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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Three and six months ended June 30, 2018 and 2017
(Unaudited)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

	Notes	June 30, 2018	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents		$ 9,248	$ 11,935
Current portion of restricted cash	4	33,666	34,838
Trade and other receivables		11,191	10,987
Prepaids and other assets		11,014	11,083
		65,119	68,843
Restricted cash	4	15,045	16,242
Property, buildings and equipment	5	1,178,398	1,190,714
Intangible assets	6	11,289	12,286
Fair value of interest rate swap contracts		2,717	806
Deferred income tax assets	7	8,745	6,842
		$ 1,281,313	$ 1,295,733
Liabilities and Partners' Capital			
Current liabilities:			
Accounts payable and accrued liabilities		$ 31,946	$ 33,842
Finance lease liability		1,871	1,911
Current portion of term loans	8	7,158	11,586
Current portion of other liabilities	9	418	418
		41,393	47,757
Revolving credit facilities	8(c)	5,100	-
Term loans	8	681,540	680,745
Convertible debentures	10	45,653	45,307
Other liabilities	9	2,010	2,208
Deferred income tax liabilities	7	2,905	2,143
		778,601	778,160
Partners' capital	11	502,712	517,573
		$ 1,281,313	$ 1,295,733

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See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Unaudited)
(Expressed in thousands of U.S. dollars, except unit and per unit amounts)

		Three months ended		Six months ended	
	Notes	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue:					
Rooms		$ 82,262	$ 62,015	$ 156,261	$ 117,517
Food and beverage		6,382	6,351	12,266	11,707
Other		1,267	1,086	2,450	1,953
		89,911	69,452	170,977	131,177
Hotel expenses:					
Operating expenses		44,802	35,226	87,429	66,533
Energy		3,391	2,735	7,196	5,332
Property maintenance		3,956	3,191	8,024	6,026
Property taxes and insurance		2,249	2,509	7,441	6,700
Depreciation and amortization		10,000	9,037	22,063	17,239
		64,398	52,698	132,153	101,830
Income from operating activities		25,513	16,754	38,824	29,347
Corporate and administrative		5,460	3,444	10,450	7,359
Loss (gain) on disposal of assets		1,842	1	1,847	(32)
Impairment loss on hotel asset		-	7,349	-	7,349
Business acquisition costs		96	4,518	416	5,899
Income before undernoted		18,115	1,442	26,111	8,772
Finance income		(13)	(34)	(18)	(48)
Finance costs	13	9,115	6,732	17,040	12,285
Income (loss) before income taxes		9,013	(5,256)	9,089	(3,465)
Current tax expense		-	97	-	356
Deferred tax expense (recovery)		159	143	(1,141)	(707)
Net income (loss) and comprehensive income (loss)		$ 8,854	$ (5,496)	$ 10,230	$ (3,114)
Basic and diluted net income (loss) per unit		$ 0.11	$ (0.09)	$ 0.13	$ (0.05)
Basic weighted average number of units outstanding		78,061,562	63,316,133	78,054,722	60,918,134
Diluted weighted average number of units outstanding		78,247,893	63,535,747	78,220,461	61,073,711

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Partners' Capital
(Expressed in thousands of U.S. dollars, except Units outstanding)

Six months ended June 30, 2018 and 2017

	Notes	Units outstanding	General partner[1]	Limited partners	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2018		78,047,806	$ -	$ 617,767	$ 645	$ (100,839)	$ 517,573
Securities-based compensation	12	-	-	-	241	-	241
Issuance of Units under securities-based compensation plan		14,388	-	116	(116)	-	-
Net income and comprehensive income		-	-	-	-	10,230	10,230
Distributions	11(c)	-	-	-	-	(25,332)	(25,332)
Balance, June 30, 2018		78,062,194	$ -	$ 617,883	$ 770	$ (115,941)	$ 502,712
Balance, January 1, 2017		56,374,042	$ -	$ 456,101	$ 360	$ (55,437)	$ 401,024
Securities-based compensation	12	-	-	-	288	-	288
Issuance of Units under securities-based compensation plan		6,803	-	57	(82)	-	(25)
Issuance of Units for hotel acquisitions, net of issuance costs		2,242,761	-	17,329	-	-	17,329
Issuance of Units on public offering, net of expenses		19,410,000	-	142,094	-	-	142,094
Issuance of convertible debentures, equity portion net of expenses		-	-	2,004	-	-	2,004
Net loss and comprehensive loss		-	-	-	-	(3,114)	(3,114)
Distributions	11(c)	-	-	-	-	(20,090)	(20,090)
Balance, June 30, 2017		78,033,606	$ -	$ 617,585	$ 566	$ (78,641)	$ 539,510

