023 Market RevPAR	2022 Market RevPAR	2021 Market RevPAR	2020 Market RevPAR
Upper upscale	Marriott	\$ 112.27	\$ 104.91	\$ 85.69	\$ 53.13
Upscale	Hilton Garden Inn, DoubleTree, Homewood Suites, Hyatt Place	\$ 86.66	\$ 87.08	\$ 76.75	\$ 49.47
Upper midscale	Holiday Inn Express, Hampton Inn & Suites	\$ 135.83	\$ 133.84	\$ 68.53	\$ 43.57

The following table summarizes 2023 occupancy as compared to 2022, 2021 and 2020 occupancy in the U.S. hotel industry by chain scale (according to STR) in the segments in which NHT owns hotels, which shows that the industry is beginning to recover:

Chain Scale Segments	Representative NHT Brands	2023 Occupancy	2022 Occupancy	2021 Occupancy	2020 Occupancy
Upper upscale	Marriott	68.3%	66.4%	48.7%	33.5%
Upscale	Hilton Garden Inn, DoubleTree, Homewood Suites, Hyatt Place	66.7%	66.4%	59.7%	43.0%
Upper midscale	Holiday Inn Express, Hampton Inn & Suites	70.8%	71.6%	61.6%	45.4%

Occupancy is somewhat correlated to air travel. The following table summarizes the number of screenings by the U.S. Transportation Security Administration during the years 2021, 2022 and for the year ended December 31, 2023.



OUTLOOK

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

The biggest economic issue appears to be persistent inflation that has not been seen in the U.S. since the 1980s. The U.S. Federal Reserve began increasing interest rates to combat inflation, increasing the federal funds rate by 25 basis points at the Federal Open Market Committee meeting held on March 17, 2022. Subsequent to December 31, 2023, the U.S. Federal Reserve did not raise interest rates at the January 31, 2024 meeting. Accordingly, the federal fund rate remains at 5.5% as of the date of this MD&A. Increasing costs may dampen the ability for individuals to afford leisure travel or may prohibit some businesses from returning to pre-pandemic levels of travel. Also, inflationary pressures are likely to impact our costs through higher costs of goods and labor costs. On the other hand, the hospitality sector has the ability to adjust its pricing to account for inflation as our rental agreements are priced daily. It is difficult to predict whether inflation will stunt the recovery in the hospitality sector in general or in our portfolio specifically. The most likely outcome is that businesses will continue moving to increase travel but will do so cautiously in light of the economic impact of inflation, until inflationary pressures are brought under control.

PART III

FINANCIAL AND OPERATIONAL HIGHLIGHTS

We utilize data provided by STR to help us gauge the performance and relative performance of our hotels within their respective submarkets. STR gathers information from a subset of hotels in the submarket we believe are a direct competitor to our property in the same submarket. STR delivers reports for each property monthly that includes occupancy, ADR and RevPAR at each property as well as our relative ranking against the competitor set for each of these metrics plus other detailed metrics and information.

The Occupancy, ADR and RevPAR Index scores are measures that show the relative performance of our properties against the competitor properties. The comparison is based on a scale of 100, with 100 meaning the property is performing in line with the competitor set, a score of less than 100 indicates our property is underperforming the competitor set and a score greater than 100 indicates our property is outperforming the competitor set. The Index scores also report magnitude with the score reflecting the percentage outperformance or underperformance. For example, for the year ended December 31, 2023, our DT Tigard property had an Occupancy Index score of 126.5, meaning its occupancy is 126.5% (or 1.265 times) of the average occupancy among the competitor set. Alternatively, HomeWood Suites Plano has an ADR Index score of 124.4 meaning its ADR is 124.4% (1.244 times) of the average ADR among the competitor set.

RESULTS OF OPERATIONS

Portfolio Operating Metrics and Statistics

Years ended December 31, 2023 and December 31, 2022

For the year ended December 31, 2023, occupancy across the Current Portfolio was 67.4%, ADR was \$143.10, and RevPAR was \$96.00. Each metric represents an increase between 2023 and 2022 due to increased air travel, and leisure.

The following tables show the operational metrics and index scores for the Current Portfolio for the years ended December 31, 2023 and December 31, 2022:

For the Year Ended December 31, 2023										
	Hilton Garden Inn	Addison	Homewood Suites Las Colinas	Plano	DoubleTree Tigard	St Petersburg	Park City	Bradenton	Portfolio	
Occupancy	63.9%	66.3%	70.3%	72.5%	68.6%	68.3%	58.7%	70.8%	67.4%	
Occupancy Index	103.1	93.8	95.1	104.8	126.5	100.4	96.2	97.1	102.1	
ADR	\$ 130.58	\$ 106.31	\$ 129.18	\$ 109.36	\$ 122.08	\$ 164.37	\$ 191.22	\$ 191.73	\$ 143.10	
ADR Index	99.9	106.3	123.2	124.4	105.8	97.0	95.1	108.2	107.5	
RevPAR	\$ 83.46	\$ 70.43	\$ 90.82	\$ 79.26	\$ 83.70	\$ 112.27	\$ 112.26	\$ 135.83	\$ 96.00	
RevPAR Index	103.0	99.7	117.1	130.4	133.9	97.4	91.6	105.0	109.8	

For the Year Ended December 31, 2022										
	Hilton Garden Inn	Addison	Homewood Suites Las Colinas	Plano	DoubleTree Tigard	St Petersburg	Park City	Bradenton	Portfolio	
Occupancy	61.2%	70.1%	71.8%	74.5%	62.7%	66.4%	57.9%	71.6%	67.0%	
Occupancy Index	97.8	104.3	106.3	100.2	118.1	95.9	92.4	95.5	101.3	
ADR	\$ 126.22	\$ 99.77	\$ 117.98	\$ 102.74	\$ 128.18	\$ 157.92	\$ 171.68	\$ 186.90	\$ 136.42	
ADR Index	102.8	107.3	117.0	119.7	114.8	99.6	89.0	105.9	107.0	
RevPAR	\$ 77.20	\$ 69.95	\$ 84.65	\$ 76.51	\$ 80.34	\$ 104.91	\$ 99.43	\$ 133.84	\$ 90.85	
RevPAR Index	100.5	111.9	124.4	120.0	135.6	95.5	82.2	101.1	108.9	

The following tables show the year-over-year changes in operational metrics and index scores for the Current Portfolio for the years ended December 31, 2023 and December 31, 2022:

