

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, 2016 and 2015
(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, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents		\$ 8,193	\$ 13,222
Restricted cash	4	15,732	15,671
Trade and other receivables		4,678	4,385
Other assets		5,070	4,008
		33,673	37,286
Property, buildings and equipment	5	525,439	523,095
Intangible assets	7	11,287	12,702
Deferred income tax assets	8	5,224	4,320
		\$ 575,623	\$ 577,403

Liabilities and Partners' Capital

Current liabilities:			
Accounts payable and accrued liabilities		\$ 14,810	\$ 12,911
Current portion of term loans	9	4,464	2,893
Promissory note		-	5,900
Deferred compensation payable		250	163
		19,524	21,867
Term loans	9	297,585	293,092
Deferred compensation payable		485	607
Preferred shares		125	125
Fair value of interest rate swap contracts		4,671	894
Deferred income tax liabilities	8	1,434	1,151
		323,824	317,736
Partners' capital	10	251,799	259,667
		\$ 575,623	\$ 577,403

Commitments and contingencies

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See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended		Six months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenue:					
Rooms		\$ 40,480	\$ 30,660	\$ 76,892	\$ 56,588
Food and beverage		3,609	3,097	6,876	6,434
Rental and other		438	374	893	638
		44,527	34,131	84,661	63,660
Hotel expenses:					
Operating expenses		21,187	16,636	40,970	32,411
Energy		1,728	1,317	3,684	2,853
Property maintenance		2,049	1,493	4,065	2,951
Property taxes and insurance		1,454	1,178	3,849	3,218
Depreciation and amortization		5,944	4,345	11,774	8,569
		32,362	24,969	64,342	50,002
Income from operating activities		12,165	9,162	20,319	13,658
Corporate and administrative		2,978	2,378	6,270	4,269
Loss on disposal of property and equipment		15	89	35	113
Business acquisition costs		537	1,369	1,243	1,495
Income before undernoted		8,635	5,326	12,771	7,781
Finance income		(11)	(30)	(16)	(42)
Finance costs	12	4,880	2,970	11,157	5,783
Income before income taxes		3,766	2,386	1,630	2,040
Current tax expense		143	-	251	-
Deferred income tax expense (recovery)		130	-	(623)	-
Net income and comprehensive income		\$ 3,493	\$ 2,386	\$ 2,002	\$ 2,040
Basic and diluted net income per unit		\$ 0.10	\$ 0.08	\$ 0.06	\$ 0.08
Basic weighted average number of units outstanding		35,005,833	28,681,817	34,957,049	26,533,638
Diluted weighted average number of units outstanding		35,120,667	28,743,917	35,071,883	26,569,311

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Partners' Capital

(Unaudited)

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

Six months ended June 30, 2016 and 2015

	Notes	Units outstanding	General partner ¹	Limited partners	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2016		34,908,265	\$ -	\$ 297,604	\$ 129	\$ (38,066)	\$ 259,667
Securities-based compensation	11	-	-	-	170	-	170
Issuance of units under securities-based compensation plan		3,895	-	35	(35)	-	-
Issuance of units for hotel acquisitions, net of expenses	10(b)	173,599	-	1,361	-	-	1,361
Net income and comprehensive income		-	-	-	-	2,002	2,002
Distributions	10	-	-	-	-	(11,401)	(11,401)
Balance, June 30, 2016		35,085,759	\$ -	\$ 299,000	\$ 264	\$ (47,465)	\$ 251,799
Balance, January 1, 2015		24,335,563	\$ -	\$ 213,204	\$ 71	\$ (22,039)	\$ 191,236
Securities-based compensation	11	-	-	-	92	-	92
Issuance of units on public offering, net of expenses		6,181,250	-	52,032	-	-	52,032
Issuance of units for hotel acquisition		66,927	-	600	-	-	600
Net income and comprehensive income		-	-	-	-	2,040	2,040
Distributions	10	-	-	-	-	(10,076)	(10,076)
Balance, June 30, 2015		30,583,740	\$ -	\$ 265,836	\$ 163	\$ (30,075)	\$ 235,924