[1] *Consists of $0.1 of General Partner Units.*

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

		Three months ended		Six months ended	
	Notes	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cash provided by (used in):					
Operating activities:					
Net income (loss) and comprehensive income (loss)		$ 8,854	$ (5,496)	$ 10,230	$ (3,114)
Interest paid		(9,592)	(5,980)	(17,821)	(11,626)
Securities based compensation Units paid in cash		-	-	-	(25)
Items not affecting cash:					
Loss (gain) on disposal of assets		1,842	1	1,847	(32)
Depreciation and amortization		10,000	9,037	22,063	17,239
Impairment loss on hotel asset		-	7,349	-	7,349
Securities-based compensation expense	12	130	186	241	288
Deferred income tax expense (recovery)		159	143	(1,141)	(707)
Amortization of other liabilities		(43)	-	(86)	-
Finance costs	13	9,115	6,732	17,040	12,285
		20,465	11,972	32,373	21,657
Changes in non-cash operating working capital	18	(1,586)	1,918	(2,505)	10,799
		18,879	13,890	29,868	32,456
Investing activities:					
Changes to restricted cash reserves		2,169	(16,862)	2,369	(32,231)
Purchase of property, buildings and equipment		(5,790)	(5,354)	(10,401)	(10,996)
Franchise application fees paid		-	(2,778)	-	(2,778)
Acquisition of Premium Branded Hotels, net of cash acquired		-	(394,407)	-	(521,068)
Proceeds on disposal of hotel		150	-	150	4,353
		(3,471)	(419,401)	(7,882)	(562,720)
Financing activities:					
Units issued for cash on public offerings, net of expenses		-	142,094	-	142,094
Issuance of convertible debentures		-	48,875	-	48,875
Distributions paid		(12,671)	(9,497)	(25,340)	(18,872)
Proceeds from revolving credit facilities		5,100	-	11,950	-
Payments on revolving credit facilities		(6,850)	-	(6,850)	-
Proceeds from term loans		-	236,200	23,600	314,700
Payments on term loans		(6,743)	(1,461)	(27,096)	(4,979)
Payments on deferred compensation		(63)	(63)	(126)	(126)
Payments on finance lease liability		(20)	-	(40)	-
Issuance costs related to acquisitions		-	-	-	(46)
Financing costs paid		(185)	(3,251)	(771)	(4,452)
		(21,432)	412,897	(24,673)	477,194
Increase (decrease) in cash and cash equivalents		(6,024)	7,386	(2,687)	(53,070)
Cash and cash equivalents, beginning of period		15,272	20,671	11,935	81,127
Cash and cash equivalents, end of period		$ 9,248	$ 28,057	$ 9,248	$ 28,057

See accompanying notes to consolidated financial statements.

1. Reporting entity:

American Hotel Income Properties REIT LP ("AHIP") is a limited partnership formed under the *Limited Partnerships Act* (Ontario) to invest in hotel real estate properties in the United States. AHIP was established pursuant to the terms of AHIP's Limited Partnership Agreement dated October 12, 2012 and amended on February 20, 2013 and June 9, 2015. AHIP's head office and address for service is 800 - 925 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3L2.

AHIP has two operating segments: (*i*) Premium Branded Hotels are hotels that have franchise agreements with international hotel brands and (*ii*) Economy Lodging Hotels are hotels that have rail crew lodging facility agreements with large railway companies and franchise agreements with Wyndham Hotel Group ("WHG").

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

2. Basis of presentation and statement of compliance:

(a) Statement of compliance:

These condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Statements should be read in conjunction with the notes to AHIP's annual audited financial statements for the year ended December 31, 2017 which have been prepared in accordance with IFRS, since these Interim Financial Statements do not contain all disclosures required by IFRS for annual financial statements.

These Interim Financial Statements were approved and authorized for issue by the Board of Directors of the General Partner on August 8, 2018.

(b) Basis of measurement:

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

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

(c) Functional and presentation currency:

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

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

(*i*) Monetary assets and liabilities are translated at current rates of exchange and non-monetary assets and liabilities are translated at historical rates of exchange;

(*ii*) Revenues and expenses are translated at average rates of exchange for the period; and

(*iii*) All exchange gains and losses are recognized in the consolidated statements of comprehensive income.