Incremental Change Year-Over-Year										
	Hilton Garden Inn	Addison	Homewood Suites Las Colinas	Plano	DoubleTree Tigard	St Petersburg	Park City	Bradenton	Portfolio	
Occupancy	2.7%	-3.8%	-1.5%	-2.0%	5.9%	1.9%	0.8%	-0.8%	0.6%	
Occupancy Index	5.3	(10.5)	(11.2)	4.6	8.4	4.5	3.8	1.6	0.0	
ADR	\$ 4.36	\$ 6.54	\$ 11.20	\$ 6.62	\$ (6.10)	\$ 6.45	\$ 19.54	\$ 4.83	\$ 0.05	
ADR Index	(2.9)	(1.0)	6.2	4.7	(9.0)	(2.6)	6.1	2.3	0.0	
RevPAR	\$ 6.26	\$ 0.48	\$ 6.17	\$ 2.75	\$ 3.36	\$ 7.36	\$ 12.83	\$ 1.99	\$ 0.06	
RevPAR Index	2.5	(12.2)	(7.3)	10.4	(1.7)	1.9	9.4	3.9	0.0	

Financial Highlights

Years ended December 31, 2023 and December 31, 2022

The following discussion highlights selected financial information for NHT for the years ended December 31, 2023 and December 31, 2022. This information should be read in conjunction with the Consolidated Financial Statements.

NHT reported an NOI margin of 25.1% for the year ended December 31, 2023 as compared to an NOI margin of 30.7% for the year ended December 31, 2022. The decrease in NOI margin was primarily attributable to the drastic rise in property tax and insurance expenses, which were 58.0% higher in the year ended December 31, 2023 than the year ended December 31, 2022.

NHT reported a net loss of \$(16,891) for the year ended December 31, 2023 compared to a net income of \$5,492 for the year ended December 31, 2022, which was primarily due to the loss from extinguishment of the HIX debt and the decrease in gain from disposal in the year ended December 31, 2023.

Total revenue was \$70,978 for the year ended December 31, 2023 compared to \$76,288 for the year ended December 31, 2022, which was a decrease of approximately 7.0%. This decrease was primarily driven by a decrease in room revenue of 8.3%, which was attributable to the sales of the Olympia and Nashville properties.

For the years ended December 31, 2023 and December 31, 2022, the financial results were as follows:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Total revenues	\$ 70,978	\$ 76,288
Operating expenses	(41,930)	(40,046)
Operating general and administrative expenses	(11,205)	(12,858)
Net Operating Income/(Loss)	17,843	23,385
NOI Margin	25.1%	30.7%
Corporate general and administrative expenses	(1,127)	(3,452)
Advisory fees	(1,956)	(2,167)
EBITDA	14,760	17,766
Depreciation of property and equipment	(7,419)	(12,699)
Depreciation of right-of-use asset	(181)	(334)
Amortization of advanced bookings from acquisitions	—	(682)
Acquisition costs	—	(498)
Casualty gain/(loss), net of insurance proceeds	—	508
Gain on disposal - sale	8,228	9,062
Finance costs from operations ¹	(21,237)	(21,420)
Fair value adjustment of Class B Units	305	123
Impairment (loss) recovery	(4,963)	202
Forgiveness of PPP loans	—	—
Income Related to Forbearance Agreement	—	4,612
Gain/(Loss) extinguishment of debt	(1,607)	4,000
Refund from franchisors	7	168
Write off of payables	—	1,131
Gain on fair value adjustments to interest rate caps	384	1,546
Penalties and interest, gross receipts tax	(153)	(107)
Income taxes	(179)	(115)
Deferred income tax recovery (expense)	(4,836)	2,230
Net income (loss) and comprehensive income (loss)	\$ (16,891)	\$ 5,492
Weighted average units outstanding - basic	29,352,055	29,352,055
Earnings per unit - basic	(0.58)	0.19

Note: The December 31, 2022 balance has been adjusted for the effect of the Misstatement (as defined herein) described in Note 24.

As of December 31, 2023, NHT had total assets of \$202,584, which included cash of \$32,326, restricted cash of \$4,416, and net property and equipment of \$148,171. NHT had accounts payable and other accrued liabilities of \$22,261, indebtedness net of \$114,641, notes issued to affiliates of \$83,206, redeemable Class B Units valued at \$4 and unitholders' deficit of \$(17,293).

The REIT recognized impairment loss of \$4,963 for the year ended December 31, 2023. The REIT recognized an impairment recovery for the year ended December 31, 2022 on real estate assets of \$602. See Note 7 of the Consolidated Financial Statements for a discussion of how the REIT derived impairment and recovery amounts.

The following table shows the financial position of NHT as of December 31, 2023 and December 31, 2022:

	December 31, 2023	December 31, 2022
Total assets	\$ 202,584	\$ 308,205
Total liabilities	219,877	307,439
Unitholders' equity/(deficit)	(17,293)	766

The decrease in total assets from December 31, 2022 to December 31, 2023 is almost entirely due to the sale of the DT Olympia and Nashville Holiday Inn Express properties. The decrease in total liabilities is largely due to the mezzanine loan and Nashville HIX loan debt payoff through the sale of the Nashville property. year ended December 31, 2023 The increase in unitholder's deficit is due to the drastic rise of interest rates in 2023.

Detailed Financial Results of Operations

Years ended December 31, 2023 and December 31, 2022

Revenues

Revenue primarily consists of room revenue from renting out rooms to customers, food, and beverage revenue, which is generated through the sale of food and beverage items to customers, and other income such as parking fees, meeting room charges, internet access, resort fees and other ancillary revenue. Revenue was lower during the year ended December 31, 2023 compared to the year ended December 31, 2022 largely due to sales of the DT Olympia and HIX Nashville properties.

For the years ended December 31, 2023 and December 31, 2022, revenue was as follows:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Rooms	\$ 62,768	\$ 68,469
Food and beverage	4,009	4,151
Other income	3,745	3,524
Asset management fee income	436	144
Income on Investments	20	—
Total revenues	<u>\$ 70,978</u>	<u>\$ 76,288</u>

Operating Expenses

Operating expenses are comprised mainly of costs associated with the management and maintenance of the property. In order to manage a hotel's operations, a number of employees are required such as general managers, front desk personnel, maintenance personnel, maids, food, and beverage personnel (where applicable) and other employees to manage the hotel operations, cater to customers and maintain the property. Employees at our properties are hired and managed by the Manager. NHT franchises with brands sponsored by Hilton, Hyatt and Marriott (the "**Franchisors**"). In exchange for access to their registration system, nationwide and regional advertising, and other benefits, NHT pays a franchise fee to the Franchisors. Cost of goods sold are costs related to the sale of food and beverage offering. Supplies and equipment expenses consist of expenses for the general supplies required to stock a hotel operation and equipment encompasses equipment that is too short lived to capitalize as part of furniture, fixtures, and equipment ("**FF&E**") on the Consolidated Statement of Financial Position.

