

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

For the three and six months ended June 30, 2014 and 2013
(Unaudited)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Financial Position

(Unaudited)

(Expressed in thousands of U.S. dollars)

	Note	June 30, 2014	December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents		\$ 35,728	\$ 29,487
Restricted cash	5	12,460	6,000
Cash held in escrow	6	15,675	-
Trade and other receivables		2,050	1,209
Prepays and deposits		1,357	978
Mezzanine loans receivable	8	242	-
Other assets		484	362
		67,996	38,036
Property, buildings and equipment	7	226,428	187,391
Mezzanine loans receivable	8	-	322
Intangible assets	9	7,936	8,421
Deferred income tax assets		2,217	2,332
		\$ 304,577	\$ 236,502

Liabilities and Partners' Capital

Current liabilities:			
Accounts payable and accrued liabilities		\$ 8,250	\$ 6,163
Current portion of term loans	10	3,850	3,534
		12,100	9,697
Term loans	10	129,954	103,208
Contingent consideration	11	5,186	5,085
Deferred compensation payable	16 (c)	460	460
Preferred shares	12	125	-
Deferred income tax liabilities		1,813	1,813
		149,638	120,263
Partners' capital		154,939	116,239
Commitments	16		
Subsequent events	21		
		\$ 304,577	\$ 236,502

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(Unaudited)

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

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenue:				
Rooms	\$ 19,496	\$ 10,901	\$ 34,150	\$ 15,352
Food and beverage	2,861	2,609	5,260	3,656
Other	184	130	354	206
	22,541	13,640	39,764	19,214
Hotel expenses:				
Operating expenses	11,231	6,837	19,969	9,659
Energy	961	644	2,064	881
Property maintenance	1,145	738	2,123	1,028
Property taxes and insurance	1,161	606	2,185	887
Depreciation and amortization	2,738	1,773	5,092	2,545
	17,236	10,598	31,433	15,000
Income from operating activities	5,305	3,042	8,331	4,214
Loss on disposal of property and equipment	247	-	247	-
Corporate and administrative	1,758	1,093	3,784	1,700
Business acquisition costs	543	322	912	1,483
Income before finance costs and income taxes	2,757	1,627	3,388	1,031
Finance income	(20)	(18)	(49)	(24)
Finance costs (note 15)	1,865	959	3,431	1,425
Income (loss) before income taxes	912	686	6	(370)
Current income tax expense (recovery)	-	(24)	-	34
Deferred income tax expense	261	72	115	1
Net income (loss) and comprehensive income (loss) for the period	\$ 651	\$ 638	\$ (109)	\$ (405)
Basic and diluted net income (loss) and comprehensive income (loss) per unit	\$ 0.04	\$ 0.06	\$ (0.01)	\$ (0.05)
Basic weighted average number of units outstanding	15,973,922	10,405,000	15,210,104	7,923,712
Diluted weighted average number of units outstanding	16,018,015	10,405,000	15,261,361	7,923,712

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)
(Expressed in thousands of U.S. dollars, except for number of units)

Six months ended June 30, 2014 and 2013

	Units outstanding	General partner ¹	Limited partners	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2014	14,437,800	\$ -	\$ 125,339	\$ -	\$ (9,100)	\$ 116,239
Securities-based compensation (note 14)	-	-	-	390	-	390
Issuance of units under securities-based compensation (note 14)	28,500	-	281	(281)	-	-
Issuance of units on public offering, net of issuance costs	4,900,000	-	43,696	-	-	43,696
Issuance of units on hotel acquisition (note 8)	101,247	-	1,000	-	-	1,000
Net loss and comprehensive loss for the period	-	-	-	-	(109)	(109)
Distributions (note 13)	-	-	-	-	(6,277)	(6,277)
Balance, June 30, 2014	19,467,547	\$ -	\$ 170,316	\$ 109	\$ (15,486)	\$ 154,939

	Units outstanding	General partner ¹	Limited partners	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2013	800,000	\$ -	\$ 807	\$ -	\$ (455)	\$ 352
Consolidation of pre-initial public offering units	(400,000)	-	-	-	-	-
Issuance of units on initial public offering, net of issuance costs	10,005,000	-	88,570	-	-	88,570
Net loss and comprehensive loss for the period	-	-	-	-	(405)	(405)
Distributions	-	-	-	-	(3,271)	(3,271)
Balance, June 30, 2013	10,405,000	\$ -	\$ 89,377	\$ -	\$ (4,131)	\$ 85,246

¹ Consists of \$0.1 of General Partner Units

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

(Expressed in thousands of U.S. dollars)

