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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Three and six months ended June 30, 2020 and 2019
(Unaudited)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

	Notes	June 30, 2020	December 31, 2019
Assets			
Current assets:			
Cash and cash equivalents		$ 27,114	$ 17,849
Current portion of restricted cash	4	17,874	23,682
Trade and other receivables	5(b)	17,023	17,300
Prepaids and other assets		8,147	9,965
		70,158	68,796
Restricted cash	4	10,889	5,091
Property, buildings and equipment	5	1,137,022	1,157,304
Intangible assets	6	6,838	7,202
Fair value of interest rate swap contracts	8(c)	-	495
Deferred income tax assets	7	11,287	7,440
		$ 1,236,194	$ 1,246,328
Liabilities and Partners' Capital			
Current liabilities:			
Accounts payable and accrued liabilities	5(a)	$ 60,546	$ 57,117
Current portion of term loans and revolving credit facility	8	4,724	4,249
Current portion of lease and other liabilities	10	261	267
		65,531	61,633
Term loans and revolving credit facility	8	729,005	714,727
Convertible debentures	9	47,154	46,759
Lease and other liabilities	10	10,430	570
Fair value of interest rate swap contracts	8(c)	5,875	-
Deferred income tax liabilities	7	4,443	4,334
		862,438	828,023
Partners' capital	11	373,756	418,305
		$ 1,236,194	$ 1,246,328

Commitments and contingencies	14
Subsequent events	20

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

	Notes	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenue:					
Rooms		$ 26,667	$ 66,048	$ 83,943	$ 124,716
Food, beverage and other		607	5,645	5,186	10,519
		27,274	71,693	89,129	135,235
Hotel expenses:					
Operating expenses		14,506	35,727	48,233	69,068
Energy		2,137	2,428	4,646	5,047
Property maintenance		1,574	3,021	4,532	6,038
Property taxes, insurance and ground lease		2,756	2,480	8,608	6,448
Depreciation and amortization		10,918	9,359	21,783	18,794
		31,891	53,015	87,802	105,395
Income (loss) from operating activities		(4,617)	18,678	1,327	29,840
Corporate and administrative		3,383	3,855	7,079	7,981
Impairment of hotel assets	5(c)	3,669	-	5,544	-
Income (loss) from continuing operations before undernoted		(11,669)	14,823	(11,296)	21,859
Finance income		(62)	(4)	(147)	(7)
Change in fair value of interest rate swap contracts	8(c)	554		6,370	-
Finance costs	13	10,189	8,105	19,766	16,068
Income (loss) from continuing operations before income taxes		(22,350)	6,722	(37,285)	5,798
Current income tax expense (recovery)		(116)	(10)	(116)	10
Deferred income tax expense (recovery)		(1,395)	305	(3,738)	(498)
		(1,511)	295	(3,854)	(488)
Net income (loss) and comprehensive income (loss) from continuing operations		$ (20,839)	$ 6,427	$ (33,431)	$ 6,286
Loss and comprehensive loss from discontinued operations	18	-	(587)	-	(902)
Gain on disposal of discontinued operations	18	33	-	18	-
		33	(587)	18	(902)
Net income (loss) and comprehensive income (loss)		$ (20,806)	$ 5,840	$ (33,413)	$ 5,384
Basic income (loss) per unit:					
Continuing operations		$ (0.27)	$ 0.08	$ (0.43)	$ 0.08
Discontinued operations		-	(0.01)	-	(0.01)
Net income (loss) per unit		$ (0.27)	$ 0.07	$ (0.43)	$ 0.07
Diluted net income (loss) per unit:					
Continuing operations		$ (0.26)	$ 0.08	$ (0.43)	$ 0.08
Discontinued operations		-	(0.01)	-	(0.01)
Net income (loss) per unit		$ (0.26)	$ 0.07	$ (0.43)	$ 0.07
Basic weighted average number of units outstanding		78,134,763	78,119,336	78,131,688	78,116,460
Diluted weighted average number of units outstanding		78,703,450	78,192,415	78,456,893	78,189,539

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)

