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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

For the three and nine months ended
September 30, 2016 and 2015

(Unaudited)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

	Notes	September 30, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents		$ 65,807	$ 13,222
Restricted cash	4	13,716	15,671
Loan receivable	8	10,199	-
Trade and other receivables		5,308	4,385
Other assets		7,767	4,008
		102,797	37,286
Property, buildings and equipment	5	527,256	523,095
Intangible assets	6	10,576	12,702
Deferred income tax assets	9	5,609	4,320
		$ 646,238	$ 577,403
Liabilities and Partners' Capital			
Current liabilities:			
Accounts payable and accrued liabilities		$ 15,349	$ 12,911
Current portion of term loans	10	4,846	2,893
Contingent consideration		-	5,400
Deferred compensation payable		250	663
		20,445	21,867
Term loans	10	296,502	293,092
Deferred compensation payable		425	607
Fair value of interest rate swap contract		3,981	894
Preferred shares		125	125
Deferred income tax liabilities	9	1,770	1,151
		323,248	317,736
Partners' capital	11	322,990	259,667
Commitments and contingencies	14		
Subsequent events	19		
		$ 646,238	$ 577,403

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

		Three months ended		Nine months ended	
	Note	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue:					
Rooms		$ 40,313	$ 36,467	$ 117,205	$ 93,055
Food and beverage		3,786	3,533	10,662	9,967
Rental and other		409	349	1,302	987
		44,508	40,349	129,169	104,009
Hotel expenses:					
Operating expenses		21,384	19,465	62,354	51,876
Energy		1,955	1,911	5,639	4,764
Property maintenance		2,167	1,797	6,232	4,748
Property taxes and insurance		1,741	1,649	5,590	4,867
Depreciation and amortization		6,077	5,040	17,851	13,609
		33,324	29,862	97,666	79,864
Income from operating activities		11,184	10,487	31,503	24,145
Corporate and administrative		2,801	2,718	9,071	6,987
Loss on disposal of property and equipment		13	36	48	149
Business acquisition costs		1,421	1,235	2,664	2,730
Income before undernoted		6,949	6,498	19,720	14,279
Finance income		(135)	(5)	(151)	(47)
Finance costs	13	3,138	3,496	14,295	9,279
Income before income taxes		3,946	3,007	5,576	5,047
Current income tax expense		113	-	364	-
Deferred income tax expense (recovery)		(47)	295	(670)	295
Net income and comprehensive income		$ 3,880	$ 2,712	$ 5,882	$ 4,752
Basic and diluted net income and comprehensive income per unit		$ 0.09	$ 0.08	$ 0.16	$ 0.17
Basic weighted average number of units outstanding		42,368,659	32,787,544	37,446,267	28,641,181
Diluted weighted average number of units outstanding		42,483,493	32,870,578	37,537,524	28,692,815

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

Nine months ended September 30, 2016 and 2015

	Notes	Units outstanding	General partner [1]	Limited partners	Contributed surplus	Cumulative (deficit)	Total
Balance, January 1, 2016		34,908,265	$ -	$ 297,604	$ 129	$ (38,066)	$ 259,667
Securities-based compensation	12	-	-	-	294	-	294
Issuance of units under securities-based compensation plan	12	3,895	-	35	(35)	-	-
Issuance of units on public offering, net of issuance costs	11	10,000,400	-	74,510	-	-	74,510
Issuance of units for hotel expansions, net of expenses	11	173,599	-	1,361	-	-	1,361
Net income and comprehensive income		-	-	-	-	5,882	5,882
Distributions	11	-	-	-	-	(18,724)	(18,724)
Balance, September 30, 2016		45,086,159	$ -	$ 373,510	$ 388	$ (50,908)	$ 322,990
Balance, January 1, 2015		24,335,563	$ -	$ 213,204	$ 71	$ (22,039)	$ 191,236
Securities-based compensation	12	-	-	-	181	-	181
Issuance of units on public offering, net of issuance costs		10,406,250	-	82,996	-	-	82,996
Issuance of units for hotel acquisition		66,927	-	600	-	-	600
Net income and comprehensive income		-	-	-	-	4,752	4,752
Distributions	11	-	-	-	-	(15,834)	(15,834)
Balance, September 30, 2015		34,808,740	$ -	$ 296,800	$ 252	$ (33,121)	$ 263,931