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cash provided by (used in):				
Operating activities:				
Net income (loss) and comprehensive income (loss)	\$ 651	\$ 638	\$ (109)	\$ (405)
Interest paid	(1,425)	(931)	(2,586)	(1,017)
Items not affecting cash:				
Depreciation and amortization	2,738	1,773	5,092	2,545
Loss on disposal of equipment	247	-	247	-
Securities-based compensation expense	148	-	390	-
Accretion of contingent consideration	51	49	101	70
Amortization of deferred financing costs	128	38	220	68
Current income tax expense (recovery)	-	(24)	-	34
Deferred income tax expense	261	72	115	1
Interest expense	1,686	860	3,110	1,287
	4,485	2,475	6,580	2,583
Change in non-cash operating working capital (note 18)	249	(1,711)	(60)	(1,753)
	4,734	764	6,520	830
Investing activities:				
Cash held in escrow for acquisition (note 6)	(15,675)	-	(15,675)	-
Funding of restricted cash reserves, net of interest income received (note 5)	(107)	-	(6,460)	-
Purchase of property, buildings and equipment	(672)	(1,918)	(1,113)	(2,974)
Acquisition of property under development (note 7)				
	(3,591)	-	(3,591)	-
Franchise fees paid	-	-	(448)	-
Acquisition of the Oak Tree Inn hotels	-	-	-	(57,807)
Acquisition of the Virginia Portfolio net of cash provided by seller (note 4)	-	-	(37,123)	-
	(20,045)	(1,918)	(64,410)	(60,781)
Financing activities:				
Units issued for cash on initial public offering, net of expense	-	(118)	-	90,248
Units issued for cash on public offerings, net of expense	43,696	-	43,696	-
Distributions paid	(2,976)	(1,546)	(5,920)	(2,529)
Proceeds from term loans (note 10)	4,856	-	29,356	-
Proceeds from (payments on) construction facility (note 10)	(1,612)	1,127	-	2,250
Proceeds from issuance of preferred shares (note 12)	-	-	125	-
Mezzanine loans receivable advanced (note 8)	(296)	-	(459)	-
Payments on term loans (note 10)	(888)	(795)	(1,772)	(5,296)
Financing costs paid	(73)	-	(895)	(1,001)
Release of escrow funds on initial public offering	-	463	-	214
	42,707	(869)	64,131	83,886
Increase (decrease) in cash and cash equivalents	27,396	(2,023)	6,241	23,935
Cash and cash equivalents, beginning of period	8,332	26,144	29,487	186
Cash and cash equivalents, end of period	\$ 35,728	\$ 24,121	\$ 35,728	\$ 24,121

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

For the three and six months ended June 30, 2014 and 2013

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 ("U.S."). AHIP was established by American Hotel Income Properties REIT (GP) Inc. (AHIP's "General Partner") and Maverick Management Corp. as the initial limited partner, pursuant to the terms of AHIP's Limited Partnership Agreement dated October 12, 2012. AHIP's head office and address for service is located at 1660 - 401 West Georgia Street, Vancouver, British Columbia, Canada, V6B 5A1.

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

- (a) acquiring common shares and, where applicable, a ROC Share of American Hotel Income Properties REIT Inc. (the "U.S. REIT"), a ROC Share being defined as a share in the capital of the U.S. REIT which is designated within such capital as a preferred share;
- (b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of AHIP and making distributions to Unitholders (a Unitholder is defined as a person, at any time, that is a limited partner in AHIP and who is the beneficial owner of one or more Units). Units mean AHIP limited partnership units; and
- (c) in connection with the undertaking set out above, reinvesting income and gains of AHIP and taking other actions besides the mere protection and preservation of AHIP's property.

AHIP is not a SIFT Partnership under the Income Tax Act (Canada) and is not subject to SIFT Tax.

The U.S. REIT qualified and intends to continue to qualify as a real estate investment trust pursuant to the U.S. Internal Revenue Code.

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

- (a) Initial Public Offering ("IPO") and acquisition of initial portfolio:

On February 20, 2013, AHIP completed its IPO of 9,570,000 Units priced at Cdn\$10.00 per Unit, for total gross proceeds of Cdn\$95,700 (US\$94,100). Included in the Closing were 870,000 Units for total gross proceeds of Cdn\$8,700 (US\$8,500) from a partial exercise of the over-allotment option described in AHIP's final prospectus, dated February 12, 2013, as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada.

On March 1, 2013, the exercise of the remaining balance of the over-allotment option was completed, resulting in the issuance of an additional 435,000 Units at a price of Cdn\$10.00 per Unit for total gross proceeds of Cdn\$4,400 (US\$4,200).