Six months ended June 30, 2020 and 2019

	Notes	Units outstanding	Partners' contributions[1]	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2020		78,127,410	$ 618,221	$ 765	$ (200,681)	$ 418,305
Securities-based compensation	12	-	-	238	-	238
Issuance of Units under securities-based compensation plan	11,12	11,127	25	6	-	31
Loss and comprehensive loss		-	-	-	(33,413)	(33,413)
Distributions	11	-	-	-	(11,405)	(11,405)
Balance, June 30, 2020		78,138,537	$ 618,246	$ 1,009	$ (245,499)	$ 373,756
Balance, January 1, 2019		78,070,805	$ 617,924	$ 1,050	$ (143,109)	$ 475,865
Securities-based compensation	12	-	-	81	-	81
Issuance of Units under securities-based compensation plan	11,12	48,531	256	(482)	-	(226)
Net income and comprehensive income		-	-	-	5,384	5,384
Distributions	11	-	-	-	(25,234)	(25,234)
Balance, June 30, 2019		78,119,336	$ 618,180	$ 649	$ (162,959)	$ 455,870

[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)

	Notes	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash provided by (used in):					
Operating activities:					
Net income (loss) and comprehensive income (loss) from continuing operations		$ (20,839)	$ 6,427	$ (33,431)	$ 6,286
Interest paid		(10,415)	(7,052)	(18,700)	(13,927)
Securities-based compensation paid in cash		-	-	-	(238)
Items not affecting cash:					
Depreciation and amortization		10,918	9,359	21,783	18,794
Impairment of hotel assets	5(c)	3,669	-	5,544	-
Securities-based compensation expense		243	55	297	81
Deferred income tax expense (recovery)		(1,395)	305	(3,738)	(498)
Amortization of other liabilities		(4)	(6)	(15)	(11)
Change in fair value of interest rate swap contracts	8(c)	554		6,370	-
Finance costs	13	10,189	8,105	19,766	16,068
		(7,080)	17,193	(2,124)	26,555
Change in non-cash working capital:					
Accounts payable and accrued liabilities		7,386	(5,201)	4,917	(3,822)
Prepaids and other assets		1,089	2,137	1,493	(366)
Trade and other receivables		(2,240)	671	248	(3,336)
		(845)	14,800	4,534	19,031
Investing activities:					
Additions to property, buildings and equipment		(1,425)	(9,276)	(6,573)	(16,478)
Net change in restricted cash		1,159	754	10	3,866
		(266)	(8,522)	(6,563)	(12,612)
Financing activities:					
Distributions paid		-	(12,655)	(12,657)	(25,305)
Proceeds from (payments on) revolving credit facility		-	10,700	(2,600)	11,400
Proceeds from term loan		-	-	20,000	-
Proceeds from Other Loans	10	9,935	-	9,935	-
Payments on term loans		(994)	(540)	(1,873)	(1,110)
Payments on lease liabilities		(71)	(1,759)	(146)	(2,069)
Financing costs paid		(646)	-	(1,251)	-
		8,224	(4,254)	11,408	(17,084)
Increase (decrease) in cash and cash equivalents from continuing operations		7,113	2,024	9,379	(10,665)
Increase (decrease) in cash and cash equivalents from discontinued operations	18	153	(2,603)	(114)	5,787
Cash and cash equivalents, beginning of period		19,848	12,338	17,849	16,637
Cash and cash equivalents, end of period		$ 27,114	$ 11,759	$ 27,114	$ 11,759

See accompanying notes to consolidated financial statements.

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, June 9, 2015, and June 17, 2020. 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.

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.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Various government agencies imposed travel restrictions, social distancing measures and shelter-in-place rules, all of which had an immediate effect on AHIP's operations as future guest bookings and occupancy levels declined significantly during the second half of March. During the second quarter, most of AHIP's hotels were open for reservations and as at June 30, 2020, all hotels are open for business and occupancy levels are starting to increase. Refer to notes 4, 5, 8, 10 and 14 for the impact of COVID-19 on AHIP's financial statements.