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,	June 30,	June 30,	June 30,
	Notes	2016	2015	2016	2015
Cash provided by (used in):					
Operating activities:					
Net income and comprehensive income		\$ 3,493	\$ 2,386	\$ 2,002	\$ 2,040
Interest paid		(3,566)	(2,847)	(6,724)	(5,526)
Items not affecting cash:					
Loss on disposal of property and equipment		15	89	35	113
Depreciation and amortization		5,944	4,345	11,774	8,569
Securities-based compensation expense	11	124	74	170	92
Deferred income tax expense (recovery)		130	-	(623)	-
Finance costs	12	4,880	2,970	11,157	5,783
		11,020	7,017	17,791	11,071
Changes in non-cash operating working capital	16	(305)	(2,843)	568	(4,522)
		10,715	4,174	18,359	6,549
Investing activities:					
Funding for (from) restricted cash reserves		163	(1,537)	(61)	1,367
Purchase of property, buildings and equipment		(3,976)	(4,715)	(5,697)	(6,431)
Franchise application fees paid		-	(510)	-	(510)
Acquisition of Branded Hotels, net of cash acquired		-	(53,220)	-	(53,220)
Acquisition of properties under development		(3,273)	-	(6,023)	(6,257)
Proceeds on disposal		-	-	8	-
		(7,086)	(59,982)	(11,773)	(65,051)
Financing activities:					
Units issued for cash on public offerings, net of expenses		-	52,032	-	52,032
Distributions paid		(5,792)	(3,763)	(11,357)	(8,196)
Proceeds from term loans		5,000	32,000	7,000	36,725
Payments on term loans		(789)	(1,071)	(1,096)	(2,133)
Payments on promissory note		(2,600)	-	(5,900)	-
Payments on deferred compensation		(38)	-	(38)	-
Mezzanine loans receivable advanced		-	-	-	(135)
Financing costs paid		(125)	(673)	(224)	(733)
		(4,344)	78,525	(11,615)	77,560
Increase (decrease) in cash and cash equivalents		(715)	22,717	(5,029)	19,058
Cash and cash equivalents, beginning of period		8,908	8,332	13,222	11,991
Cash and cash equivalents, end of period		\$ 8,193	\$ 31,049	\$ 8,193	\$ 31,049

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

1. Reporting entity:

American Hotel Income Properties REIT LP ("AHIP") is a limited partnership formed under the *Limited Partnerships Act* (Ontario) to invest in hotel real estate properties in the United States. AHIP was established pursuant to the terms of AHIP's Limited Partnership Agreement dated October 12, 2012 and amended on February 20, 2013 and June 9, 2015 ("Limited Partnership Agreement"). AHIP's head office and address for service is 1660 - 401 West Georgia Street, Vancouver, British Columbia, Canada, V6B 5A1.

AHIP has two operating segments: (i) Rail Hotels that have rail crew lodging agreements with large railway companies; and (ii) Branded Hotels that have franchise agreements with international hotel brands.

AHIP's units ("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.

2. Basis of presentation and statement of compliance:

(a) Statement of compliance:

These 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, 2015. 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, 2015.

These condensed consolidated interim financial statements were approved and authorized for issue by the Directors of the General Partner on August 9, 2016.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

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

(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 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 AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2015. There have been no changes to the amounts of the business combinations and the allocation of the purchase price as previously disclosed in the annual audited consolidated financial statements as at and for the year ended December 31, 2015.

3. Significant accounting policies:

(a) Significant accounting policies:

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, 2015.

