MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS AND OPERATIONS AND FINANCIAL CONDITION
For the three and six months ended June 30, 2016
(Expressed in U.S. Dollars)

Dated: August 9, 2016

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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FORWARD-LOOKING DISCLAIMER

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("**MD&A**") contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements). Forward-looking statements generally can be identified by words such as "anticipate", "believe", "continue", "expect", "estimates", "intend", "may", "outlook", "objective", "plans", "should", "will" and similar expressions suggesting future outcomes or events. Forward-looking-statements include, but are not limited to, statements made or implied relating to the objectives of American Hotel Income Properties REIT LP ("**AHIP**"), AHIP's strategies to achieve those objectives and AHIP's beliefs, plans, estimates, projections and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Some specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to: references to potential expansion and conversion of the Oak Tree Inn rail crew hotels; the expectations of STR (as defined below) with respect to key performance indicators in the U.S. hotel and lodging industry; the expectations of AAA (as defined below) with respect to leisure travel levels in the U.S. and AHIP management's expectations of the related impact on lodging demand for the Branded Hotels (as defined below); the expected use of the net proceeds from the July 2016 Offering (as defined below), including without limitation, to partially fund the acquisition of the Embassy Suites Portfolio; the expected timing of completion of the acquisition of the Embassy Suites Portfolio; AHIP management's expectation that recent tightening of U.S. hotel lending criteria may result in fewer, high leverage portfolio buyers; AHIP management's expectation that AHIP's properties will continue to outperform competitive sets; AHIP management's expectations and outlook with respect to RevPAR (as defined below), ADR (as defined below), lodging demand, occupancy rates, cash flows from hotel operations, real estate values and other key performance indicators; AHIP management's expectations with respect to how it will pay expenses, service debt and pay distributions to unitholders if cash flow from operations is insufficient to cover such obligations in a given quarter; the expansion of the Oak Tree Inn hotel in North Platte, Nebraska and the expected cost and completion timing therefore; expected ongoing impact of low oil prices on the U.S. hotel and lodging industry and on AHIP's future performance particularly on AHIP's Oklahoma hotels; expectations for the Pittsburgh and Oklahoma hotel markets; AHIP management's expectation that AHIP's strategy of capturing non-rail, commercial room night demand for the Oak Tree Inn hotels will continue to generate higher ADR-related room nights and NOI Margins (as defined below); expected terms of future debt financings; AHIP's ability to repay maturing debt; the expected maturities and amortization periods on future long term debt; the timing and amount of payments under term loans, operating leases and deferred compensation; the timing of the first principal repayment under the 2016 Oak Tree Inn Term Loan (as defined below); the expected guaranteed room night revenue from its railway customers; the expected impacts of AHIP's investment in yield management technology in the latter half of 2016; the expected timing of payment of funds deposited with AHIP's lenders for PIP reserves and FF&E Reserves (each as defined below); AHIP's intention to make capital investments or improvements in its Branded Hotels and Rail Hotels (as defined below); AHIP's intention to make expenditures necessary to comply with loan and franchisor requirements and otherwise to optimize operating performance; the targeted date for completion of the design of the DC&P and ICFR (as defined) for certain Branded Hotels and the Rail Hotels acquired within the 12 months prior to June 30, 2016; AHIP's intention to maintain total indebtedness at approximately 50% to 55% of AHIP's Gross Book Value; management's intention to obtain additional equity financing and/or secured debt financing with similar interest rates and terms as past financings to meet AHIP's planned growth strategy; AHIP's intention to provide stable, sustainable and growing cash flows through operation of its properties and AHIP's other stated objectives; the switch to the payment of U.S. dollar denominated monthly cash distributions and the timing thereof; and, AHIP's intention to declare regular monthly cash distributions and the expected timing of the record and payment dates for monthly distributions.

Although AHIP believes that the expectations reflected in the forward-looking information contained in this MD&A are reasonable, AHIP can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this MD&A as well as the following: critical accounting estimates; capital markets will provide AHIP with readily available access to equity and/or debt financing on terms acceptable to AHIP; AHIP's future level of indebtedness and AHIP's future growth potential will remain consistent with AHIP's current expectations; there will be no changes to tax laws adversely affecting AHIP's financing capability, operations, activities, structure or distributions; the useful lives of AHIP's assets being consistent with management's estimates therefore; the easing of volume declines by AHIP's largest railway customers will continue throughout the remainder of 2016; the U.S. REIT (as defined below) will continue to qualify as a real estate investment trust for U.S. federal income tax purposes; the SIFT measures in the Tax Act (as defined below) will continue to not apply to AHIP; AHIP will retain and continue to attract qualified and knowledgeable personnel as AHIP expands its portfolio and business; the impact of the current economic climate and the current global financial conditions on AHIP's operations, including AHIP's financing capability and asset value, will remain consistent with AHIP's current expectations; there will be no material changes to government and environmental regulations adversely affecting AHIP's operations; and conditions in the international and, in particular, the U.S. hotel and lodging industry, including competition for acquisitions, will be consistent with the current economic climate.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. In addition, forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results. Those risks and uncertainties include, among other things, risks related to: general economic conditions and consumer confidence; the growth in the U.S. hotel and lodging industry; prices for the Units (as defined below); liquidity; tax risks; ability to access debt and capital markets; financing risks; changes in interest rates; real property risks, including environmental risks; the degree and nature of competition; ability to acquire accretive hotel investments; ability to integrate new hotels; construction of new hotels; renewal of rail crew lodging contracts; environmental matters; and changes in legislation. Additional information about risks and uncertainties is contained in this MD&A and in AHIP's annual information form ("**AIF**") for the year ended December 31, 2015, a copy of which is available on SEDAR at www.sedar.com.

The forward-looking information contained in this MD&A is expressly qualified in its entirety by these cautionary statements. All forward-looking statements in this MD&A are made as of August 9, 2016. AHIP does not undertake any obligation to update any such forward looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

BASIS OF PRESENTATION

This MD&A for the three and six months ended June 30, 2016 has been prepared and includes material financial information as of August 9, 2016. This MD&A should be read in conjunction with AHIP's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2016 and 2015 and audited consolidated financial statements for the years ended December 31, 2015 and 2014, prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

All amounts presented in this MD&A are in United States dollars ("**U.S. dollars**"), unless otherwise noted.

Additional information relating to AHIP, including its AIF for the year ended December 31, 2015, is available on SEDAR at www.sedar.com.

The Board of Directors of AHIP's general partner, American Hotel Income Properties REIT (GP) Inc. (the "**General Partner**"), upon recommendation of its Audit Committee, approved the contents of this MD&A for release on August 9, 2016.

THIRD PARTY INFORMATION

This MD&A includes market information, industry data and forecasts obtained from independent industry publications, market research and analyst reports, surveys and other publicly available sources. Although AHIP management believes these sources to be generally reliable, market and industry data is subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey.

Accordingly, the accuracy and completeness of this data are not guaranteed. AHIP has not independently verified any of the data from third party sources referred to in this MD&A nor ascertained the underlying assumptions relied upon by such sources.

NON-IFRS MEASURES

AHIP has included certain non-IFRS financial measures throughout this MD&A. Management believes that in addition to conventional measures prepared in accordance with IFRS, investors in the real estate and lodging industries use these non-IFRS financial measures to evaluate AHIP's performance, its ability to generate cash flows and its financial condition. Accordingly, these non-IFRS financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for performance measures prepared in accordance with IFRS. These terms are not measures recognized under IFRS; as a result, they do not have standardized meanings prescribed by IFRS and may not be comparable to measures used by other issuers in the real estate or lodging industries. The non-IFRS financial measures used in this MD&A include debt-to-gross book value, funds from operations, adjusted funds from operations, Diluted FFO per Unit, Diluted AFFO per Unit, gross operating profit, net operating income, earnings before interest, taxes, depreciation and amortization, interest coverage ratio, same property metrics and payout ratio.

a) Debt-to-Gross Book Value

AHIP believes that debt-to-gross book value is an important supplemental measure of financial condition. Debt-to-gross book value is a compliance measure pursuant to AHIP's Limited Partnership Agreement meant to limit AHIP's financial leverage.

"**Debt**" means the face value (excluding deferred financing costs, unamortized mark-to-market adjustments and interest rate swap contracts) of revolving lines of credit, term loans, promissory note, contingent consideration and deferred compensation payable.

"**Gross Book Value**" means, at any time, the book value of the total assets of AHIP and its consolidated subsidiaries, as shown on its then most recent consolidated statement of financial position, plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets) shown thereon or in the notes thereto, less: (i) the amount of any receivable reflecting interest rate subsidies on any debt assumed by AHIP; and (ii) deferred income tax liabilities arising out of fair value adjustments in respect of indirect acquisitions. "**Debt-to-Gross Book Value**" is the ratio of Debt divided by Gross Book Value.

b) Funds from Operations ("**FFO**") and Adjusted Funds from Operations ("**AFFO**")

AHIP believes FFO and AFFO are important measures of operating performance of real estate properties. In addition, AHIP believes that AFFO is indicative of AHIP's ability to pay distributions.

FFO is not defined under IFRS and should not be considered as an alternative to net income (loss), cash flow from operations, or any other operating measure prescribed under IFRS. AHIP calculates FFO in accordance with the Real Property Association of Canada ("**REALpac**") White Paper on Funds from Operations as revised April 2014. FFO is defined as net income (loss) and comprehensive income (loss) calculated in accordance with IFRS excluding: (i) depreciation and amortization; (ii) gains (or losses) from sales of hotel properties and equipment; (iii) business acquisition costs related to the purchase of a property being accounted for as a business combination; (iv) deferred income tax expense (recovery); (v) foreign exchange gains and losses on monetary items such as loans and receivables due to a net investment in a foreign operation; (vi) fair value adjustments to financial instruments; and (vii) adjustments for property taxes accounted for under IFRIC 21 *Levies* ("**IFRIC 21**"), an interpretation of the requirements under IFRS in IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets* for the recognition of liabilities for obligations to pay levies and taxes.

AFFO is not defined under IFRS and may not be comparable to AFFO used by other issuers. AHIP has defined AFFO as FFO subject to certain adjustments including: (i) amortization of deferred financing costs; (ii) amortization of mark-to-market adjustments on assumed term loans; (iii) accretion of contingent consideration; (iv) accretion of deferred compensation payable; (v) securities-based compensation; and (vi) deducting FF&E Reserves (as defined below) for normalized maintenance capital expenditures. Other adjustments may be made to AFFO as determined by the General Partner at its discretion. Upon the acquisition of certain hotels, AHIP has negotiated FF&E Reserve waivers with its lenders for periods of up to 24 months and has not factored in the benefit of these FF&E Reserve waivers in calculating AFFO.

c) Gross Operating Profit ("**GOP**") and Net Operating Income ("**NOI**")

AHIP believes GOP and NOI are important measures of operating performance of real estate properties.

GOP is defined as total revenues less hotel operating expenses, energy and property maintenance (excluding depreciation and amortization).

NOI is defined as GOP less property taxes and insurance (excluding depreciation and amortization).

