

Condensed Consolidated Interim Financial Statements
(Expressed in thousands of U.S. dollars)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Three and nine months ended September 30, 2019 and 2018
(Unaudited)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Financial Position

(Unaudited)

(Expressed in thousands of U.S. dollars)

	Notes	September 30, 2019	December 31, 2018
Assets			
Current assets:			
Cash and cash equivalents		\$ 11,704	\$ 16,637
Current portion of restricted cash	4	26,396	25,401
Trade and other receivables		9,843	9,260
Prepays and other assets		12,561	13,079
Assets held for sale	19	204,817	-
		265,321	64,377
Restricted cash	4	8,444	11,097
Property, buildings and equipment	5	969,662	1,165,530
Intangible assets	6	5,489	10,549
Fair value of interest rate swap contracts		-	1,532
Deferred income tax assets	7	6,252	10,092
		\$ 1,255,168	\$ 1,263,177

Liabilities and Partners' Capital

Current liabilities:			
Accounts payable and accrued liabilities		\$ 32,675	\$ 38,582
Current portion of term loans and revolving credit facilities	8	3,781	12,940
Current portion of lease and other liabilities	9	279	2,172
Liabilities associated with assets held for sale	19	119,181	-
		155,916	53,694
Term loans	8	603,158	681,847
Convertible debentures	10	46,569	46,009
Lease and other liabilities	9	590	1,914
Deferred income tax liabilities	7	3,516	3,848
		809,749	787,312
Partners' capital	11	445,419	475,865
		\$ 1,255,168	\$ 1,263,177

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See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

	Notes	Three months ended		Nine months ended	
		September 30, 2019	September 30, 2018 (note 19)	September 30, 2019	September 30, 2018 (note 19)
Revenue:					
Rooms		\$ 65,022	\$ 64,797	\$ 189,738	\$ 191,494
Food, beverage and other		4,231	3,757	14,750	12,764
		69,253	68,554	204,488	204,258
Hotel expenses:					
Operating expenses		35,691	34,806	104,759	103,357
Energy		2,997	2,972	8,044	8,208
Property maintenance		3,071	2,892	9,109	8,814
Property taxes, insurance and ground lease		4,173	4,244	10,621	10,327
Depreciation and amortization		9,398	9,285	28,192	27,520
		55,330	54,199	160,725	158,226
Income from operating activities		13,923	14,355	43,763	46,032
Corporate and administrative		3,712	3,764	11,693	12,317
Impairment of hotel asset	5	1,200	-	1,200	-
Business acquisition costs		-	95	-	368
Income from continuing operations before undernoted		9,011	10,496	30,870	33,347
Finance income		(2)	(7)	(9)	(25)
Finance costs	13	8,093	8,105	24,161	24,253
Income from continuing operations before income taxes		920	2,398	6,718	9,119
Current income tax expense		13	223	23	223
Deferred income tax expense (recovery)		(467)	65	(965)	(116)
		(454)	288	(942)	107
Net income and comprehensive income from continuing operations		\$ 1,374	\$ 2,110	\$ 7,660	\$ 9,012
Net income (loss) and comprehensive income (loss) from discontinued operations	19	769	2,122	(133)	5,450
Net income and comprehensive income		\$ 2,143	\$ 4,232	\$ 7,527	\$ 14,462
Basic net income per unit:					
Continuing operations		\$ 0.02	\$ 0.02	\$ 0.10	\$ 0.12
Discontinued operations		\$ 0.01	\$ 0.03	\$ -	\$ 0.07
Net income per unit		\$ 0.03	\$ 0.05	\$ 0.10	\$ 0.19
Diluted net income per unit:					
Continuing operations		\$ 0.02	\$ 0.02	\$ 0.10	\$ 0.11
Discontinued operations		\$ 0.01	\$ 0.03	\$ -	\$ 0.07
Net income per unit		\$ 0.03	\$ 0.05	\$ 0.10	\$ 0.18
Basic weighted average number of units outstanding		78,120,793	78,062,194	78,117,430	78,057,240
Diluted weighted average number of units outstanding		78,206,063	78,273,324	78,159,903	78,226,651

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Partners' Capital
(Expressed in thousands of U.S. dollars, except units outstanding)
Nine months ended September 30, 2019 and 2018

