

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

## **AMERICAN HOTEL INCOME PROPERTIES REIT LP**

And Independent Auditors' Report thereon  
Years ended December 31, 2019 and 2018



KPMG LLP  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada  
Telephone (604) 691-3000  
Fax (604) 691-3031

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of American Hotel Income Properties REIT LP

We have audited the consolidated financial statements of American Hotel Income Properties REIT LP (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of partners' capital for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Lorna Nimmons.

Vancouver, Canada  
March 10, 2020

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

As at December 31, 2019 and 2018

	Notes	2019	2018
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 17,849	\$ 16,637
Current portion of restricted cash	4	23,682	25,401
Trade and other receivables	5(c)	17,300	9,260
Prepays and other assets		9,965	13,079
		68,796	64,377
Restricted cash	4	5,091	11,097
Property, buildings and equipment	5	1,157,304	1,165,530
Intangible assets	6	7,202	10,549
Fair value of interest rate swap contracts	8(b)	495	1,532
Deferred income tax assets	7(b)	7,440	10,092
		\$ 1,246,328	\$ 1,263,177

## Liabilities and Partners' Capital

Current liabilities:			
Accounts payable and accrued liabilities	5	\$ 57,117	\$ 38,582
Current portion of term loans and revolving credit facilities	8	4,249	12,940
Current portion of lease and other liabilities	9	267	2,172
		61,633	53,694
Term loans and revolving credit facility	8	714,727	681,847
Convertible debentures	10	46,759	46,009
Lease and other liabilities	9	570	1,914
Deferred income tax liabilities	7(b)	4,334	3,848
		828,023	787,312
Partners' capital	11	418,305	475,865
		\$ 1,246,328	\$ 1,263,177

Commitments and contingencies	14
Subsequent events	21

See accompanying notes to consolidated financial statements.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Consolidated Statements of Comprehensive Income (Loss)  
(Expressed in thousands of U.S. dollars)

Years ended December 31, 2019 and 2018

	Notes	2019	2018
Revenue:			
Rooms	\$	249,802	\$ 248,667
Food, beverage and other		19,743	17,336
		269,545	266,003
Hotel expenses:			
Operating expenses		141,273	137,073
Energy		10,603	10,690
Property maintenance		12,244	11,525
Property taxes, insurance and ground lease		15,210	15,965
Depreciation and amortization		38,022	36,833
		217,352	212,086
Income from operating activities		52,193	53,917
Corporate and administrative		14,680	15,992
Impairment of hotel assets	5(d)	2,875	900
Business acquisition costs		-	381
Income from continuing operations before undernoted		34,638	36,644
Finance income		(15)	(20)
Finance costs	13	33,766	32,360
Income from continuing operations before income taxes		887	4,304
Current income tax expense	7(a)	41	172
Deferred income tax recovery	7(b)	(1,335)	(1,122)
		(1,294)	(950)
Net income and comprehensive income from continuing operations	\$	2,181	\$ 5,254
Net income (loss) and comprehensive income (loss) from discontinued operations	19	(2,373)	3,099
Loss on disposal of discontinued operations	19	(6,800)	-
		(9,173)	3,099
Net income (loss) and comprehensive income (loss)	\$	(6,992)	\$ 8,353
Basic and diluted net income (loss) per unit:			
Continuing operations	\$	0.03	\$ 0.07
Discontinued operations		(0.12)	0.04
Net income (loss) per unit	\$	(0.09)	\$ 0.11
Basic weighted average number of units outstanding		78,119,336	78,058,913
Diluted weighted average number of units outstanding		78,211,378	78,202,939

See accompanying notes to consolidated financial statements.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Consolidated Statements of Partners' Capital

(Expressed in thousands of U.S. dollars, except units outstanding)

Years ended December 31, 2019 and 2018

	Notes	Units outstanding	Partners' contributions <sup>1</sup>	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2019		78,070,805	\$ 617,924	\$ 1,050	\$ (143,109)	\$ 475,865
Securities-based compensation	12	-	-	270	-	270
Issuance of Units under securities-based compensation plan	12	56,605	297	(555)	-	(258)
Net loss and comprehensive loss		-	-	-	(6,992)	(6,992)
Distributions	11	-	-	-	(50,580)	(50,580)
Balance, December 31, 2019		78,127,410	\$ 618,221	\$ 765	\$ (200,681)	\$ 418,305
Balance, January 1, 2018		78,047,806	\$ 617,767	\$ 645	\$ (100,839)	\$ 517,573
Securities-based compensation	12	-	-	817	-	817
Issuance of Units under securities-based compensation plan	12	22,999	157	(412)	-	(255)
Net income and comprehensive income		-	-	-	8,353	8,353
Distributions	11	-	-	-	(50,623)	(50,623)
Balance, December 31, 2018		78,070,805	\$ 617,924	\$ 1,050	\$ (143,109)	\$ 475,865

<sup>1</sup> Includes \$0.1 of General Partner Units.

See accompanying notes to consolidated financial statements.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Consolidated Statements of Cash Flows  
(Expressed in thousands of U.S. dollars)

Years ended December 31, 2019 and 2018

	Notes	2019	2018
Cash provided by (used in):			
Operating activities:			
Net income and comprehensive income from continuing operations		\$ 2,181	\$ 5,254
Interest paid		(30,628)	(30,474)
Securities-based compensation paid in cash		(238)	(255)
Items not affecting cash:			
Depreciation and amortization		38,022	36,833
Impairment of hotel assets	5(d)	2,875	900
Securities-based compensation expense		270	817
Deferred income tax recovery	7(b)	(1,335)	(1,122)
Amortization of other liabilities		(22)	(34)
Finance costs		33,766	32,360
		44,891	44,279
Change in non-cash working capital	18	7,702	4,925
		52,593	49,204
Investing activities:			
Additions to property, buildings and equipment		(29,534)	(19,819)
Acquisition of Premium Branded hotels	5	(193,040)	-
Net proceeds on sale of discontinued operations, net of transaction costs	19	181,243	-
Franchise application fees paid		(1,875)	-
Net change in restricted cash		7,700	14,596
		(35,506)	(5,223)
Financing activities:			
Distributions paid		(50,670)	(50,581)
Deferred payment on acquisition of Premium Branded hotels	5(b)	17,500	-
Net proceeds from revolving credit facility	8(b)	35,700	3,600
Proceeds from term loan	8(b)	105,000	-
Payments on term loans		(7,959)	(7,205)
Payments on lease liabilities		(2,120)	(60)
Financing costs paid		(992)	(25)
		96,459	(54,271)
Increase (decrease) in cash and cash equivalents from continuing operations		113,546	(10,290)
Increase (decrease) in cash and cash from discontinued operations	19	(112,334)	14,992
Cash and cash equivalents, beginning of year		16,637	11,935
Cash and cash equivalents, end of year		\$ 17,849	\$ 16,637