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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For the three and six months ended June 30, 2014 and 2013

1. Reporting entity (continued):

(a) Initial Public Offering ("IPO") and acquisition of initial portfolio (continued):

Concurrent with the Closing of the IPO, AHIP indirectly acquired the outstanding share capital in a portfolio comprising an aggregate of 32 hotel properties (the "Oak Tree Inn Hotels") located in 19 states, predominantly in smaller towns throughout the U.S. A substantial portion of the Oak Tree Inn Hotels' revenue is generated through lodging agreements with several railway companies.

(b) Offering and acquisition of Pittsburgh hotels:

On October 31, 2013, AHIP completed the public offering of 3,967,500 subscription receipts ("Subscription Receipts") on a bought-deal basis, inclusive of 517,500 Subscriptions Receipts related to an over-allotment option, at a price of Cdn\$10.15 per Subscription Receipt for total gross proceeds of Cdn\$40,300 (US\$38,300) (the "October 2013 Offering").

On November 21, 2013, AHIP used partial proceeds from the October 2013 Offering along with new financing (the "Pittsburgh Portfolio Term Loans") to indirectly acquire four hotel properties located in metropolitan Pittsburgh, Pennsylvania (the "Pittsburgh Portfolio"). The Pittsburgh Portfolio hotels comprise of an aggregate of 471 guest rooms and consists of three Hampton Inn hotels (a Hilton brand) and one Residence Inn hotel (a Marriott brand).

(c) Acquisition of Virginia hotels:

On March 12, 2014, AHIP used partial proceeds from the October 2013 Offering along with new financing (the "Virginia Portfolio Term Loans") to indirectly acquire a portfolio of four hotel properties located in Virginia (the "Virginia Portfolio"). The Virginia Portfolio hotels comprise an aggregate of 403 guest rooms and consists of three Hampton Inn hotels (a Hilton brand) and one Fairfield Inn & Suites hotel (a Marriott brand).

The Virginia Portfolio and the Pittsburgh Portfolio are collectively referred to as the "Branded Hotels".

(d) June 2014 Public Offering:

On June 4, 2014, AHIP completed a public offering (the "June 2014 Offering") of 4,900,000 Units, on a bought-deal basis, at a price of Cdn\$10.35 per Unit, for total gross proceeds of Cdn\$50,715 (US\$46,357). Included in the Closing were 552,000 Units from a partial exercise of the over-allotment option as described in AHIP's short form prospectus dated May 29, 2014, as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

For the three and six months ended June 30, 2014 and 2013

2. Basis of presentation and statement of compliance:

(a) Statement of compliance:

The condensed consolidated interim financial statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Statements*. Selected explanatory notes are included to explain significant events and transactions that have occurred since December 31, 2013. These condensed consolidated interim financial statements do not contain all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual reporting purposes and should be read in conjunction with AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2013.

These condensed consolidated interim financial statements were approved and authorized for issue by the directors of the General Partner on August 14, 2014.

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on a historical cost basis.

(c) Functional and presentation currency:

AHIP and its subsidiaries use U.S. dollars as their functional and presentation currency.

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

- Monetary assets and liabilities are translated at current rates of exchange;
- Non-monetary assets and liabilities are translated at historical rates of exchange; and
- Revenues and expenses are translated at average rates of exchange for the period.

All exchange gains and losses are recognized in the condensed consolidated interim statements of comprehensive income (loss).

(d) 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 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.

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

For the three and six months ended June 30, 2014 and 2013

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

(d) Measurement uncertainty (use of estimates) (continued):

Significant areas of estimates include the following:

(i) Business combinations:

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

(ii) Depreciation and amortization:

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

3. Significant accounting policies:

(a) Significant accounting policies:

Except as described below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements as at and for the year ended December 31, 2013. The following changes in accounting policies are also expected to be reflected in AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2014.

(i) Changes in accounting standards:

AHIP has adopted the following new standard effective January 1, 2014:

(A) IFRIC 21, *Levies*:

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

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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4. Business combinations:

(a) Pittsburgh Portfolio:

The acquisition of the Pittsburgh Portfolio on November 21, 2013 has been accounted for as a business combination. The aggregate purchase price for the Pittsburgh Portfolio was \$57,671, of which \$20,377 was paid in cash from the October 2013 Offering and the balance was financed by the Pittsburgh Portfolio Term Loans as disclosed in note 10.

The purchase price has been allocated to the assets acquired and liabilities assumed as follows:

Property, buildings and equipment	\$	57,250
Working capital		417
Cash provided by seller		4
Net assets	\$	57,671
Financed by:		
Cash	\$	20,377
Pittsburgh Portfolio Term Loans		37,294
Total consideration	\$	57,671

There have been no changes to the allocation amounts previously reported.

