Holloway Lodging Corporation

Consolidated Financial Statements
December 31, 2016 and 2015

March 9, 2017

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **Holloway Lodging Corporation** (the "Company") have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. When alternative methods of accounting exist, management has chosen those it deems most appropriate in the circumstances. The consolidated financial statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the consolidated financial statements, management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and all of its members are independent. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the consolidated financial statements to the Board of Directors for approval.

(signed) *"Felix Seiler"*
Acting Chief Executive Officer

(signed) *"Jane Rafuse"*
Chief Financial Officer

March 9, 2017

Independent Auditor's Report

To the Shareholders of
Holloway Lodging Corporation

We have audited the accompanying consolidated financial statements of **Holloway Lodging Corporation** and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Holloway Lodging Corporation and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
Summit Place, 1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6
T: +1 902 491 7400, F: +1 902 422 1166

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Holloway Lodging Corporation

Consolidated Statements of Financial Position

As at December 31, 2016 and 2015

(in thousands of Canadian dollars)

	2016 $	2015 $
Assets		
Current assets		
Cash	1,183	2,059
Trade and other receivables (note 5)	3,580	3,244
Capital reserve - restricted	3,371	–
Inventories	533	441
Prepaid expenses and deposits	2,819	2,207
	11,486	7,951
Non-current assets		
Property and equipment (notes 6 and 7)	305,624	312,471
Loan receivable (notes 8 and 10)	5,371	5,536
Capital reserve – restricted	65	2,829
Other assets (note 9)	681	647
Deferred income tax assets (note 20)	28,172	26,929
	339,913	348,412
Total assets	351,399	356,363
Liabilities		
Current liabilities		
Secured credit facility (notes 11 and 28)	17,630	19,529
Trade payables and accrued liabilities (note 12)	9,640	12,250
Accrued interest on convertible debentures	1,304	1,306
Current portion of mortgages and loan payable (note 13)	94,166	6,375
Share-based liability (note 14)	709	476
	123,449	39,936
Non-current liabilities		
Mortgages and loan payable (note 13)	33,130	117,871
Convertible debentures (note 15)	89,815	88,968
	122,945	206,839
Total liabilities	246,394	246,775
Equity		
Equity attributable to shareholders of the Company	103,118	107,437
Non-controlling interest	1,887	2,151
Total equity	105,005	109,588
Total liabilities and equity	351,399	356,363

Contingencies and commitments (note 22)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

(signed) *"Michael Rapps"*
Chairman of the Board

(signed) *"David Wood"*
Chairman of the Audit Committee

Holloway Lodging Corporation

Consolidated Statements of Loss

As at December 31, 2016 and 2015

(in thousands of Canadian dollars, except earnings per share)

	2016 $	2015 $
Revenues		
Rooms	89,754	94,949
Food and beverage	11,882	10,509
Rental	1,368	1,376
Franchising	–	412
Other	3,408	3,437
	106,412	110,683
Hotel expenses		
Operating expenses	70,313	72,514
Property taxes and insurance	6,761	6,760
Management fees	–	121
Depreciation and amortization	15,433	13,702
	92,507	93,097
Income before the following	13,905	17,586
Other (income) and expenses		
Interest and accretion on debt	16,190	16,394
Corporate and administrative	1,784	2,433
Share-based expense (recovery)	233	(64)
Investment income	(640)	(471)
Management services income	(112)	–
Gain on disposals of property and equipment	(2,659)	(2,096)
Gain on disposals of franchise business, minority interest investment in hotel properties and repurchase of convertible debentures	(6)	(6,269)
Amounts reclassified to profit and loss on minority interest investments in hotel properties	–	141
Impairment of hotel properties, net (note 7)	300	15,580
Acquisition and redevelopment costs	665	813
Realized foreign exchange loss	926	–
Unrealized foreign exchange gain	(224)	(55)
	16,457	26,406
Loss before income taxes	(2,552)	(8,820)
Recovery of income taxes (note 20)	(1,243)	(5,129)
Net loss for the years	(1,309)	(3,691)
Attributable to:		
Shareholders of the Company	(1,045)	(3,811)
Non-controlling interest	(264)	120
	(1,309)	(3,691)
Basic and diluted loss per share (note 17)	(0.06)	(0.20)

The accompanying notes are an integral part of these consolidated financial statements.

