

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Three and nine months ended September 30, 2022 and 2021
(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, 2022	December 31, 2021
Assets			
Current assets:			
Cash and cash equivalents		\$ 17,292	\$ 14,700
Current portion of restricted cash	4	35,161	27,917
Trade and other receivables		5,253	7,184
Prepays and other assets		10,401	9,438
Assets held for sale	20	29,489	8,089
		97,596	67,328
Other receivables		9,820	9,792
Restricted cash	4	8,850	10,529
Interest rate swap asset	8(a)	4,227	-
Property, buildings and equipment	5	994,438	1,044,997
Intangible assets	6	5,152	5,692
Deferred income tax assets	7	11,079	12,152
		\$ 1,131,162	\$ 1,150,490

Liabilities and Partners' Capital

Current liabilities:			
Accounts payable and accrued liabilities		\$ 30,399	\$ 25,830
Current portion of term loans and revolving credit facility	8	16,255	69,393
Liabilities related to assets held for sale	20	25,500	-
Current portion of lease and other liabilities	9	194	519
Warrants liability	11(b)	1,328	5,805
		73,676	101,547
Term loans and revolving credit facility	8	638,105	626,403
Convertible debentures	10	43,161	42,324
Lease and other liabilities	9	866	212
Interest rate swap liability	8(a)	-	1,652
Deferred income tax liabilities	7	3,290	3,748
		759,098	775,886
Partners' capital attributable to Unitholders		328,494	331,034
Non-controlling interest	11(a)	43,570	43,570
		\$ 1,131,162	\$ 1,150,490

Commitments and contingencies (note 16)
Subsequent event (note 8(a))

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited)

(Expressed in thousands of U.S. dollars)

	Notes	Three months ended		Nine months ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue:					
Rooms		\$ 72,293	\$ 65,990	\$ 202,657	\$ 172,426
Food, beverage and other		3,878	2,421	10,939	6,288
		76,171	68,411	213,596	178,714
Hotel expenses:					
Operating expenses		39,496	31,774	109,858	81,331
Energy		3,542	3,186	9,756	8,586
Property maintenance		3,699	2,581	10,567	7,087
Property taxes, insurance and ground lease		4,566	4,799	13,648	12,806
Depreciation and amortization		8,932	10,829	29,230	32,427
		60,235	53,169	173,059	142,237
Net income from operating activities		15,936	15,242	40,537	36,477
Corporate and administrative		4,136	4,033	13,241	13,474
Other income		-	(14,658)	(2,192)	(14,658)
Impairment of cash-generating units	5	4,417	-	4,674	-
(Gain) loss on disposal of property, buildings and equipment		(9)	(23)	(1,058)	1,287
Warrant issuance costs	11(b)	-	-	-	325
Net income from continuing operations before undernoted		7,392	25,890	25,872	36,049
Finance income		(28)	(27)	(86)	(85)
Change in fair value of warrants	11(b)	(1,627)	(298)	(4,477)	4,006
Change in fair value of interest rate swap contracts	8(a)	(1,249)	(382)	(5,878)	(1,804)
Finance costs	14	9,187	9,580	25,428	30,368
Net income from continuing operations before income taxes		1,109	17,017	10,885	3,564
Current income tax expense		14	68	145	68
Deferred income tax expense		780	1,259	615	1,243
Net income and comprehensive income from continuing operations		\$ 315	\$ 15,690	\$ 10,125	\$ 2,253
Loss on disposal of discontinued operations		-	(5)	-	(12)
Net income and comprehensive income		\$ 315	\$ 15,685	\$ 10,125	\$ 2,241
Net income (loss) attributable to:					
Unitholders		\$ (707)	\$ 14,663	\$ 7,092	\$ (481)
Non-controlling interest	11(a)	1,022	1,022	3,033	2,722
		\$ 315	\$ 15,685	\$ 10,125	\$ 2,241
Basic income per unit:					
Continuing operations		\$ -	\$ 0.20	\$ 0.12	\$ 0.03
Discontinued operations		-	-	-	-
Income per Unit		\$ -	\$ 0.20	\$ 0.12	\$ 0.03
Diluted income per unit:					
Continuing operations		\$ -	\$ 0.18	\$ 0.13	\$ 0.03
Discontinued operations		-	-	-	-
Diluted income per Unit		\$ -	\$ 0.18	\$ 0.13	\$ 0.03
Basic weighted average number of Units outstanding		78,766,180	78,641,130	78,747,001	78,569,454
Diluted weighted average number of Units outstanding		79,383,552	84,837,019	79,144,572	78,836,608