(b) Virginia Portfolio:

The acquisition of the Virginia Portfolio on March 12, 2014 has been accounted for as a business combination. The aggregate purchase price for the Virginia Portfolio was \$37,126, of which \$13,259 was paid in cash and the balance was financed by the Virginia Portfolio Term Loans as disclosed in note 10.

The purchase price has been allocated on a preliminary basis to the assets acquired and liabilities assumed as follows:

Property, buildings and equipment	\$	37,200
Working capital		(77)
Cash provided by seller		3
Net assets	\$	37,126
Financed by:		
Cash	\$	13,259
Virginia Portfolio Term Loan		23,867
Total consideration	\$	37,126

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

For the three and six months ended June 30, 2014 and 2013

4. Business combinations (continued):

(b) Virginia Portfolio (continued):

There have been no changes to the allocation amounts previously reported.

Total business acquisition costs related to the purchase of the Virginia Portfolio were \$425 of which \$26 was expensed in the three months ended June 30, 2014, and \$304 was expensed in the six months ended June 30, 2014.

For the 111-day period from the date of the acquisition of the Virginia Portfolio to June 30, 2014, AHIP has recognized revenues of \$3,645 and income from operating activities of \$1,158 from the Virginia Portfolio. For the three months ended June 30, 2014, AHIP has recognized revenues of \$3,074 and income from operating activities of \$974 from the Virginia Portfolio. If the Virginia Portfolio had been acquired on January 1, 2014, the proforma revenues for the three and six months ended June 30, 2014, would have been \$3,074 and \$5,382, respectively, and the proforma income from operating activities for the three and six months ended June 30, 2014, would have been \$974 and \$1,512, respectively.

5. Restricted cash:

	June 30, 2014	December 31, 2013
Property improvement plans ("PIPs") reserve	\$ 11,901	\$ 6,000
Furniture, fixture and equipment reserve	385	-
Property tax reserve	174	-
	\$ 12,460	\$ 6,000

For each of the Pittsburgh Portfolio Term Loans and the Virginia Term Loan, AHIP funded a \$6,000 restricted cash reserve for brand mandated PIPs. In addition, both term loan facilities require AHIP to deposit reserves for ongoing furniture, fixture, and equipment expenses (based on 4% of gross revenues, but waived for the initial 12 months for three of the four properties in the Virginia Portfolio, and waived for the initial 24 months for the fourth property) and property taxes. These amounts are released to AHIP as the expenditures are incurred. During the three and six months ended June 30, 2014, \$103 was disbursed from the PIPs reserve related to the Pittsburgh Portfolio.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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6. Cash held in escrow:

On June 26, 2014, AHIP announced that it had agreed to purchase a portfolio of four branded hotel properties located in North Carolina and Georgia ("Southeastern Portfolio") for an aggregate purchase price of approximately \$30,500 before customary closing and post-acquisition adjustments. The acquisition transaction was completed in July 2014 as disclosed in note 21.

AHIP deposited \$15,675 in escrow accounts, which were subsequently credited towards the aggregate purchase price of the Southeastern Portfolio.

7. Property, buildings and equipment:

	Land	Buildings	Equipment	Automobiles	Leasehold improvements	Construction in progress	Total
Cost:							
Balance at January 1, 2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition of Oak Tree Inn Hotels	15,476	102,899	9,107	39	22	1,497	129,040
Acquisition of Pittsburgh Portfolio (note 4)	8,084	47,966	1,200	-	-	-	57,250
Additions	276	2,103	1,438	-	-	2,241	6,058
Transfers	176	3,042	520	-	-	(3,738)	-
Disposals	-	(36)	(139)	-	-	-	(175)
Balance at December 31, 2013	24,012	155,974	12,126	39	22	-	192,173
Acquisition of Virginia Portfolio (note 4)	3,935	30,848	2,417	-	-	-	37,200
Acquisition of Oak Tree Inn - Santa Teresa	228	4,457	445	-	-	-	5,130
Additions	-	495	618	-	-	-	1,113
Disposals	-	(172)	(123)	-	-	-	(295)
Balance at June 30, 2014	28,175	191,602	15,483	39	22	-	235,321
Accumulated depreciation:							
Balance at January 1, 2013	-	-	-	-	-	-	-
Depreciation	-	2,932	1,869	8	4	-	4,813
Disposals	-	(2)	(29)	-	-	-	(31)
Balance at December 31, 2013	-	2,930	1,840	8	4	-	4,782
Depreciation	-	2,690	1,461	5	3	-	4,159
Disposals	-	(8)	(40)	-	-	-	(48)
Balance at June 30, 2014	-	5,612	3,261	13	7	-	8,893
Net book value at June 30, 2014	\$ 28,175	\$ 185,990	\$ 12,222	\$ 26	\$ 15	\$ -	\$ 226,428
Net book value at December 31, 2013	\$ 24,012	\$ 153,044	\$ 10,286	\$ 31	\$ 18	\$ -	\$ 187,391

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For the three and six months ended June 30, 2014 and 2013

8. Mezzanine loans receivable:

On February 20, 2013, AHIP entered into an agreement with SunOne Developments Inc. ("SunOne"), a company controlled by a director of the General Partner, pursuant to which SunOne provides exclusive development services to subsidiaries of AHIP (the "Master Development Agreement"). See note 16(c) for additional information.