(b) Comparative information:

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

4. Restricted cash:

	June 30, 2016	December 31, 2015
Property improvement plans ("PIPs") reserve	\$ 10,456	\$ 12,242
Furniture, fixture and equipment ("FF&E") reserve	2,130	1,422
Property tax reserve	2,489	1,729
Other reserves	657	278
	\$ 15,732	\$ 15,671

For each of the Branded Hotel portfolios, AHIP has funded restricted cash reserves for brand mandated PIPs arising from the purchase of these properties. In addition, term loans related to these acquisitions require AHIP to deposit reserves for ongoing FF&E expenses, property taxes and other obligations such as insurance premiums and other reserves. These amounts are released to AHIP as the expenditures are incurred or paid directly to the service provider. For certain hotels, AHIP has obtained FF&E reserve waivers from the respective lenders for periods up to 24 months.

5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction in-progress	Total
Cost:					
Balance, January 1, 2015	\$ 39,833	\$ 328,366	\$ 28,093	\$ 5,390	\$ 401,682
Acquisitions	10,533	120,519	3,588	-	134,640
Additions	740	1,447	2,960	13,795	18,942
Transfers	-	14,110	4,361	(18,471)	-
Disposals	-	(472)	(192)	-	(664)
Balance, December 31, 2015	51,106	463,970	38,810	714	554,600
Acquisition (note 6)	772	1,790	188	-	2,750
Additions	-	590	1,752	7,646	9,988
Transfers	-	4,967	600	(5,567)	-
Disposals	(14)	(4)	(94)	-	(112)
Balance, June 30, 2016	\$ 51,864	\$ 471,313	\$ 41,256	\$ 2,793	\$ 567,226

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

5. Property, buildings and equipment (continued):

	Land	Buildings	Equipment	Construction in-progress	Total
Accumulated depreciation:					
Balance, January 1, 2015	\$ -	\$ 9,277	\$ 5,173	\$ -	\$ 14,450
Depreciation	-	10,927	6,263	-	17,190
Disposals	-	(18)	(117)	-	(135)
Balance, December 31, 2015	-	20,186	11,319	-	31,505
Depreciation	-	6,734	3,625	-	10,359
Disposals	-	-	(77)	-	(77)
Balance, June 30, 2016	\$ -	\$ 26,920	\$ 14,867	\$ -	\$ 41,787
Net book value, June 30, 2016	\$ 51,864	\$ 444,393	\$ 26,389	\$ 2,793	\$ 525,439
Net book value, December 31, 2015	\$ 51,106	\$ 443,784	\$ 27,491	\$ 714	\$ 523,095

6. Business combinations:

On January 8, 2016, AHIP acquired a 133-room rail crew hotel in Lincoln, Nebraska for an aggregate purchase price of \$2,751 which was paid for in cash. The purchase price was allocated to the assets acquired and liabilities assumed as follows:

Property, buildings and equipment	\$ 2,750
Cash acquired	1
Net assets	\$ 2,751
Financed by:	
Cash	\$ 2,751
Total consideration	\$ 2,751

For the 173-day period from the acquisition date to June 30, 2016, AHIP recognized revenues of \$382 and a loss from operating activities of \$22. If this property had been acquired on January 1, 2016, the proforma revenues for the three and six months ended June 30, 2016 would have been \$220 and \$394, respectively. The proforma income from operating activities for the three months ended June 30, 2016 would have been \$7 and the proforma loss from operating activities for the six months ended June 30, 2016 would have been \$22.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

7. Intangible assets:

	Railway agreements	Contract signing fees	Franchise agreements	Total
Cost:				
Balance, January 1, 2015	\$ 9,030	\$ 460	\$ 2,210	\$ 11,700
Branded Hotel franchise fees	-	-	950	950
Acquisition of Railway Portfolio	5,825	-	-	5,825
Balance, December 31, 2015	14,855	460	3,160	18,475
Balance, June 30, 2016	\$ 14,855	\$ 460	\$ 3,160	\$ 18,475
Accumulated amortization:				
Balance, January 1, 2015	\$ 3,352	\$ 46	\$ 95	\$ 3,493
Amortization	2,024	46	210	2,280
Balance, December 31, 2015	5,376	92	305	5,773
Amortization	1,263	22	130	1,415
Balance, June 30, 2016	\$ 6,639	\$ 114	\$ 435	\$ 7,188
Net book value, June 30, 2016	\$ 8,216	\$ 346	\$ 2,725	\$ 11,287
Net book value, December 31, 2015	\$ 9,479	\$ 368	\$ 2,855	\$ 12,702