See accompanying notes to consolidated financial statements.



# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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## 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 and 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 December 31, 2019, AHIP's primary business is owning Premium Branded hotels, which have franchise agreements with international hotel brands including Marriott, Hilton and IHG.

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) Statement of compliance:

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the Interpretations Committee ("IFRIC"). AHIP has consistently applied the accounting policies in all periods presented except for the adoption of IFRS 16 *Leases* and IFRS 3 *amendments* which were adopted on January 1, 2019.

These consolidated financial statements were approved and authorized for issue by the directors of the General Partner on March 10, 2020.

### (b) Discontinued operations:

On November 27, 2019, AHIP completed the sale of its Economy Lodging operating segment, comprised of 45 hotels ("Economy Lodging Portfolio"). The results from AHIP's Economy Lodging Portfolio have been presented separately from continuing operations as discontinued operations in the consolidated statements of comprehensive income (loss) 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.

### (c) Basis of measurement:

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

### (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 (loss).

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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

### (e) Use of estimates, assumptions and judgments:

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

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

Significant areas of estimates and assumptions include the following:

#### (i) Purchase price allocations:

Acquisitions of hotel properties are accounted for either as a business combination or an asset acquisition. Judgement is involved in determining if the acquiree constitutes a business acquisition or an asset acquisition under IFRS 3 *Business Combinations*. For business acquisitions, the identifiable assets, liabilities and contingent liabilities acquired are recognized at their fair values at the acquisition date. For asset acquisitions, the acquirer measures the assets acquired based on their cost, which is generally allocated on a relative fair value basis. AHIP obtains third-party valuations to support management's determination of the fair value of hotel properties acquired.

#### (ii) Depreciation and amortization:

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

#### (iii) Impairment:

IAS 36 *Impairment of Assets* ("IAS 36"), requires management to use judgement in assessing whether there is an impairment of AHIP's assets. In making this judgement, management evaluates, among other factors, internal and external indicators of impairment, such as changes in technology, market conditions, and economic or legal environment.

IAS 36 also requires management to exercise judgement in determining the recoverable amount of assets that are tested for impairment. Judgement is involved in estimating fair value less costs of disposal or value in use of the cash-generating units, including estimates of growth rates, discount rates, capitalization rates, and terminal rates. The estimates reflect past experience and are consistent with external sources of information.

## 3. Significant accounting policies:

### (a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of AHIP and subsidiaries controlled by AHIP. Control exists when AHIP is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

### (a) Basis of consolidation (continued):

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of AHIP and its subsidiaries.

AHIP consolidates its wholly-owned subsidiaries, which include the following material legal entities:

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	State of incorporation
American Hotel Income Properties REIT Inc.	Maryland
AHIP Properties LLC	Delaware
AHIP Cargo Enterprises LLC	Delaware
AHIP Enterprises LLC	Delaware

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### (b) 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 presents the comparative consolidated statements of comprehensive income (loss) 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 (loss) and presents them separately. Per unit information related to the discontinued operations are also presented separately from continuing operations. Cash flows from discontinued operations are also presented separately from cash flows from continuing operations in the consolidated statements of cash flows.

### (c) Property, buildings and equipment:

#### (i) Recognition and measurement:

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

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

When parts of an item of property, buildings and equipment have different useful lives, they are accounted for as separate items of property, buildings and equipment, if significant.

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

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

## 3. Significant accounting policies (continued):

(c) Property, buildings and equipment (continued):

(ii) Subsequent costs:

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

(iii) Depreciation:

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

Asset	Basis	Rate
Buildings	Straight-line	15 to 40 years
Equipment	Straight-line	2 to 15 years
Automobiles	Straight-line	5 years
Right of use property	Straight-line	Remaining term of lease
Right of use vehicles	Straight-line	Remaining term of lease

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

(d) Intangible assets:

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

(i) Recognition and measurement:

As at December 31, 2019, AHIP's intangible assets consist of franchise application fees paid.

(ii) Amortization:

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

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

Asset	Basis	Rate
Franchise fees	Straight-line	5-20 years

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

## 3. Significant accounting policies (continued):

### (e) Impairment of non-financial assets:

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

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

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

### (f) Financial instruments:

#### (i) Classification and measurement:

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss (FVTPL). Financial liabilities are classified and measured on two categories: amortized cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, unless AHIP identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

The following summarizes the classification and measurement of financial assets and liabilities:

Financial instrument	Classification under IFRS 9
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liabilities	Amortized cost
Term loans and revolving credit facility	Amortized cost
Convertible debentures	Amortized cost
Preferred shares	Amortized cost
Interest rate swap contracts	FVTPL

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

### (f) Financial instruments (continued):

#### (ii) Impairment:

An allowance for expected credit losses ("ECL") is recognized at each balance sheet date for all financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

Impairment losses, if incurred, would be recorded as expenses in the consolidated statements of comprehensive income (loss) with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed through the consolidated statements of comprehensive income (loss). The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

### (g) Cash and cash equivalents:

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

### (h) Restricted cash:

Restricted cash consists of cash reserves on deposit with lenders primarily in respect of future capital expenditures, cash collateral, property taxes and insurance premiums.