In accordance with the Master Development Agreement, AHIP may elect to finance (directly or indirectly) developments via a mezzanine loan subject to certain terms and conditions. Each of the mezzanine loans receivable is due twelve months from the date the related development property is substantially complete.

On May 1, 2014, AHIP acquired the hotel in Santa Teresa, New Mexico for a total purchase price of \$5,130. The purchase was financed by cash of \$355, a term loan of \$3,243, cancellation of the mezzanine loan receivable of \$532, and the issuance of \$1,000 in Units.

As at June 30, 2014 and December 31, 2013, AHIP had the following mezzanine loans receivable due from SunOne:

Properties under development	Expected completion date	Total mezzanine financing available	Annual interest rate	June 30, 2014 Mezzanine loan amount drawn	December 31, 2013 Mezzanine loan amount drawn
Santa Teresa, NM	Completed	\$ 650	10%	\$ -	\$ 291
Brunswick, MD	September 2014	392	10%	97	31
Glendive, MT	November 2014	638	10%	73	-
Wellington, KS	December 2014	931	10%	72	-
		\$ 2,611	10%	\$ 242	\$ 322

9. Intangible assets:

	Railway Agreements	Franchise Agreements	Total
Cost:			
Balance at January 1, 2013	\$ -	\$ -	\$ -
Acquisition of Oak Tree Inn Hotels	9,030	-	9,030
Additions	460	-	460
Acquisition of Pittsburgh Portfolio	-	485	485
Balance at December 31, 2013	9,490	485	9,975
Acquisition of Virginia Portfolio	-	448	448
Balance at June 30, 2014	\$ 9,490	\$ 933	\$ 10,423
Accumulated amortization:			
Balance at January 1, 2013	\$ -	\$ -	\$ -
Amortization	1,549	5	1,554
Balance at December 31, 2013	1,549	5	1,554
Amortization	901	32	933
Balance at June 30, 2014	\$ 2,450	\$ 37	\$ 2,487
Net book value at June 30, 2014	\$ 7,040	\$ 896	\$ 7,936
Net book value at December 31, 2013	\$ 7,941	\$ 480	\$ 8,421

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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10. Term loans:

	Note	June 30, 2014	December 31, 2013
Oak Tree Inn Hotel Loans including amendments	(a)	\$ 73,512	\$ 70,429
Pittsburgh Portfolio Term Loans	(b)	38,000	38,000
Virginia Portfolio Term Loan	(c)	24,500	-
		136,012	108,429
Unamortized portion of debt issuance costs		(2,208)	(1,687)
		133,804	106,742
Current portion of term loans		(3,850)	(3,534)
		\$ 129,954	\$ 103,208

(a) Oak Tree Inn Hotel Loans:

The Oak Tree Inn Hotel Loans consist of:

- (i) a \$70,000 term loan with a fixed interest rate of 4.85%, a five-year term maturing on February 20, 2018 and a 180 month amortization period. As at June 30, 2014, the principal balance on this term loan was \$65,902 (December 31, 2013 - \$67,579).
- (ii) an amendment providing an additional \$2,850 term loan with a 10-year term maturing on January 1, 2024, bearing interest at 4.00% per annum during the first five years of the term. The interest rate for the remainder of the term is a variable rate equal to the sum of the one-year constant maturity United States Treasury Department obligations plus 2.75%. The loan is being amortized over 180 months. As at June 30, 2014, the principal balance on this term loan was \$2,773 (December 31, 2013 - \$2,850).
- (iii) an amendment providing an additional \$1,612 term loan with a 5-year term maturing on May 1, 2019, bearing interest at 4.25% per annum. The loan is being amortized over 180 months. As at June 30, 2014, the principal balance on this term loan was \$1,606 (December 31, 2013 - nil).
- (iv) an amendment providing an additional \$3,243 term loan with a 10-year term maturing on May 1, 2024, bearing interest at 4.25% per annum. The loan is being amortized over 180 months with the first principal payment starting in June 2014. As at June 30, 2014, the principal balance on this term loan was \$3,231 (December 31, 2013 - nil).