[1] *The General Partner ("GP") is entitled to a 0.01% interest in AHIP in consideration for the GP having contributed $0.1 as a capital contribution to AHIP.*

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

		Three months ended		Nine months ended	
	Notes	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Cash provided by (used in):					
Operating activities:					
Net income and comprehensive income		$ 3,880	$ 2,712	$ 5,882	$ 4,752
Interest paid		(3,620)	(2,851)	(10,344)	(8,784)
Items not affecting cash:					
Loss on disposal of property and equipment		13	36	48	149
Depreciation and amortization		6,077	5,040	17,851	13,609
Securities-based compensation expense		124	89	294	181
Deferred income tax expense (recovery)		(47)	295	(670)	295
Finance costs	13	3,138	3,496	14,295	9,279
		9,565	8,817	27,356	19,481
Changes in non-cash operating working capital	17	(2,683)	(148)	(2,785)	(2,703)
		6,882	8,669	24,571	16,778
Investing activities:					
Changes in restricted cash reserves		2,016	(3,225)	1,955	(1,859)
Purchase of property, buildings and equipment		(5,099)	(4,140)	(10,794)	(10,595)
Franchise application fees paid		(775)	(440)	(775)	(950)
Acquisition of Branded Hotels		-	(30,790)	-	(84,010)
Acquisition of Rail Hotels and expansions		(1,995)	(44,680)	(7,348)	(50,912)
Proceeds on disposal		-	-	8	-
Issuance of loan receivable	8	(10,199)	-	(10,199)	-
		(16,052)	(83,275)	(27,153)	(148,326)
Financing activities:					
Units issued for cash on public offerings, net of expenses		74,510	30,964	74,510	82,996
Distributions paid		(6,764)	(5,638)	(18,122)	(15,396)
Proceeds from term loans		-	39,000	7,000	75,725
Payments on term loans		(861)	(1,090)	(1,957)	(3,222)
Payments on promissory note		-	-	(5,900)	-
Payments on deferred compensation		(62)	-	(100)	-
Mezzanine loans receivable advanced		-	-	-	(135)
Financing costs paid		(39)	(1,891)	(264)	(2,623)
		66,784	61,345	55,167	137,345
Increase (decrease) in cash and cash equivalents		57,614	(13,261)	52,585	5,797
Cash and cash equivalents, beginning of period		8,193	31,049	13,222	11,991
Cash and cash equivalents, end of period		$ 65,807	$ 17,788	$ 65,807	$ 17,788

See accompanying notes to condensed consolidated interim 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 ("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 with large railway companies; and

(*ii*) Branded Hotels are hotels that have franchise agreements with international hotel brands.

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

2. Basis of presentation and statement of compliance:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Statements*. Selected explanatory notes are included to explain significant events and transactions that have occurred since December 31, 2015. These condensed consolidated interim financial statements do not contain all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual reporting purposes and should be read in conjunction with AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2015.

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

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

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

(d) Measurement uncertainty (use of estimates):

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

The significant areas of estimates that are critical to the determination of the amounts reported are disclosed in AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2015. There have been no changes to the amounts of the business combinations and the allocation of the purchase price as previously disclosed in the annual audited consolidated financial statements as at and for the year ended December 31, 2015.

3. Significant accounting policies:

(a) Significant accounting policies:

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as AHIP's annual audited consolidated financial statements as at and for the year ended December 31, 2015.