(d) Measurement uncertainty (use of estimates):

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

The significant areas of estimates that are critical to the determination of the amounts reported are disclosed in note 3 and in AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2017, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15, which are described in note 3.

There have been no changes to the amounts of the business combinations and the purchase price allocation as previously disclosed in the annual audited financial statements as at and for the year ended December 31, 2017.

3. Significant accounting policies:

(a) Significant accounting policies:

These Interim Financial Statements follow the same accounting policies and methods of application as the annual audited consolidated financial statements as at and for the year ended December 31, 2017, except as noted below.

AHIP has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018.

(*i*) IFRS 9 *Financial Instruments* ("IFRS 9"):

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

(A) Classification and measurement of financial assets and financial liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans, and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on AHIP's accounting policies related to financial liabilities and derivative financial instruments.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value in OCI ("FVOCI") - debt investment; or fair value in profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

3. Significant accounting policies (continued):

(a) Significant accounting policies (continued):

(*i*) IFRS 9 *Financial Instruments* ("IFRS 9") (continued):

(A) Classification and measurement of financial assets and financial liabilities (continued):

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of AHIP's financial assets and liabilities. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

Financial assets Liabilities	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Term loans	Other financial liabilities	Amortized cost
Revolving credit facilities	Other financial liabilities	Amortized cost
Deferred compensation payable	Other financial liabilities	Amortized cost
Preferred shares	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost
Interest rate swap	FVTPL	FVTPL

3. Significant accounting policies (continued):

(a) Significant accounting policies (continued):

(*i*) IFRS 9 *Financial Instruments* ("IFRS 9") (continued):

(B) Impairment of financial assets:

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

Financial assets measured at amortized cost are assessed at each reporting date to determine the credit risk of the financial asset to apply the relevant impairment requirements. There are generally 3 stages of credit risk:

1. Financial assets that are expected to perform in line with their contractual terms and which have no signs of increased credit risk;
2. Financial assets that have significantly increased in credit risk since initial recognition but are not credit-impaired; and
3. Credit-impaired financial instruments.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to AHIP on terms that AHIP would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

AHIP considers evidence of impairment of financial assets measured at amortized cost at both a specific asset and collective level. All individually significant financial assets measured at amortized cost are assessed for specific impairment. All individually significant financial assets measured at amortized cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Such assets that are not individually significant are collectively assessed for impairment by grouping together financial assets measured at amortized cost with similar risk characteristics.

3. Significant accounting policies (continued):

(a) Significant accounting policies (continued):

(*i*) IFRS 9 *Financial Instruments* ("IFRS 9") (continued):

(B) Impairment of financial assets (continued):

An impairment loss in respect of a financial asset measured at amortized cost is measured through a loss allowance at an amount equal to:

— *12-month expected credit losses ("ECLs")*: these are ECLs that result from possible default events within the 12 months after the reporting date; and

— *Lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

(*ii*) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"):

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue* and related interpretations. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is generated primarily from the operation of AHIP's hotels and restaurants and is disclosed under three categories: room revenue, food and beverage, and other revenue. Other revenue is comprised of vehicle and maintenance charges at offsite customer locations and other incidental income.

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

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

3. Significant accounting policies (continued):

(a) Significant accounting policies (continued):

(*ii*) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") (continued):

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

The adoption of IFRS 15 had no impact on the measurement and recognition of revenue.

(b) New standards and interpretations issued but not yet adopted:

IFRS 16, *Leases* ("IFRS 16") was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17, *Leases*. The most significant effect of the new standard will be the recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low-value assets may be exempted. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted provided AHIP has adopted IFRS 15. AHIP intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. Management does not expect the adoption of this standard to have a significant impact on its consolidated financial statements.

4. Restricted cash:

	June 30, 2018	December 31, 2017
Property improvement plans ("PIPs") reserves	$ 29,572	$ 35,600
Furniture, fixture and equipment reserves ("FF&E Reserves")	6,803	5,710
Property tax reserves	5,714	4,225
Insurance, cash collateral and other reserves	6,622	5,545
	48,711	51,080
Current portion of restricted cash	(33,666)	(34,838)
	$ 15,045	$ 16,242

For the Premium Branded Hotels, AHIP has funded restricted cash reserves for brand mandated PIPs arising from the purchase of these properties and which are expected to be spent within 18 to 24 months after acquisition. In addition, certain related term loans require AHIP to deposit reserves for FF&E Reserves, cash collateral, property taxes and insurance premiums. These amounts are released to AHIP as the expenditures are incurred or paid directly to the service provider.

