

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Three months ended March 31, 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	March 31, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents		\$ 8,908	\$ 13,222
Restricted cash	4	15,895	15,671
Trade and other receivables		4,702	4,385
Other assets		5,094	4,008
		34,599	37,286
Property, buildings and equipment	5	522,418	523,095
Intangible assets	7	11,994	12,702
Deferred income tax assets	8	5,163	4,320
		\$ 574,174	\$ 577,403

Liabilities and Partners' Capital

Current liabilities:			
Accounts payable and accrued liabilities		\$ 15,611	\$ 12,911
Current portion of term loans	9	3,881	2,893
Promissory note	10	2,600	5,900
Deferred compensation payable	11	225	163
		22,317	21,867
Term loans	9	293,887	293,092
Deferred compensation payable	11	546	607
Preferred shares		125	125
Fair value of interest rate swap contract		3,542	894
Deferred income tax liabilities	8	1,243	1,151
		321,660	317,736
Partners' capital	12	252,514	259,667
		\$ 574,174	\$ 577,403

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See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited)

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

Notes	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenue:		
Rooms	\$ 36,412	\$ 25,928
Food and beverage	3,267	3,337
Rental and other	455	264
	40,134	29,529
Hotel expenses:		
Operating expenses	19,783	15,775
Energy	1,956	1,536
Property maintenance	2,016	1,458
Property taxes and insurance	2,395	2,040
Depreciation and amortization	5,830	4,224
	31,980	25,033
Income from operating activities	8,154	4,496
Corporate and administrative	3,292	1,891
Loss on disposal of property and equipment	20	24
Business acquisition costs	706	126
Income before undernoted	4,136	2,455
Finance income	(5)	(12)
Finance costs	14 6,277	2,813
Loss before income taxes	(2,136)	(346)
Current tax expense	108	-
Deferred income tax recovery	(753)	-
Net loss and comprehensive loss	\$ (1,491)	\$ (346)
Basic and diluted net loss per unit	\$ (0.04)	\$ (0.01)
Basic weighted average number of units outstanding	34,908,308	24,361,590
Diluted weighted average number of units outstanding	34,950,557	24,376,590

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)

Three months ended March 31, 2016 and 2015

	Notes	Units outstanding	General partner ¹	Limited partners	Contributed surplus	Cumulative income (deficit)	Total
Balance, January 1, 2016		34,908,265	\$ -	\$ 297,604	\$ 129	\$ (38,066)	\$ 259,667
Securities-based compensation	13	-	-	-	46	-	46
Issuance of units under securities-based compensation plan		3,895	-	35	(35)	-	-
Net loss and comprehensive loss		-	-	-	-	(1,491)	(1,491)
Distributions	12	-	-	-	-	(5,708)	(5,708)
Balance, March 31, 2016		34,912,160	\$ -	\$ 297,639	\$ 140	\$ (45,265)	\$ 252,514
Balance, January 1, 2015		24,335,563	\$ -	\$ 213,204	\$ 71	\$ (22,039)	\$ 191,236
Securities-based compensation	13	-	-	-	18	-	18
Issuance of units for hotel acquisition		66,927	-	600	-	-	600
Net loss and comprehensive loss		-	-	-	-	(346)	(346)
Distributions	12	-	-	-	-	(4,434)	(4,434)
Balance, March 31, 2015		24,402,490	\$ -	\$ 213,804	\$ 89	\$ (26,819)	\$ 187,074

¹ Consists of \$0.1 of General Partner Units.

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

(Expressed in thousands of U.S. dollars)

	Notes	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash provided by (used in):			
Operating activities:			
Net loss and comprehensive loss		\$ (1,491)	\$ (346)
Interest paid		(3,158)	(2,679)
Items not affecting cash:			
Loss on disposal of property and equipment		20	24
Depreciation and amortization		5,830	4,224
Securities-based compensation expense	13	46	18
Deferred income tax recovery		(753)	-
Finance expense	14	6,277	2,909
		6,771	4,150
Changes in non-cash operating working capital	18	873	(1,772)
		7,644	2,378
Investing activities:			
Purchase of property, buildings and equipment		(1,721)	(1,717)
Acquisition of an Oak Tree Inn Hotel		(2,750)	(6,256)
Proceeds on disposal		8	-
Funding for (from) restricted cash reserves		(224)	2,903
		(4,687)	(5,070)
Financing activities:			
Distributions paid		(5,566)	(4,434)
Proceeds from term loans	9(a)	2,000	4,725
Payments on term loans		(307)	(1,056)
Payment on promissory note	10	(3,300)	-
Mezzanine loans receivable advanced		-	(135)
Financing costs paid		(98)	(67)
		(7,271)	(967)
Decrease in cash and cash equivalents		(4,314)	(3,659)
Cash and cash equivalents, beginning of year		13,222	11,991
Cash and cash equivalents, end of year		\$ 8,908	\$ 8,332

See accompanying notes to condensed consolidated interim financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

1. Reporting entity:

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

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

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

2. Basis of presentation and statement of compliance:

(a) Statement of compliance:

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

These condensed consolidated interim financial statements were approved and authorized for issue by the Directors of the General Partner on May 11, 2016.