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

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

Nine months ended September 30, 2022 and 2021

	Notes	Units outstanding	Partners' contributions ¹	Contributed surplus	Cumulative deficit	Total	Non- controlling interest
Balance, January 1, 2022		78,722,529	\$ 624,104	\$ 1,054	\$ (294,124)	\$ 331,034	\$ 43,570
Securities-based compensation	13	-	-	(160)	-	(160)	-
Issuance of Units under securities-based compensation plan	12,13	54,420	154	(176)	-	(22)	-
Net income and comprehensive income		-	-	-	7,092	7,092	3,033
Distributions to non-controlling interest	11(a)	-	-	-	-	-	(3,033)
Distributions	12	-	-	-	(9,450)	(9,450)	-
Balance, September 30, 2022		78,776,949	\$ 624,258	\$ 718	\$ (296,482)	\$ 328,494	\$ 43,570
Balance, January 1, 2021		78,484,068	\$ 619,023	\$ 1,205	\$ (278,514)	\$ 341,714	\$ -
Securities-based compensation	13	-	-	899	-	899	-
Issuance of Units under securities-based compensation plan	12,13	158,513	581	(1,032)	-	(451)	-
Investment from non-controlling interest	11(a)	-	-	-	-	-	43,570
Net income (loss) and comprehensive income (loss)		-	-	-	(481)	(481)	2,722
Distributions to non-controlling interest	11(a)	-	-	-	-	-	(2,722)
Balance, September 30, 2021		78,642,581	\$ 619,604	\$ 1,072	\$ (278,995)	\$ 341,681	\$ 43,570

¹ Includes \$0.1 of General Partner Units.

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

(Expressed in thousands of U.S. dollars)

	Notes	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Cash provided by (used in):					
Operating activities:					
Net income and comprehensive					
income from continuing operations		\$ 315	\$ 15,690	\$ 10,125	\$ 2,253
Interest paid		(8,389)	(9,040)	(25,734)	(28,572)
Securities-based compensation paid in cash		-	(26)	(15)	(67)
Items not affecting cash:					
Other income	9	-	(14,658)	(267)	(14,658)
Depreciation and amortization	5	8,932	10,829	29,230	32,427
Amortization of other liabilities		-	(6)	(5)	(19)
Impairment of cash-generating units	5	4,417	-	4,674	-
Loss (gain) on disposal of property, buildings and equipment		-	(23)	(1,049)	1,277
Securities-based compensation expense		68	570	(136)	967
Deferred income tax expense		780	1,259	615	1,243
Change in fair value of warrants	11(b)	(1,627)	(298)	(4,477)	4,006
Change in fair value of interest rate swap contracts	8(a)	(1,249)	(382)	(5,878)	(1,804)
Finance costs	14	9,187	9,580	25,428	30,368
		12,434	13,495	32,511	27,421
Change in non-cash working capital:	19	1,731	(3,847)	4,013	(19,882)
		14,165	9,648	36,524	7,539
Investing activities:					
Additions to property, buildings and equipment		(9,060)	(1,410)	(17,651)	(4,397)
Proceeds from sale of hotel		-	-	15,975	-
Interest accrual on other receivables		26	(27)	(28)	(80)
Net change in restricted cash		(5,630)	(2,050)	(7,086)	(10,516)
		(14,664)	(3,487)	(8,790)	(14,993)
Financing activities:					
Payments on term loans		(1,557)	(1,178)	(63,195)	(3,523)
Distributions paid		(3,545)	-	(9,450)	-
Distributions to non-controlling interest	11(a)	(1,022)	(1,022)	(3,033)	(2,722)
Proceeds from (repayment of) other loans	9	-	-	(78)	5,223
Payments on lease liabilities		(110)	(69)	679	(188)
Financing costs paid		-	(135)	(62)	(601)
Net investment from non-controlling interest, net of transaction costs	11(a)	-	-	-	43,570
Proceeds from warrants	11(b)	-	-	-	1,900
Proceeds (payments) on revolving credit facility		-	-	50,000	(25,000)
Deferred payment on acquisition of hotels		-	-	-	(16,136)
		(6,234)	(2,404)	(25,139)	2,523
Increase (decrease) in cash and cash equivalents from continuing operations		(6,733)	3,757	2,595	(4,931)
Decrease in operating cash and cash equivalents from discontinued operations		-	(23)	(3)	(423)
Cash and cash equivalents, beginning of period		24,025	11,059	14,700	20,147
Cash and cash equivalents, end of period		\$ 17,292	\$ 14,793	\$ 17,292	\$ 14,793