### (i) Provisions:

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

### (j) Revenue recognition:

Revenue is generated primarily from the operation of AHIP's hotels and restaurants and is presented under two categories: room revenue, food, beverage, and other revenue. Other revenue is comprised of conference room rentals, parking revenues and other incidental income.

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

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

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

### (k) Finance income and finance costs:

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

Finance costs comprise interest expense on the revolving credit facilities, term loans, convertible debentures and lease liability, amortization of debt financing costs, mark-to-market adjustments on assumed loans, accretion of convertible debenture liability and deferred compensation payable, dividends paid on preferred shares and changes in fair value of interest rate swap contracts. Interest expense and dividends paid are recognized in the period in which they are incurred. Interest expense on term loans used on hotel property construction and to finance renovations are capitalized to construction-in-progress during the period of construction.

### (l) Debt financing costs and mark-to-market adjustments:

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

### (m) Net income (loss) per unit:

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

### (n) Income taxes:

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

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the "SIFT Measures"). A "SIFT partnership" (as defined in the Tax Act) will be subject to SIFT tax on its "taxable non-portfolio earnings" (as defined in the Tax Act) at a rate that is substantially equivalent to the general income tax rate applicable to Canadian corporations. The SIFT Measures do not apply to a partnership that does not hold any "non-portfolio property" throughout the taxation year of the partnership.

Management believes that AHIP did not hold any "non-portfolio property" during the year and is not a SIFT partnership and therefore not subject to the SIFT Measures. Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate AHIP in such a manner so as to remain exempt from the SIFT Measures on a continuous basis in the future. If AHIP becomes a SIFT partnership, it will generally be subject to income taxes at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations on its taxable non-portfolio earnings, if any.

AHIP filed an election to be treated as a partnership for U.S. federal income tax purposes. In addition, management believes at least 90% of AHIP's gross income for the taxation year is qualifying income within the meaning of U.S. Internal Revenue Code (the "Code") Section 7704 and AHIP is not required to register as an investment company under the Investment Company Act of 1940. As such, it was not subject to U.S. federal income tax under the Code.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

### (n) Income taxes (continued):

Furthermore, American Hotel Income Properties REIT Inc. (the "U.S. REIT") elected to be taxed as a real estate investment trust ("REIT") under the Code commencing with its first taxation year ending December 31, 2013 and intends to maintain such election to be taxed as a REIT in the current and future taxation years. In order for the U.S. REIT to qualify as a REIT under the Code, it must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its stockholders equal to a minimum of 90% of its taxable income, computed without regards to a dividends paid deduction and net capital gains. The U.S. REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed to its stockholders annually. Management believes that all REIT conditions necessary to eliminate income taxes for the U.S. REIT for the reporting period have been met.

Accordingly, no provision for U.S. federal income taxes has been made for the U.S. REIT. Even though the U.S. REIT qualifies as a REIT under the Code, it may be subject to certain state and local taxes. These amounts are reflected in the consolidated financial statements and are not material.

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

AHIP's indirect Canadian subsidiary, AHIP Management Ltd., is a taxable Canadian corporation subject to Canadian income tax. AHIP's indirect U.S. subsidiaries, AHIP Cargo Enterprises LLC and AHIP Enterprises LLC, are taxable REIT subsidiaries ("TRS") of the U.S. REIT that are treated as U.S. corporations subject to U.S. federal and state income tax on their taxable income.

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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

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



# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

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## 3. Significant accounting policies (continued):

### (o) Securities-based compensation plan:

As described in note 12, AHIP has a securities-based compensation plan that provides for the granting of Units to directors, officers, employees or consultants of AHIP, the General Partner or any of their respective affiliates, or other persons as the directors of the General Partner may determine.

The fair value of the Units granted are measured based on the price of the Units on the grant date as each Unit is entitled to the same rights as all other outstanding Units issued. The fair value of the Units granted is expensed on a straight-line basis over the vesting period, based on AHIP's estimate of the equity instruments that will eventually vest, with a corresponding increase to contributed surplus. Once issued, the Units are reclassified from contributed surplus to Units issued.

### (p) Accounting standards implemented in 2019:

#### (i) 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)* 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.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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## 3. Significant accounting policies (continued):

(p) Accounting standards implemented in 2019 (continued):

(i) IFRS 16 Leases (continued):

IFRS 16 was applied using the modified retrospective approach effective January 1, 2019, under which the cumulative effect of initial application would be recognized in retained earnings 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.

The following is a reconciliation of the operating lease commitments disclosed as at December 31, 2019 to the lease liabilities recognized on January 1, 2019 upon transition to IFRS 16:

	January 1, 2019
Operating lease commitments at December 31, 2018	\$ 8,768
Discounted using the incremental borrowing rate at January 1, 2019	6.0%
Lease liabilities prior to recognition exemptions	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

(ii) 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.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

(p) Accounting standards implemented in 2019 (continued):

(ii) IFRS 3 amendments (continued):

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. During the year ended December 31, 2019, AHIP acquired a portfolio of 12 Premium Branded hotels (note 5) and accounted for this transaction as an asset acquisition as a result of applying the concentration test.

## 4. Restricted cash:

	2019	2018
Property improvement plans ("PIPs") reserves	\$ 8,791	\$ 20,619
Furniture, fixture and equipment reserves ("FF&E Reserves")	9,919	7,323
Property tax reserves	6,568	5,492
Insurance, cash collateral and other reserves	3,495	3,064
	28,773	36,498
Current portion of restricted cash	(23,682)	(25,401)
	\$ 5,091	\$ 11,097