2. Basis of presentation and statement of compliance:

(a) 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, 2019 ("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 August 6, 2020.

(b) Discontinued operations:

On November 27, 2019, AHIP completed the sale of an operating segment, comprised of 45 hotels (the "Economy Lodging Portfolio"). The results from the Economy Lodging Portfolio have been presented separately from continuing operations as discontinued operations in the condensed consolidated interim 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 18 for further information.

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

(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.

(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).

(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 the Annual Audited Financial Statements.

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

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.

IAS 20 *Accounting for government grants and disclosure of government assistance*

AHIP classifies forgivable loans from the government as a government grant when there is reasonable assurance that AHIP will meet the terms for forgiveness on the loan. If this threshold is not met, AHIP classifies forgivable loans as other liabilities, measured at fair value in accordance with IFRS 9. AHIP recognizes forgivable government loans classified as liabilities in profit or loss during the period in which the loan is forgiven. AHIP recognizes deferred grants on a systematic basis over the periods in which AHIP recognizes the related expenses for which the grants are intended to compensate.

The benefit of a government loan at below-market rate of interest is treated as a government grant. The difference between the present value of future cash flows of the loan discounted at the market interest rate and the loan proceeds received is recognized in profit or loss on the same basis that the related interest expense is recognized on the liability.

4. Restricted cash:

	June 30, 2020	December 31, 2019
Property improvement plans ("PIPs") reserves	$ 7,272	$ 8,791
Furniture, fixture and equipment reserves ("FF&E Reserves")	8,214	9,919
Property tax reserves	9,432	6,568
Insurance, cash collateral and other reserves	3,845	3,495
	28,763	28,773
Current portion of restricted cash	(17,874)	(23,682)
	$ 10,889	$ 5,091

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.

During the three months ended June 30, 2020, in response to COVID-19, certain term loans were amended to defer monthly contributions to FF&E Reserves for up to 90 days. In addition, reserves were also used to fund debt service costs with all relief amounts to be repaid over 12 months.

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

5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction-in-progress	Right-of-use Property	Right-of-use Vehicles	Total
Cost:							
Balance, January 1, 2019	$148,888	$1,041,207	$ 102,097	$ 7,415	$ -	$ -	$1,299,607
IFRS 16 adoption	(1,950)	-	(532)	-	2,852	956	1,326
Acquisition of Premium Branded hotels (a)	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 (b)	(23,533)	(183,734)	(27,217)	-	(512)	(776)	(235,772)
Disposals	-	-	(292)	(1)	-	(28)	(321)
Balance, December 31, 2019	148,762	1,027,553	97,433	15,273	585	650	1,290,256
Additions	6	995	1,119	4,561	-	-	6,681
Transfers	-	3,094	3,108	(6,141)	-	(61)	-
Balance, June 30, 2020	$148,768	$1,031,642	$ 101,660	$ 13,693	$ 585	$ 589	$1,296,937
Accumulated depreciation and impairment:							
Balance, January 1, 2019	$ -	$ 87,755	$ 46,322	$ -	$ -	$ -	$ 134,077
IFRS 16 adoption	-	-	(310)	-	-	310	-
Depreciation	-	26,836	14,979	-	226	280	42,321
Sale of discontinued operations (b)	-	(29,623)	(16,284)	-	(69)	(130)	(46,106)
Impairment	-	2,875	-	-	-	-	2,875
Disposals	-	-	(211)	-	-	(4)	(215)
Balance, December 31, 2019	-	87,843	44,496	-	157	456	132,952
Depreciation	-	13,964	7,341	-	82	32	21,419
Transfers	-	-	61	-	-	(61)	-
Impairment	-	5,544	-	-	-	-	5,544
Balance, June 30, 2020	$ -	$ 107,351	$ 51,898	$ -	$ 239	$ 427	$ 159,915
Net book value, June 30, 2020	$148,768	$ 924,291	$ 49,762	$ 13,693	$ 346	$ 162	$1,137,022
Net book value, December 31, 2019	$148,762	$ 939,710	$ 52,937	$ 15,273	$ 428	$ 194	$1,157,304

5. Property, buildings and equipment (continued):

(a) Acquisition of Premium Branded hotels:

On December 3, 2019, AHIP completed the acquisition of 12 Premium Branded hotels for an aggregate purchase price of $191,000 excluding working capital adjustments (the “Acquisition”). As at June 30, 2020, $17,500 of the purchase price is included in accounts payable on the consolidated statement of financial position (December 31, 2019 – $17,500). The unpaid balance plus accrued interest is due on or prior to December 31, 2020. AHIP may prepay all amounts owing at any time, at its option.