Operating expenses were \$41,930 for the year ended December 31, 2023 compared to \$40,046 for the year ended December 31, 2022 which was an increase of approximately 4.7%. This increase was primarily attributable to increases in property revenues coupled with the dramatic increase of property taxes and insurance expenses.

For the years ended December 31, 2023 and December 31, 2022, operating expenses were as follows:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Payroll	\$ 17,077	\$ 18,317
Franchise fees	4,804	4,949
Cost of goods sold	4,409	4,660
Utilities	2,099	2,119
Supplies and equipment	1,739	2,177
Property taxes and insurance	10,222	5,831
Other operating expenses (income)	745	914
Repairs and maintenance	835	1,079
Operating expenses	<u>\$ 41,930</u>	<u>\$ 40,046</u>

The REIT recognizes the property tax levy on January 1 of the calendar year in accordance with IFRIC 21.

Operating, General and Administrative Expenses

Operating, general and administrative expenses are comprised of the costs to market the services of the property, management fees paid to the Manager and general costs of operating the business. Operating, general and administrative expenses primarily consist of expenses paid to credit card companies for the fees charged for customers utilizing credit cards. Marketing consists of advertising expenditures, fees paid to brands for making reservations, refunds of brand fees, commission paid to travel agents for booking customers at our hotels and the cost of frequent stay or customer loyalty programs sponsored by the Franchisors. Property management fees are the payments made to the Manager for managing the day-to-day operations of our hotels.

For the years ended December 31, 2023 and December 31, 2022, operating general and administrative expenses were as follows:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Marketing	\$ 4,994	\$ 5,449
Operations G&A	3,410	3,701
Property management fees	1,439	2,279
Rent	(16)	(31)
Other administrative expenses	1,378	1,459
Operating general and administrative expenses	<u>\$ 11,205</u>	<u>\$ 12,858</u>

Corporate, General and Administrative Expenses

Corporate, general, and administrative expenses are comprised of the costs to manage the business of NHT as a publicly registered and traded company and the costs of managing a multi-property portfolio of hotel properties. Corporate general and administrative expenses include audit fees paid to audit firms to provide reviews and audits of our financial statements; legal fees paid for legal advice and assistance in meeting our ongoing obligations as a publicly registered company; tax preparation fees paid to preparers of our many different tax filing requirements across multiple jurisdictions; and trustee fees which are fees paid to the independent trustees of NHT. For the years ended December 31, 2023 and December 31, 2022, corporate general and administrative costs were generally in line with our expectations, apart from the increase in legal fees which were based on the closing sale of the DT Olympia and Nashville Holiday Inn Express properties that occurred on June 29, 2023 and December 13, 2023, respectively and the fair value adjustment of stock compensation which is based off a third party valuation of the REIT and cannot be accurately predicted.

For the years ended December 31, 2023 and December 31, 2022, corporate general and administrative expenses were as follows:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Audit fees and financial reporting	\$ 473	\$ 444
Tax preparation	149	192
Consulting fees	307	84
D&O Insurance	121	97
Legal fees	1,439	401
Trustee fees and stock compensation	(1,568)	1,963
TSXV listing fees	42	23
Filing fees	—	22
Other administrative expenses	164	226
Corporate G&A expenses	<u>\$ 1,127</u>	<u>\$ 3,452</u>

Finance Costs

Finance costs from operations consists of interest expense on the note payables and mezzanine debt, amortization of deferred financing costs, and changes in the value of derivative instruments used to hedge our exposure to floating interest rates or limit our increases in interest expense in the case of rising interest rates with the federal fund interest

rate being raised to 5.3% for the year ended December 31, 2023. However, the fund's finance costs from operations did increase significantly due to the uncapped floating rate notes affected by the rise in interest rates, which increased 16.2% since December 31, 2022.

For the years ended December 31, 2023 and December 31, 2022, finance costs were as follows:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Interest on debt ¹	\$ 16,899	\$ 17,236
Amortization of deferred financing costs	1,223	1,792
Interest on due to affiliate	3,120	2,359
Forbearance Agreement Fees	(5)	33
Finance costs from operations	21,237	21,420
Fair value adjustment of Class B Units	(305)	(123)
Finance costs	<u>\$ 20,932</u>	<u>\$ 21,297</u>

1. Note: The December 31, 2022 balance has been adjusted for the effect of the Misstatement (as defined herein) described in Note 24.

Results of Operations

2022 results of operations by quarter

NHT saw an increase in total revenues in the first quarter of 2022 over the fourth quarter of 2021, as the REIT acquired the Park City and Bradenton properties in the first quarter of 2022. Operating expenses are significantly higher in the first quarter of each year due to the property tax levy recognized on January 1st in accordance with IFRIC 21. In the fourth quarter of 2022, financing costs from operations were higher than prior quarters due to the adjustment to interest that was accrued for the Mezz Laon. See Consolidated Financial Statements Footnote 24.

	For the Three Months Ended			
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Total revenues from full operations	\$ 17,761	\$ 20,257	\$ 21,236	\$ 17,034
Operating expenses	(8,929)	(9,903)	(10,043)	(11,171)
Operating general and administrative expenses	(3,126)	(3,494)	(3,646)	(2,592)
Net operating income (loss)	\$ 5,706	\$ 6,860	\$ 7,547	\$ 3,271
Net operating income (loss) per unit - basic	0.19	0.23	0.26	0.11
Corporate general and administrative expenses	(1,359)	(607)	(741)	(745)
Advisory fees	(559)	(562)	(560)	(486)
Finance costs from operations ¹	(6,757)	(3,847)	(4,152)	(4,149)
Fair value adjustment of Class B Units	(695)	311	218	289
Impairment recovery/(loss)	850	569	570	(1,787)
Net loss and comprehensive loss	\$ 6,821	\$ 337	\$ (2,011)	\$ 346
Loss per unit - basic	0.23	0.03	(0.07)	0.02
Weighted average units outstanding - basic	29,352,055	29,352,055	29,352,055	29,352,055

1. Note: The 2022 balances have been adjusted for the effect of the Misstatement (as defined herein) described in Note 24.