For the Premium Branded hotel portfolio, 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 related term loans require AHIP to make deposits 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 providers.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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## 5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction- in-progress	Right-of- use Property	Right-of- use Vehicles	Total
<b>Cost:</b>							
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 (a)	(1,950)	-	(532)	-	2,852	956	1,326
Acquisition of Premium Branded hotels (b)	23,203	157,778	12,059	-	-	-	193,040
Additions	204	2,359	3,496	25,624	195	498	32,376
Transfers	1,950	9,943	7,822	(17,765)	(1,950)	-	-
Sale of discontinued operations (c)	(23,533)	(183,734)	(27,217)	-	(512)	(776)	(235,772)
Impairment (d)	-	(2,875)	-	-	-	-	(2,875)
Disposals	-	-	(292)	(1)	-	(28)	(321)
Balance, December 31, 2019	\$ 148,762	\$ 1,022,693	\$ 97,433	\$ 15,273	\$ 585	\$ 650	\$ 1,285,396
<b>Accumulated depreciation:</b>							
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	-	26,836	14,979	-	226	280	42,321
Sale of discontinued operations (c)	-	(29,623)	(16,284)	-	(69)	(130)	(46,106)
Disposals	-	-	(211)	-	-	(4)	(215)
Balance, December 31, 2019	\$ -	\$ 82,983	\$ 44,496	\$ -	\$ 157	\$ 456	\$ 128,092
Net book value, December 31, 2019	\$ 148,762	\$ 939,710	\$ 52,937	\$ 15,273	\$ 428	\$ 194	\$ 1,157,304
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 Consolidated Financial Statements

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

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## 5. Property, buildings and equipment (continued):

### (a) IFRS 16 adoption:

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 year ended December 31, 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.

### (b) Acquisition of Premium Branded hotels:

On December 3, 2019, AHIP completed the acquisition of 12 Premium Branded Marriott, Hilton and IHG hotels (the "Acquisition") located across the United States for an aggregate purchase price of \$191,000 excluding working capital adjustments. Transaction costs of \$2,040 were capitalized as part of the transaction. The transaction was accounted for as an asset acquisition as AHIP applied the concentration test available under IFRS 3 *Business Combinations* and determined that substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable asset or group of similar identifiable assets being the land and building. The purchase price and transaction costs were allocated to each hotel on a relative fair value basis using independent appraisals performed for each property.

As at December 31, 2019, \$17,500 of the purchase price was unpaid and included in accounts payable on the consolidated statement of financial position with \$7,000 plus accrued interest due on or prior to March 31, 2020 and the balance plus accrued interest due on or prior to December 31, 2020. The amounts owing accrue interest at 8% and AHIP may prepay all amounts owing at any time, at its option.

### (c) Sale of Economy Lodging Portfolio:

On November 27, 2019, AHIP sold its Economy Lodging Portfolio for total gross proceeds of \$215,500 and recorded a loss on sale of \$6,800 (note 19). Included in the gross proceeds is \$7,000 that is subject to an earnout provision upon achievement of certain performance targets. Management has estimated that the full amount is likely collectible and hence the amount has been recorded within sales proceeds and trades and other receivables.

As at December 31, 2019, \$2,544 was due from the buyer and included in accounts receivable on the statement of financial position. The amount was subject to interest of 2% per annum, which increased to 10% per annum, retroactive to the November 27, 2019 closing date of the transaction as the amount had not been paid by February 24, 2020. The amount is secured by a mortgage lien on one of the hotels sold in the transaction.

During the year ended December 31, 2018, AHIP sold three Economy Lodging hotels for total gross proceeds of \$940 and recorded a loss on sale of \$1,592.

The resulting loss on sale for all properties was recognized on the consolidated statements of comprehensive income (loss).

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## 5. Property, buildings and equipment (continued):

### (d) Impairments:

During the year ended December 31, 2019, AHIP recorded an impairment charge of \$2,875 in aggregate on two Premium Branded hotels due to adverse changes in the operating performance of the hotels. AHIP estimated the recoverable amounts of these hotels based on its value in use using a 10-year discounted cash flow analysis. Significant assumptions used in the estimated value in use calculation included discount rates of 10% and other market considerations.

During the year ended December 31, 2018, AHIP recorded an impairment charge of \$900 on one Premium Branded hotel. AHIP estimated the recoverable amount of this Premium Branded hotel property and recognized the impairment with respect to the building based on its value in use.

The fair value measurement for the hotel properties 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
<b>Cost:</b>								
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
Additions (a)		-		-		1,875		1,875
Sale of discontinued operations (note 19)		(14,841)		(460)		(1,029)		(16,330)
Balance, December 31, 2019	\$	-	\$	-	\$	9,503	\$	9,503
<b>Accumulated amortization:</b>								
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		619		1,067
Sale of discontinued operations (note 19)		(11,915)		(260)		-		(12,175)
Balance, December 31, 2019	\$	-	\$	-	\$	2,301	\$	2,301
Net book value, December 31 2019	\$	-	\$	-	\$	7,202	\$	7,202
Net book value, December 31 2018		3,348		226		6,975		10,549

(a) In connection with the acquisition of the Premium Branded hotels (note 5(b)), AHIP paid \$1,875 in fees to enter into new franchise agreements.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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## 7. Income taxes:

### (a) Current income tax:

For the year ended December 31, 2019, AHIP recorded current income tax expense from continuing operations of \$41 (2018 - \$172) for Canadian and U.S. taxes associated with taxable AHIP subsidiaries.

### (b) Deferred income tax:

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

	2019	2018
Deferred income tax assets:		
Non capital losses carried forward	\$ 7,330	\$ 7,329
Intangible assets	35	1,851
Deferred income	-	424
Other	75	488
	<u>\$ 7,440</u>	<u>\$ 10,092</u>
Deferred income tax liabilities:		
Deferred compensation payable	\$ -	\$ 22
Property, buildings and equipment	4,274	3,794
Other	60	32
	<u>\$ 4,334</u>	<u>\$ 3,848</u>

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("U.S. Tax Reform"). The U.S. Tax Reform reduces the U.S. federal corporate income tax rate from 35% to 21% effective as of January 1, 2018. As a result of the U.S. Tax Reform, AHIP's net deferred income tax asset decreased by \$2,442. Future regulations and interpretations to be issued by U.S. authorities may also impact AHIP's estimates and assumptions used in calculating its income tax provisions.