See accompanying notes to consolidated financial statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

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 and was established pursuant to the terms of AHIP’s Limited Partnership Agreement dated October 12, 2012, which was most recently amended and restated on June 17, 2021. AHIP’s general partner is American Hotel Income Properties REIT (GP) Inc. (“General Partner”). AHIP’s head office and address for service is 800 - 925 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3L2.

AHIP’s primary business is owning Premium Branded hotels, which have franchise agreements with international hotel brands including Marriott, Hilton and IHG.

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

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Government agencies, corporations and personal choices throughout the United States resulted in various travel restrictions, social distancing measures, shelter-in-place rules and reduced travel, all of which had a negative impact on AHIP’s revenue and expenses. Operating performance continued to improve throughout 2021 and 2022 with occupancy levels trending upwards toward pre-COVID-19 levels.

2. Basis of presentation and statement of compliance:

(a) Statement of compliance:

These condensed consolidated interim financial statements (“Interim Financial Statements”) have been prepared under International Financial Reporting Standards (“IFRS”) in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Statements should be read in conjunction with the notes to AHIP’s annual audited consolidated financial statements as at and for the year ended December 31, 2021 (“Annual Audited Financial Statements”) which were prepared in accordance with IFRS, since these Interim Financial Statements do not contain all the disclosures required by IFRS for annual financial statements.

These Interim Financial Statements were approved and authorized for issue by the Board of Directors of the General Partner (the “Board”) on November 8, 2022.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

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

(b) Basis of measurement:

These Interim Financial Statements have been prepared on a historical cost basis with the exception of interest rate swap contracts and warrants 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.

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 condensed consolidated interim statements of comprehensive income.

(d) Use of estimates, assumptions and judgments:

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. Significant accounting estimates and assumptions have been set out in note 2 to AHIP's Annual Audited Financial Statements for the year ended December 31, 2021. There have been no changes to the significant accounting estimates and assumptions during the three- and nine-month period ended September 30, 2022. Actual results may differ from these estimates.

3. Significant accounting policies:

The significant accounting policies as disclosed in AHIP's Annual Audited Financial Statements have been applied consistently in the preparation of these Interim Financial Statements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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Three and nine months ended September 30, 2022 and 2021

4. Restricted cash:

	September 30, 2022	December 31, 2021
Property improvement plans (“PIPs”) reserves	\$ 5,045	\$ 6,705
Furniture, fixture and equipment reserves (“FF&E Reserves”)	21,474	20,436
Property tax reserves	7,785	7,075
Cash collateral and other reserves	9,707	4,230
	44,011	38,446
Current portion of restricted cash	(35,161)	(27,917)
	\$ 8,850	\$ 10,529

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

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

5. Property, buildings and equipment:

	Land	Buildings	Equipment	Construction- in-progress	Right-of- use Property	Right-of- use Vehicles	Total
Cost:							
Balance, January 1, 2021	\$ 147,615	\$ 1,025,707	\$ 102,156	\$ 14,748	\$ 585	\$ 589	\$ 1,291,400
Additions	58	1,757	1,416	2,978	-	-	6,209
Transfers	-	409	67	(476)	-	-	-
Disposals	-	(1,496)	-	-	-	-	(1,496)
Reclass to assets held for sale (note 20)	(1,286)	(7,758)	(716)	(18)	-	-	(9,778)
Balance, December 31, 2021	146,387	1,018,619	102,923	17,232	585	589	1,286,335
Additions (note 9)	-	2,457	1,841	12,440	913	-	17,651
Transfers	-	1,901	217	(2,118)	-	-	-
Disposals	-	(165)	-	-	-	-	(165)
Reclass to assets held for sale (note 20)	(5,680)	(72,215)	(5,513)	(1,248)	-	-	(84,656)
Balance, September 30, 2022	\$ 140,707	\$ 950,597	\$ 99,468	\$ 26,306	\$ 1,498	\$ 589	\$ 1,219,165
Accumulated depreciation and impairment:							
Balance, January 1, 2021	\$ -	\$ 128,680	\$ 59,080	\$ -	\$ 324	\$ 456	\$ 188,540
Depreciation	-	27,651	14,503	-	178	55	42,387
Impairment	-	12,403	-	-	-	-	12,403
Disposals	-	(203)	-	-	-	-	(203)
Reclass to assets held for sale (note 20)	-	(1,145)	(644)	-	-	-	(1,789)
Balance, December 31, 2021	-	167,386	72,939	-	502	511	241,338
Depreciation	-	20,506	8,028	-	134	41	28,709
Impairment	-	4,674	-	-	-	-	4,674
Disposals	-	(28)	-	-	-	-	(28)
Reclass to assets held for sale (note 20)	-	(45,286)	(4,680)	-	-	-	(49,966)
Balance, September 30, 2022	\$ -	\$ 147,252	\$ 76,287	\$ -	\$ 636	\$ 552	\$ 224,727
Net book value, September 30, 2022	\$ 140,707	\$ 803,345	\$ 23,181	\$ 26,306	\$ 862	\$ 37	\$ 994,438
Net book value, December 31, 2021	146,387	851,233	29,984	17,232	83	78	1,044,997