(b) Sale of Economy Lodging Portfolio:

On November 27, 2019, AHIP sold the Economy Lodging Portfolio for total gross proceeds of $215,500 and recorded a loss on sale of $6,800 for the year ended December 31, 2019. Included in the gross proceeds was $7,000 that is subject to an earnout provision upon achievement of certain performance targets. At June 30, 2020, the amount is recorded in trade and other receivables (December 31, 2019 – $7,000).

As at June 30, 2020, $2,400 was due from the buyer and is included in trade and other receivables on the statement of financial position (December 31, 2019 – $2,544). The amount plus applicable interest is secured by a mortgage on one of the hotels sold in the transaction.

(c) Impairment:

An assessment of the recoverable amount of AHIP’s cash-generating units (“CGUs”) compared to their carrying values was performed based on updated cash flow projections with information known, or reasonably could have known, at June 30, 2020 in light of the current COVID-19 pandemic. The cash flows are management’s best projections based on current and anticipated market conditions covering the 10-year forecast period. However, these projections are inherently uncertain due to the recent and evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance to these projections could occur if government restrictions continue to prevail resulting in a duration and impact greater than currently anticipated.

The COVID-19 pandemic and its impact on the economy is constantly changing in an unpredictable manner and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on AHIP’s anticipated revenue levels and the recoverable amount of the CGUs.

During the three and six months ended June 30, 2020, AHIP recorded an impairment charge of $3,669 and $5,544, respectively (three and six months ended June 30, 2019 – nil) in aggregate on three and four hotels, respectively, due to adverse changes in the operating performance of the hotels. AHIP estimated the recoverable amount of these hotels based on their value in use using a 10-year discounted cash flow analysis. Significant assumptions used in the estimated value in use calculations included discount rates of 10% and other market considerations.

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.

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

6. Intangible assets:

	Franchise Agreements	Lodging Agreements	Contract Signing Fees	Total
Cost:				
Balance, January 1, 2019	$ 8,657	$ 14,841	$ 460	$ 23,958
Additions	1,875	-	-	1,875
Sale of discontinued operations	(1,029)	(14,841)	(460)	(16,330)
Balance, December 31, 2019 and June 30, 2020	$ 9,503	$ -	$ -	$ 9,503
Accumulated amortization:				
Balance, January 1, 2019	$ 1,682	$ 11,493	$ 234	$ 13,409
Amortization	619	422	26	1,067
Sale of discontinued operations	-	(11,915)	(260)	(12,175)
Balance, December 31, 2019	2,301	-	-	2,301
Amortization	364	-	-	364
Balance, June 30, 2020	$ 2,665	$ -	$ -	$ 2,665
Net book value, June 30, 2020	$ 6,838	$ -	$ -	$ 6,838
Net book value, December 31, 2019	$ 7,202	$ -	$ -	$ 7,202

7. Income taxes:

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

	June 30, 2020	December 31, 2019
Deferred income tax assets:		
Non capital losses carried forward	$ 11,088	$ 7,330
Intangible assets	59	35
Other	140	75
	$ 11,287	$ 7,440
Deferred income tax liabilities:		
Property, buildings and equipment	$ 4,443	$ 4,274
Other	-	60
	$ 4,443	$ 4,334

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

7. Income taxes (continued):

As at June 30, 2020, AHIP had net operating losses from continuing operations for tax purposes totaling $42,862 (December 31, 2019 – $28,509 on a consolidated basis) of which $9,990 may be carried forward for up to 20 years, and $32,872 may be carried indefinitely, from the date of origination and applied against future taxable income.