A deferred income tax recovery from continuing operations of \$1,335 was recognized during the year ended December 31, 2019 (2018 - \$1,122) in the consolidated statements of comprehensive income (loss).

As at December 31, 2019, AHIP had net operating losses from continuing operations for tax purposes totaling \$28,509 (2018 - \$29,088 on a consolidated basis) of which \$9,990 may be carried forward for up to 20 years, and \$18,519 may be carried indefinitely, from the date of origination and applied against future taxable income.

Following the sales of the Economy Lodging Portfolio and liquidation of Lodging Enterprises, LLC, the U.S. REIT succeeds Lodging Enterprises, LLC's net operating losses of \$5,881. Management does not expect these losses to be utilized in the future, as the U.S. REIT generally expects to distribute all of its taxable income to its stockholders such that it generally will not be subject to tax. Accordingly, no deferred income tax asset has been recognized in respect of such losses.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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## 8. Term loans and revolving credit facilities:

	Notes	2019	2018
Premium Branded hotel term loans	(b)(c) \$	686,014	\$ 588,974
Economy Lodging hotel term loans (note 19)	(a)	-	105,278
Revolving credit facilities	(b)(c)	39,300	9,200
		725,314	703,452
Unamortized portion of mark-to-market adjustments		236	287
Unamortized portion of debt financing costs		(6,574)	(8,952)
		718,976	694,787
Current portion of term loans		(4,249)	(12,940)
		\$ 714,727	\$ 681,847

All of AHIP's hotels have been pledged as security under various loan agreements. At December 31, 2019, AHIP's loans had a weighted average interest rate of 4.37% (2018 - 4.63%).

During the year ended December 31, 2019, the following transactions occurred:

### (a) Repayment of Economy Lodging hotels term loans and revolving credit facility:

In conjunction with the sale of the Economy Lodging Portfolio, AHIP repaid the remaining principal balance of all Economy Lodging hotel term loans and the related revolving credit facility. AHIP also terminated its interest rate swap agreements related to its Economy Lodging term loans.

### (b) Premium Branded hotels revolving credit facility and term loan:

#### (i) Senior Secured Facility:

On December 3, 2019, certain AHIP subsidiaries as borrowers, and AHIP as a guarantor, entered into a \$165,000 senior secured facility ("Senior Secured Facility") with a syndicate of banks. The Senior Secured Facility is comprised of a \$60,000 revolving facility ("Revolver") and a \$105,000 term loan ("Term Loan") and replaces the former \$40,000 secured revolving credit facility ("Former Credit Facility"). AHIP utilized the Term Loan to partially fund the Acquisition and utilized \$25,000 from the Revolver to pay off in full the Former Credit Facility.

The Senior Secured Facility has an accordion feature which will allow AHIP to increase its total commitments up to \$300,000. The Revolver will mature on December 3, 2023, and can be extended to December 3, 2024 at AHIP's option, subject to certain conditions. The Term Loan matures on December 3, 2024.

The available borrowing capacity under the credit facility is based on a borrowing base formula for the pool of hotel properties securing the facility. As of December 31, 2019, the collateral pool consisted of 18 hotel properties and the total available borrowing capacity under the credit facility was approximately \$165,000.



# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

### (b) Premium Branded hotels revolving credit facility and term loan (continued):

#### (i) Senior Secured Facility (continued):

AHIP is obligated to pay interest at the end of each selected interest period with all outstanding principal and accrued but unpaid interest due at the maturity of the respective facility. AHIP pays interest on the Senior Secured Facility at varying rates based upon, either (i) LIBOR-based plus a LIBOR-margin between 1.55% and 2.10%, depending on AHIP's Total Leverage Ratio (as defined in the Senior Secured Facility agreement), or (ii) the applicable base rate plus a base rate margin of 0.55% and 1.10%, depending on AHIP's Total Leverage Ratio (as defined in the Senior Secured Facility agreement).

AHIP is required to comply with a series of financial and other covenants including maintaining a minimum of 10 assets in the collateral pool.

On December 3, 2019, AHIP entered into an interest rate swap agreement with a notional value of \$105,000 and a maturity date of November 30, 2023 and effectively fixed the LIBOR rate at 1.415%. The maximum interest on borrowings under the facility is 3.515%.

On December 20, 2019, AHIP entered into an interest rate swap agreement with a notional value of \$25,000 and a maturity date of November 30, 2023 and effectively fixed the LIBOR rate at 1.609%. The maximum interest on borrowings under the facility is 3.709%.

#### (ii) Defeasance of Term Loan

On December 6, 2019, AHIP refinanced a \$5,678 term loan secured by two Premium Branded hotels using proceeds from the Revolver. AHIP incurred \$813 of defeasance costs and fees, which were recorded in finance costs.

### (c) 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 and revolving credit facility are as follows:

2020	\$	4,249
2021		4,739
2022		60,543
2023		80,967
2024		224,537
Thereafter		350,279
	\$	725,314

As at December 31, 2019, AHIP was in compliance with all of its lending agreements.

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## 9. Other liabilities:

	2019	2018
Lease liabilities (a)	\$ 654	\$ 1,851
Deferred income	-	1,866
Deferred compensation payable	-	162
Preferred shares (b)	125	125
Deferred lease inducement	58	82
	837	4,086
Current portion of lease liabilities (a)	(241)	(1,851)
Current portion of other liabilities	(26)	(321)
	\$ 570	\$ 1,914

- a) The following table presents the contractual undiscounted cash flows for lease obligations for continuing operations as at December 31, 2019:

Less than one year	\$ 267
Between one and five years	445
<b>Total undiscounted lease obligations</b>	<b>\$ 712</b>

- b) As at December 31, 2019, the U.S. REIT has \$125 (2018 - \$125) in preferred shares outstanding. These non-voting shares have a par value of \$1 with a fixed rate of dividend at 12.5% per annum. As such, these preferred shares are classified as liabilities rather than equity on the consolidated statements of financial position. Consequently, any dividend payments are classified as finance costs on the consolidated statements of comprehensive income (loss).