(b) Comparative information:

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

4. Restricted cash:

	September 30, 2016	December 31, 2015
Property improvement plans ("PIPs") reserve	$ 7,813	$ 12,242
Furniture, fixtures and equipment ("FF&E") reserves	2,661	1,422
Property tax reserves	2,563	1,729
Other reserves	679	278
	$ 13,716	$ 15,671

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction-in-progress	Total
Cost:					
Balance, January 1, 2015	$ 39,833	$ 328,366	$ 28,093	$ 5,390	$ 401,682
Acquisitions	10,533	120,519	3,588	-	134,640
Additions	740	1,447	2,960	13,795	18,942
Transfers	-	14,110	4,361	(18,471)	-
Disposals	-	(472)	(192)	-	(664)
Balance, December 31, 2015	51,106	463,970	38,810	714	554,600
Acquisitions	772	1,790	188	-	2,750
Additions	-	843	3,117	13,224	17,184
Transfers	-	7,893	1,428	(9,321)	-
Disposals	(14)	(4)	(161)	-	(179)
Balance, September 30, 2016	$ 51,864	$ 474,492	$ 43,382	$ 4,617	$ 574,355

	Land	Buildings	Equipment	Construction-in-progress	Total
Accumulated depreciation:					
Balance, January 1, 2015	$ -	$ 9,277	$ 5,173	$ -	$ 14,450
Depreciation	-	10,927	6,263	-	17,190
Disposals	-	(18)	(117)	-	(135)
Balance, December 31, 2015	-	20,186	11,319	-	31,505
Depreciation	-	10,146	5,579	-	15,725
Disposals	-	-	(131)	-	(131)
Balance, September 30, 2016	$ -	$ 30,332	$ 16,767	$ -	$ 47,099
Net book value at September 30, 2016	$ 51,864	$ 444,160	$ 26,615	$ 4,617	$ 527,256
Net book value at December 31, 2015	$ 51,106	$ 443,784	$ 27,491	$ 714	$ 523,095

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

6. Intangible assets:

	Rail crew agreements	Contract signing fees	Franchise agreements	Total
Cost:				
Balance, January 1, 2015	$ 9,030	$ 460	$ 2,210	$ 11,700
Branded Hotel franchise fees	-	-	950	950
Acquisition of Railway Portfolio	5,825	-	-	5,825
Balance, December 31, 2015	14,855	460	3,160	18,475
Balance, September 30, 2016	$ 14,855	$ 460	$ 3,160	$ 18,475
Accumulated amortization:				
Balance, January 1, 2015	$ 3,352	$ 46	$ 95	$ 3,493
Amortization	2,024	46	210	2,280
Balance, December 31, 2015	5,376	92	305	5,773
Amortization	1,897	34	195	2,126
Balance, September 30, 2016	$ 7,273	$ 126	$ 500	$ 7,899
Net book value at September 30, 2016	$ 7,582	$ 334	$ 2,660	$ 10,576
Net book value at December 31, 2015	$ 9,479	$ 368	$ 2,855	$ 12,702

7. Business combinations:

(a) Rail Hotels:

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

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

For the 265-day period from the acquisition date to September 30, 2016, AHIP recognized revenues of $588 and a loss from operating activities of $66. If this property had been acquired on January 1, 2016, the proforma revenues for the three and nine months ended September 30, 2016 would have been $206 and $600, respectively. The proforma loss from operating activities for the three and nine months ended September 30, 2016 would have been $44 and $69, respectively.

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

8. Loan receivable:

On July 13, 2016, AHIP announced that it had agreed to acquire two Embassy Suites by Hilton hotels located in Dallas, Texas and Tempe, Arizona for an aggregate purchase price of approximately $57,600. In conjunction with this transaction, on August 5, 2016, AHIP advanced a Bridge Loan ("Bridge Loan") of approximately $10,200 to the vendor of the Embassy Suites Tempe Hotel ("Tempe Hotel").

The Bridge Loan is an interest-only loan with an interest rate of 8.0% and a term of 60 days with an option to extend for a further 90 days and will be repaid upon the completion of the Tempe Hotel acquisition. On September 23, 2016, the vendor extended the maturity date to January 5, 2017. The Bridge Loan is secured by the Tempe Hotel.