	Notes	Units outstanding	Partners' contributions ¹	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2019		78,070,805	\$ 617,924	\$ 1,050	\$ (143,109)	\$ 475,865
Securities-based compensation	12	-	-	188	-	188
Issuance of Units under securities-based compensation plan	12	51,723	272	(510)	-	(238)
Net income and comprehensive income		-	-	-	7,527	7,527
Distributions	11	-	-	-	(37,923)	(37,923)
Balance, September 30, 2019		78,122,528	\$ 618,196	\$ 728	\$ (173,505)	\$ 445,419
Balance, January 1, 2018		78,047,806	\$ 617,767	\$ 645	\$ (100,839)	\$ 517,573
Securities-based compensation	12	-	-	513	-	513
Issuance of Units under securities-based compensation plan		14,388	116	(116)	-	-
Net income and comprehensive income		-	-	-	14,462	14,462
Distributions	11	-	-	-	(37,977)	(37,977)
Balance, September 30, 2018		78,062,194	\$ 617,883	\$ 1,042	\$ (124,354)	\$ 494,571

¹ Includes \$0.1 of General Partner Units.
See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

(Expressed in thousands of U.S. dollars)

		Three months ended		Nine months ended	
	Notes	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Cash provided by (used in):					
Operating activities:					
Net income and comprehensive income from continuing operations		\$ 1,374	\$ 2,110	\$ 7,660	\$ 9,012
Interest paid		(8,265)	(7,022)	(22,192)	(22,305)
Securities-based compensation paid in cash		-	-	(238)	-
Items not affecting cash:					
Depreciation and amortization		9,398	9,285	28,192	27,520
Impairment of hotel asset	5	1,200	-	1,200	-
Securities-based compensation expense		107	272	188	513
Deferred income tax expense (recovery)		(467)	65	(965)	(116)
Amortization of other liabilities		(6)	(5)	(17)	(24)
Finance costs		8,093	8,105	24,161	24,253
		11,434	12,810	37,989	38,853
Change in non-cash operating working capital	18	67	(267)	(7,457)	(1,649)
		11,501	12,543	30,532	37,204
Investing activities:					
Additions to property, buildings and equipment		(7,109)	(5,636)	(23,587)	(15,131)
Net change in restricted cash reserves		(2,233)	4,053	1,633	6,602
		(9,342)	(1,583)	(21,954)	(8,529)
Financing activities:					
Distributions paid		(12,687)	(12,646)	(37,992)	(37,986)
Net proceeds from (payments on) revolving credit facility	8	10,490	(1,500)	21,890	3,600
Payments on term loans		(547)	(520)	(1,657)	(6,660)
Payments on finance lease liabilities		(26)	(20)	(2,095)	(60)
		(2,770)	(14,686)	(19,854)	(41,106)
Decrease in cash and cash equivalents from continuing operations					
		(611)	(3,726)	(11,276)	(12,431)
Increase in cash and cash equivalents from discontinued operations					
	19	556	8,505	6,343	14,523
Cash and cash equivalents, beginning of period					
		11,759	9,248	16,637	11,935
Cash and cash equivalents, end of period					
		\$ 11,704	\$ 14,027	\$ 11,704	\$ 14,027

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

1. Reporting entity:

American Hotel Income Properties REIT LP ("AHIP") is a limited partnership formed under the *Limited Partnerships Act* (Ontario) to invest in hotel real estate properties in the United States. AHIP was established pursuant to the terms of AHIP's Limited Partnership Agreement dated October 12, 2012 and amended on February 20, 2013 and June 9, 2015. AHIP's general partner is American Hotel Income Properties REIT (GP) Inc. ("General Partner"). AHIP's head office and address for service is 800 - 925 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3L2.

As at September 30, 2019, AHIP had two operating segments: (i) Premium Branded Hotels are hotels that have franchise agreements with international hotel brands including Marriott, Hilton and IHG; and (ii) Economy Lodging Hotels are hotels that have rail crew lodging facility agreements with large railway companies and franchise agreements with Wyndham.

On July 29, 2019, AHIP announced that it had entered into a purchase and sale agreement to sell its Economy Lodging operating segment.

AHIP's units ("Units") are listed on the Toronto Stock Exchange (the "TSX") under the symbols HOT.UN and HOT.U and also in the United States on the OTCQX International marketplace under the symbol AHOTF. AHIP's convertible debentures are listed on the TSX under the symbol HOT.DB.U.

2. Basis of presentation and statement of compliance:

(a) Discontinued operations:

As at September 30, 2019, the assets and liabilities of AHIP's Economy Lodging operating segment were classified as a disposal group held for sale. The results from AHIP's Economy Lodging operating segment have been presented separately from continuing operations as discontinued operations in the consolidated statements of income for both the current period and comparative period. All related information in the notes have been presented based on these reclassifications. See note 19 for further information.

