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

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Years ended December 31, 2015 and 2014

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# INDEPENDENT AUDITORS' REPORT

To the Unitholders of American Hotel Income Properties REIT LP

We have audited the accompanying consolidated financial statements of American Hotel Income Properties REIT LP, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income, partners' capital and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of American Hotel Income Properties REIT LP as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants

March 7, 2016
Vancouver, Canada

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

December 31, 2015 and 2014

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 13,222 | $ 11,991 |
| Restricted cash | 5 | 15,671 | 17,579 |
| Trade and other receivables | | 4,385 | 2,601 |
| Mezzanine loans receivable | | - | 514 |
| Other assets | | 4,008 | 2,644 |
| | | 37,286 | 35,329 |
| Property, buildings and equipment | 6 | 523,095 | 387,232 |
| Intangible assets | 7 | 12,702 | 8,207 |
| Deferred income tax assets | 8 | 4,320 | 2,947 |
| | | $ 577,403 | $ 433,715 |
| **Liabilities and Partners' Capital** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | $ 12,911 | $ 12,836 |
| Current portion of term loans | 9 | 2,893 | 4,203 |
| Contingent consideration | 10 | 5,400 | - |
| Deferred compensation payable | 11 | 663 | - |
| | | 21,867 | 17,039 |
| Term loans | 9 | 293,092 | 218,338 |
| Contingent consideration | 10 | - | 5,288 |
| Deferred compensation payable | 11 | 607 | 474 |
| Preferred shares | 12 | 125 | 125 |
| Fair value of interest rate swap contract | 9 | 894 | - |
| Deferred income tax liabilities | 8 | 1,151 | 1,215 |
| | | 317,736 | 242,479 |
| Partners' capital | 13 | 259,667 | 191,236 |
| | | $ 577,403 | $ 433,715 |
| Commitments and contingencies | 16 | | |
| Subsequent events | 23 | | |

See accompanying notes to consolidated financial statements.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

Consolidated Statements of Comprehensive Income
(Expressed in thousands of U.S. dollars)

Years ended December 31, 2015 and 2014

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Revenue: | | | |
| Rooms | | $ 129,050 | $ 80,389 |
| Food and beverage | | 13,302 | 11,644 |
| Rental and other | | 1,415 | 1,110 |
| | | 143,767 | 93,143 |
| Hotel expenses: | | | |
| Operating expenses | | 72,189 | 47,055 |
| Energy | | 6,451 | 4,500 |
| Property maintenance | | 6,839 | 4,795 |
| Property taxes and insurance | | 7,382 | 4,793 |
| Depreciation and amortization | | 19,470 | 11,709 |
| | | 112,331 | 72,852 |
| Income from operating activities | | 31,436 | 20,291 |
| Corporate and administrative | | 9,731 | 7,573 |
| Loss on disposal of property and equipment | | 529 | 605 |
| Business acquisition costs | | 3,027 | 3,178 |
| Income before undernoted | | 18,149 | 8,935 |
| Finance income | | (62) | (96) |
| Finance costs | 15 | 13,848 | 8,116 |
| Income before income taxes | | 4,363 | 915 |
| Current income tax expense | 8 | 103 | - |
| Deferred income tax recovery | 8 | (1,437) | (1,213) |
| Net income and comprehensive income | | $ 5,697 | $ 2,128 |
| Basic and diluted net income per unit | | $ 0.19 | $ 0.12 |
| Basic weighted average number of units outstanding | | 30,204,825 | 18,220,718 |
| Diluted weighted average number of units outstanding | | 30,251,341 | 18,261,263 |

See accompanying notes to consolidated financial statements.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

Years ended December 31, 2015 and 2014

| | Notes | Units outstanding | General partner [1] | Limited partners | Contributed surplus | Cumulative income (deficit) | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2015 | | 24,335,563 | $ - | $ 213,204 | $ 71 | $ (22,039) | $ 191,236 |
| Securities-based compensation | 14 | - | - | - | 270 | - | 270 |
| Issuance of units under securities-based compensation plan | 14 | 22,249 | - | 212 | (212) | - | - |
| Issuance of units on public offerings, net of expenses | | 10,406,250 | - | 82,988 | - | - | 82,988 |
| Issuance of units for hotel acquisition | 13(b) | 144,203 | - | 1,200 | - | - | 1,200 |
| Net income and comprehensive income | | - | - | - | - | 5,697 | 5,697 |
| Distributions | 13 | - | - | - | - | (21,724) | (21,724) |
| Balance, December 31, 2015 | | 34,908,265 | $ - | $ 297,604 | $ 129 | $ (38,066) | $ 259,667 |

| | Notes | Units outstanding | General partner [1] | Limited partners | Contributed surplus | Cumulative income (deficit) | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2014 | | 14,437,800 | $ - | $ 125,339 | $ - | $ (9,100) | $ 116,239 |
| Securities-based compensation | 14 | - | - | - | 501 | - | 501 |
| Issuance of units under securities-based compensation plan | 14 | 43,500 | - | 430 | (430) | - | - |
| Issuance of units on public offerings, net of expenses | | 9,710,000 | - | 86,035 | - | - | 86,035 |
| Issuance of units for hotel acquisition | 13(b) | 144,263 | - | 1,400 | - | - | 1,400 |
| Net income and comprehensive income | | - | - | - | - | 2,128 | 2,128 |
| Distributions | 13 | - | - | - | - | (15,067) | (15,067) |
| Balance, December 31, 2014 | | 24,335,563 | $ - | $ 213,204 | $ 71 | $ (22,039) | $ 191,236 |

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

See accompanying notes to consolidated financial statements.

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

Years ended December 31, 2015 and 2014

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Cash provided by (used in): | | | |
| Operating activities: | | | |
| Net income and comprehensive income | | $ 5,697 | $ 2,128 |
| Interest paid | | (12,447) | (7,386) |
| Items not affecting cash: | | | |
| Depreciation and amortization | | 19,470 | 11,709 |
| Adjustment of contingent consideration and deferred compensation payable | | (128) | - |
| Loss on disposal of equipment | | 529 | 605 |
| Securities-based compensation expense | | 270 | 501 |
| Accretion of contingent consideration | | 212 | 203 |
| Accretion of deferred compensation | | 26 | 14 |
| Amortization of deferred financing costs | | 555 | 549 |
| Amortization of mark-to-market adjustment | | (74) | (37) |
| Deferred income tax recovery | | (1,437) | (1,213) |
| Interest expense | | 12,235 | 7,387 |
| Change in fair value of interest rate swap contract | | 894 | - |
| | | 25,802 | 14,460 |
| Changes in non-cash operating working capital | 20 | (3,716) | 2,695 |
| | | 22,086 | 17,155 |
| Investing activities: | | | |
| Purchase of property, buildings and equipment | | (18,262) | (8,630) |
| Franchise application fees paid | | (950) | (1,726) |
| Acquisition of properties under development | | (8,607) | (10,002) |
| Acquisition of hotels, net of cash provided by seller | | (129,370) | (175,439) |
| Funding (drawdown) of restricted cash reserves | | 1,908 | (11,565) |
| | | (155,281) | (207,362) |
| Financing activities: | | | |
| Issuance of Units on public offerings, net of expenses | | 82,988 | 86,035 |
| Distributions paid | | (21,391) | (13,494) |
| Proceeds from term loans | | 80,855 | 117,322 |
| Proceeds from issuance of preferred shares | 12 | - | 125 |
| Mezzanine loans receivable advanced | | (135) | (1,722) |
| Payment on term loans | | (4,336) | (12,799) |
| Financing costs paid | | (3,555) | (2,756) |
| | | 134,426 | 172,711 |
| Increase (decrease) in cash and cash equivalents | | 1,231 | (17,496) |
| Cash and cash equivalents, beginning of year | | 11,991 | 29,487 |
| Cash and cash equivalents, end of year | | $ 13,222 | $ 11,991 |

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 located at 1660 – 401 West Georgia Street, Vancouver, British Columbia, Canada, V6B 5A1.