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

5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction in-progress	Total
Cost:					
Balance, January 1, 2017	$ 69,817	$ 576,505	$ 50,192	$ 1,248	$ 697,762
Acquisition of Premium Branded Hotels	79,665	457,660	31,187	-	568,512
Acquisition of Economy Lodging Hotels	926	4,778	866	-	6,570
Additions	-	3,368	7,992	12,164	23,524
Transfers	-	6,342	5,635	(11,977)	-
Sale of hotel	(700)	(3,557)	(150)	-	(4,407)
Impairments	-	(10,808)	-	-	(10,808)
Disposals	-	-	(233)	-	(233)
Balance, December 31, 2017	149,708	1,034,288	95,489	1,435	1,280,920
Additions	-	1,364	3,359	5,678	10,401
Transfers	-	320	717	(1,037)	-
Sale of hotel	(295)	(953)	(105)	-	(1,353)
Disposals	-	-	(1,350)	-	(1,350)
Balance, June 30, 2018	$ 149,413	$ 1,035,019	$ 98,110	$ 6,076	$ 1,288,618

	Land	Buildings	Equipment	Construction in-progress	Total
Accumulated depreciation:					
Balance at January 1, 2017	$ -	$ 34,073	$ 18,667	$ -	$ 52,740
Depreciation	-	24,129	13,708	-	37,837
Disposals	-	(139)	(232)	-	(371)
Balance at December 31, 2017	-	58,063	32,143	-	90,206
Depreciation	-	14,371	6,695	-	21,066
Sale of hotel	-	(789)	(56)	-	(845)
Disposals	-	-	(207)	-	(207)
Balance, June 30, 2018	$ -	$ 71,645	$ 38,575	$ -	$ 110,220
Net book value, June 30, 2018	$ 149,413	$ 963,374	$ 59,535	$ 6,076	$ 1,178,398
Net book value, December 31, 2017	$ 149,708	$ 976,225	$ 63,346	$ 1,435	$ 1,190,714

On May 14, 2018, AHIP sold the 118-room Ravenna, Nebraska Economy for gross proceeds of $150, resulting in a loss on sale of $534 which was recognized on the consolidated interim statements of comprehensive income for the three and six months ended June 30, 2018. AHIP recognized an impairment loss totaling $8,873 on this property in 2017.

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

6. Intangible assets:

	Lodging Agreements	Contract Signing Fees	Franchise Agreements	Total
Cost:				
Balance, January 1, 2017	$ 14,855	$ 460	$ 4,075	$ 19,390
Premium Branded Hotels Acquisitions	-	-	3,603	3,603
Economy Lodging Hotels branding	-	-	1,029	1,029
Disposals	-	-	(50)	(50)
Balance, December 31, 2017	14,855	460	8,657	23,972
Balance, June 30, 2018	$ 14,855	$ 460	$ 8,657	$ 23,972
Accumulated amortization:				
Balance, January 1, 2017	$ 7,903	$ 138	$ 574	$ 8,615
Amortization	2,526	48	501	3,075
Disposals	-	-	(4)	(4)
Balance, December 31, 2017	10,429	186	1,071	11,686
Amortization	668	24	305	997
Balance, June 30, 2018	$ 11,097	$ 210	$ 1,376	$ 12,683
Net book value, June 30, 2018	$ 3,758	$ 250	$ 7,281	$ 11,289
Net book value, December 31, 2017	$ 4,426	$ 274	$ 7,586	$ 12,286

7. Income taxes:

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

	June 30, 2018	December 31, 2017
Deferred income tax assets:		
Non capital losses carried forward	$ 5,951	$ 4,215
Intangible assets	2,101	2,056
Deferred income	468	484
Other	225	87
	$ 8,745	$ 6,842
Deferred income tax liabilities:		
Deferred compensation payable	$ 25	$ 27
Property, buildings and equipment	2,883	2,114
Other	(3)	2
	$ 2,905	$ 2,143

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

7. Income taxes (continued):

On December 22, 2017, the Tax Cuts and Jobs Act ("U.S. Tax Reform") was passed. The U.S. Tax Reform reduces the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. Future regulations and interpretations to be issued by U.S. authorities may also impact AHIP's estimates and assumptions used in calculating its income tax provisions.