Holloway Lodging Corporation

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2016 and 2015

(in thousands of Canadian dollars)

	2016 $	2015 $
Net loss for the years	(1,309)	(3,691)
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Cumulative translation adjustments	21	279
Items reclassified in the years to profit or loss		
Previously recognized fair value adjustment of minority interest investments in hotel properties	–	141
Other comprehensive income	21	420
Comprehensive loss for the years	(1,288)	(3,271)
Comprehensive loss attributable to:		
Shareholders of the Company	(1,024)	(3,391)
Non-controlling interest	(264)	120
	(1,288)	(3,271)

The accompanying notes are an integral part of these consolidated financial statements.

Holloway Lodging Corporation

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(in thousands of Canadian dollars)

	Common shares $ (note 16)	Contributed surplus $	Deficit $	Accumulated other comprehensive loss $	Equity attributable to shareholders of the Company $	Non-controlling interest $	Total equity $
Balance, January 1, 2015	229,859	2,544	(116,386)	(104)	115,913	2,031	117,944
Net loss for the year	–	–	(3,811)	–	(3,811)	120	(3,691)
Other comprehensive income for the year	–	–	–	420	420	–	420
Comprehensive loss for the year	–	–	(3,811)	420	(3,391)	120	(3,271)
Dividends paid to shareholders	–	–	(2,693)	–	(2,693)	–	(2,693)
Share-based compensation	–	119	–	–	119	–	119
Reclassification of share-based compensation from equity-settled to cash-settled liability (note 14)	–	(816)	–	–	(816)	–	(816)
Exercise of stock options	21	(5)	–	–	16	–	16
Conversion of convertible debentures to common shares	1	–	–	–	1	–	1
Repurchase of common shares	(1,712)	–	–	–	(1,712)	–	(1,712)
Balance, December 31, 2015	228,169	1,842	(122,890)	316	107,437	2,151	109,588
Balance, January 1, 2016	228,169	1,842	(122,890)	316	107,437	2,151	109,588
Net loss for the year	–	–	(1,045)	–	(1,045)	(264)	(1,309)
Other comprehensive income for the year	–	–	–	21	21	–	21
Comprehensive loss for the year	–	–	(1,045)	21	(1,024)	(264)	(1,288)
Dividends paid to shareholders	–	–	(2,644)	–	(2,644)	–	(2,644)
Repurchase of common shares	(1,755)	1,104	–	–	(651)	–	(651)
Balance, December 31, 2016	226,414	2,946	(126,579)	337	103,118	1,887	105,005

The accompanying notes are an integral part of these consolidated financial statements.

Holloway Lodging Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(in thousands of Canadian dollars)

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Net loss for the years	(1,309)	(3,691)
Adjustments for non-cash items (note 21)	13,163	17,630
	11,854	13,939
Changes in items of working capital (note 21)	459	(1,641)
Net cash generated from operating activities	12,313	12,298
Investing activities		
Increase in capital reserves and additions to other assets	(729)	(320)
Proceeds from sales of hotel properties and equipment and minority interest investment in hotel properties, net of costs	8,729	25,261
Proceeds from sale of franchise business, net of costs (note 10)	–	15,718
Acquisition of hotel properties	(8,775)	(10,147)
Additions to property and equipment	(9,869)	(19,372)
Net cash provided by (used in) investing activities	(10,644)	11,140
Financing activities		
Repayment of secured credit facilities	(1,899)	(7,478)
Proceeds from mortgages, net of deferred financing fees	11,900	–
Repayment of mortgages and loan payable	(9,145)	(12,567)
Settlement of share-based liability	–	(157)
Repurchase of common shares	(651)	(1,712)
Proceeds from exercise of options	–	17
Repurchase and conversion of convertible debentures	(106)	(299)
Dividends paid to shareholders	(2,644)	(2,693)
Net cash used in financing activities	(2,545)	(24,889)
Decrease in cash during the years	(876)	(1,414)
Cash – Beginning of years	2,059	3,820
Cash – End of years	1,183	2,059
Supplemental cash flow information		
Interest paid	14,625	15,053

Cash is comprised of cash on hand and balances with banks.