8. Term loans and revolving credit facility:

	June 30, 2020	December 31, 2019
Term loans	$ 704,142	$ 686,014
Revolving credit facility	36,700	39,300
	740,842	725,314
Unamortized portion of mark-to-market adjustments	211	236
Unamortized portion of debt financing costs	(7,324)	(6,574)
	733,729	718,976
Current portion of term loans	(4,724)	(4,249)
	$ 729,005	$ 714,727

All of AHIP's hotels have been pledged as security under various loan agreements. As at June 30, 2020, AHIP's loans had a weighted average interest rate of 4.51% (December 31, 2019 – 4.37%).

(a) Revolving credit facility and term loan:

AHIP has a senior secured facility ("Senior Secured Facility") with total credit commitment of $225,000 (December 31, 2019 – $165,000) comprised of a $100,000 (December 31, 2019 – $60,000) revolving facility ("Revolver") and a $125,000 (December 31, 2019 – $105,000) term loan ("Term Loan"). The available borrowing capacity under the Senior Secured Facility is based on a borrowing base formula for the pool of hotels securing the facility and the available amount as at June 30, 2020 was $173,125 (December 31, 2019 – $162,153). On June 15, 2020, AHIP entered into an amended and restated credit agreement on the Senior Secured Facility whereby AHIP obtained a waiver for certain quarterly covenants until April 1, 2021. The Senior Secured Credit Facility is now secured by mortgages on the borrowing base properties.

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

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

(b) Principal payments:

As at June 30, 2020, 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 were as follows:

2020	$	2,365
2021		4,739
2022		60,543
2023		78,367
2024		244,537
Thereafter		350,291
	$	740,842

As at June 30, 2020, AHIP was in compliance with all of its lending agreements.

(c) Interest rate swap contracts:

AHIP has interest rate swap contracts with a total notional value of $130,000 which effectively fixes the LIBOR rate at 1.415% on $105,000 and 1.609% on $25,000, with a maturity date of November 30, 2023. The contracts are carried at fair value and reported as assets or liabilities depending on the fair value on the reporting date. The change in fair value is recognized in income (loss) and comprehensive income (loss) for the period. 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.

9. Convertible debentures:

	Liability carrying value	Equity carrying value	Total face value
Balance, January 1, 2019	$ 46,009	$ 1,979	$ 47,988
Amortization of transaction costs	347	-	347
Accretion of liability component	403	-	403
Balance, December 31, 2019	46,759	1,979	48,738
Amortization of transaction costs	184	-	184
Accretion of liability component	211	-	211
Balance, June 30, 2020	$ 47,154	$ 1,979	$ 49,133

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

10. Lease and other liabilities:

	June 30, 2020	December 31, 2019
Other Loans	$ 9,582	$ -
Lease and other liabilities	784	837
Government grant liability	353	-
Unamortized portion of financing costs	(28)	-
	10,691	837
Current portion of lease and other liabilities	(261)	(267)
	$ 10,430	$ 570

During April 2020, various AHIP subsidiaries obtained loans under the Coronavirus Aid, Relief and Economic Security Act (“Other Loans”). During the three and six months ended June 30, 2020, AHIP received an aggregate total of $9,935 in loan proceeds that carry an interest rate of 1.00% per annum, and are repayable over two years, commencing in September 2021. Under the terms of the loans, all or a portion of the loans may be forgiven if the loan proceeds are used for qualifying expenses and if other specific criteria are met. During the three and six months ended June 30, 2020, no amount of the loans was recognized into income.

As the loans have a below-market interest rate, the difference between the present value of the loans using market interest rates and the loan proceeds received was recorded as a government grant liability. As at June 30, 2020, the carrying value of Other Loans, excluding debt financing costs, equaled their fair value.

Under the terms of the loans, $4,959 and $4,977 of principal payments, excluding debt financing costs, respectively, are due in 2021 and 2022.

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 Board of Directors of the General Partner.