(b) Basis of measurement:

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

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

(c) Functional and presentation currency:

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

Transactions denominated in Canadian (“Cdn”) 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 condensed consolidated interim statements of comprehensive loss.

(d) Measurement uncertainty (use of estimates):

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

Actual results may differ from these estimates.

The significant areas of estimates that are critical to the determination of the amounts reported are disclosed in AHIP’s annual audited consolidated financial statements as at and for the year ended December 31, 2015.

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

3. Significant accounting policies:

(a) Significant accounting policies:

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

(b) Comparative information:

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

4. Restricted cash:

	March 31, 2016	December 31, 2015
Property improvement plans ("PIPs") reserve	\$ 11,900	\$ 12,242
Furniture, fixture and equipment ("FF&E") reserve	1,554	1,422
Property tax reserve	2,161	1,729
Insurance and other reserves	280	278
	\$ 15,895	\$ 15,671

For each of the Branded Hotel portfolios, AHIP has funded restricted cash reserves for brand mandated PIPs arising from the purchase of these properties. In addition, term loans related to these acquisitions require AHIP to deposit reserves for ongoing FF&E expenses, property taxes and insurance premiums. These amounts are released to AHIP as the expenditures are incurred or paid directly to the service provider. For certain hotel acquisitions, AHIP has obtained FF&E reserve waivers for the first 12-24 months of the respective loan.

5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction in-progress	Total
Cost:					
Balance, January 1, 2015	\$ 39,833	\$ 328,366	\$ 28,093	\$ 5,390	\$ 401,682
Acquisitions	10,533	120,519	3,588	-	134,640
Additions	740	1,447	2,960	13,795	18,942
Transfers	-	14,110	4,361	(18,471)	-
Disposals	-	(472)	(192)	-	(664)
Balance, December 31, 2015	51,106	463,970	38,810	714	554,600
Acquisition of Oak Tree Inn (note 6)	772	1,790	188	-	2,750
Additions	-	178	687	881	1,746
Transfers	-	168	59	(227)	-
Disposals	(14)	-	(45)	-	(59)
Balance, March 31, 2016	\$ 51,864	\$ 466,106	\$ 39,699	\$ 1,368	\$ 559,037

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

5. Property, buildings and equipment (continued):

	Land	Buildings	Equipment	Construction in-progress	Total
Accumulated depreciation:					
Balance, January 1, 2015	\$ -	\$ 9,277	\$ 5,173	\$ -	\$ 14,450
Depreciation	-	10,927	6,263	-	17,190
Disposals	-	(18)	(117)	-	(135)
Balance, December 31, 2015	-	20,186	11,319	-	31,505
Depreciation	-	3,348	1,797	-	5,145
Disposals	-	-	(31)	-	(31)
Balance, March 31, 2016	\$ -	\$ 23,534	\$ 13,085	\$ -	\$ 36,619
Net book value, March 31, 2016	\$ 51,864	\$ 442,572	\$ 26,614	\$ 1,368	\$ 522,418
Net book value, December 31, 2015	\$ 51,106	\$ 443,784	\$ 27,491	\$ 714	\$ 523,095

6. Business combinations:

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

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

For the 82-day period from the acquisition date to March 31, 2016, AHIP recognized revenues of \$163 and income from operating activities of \$19. If this property had been acquired on January 1, 2016, the proforma revenues and proforma income from operating activities for the period ended March 31, 2016 would have been \$175 and \$21, respectively.

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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Three months ended March 31, 2016 and 2015

7. Intangible assets:

	Railway Agreements	Contract Signing Fees	Franchise Agreements	Total
Cost:				
Balance, January 1, 2015	\$ 9,030	\$ 460	\$ 2,210	\$ 11,700
Midwestern Portfolio franchise fees	-	-	550	550
Florida Portfolio franchise fees	-	-	400	400
Railway Portfolio	5,825	-	-	5,825
Balance, December 31, 2015	14,855	460	3,160	18,475
Balance, March 31, 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	632	11	65	708
Balance, March 31, 2016	\$ 6,008	\$ 103	\$ 370	\$ 6,481
Net book value, March 31, 2016	\$ 8,847	\$ 357	\$ 2,790	\$ 11,994
Net book value, December 31, 2015	\$ 9,479	\$ 368	\$ 2,855	\$ 12,702

8. Deferred income taxes:

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

	March 31, 2016	December 31, 2015
Deferred tax assets:		
Non capital losses carried forward	\$ 3,158	\$ 2,439
Intangible assets	1,908	1,784
Other	97	97
	\$ 5,163	\$ 4,320
Deferred tax liabilities:		
Deferred compensation payable	(54)	(54)
Property, buildings and equipment	(1,189)	(1,097)
	\$ (1,243)	\$ (1,151)

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(Unaudited)

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Three months ended March 31, 2016 and 2015

8. Deferred income taxes (continued):

As at March 31, 2016, AHIP had net operating losses for tax purposes totaling \$8,384 (December 31, 2015 - \$6,414) which may be carried forward for up to 20 years from the date of origination and applied against future taxable income.