2023 results of operations by quarter

In the first quarter of 2023, we saw substantial increases in revenues largely due to the acquisitions of the Bradenton and Park City properties, which had full periods of operations. Additionally, in the fourth quarter of 2023, we saw

substantial increases to revenue as the Park City property has undergone significant operational improvements, and, as such, saw an increase in average occupancy in the start of its peak season. Total revenues increased due to increased ADR and Occupancy across the portfolio. Operating expenses were largely similar to 2022, outside of an increase in finance costs from operations due to the adjustment to interest expense for the Mezz Loan as well as the rise in interest rates. See note 24 in the Consolidated Financial Statements. The below table is not adjusted for discontinued operations.

	For the Three Months Ended			
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Total revenues from full operations	\$ 15,022	\$ 20,344	\$ 16,030	\$ 19,582
Operating expenses	(10,137)	(12,427)	(7,735)	(11,631)
Operating general and administrative expenses	(2,699)	(3,142)	(2,520)	(2,842)
Net operating income (loss)	\$ 2,186	\$ 4,775	\$ 7,547	\$ 3,271
Net operating income (loss) per unit - basic	0.07	0.15	0.25	0.11
Corporate general and administrative expenses	(226)	(366)	(177)	(358)
Advisory fees	(295)	(556)	(552)	(544)
Finance costs from operations ¹	(6,192)	(4,772)	(4,356)	(5,917)
Fair value adjustment of Class B Units	50	51	103	101
Net loss and comprehensive loss	\$ (5,601)	\$ (3,516)	\$ (4,030)	\$ (3,744)
Loss per unit - basic	(0.19)	(0.11)	(0.14)	(0.12)
Weighted average units outstanding - basic	29,352,055	30,918,659	30,784,867	30,784,867

Impact of Seasonality and Portfolio Concentration

The impact of seasonality on quarter over quarter results can be significant due to the inherent seasonality of the lodging sector. A more meaningful comparison to identify trends within the market generally and our portfolio specifically is a comparison of year-over-year results to the relevant current period.

Within our portfolio, even year-over-year comparisons can be misleading without additional context due to our strategy of implementing a comprehensive renovation program at our properties. For these reasons, we also provide additional information on apparent trends communicated in year-over-year comparisons throughout our commentary on financial results and metrics.

The concentration of NOI amongst a few properties in NHT's portfolio leads to varying quarterly results based on those individual properties.

Management believes that the Bradenton and Park City property acquisitions strategically place the REIT in a position to overcome seasonality lulls historically experienced by the REIT.

NON-IFRS MEASURES

Since the historical cost accounting convention used for lodging real estate assets requires depreciation except on land, such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a real estate investment trust that uses historical cost accounting for depreciation could be less informative. Additionally, the value of a property individually is not impacted by company level general and administrative expenses, income taxes or interest on debt and other finance costs. Therefore, we believe non-IFRS measures are important supplemental measures of operating performance for a real estate investment trust. We utilize the following non-IFRS measures:

FFO is defined as net income computed in accordance with IFRS, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization and impairment charges, deferred income tax expense (recovery), transaction costs expensed as a result of the purchase of a property accounted for as a business combination and fair value adjustments to certain financial instruments.

Core FFO makes certain adjustments to FFO, which are either not likely to occur on a regular basis or are otherwise not representative of the ongoing operating performance of our portfolio. Core FFO adjusts FFO to remove items such as losses on extinguishment of debt and modification costs (including prepayment penalties and defeasance costs incurred on the early repayment of debt, the write-off of unamortized deferred financing costs and fair market value adjustments of assumed debt related to the early repayment of debt, costs incurred in a debt modification that are not capitalized as deferred financing costs and other costs incurred in a debt extinguishment), distributions to redeemable Class B Units, casualty-related expenses and recoveries and income taxes paid by our TRS Entities.

AFFO makes certain adjustments to Core FFO in order to arrive at a more refined measure of the operating performance of our portfolio. There is no industry standard definition of AFFO, and practice is divergent across the industry. AFFO adjusts Core FFO to remove items such as equity-based compensation expense, the amortization of deferred financing costs incurred in connection with obtaining long-term financing and to account for the ongoing maintenance requirements of our properties by reducing Core FFO for a capital expenditure reserve.

The following is a reconciliation of our IFRS net income to FFO, CFFO and AFFO for the years ended December 31, 2023 and December 31, 2022:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Net income/(loss)	\$ (16,891)	\$ 5,492
Depreciation of property and equipment	7,419	12,699
Depreciation of right-of-use asset	181	334
Acquisition costs	—	498
Deferred income tax recovery	4,836	(2,230)
Fair value adjustment of Class B Units	(305)	(123)
Impairment (recovery)/loss	4,963	(202)
Funds from Operations	<u>203</u>	<u>16,468</u>
FFO per unit - basic	\$ 0.01	\$ 0.56
Income taxes	179	115
Core Funds from Operations	<u>382</u>	<u>16,583</u>
CFFO per unit - basic	\$ 0.01	\$ 0.56
FF&E reserve	(3,473)	(4,556)
Amortization of deferred financing costs	1,223	852
Adjusted Funds from Operations	<u>(1,868)</u>	<u>12,879</u>
AFFO per unit - basic	\$ (0.06)	\$ 0.44
Weighted average units outstanding - basic	29,352,055	29,352,055
Dividend declared	\$ —	\$ —
AFFO payout ratio	0%	0%

FFO was \$203 for the year ended December 31, 2023 compared to \$16,468 for the year ended December 31, 2022, which was a decrease of approximately \$(16,265). The change in our FFO between the periods primarily relates to the greater net loss in 2023, removal of the impairment recovery that increased the net income in 2022, the deferred income tax recovery being significantly higher in 2022, and the depreciation expense being higher in 2023 than in 2022.

Core FFO was \$382 for the year ended December 31, 2023 compared to \$16,583 for the year ended December 31, 2022 which was a decrease of approximately \$(16,201). The change in our Core FFO between the periods primarily relates to the change in FFO and income tax expense.

AFFO was \$(1,868) for the year ended December 31, 2023 compared to \$12,879 for the year ended December 31, 2022 which was a decrease of approximately \$(14,747). The change in our AFFO between the periods primarily relates to the change in Core FFO, and a reduction in FF&E reserve.

DISTRIBUTION POLICY

NHT targets quarterly cash distributions in an amount that is approximately 55% to 65% of AFFO. Due to the disruptions in revenue as a result of the COVID-19 pandemic, on March 24, 2020 the Board agreed to temporarily suspend distribution payments until the REIT could achieve consistent positive cash flows and AFFO. On October 16, 2023, the Board declared a special cash distribution on the Units in an amount of \$0.04497 per Unit payable on December 29, 2023 to holders of record at the close of business on November 15, 2023 (the “Special Distribution”). The Special Distribution was made to distribute to unitholders all or a portion of the capital gain realized by NHT from certain transactions completed during the year ended December 31, 2023 in order for the REIT to continue to be qualified as a “real estate investment trust” (as defined in the Code, as replaced, or amended, from time to time) for U.S. federal income tax purposes.