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

5. Property, buildings and equipment (continued):

The carrying amounts of AHIP's cash-generating units ("CGUs") are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the CGU's recoverable amount is estimated. During the three and nine months ended September 30, 2022, AHIP recorded an impairment loss of \$4,417 and \$4,674 (three and nine months ended September 30, 2021 - nil) as a result of reclassifying four hotels located in Oklahoma as assets held for sale. Refer to note 20.

6. Intangible assets:

		Franchise Agreements
Cost:		
Balance, January 1, 2021	\$	9,467
Reclass to assets held for sale		(100)
Balance, December 31, 2021 and September 30, 2022		9,367
Accumulated amortization:		
Balance, January 1, 2021	\$	3,020
Amortization		700
Reclass to assets held for sale		(45)
Balance, December 31, 2021		3,675
Amortization		521
Retirements		19
Balance, September 30, 2022	\$	4,215
Net book value, September 30, 2022	\$	5,152
Net book value, December 31, 2021		5,692

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

7. Income taxes:

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

	September 30, 2022	December 31, 2021
Deferred income tax assets:		
Non capital losses carried forward	\$ 10,578	\$ 11,868
Intangible assets	120	107
Other	381	177
	<u>\$ 11,079</u>	<u>\$ 12,152</u>
Deferred income tax liabilities:		
Property, buildings and equipment	\$ 3,312	\$ 3,731
Other	(22)	17
	<u>\$ 3,290</u>	<u>\$ 3,748</u>

As at September 30, 2022, AHIP had net operating losses from continuing operations for tax purposes totaling \$40,748 (December 31, 2021 - \$45,540) of which \$9,990 may be carried forward for up to 20 years, and \$30,758 may be carried indefinitely, from the date of origination and applied against future taxable income.

8. Term loans and revolving credit facility:

	September 30, 2022	December 31, 2021
Term loans	\$ 629,634	\$ 697,067
Revolving credit facility	55,000	5,000
	<u>684,634</u>	<u>702,067</u>
Reclass to liabilities related to assets held for sale	(25,500)	-
	<u>659,134</u>	<u>702,067</u>
Unamortized portion of mark-to-market adjustments	90	131
Unamortized portion of debt financing costs	(4,864)	(6,402)
	<u>654,360</u>	<u>695,796</u>
Current portion of term loans	(16,255)	(69,393)
	<u>\$ 638,105</u>	<u>\$ 626,403</u>

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

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

All of AHIP's hotel properties have been pledged as security under various loan agreements. As at September 30, 2022, AHIP's loans had a weighted average interest rate of 4.34% (December 31, 2021 - 4.52%).

(a) Revolving credit facility and Senior Secured Facility:

AHIP has a senior secured facility ("Senior Secured Facility") with total credit commitments of \$225,000 comprised of a \$100,000 revolving credit facility ("Revolver") and a \$125,000 term loan ("Term Loan").

The Senior Secured Facility has an accordion feature which will allow AHIP to increase its total commitments up to \$300,000. The Revolver will mature on December 3, 2023 and can be extended to December 3, 2024 at AHIP's option, subject to conditions of (i) a written notice within 30 to 90 days prior to Dec 3, 2023 (ii) no event of default (iii) all representations and warranties be true and correct (iv) pro forma Borrowing Base Certificate. The Term Loan matures on December 3, 2024.