8. Deferred income taxes:

The analysis of deferred tax assets and deferred tax liabilities as at June 30, 2016 and December 31, 2015 is as follows:

	June 30, 2016	December 31, 2015
Deferred tax assets:		
Non capital losses carried forward	\$ 3,131	\$ 2,439
Intangible assets	2,028	1,784
Other	65	97
	\$ 5,224	\$ 4,320
Deferred tax liabilities:		
Deferred compensation payable	\$ (54)	\$ (54)
Property, buildings and equipment	(1,380)	(1,097)
	\$ (1,434)	\$ (1,151)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

8. Deferred income taxes (continued):

As at June 30, 2016, AHIP had net operating losses for tax purposes totaling \$8,322 (December 31, 2015 - \$6,414) which may be carried forward for up to 20 years from the date of origination and applied against future taxable income.

9. Term loans:

	Notes	June 30, 2016	December 31, 2015
Rail Hotel loans	(a)	\$ 86,745	\$ 82,710
Railway Portfolio term loan		20,000	20,000
Branded Hotel loans	(b)	202,004	200,136
		308,749	302,846
Unamortized portion of mark-to-market adjustment		343	381
Unamortized portion of deferred financing costs		(7,043)	(7,242)
		302,049	295,985
Current portion of term loans		(4,464)	(2,893)
		\$ 297,585	\$ 293,092

As at June 30, 2016, the term loans had a weighted average effective interest rate of 4.56% (December 31, 2015 - 5.13%) and are secured by AHIP's hotel properties.

During the six months ended June 30, 2016, the following transactions occurred:

(a) Rail Hotel loans:

The Rail Hotel loans were amended on June 21, 2016 to provide for additional \$5,000 term loan secured by certain rail crew hotels (the "2016 Term Loan"). The 2016 Term Loan matures on February 1, 2023, has a variable interest rate based on the 30-day LIBOR rate plus 2.80% and is being amortized over 212 months. Concurrent with the new loan, AHIP entered into an interest rate swap agreement effective July 1, 2016 to fix the interest rate on the 2016 Term Loan at 4.10%. As at June 30, 2016, the total principal balance of the Rail Hotel loans was \$86,745 (December 31, 2015 - \$82,710).

(b) Branded Hotel loan:

On March 29, 2016, AHIP obtained a \$2,000 term loan secured by a hotel property located in Norman, Oklahoma. The loan has a 5-year term maturing on April 1, 2021. The loan has a variable interest rate based on the 30-day LIBOR rate plus 2.80% and is being amortized over 240 months. As at June 30, 2016, the principal balance on this term loan was \$1,983 (December 31, 2015 - nil).

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

9. Term loans (continued):

(c) Principal payments:

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

2016	\$ 1,981
2017	5,056
2018	10,582
2019	5,745
2020	5,996
Thereafter	279,389
	<hr/>
	\$ 308,749

As at June 30, 2016, AHIP was in compliance with all of its loan agreements.

10. Partner's capital:

(a) Authorized:

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

(b) Issued:

On April 1, 2016 and June 2, 2016, AHIP issued 59,088 Units at a price of Cdn\$10.44 (\$8.04) per Unit and 114,511 Units at a price of Cdn\$10.27 (\$7.86) per Unit, respectively, as partial consideration for the purchase of two rail crew hotel expansions (note 14(b)).

As at June 30, 2016 and December 31, 2015, total offering costs since inception of \$22,278 and \$22,264, respectively, have been deducted from partners' capital.