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

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

**2. Basis of presentation and statement of compliance:**

(a) Statement of compliance:

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the Interpretations Committee ("IFRIC"). AHIP has consistently applied the accounting policies in all periods presented.

These consolidated financial statements were approved and authorized for issue by the directors of the General Partner on March 7, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis with the exception of the interest rate swap contract which is recorded at fair value.

(c) Functional and presentation currency:

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

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.

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

(d) Measurement uncertainty (use of estimates):

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 date. 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 crew hotel portfolios. The value of intangible assets for branded hotels consists of franchise application fees paid upon acquisition of the properties.

(*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 agreements or franchise agreements.

**3. Significant accounting policies:**

(a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of AHIP and subsidiaries controlled by AHIP. Control exists when AHIP is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

**3. Significant accounting policies (continued):**

(a) Basis of consolidation (continued):

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of AHIP and its subsidiaries.

AHIP owns and consolidates its wholly-owned subsidiaries, which include the following material legal entities:

| | State of incorporation |
|---|---|
| American Hotel Income Properties REIT Inc. | Maryland |
| Lodging Properties LLC | Delaware |
| IML Properties LLC | Delaware |
| AHIP Properties LLC | Delaware |
| Lodging Enterprises, LLC | Delaware |
| IML Enterprises LLC | Delaware |
| AHIP Enterprises LLC | Delaware |

(b) Property, buildings and equipment:

(*i*) Recognition and measurement:

Property, buildings and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When parts of an item of property, buildings and equipment have different useful lives, they are accounted for as separate items of property, buildings and equipment, if significant.

Gains and losses on disposal of property, buildings and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, buildings, and equipment, and are recognized as a separate line item in profit or loss.

**3. Significant accounting policies (continued):**

(b) Property, buildings and equipment (continued):

(*ii*) Subsequent costs:

The cost of replacing a part of an item of property, buildings and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to AHIP and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance of property, buildings and equipment are recognized in profit or loss as incurred.

(*iii*) Depreciation:

Depreciation is computed on a straight-line basis based on the useful lives of each component of property, buildings and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset, as outlined below.

| Asset | Basis | Rate |
|---|---|---|
| Buildings | Straight-line | 17 to 40 years |
| Equipment | Straight-line | 5 to 15 years |
| Automobiles | Straight-line | 5 years |
| Leasehold improvements | Straight-line | 5 to 40 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(c) Intangible assets:

Intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss.

(*i*) Recognition and measurement:

AHIP's intangible assets consist of:

- lodging agreements with several railroad companies, which provide minimum guarantees on rooms reserved at AHIP's rail crew hotels, upon acquisition of the initial rail crew and the Railway Portfolio (note 4(c));
- contract-signing fees payable upon entering into additional lodging facility agreements for guaranteed room rentals; and
- franchise application fees payable upon acquisition of branded hotels.

**3. Significant accounting policies (continued):**

(c) Intangible assets (continued):

(*ii*) Amortization:

Amortization is calculated based on the cost of the asset less its residual value. Amortization is recognized in earnings on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, specifically when the agreements come into effect, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The basis of amortization and estimated useful lives are as follows:

| Asset | Basis | Rate |
|---|---|---|
| Lodging agreements | Straight-line | 5-10 years |
| Contract signing fees | Straight-line | 4-10 years |
| Franchise fees | Straight-line | 5-20 years |

(d) Impairment of non-financial assets:

The carrying amounts of AHIP’s non-financial assets, consisting of property, buildings and equipment, and intangible assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

When the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. When an indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, the recoverable amount of that asset is estimated. A reversal of an impairment loss is recognized immediately in profit or loss if the recoverable amount of a previously impaired asset has subsequently increased to the lower of the asset's or cash-generating unit’s recoverable amount or carrying value had no impairment loss been recognized for the asset or cash-generating unit in prior years.

**3. Significant accounting policies (continued):**

(e) Financial instruments:

(*i*) Financial assets:

AHIP's financial assets are comprised of cash and cash equivalents, restricted cash, trade and other receivables, deposits, and other assets. AHIP classifies these financial assets as loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(*ii*) Financial liabilities:

AHIP has the following non-derivative financial liabilities: accounts payable and accrued liabilities, term loans, contingent consideration, deferred compensation payable and preferred shares. AHIP classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. All non-derivative financial liabilities are initially recognized on the date that AHIP becomes a party to the contractual provisions of the instrument. AHIP derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(*iii*) Financial assets and liabilities at fair value:

Financial assets and liabilities that are either held for trading or designated as fair value through profit or loss are carried at fair value, with gains or losses arising on measurement recognized in profit or loss ("FVTPL"). A financial instrument is classified as held for trading if: it has been acquired principally for the purpose of selling in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that AHIP manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument is designated as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or it forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives. Directly attributable transaction costs are recognized in profit or loss as incurred. AHIP's interest rate swap contracts are classified at FVTPL.

**3. Significant accounting policies (continued):**

(e) Financial instruments (continued):

(*iv*) Impairment of financial assets:

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. 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 for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. 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 profit or loss.

(f) Cash and cash equivalents:

AHIP considers all liquid investments with original terms to maturity of three months or less when acquired to be cash equivalents. Cash and cash equivalents consist of cash on hand and cash held at banks.

(g) Restricted cash:

Restricted cash consists of cash reserve on deposit with lenders in respect of future capital expenditures, property taxes and insurance premiums.

**3. Significant accounting policies (continued):**

(h) Provisions:

A provision is recognized if, as a result of a past event, AHIP has a present legal or constructive obligation that can be estimated reasonably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the time value of money is material, provisions are determined by discounting the expected future cash flows using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as a finance cost.

(i) Revenue recognition:

Revenue is generated primarily from the operation of AHIP's hotels and restaurants. Rental and other income 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.

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

(j) Finance income and finance costs:

Finance income consists of interest on cash and cash equivalents and restricted cash, which is recognized in the period in which it is earned.

Finance costs comprise interest expense on borrowings, amortization of debt financing costs, mark-to-market adjustments on assumed loans, accretion of contingent consideration and deferred compensation payable, dividends paid on preferred shares and changes in fair value of interest rate swap contracts. Interest expense on borrowings and dividends paid on preferred shares are recognized in the period in which they are incurred. Interest expense on borrowings used to finance the renovation and construction of the hotel properties is capitalized to construction-in-progress during the period of construction.

(k) Debt financing costs and mark-to-market adjustments:

Fees and costs related to obtaining debt financing and mark-to-market adjustments on assumed loans are capitalized against the related debt and amortized over the term using the effective interest rate method, and are included in finance costs. The unamortized balance of the fees and costs is included and shown as a reduction in the related debt.

(l) Net income per unit:

Basic and diluted net income per unit is calculated by dividing net and comprehensive income by the weighted average number of units (basic and diluted) outstanding during the reporting period.

**3. Significant accounting policies (continued):**

(m) Income taxes:

AHIP is not subject to tax under Part I of the Income Tax Act (Canada) (the “Tax Act”). Each partner of AHIP is required to include in computing the partner’s income for a particular taxation year the partner’s share of the income or loss of AHIP for its fiscal year ending in or on the partner’s taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the “SIFT Measures”). A “SIFT partnership” (as defined in the Tax Act) will be subject to SIFT tax on its “taxable non-portfolio earnings” (as defined in the Tax Act) at a rate that is substantially equivalent to the general income tax rate applicable to Canadian corporations. The “taxable non-portfolio earnings” of a SIFT partnership less SIFT tax payable by a SIFT partnership is deemed to be a taxable dividend received by the SIFT partnership from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. Any such deemed taxable dividend would be allocated to the partners of a SIFT partnership and be taxable as taxable dividends in their hands. The SIFT Measures do not apply to a partnership that does not hold any “non-portfolio property” throughout the taxation year of the partnership. Management believes that AHIP does not hold any “non-portfolio property” and is not a SIFT partnership and therefore not subject to the SIFT Measures.

Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate AHIP in such a manner so as to remain exempt from the SIFT Measures on a continuous basis in the future. If AHIP becomes a SIFT partnership, it will generally be subject to income taxes at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations on its taxable non-portfolio earnings, if any.

AHIP filed an election to be treated as a partnership for U.S. federal income tax purposes. In addition, management believes at least 90% of AHIP's gross income for the taxation year is qualifying income within the meaning of U.S. Internal Revenue Code (the “Code”) Section 7704 and AHIP is not required to register as an investment company under the Investment Company Act of 1940. As such, it is generally not subject to U.S. federal income tax under the Code.

**3. Significant accounting policies (continued):**

(m) Income taxes (continued):

Furthermore, American Hotel Income Properties REIT Inc. (the “U.S. REIT”) has made and intends to maintain an election to be taxed as a real estate investment trust (“REIT”) under the Code for its first taxation year ending December 31, 2013 and in future taxation years. In order for the U.S. REIT to qualify as a REIT under the Code, it must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its stockholders equal to a minimum of 90% of its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. The U.S. REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed to its stockholders annually. Management believes that all REIT conditions necessary to eliminate income taxes for the U.S. REIT for the reporting period have been met.

Accordingly no provision for U.S. federal income taxes have been made for the U.S. REIT. Even though the U.S. REIT qualifies as a REIT under the Code, it may be subject to certain state and local taxes. These amounts are not material to the consolidated financial statements.

Management has operated and intends to continue operating the U.S. REIT in such a manner so as to qualify as a REIT on a continuous basis in the future. However, actual qualification as a REIT will depend upon meeting, through actual annual and quarterly operating results, the various conditions imposed by the Code. If the U.S. REIT fails to qualify as a REIT in any taxable year, it will be subject to U.S. federal and state income taxes at regular U.S. corporate rates, including any applicable alternative minimum tax. In addition, the U.S. REIT may not be able to re-qualify as a REIT for the four subsequent taxable years. Even if the U.S. REIT qualifies for taxation as a REIT, it may be subject to certain U.S. state and local taxes on its income and property, and to U.S. federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

The U.S. REIT’s wholly-owned subsidiaries, Lodging Enterprises LLC, AHIP Enterprises LLC, and IML Enterprises LLC (“TRS Subsidiaries”), are treated as taxable REIT subsidiaries for U.S. federal income tax purposes. All of the U.S. REIT’s hotel properties are leased to the TRS Subsidiaries. The TRS Subsidiaries are subject to U.S. federal and state income tax on their taxable income. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years.

**3. Significant accounting policies (continued):**

(m) Income taxes (continued):

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is 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.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Securities-based compensation plan (the “Compensation Plan”):

As described in note 14, AHIP has a Compensation Plan that provides for the granting of Units to directors, officers, employees or consultants of AHIP, the General Partner or any of their respective affiliates, or other persons as the Compensation Committee of the Board of Directors may determine.

The fair value of the Units granted are measured based on the share price of the Units on the grant date as each Unit is entitled to the same rights as all other outstanding Units issued. The fair value of the Units granted is expensed on a straight-line basis over the vesting period, based on AHIP’s estimate of the equity instruments that will eventually vest, with a corresponding increase to contributed surplus. Once issued, the Units are reclassified from contributed surplus to Units issued.

(o) Segment reporting:

AHIP's operating segments are organized based on the type of customer and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (“CODM”) as disclosed in note 21. AHIP’s Board of Directors has the authority for resource allocation and assessment of AHIP's investments and is therefore the CODM.

**3. Significant accounting policies (continued):**

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

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

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39) standard ("IFRS 9"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. AHIP is currently assessing the impact of this standard on its consolidated financial statements.

(*ii*) IFRS 15 - *Revenue from Contract with Customers:*

In May 2014, the IASB issued IFRS 15, *Revenue from Contract with Customers* ("IFRS 15"), which establishes a new five-step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. AHIP is currently assessing the impact of this standard on its consolidated financial statements.

(*iii*) IFRS 16 – *Leases:*

IFRS 16 was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17. 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 is currently assessing the impact of this standard on its consolidated financial statements.

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

**4. Business combinations:**

*Business combinations in 2015:*

The table below summarizes the fair values of the assets acquired and liabilities assumed for all the acquisitions in 2015:

| | Midwestern (a) | Florida (b) | Railway (c) | Fort Scott (d) | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Fair value of consideration | $ 53,229 | $ 30,795 | $ 45,600 | $ 2,967 | $ 132,591 |
| Property, buildings and equipment | $ 53,500 | $ 30,815 | $ 39,870 | $ 2,975 | $ 127,160 |
| Intangible assets | - | - | 5,825 | - | 5,825 |
| Cash assumed by seller | 9 | 5 | - | - | 14 |
| Non-cash net working capital | (280) | (25) | (95) | (8) | (408) |
| Fair value of net identifiable assets acquired and liabilities assumed | $ 53,229 | $ 30,795 | $ 45,600 | $ 2,967 | $ 132,591 |
| Business acquisition costs | $ 1,046 | $ 441 | $ 690 | $ 117 | $ 2,294 |

(a) Midwestern Portfolio:

On June 18, 2015, AHIP acquired nine branded, select-service hotel properties located in five states with a total of 632 guestrooms (the “Midwestern Portfolio”). The hotels are franchised with leading global brands including Intercontinental Hotels Group, Hilton Hotels & Resorts and Carlson Rezidor Hotel Group, operating as Hampton Inn, Holiday Inn Express, and Country Inn and Suites hotels.

For the 197-day period from the acquisition date of the Midwestern Portfolio to December 31, 2015, AHIP recognized revenues of $8,963 and income from operating activities of $2,167. If the Midwestern Portfolio had been acquired on January 1, 2015, the proforma revenues and the proforma income from operating activities for the year ended December 31, 2015, would have been $16,366 and $3,781, respectively.

There have been no changes to the amounts previously reported.

**4. Business combinations (continued):**

(b) Florida Portfolio:

On August 6, 2015, AHIP acquired three branded, select-service hotel properties located in Ocala, Florida with a total of 352 guestrooms (the "Florida Portfolio"). The hotels are franchised with Marriott International and operate as Courtyard by Marriott, Fairfield Inn & Suites, and Residence Inn.

For the 148-day period from the acquisition date of the Florida Portfolio to December 31, 2015, AHIP recognized revenues of $3,187 and income from operating activities of $709. If the Florida Portfolio had been acquired on January 1, 2015, the proforma revenues and the proforma income from operating activities for the year ended December 31, 2015 would have been $9,093 and $3,357, respectively.

There have been no changes to the amounts previously reported.

(c) Railway Portfolio:

On September 16, 2015, AHIP acquired a portfolio of five rail crew lodging facilities located in four states with a total of 586 guestrooms (the "Railway Portfolio").

For the 107-day period from the acquisition date of the Railway Portfolio to December 31, 2015, AHIP recognized revenues of $3,207 and income from operating activities of $1,162. If the Railway Portfolio had been acquired on January 1, 2015, the proforma revenues and the proforma income from operating activities for the year ended December 31, 2015 would have been $10,985 and $4,942, respectively.

There have been no changes to the amounts previously reported.

(d) Fort Scott Hotel:

On November 11, 2015, AHIP acquired a rail crew hotel located in Fort Scott, Kansas ("Fort Scott"). For the 50-day period from the acquisition date of Fort Scott to December 31, 2015, AHIP recognized revenues of $150 and income from operating activities of $69. If the Fort Scott hotel had been acquired on January 1, 2015, the proforma revenues and the proforma income from operating activities for the year ended December 31, 2015 would have been $1,029 and $329, respectively.