9. Term loans:

	Note	March 31, 2016	December 31, 2015
Oak Tree Inn Hotel loans		\$ 82,457	\$ 82,710
Railway Portfolio term loan		20,000	20,000
Branded Hotel loans	(a)	202,083	200,136
		304,540	302,846
Unamortized portion of mark-to-market adjustment		362	381
Unamortized portion of deferred financing costs		(7,134)	(7,242)
		297,768	295,985
Current portion of term loans		(3,881)	(2,893)
		\$ 293,887	\$ 293,092

As at March 31, 2016, the term loans have a weighted average effective interest rate of 5.16% (December 31, 2015 - 5.13%) after accounting for deferred financing costs and are secured by AHIP's hotel properties.

During the three months ended March 31, 2016, the following transaction occurred:

(a) Branded Hotel Loan:

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

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Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

9. Term loans (continued):

(b) 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	\$	2,653
2017		4,852
2018		10,365
2019		5,523
2020		5,765
Thereafter		275,382
	\$	304,540

Under the terms of the various loans, AHIP is required to maintain quarterly and annual debt covenants. As at March 31, 2016, AHIP was in compliance with all of its debt covenants.

10. Promissory note:

	March 31, 2016	December 31, 2015
Opening balance	\$ 5,900	\$ 5,762
Payments and other credits	(3,300)	(100)
Accretion	-	238
Closing balance	\$ 2,600	\$ 5,900

Pursuant to the purchase agreement of the initial rail crew portfolio in 2013, \$5,500 of the aggregate purchase was subject to an earn-out provision upon the achievement of certain performance based targets prior to December 31, 2015. In addition, a further \$500 was payable as consideration to be paid to the sellers for two Qualifying New Contracts (collectively known as "Contingent Consideration"). Both amounts were payable by January 20, 2016 and could be settled either in cash or in AHIP Units. On January 15, 2016, AHIP signed a non-interest bearing promissory note in settlement of the Contingent Consideration with an initial payment of \$2,000 on January 20, 2016, and monthly instalments of \$650 from February to May 2016 and a balloon payment in June 2016. As at March 31, 2016, the promissory note balance was \$2,600 (December 31, 2015 - \$5,900). Comparative numbers relate to the deferred compensation and contingent consideration balances that existed at December 31, 2015 and were subsequently combined in the promissory note above in 2016.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

11. Deferred compensation payable:

	March 31, 2016	December 31, 2015
Opening balance	\$ 770	\$ -
Acquisition of Railway Portfolio	-	920
Credits	-	(150)
Accretion	1	-
	771	770
Current portion	(225)	(163)
	\$ 546	\$ 607

Pursuant to the Purchase and Sale Agreement for the Railway Portfolio acquired on September 16, 2015, \$1,000 of the aggregate purchase price is payable over four years in equal installments on a quarterly basis. This amount was initially recorded at the present value of \$920. 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.

The present value amount of \$771 was included in the total deferred compensation payable balance as at March 31, 2016, of which \$225 was reflected as the current portion of the deferred compensation payable.

12. Partner's capital:

(a) Authorized:

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

(b) Issued:

As at March 31, 2016 and December 31, 2015, total offering costs since inception of \$22,265 have been deducted from partners' capital.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

12. Partner's 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, as the General Partner may determine.

For the three months ended March 31, 2016, AHIP declared distributions to be paid to Unitholders of Cdn\$0.225 (\$0.163) per Unit (March 31, 2015 - \$0.225 (\$0.182) per Unit) totaling \$5,708 (March 31, 2015 -\$4,434). Of this amount, \$2,023 was included in accounts payable and accrued expenses.

On January 22, 2016, AHIP announced that effective the April 2016 distribution it will be paying its monthly distribution in U.S. dollars. Based on the closing Canada-U.S. exchange rate on January 22, 2016, the monthly distribution will change from Cdn\$0.075. Effective the April 2016 distribution payable on May 13, 2016, AHIP is 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.

13. 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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

13. Compensation plan (continued):

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

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

For the three months ended March 31, 2016, a total of \$46 (March 31, 2015 - \$18) in securities-based compensation expense was included in corporate and administrative expense.