AHIP calculates "**GOP Margin**" as GOP divided by total revenues. AHIP calculates "**NOI Margin**" as NOI divided by total revenues.

d) Earnings before interest, taxes, depreciation and amortization ("**EBITDA**")

AHIP calculates EBITDA as NOI less corporate and administrative expenses.

AHIP calculates "**EBITDA Margin**" as EBITDA divided by total revenues.

e) Interest Coverage Ratio

AHIP calculates the "**Interest Coverage Ratio**" as EBITDA for the period divided by interest expensed during the period. Specifically, interest expense is computed as net finance costs less non-cash items including accretion of contingent consideration, accretion of deferred compensation payable, amortization of deferred financing costs, amortization of mark-to-market adjustments on assumed term loans, and changes in fair values of interest rate swap contracts. The Interest Coverage Ratio is a measure of AHIP's ability to service the interest requirements of its outstanding debt.

f) Same Property Metrics

Same property metrics represent operating results for the same properties over comparable reporting periods, and is intended to measure the period-over-period performance of the same asset base. A property must be owned for the entire year for inclusion in this metric. These metrics exclude the impact of properties that have been acquired during the comparable reporting periods.

g) Payout Ratio

AHIP calculates its "**Payout Ratio**" or "**AFFO Payout Ratio**" as distributions declared divided by AFFO for the period.

OPERATIONAL METRICS

a) Furniture, Fixtures and Equipment Reserves ("**FF&E Reserves**")

FF&E Reserves are calculated as three percent of room revenues for the Rail Hotel portfolio and four percent of total revenues for the Branded Hotel portfolio.

b) Occupancy

"**Occupancy**" represents the total number of hotel rooms sold in a given period divided by the total number of rooms available during such period. Occupancy measures the utilization of a hotel's available capacity.

c) Average Daily Rate ("**ADR**")

ADR represents the total room revenues divided by total number of rooms sold in a given period. ADR is a measure of the average rate paid for rooms sold.

d) Revenue Per Available Room ("**RevPAR**")

RevPAR is the product of occupancy and ADR for the period.

SEASONALITY

The lodging industry is seasonal in nature, which can be expected to cause quarterly fluctuations in occupancy rates, room rates, revenues, operating expenses and cash flows. Historically, occupancies, revenues and cash flows tend to be higher in the second and third quarters and lower in the first and fourth quarters. Quarterly earnings may also be influenced by factors beyond AHIP's control including overall economic cycles and weather conditions. To the extent cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenues, AHIP expects to utilize cash on hand or borrowings under its credit facility to pay expenses, service debt or to make distributions to unitholders.

OVERVIEW

ABOUT AHIP

AHIP is a limited partnership formed under the *Limited Partnerships Act* (Ontario) to invest in hotel real estate properties primarily in the U.S. AHIP was established by the 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, which was subsequently amended and restated on February 20, 2013 and further amended as of 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 was established for the purposes of:

(i) acquiring common shares and a ROC share of American Hotel Income Properties REIT Inc. (the "**U.S. REIT**"). A ROC share is defined as a share in the capital of the U.S. REIT which is designated as a preferred share;

(ii) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of AHIP and making distributions to unitholders; and

(iii) 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.

The principal business of AHIP is to issue limited partnership units ("**Units**") and to acquire and hold shares of the U.S. REIT. The U.S. REIT was established for the purposes of indirectly acquiring and owning hotel real estate properties in the U.S. AHIP has two operating segments: (i) "**Rail Hotels**", which are hotel properties that have rail crew lodging agreements including Oak Tree Inn hotels; and (ii) "**Branded Hotels**", which are hotel properties that have franchise agreements.

AHIP's long-term objectives are to:

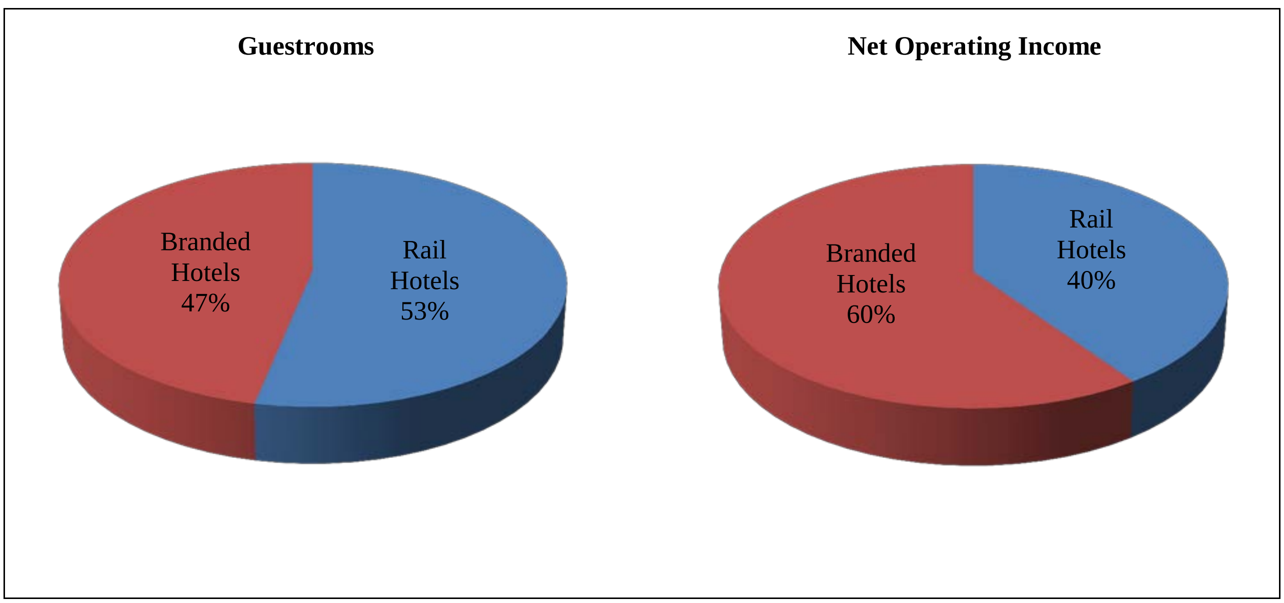
(i) generate stable and growing cash distributions from hotel properties substantially in the U.S.;

(ii) enhance the value of its assets and maximize the long-term value of the hotel properties through active management; and

(iii) expand its asset base and increase its AFFO per Unit through an accretive acquisition program, participation in strategic development opportunities and improvements to the properties through targeted value-added capital expenditure programs.

AHIP's Units trade on the Toronto Stock Exchange ("**TSX**") under the symbol HOT.UN and on the OTCQX International Marketplace in the U.S. under the symbol AHOTF.

As of August 9, 2016, AHIP's diversified portfolio is comprised of 80 hotels located in 27 states across the U.S., representing an aggregate of 7,095 guestrooms. AHIP's operating properties include 45 Rail Hotels (comprised of 3,765 guestrooms) which operate under AHIP's industry leading and proprietary "**Oak Tree Inn**" brand. These Oak Tree Inn hotels have been specifically designed for freight rail crew lodging customers while also providing transient customers with a superior quality, select-service experience. Management estimates that approximately 73% of the available rooms within the Rail Hotel portfolio are covered under lodging agreements containing revenue guarantees. AHIP's 35 Branded Hotels (comprised of 3,330 guestrooms) are located near transportation hubs and other major demand generators that cater primarily to corporate transient travelers and are supported by distribution networks of the world's largest hotel brands. This operating segment includes 12 properties which operate under various Marriott brands (Courtyard, Fairfield Inn & Suites, Residence Inn, and Springhill Suites), 11 properties under various Intercontinental Hotels Group ("**IHG**") brands (Holiday Inn, Holiday Inn Express and Staybridge Suites), 10 properties under a Hilton brand (Hampton Inn), one property under a Carlson-Rezidor brand (Country Inn & Suites) and one property under a Choice brand (Sleep Inn).



RECENT DEVELOPMENTS

a) Expansion of Hearne, Texas Rail Hotel

On April 1, 2016, AHIP completed the acquisition of a 24-room expansion at the existing, high-occupancy Oak Tree Inn hotel in Hearne, Texas for a total purchase price of $2.4 million. The expansion was constructed by SunOne Developments Inc. ("**SunOne**") pursuant to the Master Development Agreement ("**Development**

Agreement"). AHIP funded the expansion with cash on hand and the issuance of $475,000 in Units (or 59,088 Units). The Units were issued from treasury at a price of Cdn$10.44 per Unit, which represented the five-day volume-weighted average trading price of the Units on the TSX for the five trading days immediately prior to their issuance.

b) <u>$7.5 Million Rail Portfolio Capital Investment Program and Commercial Marketing Strategy</u>

On April 29, 2016, AHIP announced the completion of the first phase of renovations at the 119-room Oak Tree Inn hotel in Elko, Nevada to convert 30 guestrooms into extended-stay rooms. This renovation was part of AHIP's strategic initiative to supplement its guaranteed rail crew revenue stream with additional commercial business at specifically targeted Oak Tree Inn hotels during periods of excess capacity.

c) <u>Expansion of Hermiston, Oregon Rail Hotel</u>

On June 2, 2016, AHIP completed the acquisition of a 24-room expansion at the existing, high-occupancy Oak Tree Inn hotel in Hermiston, Oregon for a total purchase price of $1.9 million from SunOne. AHIP funded the expansion with cash on hand and the issuance of $900,000 in Units (or 114,511 Units). The Units were issued from treasury at a price of Cdn$10.27 per Unit, which represented the five-day volume-weighted average trading price of the Units on the TSX for the five trading days immediately prior to their issuance.

d) <u>Completion of $5.0 million mortgage</u>

On June 21, 2016, AHIP obtained a $5.0 million term loan (the "**2016 Oak Tree Inn Term Loan**") secured by the recent expansions in Nebraska, Oregon, and Texas and the Rail Hotel in Lincoln, Nebraska. The 2016 Oak Tree Inn Term Loan matures on February 1, 2023 with a variable interest rate based on the 30-day LIBOR rate plus 2.80% and is being amortized over 212 months with the first principal payment starting in August 2016. Concurrent with entering into the 2016 Oak Tree Inn Term Loan, AHIP entered into an interest rate swap agreement effective July 1, 2016 to fix the interest rate at 4.10%.

OUTLOOK

According to data from STR, Inc. ("**STR**"), U.S. hotel RevPAR has now increased for 76 consecutive months and this trend is expected to continue throughout 2016. For the second quarter on a year-over-year basis, the U.S. hotel industry's occupancy increased by +0.6% to 69.4% and ADR also rose by +2.9% to $124.47, and therefore RevPAR increased by +3.5% to $86.33. STR expects this trend to continue and has projected RevPAR growth rates of +4.4% for 2016, and a further +3.8% in 2017. Management expects both U.S. leisure and business demand to remain strong, as the American Automobile Association ("**AAA**") estimates that lower gas prices have helped motivate Americans to drive at record levels, and prompted many families to take road trips this year. Generally, management expects AHIP's diversified, Branded Hotel portfolio to participate in the expected growth over the next 24 months.