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

1 General information

Holloway Lodging Corporation, together with its subsidiaries (the "Company" or "Holloway"), is a hospitality company that owns and operates hotels. As at December 31, 2016, the Company owned and operated 34 hotels (December 31, 2015 - 34 hotels) and held a 62% interest in another hotel in Canada, with a total of 4,025 guest rooms. The address of its registered office is 6009 Quinpool Road, 10th Floor, Halifax, Nova Scotia.

The results of operations for the year ended December 31, 2016 represent the operations of 34 hotels for the full year and 2 hotels for part of the year as the Company:

- acquired the Westmark® Whitehorse Hotel and Conference Center in Whitehorse, YT on April 8, 2016; and
- sold the Travelodge® in Barrie, ON on September 26, 2016.

The results of operations for the year ended December 31, 2015 represent the operations of 33 hotels for the full year and 5 hotels for part of the year as the Company:

- sold the Ramada® in Trenton, ON on January 23, 2015;
- acquired the Days Inn® in Whitehorse, YT on January 30, 2015;
- sold the Travelodge® in Toronto, ON on February 4, 2015;
- acquired the Days Inn® in Sydney, NS on September 10, 2015; and
- sold the Holiday Inn Express® in Myrtle Beach, SC on December 10, 2015.

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook – Accounting – Part 1 ("CPA Canada Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved for issue by the Board of Directors on March 9, 2017.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of measurement

The financial statements have been prepared on an accrual basis and under the historical cost convention, unless otherwise stated.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary companies. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases. All inter-company transactions and balances have been eliminated in the consolidated financial statements.

Foreign currency translation

i) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, the Company's functional currency.

The consolidated financial statements of entities that have a functional currency different from that of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities - at the closing rate at the date of the consolidated statement of financial position and income and expenses - at the average rate for the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive loss as cumulative translation adjustments.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency are recognized in the consolidated statement of loss in operating expenses.

Cash

Cash includes cash on hand and balances with banks.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

i) Financial assets and liabilities at fair value through profit and loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category are measured at fair value and all gains and losses realized and unrealized are recognized in the consolidated statement of loss.

ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months of the end of the reporting period. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently measured at fair value. Gains and losses arising from remeasurement are recognized in other comprehensive loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss to the consolidated statement of loss and are included in amounts reclassified to profit and loss on minority interest investments in hotel properties. Impairment losses on available-for-sale investments, when recorded on the consolidated statement of loss, are not reversed.

iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less, a provision for impairment. The carrying amount of a loan receivable classified as impaired is reduced to the present value of the estimated future cash flows discounted at the effective interest rate of the loan. Investment income on loans and receivables is included in the consolidated statement of loss as investment income when the Company's right to receive payment is established.

iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost over the contractual term using the effective interest rate method. Financial liabilities at amortized cost are further classified as current or non-current depending on whether these fall due within twelve months after the balance sheet date or beyond.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. The criteria used to determine if there is objective evidence of an impairment loss include:

i) significant financial difficulty of the obligor;
ii) delinquencies in interest or principal payments;
iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization; and/or
iv) a significant or prolonged decline in the fair value of the asset below its cost.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies (continued)

Inventories

Inventories consist of linen, food, beverages and other supplies. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first in, first out ("FIFO") method. Net realizable value is the estimated replacement cost. If the carrying value exceeds the net realizable value, a write-down is recognized in the consolidated statement of loss.