Two AHIP directors have indirect interests in the acquisition of the two Embassy Suites hotels.

9. Deferred income taxes:

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

		September 30, 2016		December 31, 2015
Deferred income tax assets:				
Non capital losses carried forward	$	3,332	$	2,439
Intangible assets		2,175		1,784
Other		102		97
	$	5,609	$	4,320
Deferred income tax liabilities:				
Deferred compensation payable	$	(52)	$	(54)
Property, buildings and equipment		(1,703)		(1,097)
Other		(15)		-
	$	(1,770)	$	(1,151)

As at September 30, 2016, AHIP had net operating losses for tax purposes totaling $8,849 (December 31, 2015 - $6,414) which may be carried forward for up to 20 years from the date of origination and applied against future taxable income.

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

10. Term loans:

	Notes	September 30, 2016	December 31, 2015
Rail Hotel loans	(a)	$ 85,992	$ 82,710
Railway Portfolio term loan		20,000	20,000
Branded Hotels term loans	(b)	201,896	200,136
		307,888	302,846
Unamortized portion of mark-to-market adjustment		324	381
Unamortized portion of deferred financing costs		(6,864)	(7,242)
		301,348	295,985
Current portion of term loans		(4,846)	(2,893)
		$ 296,502	$ 293,092

As at September 30, 2016, the term loans had a weighted average stated interest rate of 4.56% (December 31, 2015 - 4.59%). All term loans are secured by the respective hotel properties.

During the nine month period ended September 30, 2016, the following transactions occurred:

(a) Rail Hotel loans:

The Rail Hotel loans were amended on June 21, 2016 to provide for an additional $5,000 term loan secured by certain rail crew hotels (the “2016 Term Loan”). The 2016 Term Loan matures on February 1, 2023, has a variable interest rate based on the 30-day LIBOR rate plus 2.80% and is being amortized over 212 months. Concurrent with the new loan, AHIP entered into an interest rate swap agreement effective July 1, 2016 to fix the interest rate on the 2016 Term Loan at 4.10%. As at September 30, 2016, the total principal balance of the Rail Hotel loans was $85,992 (December 31, 2015 - $82,710).

(b) Branded Hotel Term Loan:

On March 29, 2016, AHIP obtained a $2,000 term loan secured by a hotel property located in Norman, Oklahoma. The loan has a 5-year term maturing on April 1, 2021. The loan has a variable interest rate based on the 30-day LIBOR rate plus 2.80% and is being amortized over 240 months. As at September 30, 2016, the principal balance on this term loan was $1,958 (December 31, 2015 - nil).

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

10. Term loans (continued):

(c) Principal payments:

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

2016	$	1,083
2017		5,054
2018		10,580
2019		5,743
2020		5,993
Thereafter		279,435
	$	307,888

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

11. Partners' capital:

(a) Authorized:

The capital of AHIP allows for the issuance of an unlimited number of limited partnership Units and the equity interest held by the General Partner.

(b) Issued:

On April 1, 2016 and June 2, 2016, AHIP issued 59,088 Units at a price of Cdn$10.44 ($8.04) per Unit and 114,511 Units at a price of Cdn$10.27 ($7.86) per Unit, respectively, as partial consideration for the purchase of two rail crew hotel expansions (note 15(b)).

On July 26, 2016, AHIP completed a bought-deal public offering of 10,000,400 Units, including 1,304,400 Units related to the full exercise of the over-allotment option, at a price of Cdn$10.35 ($7.83) per Unit, for total gross proceeds of Cdn$103,500 ($78,300) ("July 2016 Offering").

As at September 30, 2016 and December 31, 2015, total offering costs since inception of $26,066 and $22,264, respectively, have been deducted from partners' capital.