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

**4. Business combinations (continued):**

*Business combinations in 2014:*

The table below summarizes the fair values of the assets acquired and liabilities assumed for all the acquisitions in 2014:

| | Virginia (e) | NC/GA (f) | Texas (g) | Oklahoma (h) | NC/FL (i) | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| Fair value of consideration | $ 37,126 | $ 17,495 | $ 31,422 | $ 48,306 | $ 41,109 | $ 175,458 |
| Property, buildings and equipment | 37,200 | 30,992 | 31,291 | 48,170 | 41,000 | 188,653 |
| Cash assumed by seller | 3 | 4 | - | 6 | 4 | 17 |
| Non-cash net working capital | (77) | 126 | 131 | 130 | 105 | 415 |
| Assumed term loans | - | (13,627) | - | - | - | (13,627) |
| Fair value of net identifiable assets acquired and liabilities assumed | $ 37,126 | $ 17,495 | $ 31,422 | $ 48,306 | $ 41,109 | $ 175,458 |
| Business acquisition costs | $ 315 | $ 685 | $ 510 | $ 512 | $ 533 | $ 2,555 |

(e) Virginia Portfolio:

On March 12, 2014, AHIP acquired four hotels located in Virginia (the “Virginia Portfolio”), totaling 403 guestrooms, for $37,126, comprised of three Hampton Inn hotels and one Fairfield Inn & Suites hotel.

(f) NC/GA Portfolio:

On July 3 and 11, 2014, AHIP acquired four hotels in North Carolina and Georgia (the “NC/GA Portfolio”), totaling 387 guest rooms, for $17,495. The NC/GA portfolio is comprised of a Springhill Suites hotel, a Hampton Inn hotel and two Fairfield Inn & Suites hotels. As part of the transaction, AHIP assumed $13,627 in existing debt on two of the hotel properties, which included $492 in mark-to-market adjustments.

(g) Texas Portfolio:

On October 27, 2014, AHIP acquired three hotels in Texas (the “Texas Portfolio”), totaling 293 guestrooms, for $31,422. The Texas Portfolio consists of a Holiday Inn hotel, a Fairfield Inn & Suites hotel and a Sleep Inn & Suites hotel.

(h) Oklahoma Portfolio:

On November 3, 2014, AHIP acquired four hotels in Oklahoma (the “Oklahoma Portfolio”), totaling 440 guestrooms, for $48,306. The Oklahoma Portfolio consists of two Holiday Inn hotels, a Staybridge Suites hotel, and a Hampton Inn hotel.

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

## 4. Business combinations (continued):

(i) NC/FL Portfolio:

On November 26, 2014, AHIP acquired four hotels in North Carolina and Florida ("NC/FL Portfolio"), totaling 353 guestrooms for $41,109. The NC/FL Portfolio consists of a Courtyard by Marriott hotel, two Fairfield Inn & Suites hotels and one Hampton Inn hotel.

## 5. Restricted cash:

| | 2015 | 2014 |
|---|---|---|
| Property improvement plans ("PIPs") reserve | $ 12,242 | $ 15,027 |
| Furniture, fixture and equipment reserve ("FF&E Reserves") | 1,422 | 1,137 |
| Property tax reserve | 1,729 | 1,263 |
| Insurance and other reserves | 278 | 152 |
| | $ 15,671 | $ 17,579 |

For each of the Branded Hotel portfolios, AHIP has funded restricted cash reserves for brand mandated PIPs arising from the purchase of these properties. In addition, the related term loans require AHIP to deposit reserves for FF&E Reserves, property taxes and insurance premiums. These amounts are released to AHIP as the expenditures are incurred or paid directly to the service provider.

## 6. Property, buildings and equipment:

| | Land | Buildings | Equipment | Construction in-progress | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance, January 1, 2014 | $ 24,012 | $ 155,996 | $ 12,165 | $ - | $ 192,173 |
| Acquisition of Branded Hotels | 14,547 | 161,430 | 12,676 | - | 188,653 |
| Acquisition of Rail Hotels | 1,274 | 10,308 | 1,352 | - | 12,934 |
| Additions | - | 1,119 | 2,121 | 5,390 | 8,630 |
| Disposals | - | (487) | (221) | - | (708) |
| Balance, December 31, 2014 | 39,833 | 328,366 | 28,093 | 5,390 | 401,682 |
| Acquisition of Rail Hotels | 706 | 8,305 | 1,444 | | 10,455 |
| Acquisition of Branded Hotels | 9,827 | 112,214 | 2,144 | - | 124,185 |
| Transfers | - | 14,110 | 4,361 | (18,471) | - |
| Additions | 740 | 1,447 | 2,960 | 13,795 | 18,942 |
| Disposals | - | (472) | (192) | - | (664) |
| Balance, December 31, 2015 | $ 51,106 | $ 463,970 | $ 38,810 | $ 714 | $ 554,600 |
| **Accumulated depreciation:** | | | | | |
| Balance, January 1, 2014 | $ - | $ 2,935 | $ 1,848 | $ - | $ 4,783 |
| Depreciation | - | 6,366 | 3,404 | - | 9,770 |
| Disposals | - | (24) | (79) | - | (103) |
| Balance, December 31, 2014 | - | 9,277 | 5,173 | - | 14,450 |
| Depreciation | - | 10,927 | 6,263 | - | 17,190 |
| Disposals | - | (18) | (117) | - | (135) |
| Balance at December 31, 2015 | $ - | $ 20,186 | $ 11,319 | $ - | $ 31,505 |
| Net book value, December 31, 2015 | $ 51,106 | $ 443,784 | $ 27,491 | $ 714 | $ 523,095 |
| Net book value, December 31, 2014 | 39,833 | 319,089 | 22,920 | 5,390 | 387,232 |

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

## 7. Intangible assets:

| | Lodging Agreements | Contract Signing Fees | Franchise Agreements | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance, January 1, 2014 | $ 9,030 | $ 460 | $ 485 | $ 9,975 |
| Branded Hotel franchise fees | - | - | 1,725 | 1,725 |
| Balance, December 31, 2014 | 9,030 | 460 | 2,210 | 11,700 |
| Midwestern Portfolio franchise fees | - | - | 550 | 550 |
| Florida Portfolio franchise fees | - | - | 400 | 400 |
| Acquisition of Railway Portfolio | 5,825 | - | - | 5,825 |
| Balance, December 31, 2015 | $ 14,855 | $ 460 | $ 3,160 | $ 18,475 |
| **Accumulated amortization:** | | | | |
| Balance, January 1, 2014 | $ 1,549 | $ - | $ 5 | $ 1,554 |
| Amortization | 1,803 | 46 | 90 | 1,939 |
| Balance, December 31, 2014 | 3,352 | 46 | 95 | 3,493 |
| Amortization | 2,024 | 46 | 210 | 2,280 |
| Balance, December 31, 2015 | $ 5,376 | $ 92 | $ 305 | $ 5,773 |
| Net book value, December 31, 2015 | $ 9,479 | $ 368 | $ 2,855 | $ 12,702 |
| Net book value, December 31, 2014 | 5,678 | 414 | 2,115 | 8,207 |

## 8. Income taxes:

(a) Current income taxes:

AHIP has recorded a provision for U.S. federal and state taxes associated with the TRS Subsidiaries of $103 for the year ended December 31, 2015 (2014 - nil), which is included in current income tax expense in the consolidated statement of income and comprehensive income.

(b) Deferred income taxes:

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

| | 2015 | 2014 |
|---|---|---|
| Deferred income tax assets: | | |
| Non capital losses carried forward | $ 2,439 | $ 914 |
| Intangible assets | 1,784 | - |
| Contingent consideration | - | 2,003 |
| Other | 97 | 30 |
| | $ 4,320 | $ 2,947 |
| Deferred income tax liabilities: | | |
| Intangible assets | $ - | $ (992) |
| Deferred compensation payable | (54) | - |
| Prepaid insurance | - | (23) |
| Property, buildings and equipment | (1,097) | (200) |
| | $ (1,151) | $ (1,215) |

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

**8. Income taxes (continued):**

(b) Deferred income taxes (continued):

A deferred income tax recovery of $1,437 was recognized during the year ended December 31, 2015 (2014 - $1,213) in the statement of income and comprehensive income.