Capital reserves

Capital reserves represent funds held by mortgagors (capital reserve – restricted) or funds internally restricted (included in cash) for capital improvements to the hotel properties.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and impairment allowances. Depreciation is provided from the date assets are ready to be put into service at rates which will amortize the carrying cost less residual value of the property and equipment over their estimated useful lives on a straight-line basis. Estimated useful lives and residual values are reviewed at least annually. The estimated useful lives are as follows:

Land lease	Term of the lease
Buildings and components	15 to 60 years
Furniture, fixtures and equipment	3 to 7 years
Paving	10 years
Landscaping	5 years
Signage	10 years
Computer equipment and websites	3 years
Vehicles	3 years

Land is not amortized. Renovations are amortized once they are put into use.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies (continued)

Impairment of non-financial assets and related reversals of impairment

At each balance sheet date, the Company determines whether there is any indication of impairment of the carrying amount of the Company's property and equipment. If any indication exists, the asset's recoverable amount is estimated. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or "CGU"). The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. In assessing value in use, the Company uses a discounted cash flow model. The future cash flows are adjusted for risks specific to the asset and are discounted using a pre-tax discount rate. Fair value less costs of disposal utilizes the same cash flows, adjusted for the expected differences in the cash flows of a potential acquirer or market participant, less an estimate of costs to sell. The discount rate reflects the current assessment of the time value of money and the risks specific to the CGU.

IFRS also requires that assets that have previously been impaired, be reviewed at the end of each reporting period to assess if the asset is still impaired. If such an indication exists, the Company calculates the recoverable amount of the asset and if it is greater than the carrying amount then the impairment is reversed up to the asset's recoverable amount. The asset's recoverable amount cannot be greater than the carrying amount that would have existed had no impairment loss been recognized in prior years.

Impairments or reversals of previously recorded impairments on property and equipment are presented as impairment or reversal of impairment of hotel properties, net in the consolidated statement of loss.

Other assets

Other assets consist of franchise fees and other intangible assets. Application and initial franchise fees are amortized on a straight-line basis over the term of the franchise agreement and the amortization is included in depreciation and amortization in the consolidated statement of loss. Other intangible assets are amortized on a straight-line basis over their estimated useful life.

Leases

Lease payments under operating leases are charged to income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Convertible debentures

Convertible debentures are initially recorded at their fair value, net of debt issuance costs using an estimated risk-adjusted discount rate. They are subsequently measured at amortized cost using the effective interest rate method.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies (continued)

Provisions

Provisions for legal or constructive obligations, including termination benefits, are recognized in the consolidated financial statements as liabilities when all of the following three criteria are met: (i) the Company has a present legal or constructive obligation as a result of a past event; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted where the effect is material. The Company does not have any significant provisions recorded at December 31, 2016 and 2015.

Income tax

Income tax comprises current and deferred taxes. Income tax is recognized in the consolidated statement of loss except to the extent that it relates to items recognized directly in other comprehensive loss or directly in equity, in which case the income tax is also recognized directly in other comprehensive loss or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

Management periodically evaluates positions taken in tax returns with respect to situations where tax regulation is subject to interpretation. Management establishes provisions where appropriate.

Deferred income tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or the liability is settled. Deferred income tax assets are recognized to the extent that is probable that future taxable income will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

Dividends

Dividends to the Company's shareholders are recognized as a liability in the consolidated financial statements in the period in which they are approved and declared by the Company's Board of Directors but not yet paid.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies (continued)

Revenue

Revenue is generated primarily from room occupancy, food and beverage services, rental, and ancillary services. Revenue is recognized when it is probable that the economic benefits will flow to the Company, the service has been provided, the price for the services and costs can be measured reliably and collectability is reasonably assured.

Loyalty programs

Loyalty programs administered by third party hotel brands enable guests to earn credit for points redeemable for free accommodations or other benefits at a later date. The Company effectively acts as an agent for these third party programs. The costs of loyalty program points are recorded as a reduction in hotel revenues.