Management expects lodging demand within its Oklahoma hotels to remain weak until energy related demand returns. AHIP's Hotel Manager (as defined below) continues to provide strong yield management and this is expected to result in AHIP's properties to continue to outperform their competitive sets. According to STR data for the second quarter of 2016, AHIP's Oklahoma hotels outperformed their competitive sets' RevPAR by +5.9%, with market RevPAR decreasing by 12.1%. AHIP's Pittsburgh hotels also continue to face headwinds caused by new supply, with second quarter RevPAR decreasing by 7.4% compared to market RevPAR declines of 4.1%. AHIP's Hotel Manager continues to focus on maintaining market share and tightening cost controls to protect AHIP's operating margins within these challenging markets.

Rail Time Indicators, an independent railroad industry publication, states that although total U.S. Class I rail carload volume for the second quarter of 2016 was down 10.9% on a year-over-year basis, volume was up +0.3% over the first quarter of 2016. AHIP's largest railway customers expect an easing of volume declines to continue throughout the remainder of 2016, and AHIP expects to maintain its guaranteed rail crew contract revenue stream during this period. The Hotel Manager's marketing strategy of capturing non-rail, commercial room night demand for the Oak Tree Inn hotels to supplement the rail crew business during periods of underutilized capacity, has generated approximately 65%

more commercial occupied room nights during the second quarter of 2016 than the previous year, at an ADR which is 37% higher than the contracted rail crew ADR. Management expects this strategy will continue to generate higher ADR-related room nights and augment NOI Margins. This will be further enhanced with the implementation of the planned capital investment in yield management technology during the latter half of 2016. AHIP continues to build on its long standing relationship with its railway customers by identifying potential new rail crew hotel developments and acquisitions which satisfy its current and future railway customers' requirements for high quality, rail crew facilities with long term guaranteed room night contracts.

AHIP specifically targets branded hotel acquisitions within markets which display strong demand generators and where demand growth is expected to outpace new supply. Management expects that recent tightening of U.S. hotel lending criteria may result in fewer, high leverage portfolio buyers qualifying for favourable financing. AHIP has a conservative balance sheet and will continue its acquisition strategy of purchasing high quality, select-service hotel assets in the U.S. on an accretive basis at prices below replacement cost.

AHIP has proven its ability to execute on its strategy of building a diversified and unique hotel portfolio utilizing a prudent capital structure. With increased liquidity, a currency-aligned distribution, a healthy balance sheet, conservative Payout Ratio and no significant debt maturities until 2023, AHIP is well positioned to deliver a stable and reliable income stream to its unitholders.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

(US$000s unless otherwise noted and except per Unit amounts)		Three months ended June 30, 2016		Three months ended June 30, 2015		Six months ended June 30, 2016		Six months ended June 30, 2015
Number of rooms[1]		7,095		5,860		7,095		5,860
Number of properties[1]		80		70		80		70
Number of restaurants[1]		31		29		31		29
Properties under development[1]		1		2		1		2
Rooms under development[1]		24		48		24		48
Occupancy rate[2]		74.3%		80.1%		71.5%		77.5%
Average daily room rate	$	84.59	$	79.00	$	83.73	$	76.98
Revenue per available room	$	62.85	$	63.28	$	59.87	$	59.66
Revenues	$	44,527	$	34,131	$	84,661	$	63,660
Net operating income	$	18,109	$	13,507	$	32,093	$	22,227
Net income and comprehensive income	$	3,493	$	2,386	$	2,002	$	2,040
EBITDA	$	15,131	$	11,129	$	25,823	$	17,958
EBITDA Margin %		34.0%		32.6%		30.5%		28.2%
Funds from operations (FFO)	$	10,485	$	7,605	$	17,689	$	11,960
Diluted FFO per Unit	$	0.30	$	0.27	$	0.50	$	0.45
Adjusted funds from operations (AFFO)	$	9,328	$	6,742	$	15,436	$	10,290
Diluted AFFO per Unit	$	0.27	$	0.24	$	0.44	$	0.39
Distributions declared	$	5,693	$	5,644	$	11,401	$	10,079
AFFO Payout Ratio		61.0%		83.7%		73.9%		97.9%
Debt-to-Gross Book Value[1]		49.4%		49.6%		49.4%		49.6%
Interest Coverage Ratio		4.3x		4.0x		3.7x		3.3x
Weighted average loan face interest rate[1]		4.56%		4.65%		4.56%		4.65%
Weighted average loan term to maturity[1]		7.7 years		7.5 years		7.7 years		7.5 years
Number of Units outstanding[1]		35,085,759		30,583,740		35,085,759		30,583,740
Diluted weighted average number of Units outstanding		35,120,667		28,743,917		35,071,883		26,569,311
Same property Occupancy rate		76.3%		80.2%		72.6%		77.5%
Same property ADR	$	83.75	$	78.61	$	82.46	$	76.76
Same property RevPAR	$	63.90	$	63.03	$	59.87	$	59.48

(1) At period end.
(2) Occupancy reflects actual occupancy at Rail Hotels without any adjustment for guaranteed room revenues.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

The increase in ADR, revenues, and NOI for the three months ended June 30, 2016 compared to the same period last year resulted from the growth in AHIP's total portfolio during the past 12 months. Specifically, the acquisition of three Branded Hotels totaling 352 guestrooms and the acquisition of seven Rail Hotels totaling 789 guestrooms, contributed to the improved operating results. Certain Branded Hotels and Rail Hotels continue to be impacted by weakness in the oil and gas industry and impacts of new supply which resulted in lower occupancies and RevPAR for the current quarter compared to the same period in the prior year. This impact was offset with the revenue support generated from contractual rail crew guarantees, which translated into higher Rail Hotel ADR.

FFO was $10.5 million and $17.7 million for the three and six months ended June 30, 2016, respectively (2015 - $7.6 million and $12.0 million, respectively). The increase was due to higher NOI from the addition of new hotels to the portfolio between the respective periods. Diluted FFO per Unit was $0.30 and $0.50 for the three and six months ended June 30, 2016, respectively compared to $0.27 and $0.45 for the same periods last year.

AFFO was $9.3 million and $15.4 million for the three and six months ended June 30, 2016, respectively (2015 - $6.7 million and $10.3 million, respectively). The increase was due to higher FFO offset by higher FF&E Reserves based on higher revenues. Diluted AFFO per Unit was $0.27 and $0.44 for the three and six months ended June 30, 2016, respectively, compared to $0.24 and $0.39 for the comparative periods in the prior year.

RESULTS OF OPERATIONS

OPERATIONS

The following discussion highlights selected financial information for AHIP for the three and six months ended June 30, 2016 and June 30, 2015. This information should be read in conjunction with AHIP's condensed consolidated interim financial statements and the related notes to the financial statements for the three and six months ended June 30, 2016 and June 30, 2015.

(US$000s unless otherwise noted and except per Unit amounts)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues	$ 44,527	$ 34,131	$ 84,661	$ 63,660
Hotel expenses	26,418	20,624	52,568	41,433
Net operating income	18,109	13,507	32,093	22,227
Depreciation and amortization	5,944	4,345	11,774	8,569
Income from operating activities	12,165	9,162	20,319	13,658
Loss on disposal of property and equipment	15	89	35	113
Corporate and administrative	2,978	2,378	6,270	4,269
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	4,880	2,970	11,157	5,783
Income before income taxes	3,766	2,386	1,630	2,040
Current income taxes	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

The increase in revenues, expenses, and NOI arose from hotel acquisitions and expansions that occurred between reporting periods. Hotel expenses consisted of hotel operating expenditures including labour costs, sales and marketing, franchise fees, energy, property maintenance, property taxes, and insurance.

Depreciation and amortization expenses consisted of depreciation charges on property, buildings and equipment, and amortization of intangible assets. Depreciation and amortization expenses for the quarter were $5.9 million (2015 - $4.3 million) and $11.8 million for the six months ended June 30, 2016 (2015 - $8.6 million). The higher expenses reflected the addition of new hotels to the portfolio between reporting periods.

Corporate and administrative expenses consisted of hotel management fees and general administrative expenses such as salaries and directors' fees, securities-based compensation, professional fees, and general office expenses.

(US$000s)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Hotel management fees	$ 2,061	$ 1,567	$ 3,941	$ 2,911
General administrative expenses	917	811	2,329	1,358
Total corporate and administrative expenses	$ 2,978	$ 2,378	$ 6,270	$ 4,269

The increase in corporate and administrative expenses was due primarily to higher management fees resulting from higher revenues for the three and six month periods ended June 30, 2016 compared to the same periods in 2015. For the six months ended June 30, 2016, professional fees were higher as a result of increased compliance costs and advisory expenses due to the increase in the number of hotels compared to the same periods in 2015.

Business acquisition costs consisted primarily of professional fees directly attributable to the acquisition of hotel properties. Under IFRS, all transactional costs related to business combinations are expensed in the period incurred irrespective of the final outcome of the acquisition. Business acquisition costs were approximately $537,000 for the three months ended June 30, 2016, compared to approximately $1.4 million for the same period in 2015, and reflected the specific transactions undertaken during each period. Specifically, in 2015 the acquisition of the nine-hotel Midwestern Portfolio resulted in higher expenses in the prior year.

Net finance costs consist of interest expense on term loans, preferred share dividends, accretion on contingent consideration and deferred compensation payable, amortization of deferred financing costs, and the mark-to-market adjustment on assumed loans, and the changes in the fair value of the interest rate swap contracts offset by interest income. Net finance costs were $4.9 million and $11.1 million for the three and six months ended June 30, 2016, respectively, compared to $2.9 million and $5.7 million, respectively, for the same periods in 2015. The increase in net finance costs reflects the addition of new term loans since June 30, 2015 to acquire various hotel properties coupled with changes in the fair value of the interest rate swap contracts.

AHIP is not a SIFT limited partnership pursuant to the *Income Tax Act* (Canada) (the "**Tax Act**"). Under the Tax Act, as long as AHIP meets prescribed conditions relating to the nature of its assets and revenues, it is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. AHIP's indirect subsidiaries, Lodging Enterprises, LLC, IML Enterprises LLC and AHIP Enterprises LLC are taxable real estate investment trust subsidiaries ("**TRS**") of the U.S. REIT and are subject to income taxes. Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of the intangible assets and contingent consideration for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date. AHIP has used a blended tax rate of approximately 40% to calculate its related deferred income tax provisions.