As at June 30, 2018, AHIP had net operating losses for tax purposes totaling $23,834 (December 31, 2017 - $16,906) which may be carried forward for up to 20 years from the date of origination and applied against future taxable income.

8. Term loans and revolving credit facilities:

	Notes	June 30, 2018	December 31, 2017
Premium Branded Hotels term loans		$ 590,040	$ 596,180
Economy Lodging Hotels term loans	(a)	107,954	105,309
Revolving credit facilities	(c)	5,100	-
		703,094	701,489
Unamortized portion of mark-to-market adjustments		311	362
Unamortized portion of debt financing costs		(9,607)	(9,520)
		693,798	692,331
Current portion of term loans		(7,158)	(11,586)
Revolving credit facilities		(5,100)	-
		$ 681,540	$ 680,745

All of AHIP's assets have been pledged as security under various loan agreements. At June 30, 2018, AHIP's term loans had a weighted average interest rate of 4.61% (December 31, 2017 - 4.61%).

During the six months ended June 30, 2018, the following transactions occurred:

(a) Economy Lodging Hotels term loans:

On March 16, 2018, AHIP consolidated the debt and business structure of its Economy Lodging Hotels operating segment. AHIP refinanced an existing loan with a remaining principal balance of $18,836 (December 31, 2017 - $18,974). The refinanced loan is secured by four hotel properties, with a principal balance of $19,600 and a term of seven years, will mature on February 28, 2025 with a variable interest rate equal to the sum of 30-day LIBOR plus 2.8%. Principal repayments commenced in May 2018 with an 18-year amortization period.

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

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

(a) Economy Lodging Hotels term loans (continued):

AHIP also obtained a $4,000 term loan secured by hotel properties located in Fargo, North Dakota and Whitefish, Montana. The loan has a term of five years, maturing on February 28, 2023 with a variable interest rate equal to the sum of 30-day LIBOR plus 2.8%. Principal repayments commenced in May 2018 with a 15-year amortization period.

(b) Economy Lodging Hotels revolving credit facility:

AHIP also obtained an increase to its available revolving line of credit facility from $10,000 to $13,500 with a floating interest rate based on the sum of 30-day LIBOR plus 2.80%. This credit facility is renewed annually and was renewed until February 28, 2019. Advances under this credit facility are available to finance approved project costs and to fund working capital requirements. As at June 30, 2018, there were no amounts drawn against this credit facility (December 31, 2017 - nil).

(c) Premium Branded Hotels revolving credit facility:

On March 19, 2018, AHIP entered into a new $40,000 unsecured revolving credit facility with a U.S. affiliate of a Canadian chartered bank. The credit facility has an initial size of $19,800 based on the current borrowing base of three Premium Branded Hotels and includes an accordion feature that allows AHIP to increase the size of the facility to $75,000, subject to certain conditions. This credit facility has an initial term of three years with two additional one-year extension options. Borrowings under this facility bear interest at 30-day LIBOR plus 2.75%. On June 1, 2018, $5,100 was drawn on this facility for the early prepayment of a Premium Branded mortgage that was maturing on August 1, 2018 with a fixed interest rate of 5.69%. As at June 30, 2018, the balance owing on the revolving credit facility was $5,100.

(d) Principal payments:

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

2018	$	3,529
2019		7,340
2020		9,591
2021		15,386
2022		69,881
Thereafter		597,367
	$	703,094

As at June 30, 2018, AHIP was in compliance with all of its lending agreements.

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

9. Other liabilities:

	June 30, 2018	December 31, 2017
Deferred income	$ 1,933	$ 2,000
Deferred compensation payable	272	384
Preferred shares	125	125
Deferred lease inducement	98	117
	2,428	2,626
Current portion of other liabilities	(418)	(418)
	$ 2,010	$ 2,208

10. Convertible debentures:

	Liability carrying value	Equity carrying value	Total face value
Balance, January 1, 2017	$ -	$ -	$ -
Issuance of debentures	46,790	2,085	48,875
Debenture transaction costs	(1,817)	(106)	(1,923)
Amortization of transaction costs	152	-	152
Accretion of liability component	182	-	182
Balance, December 31, 2017	45,307	1,979	47,286
Amortization of transaction costs	158	-	158
Accretion of liability component	188	-	188
Balance, June 30, 2018	$ 45,653	$ 1,979	$ 47,632

AHIP’s convertible debentures bear interest of 5.0% per annum. As at June 30, 2018, $48,875 of the face value of the convertible debentures was outstanding (December 31, 2017 - $48,875).