(b) Statement of compliance:

These condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Statements should be read in conjunction with the notes to AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2018 ("Annual Audited Financial Statements") which have been prepared in accordance with IFRS, since these Interim Financial Statements do not contain all disclosures required by IFRS for annual financial statements.

These Interim Financial Statements were approved and authorized for issue by the Board of Directors of the General Partner on November 5, 2019, subject to finalization by management and release on November 7, 2019.

(c) Basis of measurement:

These Interim Financial Statements have been prepared on a historical cost basis with the exception of interest rate swap contracts which are recorded at fair value.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

2. Basis of presentation and statement of compliance (continued):

(d) Functional and presentation currency:

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

Transactions denominated in Canadian dollars are translated to U.S. dollars as follows:

- (i) Monetary assets and liabilities are translated at current rates of exchange and non-monetary assets and liabilities are translated at historical rates of exchange;
- (ii) Revenues and expenses are translated at average rates of exchange for the period; and
- (iii) All exchange gains and losses are recognized in the consolidated statements of comprehensive income.

(e) Measurement uncertainty (use of estimates):

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

The significant areas of estimates that are critical to the determination of the amounts reported are disclosed in note 3 of AHIP's Annual Audited Financial Statements, except for new significant judgments related to the application of IFRS 16, which are described in note 3.

3. Significant accounting policies:

These Interim Financial Statements follow the same accounting policies and methods of application as the Annual Audited Financial Statements, except as noted below for either new accounting policies adopted or accounting policies not previously disclosed.

(a) Discontinued operations:

A discontinued operation is a component of AHIP's business that represents a separate or major line of business or geographical area of operations that has been disposed of or classified as held for sale. The operations and cash flows can be clearly distinguished from the rest of AHIP, both operationally and for financial reporting purposes. When AHIP classifies an operation as a discontinued operation, it re-presents the comparative consolidated statements of comprehensive income as if the operation had been discontinued from the start of the comparative year. In doing this, AHIP excludes the results of the discontinued operations and any gain or loss from disposal from the consolidated statements of comprehensive income and presents them on a separate line as net income (loss) (net of tax) from the discontinued operation. Per unit information related to the discontinued operations are presented separately from continuing operations. Cash flows from discontinued operations are presented separately from cash flows from continuing operations in the consolidated statements of cash flows.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

(b) IFRS 16 Leases:

AHIP adopted IFRS 16 *Leases* ("IFRS 16") on January 1, 2019.

IFRS 16 sets out a new model for lease accounting, replacing IAS 17 *Leases* ("IAS 17"). The new standard recognizes the initial present value of unavoidable future lease payments as right-of-use assets and lease liabilities on the statement of financial position, including those for most leases that were previously accounted for as operating leases.

Impact of IFRS 16:

Under IFRS 16, AHIP assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

AHIP recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, AHIP's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: i) in the lease term; ii) AHIP's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

IFRS 16 was applied using the modified retrospective approach effective January 1, 2019, under which the cumulative effect of initial application would be recognized as at January 1, 2019. The information presented for 2018 has not been restated and remains as previously reported under IAS 17. On initial application, AHIP elected to record the right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of \$1,326 were recorded as at January 1, 2019 with no impact on retained earnings for leases previously recognized as operating leases under IAS 17. AHIP also reclassified land and equipment with a net book value of \$1,950 and \$222, respectively, to right-of-use property and right-of-use vehicles, for finance leases previously recognized under IAS 17.

AHIP applied the following recognition exemptions and practical expedients:

- To not recognize short-term leases with a term less than 12 months or leases of low-value assets;
- To apply IFRS 16 only to contracts that were previously identified as leases; and
- To use hindsight when determining the lease term if the contract contained options to extend or terminate the lease

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

3. Significant accounting policies (continued):

(b) IFRS 16 Leases (continued):

	January 1, 2019
Operating lease commitment at December 31, 2018	\$ 8,768
Discounted using the incremental borrowing rate at January 1, 2019	6.0%
Finance lease liabilities recognized as at December 31, 2018	6,758
Recognition exemption for:	
Short-term leases	\$ (145)
Leases of low-value assets	(13)
Existing service contracts with no embedded leases under IAS 17	(2,894)
Scope changes due to IFRS 16	(209)
Lease liabilities at January 1, 2019	\$ 3,497

(c) IFRS 3 amendments:

IFRS 3 amendments – Clarifying What is a Business was issued in October 2018 and effective as of January 1, 2020. The amendments provide guidance on whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments include an election to use a concentration test which is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

AHIP has early-adopted these amendments as at January 1, 2019. As a result of this adoption, AHIP may elect to use the concentration test to assess whether future properties acquired will be accounted for as business combinations or asset acquisitions. For the nine months ended September 30, 2019, AHIP has not acquired any hotel properties.