As at December 31, 2015, AHIP had net operating losses for tax purposes totaling $6,414 (2014 - $2,373) which may be carried forward for up to 20 years from the date of origination and applied against future taxable income.

**9. Term loans:**

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Oak Tree Inn Hotel Loans | (a) | $ 82,710 | $ 76,953 |
| Railway Portfolio Term Loan | (b) | 20,000 | - |
| Branded Hotel Loans | (c) | 200,136 | 149,375 |
| | | 302,846 | 226,328 |
| Unamortized portion of mark-to-market adjustment | | 381 | 455 |
| Unamortized portion of debt financing costs | | (7,242) | (4,242) |
| | | 295,985 | 222,541 |
| Current portion of term loans | | (2,893) | (4,203) |
| | | $ 293,092 | $ 218,338 |

Substantially all of AHIP's assets have been pledged as security under various loan agreements. At December 31, 2015, AHIP's loans have a weighted average interest rate of 4.59% (2014 - 4.73%) and a weighted average effective interest rate of 5.13% (2014 - 5.19%).

Interest rate swaps are in place to fix the interest rates for $82,710 (2014 - nil) of the outstanding principal of the Oak Tree Inn Hotel Loans, as further described below, at 4.72% until 2023. For the year ended December 31, 2015, the change in the fair value of the interest rate swap of $894 (2014 - nil) was recorded in finance costs on the statements of comprehensive income.

(a) Oak Tree Inn Hotel Loans:

The Oak Tree Inn Hotel Loans were amended on December 18, 2015 under the terms of the Fifth Amendment to the Seventh Amended and Restated Credit Agreement (the "Loan Amendment") with the existing lender to provide mortgage debt financing, an expansion term loan facility, a revolving line of credit, and an accordion credit facility (the "Amended Oak Tree Inn Hotel Loans").

**9. Term loans (continued):**

(a) Oak Tree Inn Hotel Loans (continued):

The Amended Oak Tree Inn Hotel Loans have a seven year term and have a variable interest rate based on the 30-day LIBOR rate plus 2.80%. Concurrent with the execution of the Loan Amendment, AHIP entered into three interest rate swap transactions effective February 1, 2016 (the "Interest Rate Swaps") to convert the variable interest rate on the Amended Oak Tree Inn Hotel Loans to a fixed interest rate of 4.72% commencing on March 1, 2016, when the first principal payments are due under the Amended Oak Tree Inn Hotel Loans, until February 1, 2023 being the maturity date of the Amended Oak Tree Inn Hotel Loans.

The Amended Oak Tree Inn Hotel Loans consist of:

(*i*) a $65,853 term loan (the "Term Loan") with a fixed interest rate of 4.85% until the Loan Amendment date of December 18, 2015. After the Loan Amendment date, the Term Loan has a fixed interest rate of 4.72% under the Interest Rate Swap as disclosed above, and matures on February 20, 2023. The Term Loan is interest only until March 1, 2016, and will then be amortized over 18 years with the first principal payment commencing on March 1, 2016.

As at December 31, 2015, the principal balance under the Term Loan was $65,853 (2014 - $64,193) and was comprised of the principal balance remaining on the original $70,000 term loan of $60,636 (2014 - $64,193) increased by $2,925 for the Dexter expansion term loan facility and included the remaining principal balance of an existing Oak Tree Inn Hotel loan of $1,487 (2014 - $1,567), less loan origination and prepayment fees of $805.

(*ii*) a $4,611 term loan (the "Wellington Term Loan"), representing the remaining principal balance of an amendment to the Oak Tree Inn Hotel Loans in February 2015 to provide an additional $4,725 term loan. The loan had a variable rate based on the 30-day LIBOR rate plus 3.00% with a floor interest rate of 4.00% until the Loan Amendment date, after which date the loan has a fixed interest rate of 4.72% pursuant to the Interest Rate Swap and matures on February 20, 2023. The Wellington Term Loan is interest only until March 1, 2016 and will then be amortized over 231 months with the first principal payment commencing on March 1, 2016.

(*iii*) a $10,846 term loan (the "2014 Term Loan"), comprised of the principal balance remaining on an amendment to the Oak Tree Inn Hotel Loans in December 2014 that totaled $11,193 at a fixed interest rate of 4.76% per annum until the Loan Amendment date, after which date the loan has a fixed interest rate of 4.72% pursuant to the Interest Rate Swap, increased by $1,400 for the Glendive expansion term loan. The 2014 Term Loan is interest only until March 1, 2016 and will then be amortized over a 19-year amortization period with the first principal payment commencing on March 1, 2016. The 2014 Term Loan matures on February 20, 2023.

**9. Term loans (continued):**

(a) Oak Tree Inn Hotel Loans (continued):

The Amended Oak Tree Inn Hotel Loans consist of (continued):

(*iv*) Revolving Loan Facility:

As part of the Amended Oak Tree Inn Hotel Loans, AHIP increased its interest only revolving line of credit ("Revolver") from $4,000 to $10,000 with a floating interest rate based on the 30-day LIBOR plus 2.80%. The Revolver will be renewed annually. Advances under the Revolver are available to finance approved project costs and to fund working capital requirements.

As at December 31, 2015 and 2014, there were no funds advanced under the Revolver.

(*v*) Accordion Loan:

AHIP may borrow up to $10,000 to purchase Branded Hotels, Rail Hotels or hotel expansions, subject to the lender's prior written approval (the "Accordion Loan"). The Accordion Loan has a variable interest rate based on the 30-day LIBOR plus 3.00% (with a minimum interest rate of 3.50%) payable monthly. AHIP shall pay a non-usage fee in the amount of 0.25% per annum on the Accordion Loan, payable quarterly in arrears, on the unfunded portion of the initial $10,000 commitment. Funds advanced under the Accordion Loan must be repaid in full within six months after the date advanced, provided that AHIP may extend the required date of such repayment for an additional six months upon a fee payment to the lender for 0.50% of the amount advanced and a 5.00% reduction in the outstanding principal balance of such funds otherwise required to be repaid on such date of extension. In lieu of the 5% principal reduction, AHIP may deposit these funds into a cash reserve account.

(b) Railway Portfolio Term Loan:

On September 16, 2015, certain AHIP subsidiaries entered into a loan agreement for a $20,000 mortgage for a term of 10 years maturing on September 16, 2025. The mortgage has a fixed interest rate of 4.25% for the first 5 years. Commencing on September 16, 2020, the interest rate will be based on a rate equal to the greater of: (*i*) Swap Rate plus 2.54% basis points, or (*ii*) 4.25%. The mortgage is also interest only for the first year and is then amortized over a 17-year term.

(c) Branded Hotel Term Loans:

AHIP has entered into loan agreements with a major international bank for term loans for each of its Branded Hotel portfolios. The term loans are secured by specific hotel properties and bear fixed interest rates ranging from 4.20% to 5.69% per annum, with amortization periods between 25 to 30 years, except for certain term loans which are interest-only for the full term.

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

**9. Term loans (continued):**

(c) Branded Hotel Term Loans (continued):

Many of these term loans are interest only for a number of years as follows:

| Total term loan amount | Interest only period (years) | Amortization commencement date |
|---|---|---|
| $ 6,000 | 2 | August 6, 2016 |
| 38,000 | 3 | January 6, 2017 |
| 24,500 | 4 | May 6, 2018 |
| 58,110 | 7 | January 6, 2022 to August 6, 2022 |
| 60,500 | 10 | interest-only for the full term |

Two of the term loans were assumed loans. The assumption of the two term loans resulted in a mark-to-market adjustment of $492 which is being amortized using the effective interest method. During the year ended December 31, 2015, $74 (2014 - $37) in amortization of the mark-to-market adjustment was recorded as a reduction in finance costs (note 15).