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

11. Partners' capital:

(a) Authorized:

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

(b) Issued:

On April 5, 2018, AHIP issued 14,388 Units to senior management on the vesting of units granted under AHIP's short-term and long-term incentive plans (collectively, "Restricted Stock Units").

For the six months ended June 30, 2018, there were no offering costs incurred (six months ended June 30, 2017 - $7,283). Offering costs are deducted from partners' capital.

(c) Distribution policy:

AHIP intends to make monthly distributions to unitholders of record on the last business day of each month. Distributions will be paid on or about the 15th day following the end of each month. AHIP may also make additional distributions in excess of monthly distributions during the year as determined by the General Partner.

For the three months ended June 30, 2018, AHIP declared distributions of $0.162 per Unit to be paid to unitholders totaling $12,667 (three months ended June 30, 2017 - $10,608) and $0.324 per Unit for the six months ended June 30, 2018, totaling $25,332 (six months ended June 30, 2017 - $20,090). Of this amount, $4,215 was included in accounts payable and accrued liabilities at June 30, 2018 (December 31, 2017 - $4,215).

12. Compensation plan:

As at June 30, 2018, AHIP had a total of 228,664 unvested Units as follows:

	Number of Units	Weighted average grant date fair value
Unvested, December 31, 2016	97,231	$ 8.11
Granted	109,936	7.75
Vested	(21,003)	(8.35)
Forfeited or cash-settled	(26,857)	(8.31)
Unvested, December 31, 2017	159,307	7.80
Granted	83,745	5.88
Vested	(14,388)	(8.04)
Forfeited or cash-settled	-	-
Unvested, June 30, 2018	228,664	$ 7.08

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

12. Compensation plan (continued):

The vesting schedule of the unvested Units is as follows:

Vesting dates	Number of Units	Total fair value of Units at grant date
December 14, 2018	55,663	$ 439
March 15, 2019	40,787	301
December 13, 2019	29,349	224
March 13, 2020	48,622	346
December 15, 2020	14,760	92
May 17, 2021	39,483	217
Total unvested Units	228,664	$ 1,619

For the three and six months ended June 30, 2018, a total of $130 and $241 ($186 and $288 for the three and six months ended June 30, 2017, respectively) in securities-based compensation expense, respectively is included in corporate and administrative expenses.

13. Finance costs:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest expense on term loans and revolving credit facilities	$ 8,406	$ 5,964	$ 16,611	$ 11,587
Interest expense on convertible debentures	611	128	1,222	128
Amortization of debt financing costs	444	289	761	625
Accretion of convertible debenture liability	94	15	188	15
Amortization of convertible debenture transaction costs	79	19	158	19
Interest expense on finance lease liability	21	-	43	-
Amortization of deferred compensation	6	4	12	8
Dividends on preferred shares	4	4	8	8
Amortization of mark-to market adjustments	(27)	(35)	(52)	(54)
Change in fair value of interest rate swap contracts	(523)	344	(1,911)	(51)
	$ 9,115	$ 6,732	$ 17,040	$ 12,285

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

14. Commitments and contingencies:

(a) Operating leases:

AHIP and certain subsidiaries have entered into operating leases and non-cancelable contracts for certain hotel ground and air rights, office space, office equipment, and automobiles. Future minimum lease payments as of June 30, 2018 are as follows:

2018	$ 640
2019	1,103
2020	825
2021	703
2022	598
Thereafter	3,886
	$ 7,755

(b) Lodging facility agreements:

The Economy Lodging Hotels have lodging facility agreements with several railway companies. Under these agreements, AHIP typically agrees to operate and maintain lodging and restaurant properties for the use of authorized railway employees. The agreements provide for a minimum number of rooms to be available, and they also specify certain quality, service, transportation, and insurance requirements to be provided by AHIP in exchange for a fixed rate per rented room. AHIP may rent the remaining rooms to the general public. These agreements have various lengths, some of which require annual renewal and others have fixed terms with expirations through to 2031.