The Oak Tree Inn Hotel Loans are secured by a first priority security interest on all business assets of two of AHIP's subsidiaries, Lodging Properties LLC and Lodging Enterprises LLC, including a first priority mortgage on each of the Oak Tree Inn Hotels.

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10. Term loans (continued):

(b) Pittsburgh Portfolio Term Loans:

On November 21, 2013, certain AHIP subsidiaries entered into loan agreements with a subsidiary of a major international bank, for a \$38,000 term loan for a term of 10 years maturing on December 6, 2023, at an interest rate of 5.02% per annum. The loans are being amortized over 360 months. The loans are interest only for the first three years of the term with the first principal payment starting in January 2017. The Pittsburgh Portfolio Term Loans are guaranteed by the U.S. REIT and the four Pittsburgh hotel properties are not cross-collateralized.

(c) Virginia Portfolio Term Loan:

On March 12, 2014, certain AHIP subsidiaries entered into a loan agreement with a subsidiary of a major international bank for a \$24,500 loan for a term of 10 years maturing on April 6, 2024, at an interest rate of 4.97% per annum. The loan is being amortized over 360 months. The loan is interest only for the first four years of the term with the first principal payment starting in May 2018. The Virginia Portfolio Term Loan is guaranteed by the U.S. REIT and is cross collateralized by the four Virginia hotel properties.

(d) Construction facility:

AHIP has an interest only construction facility loan with a floating interest rate based on the 30-day LIBOR plus 3.0% (with a minimum interest rate of 4.0%). This facility matures on February 20, 2015 and has a maximum available limit of \$4,000. Advances under the construction facility are available to finance up to 75% of approved project costs or 75% of project appraised value, whichever is less. As at June 30, 2014, there were no funds advanced under this facility (December 31, 2013 - nil).

(e) Fair value of term loans:

The fair value of AHIP's terms loan was determined using present value calculations based on market-observable interest rates for loans with similar terms and conditions. AHIP entered into new loan agreements with the same lenders as the Oak Tree Inn Hotel Loans and the Pittsburgh and Virginia Term Loans during the three months ended June 30, 2014 and subsequent to June 30, 2014; therefore, these transactions reflected the loan assumptions in pricing similar liabilities. The fair value of AHIP's term loans at June 30, 2014 was \$137,518 (December 31, 2013 - \$106,742).

Under the terms of the various loans, AHIP is required to maintain quarterly and annual debt covenants. As at June 30, 2014, AHIP was in compliance with all of its debt covenants.

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10. Term loans (continued):

Principal installments payable within the next five fiscal years and thereafter on the outstanding term loans are as follows:

2014	\$	1,897
2015		3,944
2016		4,131
2017		4,876
2018		54,239
Thereafter		66,925
	\$	136,012

11. Contingent consideration:

	June 30, 2014	December 31, 2013
Opening balance	\$ 5,085	\$ -
Acquisition of Oak Tree Inn Hotels	-	4,916
Accretion	101	169
Closing balance	\$ 5,186	\$ 5,085

Pursuant to the purchase agreement for the Oak Tree Inn Hotels on February 20, 2013, \$5,500 of the purchase price was subject to an earn-out provision, upon achievement of certain performance-based targets prior to December 31, 2015. To the extent earned, AHIP's indirect U.S. subsidiary has the option of paying such amount in cash or in AHIP Units, or a combination thereof, by January 20, 2016. This contingent consideration has been recorded at a present value of \$4,916 using a 4.0% discount rate. As at June 30, 2014, the contingent consideration balance was \$5,186 (December 31, 2013 - \$5,085) after accumulated accretion of \$270 (December 31, 2013 - \$169).

12. Preferred shares:

On January 17, 2014, the U.S. REIT completed a private placement offering of preferred shares in the U.S. REIT to 125 preferred shareholders for total offering proceeds of \$125. 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 statement of financial position. Consequently, any dividend payments are classified as interest expense on the condensed consolidated interim statement of comprehensive income (loss).

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13. Partners' capital:

Distribution policy:

AHIP intends to make monthly distributions to Unitholders of record on the last business day of each month. Distributions are paid on or about the 15th day following the end of each month.

AHIP declared distributions of Cdn\$0.225 (US\$0.20) per Unit to be paid to Unitholders for the three months ended June 30, 2014, totaling \$3,334 (June 30, 2013 - \$2,288), and Cdn\$0.45 (US\$0.40) per Unit for the six months ended June 30, 2014, totaling \$6,277 (June 30, 2013 - \$3,271). Of this amount, \$1,339 is included in accounts payable and accrued liabilities as at June 30, 2014.