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(Unaudited)

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Three and nine months ended September 30, 2019 and 2018

4. Restricted cash:

	September 30, 2019	December 31, 2018
Property improvement plans (“PIPs”) reserves	\$ 12,193	\$ 20,619
Furniture, fixture and equipment reserves (“FF&E Reserves”)	8,440	7,323
Property tax reserves	7,655	5,492
Insurance, cash collateral and other reserves	6,552	3,064
	34,840	36,498
Current portion of restricted cash	(26,396)	(25,401)
	\$ 8,444	\$ 11,097

For the Premium Branded Hotels, AHIP has funded restricted cash reserves for brand mandated PIPs arising from the purchase of these properties and which are expected to be spent within 18 to 24 months after acquisition. In addition, certain term loans require AHIP to deposit reserves for FF&E Reserves, cash collateral, property taxes and insurance premiums. These amounts are released to AHIP as the expenditures are incurred or paid directly to the service provider.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction- in-progress	Right-of- use Property	Right-of- use Vehicles	Total
Cost:							
Balance, January 1, 2018	\$ 149,708	\$ 1,034,288	\$ 95,489	\$ 1,435	\$ -	\$ -	\$ 1,280,920
Additions	-	3,759	5,728	12,924	-	-	22,411
Transfers	-	4,243	2,701	(6,944)	-	-	-
Sale of hotels	(820)	(2,168)	(472)	-	-	-	(3,460)
Impairment	-	(900)	-	-	-	-	(900)
Disposals	-	-	(1,349)	-	-	-	(1,349)
Balance, December 31, 2018	148,888	1,039,222	102,097	7,415	-	-	1,297,622
IFRS 16 adoption	(1,950)	-	(532)	-	2,852	956	1,326
Additions	229	1,291	2,687	21,046	185	404	25,842
Transfers	1,950	5,623	4,927	(10,550)	(1,950)	-	-
Impairment	-	(1,200)	-	-	-	-	(1,200)
Disposals	-	-	(191)	(21)	-	-	(212)
Re-class to assets held for sale	(23,558)	(183,330)	(27,019)	(118)	(512)	(751)	(235,288)
Balance, September 30, 2019	\$ 125,559	\$ 861,606	\$ 81,969	\$ 17,772	\$ 575	\$ 609	\$ 1,088,090
Accumulated depreciation:							
Balance, January 1, 2018	\$ -	\$ 58,063	\$ 32,143	\$ -	\$ -	\$ -	\$ 90,206
Depreciation	-	28,782	14,786	-	-	-	43,568
Sale of hotels	-	(1,075)	(333)	-	-	-	(1,408)
Disposals	-	-	(274)	-	-	-	(274)
Balance, December 31, 2018	-	85,770	46,322	-	-	-	132,092
IFRS 16 adoption	-	-	(310)	-	-	310	-
Depreciation	-	20,521	11,612	-	182	261	32,576
Disposals	-	-	(171)	-	-	-	(171)
Re-class to assets held for sale	-	(29,576)	(16,290)	-	(69)	(134)	(46,069)
Balance, September 30, 2019	\$ -	\$ 76,715	\$ 41,163	\$ -	\$ 113	\$ 437	\$ 118,428
Net book value, September 30, 2019	\$ 125,559	\$ 784,891	\$ 40,806	\$ 17,772	\$ 462	\$ 172	\$ 969,662
Net book value, December 31, 2018	\$ 148,888	\$ 953,452	\$ 55,775	\$ 7,415	\$ -	\$ -	\$ 1,165,530

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

5. Property, buildings and equipment (continued):

As a result of the adoption of IFRS 16, finance leases included in land and equipment with a net book value of \$1,950 and \$222, respectively, were reclassified as right-of-use property and right-of-use vehicles on January 1, 2019. During the period ended September 30, 2019, AHIP exercised its option to buy out the ground lease associated with its Fairfield Inn & Suites White Marsh hotel in Baltimore. As a result, land with a net book value of \$1,950 was reclassified from right-of-use property back to land.