PART IV

LIQUIDITY

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures directly associated with our hotel properties, recurring maintenance, and capital expenditures necessary to maintain our hotel properties, interest payments, scheduled principal payments on outstanding indebtedness, restricted cash funding obligations, and corporate overhead.

Our long-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovations and other non-recurring capital expenditures that periodically are made with respect to our hotel properties, dividend distributions (the Board temporarily suspended the distribution on Units on March 24, 2020), and rescheduled debt payments, including principal payments on maturing loans.

In response to what was a substantial reduction in revenue, we embarked on a significant cost reduction program beginning in 2020. This included reducing staff to align with the re-forecasted revenues, cutting all non-essential capital expenditures, reducing variable operating expenditures where possible, working to reduce fixed operating costs, discussing breaks on franchise fees on the revenue we are generating, working with our lenders to mitigate any potential defaults before they happen, deferring advisory fees owed to the Advisor as discussed above (advisory fees have been reinstated but are still deferred), and suspending quarterly distributions on the Units.

To ensure sufficient cash to meet current demands, we have had an ongoing dialogue with all our lenders and vendors. These conversations have resulted in forbearance or temporary deferral of payments, and longer-term payment plans. Additionally, affiliates of our Advisor and one of our largest unitholders have contributed cash in the form of convertible notes, which are due 20 years from their date of issuance. For \$27,041 of the notes, the principal and interest is convertible into Class B Units of the OP (at the option of their respective holder) at the market price of the REIT’s Units at the time of conversion any time during the term of the note. For \$47,665 of the notes, the principal of the notes is convertible into Class B Units of the OP at prices ranging from \$1.60 to \$2.50 for a period of five years from its date of issuance (with the expiry of conversion rights ranging from June 25, 2026 to September 30, 2027). One note in the amount of \$8,500 is not convertible into Class B Units. After Class B Units have been issued for at least 12 months (subject to acceleration in certain circumstances), holders of such Class B Units have the right to require the OP to redeem the Class B Units for a cash payment by the OP. In the event of a redemption, the REIT has the option, in its sole discretion, to satisfy the cash redemption payment by acquiring the Class B Units from the holder in exchange for Units of the REIT. The TSXV has approved the issuance of up to 21,075,012 Units in connection with a redemption of Class B Units issued to a holder of notes on conversion of the \$47,665 of notes. With respect to the \$27,041 of notes convertible on the basis of the market price of the REIT’s Units at the time of the conversion, any issuance of Units in connection with a redemption of Class B Units received by holders on a conversion of such notes is subject to the prior approval of the TSXV. Additionally, we have had ongoing conversations with unaffiliated debt and equity providers to potentially contribute capital.

On October 30, 2023, NHT entered into certain amendments (the “Amendments”) with each of the lenders in respect of the convertible promissory notes issued by NHT between June 2021 and September 2022 (the “COVID Loans”). Pursuant to the Amendments, the COVID Loans were amended to: (i) provide that only the principal of the notes be convertible into Class B Units, (ii) fix conversion prices ranging from \$1.60 to \$2.50 per Class B Unit; and (iii) fix the period during which the COVID Loans may be converted to five years from their date of issuance (with the expiry of the conversion rights ranging from June 25, 2026 to September 30, 2027). For one COVID Loan, in the amount of \$8,500, the conversion right was removed altogether. For further details on the Amendments, please see the REIT’s management information circular dated September 11, 2023. The Amendments constituted related party transactions under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”) and were approved by the requisite majority of disinterested unitholders at NHT’s annual and special meeting held on October 26, 2023.

On November 1, 2023, the TSXV advised the REIT of a unitholder complaint (the “**Complaint**”) received in respect of the convertible promissory notes issued by NHT between January 2019 and June 2021 (the “**Prior Loans**”), all of which preceded the issuance of the COVID Loans. The Complaint alleged that (i) the Prior Loans may have breached TSXV Policy 4.1 – *Private Placements* (“**Policy 4.1**”), as they were filed under TSXV Policy 5.1 – *Loans, Loan Bonuses, Finder’s Fees and Commissions*; (ii) the REIT may have breached TSXV Policy 3.3 – *Timely Disclosure*; and (iii) the REIT may have breached TSXV Policy 5.9 – *Protection of Minority Security Holders in Special Transactions*. The TSXV did not articulate a position in respect of the merits of the Complaint, however, requested that NHT respond to each of the allegations. On November 17, 2023, the REIT filed a response letter with the TSXV and on December 21, 2023, the TSXV advised the REIT that certain of the Prior Loans were required to be treated as “Convertible Securities” under Policy 4.1 and required the following amendments to certain of the Prior Loans (which are the same as required for the COVID Loans): (i) either the conversion feature be removed or limited to five years from the date of issuance of the Prior Loan; (ii) the conversion feature be limited to the principal amount of the Prior Loan (rather than the principal amount including interest); and (iii) the conversion price be fixed at a price equal to the market price of the REIT’s Units on the TSXV at the time of the issuance of the Prior Loan. The REIT is currently in the process of satisfying the TSXV’s request.

To satisfy the requirements for qualification as a REIT, we must meet a number of organizational and operational requirements, including that we distribute annually at least 90% of our REIT taxable income to our unitholders, determined without regard to the deduction for distributions paid and excluding any net capital gains. On December 29, 2023 the REIT paid a special cash distribution on the Units in an amount of \$0.04497 per Unit.

GOING CONCERN

The global response to the COVID-19 pandemic had a large negative impact on the REIT’s operations in 2020 and the first quarter of 2021. Public companies in the North American lodging sector generally saw a significant decline in their stock prices on average during 2020. The well-publicized impacts on the hospitality industry, including shelter-in-place orders in the markets in which the REIT operates, as well as a reduction in transient business travel, which the REIT relies upon, reduced the REIT’s room rates and occupancies, and had a significant impact on the REIT’s operations in 2020 and early 2021. Additionally, data shows that air travel, and consequently, hotel occupancy and average daily rates, were down significantly, with large groups having canceled events. Occupancy declined from an average of 75.1% across the portfolio in 2019 to a low of 12.17% across the portfolio during April 2020, and the ADR declined from an average of \$145.81 in 2019 to a low of \$93.95 during April 2020.