As of April 6, 2022, AHIP refinanced an outstanding principal loan balance of \$54,531 with an original maturity date of July 6, 2022. The loan balance was refinanced at prevailing market terms by utilizing the Revolver, which was drawn down by \$50,000 to a balance at September 30, 2022 of \$55,000 (December 31, 2021 - \$5,000).

AHIP has two interest rate swap agreements with notional values of \$105,000 and \$25,000, effectively fixing the SOFR rate at 1.300% and 1.494%, respectively. The maximum interest rate on borrowings under the facility is 3.250% and 3.444% respectively. The swap agreements mature on November 30, 2023. The contracts are carried at fair value and reported as assets or liabilities depending on the fair value of the reporting date. The change in fair value of the interest rate swap agreement for the three and nine months ended September 30, 2022 was a gain of \$1,249 and \$5,878, respectively (three and nine months ended September 30, 2021 - gain of \$382 and \$1,804, respectively) and were recognized in comprehensive income for the period.

AHIP is required to comply with a series of financial and other covenants including maintaining minimum number of assets in the collateral pool; minimum fixed charge coverage ratios; maximum total leverage and secured recourse leverage ratios; minimum net worth and minimum unrestricted liquidity.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

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

(a) Revolving credit facility and Senior Secured Facility (continued):

On November 3, 2022, AHIP entered into an amendment to the revolving credit facility and certain term loans (the "Fifth Amendment") to, among other things, modify the calculation of the borrowing base availability amount and certain financial covenants. The modifications significantly improve the expected borrowing base availability and reduce the required fixed charge covenant ratio. Commencing with the first borrowing base certificate filed in 2023 and until December 31, 2023, the availability under the revolving portion of the credit facility will be determined in part by a valuation method which includes debt to gross book value, appraised value of all the properties included in the borrowing base calculation and an implied debt service coverage ratio, with the maximum total availability of \$200.0 million. Pursuant to the Fifth Amendment, AHIP's ability to pay distributions on its Units remains subject to the satisfaction of FFO payout ratio and fixed charge coverage ratio thresholds, in each case calculated after the end of each quarter on a trailing twelve-month basis.

(b) Principal payments:

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

2022	\$	36,343
2023		78,963
2024		219,037
2025		55,662
2026		58,765
Thereafter		235,864
	\$	684,634

As at September 30, 2022, the REIT was in compliance with its debt agreements.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

Three and nine months ended September 30, 2022 and 2021

9. Lease and other liabilities:

	September 30, 2022	December 31, 2021
Other loans	\$ -	\$ 345
Lease and other liabilities	1,060	386
	1,060	731
Current portion of lease and other liabilities	(194)	(519)
	\$ 866	\$ 212

Certain AHIP subsidiaries obtained government-guaranteed loans (“Other loans”) of \$9,935 and \$5,195, in 2020 and 2021 respectively, totaling \$15,130. The Other loans carry an interest rate of 1.00% per annum. Under the terms of the Other loans, all or a portion of the loans may be forgiven if the loan proceeds are used for qualifying expenses and if other specific criteria are met.

For the year ended December 31, 2021, AHIP estimated approximately \$14,658 (2020 – nil) of the total \$15,028 (2020 - nil) will meet the specific criteria for forgiveness of the loans under the terms of the agreements.

During the three and nine months ended September 30, 2022, AHIP recorded an additional nil and \$267, respectively, relating to loan forgiveness and has recorded this amount as other income (three and nine months ended September 30, 2021 - \$14,658 and \$14,658 respectively) in the consolidated statement of comprehensive income.

AHIP renewed its head office lease by signing a new five-year lease agreement and this has been recorded as a right-of-use property asset (note 5) of \$913 and lease liability of \$913.

AMERICAN HOTEL INCOME PROPERTIES REIT LP

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

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

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10. Convertible debentures:

	Liability carrying value	Equity carrying value	Total face value
Balance, January 1, 2021	\$ 47,563	\$ 1,979	\$ 49,542
Amortization of transaction costs	437	-	437
Accretion of liability component	533	-	533
Redemption of convertible debentures	(48,423)	(871)	(49,294)
Convertible debentures issuance	44,582	5,418	50,000
Convertible debentures issuance costs	(2,368)	(288)	(2,656)
Balance, December 31, 2021	42,324	6,238	48,562
Amortization of transaction costs	241	-	241
Accretion of liability component	596	-	596
Balance, September 30, 2022	\$ 43,161	\$ 6,238	\$ 49,399

AHIP issued an aggregate principal amount of \$50,000 of convertible unsecured subordinated debentures due on December 31, 2026 ("Debentures").