14. Compensation plan:

On December 30, 2013, AHIP granted to certain employees a total of 123,800 Units at a grant price of \$9.87 per Unit (Cdn\$10.50 per Unit) with the following vesting dates:

	Number of units	Total fair value of Units at grant date
December 30, 2013	65,300	\$ 644
May 15, 2014	28,500	281
December 30, 2014	15,000	148
December 30, 2015	15,000	148
	123,800	\$ 1,221

	Number of units	Weighted average grant date fair value
Unvested, January 1, 2014	58,500	\$ 9.87
Granted	-	9.87
Vested	(28,500)	9.87
Unvested, June 30, 2014	30,000	\$ 9.87

For the three and six months ended June 30, 2014, a total of \$148 and \$390, respectively, in securities-based compensation expense was included in corporate and administrative expense.

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15. Finance costs:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest on Term Loans and Construction Facility	\$ 1,683	\$ 872	\$ 3,103	\$ 1,287
Amortization of debt issuance costs	128	38	220	68
Accretion of contingent consideration	51	49	101	70
Dividends on preferred shares	3	-	7	-
	\$ 1,865	\$ 959	\$ 3,431	\$ 1,425

16. Commitments:

(a) Operating leases:

AHIP and its subsidiaries have entered into operating leases for its office facility, office equipment and hotel automobiles. Future minimum lease payments under non-cancelable operating leases as of June 30, 2014 are as follows:

2014	\$ 186
2015	254
2016	193
2017	84
2018 and thereafter	-

(b) Lodging agreements:

The Oak Tree Inn Hotels have lodging agreements with several railway companies. Under these agreements, AHIP typically agrees to operate and maintain lodging and restaurant properties for the use of authorized railway employees. The agreements provide for a minimum number of rooms to be available, and they also specify certain quality, service, transportation, and insurance requirements to be provided by AHIP. AHIP receives a fixed rate per rented room. AHIP may rent the remaining rooms to the general public. These agreements have terms ranging from annual renewals to expirations in 2024.

(c) Mezzanine financing, deferred compensation and purchase commitments:

In 2013, AHIP entered into agreements with SunOne to purchase four Oak Tree Inn hotels and three Penny's Diners, each secured by a 10-year railway contract. These hotels will be financed and developed in accordance with the Master Development Agreement between SunOne and AHIP.

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16. Commitments (continued):

(c) Mezzanine financing, deferred compensation and purchase commitments (continued):

Two of these railway contracts meet the definition of a "Qualifying New Contract", as defined in the purchase agreement for the Oak Tree Inn Hotels. Each Qualifying New Contract may result in an additional compensation of \$250, up to a maximum of \$1,250, to be paid to the sellers of the Oak Tree Inn Hotels. As at June 30, 2014, the present value amount of \$460 in deferred compensation payable related to the signing of two railway contracts is reflected as a long-term liability in the condensed consolidated statement of financial position. The present value has been calculated using a 4.0% discount rate.

In addition to the mezzanine financing commitment to SunOne (as disclosed in note 8), AHIP has committed to purchase these completed properties at the following purchase prices:

Property under development	Expected completion date	Rooms	Committed purchase price	Total mezzanine financing available
Brunswick, MD	September 2014	25	2,755	392
Glendive, MT	November 2014	50	4,940	638
Wellington, KS	December 2014	110	7,410	931
		185	\$ 15,105	\$ 1,961

- (d) 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 condensed consolidated interim financial statements.

17. Related party transactions:

(a) Hotel Manager:

AHIP has entered into a hotel management agreement with various wholly owned subsidiaries of Tower Rock Hotels & Resorts Inc. (the "Hotel Managers"), a company indirectly controlled by a director of the General Partner to manage and operate the hotel properties.

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17. Related party transactions (continued):

(a) Hotel Manager (continued):

The operating subsidiaries of AHIP are responsible for reimbursing the Hotel Managers for any operating expenses and direct costs incurred with respect to the operations of the properties and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses. The hotel management agreements also provide for an amount equal to 3.5% of gross revenues to be paid to the Hotel Managers. The Hotel Managers are also entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures. In addition, commencing in fiscal 2014, the Hotel Managers are eligible to receive an incentive fee equal to 15.0% of the amount by which the gross operating profit of all hotels managed by the Hotel Managers, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the independent directors of the General Partner. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned.