Since the end of January 2021, the hospitality sector in general and the REIT specifically have seen significant improvements in operations. Notwithstanding seasonality trends for our Portfolio, the fourth quarter of 2023 was in line with the fourth quarter of 2022, with an ADR of \$135 across the portfolio compared to \$135.86 in the fourth quarter of 2022. We have seen a rebound in occupancy and ADR as COVID-19 restrictions have been removed altogether and people have resumed business and leisure travel. Large group and convention business and business transient bookings have fully returned to pre-pandemic levels and have been sustained over a full fiscal year.

As of December 31, 2023, the REIT had a working capital deficit of \$50,913. The items on our balance sheet contributing to the deficit include the principal balance on the Note A and Note B loans (as defined in Note 13 of the Consolidated Financial Statements), totaling \$77,353 which is coming due within the next twelve months.

At December 31, 2023, the REIT had the total amount \$14,854 of other liabilities as well as the Note A and Note B loans of \$52,213 and \$25,140, respectively due over the next twelve months through December 31, 2024. Of the

liabilities, the REIT has payment plans in place for \$665 of these liabilities and continues to work with vendors for the remainder to make repayment by December 31, 2024.

As of December 31, 2023, the REIT is in good standing with the lenders on all of its outstanding Loans (as defined in Note 13 of the Consolidated Financial Statements), covenant waivers have been granted at various dates on each loan or the lender has informally or formally agreed to not pursue available remedies currently.

Management is actively working towards addressing the matters noted above that create uncertainty for the REIT as a going concern, which includes the following:

- i) On March 24, 2020, the Board agreed to temporarily suspend distributions for the foreseeable future to conserve cash. On December 29, 2023, the REIT paid a special dividend of \$1,319,897 to its unitholders.
- ii) The REIT expects to settle most of its amounts due to affiliates through the issuance of additional Class B Units, most of which do not mature for 20 years. See Notes 13, 14, and 21 of the Consolidated Financial Statements.
- iii) On March 24, 2020, the Advisor agreed to defer the advisory fee until such time as the REIT is able to resume payments while remaining cash flow positive. The Advisor did not collect any fees for the years 2020, 2021, and 2022, accruing \$2,843, \$1,792, and \$2,167 of advisory fees each year, respectively. The Advisor did collect \$2,500 for the year ended December 31, 2023. As of the year ended December 31, 2023, there is a remaining payable of \$6,249.
- iv) Marriott has revised the required PIP for the St. Pete property, which is now expected to cost \$7,200 in total and has granted an extension for completion in two phases throughout 2021 and 2022. The first phase of the PIP was completed in November 2021 and the REIT started the second phase of the renovation in the first quarter of 2023 and plans to complete the renovations in the first quarter of 2024.
- v) Affiliates of the Advisor have not provided any funds to the REIT in the year ended December 31, 2023, so no further convertible notes were issued. The REIT does not anticipate needing cash infusions as the REIT continues to be net cash flow positive through strategic dispositions in 2023. See Note 13 and Note 21 of the Consolidated Financial Statements.
- vi) On March 8, 2023, we launched a process to market the DT Portfolio and HIX Portfolio for sale, selling all but the DT Tigard property. We expect the remaining Held for Sale property to close in the second quarter of 2024. The property that is classified as Held for Sale is DT Tigard. The proceeds will be used to de-lever the REIT. See Note 6 of the Consolidated Financial Statements

There can be no assurance that the REIT will continue to generate positive cash flows from operations, whether any of these required measures may be completed, or whether they will provide the REIT with sufficient liquidity. In order to continue as a going concern, the REIT needs to (i) generate positive cash flows, which assumes the continuance of current operations, (ii) be successful in obtaining the concessions from its creditors as noted above, and such concessions must provide the REIT with sufficient liquidity to fund its cash flow deficits in the intervening period, and (iii) be successful in refinancing its notes payable as they come due. As a result of these facts, the REIT has determined there is a potential risk about the REIT's ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business.

OUTSTANDING INDEBTEDNESS AND DEBT STRATEGY

As of December 31, 2023, during the next 12 months, we have scheduled debt principal payments totaling 77,353 and debt maturities totaling 77,353. On August 29, 2023, NHT executed an extension on the Mezz Loan bringing the maturity date to December 8, 2023. On December 13, 2023 the Mezz Loan was retired using the proceeds from the sale of the Nashville Holiday Inn Express. As of December 31, 2023, we were in good standing with the lenders on all our outstanding loan agreements, as discussed in Note 2 of the Consolidated Financial Statements. Additionally, we may not succeed in obtaining new financing at favorable terms, or at all, and we cannot predict the size or terms of future financings. Our failure to obtain new financing could adversely affect our ability to grow or continue our business.

Longer-term, we intend to target and maintain a Debt to Gross Real Estate Value Ratio of between 40% to 50% in order to maximize returns while minimizing leverage risk. The REIT is optimistic about industry performance for 2024 and will begin to refocus on this goal as we navigate through potential acquisitions and dispositions, if any. As of December 31, 2023, our Debt to Gross Real Estate Value Ratio was approximately 54%.

The following table shows the calculation of the Debt to Gross Real Estate Value Ratio:

	December 31, 2023	December 31, 2022
Debt	\$ 113,897	\$ 195,658
Gross Real Estate Value	211,030	350,174
Debt to Gross Asset Value Ratio	54%	56%

A summary of our gross debt at December 31, 2023 is as follows:

Lender	Interest Rate/Spread	Amortization Period (Years)	Maturity Date	Number of Encumbered Properties	Principal Amount Outstanding as of December 31, 2023
AREEIF Lender LLC	4.70%	30	February 5, 2025	2	\$ 37,288
Acore Capital Mortgage, LP	3.45%	30	March 8, 2024	5	\$ 77,353
Total Notes Payable and Mezzanine Loans				7	\$ 114,641

As of December 31, 2023, NHT's debt had a weighted average maturity of 0.47 years and a weighted average interest rate of 8.10%.

In February and March 2021, all properties in our Initial Portfolio received a second loan from the PPP implemented by the SBA. The total proceeds of the loans amount to \$4,000. In the first quarter of 2022, the REIT was granted forgiveness of all principal and accrued interest on the second PPP loans. The REIT recognized the forgiveness in profit or loss.

The U.S. SBA, in consultation with the U.S. Department of the Treasury, has published guidance for borrowers concerning forgiveness of PPP loans. See Note 13 of the Consolidated Financial Statements for a more detailed discussion.