The Debentures bear interest of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31, commencing on June 30, 2022.

The Debentures are convertible at the option of the holder of the debenture at any time prior to the close of business on the earlier of: (i) the business day immediately preceding the business day preceding the maturity date; and (ii) if called for redemption, the business day immediately preceding the date specified for redemption of the Debentures, at a conversion price of \$4.95 per Unit, being a conversion rate of approximately 202.0202 Units for each \$1,000 principal amount of the Debentures.

The Debentures may not be redeemed by AHIP prior to December 31, 2024, except in certain limited circumstances. AHIP has the option to call the Debentures beginning on or after December 31, 2024 as follows:

- (i) On or after December 31, 2024 and prior to December 31, 2025, the Debentures may be redeemed by AHIP, in whole or in part, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption on not more than 60 days' and not less than 30 days' prior written notice, provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price.

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10. Convertible debentures (continued):

- (ii) On or after December 31, 2025 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at AHIP's option at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption on not more than 60 days' and not less than 30 days' prior written notice. AHIP will pay the redemption price and all accrued and unpaid interest in cash.

As at September 30, 2022, \$50,000 (December 31, 2021 - \$50,000) of the face value of the Debentures were outstanding.

11. Private placement issuance of Series C preferred stock and warrants:

On January 28, 2021, AHIP completed a \$50,000 private placement through the issuance of an aggregate 50,000 shares of newly created Series C cumulative redeemable non-voting preferred stock (the "Series C Preferred Stock") issued by AHIP's wholly owned subsidiary American Hotel Income Properties REIT Inc., and warrants to acquire Units of AHIP.

(a) Series C Preferred Stock:

The Series C Preferred Stock have no par value and have a liquidation preference of \$1,000 per share. They are perpetual and redeemable by AHIP. The Series C Preferred Stock provides for an annual cumulative dividend, payable quarterly, of 8.00% per annum for the first three years after issuance, and, to the extent still outstanding, increases to 9.00% per annum on the third anniversary of the issuance with further escalations after the fifth anniversary of the issuance. AHIP has the option to either cash settle the dividend or settle it through the issuance of additional shares of Series C Preferred Stock. During the three and nine months ended September 30, 2022, AHIP paid all of the quarterly dividends in cash; \$1,022 and \$3,033, respectively (three and nine months ended September 30, 2021 - \$1,022 and \$2,722 respectively).

The Series C Preferred Stock are classified as equity and presented as NCI on AHIP's consolidated statement of financial position. The cumulated dividends on the Series C Preferred Stock, whether declared or not, are deducted on the consolidated statement of comprehensive income to determine the net gain (loss) attributable to the Unitholders.

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11. Private placement issuance of Series C preferred stock and warrants (continued):

(b) Warrants:

The Investor also subscribed for and was issued 19,608,755 warrants (the “Warrants”) of AHIP, equivalent to 19.99% of the outstanding Units of AHIP immediately following the closing of the investment on an as-exercised basis. The warrants are exercisable at any time prior to January 28, 2026 for Units in AHIP at an exercise price of \$3.20 per Unit. The Warrants may only be exercised by means of cashless exercise and are classified as a derivative instrument liability measured at fair value on AHIP’s statement of financial position. To date, no warrants have been exercised.

AHIP’s warrants are considered Level 3 financial instruments since the inputs are not based on observable market data. On issuance, the warrants had a fair value of \$1,900. The assumptions in valuing the warrant liability as at January 28, 2021 include an expected volatility of 26%, a risk-free interest rate of 0.42%, a dividend yield of 7%, a discount for lack of marketability of 40%, and an expected life of five years.

As at September 30, 2022, the warrants had a fair value of \$1,328 (December 31, 2021 - \$5,805). The change in the fair value of the warrant liability for the three and nine months ended September 30, 2022 resulted in a gain of \$1,627 and \$4,477, respectively (three and nine months ended September 30, 2021 – gain of \$298 and loss of \$4,006 respectively) and is included in the consolidated statement of comprehensive income.

The fair value of warrants is calculated using the Black-Scholes continuous model. Key observable inputs at September 30, 2022 were a warrant exercise price of \$3.20, a risk-free interest rate of 3.99% and a dividend yield of 6.0%. Key unobservable inputs included expected volatility of 26% and a discount for lack of marketability of 11%.