During the three months ended September 30, 2019, AHIP recorded an impairment charge on a Premium Branded hotel. AHIP estimated the recoverable amount of this Premium Branded Hotel property based on its value in use and recognized a loss of \$1,200.

The fair value measurement of the hotel property was categorized as a Level 3 fair value based on the inputs in the valuation technique used. Level 3 inputs are unobservable inputs used to measure fair value to the extent that relevant observable inputs are not available.

6. Intangible assets:

	Lodging Agreements	Contract Signing Fees	Franchise Agreements	Total
Cost:				
Balance, January 1, 2018	\$ 14,855	\$ 460	\$ 8,657	\$ 23,972
Disposals	(14)	-	-	(14)
Balance, December 31, 2018	14,841	460	8,657	23,958
Re-class to Assets held for sale	(14,841)	(460)	(1,029)	(16,330)
Balance, September 30, 2019	\$ -	\$ -	\$ 7,628	\$ 7,628
Accumulated amortization:				
Balance, January 1, 2018	\$ 10,429	\$ 186	\$ 1,071	\$ 11,686
Amortization	1,065	48	611	1,724
Disposals	(1)	-	-	(1)
Balance, December 31, 2018	11,493	234	1,682	13,409
Amortization	422	26	457	905
Re-class to Assets held for sale	(11,915)	(260)	-	(12,175)
Balance, September 30, 2019	\$ -	\$ -	\$ 2,139	\$ 2,139
Net book value, September 30, 2019	\$ -	\$ -	\$ 5,489	\$ 5,489
Net book value, December 31, 2018	\$ 3,348	\$ 226	\$ 6,975	\$ 10,549

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

7. Income taxes:

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	September 30, 2019	December 31, 2018
Deferred income tax assets:		
Non capital losses carried forward	\$ 6,096	\$ 7,329
Intangible assets	58	1,851
Deferred income	-	424
Other	98	488
	<u>\$ 6,252</u>	<u>\$ 10,092</u>
Deferred income tax liabilities:		
Deferred compensation payable	\$ -	\$ 22
Property, buildings and equipment	3,456	3,794
Other	60	32
	<u>\$ 3,516</u>	<u>\$ 3,848</u>

As at September 30, 2019, AHIP had net operating losses from continuing operations for tax purposes totaling \$23,719 (December 31, 2018 - \$29,088), of which \$9,990 may be carried forward for up to 20 years, and \$13,730 may be carried indefinitely, from the date of origination and applied against future taxable income.

8. Term loans and revolving credit facilities:

The following table summarizes term loans and credit facilities for continuing operations:

	September 30, 2019	December 31, 2018
Premium Branded Hotel term loans	\$ 587,316	\$ 588,974
Economy Lodging Hotel term loans (note 19)	-	105,278
Revolving credit facilities	25,490	9,200
	<u>612,806</u>	<u>703,452</u>
Unamortized portion of mark-to-market adjustments	249	287
Unamortized portion of debt financing costs	(6,116)	(8,952)
	<u>606,939</u>	<u>694,787</u>
Current portion of term loans	(3,781)	(12,940)
	<u>\$ 603,158</u>	<u>\$ 681,847</u>

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

Three and nine months ended September 30, 2019 and 2018

8. Term loans and revolving credit facilities (continued):

Included in the balances as at December 31, 2018 are \$105,278 in term loans, a \$5,600 revolving credit facility and \$2,131 of the unamortized portion of debt financing costs related to the Economy Lodging portfolio.

All of AHIP's assets have been pledged as security under various loan agreements. At September 30, 2019, AHIP's term loans from continuing operations had a weighted average interest rate of 4.60% (December 31, 2018 - 4.63% on a consolidated basis).

(a) Premium Branded Hotels revolving credit facility:

AHIP has available a \$40,000 secured revolving credit facility with a U.S. affiliate of a Canadian chartered bank. The credit facility has a current size of \$26,051 based on the current borrowing base of four Premium Branded Hotels and includes an accordion feature that allows AHIP to increase the size of the facility to \$75,000, subject to certain conditions. This credit facility has an initial term of three years with two additional one- year extension options. Borrowings under this facility bear interest at 30-day LIBOR plus 2.75%. As at September 30, 2019, the balance owing on the revolving credit facility was \$25,490 (December 31, 2018 - \$3,600).

(b) Principal payments:

Future principal payments, excluding amortization of mark-to-market adjustments and debt financing costs, payable within the next five fiscal years and thereafter on the outstanding term loans for continuing operations are as follows:

2019	\$	613
2020		4,353
2021		30,339
2022		60,658
2023		41,788
Thereafter		475,055
	\$	612,806

As at September 30, 2019, AHIP was in compliance with all of its lending agreements.