The following table shows the principal payments due by calendar year for the next five years:

	Notes Payable	Mezzanine Loans	Total
2024	77,353	—	77,353
2025	37,288	—	37,288
2026	—	—	—
2027	—	—	—
2028	—	—	—

We are exposed to interest rate risk through our variable-rate debt. We manage this risk primarily through derivative financial instruments. Specifically, we enter into derivative financial instruments to manage our exposure to known or expected cash payments related to our variable rate debt. During the year ended December 31, 2023, the fair value of our interest rate caps decreased due to movements in interest rates and outlook for future rates. The interest rate caps we have entered into limit our interest rate risk, on the relevant floating rate first mortgages which total \$37,288, to a weighted average maximum interest rate of 6.70%. The remaining floating rate debt of \$77,353 is uncapped.

CAPITAL EXPENDITURES

Typically, when NHT acquires a new property, we embark on a comprehensive renovation program to address any deferred maintenance, bring the property to current brand standards, increase the competitive position of the property within the submarket relative to the competitive set and increase opportunities to generate non-room revenue. In 2020, we did not embark on any new capital expenditure programs and stopped all non-essential capital expenditures that were in process before the COVID-19 outbreak. We began renovations at our St. Pete Property in April 2021 that unfolded in two phases in 2022 and is still in progress as of December 31, 2023. We are planning to begin the renovations at our Bradenton and Park City properties in 2024.

CASH FLOWS

For the years ended December 31, 2023 and December 31, 2022, our cash flows were as follows:

	For the Years Ended	
	December 31, 2023	December 31, 2022
Cash flow provided by (used in):		
Operating activities ¹	\$ (13,645)	\$ 23,387
Investing activities	124,820	6,597
Financing activities	(82,023)	(28,342)
Increase (decrease) in cash and cash equivalents	29,152	1,642
Cash and cash equivalents, beginning of period	3,174	1,532
Cash and cash equivalents, end of period	<u>\$ 32,326</u>	<u>\$ 3,174</u>

1. Note: The December 31, 2022 balance has been adjusted for the effect of the Misstatement (as described in the financial statements) Note 24.

For the years ended December 31, 2023 and December 31, 2022, we had cash outflows of \$13,645 from operations, cash inflows of \$124,820 for investing activities and cash outflows of \$82,023 from financing activities. Our cash outflows from operations are primarily related to the reduction of operating liabilities and the retirement of all MMI interest accrued on the HIX Loan upon the sale of the HIX Nashville property, while financing activities are related to the retirement of the HIX loan and the mezzanine note debt outstanding on the HIX Nashville property. Our cash inflows investing activities is primarily related to the sale of the HIX Nashville, resulting in the REIT being net cash flow positive for the year ended December 31, 2023

For the year ended December 31, 2022, cash inflows from operating and investing activities were primarily related to depreciation of property and equipment, operating liabilities, and the disposals of property and equipment, respectively. Our cash outflows from financing activities were primarily related to the principal payments on notes payable.

CONTRACTUAL OBLIGATIONS

This following table outlines the timing of required payments related to our long-term debt and other contractual obligations at December 31, 2023:

	Carrying Amount	Contractual Cash Flows	1 Year	More than 1 Year
Notes payable	\$ 113,897	\$ 114,641	\$ 78,504	\$ 36,137
Convertible affiliate notes	\$ 83,206	\$ 83,206	\$ -	\$ 83,206
Interest payable on notes	6,755	9,431	5,544	3,887
Accounts payable and other accrued liabilities	15,559	15,559	15,559	—
Total	<u>\$ 219,417</u>	<u>\$ 222,836</u>	<u>\$ 99,607</u>	<u>\$ 123,229</u>

UNITHOLDERS' CAPITAL

NHT is authorized to issue an unlimited number of Units. Each Unit represents a proportionate undivided beneficial ownership interest in NHT. Each Unit is transferable and entitles the holder thereof to: (i) an equal participation in distributions of NHT; (ii) rights of redemption; and (iii) one vote at all meetings of unitholders.

On June 28, 2021, NHT issued 339,687 deferred units to the independent trustees. On December 13, 2021, NHT issued 210,000 deferred units to the independent trustees. These deferred units vested immediately upon grant. On September 11, 2023 the REIT granted 1,295,668 DUs to the independent trustees. Of these DUs, 647,834 vested immediately and the other 647,834 vest on September 11, 2024. On December 13, 2021, NHT granted 2,475,000 profit interest units ("PIUs") in the OP to officers of the REIT (2,029,200) and employees of the Advisor (445,800). See Note 23 of the Consolidated Financial Statements.

On September 11, 2023, NHT granted 1,295,668 deferred units to certain independent trustees of the REIT, pursuant to the REIT's existing deferred unit plan (the "Deferred Unit Plan"). The deferred units were granted in respect of accrued trustee fees up to the end of Q2 2023, in the aggregate amount of \$323,917 and pursuant to the REIT's matching program. Since the September 2023 grant would have exceeded the insider participation limits under the Deferred Unit Plan, the grant was subject to the adoption of an amended and restated deferred unit plan, (the "Amended and Restated Deferred Unit Plan"), which was subject to approval by the TSXV and an affirmative vote of a simple majority of the votes cast by disinterested unitholders of NHT at the annual and special meeting of unitholders. The Amended and Restated Deferred Unit Plan was approved by the requisite majority on October 26, 2023 and the grant

of deferred units on September 11, 2023 was ratified by unitholders at the meeting. The TSXV issued its final acceptance letter in respect of the Amended and Restated Deferred Unit Plan on November 20, 2023. Subsequent to December 31, 2023, the Board determined to suspend the REIT's Omnibus Plan and the Amended and Restated Deferred Unit Plan. See Note 25 Subsequent Events in the Consolidated Financial Statements.

There were no changes to the Units or unitholders' capital for the period from January 1, 2022 to December 31, 2023.

The Units trade on the TSXV under the ticker NHT.U. As of December 31, 2023, there were 29,352,055 Units outstanding.

PART V

OFF-BALANCE SHEET ARRANGEMENTS

NHT does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

NHT pays the Advisor an advisory fee equal to 1% of gross assets. On March 24, 2020, in light of developments related to the outbreak of COVID-19 and the corresponding impact on the hospitality industry, the Advisor agreed to defer the advisory fee until such time as the REIT is no longer in forbearance with its lenders and is able to resume payments while remaining cash flow positive operationally. The Advisor did not collect any fees for the years 2020, 2021, and 2022, accruing \$2,843, \$1,792, and \$2,167 of advisory fees each year, respectively. The Advisory did collect \$2,500 for the year ended December 31, 2023.