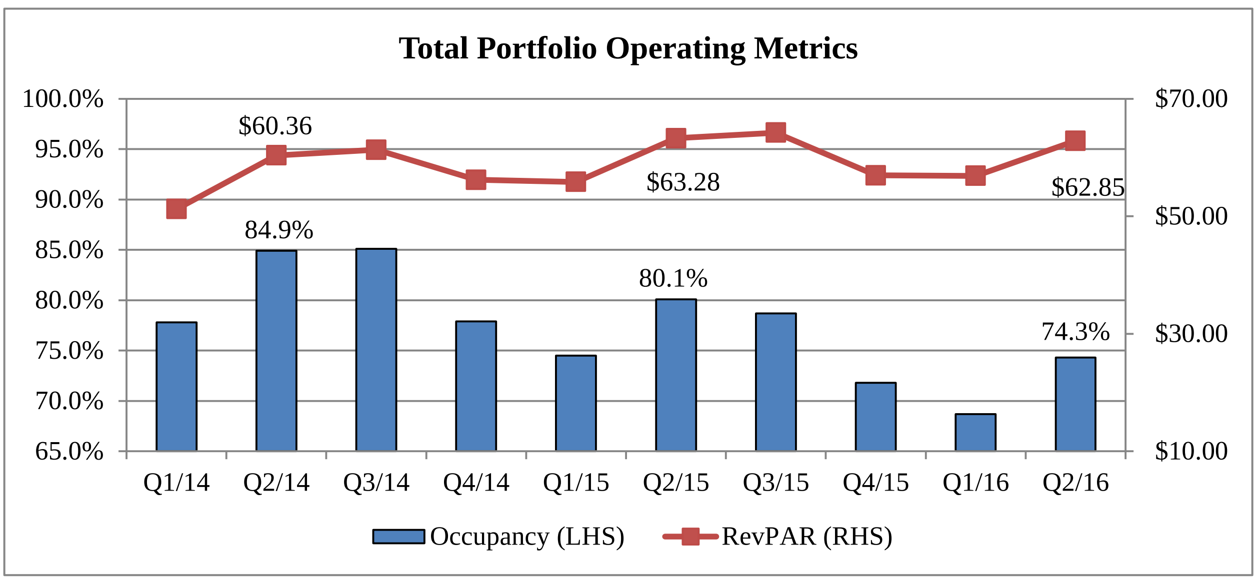
The U.S. REIT is taxed as a real estate investment trust ("**REIT**") for U.S. federal income tax purposes. For purposes of the REIT qualification rules, the U.S. REIT cannot directly operate any of its hotels. Instead, it must lease its hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. As of June 30, 2016, the U.S. REIT had leased all of its hotels to its wholly-owned TRS entities (or wholly-owned subsidiaries of such entities). Each of these TRS entities, or its wholly-owned subsidiary, pays qualifying rent, and the TRS entities, or their applicable wholly-owned subsidiaries, have entered into management contracts with qualified external managers. The TRS entities directly receive all revenues from, and funds all expenses relating to, hotel operations.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

TOTAL PORTFOLIO OPERATING STATEMENTS

(US$000s unless otherwise noted)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Number of rooms[1]	7,095	5,860	7,095	5,860
Number of properties[1]	80	70	80	70
Number of restaurants[1]	31	29	31	29
Occupancy rate[2]	74.3%	80.1%	71.5%	77.5%
Average daily rate[3]	$ 84.59	$ 79.00	$ 83.73	$ 76.98
Revenue per available room	$ 62.85	$ 63.28	$ 59.87	$ 59.66
REVENUES				
Rooms	$ 40,480	$ 30,660	$ 76,892	$ 56,588
Food and beverage	3,609	3,097	6,876	6,434
Other	438	374	893	638
TOTAL REVENUES	44,527	34,131	84,661	63,660
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
TOTAL EXPENSES	24,964	19,446	48,719	38,215
GROSS OPERATING PROFIT	19,563	14,685	35,942	25,445
GOP Margin %	*43.9%*	*43.0%*	*42.5%*	*40.0%*
Taxes and insurance	1,454	1,178	3,849	3,218
NET OPERATING INCOME	$ 18,109	$ 13,507	$ 32,093	$ 22,227
NOI Margin %	*40.7%*	*39.6%*	*37.9%*	*34.9%*

(1) At period end.
(2) Occupancy reflects actual occupancy at Rail Hotels without any adjustment for guaranteed rail crew room revenues.
(3) ADR reflects inclusion of guaranteed rail crew room revenues.



Overall portfolio ADR increased by 7.1% from $79.00 to $84.59 for the three months ended June 30, 2016, compared to the same period in 2015. For the six months ended June 30, 2016, ADR was up 8.8% compared to the same period in 2015. The increase was largely due to an increase in the proportion of the hotel portfolio being represented by Branded Hotels. Specifically, the Branded Hotels represented an increased proportion of the hotel portfolio due to, among other things, the addition of three Branded Hotels in Florida in August 2015 and the inclusion of a full quarter's operating results from the nine-hotel Midwestern Portfolio, which was acquired in June 2015. Branded Hotels typically operate at higher ADRs as compared to Rail Hotels. In addition, the revenue support from the contractual rail crew guaranteed revenues also resulted in higher Rail Hotel ADR.

RevPAR for the three and six month period ended June 30, 2016 was relatively flat compared to last year as lower occupancies were offset by higher ADR. Overall portfolio occupancy decreased to 74.3% and 71.5% for the three and six months ended June 30, 2016, respectively, from 80.1% and 77.5%, respectively, for the same periods last year. The decline in occupancy was due to lower rail crew occupancies at certain Rail Hotels coupled with continued weakness at the Texas/Oklahoma and Pittsburgh hotels.

Total revenues for the three months ended June 30, 2016 were up by 30.5% to $44.5 million (2015 - $34.1 million) and up by 33.0% to $84.7 million for the six months ended June 30, 2016 (2015 - $63.7 million). The increase in total revenues was directly attributable to portfolio changes between reporting periods. Specifically, the acquisition of three Branded Hotels totalling 352 guestrooms, seven Rail Hotels totalling 789 guestrooms and four Rail Hotel expansions totalling 96 guestrooms since June 30, 2015. In addition, the nine-hotel, 632-guestroom Midwestern Portfolio was acquired in June 2015 and, therefore, full operating results for these hotels were included in the current three and six month period compared to the partial inclusion during the same periods last year.

GOP Margin for the quarter increased to 43.9% (2015 – 43.0%) and increased to 42.5% for the six months ended June 30, 2016 (2015 – 40.0%). The improvement in GOP Margin reflects higher ADR from additional Branded Hotels compared to the prior year, strong cost controls coupled with effective yield management strategies implemented by the Hotel Manager. NOI Margin increased to 40.7% and 37.9% for the three and six months ended June 30, 2016, respectively, from 39.6% and 34.9%, respectively, for the same periods last year as a result of higher GOP offset by higher property taxes and insurance premiums arising from changes within the portfolio.

RAIL HOTELS OPERATING STATEMENTS

(US$000s unless otherwise noted)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Number of rooms[(1)]	3,765	2,881	3,765	2,881
Number of properties[(1)]	45	38	45	38
Number of restaurants[(1)]	27	26	27	26
Occupancy rate[(2)]	68.3%	79.4%	66.5%	79.7%
Average daily rate[(3)]	$ 64.76	$ 58.16	$ 64.84	$ 57.67
Revenue per available room	$ 44.23	$ 46.18	$ 43.12	$ 45.96
REVENUES				
Rooms	$ 15,099	$ 12,110	$ 29,258	$ 23,673
Food and beverage	3,089	2,672	5,848	5,662
Other	100	136	186	194
TOTAL REVENUES	18,288	14,918	35,292	29,529
EXPENSES				
Operating expenses	8,535	7,421	16,651	15,368
Energy	779	675	1,674	1,475
Property maintenance	973	802	1,966	1,622
TOTAL EXPENSES	10,287	8,898	20,291	18,465
GROSS OPERATING PROFIT	8,001	6,020	15,001	11,064
GOP Margin %	*43.8%*	*40.4%*	*42.5%*	*37.5%*
Taxes and insurance	692	636	1,722	1,599
NET OPERATING INCOME	$ 7,309	$ 5,384	$ 13,279	$ 9,465
NOI Margin %	*40.0%*	*36.1%*	*37.6%*	*32.1%*

(1) At period end.
(2) Occupancy reflects actual occupancy at Rail Hotels without any adjustment for guaranteed rail crew room revenues.
(3) ADR reflects inclusion of guaranteed rail crew room revenues.

Total revenues were higher in 2016 reflecting the acquisition of seven Rail Hotels totalling 789 guestrooms and four expansions totalling 96 guestrooms at existing Oak Tree Inn hotels.

The Rail Hotels continued to experience declines in occupancy at certain hotels due to a drop in coal shipments, lower oil and gas activity, fewer construction projects, and limited mining activity in certain markets. The lower actual occupancies at certain properties have triggered contractual rail crew guaranteed revenues, which have been recorded in room revenues and reflected in the increased ADR. Specifically, ADR increased by 11.3% to $64.76 (2015 - $58.16) and by 12.4% to $64.84 (2015 - $57.67) for the three and six months ended June 30, 2016, respectively.

GOP Margin was 43.8% for the three months ended June 30, 2016 (2015 - 40.4%) and 42.5% for the six months ended June 30, 2016 (2015 - 37.5%). NOI Margins improved to 40.0% for the current quarter (2015 - 36.1%) and improved to 37.6% for the six months ended June 30, 2016 (2015 - 32.1%). Margin improvements arose from lower occupancy-related hotel operating expenses, improved cost containment by the Hotel Manager, and an increased marketing focus on capturing commercial traveler business at certain Rail Hotels to utilize available rooms.

BRANDED HOTELS OPERATING STATEMENTS

(US$000s unless otherwise noted)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Number of rooms[1]	3,330	2,979	3,330	2,979
Number of properties[1]	35	32	35	32
Number of restaurants[1]	4	3	4	3
Occupancy rate	81.0%	81.0%	77.1%	74.9%
Average daily rate	$ 103.43	$ 103.14	$ 101.98	$ 101.40
Revenue per available room	$ 83.78	$ 83.54	$ 78.63	$ 75.95
REVENUES				
Rooms	$ 25,381	$ 18,550	$ 47,634	$ 32,915
Food and beverage	520	425	1,028	772
Other	338	238	707	444
TOTAL REVENUES	26,239	19,213	49,369	34,131
EXPENSES				
Operating expenses	12,652	9,215	24,319	17,043
Energy	949	642	2,010	1,378
Property maintenance	1,076	691	2,099	1,329
TOTAL EXPENSES	14,677	10,548	28,428	19,750
GROSS OPERATING PROFIT	11,562	8,665	20,941	14,381
GOP Margin %	*44.1%*	*45.1%*	*42.4%*	*42.1%*
Taxes and insurance	762	542	2,127	1,619
NET OPERATING INCOME	$ 10,800	$ 8,123	$ 18,814	$ 12,762
NOI Margin %	*41.2%*	*42.3%*	*38.1%*	*37.4%*

(1) At period end.