14. Finance costs:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Interest on term loans and revolver	\$ 3,436	\$ 2,707
Change in fair value of interest rate swap contract	2,648	-
Amortization of deferred financing costs	207	62
Dividend on preferred shares	4	4
Amortization of deferred compensation	1	6
Accretion of contingent consideration	-	52
Amortization of mark-to-market adjustment	(19)	(18)
	\$ 6,277	\$ 2,813

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(Unaudited)

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

Three months ended March 31, 2016 and 2015

15. Commitments and contingencies:

(a) Operating leases:

AHIP has entered into operating leases for its office facility, office equipment and automobiles. Future minimum lease payments under non-cancelable operating leases as of March 31, 2016 are as follows:

2016	\$	585
2017		496
2018		243
2019		90
2020		8
Thereafter		-
	\$	1,422

(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) Brand Mandated Property Improvement Plans:

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

16. Related party transactions:

(a) Hotel Manager:

AHIP has entered into hotel management agreements with various wholly owned subsidiaries of Tower Rock Hotels & Resorts Inc. (the "Hotel Manager"), a company indirectly controlled by 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.

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

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Management fee	\$ 1,402	\$ 1,034
Administration fee	478	310
Total fee expensed	\$ 1,880	\$ 1,344

Capital management fees of \$79 for the three months ended March 31, 2016 (March 31, 2015 - \$87) were capitalized to property, buildings and equipment. For the three months ended March 31, 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 months ended March 31, 2016, the Hotel Manager was reimbursed \$11,596 from the hotel properties comprised primarily of payroll costs and other general and administrative costs such as insurance, travel, and office supplies (March 31, 2015 - \$9,275).

As at March 31, 2016, a total of \$987 was due to the Hotel Manager and is included in accounts payable and accrued expenses (December 31, 2015 - \$592).

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16. Related party transactions (continued):

(b) Compensation:

Key management includes those persons having authority and responsibility for planning, directing, and controlling the activities of AHIP, directly or indirectly. Total compensation awarded to key management for the three months ended March 31, 2016 was \$345 (March 31, 2015 - \$198), which includes securities-based compensation expense of \$46 (March 31, 2015 - \$18).

17. Capital management:

	March 31, 2016	December 31, 2015
Term loans	\$ 297,768	\$ 295,985
Partners' capital	252,514	259,667
Total capital	\$ 550,282	\$ 555,652

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 as prescribed in the Limited Partnership Agreement; complies with existing debt covenants; funds its business strategies; and builds long-term value. AHIP's capital structure is periodically reviewed by the Board of Directors of the General Partner.

18. Supplemental cash flow disclosure:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Changes in non-cash operating working capital:		
Accounts payable and accrued liabilities	\$ 2,277	\$ (1,714)
Other assets	(1,087)	153
Trade and other receivables	(317)	(211)
	\$ 873	\$ (1,772)

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

19. 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 March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016 and March 31, 2015:

March 31, 2016	Rail Hotels	Branded Hotels	Corporate	Total
Total assets	\$ 211,164	\$ 358,157	\$ 4,853	\$ 574,174
Total liabilities	113,767	204,344	3,549	321,660

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 from operating activities for the three months ended March 31, 2016:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 17,004	\$ 23,130	\$ -	\$ 40,134
Hotel expenses	13,808	17,922	250	31,980
Income from operating activities	\$ 3,196	\$ 5,208	\$ (250)	\$ 8,154

Income from operating activities for the three months ended March 31, 2015:

	Rail Hotels	Branded Hotels	Corporate	Total
Revenue	\$ 14,611	\$ 14,918	\$ -	\$ 29,529
Hotel expenses	12,574	12,459	-	25,033
Income from operating activities	\$ 2,037	\$ 2,459	\$ -	\$ 4,496

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three months ended March 31, 2016 and 2015

20. Subsequent events:

(a) Acquisition:

On April 1, 2016 AHIP acquired a 24-room expansion at the Oak Tree Inn Hotel and Penny's Diner located in Hearne, Texas for a purchase price of US\$2.4 million from SunOne Developments Inc. ("SunOne"), a company affiliated with the Chief Executive Officer and a director of the General Partner. AHIP funded the acquisition with cash-on-hand and the issuance of US\$475 in units (or 59,088 AHIP units) from treasury. The units were issued at Cdn\$10.44 per unit, which represented the five day volume-weighted average trading price.

(b) Distribution:

On April 18, 2016 AHIP announced a cash distribution of \$0.054 per Unit for the period of April 1, 2016 to April 30, 2016, which is equivalent to \$0.648 per Unit on an annualized basis. The distribution will be paid on May 13, 2016 to unitholders of record at the close of business on April 29, 2016.