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

11. Partners' capital (continued):

(c) Distribution policy:

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

Commencing with the April 2016 distribution payable on May 13, 2016, AHIP began paying monthly cash distributions of $0.054 per Unit to Unitholders, which is equivalent to $0.648 per Unit on an annualized basis. Prior to April 1, 2016, AHIP was paying monthly cash distributions of Cdn$0.075 per Unit to Unitholders, which was equivalent to Cdn$0.90 per Unit on an annualized basis.

For the three months ended September 30, 2016, AHIP declared distributions of $0.162 per Unit (September 30, 2015 - Cdn$0.225 ($0.172) per Unit) totaling $7,323 (September 30, 2015 - $5,758). For the nine months ended September 30, 2016, AHIP declared distributions of $0.487 per Unit (September 30, 2015 - Cdn$0.675 ($0.538) per Unit), totaling $18,724 (September 30, 2015 - $15,834).

12. Compensation plan:

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

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

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

12. Compensation plan (continued):

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

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

For the three and nine months ended September 30, 2016, a total of $124 and $294 in securities-based compensation expense was included in corporate and administrative expense respectively ($89 and $181 for the three and nine months ended September 30, 2015, respectively).

13. Finance costs:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest expense	$ 3,625	$ 3,274	$ 10,606	$ 8,771
Amortization of deferred financing costs	218	178	642	376
Dividends on preferred shares	4	4	12	12
Accretion of deferred compensation	2	6	6	17
Amortization of mark-to-market adjustments	(21)	(19)	(58)	(55)
Change in fair value of interest rate swap contracts	(690)	-	3,087	-
Accretion of contingent consideration	-	53	-	158
	$ 3,138	$ 3,496	$ 14,295	$ 9,279

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

14. Commitments and contingencies:

(a) Operating leases:

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

2016	$ 253
2017	513
2018	305
2019	104
2020	13
Thereafter	407
	$ 1,595

(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 rail crew employees. The agreements provide for a minimum number of rooms to be available, and they also specify certain quality, service, transportation, and insurance requirements to be provided by AHIP in return for a fixed rate per rented room. AHIP may rent the remaining rooms to the general public. These agreements have terms ranging from annual renewals to expirations in 2031.

(c) Brand mandated PIPs:

Under the terms of franchise agreements arising from its acquisition of Branded Hotels, certain AHIP subsidiaries are required to complete PIPs. AHIP's operating subsidiaries have entered into contracts or commitments with various vendors to supply products and services in compliance with these renovation plans. Payments for these items are held as restricted cash (as described in note 4) and funds are dispersed in the ordinary course of business.

15. Related party transactions:

(a) Hotel manager:

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

AHIP’s operating subsidiaries are responsible for reimbursing the Hotel Manager for any operating expenses and direct costs incurred with respect to the operations of the properties and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses.

On September 30, 2016, AHIP entered into an amending agreement (the “Amendment”) with the Hotel Manager to amend certain terms of the original master hotel management agreement. The Amendment is effective July 1, 2016, and included the following modifications:

(*i*) base management fees have been reduced from 3.5% to 3.0% of gross revenue for AHIP’s existing portfolio and for all future hotels acquired by AHIP; and

(*ii*) the annual administration fee of $25 per hotel has been waived for any hotels with more than 100 guestrooms acquired after July 1, 2016.

Termination fees arising from a change in control of AHIP and a termination of the master hotel management agreement were also amended. Specifically, termination fees will step down over time from 5.0 times to 4.0 times aggregate trailing twelve month fees paid to the Hotel Manager over the remaining term of the master hotel management agreement. In addition, the exclusivity period for the Hotel Manager to act as AHIP’s exclusive hotel manager was also extended for a further five-year term to February 20, 2023. All other terms and conditions of the master hotel management agreement were unchanged.

The amended master hotel management agreement provides for the payment of the following amounts to the Hotel Manager:

(*i*) a base management fee equal to 3.0% of gross revenues;

(*ii*) a capital expenditure fee of 5.0% of capital expenditures, including maintenance capital expenditures;

(*iii*) an annual administration fee of $25 for each existing property and for properties acquired after July 1, 2016 with less than 100 guestrooms; and

(*iv*) an incentive management fee if certain profit thresholds are met.