Total revenues for the three and six months ended June 30, 2016 were higher reflecting the acquisition of three Branded Hotels in Florida in August 2015 coupled with a full quarter of operating results from the Midwestern Portfolio in 2016, compared to only a partial period for 2015, as these hotels were acquired on June 18, 2015. AHIP’s Branded Hotel Portfolio achieved quarter-over-quarter pro-forma RevPAR growth of +4.6%, which included operating results for certain hotels for periods prior to their ownership by AHIP. The most significant RevPAR gains were achieved in the Virginia and North Carolina regions with impressive RevPAR growth rates of +16.1% and +12.4%, respectively. The strong performance in these two regions, compared to last year, reflected the positive tailwinds from certain properties that underwent significant renovations during 2015 and resulted in guest displacement at that time. The Midwest and Florida Regions also generated significant RevPAR gains of +10.3% and +9.8%, respectively. The Texas/Oklahoma Region experienced RevPAR declines of 2.0% due to continued weakness in the oil and gas industry. The Pittsburgh Region experienced RevPAR declines of 7.4% due to the ongoing impacts of new supply absorption in the market.

For the six month period, pro-forma RevPAR gains for the Branded Hotels was a strong +4.4%, led by the Virginia and North Carolina Regions which recorded impressive RevPAR growth rates of +16.3% and +12.9%, respectively. The Florida and Midwest Regions also experienced solid above industry RevPAR growth rates of +8.6% and +5.5%, respectively. The Texas/Oklahoma and Pittsburgh Regions saw RevPAR declines of 3.8% and 3.2%, respectively.

Overall, GOP Margins declined slightly during the three months ended June 30, 2016 due to higher maintenance expenses than during the same quarter last year. For the six months ended June 30, 2016, GOP and NOI Margins increased due to continued sustainable cost controls by the Hotel Manager.

RAIL HOTELS – SAME PROPERTY

The following table presents same property Rail Hotel operating metrics for the three and six months ended June 30, 2016 and 2015. A property must be owned for the entire year during both reporting periods for inclusion in this table, which adjusts for the impact of properties that have been acquired during the year.

(US$000s unless otherwise noted)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Occupancy rate[2]	70.3%	79.4%	67.8%	79.7%
Average daily rate[3]	$ 64.42	$ 58.16	$ 64.64	$ 57.67
Revenue per available room	$ 45.29	$ 46.18	$ 43.83	$ 45.96
REVENUES				
Rooms	$ 12,192	$ 12,110	$ 23,494	$ 23,673
Food and beverage	2,895	2,672	5,462	5,662
Other	60	136	112	194
TOTAL REVENUES	15,147	14,918	29,068	29,529
EXPENSES				
Operating expenses	7,639	7,421	14,766	15,368
Energy	660	675	1,408	1,475
Property maintenance	790	802	1,591	1,622
TOTAL EXPENSES	9,089	8,898	17,765	18,465
GROSS OPERATING PROFIT	6,058	6,020	11,303	11,064
GOP Margin %	*40.0%*	*40.4%*	*38.9%*	*37.5%*
Taxes and insurance[1]	834	932	1,690	1,857
NET OPERATING INCOME	$ 5,224	$ 5,088	$ 9,613	$ 9,207
NOI Margin %	*34.5%*	*34.1%*	*33.1%*	*31.2%*

(1) Same hotel property taxes are not adjusted for IFRIC 21.
(2) Occupancy reflects actual occupancy at Rail Hotels without any adjustment for guaranteed rail crew room revenues.
(3) ADR reflects inclusion of guaranteed rail crew room revenues.

Total revenues were higher during the three months ended June 30, 2016 due to higher contractual guaranteed revenues which resulted from lower occupancies arising from fewer carload volumes of coal, petroleum, and metal shipments. The guaranteed revenues were recorded in room revenues and reflected in the increased ADR.

Despite the rail industry trends, same property NOI for the quarter was up +2.7% to $5.2 million (2015 - $5.1 million) and increased by +4.4% to $9.6 million for the six months ended June 30, 2016 (2015 - $9.2 million). The improvement in same property NOI reflects continued sustainable cost controls achieved by the Hotel Manager.

Same property NOI Margins have also increased for all reporting periods presented as a result of lower property taxes and insurance premiums compared to the prior year.

BRANDED HOTELS – SAME PROPERTY

The following table presents same property Branded Hotel operating metrics for the three and six months ended June 30, 2016 and 2015, respectively. A property must be owned for the entire year in both reporting periods for inclusion in this table, which adjusts for the impact of properties that have been acquired during the year.

(US$000s unless otherwise noted)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Occupancy rate	83.9%	81.1%	78.6%	74.8%
Average daily rate	$ 104.17	$ 103.21	$ 101.75	$ 101.40
Revenue per available room	$ 87.40	$ 83.70	$ 79.98	$ 75.85
REVENUES				
Rooms	$ 18,656	$ 17,876	$ 34,148	$ 32,240
Food and beverage	437	426	826	772
Other	248	229	527	435
TOTAL REVENUES	19,341	18,531	35,501	33,447
EXPENSES				
Operating expenses	9,257	8,876	17,607	16,694
Energy	628	609	1,375	1,345
Property maintenance	765	657	1,520	1,296
TOTAL EXPENSES	10,650	10,142	20,502	19,335
GROSS OPERATING PROFIT	8,691	8,389	14,999	14,112
GOP Margin %	*44.9%*	*45.3%*	*42.2%*	*42.2%*
Taxes and insurance[(1)]	838	840	1,642	1,627
NET OPERATING INCOME	$ 7,853	$ 7,549	$ 13,357	$ 12,485
NOI Margin %	*40.6%*	*40.7%*	*37.6%*	*37.3%*

(1) The same hotel property tax figure does not reflect IFRIC 21

AHIP's Branded Hotel Portfolio achieved strong quarter-over-quarter RevPAR growth of +4.4%. The largest RevPAR gains were achieved within the Virginia and North Carolina regions with significant RevPAR growth rates of +16.1% and +12.4%, respectively. The strong performance in these two regions compared to last year can be attributed to the positive tailwinds experienced at certain properties that underwent significant renovations during 2015 that resulted in temporary guest displacement at that time. The Florida Region also generated strong RevPAR gains of +7.3%. Despite the continued weakness in the oil and gas industry, the Texas/Oklahoma Region achieved positive RevPAR growth of +0.8% while the Pittsburgh Region experienced RevPAR declines of 7.4% due to the ongoing impacts of new supply within the market.

For the six month period, RevPAR gains for the Branded Hotels was +4.3%, led by the Virginia and North Carolina Regions which had RevPAR growth rates of +16.3% and +12.9%, respectively. The Florida Region achieved RevPAR growth rates of +9.8%. The Texas/Oklahoma and Pittsburgh Regions experienced RevPAR declines of 0.9% and 3.2%, respectively.

Same property NOI for the quarter was up +4.0% to $7.9 million (2015 - $7.5 million) and increased by +7.0% to $13.4 million for the six months ended June 30, 2016 (2015 - $12.5 million). The increased NOI reflects strong operating performance from renovated properties and effective yield management strategies implemented by the Hotel Manager.

RECONCILIATION OF NON-IFRS OPERATING RESULTS

FUNDS FROM OPERATIONS ("FFO")

FFO is a supplemental non-IFRS financial measure of operating performance widely used in the Canadian real estate industry. FFO is not defined under IFRS and should not be used as a substitute for net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. Instead, FFO has been included to provide readers and investors with additional information to improve their understanding of AHIP's operating results. AHIP calculates FFO in accordance with the REALpac White Paper on Funds from Operations as described under the heading "Non-IFRS Measures" above.

Net income and comprehensive income reconciled to FFO is calculated as follows:

(US$000s unless otherwise noted and except Unit and per Unit amounts)	**Three months ended June 30, 2016**	**Three months ended June 30, 2015**	**Six months ended June 30, 2016**	**Six months ended June 30, 2015**
Net income and comprehensive income	**$ 3,493**	**$ 2,386**	**$ 2,002**	**$ 2,040**
Add/(deduct):				
Depreciation and amortization	5,944	4,345	11,774	8,569
Loss on disposal of property and equipment	15	89	35	113
Business acquisition costs	531	1,369	1,217	1,495
IFRIC 21 property taxes	(757)	(584)	(493)	(257)
Fair value changes of interest rate swaps	1,129	-	3,777	-
Deferred income tax expense (recovery)	130	-	(623)	-
Funds from operations ("FFO")	**$ 10,485**	**$ 7,605**	**$ 17,689**	**$ 11,960**
Diluted weighted average number of Units outstanding	35,120,667	28,743,917	35,071,883	26,569,311
Diluted FFO per Unit	**$ 0.30**	**$ 0.27**	**$ 0.50**	**$ 0.45**

FFO for the three months ended June 30, 2016 increased by 37.9% to $10.5 million (2015 - $7.6 million) and by 47.9% to $17.7 million (2015 - $12.0 million) for the six months ended June 30, 2016. The increase resulted from higher NOI arising from the increase in the number of hotels in the portfolio, coupled with strong operating performance reflective of the Hotel Manager's effective yield management and cost control strategies. Business acquisition costs vary depending on the level of active hotel acquisition activity during particular periods. The decrease in business acquisition costs reflects the significant acquisition last year of the Midwestern Portfolio in June 2015.

Diluted FFO per Unit was $0.30 and $0.50 for the three and six months ended June 30, 2016, respectively, compared to $0.27 and $0.45 for the same periods last year, driven by higher NOI during 2016.

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

Hotel operations require maintenance capital expenditures to maintain the occupancy and revenue streams of the business. AFFO is a widely used non-IFRS measure in the Canadian real estate industry to indicate economic performance and available cash flow after maintenance capital expenditures. AFFO is not defined under IFRS and the method applied by AHIP to calculate AFFO may differ from methods applied by other issuers and as a result may not be comparable with measures used by other issuers.

In calculating AFFO, AHIP made certain adjustments to FFO as described under the heading "Non-IFRS Measures" above. The reconciliation of FFO to AFFO is calculated as follows:

(US$000s unless otherwise noted and except Unit and per Unit amounts)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Funds from operations ("FFO")	**$ 10,485**	**$ 7,605**	**$ 17,689**	**$ 11,960**
Add/(deduct):				
Securities-based compensation expense	124	74	170	92
Amortization of finance costs	202	174	391	278
FF&E Reserves(1)	(1,483)	(1,111)	(2,814)	(2,040)
Adjusted Funds from operations ("AFFO")	**$ 9,328**	**$ 6,742**	**$ 15,436**	**$ 10,290**
Diluted weighted average number of Units outstanding	35,120,667	28,743,917	35,071,883	26,569,311
Diluted AFFO per Unit	**$ 0.27**	**$ 0.24**	**$ 0.44**	**$ 0.39**

(1) AHIP has negotiated FF&E Reserve waivers with its lenders for periods of up to 24 months. AHIP does not factor in the benefit of these FF&E Reserve waivers in calculating AFFO.

AFFO for the three months ended June 30, 2016 increased by 38.4% to $9.3 million (2015 - $6.7 million) and increased by 50.0% to $15.4 million for the six months ended June 30, 2016 (2015 - $10.3 million), reflecting higher FFO compared to the prior year offset by higher FF&E Reserves. AFFO per Unit was $0.27 and $0.44 for the three and six months ended June 30, 2016, respectively, compared to $0.24 and $0.39 for the same periods last year.