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9. Lease and other liabilities:

	September 30, 2019	December 31, 2018
Lease liabilities	\$ 680	\$ 1,851
Deferred income	-	1,866
Deferred compensation payable	-	162
Preferred shares	125	125
Deferred lease inducement	64	82
	869	4,086
Current portion of lease liabilities	(253)	(1,851)
Current portion of other liabilities	(26)	(321)
	\$ 590	\$ 1,914

The following table presents the contractual undiscounted cash flows for lease obligations for continuing operations as at September 30, 2019:

Less than one year	\$ 256
Between one and five years	453
Total undiscounted lease obligations	\$ 709

AHIP has used an incremental borrowing rate of 6% to discount its lease obligations.

10. Convertible debentures:

	Liability carrying value	Equity carrying value	Total face value
Balance, January 1, 2018	\$ 45,307	\$ 1,979	\$ 47,286
Amortization of transaction costs	322	-	322
Accretion of liability component	380	-	380
Balance, December 31, 2018	46,009	1,979	47,988
Amortization of transaction costs	259	-	259
Accretion of liability component	301	-	301
Balance, September 30, 2019	\$ 46,569	\$ 1,979	\$ 48,548

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11. Partners' capital:

(a) Authorized:

The capital of AHIP consists of an unlimited number of limited partner Units and the equity interest held by the General Partner.

(b) Issued:

For the three and nine months ended September 30, 2019, 3,192 Units and 51,723 Units, respectively, were issued under AHIP's share based compensation plan (14,388 Units for the nine months ended September 30, 2018).

(c) Distribution policy:

AHIP intends to make monthly distributions to unitholders of record on the last business day of each month. Distributions will be paid on or about the 15th day following the end of each month. AHIP may also make additional distributions in excess of monthly distributions during the year as determined by the General Partner.

For the three months ended September 30, 2019, AHIP declared distributions of \$0.162 per Unit to be paid to unitholders totaling \$12,689 (three months ended September 30, 2018 - \$12,645) and \$0.486 per Unit for the nine months ended September 30, 2019 totaling \$37,923 (nine months ended September 30, 2018 - \$37,977). Of this amount, \$4,219 was included in accounts payable and accrued liabilities at September 30, 2019 (December 31, 2018 - \$4,258).

12. Compensation plan:

As at September 30, 2019, AHIP had a total of 100,649 unvested Units as follows:

	Number of Units	Weighted average grant date fair value
Unvested, January 1, 2018	159,307	\$ 7.80
Granted	83,745	5.88
Vested	(22,999)	(8.04)
Forfeited or cash-settled	(47,052)	(8.18)
Unvested, December 31, 2018	173,001	\$ 6.82
Granted	68,799	3.84
Vested	(51,723)	(6.89)
Forfeited or cash-settled	(13,415)	(6.81)
Cancelled	(76,013)	(6.94)
Unvested, September 30, 2019	100,649	\$ 4.73

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12. Compensation plan (continued):

The vesting schedule of the unvested Units is as follows:

Vesting dates	Number of Units	Total fair value of Units at grant date
December 13, 2019	8,607	\$ 62
March 13, 2020	20,377	128
December 15, 2020	4,852	28
March 15, 2021	8,210	42
May 17, 2021	11,024	61
December 15, 2021	10,618	54
August 19, 2022	36,961	101
Total unvested Units	100,649	\$ 476

For the three and nine months ended September 30, 2019, a total of \$107 and \$188 (\$272 and \$513 for the three and nine months ended September 30, 2018) in securities-based compensation expense was included in corporate and administrative expense.

13. Finance costs:

The following table summarizes finance costs for continuing operations:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Interest on term loans and revolving credit facility	\$ 6,985	\$ 6,995	\$ 20,799	\$ 21,008
Interest expense on convertible debentures	611	611	1,833	1,833
Amortization of debt financing costs	307	309	916	877
Accretion of convertible debenture liability	102	96	301	284
Amortization of convertible debenture transaction costs	89	82	259	240
Interest expense on finance lease liabilities	8	21	78	64
Dividends on preferred shares	4	4	12	12
Amortization of mark-to-market adjustments	(13)	(13)	(37)	(65)
	\$ 8,093	\$ 8,105	\$ 24,161	\$ 24,253

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14. Commitments and contingencies:

(a) Hotel management agreement:

On April 26, 2018, Aimbridge Hospitality LLC (the "Hotel Manager") became AHIP's exclusive hotel manager to manage and operate its hotel properties. Prior to April 26, 2018, the hotel manager was ONE Lodging Management Inc. ("Former Hotel Manager") (see note 15(c)).