The estimated fair value of the warrants would increase (decrease) if the warrant exercise price was (higher) lower, the risk-free interest rate was higher (lower), the dividend yield was (higher) lower, the volatility was higher (lower), and the discount for lack of marketability was (higher) lower. Changes to expected volatility and the discount for marketability holding other inputs constant would have the following effects: (i) a 500 bps increase in expected volatility would increase the total warrant liability by \$856, resulting in an additional \$856 loss in the consolidated statement of comprehensive income (ii) a 500 bps decrease in expected volatility would decrease the total warrant liability by \$690 resulting in a \$690 gain in the consolidated statement of comprehensive income (iii) a 500 bps increase (decrease) in the discount for lack of marketability would decrease (increase) the warrant liability by \$75, resulting in a \$75 gain (loss) in the consolidated statement of comprehensive income.

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12. Partners' capital:

(a) Authorized:

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

(b) Issued:

During the three and nine months ended September 30, 2022, AHIP issued 10,887 Units and 54,420 Units, respectively (three and nine months ended September 30, 2021 – nil and 158,513 Units, respectively) to senior management on the vesting of Units granted under AHIP's securities-based compensation plan.

(c) Distributions:

For the three and nine months ended September 30, 2022, AHIP declared distributions of \$0.045 per Unit and \$0.12 per Unit, respectively (three and nine months ended September 30, 2021 – nil) to be paid to Unitholders totaling \$3,545 and \$9,450 respectively (three and nine months ended September 30, 2021 - nil).

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13. Compensation plan:

In the three months ended March 31, 2022, AHIP granted 235,603 LTIP awards in the form of Restricted Stock Units to certain members of AHIP senior management. The fair value of these Restricted Stock Units was \$754. Of this grant, 40% will vest over two years from issuance date and 60% will vest at the end of the performance measurement period which is December 31, 2024.

In the three months ended June 30, 2022, AHIP granted 295,411 LTIP awards in the form of Restricted Stock Units to certain members of AHIP senior management. The fair value of these Restricted Stock Units was \$797. Of this grant, 40% will vest over three years from issuance date and 60% will vest at the end of the performance measurement period which is June 30, 2025.

No additional grants were made during the three months ended September 30, 2022.

During the three and nine months ending September 30, 2022, AHIP granted 21,775 and 55,997 Restricted Stock Units, respectively, to an officer, in lieu of their cash compensation. The fair value of these Restricted Stock Units was \$64 and vested over the service period.

As at September 30, 2022, AHIP had a total of 617,372 unvested Units as follows:

	Number of Units	Weighted average grant date fair value
Unvested, January 1, 2021	383,500	\$ 1.46
Granted	281,808	2.73
Vested	(238,461)	(2.27)
Forfeited or cash-settled	(129,221)	(2.07)
Cancelled	(108,569)	(2.12)
Unvested, December 31, 2021	189,057	\$ 1.76
Granted	587,011	2.97
Vested	(54,420)	(2.77)
Forfeited or cash-settled	(51,195)	(2.85)
Cancelled	(53,081)	(1.82)
Unvested, September 30, 2022	617,372	\$ 2.67

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13. Compensation plan (continued):

The vesting schedule of the unvested Units grant awards is as follows:

Vesting dates	Number of Units	Total fair value of Units at grant date
December 15, 2022	9,536	\$ 13
March 15, 2023	51,401	153
March 30, 2023	42,909	33
June 30, 2023	39,390	120
December 15, 2023	8,346	21
March 15, 2024	43,054	132
May 24, 2024	37,556	68
June 28, 2024	39,390	120
December 31, 2024	129,159	366
June 30, 2025	216,631	622
Total unvested Units	617,372	\$ 1,648

14. Finance costs:

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Interest expense on term loans and revolving credit facility	\$ 7,605	\$ 8,278	\$ 23,007	\$ 24,695
Other financing charges	2	(18)	54	1,774
Interest expense on debentures	759	611	2,266	1,833
Amortization of debt financing costs	487	499	1,599	1,443
Accretion of debenture liability	231	115	596	339
Amortization of debenture costs	95	103	241	302
Interest expense on lease liabilities	18	2	38	10
Dividends on Series B preferred shares	4	4	12	12
Amortization of mark-to-market adjustments	(14)	(14)	(41)	(40)
Gain on debt settlement (note 20)	-	-	(2,344)	-
	\$ 9,187	\$ 9,580	\$ 25,428	\$ 30,368

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15. Financial instruments:

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

The fair value of AHIP's term loans and outstanding revolving credit facility 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 and outstanding revolving credit facility at September 30, 2022 was \$581,416 (December 31, 2021 - \$691,755) and are considered Level 2 in the fair value hierarchy.