RECONCILIATION OF CASH FLOW FROM OPERATIONS TO AFFO

As an alternative measure of cash flow from operations, AFFO is indicative of AHIP's ability to pay distributions to unitholders. In calculating AFFO, AHIP made certain adjustments to cash flow from operations as calculated below:

(US$000s unless otherwise noted)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flow from operations	$ 10,715	$ 4,174	$ 18,359	$ 6,549
Add/(deduct):				
Changes in non-cash working capital	305	2,843	(568)	4,522
Business acquisition costs	531	1,369	1,217	1,495
IFRIC 21 property tax adjustment	(757)	(584)	(493)	(257)
Interest paid	3,566	2,847	6,724	5,526
Interest expense	(3,549)	(2,796)	(6,989)	(5,505)
FF&E Reserves (excluding any waivers)	(1,483)	(1,111)	(2,814)	(2,040)
AFFO	**$ 9,328**	**$ 6,742**	**$ 15,436**	**$ 10,290**
Distributions declared	$ 5,693	$ 5,644	$ 11,401	$ 10,079
AFFO Payout Ratio	**61.0%**	**83.7%**	**73.9%**	**97.9%**

The AFFO Payout Ratio has improved for the three and six month periods ended June 30, 2016 relative to the comparative periods in 2015 due to higher cash flows generated from a larger and more diversified portfolio in the current year.

DISTRIBUTIONS DECLARED COMPARED TO OPERATING CASH FLOWS

(US$000s)	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015
Cash flow from operations (including interest paid)	$ 10,715	$ 4,174	$ 18,359	$ 6,549
Distributions declared	5,693	5,644	11,401	10,079
Excess of cash flow to distributions	$ 5,022	$ (1,470)	$ 6,958	$ (3,530)

For the three and six months ended June 30, 2016, cash flow from operations exceeded distributions as a result of higher cash flows from a larger and more diversified portfolio.

CAPITAL EXPENDITURES

After AHIP acquires a Branded Hotel property, it may be required to complete a property improvement plan ("**PIP**") in order to be granted a new franchise license for that particular hotel property. PIPs are intended to bring the hotel property up to the franchisors' current standards. The funds for the completion of the PIPs are held in escrow by AHIP's lenders and these funds are released as the work is completed. In addition, on a regular basis, AHIP is required by its lenders to escrow additional FF&E Reserves over the term of the respective loans. AHIP intends to spend the amounts necessary to comply with any reasonable loan or franchisor requirements and otherwise to the extent that such expenditures are in the best interests of the hotel to optimize operating performance and ensure the hotels are competitive within their respective competitive market segments. As at June 30, 2016, AHIP has deposited with its lenders $10.5 million for PIP reserves and a further $2.1 million for FF&E Reserves. These amounts are expected to be spent over the next 24 months.

SUMMARY OF QUARTERLY RESULTS

In accordance with Item 1.5 of Form 51-102F1 – *Management's Discussion & Analysis*, quarterly information has been presented for the prior eight quarters.

(US$000s except Units and per Unit amounts)	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**
Revenues	$ 44,527	$ 40,134	$ 39,758	$ 40,349	$ 34,131	$ 29,529	$ 27,849	$ 25,529
NOI	18,109	13,984	13,152	15,527	13,507	8,720	9,127	9,449
Net income (loss) and comprehensive income (loss)	3,493	(1,491)	945	2,712	2,386	(346)	209	2,029
FFO	$ 10,485	$ 7,204	$ 7,161	$ 8,923	$ 7,605	$ 4,355	$ 4,741	$ 5,409
AFFO	9,328	6,108	6,165	7,897	6,742	3,548	4,167	4,870
Distributions	5,693	5,708	5,887	5,759	5,644	4,435	4,807	3,982
Total assets	$ 575,623	$ 574,174	$ 577,403	$ 579,829	$ 512,731	$ 431,684	$ 433,715	$ 321,813
Total debt (face value)	$ 309,561	$ 307,990	$ 309,516	$ 305,831	$ 266,920	$ 235,997	$ 232,328	$ 160,395
Basic weighted average number of Units outstanding (000s)	35,006	34,908	34,845	32,788	28,682	24,362	22,897	19,468
Amounts on a per Unit Basis								
Basic and diluted net income (loss) per Unit	$ 0.10	$ (0.04)	$ 0.03	$ 0.08	$ 0.08	$ (0.01)	$ 0.01	$ 0.10
Diluted FFO per Unit	$ 0.30	$ 0.21	$ 0.21	$ 0.27	$ 0.27	$ 0.18	$ 0.21	$ 0.28
Diluted AFFO per Unit	$ 0.27	$ 0.18	$ 0.18	$ 0.24	$ 0.24	$ 0.15	$ 0.18	$ 0.25

The hotel industry is seasonal in nature. Generally, occupancy rates, revenues and operating results experienced by hotels located in the U.S. are greater in the second and third quarters of the calendar year than in the first and fourth quarters. These fluctuations may impact earnings and cash flow. Furthermore, the seasonality of revenues also has an impact on earnings, specifically EBITDA Margin, due to certain fixed expenditures such as property taxes, insurance, and utilities.

FINANCIAL CONDITION

LIQUIDITY

The principal liquidity needs of AHIP are for working capital requirements, debt servicing and repayment obligations, distributions to unitholders, maintenance capital expenditures, and future hotel acquisitions.

Cash flows from operations, cash on hand and AHIP's operating line of credit represent the primary sources of liquidity. Cash flows from operations are dependent on hotel operations including occupancy levels, room rates and operating costs. AHIP will repay maturing debt with proceeds from refinancing such debt, and raises new equity by issuing Units from treasury to finance investment activities.

The following table provides an overview of AHIP's change in cash from operating, financing and investing activities for the three and six months ended June 30, 2016 and 2015:

(US$000s)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net change in cash related to:				
Operating activities	$ 10,715	$ 4,174	$ 18,359	$ 6,549
Investing activities	(7,086)	(59,982)	(11,773)	(65,051)
Financing activities	(4,344)	78,525	(11,615)	77,560
(Decrease) Increase in cash	$ (715)	$ 22,717	$ (5,029)	$ 19,058

The change in cash for the three and six months ended June 30, 2016 compared to the same periods in 2015 was largely due to the following activities:

- Operating activities – higher NOI arising from new hotels added to the portfolio along with improved operating performance at certain hotels;
- Investing activities – acquisition of one new Rail Hotel and completion of room expansions at two Rail Hotels in 2016, compared to the much larger Midwestern Portfolio acquisition in June 2015; and
- Financing activities – completion of Cdn$66.0 million bought deal and related hotel loans for the Midwestern Portfolio in 2015 compared to $7.0 million in new term loans in 2016.

The following table sets out AHIP's face value contractual obligations over the next five years and thereafter.

(US$000s)	TOTAL	2016	2017	2018	2019	2020	Thereafter
Term loans	$ 308,749	$ 1,981	$ 5,056	$ 10,582	$ 5,745	$ 5,996	$ 279,389
Operating leases	1,304	424	526	263	83	8	-
Deferred compensation payable	812	125	250	250	187	-	-
Total	$ 310,865	$ 2,530	$ 5,832	$ 11,095	$ 6,015	$ 6,004	$ 279,389

Under the terms of AHIP's franchise agreements arising from its acquisition of Branded Hotels, AHIP is required to complete various PIPs. AHIP's operating subsidiaries have entered into contracts or commitments with various suppliers to provide products and services in compliance with these renovation plans. Payments for these items are held as restricted cash and funds are disbursed in the ordinary course of business. As at June 30, 2016, AHIP's total restricted cash balance relating to PIPs, FF&E Reserves and other reserves was $15.7 million (December 31, 2015 - $15.7 million).

DEBT STRATEGY

AHIP's overall borrowing policy is to obtain secured mortgage financing on primarily a fixed rate basis with terms to maturity that allow AHIP to:

i) achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period; and

ii) fix rates and extend loan terms when borrowing conditions are favorable.

The fixed rate mortgages are expected to be primarily first charge mortgages. Management currently intends to maintain total indebtedness at approximately 50% to 55% of AHIP's Gross Book Value. In accordance with AHIP's Limited Partnership Agreement, the maximum debt limit is 60% (65% including convertible debentures) of AHIP's Gross Book Value. As at June 30, 2016, AHIP's Debt-to-Gross Book Value was 49.4% compared to 49.6% as at December 31, 2015 and June 30, 2015:

(US$000s unless otherwise noted)	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**
Debt	$ 309,561	$ 304,196	$ 266,920
Gross Book Value	$ 626,032	$ 613,530	$ 537,857
Debt-to-Gross Book Value	49.4%	49.6%	49.6%

The following table calculates AHIP's Interest Coverage Ratio for the three and six months ended June 30, 2016 compared to the same periods in the prior year:

(US$000s unless otherwise noted)	**Three months ended June 30, 2016**	**Three months ended June 30, 2015**	**Six months ended June 30, 2016**	**Six months ended June 30, 2015**
EBITDA	$ 15,131	$ 11,129	$ 25,823	$ 17,958
Interest expense[(1)]	$ 3,549	$ 2,796	$ 6,989	$ 5,505
Interest Coverage Ratio (times)	4.3x	4.0x	3.7x	3.3x

(1) Interest expense is computed as finance costs adjusted for non-cash items including accretion of contingent consideration, accretion of deferred compensation payable, amortization of deferred financing costs, amortization of mark-to-market adjustments on assumed term loans and changes in fair value of interest rate swap contracts.

The following table sets out the interest rates and terms of AHIP's existing debt financing obligations:

(US$000s unless otherwise noted)	Balance at June 30, 2016	Interest Rate	Initial Term (years)	Maturity Date
NC/GA Portfolio Assumed Loan #1	$ 5,411	5.69%	5	August 1, 2018
Norman Term Loan	1,983	3.27%(1)	5	April 1, 2021
Oak Tree Inn Hotel Loans	81,745	3.27%(2)	7	February 1, 2023
2016 Oak Tree Inn Term Loan	5,000	3.27%(3)	7	February 1, 2023
Pittsburgh Portfolio Term Loans	38,000	5.02%	10	December 6, 2023
NC/GA Portfolio Assumed Loan #2	7,500	5.28%	10	February 1, 2024
Virginia Portfolio Term Loan	24,500	4.97%	10	April 6, 2024
NC/GA Portfolio Term Loan	6,000	4.72%	10	July 6, 2024
Texas Portfolio Term Loan	16,000	4.20%	10	November 6, 2024
Oklahoma Portfolio Term Loan	25,500	4.20%	10	November 6, 2024
NC/FL Portfolio Term Loan	26,110	4.27%	10	December 6, 2024
Midwestern Portfolio Term Loan	32,000	4.24%	10	July 6, 2025
Florida Portfolio Term Loan	19,000	4.21%	10	August 6, 2025
Railway Portfolio Term Loan	20,000	4.25%	10	September 16, 2025
	$ 308,749			

(1) Variable rate term loan with interest rate as at June 30, 2016.
(2) Variable rate term loan with corresponding interest rate swap contracts that fixes the interest rate for the duration of the loan at 4.72%.
(3) Variable rate term loan with corresponding interest rate swap contracts that fixes the interest rate for the duration of the loan at 4.10% effective July 1, 2016.