The OP has entered into several convertible loans with its affiliates totaling \$83,206 since January 8, 2019. The proceeds of the notes were primarily used for general corporate and working capital purposes.

NHT has in the past, and may in the future, utilize the services of affiliated parties.

CORRECTION OF IMMATERIAL ERROR

As discussed in Note 13 of the Consolidated Financial Statements, on January 8, 2019, the REIT, through the OP, entered into the \$35,000 Mezz Loan. The proceeds from the Mezz Loan were used to help fund a portion of the purchase price of the Nashville Property acquired on January 8, 2019. The Mezz Loan included a provision which allowed the lender to earn a minimum return on their capital (the "Minimum Return"). Although the final amount of the Minimum Return will not be known until the Mezz Loan is paid in full, the Minimum Return attributable to each period is able to be reasonably estimated and, as such, should have been accrued in each respective period. The REIT had not accrued the additional interest payable related to the Minimum Return (the "Misstatement") as required under IFRS for the periods from inception (January 9, 2019) through December 31, 2022. The Minimum Return was paid in full by the REIT from the proceeds of the sale of the HIX Portfolio on December 13, 2023, along with the principal balance and exit fees.

Management has determined that the impact of the Misstatement is not material to the consolidated financial statements for the years 2019, 2020, 2021, and 2022.

The cumulative balance of the Minimum Return from origination through December 31, 2022 of \$5,165 has been recorded as a reduction to the opening Unitholders' Deficit and as an increase to accounts payable and other accrued liabilities on the Consolidated Statement of Financial Position for the year ended December 31, 2023 and as a reduction to the ending Unitholders' Deficit Consolidated Statement of Financial Position for the year ended December 31, 2022 presented herein. Each prior period has been updated to reflect the impact of the Misstatement.

Period	Increase to Accounts Payable and Other Accrued Liabilities	Increase to Finance Costs from Operations
January 8, 2019 - December 31, 2019	\$ 1,154	\$ 1,154
Year Ended December 31, 2020	2,454	1,300
Year Ended December 31, 2021	3,973	1,519
Year Ended December 31, 2022	5,165	1,192

The tables below show the updated balances for each prior period had the Minimum Return been properly recorded since the origination of the Mezz Loan:

	<u>Notes</u>	<u>Twelve Months Ended</u>	
		<u>December 31, 2022</u>	
		<u>Prior</u>	<u>Adjusted</u>
Cash flows from operating activities			
Net income (loss)		\$ 6,685	\$ 5,492
Adjustments to reconcile net income to net cash used in operating activities:			
Finance costs from operations	15	20,228	21,420
Net cash provided by operating activities		\$ 23,387	\$ 23,387

SUBSEQUENT EVENTS

The REIT evaluated subsequent events through April 30, 2024 to determine if any significant events occurred subsequent to the Financial Statement's balance sheet dates that would have a material impact on the Financial Statements and note the following:

On January 10, 2024, the Compensation, Governance, and Nominating Committee of the REIT and the Board suspended the REIT's incentive plans, which is comprised of the Omnibus Plan and the Amended and Restated Deferred Unit Plan due to the low trading price of the Units and significant dilution that would result from any further issuance of PIUs or DUs.

On November 28, 2023, the REIT issued a press release announcing that Frazier & Deeter, LLC ("F&D") resigned as auditor of the REIT, effective November 27, 2023. F&D's resignation resulted from a position taken by CPA Ontario that, under certain circumstances, foreign accounting firms and their partners may be considered to be engaging in public accounting work in Ontario as a result of performing audits of Ontario reporting issuers thereby triggering a requirement to be licensed by CPA Ontario. On November 29, 2023, the REIT filed a notice with the relevant securities regulators pursuant to section 4.11 of National Instrument 51-102 – *Continuous Disclosure Obligations* ("NI 51-102") declaring the resignation of F&D as the REIT's auditor and on December 3, 2023, the REIT filed F&D's response to the 51-102 Notice. On January 15, 2024, the REIT issued a press release announcing the appointment of MNP LLP ("MNP") as the REIT's successor auditor, effective January 12, 2024. On that same day, the REIT filed (i) a notice with the relevant securities regulators pursuant to section 4.11 of NI 51-102 declaring the appointment of MNP and confirming that F&D had not modified any prior audit opinions; and (ii) MNP's response to the 51-102 Notice.

On April 8, 2024, the REIT's ACORE Notes A and B loans had matured on March 8, 2024. The REIT negotiated and extended the ACORE Note A and Note B loans to March 8, 2025.

On April 19, 2024, the REIT sold the DT Tigard property to Param Hotel Corporation for \$10.4 million.

SIGNIFICANT ACCOUNTING POLICIES

NHT's significant accounting policies are described in Note 3 of its Consolidated Financial Statements.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported results. For a detailed discussion of the critical accounting estimates, refer to Note 2 of the Consolidated Financial Statements.

ACCOUNTING STANDARDS

For details on future accounting policy changes, please refer to Note 3 of the Consolidated Financial Statements.

PART VI

RISKS AND UNCERTAINTIES

Investing in NHT's Units involves a high degree of risk. Of particular relevance are continued risks resulting from the COVID-19 pandemic, which has caused, and may continue to cause, significant disruption to the U.S. economy and

NHT's business. The COVID-19 pandemic has caused a general or acute decline in economic activity in the regions in which NHT holds properties, a decrease in the willingness of the general population to travel, staff shortages, reduced occupancy, mobility restrictions, credit market risk, increased government regulation, and the quarantine or contamination of any of NHT's properties, the effect of which may continue to impact NHT's operations.

In addition to the risks identified in this section and elsewhere in this MD&A, current and prospective investors should carefully consider all the risk factors noted in NHT's final prospectus filed on March 27, 2019, a copy of which is available under the REIT's profile on SEDAR+ at www.sedarplus.ca, before purchasing Units of NHT that may be offered or that are issued and outstanding from time to time. The occurrence of any of such risks, or other risks not presently known to NHT or that NHT currently believes are immaterial, could materially and adversely affect NHT's investments, prospects, cash flows, results of operations or financial condition, NHT's ability to make cash distributions to unitholders. In that event, the value of the Units of NHT that may be offered or issued and outstanding from time to time, could decline and investors may lose all or part of their investment.

Any person currently holding or considering the purchase of Units of NHT that may be offered or that are issued and outstanding from time to time should consult with his or her legal, tax and financial advisors prior to making an investment in the Units of NHT. The Units of NHT that may be offered or that are issued and outstanding from time to time should only be purchased by persons who can afford to lose all of their investment.

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