AHIP's operating subsidiaries are responsible for reimbursing the Hotel Manager for any operating expenses and direct costs incurred with respect to the operations of the properties, such as salary and benefit costs of hotel staff and other operating expenses.

The master hotel management agreement provides for the payment of the following amounts to the Hotel Manager: a base management fee, a capital expenditure fee, an annual administration fee and an incentive fee, if certain profit thresholds are met.

Effective July 1, 2019, AHIP entered into a second amending agreement (the "Second Amendment") with the Hotel Manager to amend certain terms of the amended master hotel management agreement as follows:

- (i) Base management fees for Premium Branded hotels owned by AHIP as of July 1, 2019 have been reduced to 2.5% of gross revenues until December 31, 2021;
- (ii) Base management fees for all hotels acquired after July 1, 2019 will be between 2.0% and 2.5% for the first five years;
- (iii) The capital expenditure fee will increase from 5.0% to 10.0% for all capital expenditures incurred (including maintenance capital expenditures) subject to a capped aggregate amount;
- (iv) Termination fees from the sale on an individual hotel are now set at three times (formerly one times) trailing twelve months adjusted management fees. In addition, the exclusivity period for the Hotel Manager to act as AHIP's exclusive hotel manager was extended by three years to February 20, 2026.

(b) Property Improvement Plans ("PIP's"):

Under the terms of franchise agreements for its Premium Branded Hotels, AHIP is required to complete PIP's according to a prescribed schedule. AHIP's operating subsidiaries have entered into contracts or commitments with various suppliers to supply products and services in compliance with these renovation plans. Payments for these items are held as restricted cash (as described in note 4) and funds are disbursed in the ordinary course of business.

- (c) In the normal course of operations, AHIP and its subsidiaries may become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits and accrue management's best estimate of the costs to satisfy such claims. Although the outcome of legal and other claims is not reasonably determinable, management believes that any such outcome will not have a material adverse effect on these consolidated financial statements.

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15. Related party transactions:

(a) Executive loan program:

As at September 30, 2019, there have been no changes to the terms of the Executive Loan Guarantee Policy (the "Loan Policy"). A subsidiary of AHIP has provided a limited guarantee to a Canadian chartered bank on loans made to certain officers and a director to purchase Units in the market. The loans, up to a specified maximum for each officer and a director, are secured by the underlying Units.

As at September 30, 2019, three individuals including one former executive borrowed an aggregate of Cdn\$2,868 (December 31, 2018 - Cdn\$3,000) under the Loan Policy, with such loans being fully guaranteed pursuant to the terms of the Loan Policy.

(b) Compensation:

Key management includes those persons having authority and responsibility for planning, directing, and controlling the activities of AHIP, directly or indirectly. Total compensation awarded to key management for the three and nine months ended September 30, 2019 was \$671 and \$2,606, respectively (three and nine months ended September 30, 2018 - \$776 and \$1,980), which included securities-based compensation expense of \$107 and \$188 respectively (three and nine months ended September 30, 2018 - \$272 and \$513).

(c) Former Hotel Manager:

The Former Hotel Manager was a company indirectly controlled by a director of the General Partner. Prior to the change in hotel manager on April 26, 2018, AHIP incurred management and administrative fees of \$4,048, with various wholly owned subsidiaries of the Former Hotel Manager, and capital management fees of \$281 which were capitalized to property, buildings and equipment.

16. Financial instruments:

The carrying values of AHIP's cash and cash equivalents, restricted cash, trade and other receivables, and accounts payables and accrued liabilities approximates their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of AHIP's term loans and outstanding revolving credit facilities was determined using present value calculations based on market-observable interest rates for loans with similar terms and conditions. The fair value of AHIP's term loans for continuing operations at September 30, 2019 was \$583,110 (December 2018 - \$666,859 on a consolidated basis).

AHIP's convertible debentures are considered Level 1 financial instruments since they are quoted on the TSX. The fair value of the liability portion of AHIP's convertible debentures based on the quoted market price at September 30, 2019 was \$47,766 (December 31, 2018 - \$41,539).

There have been no transfers between levels during the period.