The weighted average face interest rate as at June 30, 2016 was 4.56% (December 31, 2015 – 4.59%; June 30, 2015 – 4.65%) and the weighted average loan term to maturity as at June 30, 2016 was 7.7 years (December 31, 2015 – 8.3 years; June 30, 2015 – 7.5 years). As at June 30, 2016, all of AHIP's mortgages were fixed rate mortgages with the exception of the Norman Term Loan and the 2016 Oak Tree Inn Term Loan, which have floating interest rates.

CAPITAL RESOURCES

Management intends to obtain additional equity financing and/or secured debt financing with similar interest rates and terms to meet AHIP's planned growth strategy. Management has not identified any unfavourable trends or fluctuations that may impact AHIP's ability to obtain additional equity financing and/or secured debt financing. AHIP has not obtained or made use of any additional sources of financing that are not disclosed in its unaudited condensed consolidated interim financial statements.

PARTNERS' CAPITAL

AHIP is authorized to issue an unlimited number of Units.

From the closing date of AHIP's initial public offering ("**IPO**") on February 20, 2013 to December 31, 2013, AHIP issued 14,437,800 Units. During the year ended December 31, 2014, AHIP issued 9,897,763 Units from bought-deal public offerings, as partial consideration for the purchase of new Rail Hotels and employee equity grants. For the year ended December 31, 2015, AHIP issued 10,572,702 Units through bought-deal public offerings and as partial consideration for the purchase of new Oak Tree Inn hotels and employee equity grants.

On March 31, 2016, 3,895 Units were issued to senior management on the vesting of Restricted Stock Units. On April 1, 2016 and June 2, 2016, 59,088 Units and 114,511 Units, respectively, were issued to SunOne as partial consideration for the acquisition of 24-room expansions at the Rail Hotels located in Hearne, Texas and Hermiston, Oregon.

As at June 30, 2016, there were 35,085,759 Units issued and outstanding. On June 30, 2016, the Units were traded on the TSX with a closing price of Cdn$10.54, and on the OTCQX with a closing price of $8.125. See "Subsequent Events" below for information on additional Units issued after June 30, 2016.

As at June 30, 2016, there were 114,834 Restricted Stock Units issued and outstanding, which vest between December 15, 2016 and March 15, 2019. Such Restricted Stock Units are comprised of: (i) 74,137 Restricted Stock Units that vest for Units on a one-for-one basis; and (ii) 40,697 Restricted Stock Units that were granted as performance awards and vest subject to a multiple of 0% to 200% based on the achievement of certain objectives.

DISTRIBUTION HISTORY

DISTRIBUTION POLICY

AHIP's current policy is to declare and pay monthly cash distributions using available cash and to maintain a conservative AFFO Payout Ratio. The declaration of distributions is subject to the discretion of the Board of Directors of the General Partner and is evaluated periodically and may be revised. Effective the April 2016 distribution which was paid on May 13, 2016, AHIP began paying monthly cash distributions of US$0.054 per Unit to unitholders, which is equivalent to US$0.648 per Unit on an annualized basis. The change in distribution currency was adopted by AHIP to better align distribution payments to AHIP's cash flows, which are all generated in the U.S. and to eliminate costly currency hedging strategies. Distributions declared will be paid to unitholders of record at the close of business on the last business day of each month on or about the 15th day of the following month. 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.

DISTRIBUTION SUMMARY

AHIP declared the following cash distributions to unitholders of record from January 1, 2016 to June 30, 2016 as follows:

Month	Record Date	Payment Date	Distribution per Unit	Amount ($000s)
January 2016	January 29, 2016	February 15, 2016	$ 0.075(1)	$ 1,797(2)
February 2016	February 29, 2016	March 15, 2016	$ 0.075(1)	$ 1,888(2)
March 2016	March 31, 2016	April 15, 2016	$ 0.075(1)	$ 2,023(2)
April 2016	April 29, 2016	May 13, 2016	$ 0.054	$ 1,888
May 2016	May 31, 2016	June 15, 2016	$ 0.054	$ 1,888
June 2016	June 30, 2016	July 15, 2016	$ 0.054	$ 1,917
				$ 11,401

(1) Amounts shown are in Canadian dollars.
(2) Amounts shown were converted to U.S. dollars at the then applicable exchange rate.

Distributions totaling $5.7 million and $11.4 million were declared during the three and six months ended June, 2016 respectively (June 30, 2015 – $5.6 million and $10.1 million, respectively) of which $1.9 million (December 31, 2015 - $1.9 million) was included in accounts payable and accrued liabilities at June 30, 2016 and subsequently paid on July 15, 2016.

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Annualized distribution (Cdn$ prior to Q2 2016)	$ 0.648	$ 0.90	$ 0.90	$ 0.90	$ 0.90	$ 0.90	$ 0.90	$ 0.90
Period-end close price (Cdn$)	$ 10.54	$ 10.54	$ 10.65	$ 9.91	$ 10.31	$ 11.21	$ 10.03	$ 10.61
Annualized distribution yield on closing price (%)	8.0%(1)	8.5%	8.5%	9.1%	8.7%	8.0%	9.0%	8.5%

(1) Converted at noon closing exchange rate as at June 30, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

Other than as disclosed in its unaudited condensed consolidated interim financial statements, AHIP does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

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 and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses.

The hotel management agreements also 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; and, an annual administration fee of $25,000 per hotel. The Hotel Manager is also eligible to receive an incentive 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. For the three and six months ended June 30, 2016 and 2015, the Hotel Manager did not qualify for any incentive fees and as a result no incentive fee amounts were recorded in the unaudited condensed consolidated interim financial statements.

AHIP recorded the following fees charged by the Hotel Manager in corporate and administrative expenses for the three and six months ended June 30, 2016 and 2015:

(US$000s)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Management fees	$ 1,561	$ 1,216	$ 2,963	$ 2,250
Administration fees	500	351	978	661
	$ 2,061	$ 1,567	$ 3,941	$ 2,911
Total fees as a percentage of total revenues	4.6%	4.6%	4.7%	4.6%
Total cost recoveries	$ 12,089	$ 9,508	$ 23,685	$ 18,783
Total cost recoveries as a percentage of total revenues	27.1%	27.9%	28.0%	29.5%

Capital expenditure fees of $192,000 and $271,000 for the three and six months ended June 30, 2016, respectively, (June 30, 2015 - $223,000 and $310,000, respectively) were capitalized to property, buildings and equipment. In addition, during the three and six months ended June 30, 2016, the Hotel Manager was reimbursed $12.0 million and $23.7 million, respectively, from the hotel properties for payroll and general and administrative costs (June 30, 2015

- $9.5 million and $18.8 million, respectively). Reimbursements were higher during 2016 which reflects the additional hotels in the three and six months ended June 30, 2016 compared to the prior year, but lower as a percentage of total revenues in 2016.

Pursuant to the Development Agreement with 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 Rail Hotels as follows:

(US$000s)	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
Total	$ 2,400	$ 1,900	$ 4,300

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS

The preparation of the unaudited condensed consolidated 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, liabilities and disclosure of contingent assets and liabilities as at the date of the unaudited condensed consolidated financial statements, and the reported amounts of income and expenses during the financial reporting period. Actual results may differ from these estimates.

ACCOUNTING ESTIMATES

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 identifiable assets, liabilities and contingent liabilities acquired 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 lodging agreements discounted at an expected rate of return to support the determination of the value of intangible assets for the Rail Hotel portfolios. The value of the intangible assets for the Branded Hotels consists of franchise application fees paid upon the acquisition of these properties. The fair values of loans assumed are determined based on various factors including AHIP’s assessment of market interest rates for comparable loans.

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 lodging or franchise agreements.

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD:

No new accounting standards were adopted during the three months ended June 30, 2016.

SUBSEQUENT EVENTS

a) Acquisition of the Embassy Suites Portfolio

On July 13, 2016, AHIP announced the acquisition of the two-hotel, Embassy Suites Portfolio in Texas and Arizona. The properties included a 305-room Embassy Suites by Hilton Dallas DFW Airport South and a 224-room Embassy Suites by Hilton Phoenix-Tempe. The two Branded Hotels will be acquired for an aggregate purchase price of approximately $57.6 million before customary closing and post-acquisition adjustments and excluding a $5.7 million in brand mandated PIPs. The acquisition is expected to be funded using a combination of cash from AHIP's July 2016 Offering (as defined below) that was completed on July 26, 2016, the assumption of an existing commercial mortgage backed securities ("**CMBS**") loan of $19.0 million on the Dallas property, a new CMBS loan on the Tempe property of $13.5 million and approximately $17.4 million of AHIP Units that will be issued based on the 10-day volume weighted average trading price prior to the transaction closing date. The Dallas loan bears interest at 5.25% and is scheduled to mature on October 11, 2024. The new Tempe mortgage will have a 10 year term with an expected fixed interest rate of approximately 4.80%. The transaction is expected to be completed in early September 2016, and as disclosed in the July 2016 Offering prospectus, two AHIP directors have indirect interests in the transaction.

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. The Bridge Loan is secured by the Tempe Hotel and will be repaid upon completion of the acquisition.

b) Completion of Cdn$103.5 million Unit Issuance on July 26, 2016 ("**July 2016 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$103.5 million. Included in the closing were 1,304,400 Units (Cdn$13.5 million) from the exercise of the over-allotment option. As described in the short form prospectus dated July 18, 2016, AHIP intends to use the net proceeds of the offering to: (i) partially fund the acquisition of the Embassy Suites Portfolio; (ii) partially fund the potential acquisition of a nine-hotel branded portfolio in five states; (iii) partially fund the potential acquisition of two rail crew hotels in Tennessee and Kansas; and (iv) the balance, if any, to fund working capital and for general corporate purposes.

(c) July 2016 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.

INTERNAL CONTROLS

National Instrument 52-109 "*Certification of Disclosure in Issuers' Annual and Interim Filings*" ("**NI 52-109**") requires the Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") to be responsible for establishing and maintaining disclosure controls and procedures ("**DC&P**") and internal controls over financial reporting ("**ICFR**"), as defined in the instrument. DC&P are designed to provide reasonable assurance that material information required to be disclosed by AHIP in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are designed to ensure that material information required to be disclosed by AHIP in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to AHIP's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

AHIP's ICFR may not prevent or detect all misstatements because of the inherent limitations of any control system. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with AHIP's policies and procedures.

As at June 30, 2016, AHIP's management, under the supervision of its CEO and CFO, has designed DC&P and ICFR, with the exception of the scope of design of DC&P and ICFR as noted below. Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") in Internal Control – Integrated Framework (2013).

In accordance with Section 3.3(1)(b) of NI 52-109, AHIP's CEO and CFO have limited the scope of design of DC&P and ICFR to exclude the controls, policies and procedures related to the Florida Portfolio and the Railway Portfolio, as they were acquired less than 365 days before the last day of the three month period ended June 30, 2016. The results of these two portfolios combined constitute approximately 15.7% and 21.4%, respectively, of AHIP's income from operating activities for the three and six months ended June 30, 2016, included in the unaudited condensed consolidated interim financial statements and related notes. AHIP intends to complete the design of DC&P and ICFR for the remaining portfolios by September 30, 2016.