For certain term loans, the lender has also provided FF&E waivers as follows:

| Total term loan amount | FF&E Reserve waiver period (years) | FF&E Reserve contribution start date |
|---|---|---|
| $ 26,110 | 2 | December 6, 2016 |
| 32,000 | 2 | July 6, 2017 |
| 19,000 | 2 | August 6, 2017 |

(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 are as follows:

| | |
|---|---|
| 2016 | $ 2,893 |
| 2017 | 4,752 |
| 2018 | 10,265 |
| 2019 | 5,422 |
| 2020 | 5,665 |
| Thereafter | 273,849 |
| | $ 302,846 |

As at December 31, 2015, AHIP was in compliance with all of its loan agreements.

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

**10. Contingent consideration:**

| | 2015 | 2014 |
|---|---|---|
| Opening balance | $ 5,288 | $ 5,085 |
| Reduction in earn-out amount to sellers | (100) | - |
| Accretion | 212 | 203 |
| Closing balance | $ 5,400 | $ 5,288 |

Pursuant to the purchase agreement of the initial rail crew portfolio, $5,500 of the aggregate purchase price was subject to an earn-out provision upon achievement of certain performance based targets prior to December 31, 2015. To the extent earned, AHIP's indirect U.S. subsidiary had the option of paying such amount in cash or in AHIP's units, or a combination thereof, by January 20, 2016.

On January 15, 2016, AHIP signed a letter agreement with the sellers to reduce the amount payable to the sellers under the earn-out provision by $100 to compensate AHIP for certain pre-existing deficiencies identified at the hotels after the acquisition date. As a result, the aggregate amount due to the sellers as at December 31, 2015 was $5,900 comprised of $5,400 (2014 - $5,288) in contingent consideration and $500 (2014 - $474) in deferred compensation payable (note 11). The amounts were settled in cash with $2,000 paid on January 20, 2016, $650 on February 22, 2016 and the balance payable in monthly instalments until June 20, 2016.

**11. Deferred compensation payable:**

| | 2015 | 2014 |
|---|---|---|
| Opening balance | $ 474 | $ 460 |
| Acquisition of Railway Portfolio (note 4) | 920 | - |
| Reduction in amounts due to sellers | (150) | - |
| Accretion | 26 | 14 |
| | 1,270 | 474 |
| Current portion of deferred compensation payable | (663) | - |
| | $ 607 | $ 474 |

The purchase agreement for the initial rail crew portfolio provided for an additional $250 compensation to be paid to the sellers for each "Qualifying New Contract" that AHIP entered into within two years of the closing date to a maximum of $1,250. A "Qualifying New Contract" was defined in the Purchase Agreement as a bona fide written agreement for guaranteed room rentals comprising financial and other terms substantially consistent with other similar contracts between Lodging Enterprises, LLC and any American or Canadian railway company with national operations that met minimum contract term and revenue objectives.

**11. Deferred compensation payable (continued):**

Payment may be made in cash or AHIP's units, or a combination thereof, at the option of AHIP, and was due within 20 days following December 31, 2015.

As it was uncertain whether any Qualifying New Contracts would be executed by December 31, 2015, the fees for the signing of Qualifying New Contracts were not included in the purchase price of the initial rail crew portfolio at the date of acquisition, and the fees were recognized upon the signing of each Qualifying New Contract. AHIP entered into two Qualifying New Contracts and as a result $500 was included in deferred compensation payable as at December 31, 2015.

Pursuant to the terms of the purchase agreement for the Railway Portfolio, $1,000 of the aggregate purchase price will be payable over four years. This amount was initially recorded at the present value of $919. On January 25, 2016, AHIP signed a settlement agreement with the sellers to reduce the total amount payable from $1,000 to $850 to compensate AHIP for deficiencies identified at the hotels after the closing date. This $150 reduction was reflected in the deferred compensation balance as at December 31, 2015.

During the year ended December 31, 2015, AHIP recognized $26 (2014 - $14) in accretion on the deferred compensation balance in its consolidated statements of comprehensive income.

**12. Preferred shares:**

On January 17, 2014, the U.S. REIT completed a private placement offering of preferred shares in the U.S. REIT to 125 preferred shareholders for total offering proceeds of $125. The preferred shares were issued in order for the U.S. REIT to qualify as a REIT for US tax purposes. These non-voting shares have a par value of $1 with a fixed rate of dividend at 12.5% per annum. As such, these preferred shares are classified as liabilities rather than equity on the consolidated statements of financial position. Consequently, any dividend payments are classified as finance costs on the consolidated statements of comprehensive income.

**13. Partners' capital:**

(a) Authorized:

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

**13. Partners’ capital (continued):**

(b) Issued:

On June 4, 2014, AHIP completed a bought-deal public offering of 4,900,000 limited partnership units, including 552,000 Units related to a partial exercise of the over-allotment option, at a price of Cdn$10.35 per Unit, for total gross proceeds of Cdn$50,715 ($46,357).

On October 28 2014, AHIP completed a bought-deal public offering of 4,810,000 limited partnership units, including 500,000 Units related to a partial exercise of the over-allotment option, at a price of Cdn$10.45 per Unit, for total gross proceeds of Cdn$50,265 ($44,716).

On October 29, 2014 and May 6, 2014, AHIP issued 43,016 Units at a price of Cdn$10.45 per Unit and 101,247 Units at a price of Cdn$10.83 per Unit totaling $1,400 as partial consideration for the purchase of two rail crew hotels from SunOne (note 17(b)).

On February 25, 2015, as partial consideration for the purchase of a rail crew hotel from SunOne (note 17(b), AHIP issued 66,927 Units at a price of Cdn$11.20 per Unit totaling $600.

On April 28, 2015, AHIP completed a bought-deal public offering of 6,181,250 Units, including 806,250 Units related to the full exercise of the over-allotment option, at a price of Cdn$10.70 per Unit, for total gross proceeds of Cdn$66,139 ($54,787).

On August 11, 2015, AHIP completed a bought-deal public offering of 3,800,000 Units, at a price of Cdn$10.15 per Unit, for total gross proceeds of Cdn$38,570 ($29,479). On August 31, 2015, AHIP completed a partial exercise of the over-allotment option related to a bought-deal public offering of 425,000 Units , at a price of Cdn$10.15 per Unit, for total gross proceeds of Cdn$4,314 ($3,250).

On October 30, 2015 and on December 8, 2015, AHIP issued 39,032 Units at a price of Cdn$10.12 per Unit and 38,244 Units at a price of Cdn$10.60 per Unit as partial consideration for the purchase of two rail crew hotel expansions (note 17(b)) totaling $600.

For the year ended December 31, 2015, total offering costs of $22,264 (2014 - $17,736) were deducted from partners’ capital.

**13. Partners' capital (continued):**

(c) Allocation of net income or net loss:

Where Distributable Cash (defined as, for any period, the aggregate of all amounts received by AHIP in such period, whether by way of dividends, interest or otherwise, from and in respect of its direct and indirect investment in the securities held by AHIP, including its investment in any subsidiaries, less reasonable reserves determined by the General Partner to be necessary to operate the affairs of AHIP in a prudent and businesslike manner, and less taxes, if any, payable by AHIP) is paid in respect of a fiscal year, the net income and taxable income of AHIP in respect of that fiscal year shall be allocated among all Partners (defined as General Partner and the Unitholders) that were Partners at any time in the fiscal year on the following basis:

(*i*) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of $0.1 per annum; and

(*ii*) as to the balance, to the Unitholders as a class, and to each Unitholder in an amount calculated by multiplying such balance by a fraction, the numerator of which is the sum of distributions received by such Unitholder with respect to such fiscal year and the denominator of which is the aggregate amount of distributions made by AHIP to the Unitholders as a group with respect to such fiscal year.

Where no Distributable Cash is paid in respect of a fiscal year, net income and taxable income of AHIP in respect of that fiscal year shall be allocated among the Partners on the following basis:

(*i*) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of $0.1 per annum; and

(*ii*) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares of the balance divided by 12. Proportionate Share, in respect of each Unitholder, means that fraction which, as of the date of such determination:

- has as its numerator the number of Units held by such Unitholder; and
- has as its denominator the aggregate number of Units outstanding.