(b) Issued:

For the three and six months ended June 30, 2020, 5,366 Units and 11,127 Units, respectively, were issued under AHIP’s share based compensation plan (three and six months ended June 30, 2019 – nil Units and 48,531 Units, respectively).

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

11. Partners' capital (continued):

(c) Distributions:

In March 2020, AHIP temporarily suspended its monthly distribution including deferring the payment of its March 2020 distribution to a later date. AHIP did not declare any distributions for the three months ended June 30, 2020 (three months ended June 30, 2019 – $12,677). For the six months ended June 30, 2020, AHIP declared distributions of $0.146 per Unit (six months ended June 30, 2019 – $0.324 per Unit) to be paid to Unitholders totaling $11,405 (six months ended June 30, 2019 – $25,305). Of this amount $2,969 was included in accounts payable and accrued liabilities at June 30, 2020 (December 31, 2019 – $4,219).

12. Compensation plan:

On March 30, 2020, AHIP granted a total of 457,633 Units to certain employees under the securities-based compensation plan.

During the three months ended June 30, 2020, AHIP granted a total of 219,533 Restricted Stock Units. Of this total, 66,273 Restricted Stock Units were issued as STIP awards to an officer of AHIP for performance during the year ended December 31, 2019. These Restricted Stock Units will vest over three years in equal installments starting on December 15, 2020. The fair value of the STIP awards issued was $132.

The remaining 153,260 Restricted Stock Units were issued to an officer and to the Board of Directors of the General Partner, in lieu of their cash compensation and retainer fees due to be paid for services rendered from April 1, 2020 to December 31, 2020. The fair value of these Restricted Stock Units was $308 and will vest over the service period.

As at June 30, 2020, AHIP had a total of 743,465 unvested Units as follows:

	Number of Units		Weighted average grant date fair value
Unvested, January 1, 2019	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
Granted	677,166		1.34
Vested	(11,127)		(6.39)
Forfeited or cash-settled	(4,897)		(5.38)
Cancelled	(9,719)		(7.31)
Unvested, June 30, 2020	743,465	$	1.59

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

12. Compensation plan (continued):

The vesting schedule of the unvested unit grant awards as at June 30, 2020 was as follows:

Vesting dates	Number of Units	Total fair value of units at grant date
July 2, 2020	40,885	$ 81
July 31, 2020	5,366	11
August 31, 2020	5,367	11
September 30, 2020	5,367	86
October 30, 2020	42,771	11
November 30, 2020	5,367	11
December 15, 2020	69,713	157
March 15, 2021	69,225	127
May 17, 2021	11,024	61
December 15, 2021	32,708	98
March 15, 2022	61,015	85
August 19, 2022	36,961	101
December 15, 2022	83,115	129
March 30, 2023	274,581	213
Total unvested Units	743,465	$ 1,182

For the three and six months ended June 30, 2020, a total of $269 and $322 ($55 and $81 for the three and six months ended June 30, 2019) in securities-based compensation expense was included in corporate and administrative expense.

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

13. Finance costs:

The following table presents finance costs from continuing operations:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Interest expense on term loans and revolving credit facility	$ 8,540	$ 7,000	$ 16,536	$ 13,815
Interest expense on convertible debentures	611	611	1,222	1,222
Other financing charges	509	-	972	-
Amortization of debt financing costs	335	302	647	608
Accretion of convertible debenture liability	105	99	211	198
Amortization of convertible debenture costs	92	85	184	170
Interest expense on lease liabilities	6	16	12	71
Dividends on preferred shares	4	4	8	8
Amortization of mark-to-market adjustments	(13)	(12)	(26)	(24)
	$ 10,189	$ 8,105	$ 19,766	$ 16,068

14. Commitments and contingencies:

(a) Hotel management agreements:

Aimbridge Hospitality LLC (the “Hotel Manager”) is AHIP’s exclusive hotel manager to manage and operate its hotel properties. AHIP’s operating subsidiaries are responsible for reimbursing the Hotel Manager for any hotel operating expenses and direct costs including 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 with the Hotel Manager to amend certain terms of the amended master hotel management agreement:

(i) Base management fees for 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;

14. Commitments and contingencies (continued):

(a) Hotel management agreements (continued):

(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 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 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.