(c) Property Improvement Plans:

Under the terms of AHIP's franchise agreements for its Premium Branded Hotels, AHIP is required to complete brand mandated PIP's. AHIP's operating subsidiaries have entered into contracts or commitments with various suppliers to supply products and services in compliance with these renovation plans. Payments for these items are held as restricted cash (as described in note 4) and funds are disbursed in the ordinary course of business.

(d) In the normal course of operations, AHIP and its subsidiaries may become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits and accrue management's best estimate of the costs to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not have a material adverse effect on these consolidated financial statements.

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

15. Related party transactions:

(a) Hotel Manager:

Certain AHIP subsidiaries have entered into hotel management agreements, as amended on September 30, 2016, with various wholly owned subsidiaries of ONE Lodging Management Inc. (the "ONE Hotel Manager"), a company that was indirectly controlled by a director of the General Partner until April 26, 2018 (see below), to manage and operate the hotel properties.

AHIP's operating subsidiaries are responsible for reimbursing the ONE 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 amended master hotel management agreement provided for the payment of the following amounts to the ONE Hotel Manager: a base management fee, a capital expenditure fee, an annual administration fee and an incentive fee, if certain profit thresholds are met.

On April 26, 2018, the ONE Hotel Manager transferred hotel management responsibilities for all of AHIP's 114 hotels to Aimbridge Hospitality Holdings LLC (the "Aimbridge Hotel Manager"), an independent hotel management company. The terms of the hotel management agreements remain unchanged. In addition, AHIP reached an agreement with SunOne Developments ("SunOne"), its development partner, to terminate at no cost its exclusive hotel development agreement concurrent with the completion of the transfer of responsibilities from the ONE Hotel Manager to the Aimbridge Hotel Manager.

AHIP recorded the following fees paid to the ONE Hotel Manager in corporate and administrative expenses:

	Three months ended		Six months ended	
	June 30, 2018[(1)]	June 30, 2017	June 30, 2018[(2)]	June 30, 2017
Management fees	$ 889	$ 2,092	$ 3,321	$ 3,944
Administration fees	183	541	727	1,080
Total fees expensed	$ 1,072	$ 2,633	$ 4,048	$ 5,024

[(1)] For the 25-day period from April 1, 2018 to the date of transfer of April 26, 2018
[(2)] For the 115-day period from January 1, 2018 to the date of transfer of April 26, 2018

In addition, capital management fees of $64 and $281 were paid to the ONE Hotel Manager for the three and six months ended June 30, 2018, respectively (three and six months ended June 30, 2017 - $233 and $483, respectively) were capitalized to property, buildings and equipment.

15. Related party transactions (continued):

(a) Hotel Manager (continued):

For the three and six months ended June 30, 2018, AHIP recorded total management fees of $3,240 and $6,216, respectively, in corporate and administrative expenses and capitalized total capital management fees of $269 and $486, respectively, to property, buildings and equipment.

During the three and six months ended June 30, 2018, the ONE Hotel Manager incurred expenses of $7,756 and $30,857, respectively (three and six months ended June 30, 2017 - $18,584 and $35,964, respectively) on behalf of the hotel properties during the normal course of operations, comprised primarily of payroll costs of $7,384 and $29,374, respectively, (three and six months ended June 30, 2017 - $16,321 and $17,548, respectively) and other general and administrative costs such as insurance, travel, and office supplies. There were no amounts due to the ONE Hotel Manager included in accounts payable and accrued liabilities as at June 30, 2018 (December 31, 2017 - $490).

(b) Executive loan program guarantee:

As at June 30, 2018, there have been no changes to the terms of the Executive Loan Guarantee Policy. A subsidiary of AHIP has provided a limited guarantee to a Canadian chartered bank on loans made to certain officers to purchase Units in the market. The loans, up to a specified maximum for each officer, are secured by the underlying Units.

(c) Compensation:

Key management includes those persons having authority and responsibility for planning, directing, and controlling the activities of AHIP, directly or indirectly. Total compensation awarded to key management for the three and six months ended June 30, 2018, inclusive of securities-based compensation expense was $617 and $1,204, respectively (three and six months ended June 30, 2017 - $1,489 and $2,446, respectively).

16. Financial instruments:

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

The fair value of AHIP's term loans and outstanding revolving credit facilities was determined using present value calculations based on market-observable interest rates for loans with similar terms and conditions. The fair value of AHIP's term loans at June 30, 2018 was $684,560 (December 31, 2017 - $696,077).