(c) Distribution policy:

AHIP intends to declare 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 the General Partner may determine.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

10. Partner's capital (continued):

(c) Distribution policy (continued):

On January 22, 2016, AHIP announced that effective with the April 2016 distribution it will be paying its monthly distribution in U.S. dollars based on the closing Canada-U.S. exchange rate on January 22, 2016. Effective April 2016 and commencing with the distribution payable on May 13, 2016, AHIP began paying monthly cash distributions of \$0.054 per Unit to Unitholders, which is equivalent to \$0.648 per Unit on an annualized basis. Prior to April 1, 2016, AHIP was paying monthly cash distributions of Cdn\$0.075 per Unit to Unitholders, which was equivalent to Cdn\$0.90 per Unit on an annualized basis.

For the three months ended June 30, 2016, AHIP declared distributions to be paid to Unitholders of \$0.162 per Unit (June 30, 2015 - Cdn\$0.225 (\$0.184) per Unit) totaling \$5,693 (June 30, 2015 - \$5,642) and \$0.325 per Unit (June 30, 2015 - Cdn\$0.450 (\$0.366) per Unit) for the six months ended June 30, 2016, totaling \$11,401 (June 30, 2015 - \$10,076). Of this amount, \$1,925 was included in accounts payable and accrued expenses (December 31, 2015 - \$1,906).

11. Compensation plan:

On March 30, 2016, as part of the 2016 Unit Grant under the Securities-based Compensation Plan, AHIP granted a total of 72,585 Units to certain employees with the following vesting dates:

Vesting dates	Number of units	Total fair value of units at grant date
December 15, 2016	10,354	\$ 84
March 15, 2017	5,535	45
December 15, 2017	10,354	84
March 15, 2018	5,535	45
December 14, 2018	17,644	143
March 15, 2019	23,163	175
Total Units granted	72,585	\$ 576

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

11. Compensation plan (continued):

A summary of the details of the Units granted is as follows:

	Number of units	Weighted average grant date fair value
Unvested, January 1, 2015	15,000	\$ 9.87
Granted	53,765	8.72
Vested	(22,249)	(9.49)
Unvested, December 31, 2015	46,516	8.72
Granted	72,585	8.11
Vested	(3,895)	(8.81)
Cash-settled	(372)	(8.81)
Unvested, June 30, 2016	114,834	\$ 8.16

For the three and six months ended June 30, 2016, a total of \$124 and \$170 in securities-based compensation expense was included in corporate and administrative expense (\$74 and \$92 for the three and six months ended June 30, 2015, respectively).

12. Finance costs:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Amortization of mark-to market adjustments	\$ (18)	\$ (18)	\$ (38)	\$ (36)
Dividends on preferred shares	4	4	8	8
Accretion of deferred compensation	2	6	4	11
Accretion of contingent consideration	-	47	-	105
Amortization of deferred financing costs	218	139	425	198
Change in fair value of interest rate swap contracts	1,129	-	3,777	-
Interest expense	3,545	2,792	6,981	5,497
	\$ 4,880	\$ 2,970	\$ 11,157	\$ 5,783

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

13. Commitments and contingencies:

(a) Operating leases:

AHIP and its subsidiaries have entered into operating leases for its office facility, office equipment and automobiles. Future minimum lease payments under non-cancelable operating leases as of June 30, 2016 are as follows:

2016	\$	424
2017		526
2018		263
2019		83
2020		8
Thereafter		-
		<hr/>
		\$ 1,304

(b) Lodging facility agreements:

The Rail Hotels have lodging facility 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 in return for 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 2025.

(c) Brand Mandated Property Improvement Plans ("PIPs"):

Under the terms of AHIP's franchise agreements for its Branded Hotels, AHIP is required to complete PIPs. 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 dispersed in the ordinary course of business.

14. Related party transactions:

(a) Hotel Manager:

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and six months ended June 30, 2016 and 2015

14. Related party transactions (continued):

(a) Hotel Manager (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 hotel management agreements provide for payment of the following amounts to the Hotel Manager: a base management fee equal to 3.5% of gross revenues; a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures; an annual administration fee of \$25 for each property; and an incentive management fee if certain thresholds are met. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned.