AHIP's debentures are considered Level 1 financial instruments since they are quoted on the TSX. The fair value of the liability portion of AHIP's debentures based on the quoted market price at September 30, 2022 was \$44,000 (December 31, 2021 - \$49,000).

There were no transfers between levels during the period.

16. Commitments and contingencies:

(a) Hotel management agreements:

Aimbridge Hospitality LLC (the "Hotel Manager") is AHIP's exclusive hotel manager to manage and operate its hotels. AHIP's operating subsidiaries are responsible for reimbursing the Hotel Manager for any hotel operating expenses and direct costs including payroll and benefit costs of hotel staff and other operating expenses.

The master hotel management agreement provides for the payment of the following amounts to the Hotel Manager: a base management fee, a capital expenditure fee, an annual administration fee and an incentive fee, if certain profit thresholds are met.

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17. Related party transactions:

(a) Executive loan program:

Under AHIP's Executive Loan Guarantee Policy (the "Loan Policy") with a major Canadian financial institution, an AHIP subsidiary has provided a limited guarantee for the loans made by the Canadian financial institution to former executive officers, to make eligible purchase of Units.

As at September 30, 2022, two individuals have an aggregate balance outstanding, to the Canadian financial institution, of Cdn\$2,183 (2021- three individuals have an aggregate balance outstanding of Cdn\$2,683) under the Loan Policy, with such loans being fully guaranteed pursuant to the terms of the Loan Policy.

(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 and nine months ended September 30, 2022, was \$506 and \$2,247 respectively (three and nine months ended September 30, 2021 - \$634 and \$3,970, respectively), which included securities-based compensation expense of \$68 and \$136 respectively (three and nine months ended September 30, 2021 - \$570 and \$967, respectively).

18. Capital management:

	September 30, 2022	December 31, 2021
Term loans and outstanding revolving credit facility	\$ 654,360	\$ 695,796
Convertible debentures, liability portion	43,161	42,324
Partners' capital attributable to Unitholders	328,494	331,034
Non-controlling interest	43,570	43,570
Total capital	\$ 1,069,585	\$ 1,112,724

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

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19. Supplemental cash flow disclosure:

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Accounts payable and accrued liabilities	\$ 2,611	\$ (2,631)	\$ 3,405	\$ (16,774)
Prepays and other assets	(3,095)	(2,774)	(1,321)	(982)
Trade and other receivables	2,215	1,558	1,929	(2,126)
	\$ 1,731	\$ (3,847)	\$ 4,013	\$ (19,882)

20. Assets held for sale:

In January 2022, AHIP sold a hotel located in Florida for gross proceeds of \$10,300 and for the three months ended March 31, 2022 recorded a gain on disposal, after selling costs of \$1,746.

In June 2022, AHIP sold a hotel located in Pittsburgh for gross proceeds of \$5,675. For the three months ended June 30, 2022, AHIP recorded a loss on disposal, after selling costs, of \$555. In addition, AHIP recorded a gain on settlement of debt of \$2,344 pursuant of an agreement with the lender which allowed AHIP to settle its outstanding debt obligation with the net proceeds from the sale.

In June 2022, AHIP committed to a sale process for a hotel located in Pittsburgh. The hotel asset is consequently presented separately as held-for-sale in the consolidated statements of financial position as at September 30, 2022. The sale closed in October 2022.

In September 2022, AHIP committed to a sale process for four hotels located in Oklahoma. The hotel assets are consequently presented separately as held-for-sale in the consolidated statements of financial position as at September 30, 2022. The sale is expected to close in December 2022.

Net assets held for sale comprise of the following:

	September 30, 2022	December 31, 2021
Assets		
Property, buildings and equipment	\$ 29,226	\$ 7,989
Intangible assets	-	55
Inventory	263	-
Prepays and other assets	-	45
Total assets held for sale	\$ 29,489	\$ 8,089
Liabilities		
Term loans	25,500	-
Total liabilities related to assets held for sale	\$ 25,500	\$ -
Net assets held for sale	\$ 3,989	\$ 8,089