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

16. Financial instruments (continued):

AHIP uses interest rate swap contracts to effectively fix the interest rate on certain loans. As hedge accounting is not applied; the contracts are carried at fair value and reported as assets (positive) or liabilities (negative) depending on the fair value on the reporting date and the change in fair value is recognized in net income or loss for the year. The fair value of the interest rate swap contracts is calculated through discounting future expected cash flows using the appropriate LIBOR rate swap curve adjusted for credit risk. Since the LIBOR rate swap curve is an observable input, these financial instruments are considered Level 2. The carrying value of the liability portion of AHIP's convertible debentures approximates their fair values at June 30, 2018.

There have been no transfers between levels during the period.

17. Capital management:

	June 30, 2018	December 31, 2017
Term loans and outstanding revolving credit facilities	$ 693,798	$ 692,331
Convertible debentures, liability portion	45,653	45,307
Partners' capital	502,712	517,573
Total capital	$ 1,242,163	$ 1,255,211

AHIP defines capital as the aggregate of its term loans, outstanding revolving credit facilities, convertible debentures and partners' capital, net of related financing costs. AHIP's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions as prescribed in the Limited Partnership Agreement; complies with existing debt covenants; funds its business strategies; and builds long-term value. AHIP's capital structure is periodically reviewed by the Board of Directors of the General Partner.

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

18. Supplemental cash flow disclosure:

Changes in non-cash operating working capital:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Changes in non-cash operating working capital:				
Accounts payable and accrued liabilities	$ (2,056)	$ 4,119	$ (2,145)	$ 9,006
Prepaids and other assets	(259)	592	(156)	7,129
Trade and other receivables	729	(2,793)	(204)	(5,336)
	$ (1,586)	$ 1,918	$ (2,505)	$ 10,799

19. Segment reporting:

AHIP's business consists of owing hotel real estate properties in the U.S. structured in two operating and reportable segments based on the way that AHIP makes operating decisions and assessing performance. AHIP's corporate costs are not allocated to the segments: (*i*) the Premium Branded Hotels that have franchise agreements and (*ii*) the Economy Lodging Hotels that have rail crew and franchise agreements with WHG.

The following provides segmented information as at June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and June 30, 2017:

June 30, 2018	Premium Branded Hotels	Economy Lodging Hotels	Corporate	Total
Total assets	$ 1,063,164	$ 215,864	$ 2,285	$ 1,281,318
Total liabilities	614,544	112,354	51,703	778,601

December 31, 2017	Premium Branded Hotels	Economy Lodging Hotels	Corporate	Total
Total assets	$ 1,071,130	$ 221,664	$ 2,939	$ 1,295,733
Total liabilities	617,310	110,978	49,872	778,160

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

19. Segment reporting (continued):

Income (loss) from operating activities for the three months ended June 30, 2018:

	Premium Branded Hotels	Economy Lodging Hotels	Corporate	Total
Revenue	$ 71,421	$ 18,490	$ -	$ 89,911
Hotel expenses	51,366	13,000	32	64,398
Income (loss) from operating activities	$ 20,055	$ 5,490	$ (32)	$ 25,513

Income (loss) from operating activities for the three months ended June 30, 2017:

	Premium Branded Hotels	Economy Lodging Hotels	Corporate	Total
Revenue	$ 52,112	$ 17,340	$ -	$ 69,452
Hotel expenses	38,090	14,594	14	52,698
Income (loss) from operating activities	$ 14,022	$ 2,746	$ (14)	$ 16,754

Income (loss) from operating activities for the six months ended June 30, 2018:

	Premium Branded Hotels	Economy Lodging Hotels	Corporate	Total
Revenue	$ 135,704	$ 35,273	$ -	$ 170,977
Hotel expenses	103,980	28,109	64	132,153
Income (loss) from operating activities	$ 31,724	$ 7,164	$ (64)	$ 38,824

Income (loss) from operating activities for the six months ended June 30, 2017:

	Premium Branded Hotels	Economy Lodging Hotels	Corporate	Total
Revenue	$ 97,632	$ 33,545	$ -	$ 131,177
Hotel expenses	72,911	28,896	23	101,830
Income (loss) from operating activities	$ 24,721	$ 4,649	$ (23)	$ 29,347

20. Subsequent events:

On July 16, 2018, a cash distribution of $0.054 per unit was declared for the period from July 1, 2018 to July 31, 2018. The distribution is expected to be paid on August 15, 2018 to unitholders of record on July 31, 2018.