Net loss and taxable loss of AHIP in respect of a fiscal year shall be allocated among all Partners that were Partners at any time in the fiscal year on the following basis:

- first, to the General Partner 0.01% of the net loss and taxable loss of AHIP to a maximum of $0.1 per annum; and
- as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares as at the end of each month, the balance divided by 12.

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

**13. Partners' capital (continued):**

(d) 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 the General Partner may determine.

For the year ended December 31, 2015, the General Partner declared distributions of Cdn$0.90 ($0.71) per Unit (2014 - Cdn$0.90 and $0.77 per Unit) to be paid to Unitholders totaling $21,724 (2014 - $15,067). Of this amount, $1,906 (2014 - $1,573) was included in accounts payable and accrued liabilities at December 31, 2015.

**14. Compensation plan:**

On May 6, 2015, certain members of AHIP senior management received short term incentive plan ("STIP") awards for their performance during the year ended December 31, 2014. The STIP awards were issued in the form of Restricted Stock Units totaling 21,752 Units that will vest over three years in equal annual instalments starting on December 31, 2015. The fair value of the STIP awards issued was $192.

On May 6, 2015, certain members of AHIP senior management received long term incentive plan ("LTIP") awards. The LTIP awards were issued in the form of Restricted Stock Units and Performance Awards (also in the form of Restricted Stock Units). 12,805 Restricted Stock Units, which represent 40% of the LTIP awards, will vest over three years in equal annual instalments starting on March 31, 2016.

Of the remaining 19,208 Restricted Stock Units representing 60% of the LTIP awards, 1,674 Units will vest on March 30, 2018 and the remaining 17,534 Restricted Stock Units representing the Performance Awards are subject to a market performance condition based on AHIP's performance relative to a market index which could result in as few as no Units and as many as 35,068 Units being issued. The fair value of the LTIP awards issued was $271.

Vesting schedule for these Unit grants, including 15,000 Restricted Stock Units granted in 2013 that vested in 2015, is as follows:

| Vesting dates | Number of units | Total fair value of units at grant date |
|---|---|---|
| December 31, 2015 | 22,249 | $ 212 |
| December 31, 2016 | 11,516 | 102 |
| December 31, 2017 | 11,521 | 102 |
| December 31, 2018 | 23,479 | 196 |
| Total Units granted | 68,765 | $ 612 |

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

**14. Compensation plan (continued):**

A summary of Units granted is as follows:

| | Number of units | Weighted average grant date fair value |
|---|---|---|
| Unvested, January 1, 2014 | 58,500 | $ 9.87 |
| Vested | (43,500) | (9.87) |
| Unvested, December 31, 2014 | 15,000 | 9.87 |
| Granted | 53,765 | 8.72 |
| Vested | (22,249) | (9.49) |
| Unvested, December 31, 2015 | 46,516 | $ 8.72 |

For the year ended December 31, 2015, a total of $270 (2014 - $501) in securities-based compensation expense is included in corporate and administrative expense.

**15. Finance costs:**

| | 2015 | 2014 |
|---|---|---|
| Interest on Term Loans and revolver | $ 12,210 | $ 7,372 |
| Dividends on preferred shares | 25 | 15 |
| Change in fair value of interest rate swap contract | 894 | - |
| Amortization of debt financing costs | 555 | 549 |
| Accretion of contingent consideration and deferred compensation payable | 238 | 217 |
| Amortization of mark-to-market adjustment | (74) | (37) |
| | $ 13,848 | $ 8,116 |

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

**16. Commitments and contingencies:**

(a) Operating leases:

AHIP and its subsidiaries entered into operating leases for its office facility, office equipment and automobiles. Future minimum lease payments under non-cancelable operating leases as of December 31, 2015 are as follows:

| | |
|---|---|
| 2016 | $ 675 |
| 2017 | 497 |
| 2018 | 291 |
| 2019 | 177 |
| 2020 | 95 |
| Thereafter | - |
| | $ 1,735 |

The above amounts exclude the lease for AHIP's head office space in Vancouver, British Columbia, Canada, which is subleased from a related party, for an annual amount of Cdn$65. AHIP reimburses the related party for the related rental payments on a monthly basis. Effective January 1, 2015, additional space was leased by AHIP. As a result, the annual lease payments will increase to Cdn$100. The head office lease expires on June 30, 2017.

(b) Lodging facility agreements:

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

(c) Purchase commitments:

Pursuant to the Master Development Agreement (“Development Agreement”) with SunOne Developments Inc. (“SunOne”), a company affiliated with the Chief Executive Officer and a director of the General Partner, AHIP has entered into an agreement for SunOne to develop and construct suitable hotel properties and AHIP will acquire the properties once they are constructed and ready for use. The purchase price is calculated as the greater of: (*i*) 95% of the fair market value of the property under development as determined by an independent appraisal; and (*ii*) the construction cost of the assets at substantial completion, as defined by the Development Agreement.

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

**16. Commitments and contingencies (continued):**

(c) Purchase commitments (continued):

AHIP has committed to purchase the following property expansions from SunOne:

| Property under development | Estimated completion date | Rooms | Committed purchase price |
|---|---|---|---|
| Hearne, TX | March 2016 | 24 | $ 2,400 |
| Hermiston, OR | April 2016 | 24 | 1,900 |
| Platte, NE | May 2016 | 24 | 2,100 |

(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.

**17. Related party transactions:**

(a) Hotel Manager:

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

The applicable operating subsidiary of AHIP is 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, utilities and other operating expenses. The hotel management agreements also provide for an amount equal to 3.5% of gross revenues to be paid to the Hotel Manager. The Hotel Manager is also entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures. In addition, commencing in 2014, the Hotel Manager is eligible to receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the Hotel Manager, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the independent directors of the General Partner. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned. In addition, an administration fee of $15 is payable to the hotel manager per property acquired on February 20, 2013 for each of the first and second years of the agreement, $20 per property in the third year of the agreement, and $25 per property in each year thereafter. A fee of $25 per property is payable for each property acquired after February 20, 2013.

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

**17. Related party transactions (continued):**

(a) Hotel Manager (continued):

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

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Management fees | $ | 4,967 | $ | 3,246 |
| Administration fees | | 1,523 | | 813 |
| Total fees expensed | $ | 6,490 | $ | 4,059 |

In addition, management fees of $613 for the year ended December 31, 2015 (2014 - $374) were capitalized to property, buildings and equipment, of which $228 is included in accounts payable and accrued expenses as at December 31, 2015 (2014 - $24).

During the year ended December 31, 2015, the Hotel Manager incurred $42,130 (2014 - $28,403) in expenses on behalf of the hotel properties during the normal course of operations, comprised primarily of payroll costs of $40,189 (2014 - $27,805) and other general and administrative costs such as insurance, travel, and office supplies. Of this total, $592 is included in accounts payable and accrued expenses as at December 31, 2015 (2014 - $1,258).

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

During the years ended December 31, 2015 and 2014, AHIP acquired four hotels from SunOne pursuant to the Development Agreement as follows:

| 2015 | Note | | |
|---|---|---|---|
| Property, buildings and equipment | | $ | 7,480 |
| Financed by: | | | |
| Cash | | $ | 1,507 |
| Mezzanine loan receivable | | | 648 |
| New term loan | | | 4,725 |
| Issuance of Units | 13 | | 600 |
| | | $ | 7,480 |

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

**17. Related party transactions (continued):**

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

| 2014 | Note | | Total |
|---|---|---|---|
| Property, buildings and equipment | | $ | 12,934 |
| Financed by: | | | |
| Cash | | $ | 3,583 |
| Holdback from SunOne | | | 50 |
| Mezzanine loan receivable | | | 1,531 |
| New term loans | | | 6,370 |
| Issuance of Units | 13 | | 1,400 |
| | | $ | 12,934 |

The hotels acquired from SunOne were accounted for as asset acquisitions as the hotels were not operational on the acquisition dates. All other hotel acquisitions were accounted for as business combinations.