AHIP recorded the following fees charged by the Hotel Manager in corporate and administrative expenses.

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Management fees	\$ 1,561	\$ 1,216	\$ 2,963	\$ 2,250
Administration fees	500	351	978	661
Total fees expensed	\$ 2,061	\$ 1,567	\$ 3,941	\$ 2,911

Capital expenditure fees of \$192 and \$271 for the three and six months ended June 30, 2016, respectively, (\$223 and \$310 for the three and six months ended June 30, 2015, respectively) were capitalized to property, buildings and equipment.

For the three and six months ended June 30, 2016 and 2015, the Hotel Manager did not qualify for any incentive fees and no incentive fee amounts have been recorded.

In addition, during the three and six months ended June 30, 2016, the Hotel Manager was reimbursed \$12,089 and \$23,685, respectively, from the hotel properties for general and administrative costs such as wages, insurance, travel, and office supplies (\$9,508 and \$18,783 for the three and six months ended June 30, 2015, respectively).

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

Three and six months ended June 30, 2016 and 2015

14. Related party transactions (continued):

(b) Acquisition of Oak Tree Inn Hotels from SunOne:

Pursuant to the Master Development Agreement ("Development Agreement") with SunOne Developments Inc. ("SunOne"), a company affiliated with the Chief Executive Officer and a director of the General Partner to develop suitable hotel properties, AHIP paid SunOne during 2016 for the completion of room expansions at two existing Oak Tree Inn Hotels as follows:

	Hearne	Hermiston	Total
Property and equipment	\$ 2,400	\$ 1,900	\$ 4,300
Financed by:			
Cash	\$ 1,685	\$ 905	\$ 2,590
Holdback	240	95	335
Issuance of AHIP Units	475	900	1,375
	\$ 2,400	\$ 1,900	\$ 4,300

(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 three and six months ended June 30, 2016 was \$361 and \$700, respectively, (\$517 and \$715 for the three and six months ended June 30, 2015, respectively), which included securities-based compensation expense of \$124 for the three months ended June 30, 2016 (three months ended June 30, 2015 - \$74) and \$170 for the six months ended June 30, 2016 (six months ended June 30, 2015 - \$92).

15. Financial instruments:

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

The fair value of AHIP's term loans was determined using present value calculations based on market-observable interest rates for loans with similar terms and conditions and are considered Level 2 financial instruments. The fair value of AHIP's term loans at June 30, 2016 was \$310,502 (December 31, 2015 - \$297,263).

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15. 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 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. Since the LIBOR rate swap curve is an observable input, these financial instruments are considered Level 2.

There have been no transfers between levels during the year.

16. Supplemental cash flow disclosure:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Changes in non-cash operating working capital:				
Accounts payable and accrued liabilities	\$ (356)	\$ (424)	\$ 1,923	\$ (2,045)
Other assets	26	(1,686)	(1,062)	(1,533)
Trade and other receivables	25	(733)	(293)	(944)
	\$ (305)	\$ (2,843)	\$ 568	\$ (4,522)

17. Segment reporting:

AHIP's operations consist of hotel properties in the U.S. only. AHIP structures its operations in two operating and reportable segments based on the way that AHIP organizes its operations for making operating decisions and assessing performance. AHIP's corporate costs are not allocated to the segments.