In response to the COVID-19 global pandemic, all mandated property improvement plans for the remainder of 2020 were deferred until 2021 as directed and approved by the hotel brands.

(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.

15. Related party transactions:

(a) Executive loan program:

An AHIP subsidiary has provided a limited guarantee for loans made to former and current executive officers to make eligible purchase of Units. During the three months ended June 30, 2020, the terms of the Executive Loan Guarantee Policy (the "Loan Policy") was amended for a former executive officer whereby the loan guarantee was extended to December 15, 2020.

As at June 30, 2020, three individuals borrowed an aggregate of Cdn$2,833 (December 31, 2019 – two individuals borrowed an aggregate of Cdn$1,953) under the Loan Policy, with such loans being fully guaranteed pursuant to the terms of the Loan Policy.

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

15. Related party transactions (continued):

(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 six months ended June 30, 2020 was $910 and $1,488, respectively ($609 and $1,897 for three and six months ended June 30, 2019), which included securities-based compensation expense of $269 and $322 respectively (three and six months ended June 30, 2019 – $55 and $81).

16. Financial instruments:

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 June 30, 2020 was $731,812 (December 31, 2019 – $705,398) and are considered Level 2 in the fair value hierarchy.

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 June 30, 2020 was $41,544 (December 31, 2019 – $48,752).

There have been no transfers between levels during the period.

17. Capital management:

	June 30, 2020	December 31, 2019
Term loans and outstanding revolving credit facility	$ 733,729	$ 718,976
Convertible debentures, liability portion	47,154	46,759
Partners' capital	373,756	418,305
Total capital	$ 1,154,639	$ 1,184,040

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 Board of Directors of the General Partner.

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

18. Discontinued operations:

On November 27, 2019, AHIP sold the Economy Lodging Portfolio and the results of operations have been classified separately as discontinued operations.

Loss and comprehensive loss from discontinued operations for the three and six months ended June 30, 2020 was as follows:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue:				
Rooms	$ -	$ 15,520	$ -	$ 29,882
Food, beverage and other	-	2,834	-	5,461
	-	18,354	-	35,343
Hotel expenses:				
Operating expenses	-	9,962	-	19,238
Energy	-	847	-	1,925
Property maintenance	-	1,037	-	2,112
Property taxes and insurance	-	526	-	1,268
Depreciation and amortization	-	2,484	-	4,963
	-	14,856	-	29,506
Income from discontinued operating activities	-	3,498	-	5,837
Corporate and administrative	-	868	-	1,674
Loss on disposal of property and equipment	-	62	-	63
Income from discontinued operations before undernoted	-	2,568	-	4,100
Finance costs	-	2,999	-	5,251
Loss from discontinued operations before income taxes	-	(431)	-	(1,151)
Deferred income tax expense (recovery)	-	156	-	(249)
Loss and comprehensive loss from discontinued operations	$ -	$ (587)	$ -	$ (902)

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

18. Discontinued operations (continued):

The effect of the disposal of the Economy Lodging Portfolio for the three and six months ended June 30, 2020 and June 30, 2019 was as follows:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Working capital and other adjustments	$ 83	$ -	$ 192	$ -
Transaction expenses	(50)	-	(174)	-
Gain on disposal of discontinued operations	$ 33	$ -	$ 18	$ -

Cash flows from (used in) discontinued operations were as follows:

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cash from (used in) operating activities	$ 153	$ 2,151	$ (114)	$ 4,818
Cash used in investing activities	-	(601)	-	(1,436)
Cash from (used in) financing activities	-	(4,153)	-	2,405
Cash from (used in) discontinued operations	$ 153	$ (2,603)	$ (114)	$ 5,787

19. Comparative information:

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

20. Subsequent events:

(a) Sale of hotel

On July 6, 2020, AHIP entered into a purchase and sale agreement for the sale of a hotel for gross proceeds of $7,500 before transaction and post-closing adjustments. The buyer waived conditions on July 17, 2020 and the transaction is expected to be completed before August 31, 2020.