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

AHIP recorded the following fees charged by the Hotel Manager in corporate and administrative expenses, of which \$84 is included in accounts payable and accrued liabilities at June 30, 2014 (December 31, 2013 - \$56):

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Management fees	\$ 789	\$ 476	\$ 1,392	\$ 678
Administration fees	184	122	344	173
Total fees expensed	\$ 973	\$ 598	\$ 1,736	\$ 851

In addition, capital management fees of \$23 and \$41 have been capitalized to property, buildings and equipment for the three and six months ended June 30, 2014, respectively.

During the three and six months ended June 30, 2014, the Hotel Manager incurred \$6,566 and \$12,319, respectively (\$5,270 and \$6,891 for the three and six months ended June 30, 2013, respectively) in expenses on behalf of the hotel properties during the normal course of operations, comprised primarily of payroll costs and other general and administrative costs such as travel and office expenses. Of this total, \$62 is included in accounts payable and accrued liabilities as at June 30, 2014 (December 31, 2013 - \$595).

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18. Supplemental cash flow disclosure:

Changes in non-cash operating working capital balances:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Trade and other receivables	\$ -	\$ (170)	\$ (818)	\$ (677)
Other assets	(94)	(9)	29	58
Prepays and deposits	(336)	194	(377)	(221)
Accounts payable and accrued liabilities	679	(1,726)	1,106	(913)
	\$ 249	\$ (1,711)	\$ (60)	\$ (1,753)

19. Segment reporting:

AHIP's operations consist of hotel real estate properties in the U.S. only. AHIP's operations are separated into operating and reportable segments based on the structure that AHIP maintains for making operating decisions and assessing performance. The two segments are: (i) the Oak Tree Inn Hotels that have railway lodging agreements; and (ii) the Branded Hotels that have franchise agreements. AHIP's corporate costs are not allocated to the segments.

The following provides segmented information as at and for the three and six months ended June 30, 2014:

	Oak Tree Inn Hotels	Branded Hotels	Corporate	Total
Total assets	\$ 153,558	\$ 144,703	\$ 6,316	\$ 304,577
Total liabilities	83,605	63,959	1,974	149,538

Income from operating activities for the three months ended June 30, 2014:

	Oak Tree Inn Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 14,828	\$ 7,713	\$ -	\$ 22,541
Hotel expenses	(12,117)	(5,090)	(29)	(17,236)
Income from operating activities	\$ 2,711	\$ 2,623	\$ (29)	\$ 5,305

Income from operating activities for the six months ended June 30, 2014:

	Oak Tree Inn Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 27,935	\$ 11,829	\$ -	\$ 39,764
Hotel expenses	23,315	8,088	30	31,433
Income from operating activities	\$ 4,620	\$ 3,741	\$ (30)	\$ 8,331

For the three and six months ended June 30, 2013, AHIP only had one operational segment, Oak Tree Inn Hotels as no Branded Hotels were acquired until the fourth quarter of 2013.

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20. Comparative information:

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

21. Subsequent events:

(a) Distributions:

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

(b) Additional mezzanine financing advanced to SunOne:

On July 7, 2014, AHIP advanced \$268 in additional mezzanine loans to SunOne pursuant to the Master Development Agreement with SunOne (as disclosed in note 8) for the following properties:

Properties under development	Total mezzanine financing available	As at June 30, 2014		As at August 14, 2014	
		Mezzanine loan amount drawn (note 8)	Additional loans drawn	Mezzanine loan amount drawn	Mezzanine financing available
Brunswick, MD	392	97	86	183	209
Wellington, KS	931	72	32	103	828
Glendive, MT	638	73	150	224	414
	\$ 1,961	\$ 242	\$ 268	\$ 510	\$ 1,451

(c) Acquisition of the Southeastern Portfolio:

AHIP acquired three of the hotels in the Southeastern Portfolio on July 3, 2014 and acquired the fourth hotel in this portfolio on July 11, 2014. The Southeastern Portfolio hotels are located in North Carolina and Georgia and consist of 387 guest rooms. The hotels consist of two Fairfield Inn & Suites (a Marriott brand), one Springhill Suites (a Marriott brand) and one Hampton Inn (a Hilton brand).

The Southeastern Portfolio was acquired for \$30,500 before customary closing and post-acquisition adjustments, excluding \$1,500 for the completion of the brand mandated property improvement plans, which will be completed by the seller for a fixed-price. AHIP funded the purchase price for the Southeastern Portfolio using a combination of cash from AHIP's June 2014 Offering, the assumption of CMBS debt on two of the hotel properties, and new CMBS debt on the remaining two hotels. The two assumed loans have principal balances of approximately \$7,700 and \$5,700, respectively, bear interest at 5.28% and 5.69%, and are scheduled to mature on February 1, 2024 and August 1, 2018, respectively. The new \$6,000 CMBS mortgage has a 10-year term with a fixed interest rate of 4.72% and matures on July 6, 2024.