FOREIGN EXCHANGE MANAGEMENT

All of AHIP's investments and substantially all of its operations are conducted in U.S. dollars. Commencing with the April 2016 distribution paid on May 13, 2016, AHIP began paying its distributions to unitholders in U.S. dollars. Therefore, AHIP has minimal exposure to fluctuations in currency exchange rates with respect to its distributions. Prior to April 2016, AHIP paid its distributions in Canadian dollars. For the three months and six ended June 30, 2016, AHIP did not enter into any currency swap arrangements.

The following table provides the quarterly Canadian dollar/U.S. dollar exchange rates over the past 12 months:

Period end Exchange Rate(1)	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**	**June 30, 2015**
Cdn$/US$	$ 1.3009	$ 1.2971	$ 1.3840	$ 1.3394	$ 1.2474
US$/Cdn$	$ 0.7687	$ 0.7700	$ 0.7225	$ 0.7466	$ 0.8017

(1) Bank of Canada noon rate on the respective dates

RISKS AND UNCERTAINTIES

Investing in Units involves a high degree of risk. In addition to the risks identified in this section and elsewhere in this MD&A, investors should carefully consider all of the risk factors noted in AHIP's AIF, a copy of which is available on SEDAR at www.sedar.com, before purchasing Units. The occurrence of any of such risks, or other risks not presently known to AHIP or that AHIP currently believes are immaterial, could materially and adversely affect AHIP's investments, prospects, cash flows, results of operations or financial condition and AHIP's ability to make cash distributions to unitholders. In that event, the value of the Units could decline and investors may lose all or part of their investment.

The Units involve a certain degree of risk. Any person currently holding or considering the purchase of Units should be aware of these and other factors set forth in AHIP's AIF and should consult with his or her legal, tax and financial advisors prior to making an investment in the Units. The Units should only be purchased by persons who can afford to lose all of their investment.

ADDITIONAL INFORMATION

Additional information relating to AHIP, including the company's AIF, is available on SEDAR at www.sedar.com.

RAIL HOTELS PORTFOLIO AS AT AUGUST 9, 2016

Hotel Address	Location	Number of Rooms	Restaurant	Acquisition Date
2407 East Holland Avenue	Alpine, TX	40	Yes	Feb. 20, 2013
2111 Camino Del Llano	Belen, NM	160	Yes	Sept. 16, 2015
3522 N. Highway 59	Bill, WY	112	Yes	Feb. 20, 2013
620 Souder Road	Brunswick, MD	25	Yes	Nov. 24, 2014
3475 Union Road	Buffalo, NY	56	-	Feb. 20, 2013
1625 Stillwater Avenue	Cheyenne, WV	60	Yes	Feb. 20, 2013
2300 Valley West Ct.	Clinton, IA	123	-	Feb. 20, 2013
21233 Coal River Road	Comfort, WV	25	-	Feb. 20, 2013
1608 US 60 Business W	Dexter, MO	133	Yes	Feb. 20, 2013
4000 Siskiyou Avenue	Dunsmuir, CA	21	Yes	Feb. 20, 2013
100 North 6th Avenue	Edgemont, SD	56	-	Sept. 16, 2015
95 Spruce Road	Elko, NV	119	-	Feb. 20, 2013
2505 US 69	Fort Scott, KS	70	-	Nov. 11, 2015
2700 N. Diers Parkway	Fremont, NE	100	Yes	Feb. 20, 2013
2307 Wyoming Avenue	Gillette, WY	156	-	Sept. 16, 2015
2006 North Merrill Avenue	Glendive, MT	74	Yes	Oct. 29 2014
100 15th Street SE	Glenwood, MN	56	Yes	Feb. 20, 2013
1170 W. Flaming Gorge Way	Green River, WY	191	Yes	Feb. 20, 2013
800 West Laramie Street	Guernsey, WY	96	-	Sept. 16, 2015
1051 North Market	Hearne, TX	140	Yes	Feb. 20, 2013
1110 SE 4th Street	Hermiston, OR	86	-	Feb. 20, 2013
1710 Jefferson Street	Jefferson City, MO	77	-	Sept. 12, 2013
501 SW Boulevard	Kansas City, KS	110	-	Feb. 20, 2013
2545 Cornhusker Highway	Lincoln, NE	133	-	Jan. 8, 2016
7875 Airline Highway	Livonia, LA	42	Yes	Feb. 20, 2013
8233 Airline Highway	Livonia, LA	60	-	Feb. 20, 2013
123 Westvaco Road	Low Moor, VA	30	Yes	Feb. 20, 2013
1127 Pony Express Highway	Marysville, KS	139	Yes	Feb. 20, 2013
528 S. George Nigh Expressway	McAlester, OK	61	-	Feb. 20, 2013
777 W Center Street	Milford, UT	75	Yes	Feb. 20, 2013
128 S. Willow	Missouri Valley, IA	41	Yes	Feb. 20, 2013
707 E. Webster Street	Morrill, NE	97	Yes	Feb. 20, 2013
451 Halligan Drive	North Platte, NE	111	Yes	Feb. 20, 2013
22 N. Frontage Street	Pecos, TX	61	-	Feb. 20, 2013
101 Grand Avenue	Ravenna, NE	118	-	Sept. 16, 2015
2005 E. Daley Street	Rawlins, WY	62	Yes	Feb. 20, 2013
2680 Airport Road	Santa Teresa, NM	56	Yes	May 6, 2014
K27 & Commerce Street	Sharon Springs, KS	50	Yes	Feb. 20, 2013
U.S. 285 & 2nd Street	Vaughn, NM	60	Yes	Feb. 20, 2013
1177 E. 16th Street	Wellington, KS	80	Yes	Feb. 20, 2013
1004 E 16th Street	Wellington, KS	110	-	Feb. 25, 2015
1706 N. Park Drive	Winslow, AZ	72	-	Feb. 20, 2013
98 Moffat Avenue	Yampa, CO	37	Yes	Feb. 20, 2013
35450 Yermo Road	Yermo, CA	65	Yes	Feb. 20, 2013
1731 S. Sunridge Drive	Yuma, AZ	119	Yes	Feb. 20, 2013
TOTAL RAIL HOTELS	**45 properties**	**3,765**	**27**	

BRANDED HOTELS PORTFOLIO AS AT AUGUST 9, 2016

Hotel Address	Brand	Location	Number of Rooms	Restaurant	Acquisition Date
Florida Region					
3712 SW 38th Ct	Courtyard	Ocala, FL	169	Yes	Aug. 6, 2015
4735 Helen Hauser Blvd.	Fairfield Inn & Suites	Titusville, FL	96	-	Nov. 25, 2014
4101 SW 38th Avenue	Fairfield Inn & Suites	Ocala, FL	96	-	Aug. 6, 2015
3610 SW 38th Avenue	Residence Inn	Ocala, FL	87	-	Aug. 6, 2015
4355 West New Haven Ave	Fairfield Inn & Suites	Melbourne, FL	83	-	Nov. 25, 2014
1319 East King Avenue	Fairfield Inn & Suites	Kingsland, GA	82	-	Jul. 3, 2014
Midwest Region					
2080 Holliday Drive	Holiday Inn Express	Dubuque, IA	87	-	Jun. 18, 2015
121 Swords Drive	Holiday Inn Express	Mattoon, IL	69	-	Jun. 18, 2015
2501 Holliday Lane	Holiday Inn Express	Jacksonville, IL	69	-	Jun. 18, 2015
311 S. Johnson Drive	Holiday Inn Express	Nevada, MO	68	-	Jun. 18, 2015
3007 W. 18th Avenue	Holiday Inn Express	Emporia, KS	68	-	Jun. 18, 2015
North Carolina Region					
1137 E. Dixie Drive	Hampton Inn	Asheboro, NC	111	-	Jul. 3, 2014
10024 US Hwy 15 & 501	Springhill Suites	Pinehurst, NC	107	-	Jul. 11, 2014
920 Executive Way	Fairfield Inn & Suites	Asheboro, NC	87	-	Jul. 3, 2014
1530 Cinema Drive	Courtyard	Statesville, NC	94	-	Nov. 25, 2014
1508 Cinema Drive	Hampton Inn	Statesville, NC	80	-	Nov. 25, 2014
Pittsburgh Region					
555 Trumbull Drive	Hampton Inn	Pittsburgh, PA	132	-	Nov. 21, 2013
8514 University Boulevard	Hampton Inn	Moon (Pittsburgh), PA	127	-	Nov. 21, 2013
210 Executive Drive	Hampton Inn	Cranberry Township, PA	116	-	Nov. 21, 2013
1308 Freedom Road	Residence Inn	Cranberry Township, PA	96	-	Nov. 21, 2013
Texas/Oklahoma Region					
8231 Amarillo Blvd. West	Holiday Inn	Amarillo, TX	151	Yes	Oct. 27, 2014
4401 SW 15th Street	Holiday Inn	Oklahoma City, OK	147	Yes	Nov. 3, 2014
13800 Quail Springs Pkway	Holiday Inn	Oklahoma City, OK	109	Yes	Nov. 3, 2014
4411 SW 15th Street	Staybridge Suites	Oklahoma City, OK	103	-	Nov. 3, 2014
2814 Williams Avenue	Hampton Inn	Woodward, OK	81	-	Nov. 3, 2014
1740 Airport Boulevard	Fairfield Inn & Suites	Amarillo, TX	79	-	Oct. 27, 2014
960 Ed Noble Parkway	Country Inn	Norman, OK	77	-	Jun. 18, 2015
7840 NW 39 Expressway	Holiday Inn Express	Bethany, OK	69	-	Jun. 18, 2015
6915 I-40 West	Sleep Inn & Suites	Amarillo, TX	63	-	Oct. 27, 2014
3004 South 4th Street	Hampton Inn	Chickasha, OK	63	-	Jun. 18, 2015
2610 S. 4th Street	Holiday Inn Express	Chickasha, OK	62	-	Jun. 18, 2015
Virginia Region					
85 University Boulevard	Hampton Inn	Harrisonburg, VA	159	-	Mar. 12, 2014
43 Covenant Drive	Hampton Inn	Harrisonburg, VA	90	-	Mar. 12, 2014
898 Wiggins Road	Hampton Inn	Emporia, VA	85	-	Mar. 12, 2014
150 Arnold Drive	Fairfield Inn & Suites	South Hill, VA	68	-	Mar. 12, 2014
TOTAL BRANDED HOTELS	**35 properties**		**3,330**	**4**	
GRAND TOTAL	**80 properties**		**7,095**	**31**	

AMERICAN HOTEL INCOME PROPERTIES REIT LP

PROPERTY UNDER DEVELOPMENT AS AT AUGUST 9, 2016

Hotel Address	Location	Number of Rooms	Restaurant	Completion Date
451 Halligan Drive (expansion)	North Platte, NE	24	-	September 2016
TOTAL DEVELOPMENTS	**1 Property**	**24**	**-**	

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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