The following provides segmented information as at June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and June 30, 2015:

June 30, 2016	Rail Hotels	Branded Hotels	Corporate	Total
Total assets	\$ 215,338	\$ 357,749	\$ 2,536	\$ 575,623
Total liabilities	114,171	206,332	3,321	323,824

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Three and six months ended June 30, 2016 and 2015

17. Segment reporting (continued):

December 31, 2015	Rail Hotels	Branded Hotels	Corporate	Total
Total assets	\$ 211,288	\$ 362,005	\$ 4,110	\$ 577,403
Total liabilities	111,570	203,152	3,014	317,736

Income (loss) from operating activities for the three months ended June 30, 2016:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 18,288	\$ 26,239	\$ -	\$ 44,527
Hotel expenses	13,869	18,488	5	32,362
Income (loss) from operating activities	\$ 4,419	\$ 7,751	\$ (5)	\$ 12,165

Income (loss) from operating activities for the three months ended June 30, 2015:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 14,918	\$ 19,213	\$ -	\$ 34,131
Hotel expenses	11,710	13,249	10	24,969
Income (loss) from operating activities	\$ 3,208	\$ 5,964	\$ (10)	\$ 9,162

Income from operating activities for the six months ended June 30, 2016:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 35,292	\$ 49,369	\$ -	\$ 84,661
Hotel expenses	27,668	36,683	(9)	64,342
Income from operating activities	\$ 7,624	\$ 12,686	\$ 9	\$ 20,319

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17. Segment reporting (continued):

Income (loss) from operating activities for the six months ended June 30, 2015:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 29,529	\$ 34,131	\$ -	\$ 63,660
Hotel expenses	24,284	25,708	10	50,002
Income (loss) from operating activities	\$ 5,245	\$ 8,423	\$ (10)	\$ 13,658

18. Subsequent events:

(a) Completion of Cdn\$103,500 Offering on July 26, 2016 (the "Offering"):

On July 26, 2016, AHIP completed a public offering of 10,000,400 Units, on a bought deal basis, at a price of Cdn\$10.35 per Unit, for total gross proceeds of Cdn\$103,500 (\$78,300). Included in the offering were 1,304,400 Units from a full exercise of the over-allotment option. As described in the short form prospectus dated July 18, 2016 (the "Prospectus"), AHIP intends to use the net proceeds of the offering to: (i) partially fund the potential acquisition of two high-quality Embassy Suites by Hilton branded hotels (note 18(b)); (ii) partially fund the potential acquisition of a nine-property, branded hotel portfolio; (iii) partially fund the potential acquisition of two rail crew lodging facilities; and (iv) fund working capital and for general corporate purposes.

(b) Acquisition:

On July 13, 2016 AHIP announced that it has agreed to acquire two Embassy Suites by Hilton hotels located in Dallas, Texas and Tempe, Arizona consisting of 529 total guestrooms for an aggregate purchase price of approximately \$57,600, excluding an estimated \$5,700 in brand mandated PIPs and post-closing adjustments. AHIP will fund the purchase price, including the PIPs, using a combination of a portion of the net proceeds from the Offering, the issuance to the vendors of approximately \$17,400 in new Units, the assumption of an existing \$19,000 commercial mortgage backed securities ("CMBS") loan on the Dallas property, and a new \$13,500 CMBS loan on the Tempe property. The Units will be issued based on the 10-day volume weighted average trading price prior to the closing of the transaction and will be subject to a four-month hold period. The transaction is expected to close in early September 2016. Two directors of the general partners of AHIP have indirect interests in the acquisition of the Embassy Suite hotels.

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18. Subsequent events (continued):

(b) Acquisition (continued):

In conjunction with this transaction, on August 5, 2016, AHIP advanced a \$10,200 Bridge Loan ("Bridge Loan") to the vendor of the Embassy Suites Tempe Hotel ("Tempe Hotel"). The Bridge Loan is an interest-only loan with an interest rate of 8.0% and a term of 60 days with an option to extend for a further 90 days and will be repaid upon the completion of the Tempe Hotel acquisition. The Bridge Loan is secured by the Tempe Hotel.

(c) Distribution:

On July 15, 2016 AHIP announced a cash distribution of \$0.054 per Unit for the period of July 1, 2016 to July 31, 2016, which is equivalent to \$0.648 per Unit on an annualized basis. The distribution will be paid on August 12, 2016 to unitholders of record at the close of business on July 29, 2016.