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17. Capital management:

	September 30, 2019	December 31, 2018
Term loans and outstanding revolving credit facilities	\$ 606,939	\$ 694,787
Convertible debentures, liability portion	46,569	46,009
Partners' capital	445,419	475,865
Total capital	\$ 1,098,927	\$ 1,216,661

AHIP defines capital as the aggregate of its term loans, outstanding revolving credit facilities, convertible debentures and partners' capital, net of related financing costs. AHIP's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions as prescribed in the Limited Partnership Agreement; complies with existing debt covenants; funds its business strategies; and builds long-term value. AHIP's capital structure is periodically reviewed by the Board of Directors of the General Partner.

18. Supplemental cash flow disclosure:

Changes in non-cash operating working capital:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Changes in non-cash operating working capital:				
Accounts payable and accrued liabilities	\$ 2,294	\$ 3,851	\$ (1,528)	\$ 2,115
Prepays and other assets	(2,572)	(2,599)	(2,938)	(2,141)
Trade and other receivables	345	(1,519)	(2,991)	(1,623)
	\$ 67	\$ (267)	\$ (7,457)	\$ (1,649)

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19. Assets held for sale and discontinued operations:

The assets and liabilities of AHIP's Economy Lodging operating segment as at September 30, 2019 are as follows:

Trade and other receivables	\$	2,960
Prepays and other assets		3,251
Property, buildings and equipment		189,219
Intangible assets		4,155
Deferred income tax assets		5,232
Assets held for sale	\$	204,817
Accounts payable and accrued liabilities	\$	3,916
Term loans and revolving credit facility		110,714
Lease and other liabilities		2,754
Fair value of interest rate swap contracts		1,141
Deferred income tax liabilities		656
Liabilities associated with assets held for sale	\$	119,181

The following table summarizes term loans and a credit facility included in assets held for sale:

	September 30, 2019
Economy Lodging Hotel term loans	\$ 101,495
Revolving credit facility	11,055
	112,550
Unamortized portion of debt financing costs	(1,836)
	110,714

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19. Assets held for sale and discontinued operations (continued):

Net income (loss) and comprehensive income (loss) from discontinued operations for the three and nine months ended September 30, 2019 and September 30, 2018 are as follows:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue:				
Rooms	\$ 16,266	\$ 16,094	\$ 46,148	\$ 45,658
Food, beverage and other	3,000	3,381	8,461	9,090
	19,266	19,475	54,609	54,748
Hotel expenses:				
Operating expenses	10,279	9,925	29,517	28,803
Energy	1,060	1,054	2,985	3,014
Property maintenance	957	1,077	3,069	3,179
Property taxes and insurance	537	442	1,805	1,800
Depreciation and amortization	326	2,328	5,289	6,156
	13,159	14,826	42,665	42,952
Income from discontinued operating activities	6,107	4,649	11,944	11,796
Corporate and administrative	3,184	953	4,856	2,850
Loss on disposal of property and equipment	3	127	66	1,974
Business acquisition costs	-	59	-	202
Income from discontinued operations before undernoted	2,920	3,510	7,022	6,770
Net finance costs	2,005	1,065	7,258	1,957
Income (loss) from discontinued operations before income taxes	915	2,445	(236)	4,813
Deferred income tax expense (recovery)	146	323	(103)	(637)
Net income (loss) and comprehensive income (loss) from discontinued operations	\$ 769	\$ 2,122	\$ (133)	\$ 5,450

Net finance costs include an expense of \$456 and \$2,673 for the three and nine months ended September 30, 2019 (\$390 and \$2,301 recovery for the three and nine months ended September 30, 2018) for changes in fair values of interest rate swap contracts.

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Three and nine months ended September 30, 2019 and 2018

19. Assets held for sale and discontinued operations (continued):

Net cash flows from discontinued operations for the three and nine months ended September 30, 2019 and September 30, 2018 are as follows:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Cash from operating activities	\$ 2,285	\$ 4,815	\$ 7,103	\$ 10,022
Cash used in investing activities	(797)	(127)	(2,233)	(1,063)
Cash from (used in) financing activities	(932)	3,817	1,473	5,564
Cash from discontinued operations	\$ 556	\$ 8,505	\$ 6,343	\$ 14,523

20. Comparative information:

Certain comparative information in the prior period has been reclassified to conform to the current period presentation.

21. Subsequent events:

On October 15, 2019, a cash distribution of \$0.054 per unit was declared for the period from October 1, 2019 to October 31, 2019. The distribution is expected to be paid on November 15, 2019 to unitholders of record on October 31, 2019.