## 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	347	-	347
Accretion of liability component	403	-	403
<b>Balance, December 31, 2019</b>	<b>\$ 46,759</b>	<b>\$ 1,979</b>	<b>\$ 48,738</b>

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## 10. Convertible debentures (continued):

AHIP issued an aggregate principal amount of \$48,875 of convertible unsecured subordinated debentures due on June 30, 2022 (the "Debentures"). At December 31, 2019, \$48,875 (2018 - \$48,875) of the face value of the Debentures were outstanding.

The Debentures bear interest of 5.0% per annum, payable semi-annually in arrears on June 30 and December 31. The Debentures are convertible at the option of the holder into Units at any time prior to maturity at a conversion price equal to \$9.25 per Unit ("Conversion Price") which represents a conversion rate of approximately 108.1081 Units for each \$1,000 principal amount of Debentures. AHIP has the option to call the debentures with restrictions beginning on or after June 30, 2020 as follows:

- On or after June 30, 2020, but prior to June 30, 2021, the Debentures are redeemable, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, at AHIP's option, provided that the weighted average trading price of the Units is not less than 125% of the Conversion Price; and
- On and after June 30, 2021, the Debentures are redeemable at AHIP's option, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest.

## 11. Partners' capital:

### (a) Authorized:

The capital of AHIP consists of an unlimited number of limited partner units of AHIP ("Units") and the equity interest held by the Board of Directors of the General Partner.

### (b) Issued:

During the year ended December 31, 2019, AHIP issued 56,605 Units (2018 – 22,999 Units) to senior management on the vesting of units granted under AHIP's short-term and long-term incentive plans (collectively, "Restricted Stock Units").

### (c) Allocation of net income or net loss:

Where Distributable Cash (defined as, for any period, the aggregate of all amounts received by AHIP in such period, whether by way of dividends, interest or otherwise, from and in respect of its direct and indirect investment in the securities held by AHIP, including its investment in any subsidiaries, less reasonable reserves determined by the General Partner to be necessary to operate the affairs of AHIP in a prudent and businesslike manner, and less taxes, if any, payable by AHIP) is paid in respect of a fiscal year, the net income and taxable income of AHIP in respect of that fiscal year shall be allocated among all Partners (defined as General Partner and the Unitholders) that were Partners at any time in the fiscal year on the following basis:

- (i) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of \$0.10 per annum; and
- (ii) as to the balance, to the Unitholders as a class, and to each Unitholder in an amount calculated by multiplying such balance by a fraction, the numerator of which is the sum of distributions received by such Unitholder with respect to such fiscal year and the denominator of which is the aggregate amount of distributions made by AHIP to the Unitholders as a group with respect to such fiscal year.

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## 11. Partners' capital (continued):

### (c) Allocation of net income or net loss (continued):

Where no Distributable Cash is paid in respect of a fiscal year, net income and taxable income of AHIP in respect of that fiscal year shall be allocated among the limited partnership unitholders ("Unitholders") and the General Partner (collectively, the "Partners") on the following basis:

- (i) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of \$0.10 per annum; and
- (ii) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares of the balance divided by 12. Proportionate Share, in respect of each Unitholder, means that fraction which, as of the date of such determination:
  - has as its numerator the number of Units held by such Unitholder; and
  - has as its denominator the aggregate number of Units outstanding.

Net loss and taxable loss of AHIP in respect of a fiscal year shall be allocated among all Partners that were Partners at any time in the fiscal year on the following basis:

- first, to the General Partner 0.01% of the net loss and taxable loss of AHIP to a maximum of \$0.10 per annum; and
- as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares as at the end of each month, the balance divided by 12.

### (d) 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 year ended December 31, 2019, AHIP declared distributions of \$0.648 per Unit (2018 - \$0.648 per Unit) to be paid to Unitholders totaling \$50,580 (2018 - \$50,623). Of this amount, \$4,219 (2018 - \$4,258) was included in accounts payable and accrued liabilities at December 31, 2019.

## 12. Compensation plan:

### (a) Short term incentive plan ("STIP"):

On August 19, 2019, a total of 7,200 Units in STIP awards was issued to an officer of AHIP for performance during the year ended December 31, 2018. The STIP awards were issued in the form of Restricted Stock Units that will vest over three years in equal annual instalments starting on December 13, 2019. The fair value of the STIP awards issued was \$37.

On May 17, 2018, certain members of AHIP senior management received STIP awards for their performance during the year ended December 31, 2017. The STIP awards were issued in the form of Restricted Stock Units totaling 17,942 Units that will vest over three years in equal annual instalments starting on December 31, 2018. The fair value of the STIP awards issued was \$112.

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## 12. Compensation plan (continued):

### (b) Long term incentive plan ("LTIP"):

On August 19, 2019, certain members of AHIP senior management received LTIP awards issued in the form of Restricted Stock Units and Performance Awards (also in the form of Restricted Stock Units). 24,638 Restricted Stock Units, which represent 40% of the LTIP awards, will vest over three years in equal annual instalments starting on March 13, 2020. The remaining 36,961 Restricted Stock Units are Performance Awards that are subject to a market performance condition based on AHIP's performance relative to a market index which could result in as few as no Units and as many as 73,922 Units being issued. The fair value of the LTIP awards issued was \$227.

On May 17, 2018, certain members of AHIP senior management received LTIP awards issued in the form of Restricted Stock Units and Performance Awards (also in the form of Restricted Stock Units). 26,320 Restricted Stock Units, which represent 40% of the LTIP awards, will vest over three years in equal annual instalments starting on March 15, 2019. The remaining 39,483 Restricted Stock Units are Performance Awards that are subject to a market performance condition based on AHIP's performance relative to a market index which could result in as few as no Units and as many as 78,966 Units being issued. The fair value of the LTIP awards issued was \$381.