During 2015, AHIP also paid SunOne for the completion of room expansions at two existing Oak Tree Inn Hotels as follows:

| | Note | | Total |
|---|---|---|---|
| Buildings and equipment | | $ | 5,100 |
| Financed by: | | | |
| Cash | | $ | 3,991 |
| Revolver | | | 230 |
| Holdback | | | 279 |
| Issuance of Units | 13 | | 600 |
| | | $ | 5,100 |

(c) Compensation:

Key management includes those persons having authority and responsibility for planning, direction, and controlling the activities of AHIP, directly or indirectly. Total compensation awarded to key management for the year ended December 31, 2015 was $1,626 (2014 - $1,975), which includes securities-based compensation expense of $270 (2014 - $501).

## 18. Financial instruments:

The carrying values of AHIP's cash and cash equivalents, restricted cash, trade and other receivables, mezzanine loans receivable, other assets, 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 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 December 31, 2015 was $297,263 (2014 - $222,541).

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.

AHIP is exposed to a number of risks in its normal course of operations from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. AHIP monitors its interest rate exposure on an ongoing basis.

As described in note 9, AHIP's term loans as at December 31, 2015 all have fixed interest rates. The Revolver and the Accordion Loan have variable interest rates. As there were no balances outstanding on the Revolver or the Accordion Loan, AHIP was not exposed to any interest rate risk at December 31, 2015.

(b) Credit risk and economic dependence:

Credit risk is the risk of financial loss to AHIP if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument.

AHIP is exposed to credit risk with respect to trade and other receivables. At December 31, 2015 trade and other receivables were $4,385 (2014 - $2,601). Amounts over 30 days totaled $476 (2014 - $532), all of which are expected to be collected. The bad debt write-off was $166 for the year ended December 31, 2015 (2014 - $51). The associated risk is mitigated by initiating a prompt collection process and credit checks on all new customers.

Revenues from one railway customer represent approximately $30,277 or 21.1% of AHIP's total revenues for the year ended December 31, 2015 (2014 - $30,423 or 32.7%). As at December 31, 2015, $830 was receivable from this customer (2014 - $564).

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

**18. Financial instruments (continued):**

(c) Liquidity risk:

Liquidity risk is the risk that AHIP will not be able to meet its financial obligations as they fall due. Property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If AHIP were required to liquidate a property investment, the proceeds to AHIP may be significantly less than the aggregate carrying value of such property.

AHIP manages liquidity risk through monitoring the repayment dates and refinancing dates of its revolver and Term Loans, monitoring its debt covenants, and managing its cash flows. AHIP's objective is to maintain sufficient available credit facilities to fund ongoing operational and capital requirements. In addition to trade and other receivables, AHIP has cash and cash equivalents of $13,222 (2014 - $11,991) excluding the restricted cash amount of $15,671 at December 31, 2015 (2014 - $17,579).

The timing of estimated cash outflows relating to financial liabilities are outlined in the table below:

| | Value at December 31, 2015 | Maturity |
|---|---|---|
| Accounts payable and accrued liabilities | $ 12,911 | Less than 1 year |
| Current portion of term loans (note 9) | 2,893 | Less than 1 year |
| Contingent consideration (note 10) | 5,400 | Less than 1 year |
| Deferred compensation payable (note 11) | 663 | Less than 1 year |
| Deferred compensation payable (note 11) | 607 | 2017 - 2019 |
| Term loans | 293,092 | 2018 - 2025 |
| Interest rate swap contract | 894 | 2023 |

(d) Currency exchange rate risk:

AHIP's distributions are denominated in Canadian dollars. The Canadian dollar is not maintained at a fixed exchange rate compared to foreign currencies but rather the value of the Canadian dollar has a floating exchange rate in relation to other currencies. The U.S. REIT and its affiliates conduct business in the U.S. Consequently, income and expense or any ultimate gain on sale are earned or incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the cash required to fund future distributions may fluctuate with reference to U.S. dollars. Accordingly, AHIP's cash flow is subject to currency exchange rate risk. As at December 31, 2015, the AHIP's consolidated statement of financial position included $2,802 of cash denominated in Canadian dollars. Increases or decreases in the exchange rate on this cash balance is not considered material to these financial statements. On January 22, 2016, AHIP announced a change to U.S. dollar distributions as described in note 23 to reduce its currency exchange rate risk.

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

**19. Capital management:**

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Term loans | $ | 295,985 | $ | 222,541 |
| Partners' capital | | 259,667 | | 191,236 |
| Total capital | $ | 555,652 | $ | 413,777 |

AHIP defines capital as the aggregate of its term loans and partners' capital. AHIP's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the amended limited Partnership Agreement; complies with existing debt covenants; funds its business strategies; and builds long-term partners' value. AHIP's capital structure is periodically reviewed by the Board of Directors of the General Partner.

**20. Supplemental cash flow disclosure:**

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | (601) | $ | 5,010 |
| Other assets | | (1,209) | | (1,042) |
| Trade and other receivables | | (1,906) | | (1,273) |
| Changes in non-cash operating working capital | $ | (3,716) | $ | 2,695 |

**21. Segment reporting:**

AHIP's operations consist of hotel real estate properties in the U.S. only. AHIP structures its operations in two operating and reportable segments based on the way that AHIP organizes its operations for making operating decisions and assessing performance. AHIP's corporate costs are not allocated to the segments: (*i*) the Rail Hotels that have lodging agreements; and (*ii*) the Branded Hotels that have franchise agreements.

The following provides segmented information as at December 31, 2015 and 2014 and for the years then ended:

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

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

### 21. Segment reporting (continued):

| **December 31, 2014** | Rail Hotels | Branded Hotels | Corporate | Total |
|---|---|---|---|---|
| Total assets | $ 154,282 | $ 277,408 | $ 2,025 | $ 433,715 |
| Total liabilities | 86,199 | 152,727 | 3,553 | 242,479 |

Income from operating activities for the year ended December 31, 2015:

| | Rail Hotels | Branded Hotels | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ 63,195 | $ 80,572 | $ - | $ 143,767 |
| Hotel expenses | (51,023) | (61,282) | (26) | (112,331) |
| Income from operating activities | $ 12,172 | $ 19,290 | $ (26) | $ 31,436 |

Income from operating activities for the year ended December 31, 2014:

| | Rail Hotels | Branded Hotels | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ 58,724 | $ 34,419 | $ - | $ 93,143 |
| Hotel expenses | (47,902) | (24,949) | (1) | (72,852) |
| Income from operating activities | $ 10,822 | $ 9,470 | $ (1) | $ 20,291 |

### 22. Comparative information:

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

### 23. Subsequent events:

(a) Distributions:

On January 20, 2016, AHIP announced a cash distribution of Cdn$0.075 (US$0.051) per unit for the period from January 1, 2016 to January 31, 2016. The distribution was paid on February 15, 2016 to Unitholders of record on January 29, 2016.

On February 16, 2016, AHIP announced a cash distribution of Cdn$0.075 (US$0.054) per unit for the period from February 1, 2016 to February 29, 2016. The distribution was paid on March 15, 2016 to Unitholders of record on February 29, 2016.

**23. Subsequent events (continued):**

(b) Lincoln Property Acquisition:

On January 8, 2016, AHIP announced the completion of its previously announced acquisition of a 133-room rail crew hotel located in Lincoln, Nebraska (the “Lincoln Property”) for an aggregate purchase price of $3,900, including approximately $1,200 of planned capital expenditures and excluding closing and post-acquisition adjustments. The planned renovations include conversion of the property to an industry leading Oak Tree Inn Hotel. AHIP funded the purchase of the Lincoln Property with cash.

(c) US-dollar Distributions:

On January 22, 2016, AHIP announced that its Board of Directors has approved a change to U.S. dollar denominated cash distributions (based on the Bank of Canada's closing U.S. dollar exchange rate as at January 22, 2016). The change will take effect for the April 2016 distribution payable on May 13, 2016 to unitholders of record on April 29, 2016. Accordingly, AHIP’s monthly cash distributions will become $0.054 per unit compared with Cdn$0.075 per unit prior to the change in currency denomination.