The incentive fee may not exceed 50% of the aggregate base management fees for the year in which the incentive fee is earned.

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

15. Related party transactions (continued):

(a) Hotel manager (continued):

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Management fees	$ 1,336	$ 1,396	$ 4,299	$ 3,645
Administration fees	500	418	1,478	1,079
Total fees expensed	$ 1,836	$ 1,814	$ 5,777	$ 4,724

Capital management fees of $251 and $522 for the three and nine months ended September 30, 2016, respectively ($162 and $472 for the three and nine months ended September 30, 2015, respectively) were capitalized to property, buildings and equipment. For the three and nine months ended September 30, 2016 and 2015, the Hotel Manager did not qualify for any incentive fees and as a result, no incentive fee amounts were recorded in these condensed consolidated interim financial statements.

In addition, during the three and nine months ended September 30, 2016, the Hotel Manager was reimbursed $12,494 and $36,178 from the hotel properties for costs such as wages, travel, and office supplies ($11,065 and $29,848 for the three and nine months ended September 30, 2015).

(b) Acquisition of Oak Tree Inn Hotel expansions from SunOne:

During 2016, pursuant to the Master Development Agreement (“Development Agreement”) with SunOne Developments Inc. (“SunOne”), a company affiliated with the Chief Executive Officer and a director of the General Partner, to develop suitable hotel properties, AHIP paid SunOne the following amounts for the completion of room expansions at three existing rail crew hotels as follows:

	Hearne	Hermiston	North Platte	Total
Property and equipment	$ 2,400	$ 1,900	$ 2,100	$ 6,400
Financed by:				
Cash	$ 1,685	$ 905	$ 1,995	$ 4,585
Holdback	240	95	105	440
Issuance of AHIP Units	475	900	-	1,375
	$ 2,400	$ 1,900	$ 2,100	$ 6,400

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

15. Related party transactions (continued):

(c) Compensation:

Key management includes those persons having authority and responsibility for planning, directing, and controlling the activities of AHIP. Total compensation awarded to key management for the three and nine months ended September 30, 2016 was $442 and $1,092, respectively ($454 and $1,169 for the three and nine months ended September 30, 2015, respectively), which included securities-based compensation expense.

16. Financial instruments:

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

The fair value of AHIP's term loans was determined using present value calculations based on market-observable interest rates for loans with similar terms and conditions and are considered Level 2 financial instruments. The fair value of AHIP's term loans at September 30, 2016 was $314,245 (December 31, 2015 - $297,263).

AHIP uses interest rate swap contracts to effectively fix the interest rate on certain loans. As hedge accounting is not applied; the contracts are carried at fair value and reported as assets (positive) or liabilities (negative) depending on the fair value on the reporting date and the change in fair value is recognized in net income or loss for the period. The fair value of the interest rate swap contracts is calculated through discounting future expected cash flows using the appropriate LIBOR rate swap curve adjusted for credit risk. Since the LIBOR rate swap curve is an observable input, these financial instruments are considered Level 2. The fair value of the interest rate swap contracts as at September 30, 2016 was $3,981 (December 31, 2015 - $894).

There have been no transfers between levels during the year.

17. Supplemental cash flow disclosure:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Changes in non-cash operating working capital:				
Accounts payable and accrued liabilities	$ (135)	$ 1,021	$ 1,122	$ 941
Other assets	(1,918)	(923)	(2,984)	(2,455)
Trade and other receivables	(630)	(246)	(923)	(1,189)
	$ (2,683)	$ (148)	$ (2,785)	$ (2,703)

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

18. 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.