As at December 31, 2019, AHIP had a total of 92,042 unvested STIP and LTIP awards. A summary of the activity in unvested units is 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	(56,605)		(6.91)
Forfeited or cash-settled	(17,141)		(6.90)
Cancelled	(76,012)		(6.94)
Unvested, December 31, 2019	92,042	\$	4.50

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## 12. Compensation plan (continued):

(c) Vesting schedule:

The vesting schedule of the unvested STIP and LTIP awards is as follows:

Vesting dates	Number of Units	Total fair value of Units at grant date
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
<b>Total unvested Units</b>	<b>92,042</b>	<b>\$ 414</b>

For the year ended December 31, 2019, a total of \$437 (2018 - \$971) in securities-based compensation expense was included in corporate and administrative expense.

## 13. Finance costs:

	2019	2018
Interest on branded term loans and revolving credit facility	\$ 28,387	\$ 27,980
Interest expense on convertible debentures	2,444	2,444
Debt defeasance and other costs	1,409	-
Amortization of debt financing costs	1,185	1,189
Accretion of convertible debenture liability	403	380
Amortization of convertible debenture costs	347	322
Interest expense on lease liabilities	85	105
Other financing charges	34	-
Dividends on preferred shares	16	16
Amortization of mark-to-market adjustments	(50)	(76)
Changes in fair values of interest rate swap contracts	(494)	-
	<b>\$ 33,766</b>	<b>\$ 32,360</b>

## 14. Commitments and contingencies:

(a) Hotel management agreements:

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(a)).

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## 14. Commitments and contingencies (continued):

### (a) Hotel management agreements (continued):

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:

- (i) Base management fees for Premium Branded hotels owned by AHIP as of July 1, 2019 have been reduced to 2.5% from 3.0% 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:

Under the terms of AHIP's franchise agreements for its Premium Branded hotels, AHIP is required to complete brand mandated property improvement plans. 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 are not reasonably determinable, management believes that any such outcome will not have a material adverse effect on these consolidated financial statements.

## 15. Related party transactions:

### (a) 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. There were no fees paid to the Former Hotel Manager in 2019.

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## 15. Related party transactions (continued):

### (b) Executive loan program:

Under AHIP's Executive Loan Guarantee Policy (the "Loan Policy") with a major Canadian financial institution under which an AHIP subsidiary would provide guarantees for loans made to certain directors and executive officers to make eligible purchases of Units. The aggregate maximum amount available under the Loan Policy is Cdn\$6,000 with specific limits for each director and executive officer. The loans have a ten-year term at an interest rate at the lender's prime lending rate plus 1%.

As at December 31, 2019, two individuals borrowed an aggregate of Cdn\$1,953 (2018 - Cdn\$3,000) under the Loan Policy, with such loans being fully guaranteed pursuant to the terms of the Loan Policy.

### (c) 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 year ended December 31, 2019 was \$3,309 (2018 - \$2,804), which included securities-based compensation expense of \$437 (2018 - \$971).

## 16. Financial instruments:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants at the measurement date.

The following table shows a hierarchy for disclosing fair value based on inputs used to value assets or liabilities that are measured at fair value or for which fair value disclosure is required. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);
- Inputs other than quoted prices in active markets included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The carrying values of AHIP's cash and cash equivalents, restricted cash, trade and other receivables, other liabilities and accounts payables and accrued liabilities approximate 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 facility 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 and outstanding revolving credit facility at December 31, 2019 was \$705,398 (2018 - \$666,859) and are considered Level 2 in the fair value hierarchy.



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## 16. Financial instruments (continued):

AHIP uses interest rate swap contracts to effectively fix the interest rate on certain loans. As hedge accounting is not applied; the contracts are carried at fair value and reported as assets (positive) or liabilities (negative) depending on the fair value on the reporting date and the change in fair value is recognized in net income or loss for the year. The fair value of the interest rate swap contracts is calculated through discounting future expected cash flows using the appropriate LIBOR rate swap curve adjusted for credit risk. Since the LIBOR rate swap curve is an observable input, these financial instruments are considered Level 2.

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 December 31, 2019 is \$48,752 (2018 - \$41,539).

AHIP is exposed to a number of risks in its normal course of operations from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

### (a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. AHIP monitors its interest rate exposure on an ongoing basis.

As described in note 8, all of AHIP's term loans as at December 31, 2019 effectively have fixed interest rates and therefor AHIP is not subject to significant interest rate risk.

### (b) Credit risk:

Credit risk is the risk of financial loss to AHIP if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument.

AHIP is exposed to credit risk with respect to trade and other receivables. At December 31, 2019 trade and other receivables were \$17,300 (2018 - \$9,260). Amounts over 30 days past due totaled \$910 (2018 - \$1,111 on a consolidated basis), all of which are expected to be collected. The bad debt write-off for continuing operations was \$18 for the year ended December 31, 2019 (2018 - \$65). The associated risk is mitigated by initiating a prompt collection process and credit checks on all new customers.

As at December 31, 2019, AHIP did not have accounts receivable from any one customer in excess of 10% of AHIP's consolidated accounts receivable balance.

### (c) Liquidity risk:

Liquidity risk is the risk that AHIP will not be able to meet its financial obligations as they fall due. Property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If AHIP were required to liquidate a property investment, the proceeds to AHIP may be significantly less than the aggregate carrying value of such property.

AHIP manages liquidity risk through monitoring the repayment dates and refinancing dates of its revolving line of credit and term loans, monitoring its debt covenants, and managing its cash flows. AHIP's objective is to maintain sufficient available credit facilities to fund ongoing operational and capital requirements. In addition to trade and other receivables, AHIP has cash and cash equivalents of \$17,849 (2018 - \$16,637) excluding the restricted cash amount of \$28,773 at December 31, 2019 (2018 - \$36,498).

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## 16. Financial instruments (continued):

### (c) Liquidity risk (continued):

The timing of estimated cash outflows relating to financial liabilities (including expected interest payments) are outlined in the table below:

	Less than one year	1-5 years	Beyond 5 years	Total	Carrying amount
Accounts payable and accrued liabilities	\$ 57,117	\$ -	\$ -	\$ 57,117	\$ 57,117
Term loans and revolving credit facility <sup>(1)</sup>	36,270	485,143	384,073	905,486	718,976
Convertible debentures	2,444	52,541	-	54,985	46,759
Lease and other liabilities	267	445	-	712	654
	\$ 96,098	\$ 538,129	\$ 384,073	\$ 1,018,300	\$ 823,506

<sup>(1)</sup>Cash outflows in respect of terms loans and revolving credit facility have been calculated based on the outstanding balances and interest rates as at December 31, 2019.

## 17. Capital management:

	2019	2018
Term loans and outstanding revolving credit facilities	\$ 718,976	\$ 694,787
Convertible debentures, liability portion	46,759	46,009
Partners' capital	418,305	475,865
<b>Total capital</b>	<b>\$ 1,184,040</b>	<b>\$ 1,216,661</b>

AHIP defines capital as the aggregate of its term loans, outstanding revolving credit facility, 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 directors of the General Partner.

## 18. Supplemental cash flow disclosure:

### (a) Changes in non-cash operating working capital:

	2019	2018
Accounts payable and accrued liabilities	\$ 4,463	\$ 4,910
Prepays and other assets	(342)	(1,706)
Trade and other receivables	3,581	1,721
	\$ 7,702	\$ 4,925

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## 18. Supplemental cash flow disclosure (continued):

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities for continuing and discontinued operations:

	Liabilities						
	Finance lease liability	Term loans and revolving credit facility	Convertible debentures	Other liabilities	Partners' capital	Total	
Balance							
January 1, 2019	\$ 1,851	\$ 694,787	\$ 46,009	\$ 2,235	\$475,865	\$ 1,220,747	
Changes from financing cash flows:							
Distributions paid	-	-	-	-	(50,670)	(50,670)	
Proceeds from term loans and revolving credit facility	-	140,700	-	-	-	140,700	
Term loan and credit facilities repayments	-	(118,837)	-	-	-	(118,837)	
Deferred compensation paid	-	-	-	(189)	-	(189)	
Finance lease payments	(2,106)	-	-	-	-	(2,106)	
Financing costs paid	-	(877)	-	-	-	(877)	
Total changes from financing cash flows:	(2,106)	20,986	-	(189)	(50,670)	(31,979)	
Liability-related:							
Interest expense/accretion	-	3,203	750	-	-	3,953	
Change in other liabilities	909	-	-	(1,863)	-	(954)	
Total liability-related other changes:	909	3,203	750	(1,863)	-	2,999	
Total partners' capital-related other changes:	-	-	-	-	(6,890)	(6,890)	
Balance							
December 31, 2019	\$ 654	\$ 718,976	\$ 46,759	\$ 183	\$418,305	\$ 1,184,877	

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## 19. Discontinued operations:

On November 27, 2019, AHIP sold its Economy Lodging Portfolio and the results of operations have been classified separately as discontinued operations. Consequently, information presented for discontinued operations in 2019 includes results from January 1, 2019 to November 27, 2019 only.

Net income (loss) and comprehensive income (loss) from discontinued operations are as follows:

	January 1 to November 27, 2019	January 1 to December 31, 2018
Revenue:		
Rooms	\$ 55,539	\$ 60,773
Food, beverage and other	10,104	11,785
	65,643	72,558
Hotel expenses:		
Operating expenses	33,981	38,625
Energy	3,523	3,921
Property maintenance	3,827	4,257
Property taxes and insurance	2,735	2,892
Depreciation and amortization	5,299	8,459
	49,365	58,154
Income from discontinued operating activities	16,278	14,404
Corporate and administrative	5,871	3,782
Loss on disposal of property and equipment	76	2,790
Business acquisition costs	-	210
Income from discontinued operations before undernoted	10,331	7,622
Net finance costs	8,231	4,946
Income from discontinued operations before income taxes	2,100	2,676
Deferred income tax expense (recovery)	4,473	(423)
Net income (loss) and comprehensive income (loss) from discontinued operations	\$ (2,373)	\$ 3,099

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## 19. Discontinued operations (continued):

The effect of the disposal of AHIP's Economy Lodging Portfolio as at December 31, 2019 is as follows:

Gross proceeds	\$	215,500
Net working capital		(2,171)
Property, buildings and equipment		(189,666)
Intangible assets		(4,155)
Lease and other liabilities		949
Net assets disposed		(195,043)
PIP escrow and building repairs adjustments		(8,973)
Transaction expenses		(18,284)
Loss on disposal of discontinued operations	\$	(6,800)

Gross proceeds include \$7,000 which is subject to an earnout provision upon achievement of certain performance targets. This is included in trade and other receivables.

Net cash flows from (used in) discontinued operations are as follows:

	January 1 to November 27, 2019	January 1 to December 31, 2018
Cash from (used in) operating activities	\$ 2,746	\$ 12,111
Cash used in investing activities	(2,824)	(1,666)
Cash from (used in) financing activities	(112,256)	4,547
Cash from (used in) discontinued operations	\$ (112,334)	\$ 14,992

## 20. Comparative information:

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

## 21. Subsequent events:

- (a) On January 15, 2020, a cash distribution of US\$0.054 per unit was declared for the period from January 1, 2020 to January 31, 2020. The distribution was paid on February 15, 2020 to Unitholders of record on January 31, 2020.

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## **21. Subsequent events (continued):**

- (b) On February 14, 2020, a cash distribution of US\$0.054 per unit was declared for the period from February 1, 2020 to February 29, 2020. The distribution will be paid on March 13, 2020 to Unitholders of record on February 28, 2020.
- (c) On February 14, 2020, AHIP completed an increase to the Senior Secured Facility by \$60,000 from \$165,000 to \$225,000 with the credit facility continuing to retain its accordion feature. The Senior Secured Facility is now comprised of a \$100,000 revolver and a \$125,000 term loan with the available borrowing capacity under the credit facility based on a borrowing base formula for the pool of hotels securing the facility.
- (d) On March 10, 2020, AHIP modified its annual distribution policy to US\$0.456 per Unit from US\$0.648 per Unit, beginning with the March 2020 distribution to be paid in April 2020.