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

September 30, 2016	Rail Hotels	Branded Hotels	Corporate	Total
Total assets	$ 217,597	$ 357,994	$ 70,647	$ 646,238
Total liabilities	112,882	206,714	3,652	323,248

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

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

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	$ 18,867	$ 25,641	$ -	$ 44,508
Hotel expenses	(14,235)	(19,048)	(41)	(33,324)
Income (loss) from operating activities	$ 4,632	$ 6,593	$ (41)	$ 11,184

Income from operating activities for the three months ended September 30, 2015:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	$ 16,291	$ 24,058	$ -	$ 40,349
Hotel expenses	(12,476)	(17,386)	-	(29,862)
Income from operating activities	$ 3,815	$ 6,672	$ -	$ 10,487

(Tabular amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

18. Segment reporting (continued):

Income (loss) from operating activities for the nine months ended September 30, 2016:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	$ 54,159	$ 75,010	$ -	$ 129,169
Hotel expenses	(41,902)	(55,731)	(33)	(97,666)
Income (loss) from operating activities	$ 12,257	$ 19,279	$ (33)	$ 31,503

Income from operating activities for the nine months ended September 30, 2015:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	$ 45,820	$ 58,189	$ -	$ 104,009
Hotel expenses	(36,760)	(43,104)	-	(79,864)
Income from operating activities	$ 9,060	$ 15,085	$ -	$ 24,145

19. Subsequent events:

(a) Distributions:

On October 17, 2016, AHIP announced a cash distribution of $0.054 per Unit for the period of October 1, 2016 to October 31, 2016. The distribution will be paid on November 15, 2016 to Unitholders of record on October 31, 2016.

(b) Acquisition of six branded, select service hotels in Florida:

On October 25, 2016, AHIP announced the acquisition of six branded, select service hotels with 559 guestrooms located in Tampa, Orlando, Sarasota and Fort Myers, Florida for an aggregate purchase price of $61,000, excluding approximately $10,600 in property improvement plans and excluding closing and post-acquisition adjustments. The acquisition will be funded by cash proceeds from the July 2016 Offering and a new mortgage and is expected to be completed by November 30, 2016.

In connection with this acquisition, on the completion date, certain AHIP subsidiaries will be entering into a loan agreement with a major international bank for a $37,000 CMBS loan for a term of 10-years at a fixed interest rate of less than 4.50% per annum and a 30-year amortization period. The lender has also agreed to provide a FF&E reserve waiver for the first 24-months. This loan will be cross-collateralized and secured by five of the six hotel properties to be acquired.

19. Subsequent events (continued):

(c) Amendment to Embassy Suites Transaction Completion Date

On October 25, 2016, the completion date for the previously announced Embassy Suites transaction was amended to the later of January 4, 2017 and five business days following agreement of new franchise agreements and the arrangement of financing satisfactory to the purchaser. The Embassy Suites transaction involves the purchase of two hotels with 529 guestrooms in Dallas, Texas and Tempe, Arizona.

(d) Acquisition of Marriott-branded hotels in Florida and Tennessee:

On October 28, 2016, AHIP completed the acquisition of the previously announced four Marriott-branded, select service hotels with 374 guestrooms located in Jacksonville and Lake City, Florida and Chattanooga, Tennessee for an aggregate purchase price of approximately $47,000, excluding approximately $2,800 in PIPs and excluding closing and post-acquisition adjustments. The acquisition was funded by cash from the July 2016 Offering. On November 4, 2016, AHIP obtained a $27,500 CMBS loan with a 10 year term and a fixed interest rate of 4.43%. The property is secured by three hotel properties and the lender has provided an FF&E reserve waiver for the first two years of the loan.

(e) Acquisition of a rail crew hotel in Tennessee:

On November 1, 2016, AHIP announced the acquisition of a rail crew hotel with 104 guestrooms located in Nashville, Tennessee for an aggregate purchase price of approximately $7,750, excluding closing and post-acquisition adjustments. The acquisition will be funded by cash proceeds from the July 2016 Offering, and is expected to be completed by early December 2016. AHIP intends to obtain a mortgage financing on this hotel within 30 days of the completion date.