Share-based compensation

The Company has a share option plan for certain employees and directors. The Company accounts for share options using the fair value method. The Company has a history of settling share options for cash, and as such, they are treated as a liability and are remeasured at each balance sheet date.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2017, and have not been applied in preparing these consolidated financial statements. None of the new standards are expected to have a significant effect on the consolidated financial statements of the Company, except for the following:

IFRS 9, Financial Instruments

IFRS 9, *"Financial Instruments"* ("IFRS 9") introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *"Financial Instruments: Recognition and Measurement"* ("IAS 39") to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income ("OCI").

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI, without having to adopt the remainder of IFRS 9.

The final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets – fair value through OCI; (ii) a single, forward-looking expected loss impairment model; and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts and Customers

IFRS 15, "*Revenue from Contacts and Customers*" ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, *"Revenue"* and IAS 11, *"Construction Contracts",* and some revenue related interpretations. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods and services. The Company is currently evaluating the new standard and does not expect there to be a material impact on its consolidated financial statements.

IFRS 16, Leases

IFRS 16, "*Leases*" ("IFRS 16"), was issued on January 13, 2016 and replaces the current guidance in IAS 17, "*Leases*". The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

IAS 7, Statements of Cash Flows

Amendments to IAS 7, *"Statements of Cash Flows"* ("IAS 7") require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect that the amendments will have a material impact on its consolidated financial statements.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Summary of significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

IAS 12, Income Taxes

Amendments to IAS 12, *"Income Taxes"* ("IAS 12") apply for annual periods beginning on or after January 1, 2017 with retrospective application. Early adoption is permitted. The amendments clarify that the existence of a deductible temporary difference is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset and also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company is currently evaluating the impact the amendments are expected to have on its consolidated financial statements.

4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates the Company has made in the preparation of these consolidated financial statements.

a) Property and equipment

The Company has established a methodology for identifying indicators of impairment which includes looking at changes in operating performance, occupancy levels and other factors for each CGU. Additional factors including oil and gas or other business and economic market activity, regional development opportunities and new competition in the markets in which each CGU operates are also considered. These indicators determine whether the Company tests for impairment or reversal of previously recorded impairments at each balance sheet date.

For the year ended December 31, 2016, the Company assessed 26 of its hotels or CGUs. The Company obtained 21 independent third party appraisals and prepared internal models for 5 hotels to determine the recoverable amount of these 26 hotels. In total, the Company recorded a net impairment of $300.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Critical accounting estimates and judgments (continued)

a) Property and equipment (continued)

	Number of hotels	Recoverable Amount or range $	Carrying value $	Provision for (reversal of) impairment $
External third party appraisals:				
Hotels with values higher than carrying value	12	164,400	107,970	–
Hotels with values higher than carrying value with previously recorded impairments	5	57,600	47,381	(6,300)
Hotels with values lower than carrying value	4	63,200	69,833	6,600
Internal valuation model	5	25,300 - 27,300	25,860	–

Where independent third party appraisals were completed, the valuation techniques included both the income capitalization and sales comparison approaches. For internal models, the recoverable amount is defined as the higher of the value in use and fair value less costs to sell.

The Company used internal models to value 5 CGUs. In our internal models, the recoverable amount is determined based on the fair value less costs to sell which uses stabilized cash flow projections and a terminal value based on long-term average growth rates for the industry. For periods beyond the initial budget period, cash flows were extrapolated using growth rates determined to be reasonable for the specific CGU and the market in which it operates. The information and assumptions from the appraisals were used in the internal models for comparable properties (e.g., growth rates, cap and discount rates, etc.).

The future cash flows expected from the use and eventual disposition involve assumptions of occupancy, room rates, revenues, expenses, the residual or terminal value of the CGU and discount rates. In addition to these estimates, management assesses the effect of new competition in the individual markets and the hotel industry predictions of hotel demand and supply. These estimates and assumptions are subject to change.

Based on this information, management estimated that the range of reasonably possible values for the CGUs valued using internal models would be between $25,300 and $27,300. The carrying value of these CGUs was $25,860 and no provision for impairment was recorded.

For both the appraised values and those determined using internal models, the fair value may not reflect the realizable value in the event a particular CGU is sold by the Company.

These are level 3 fair value measurements under the fair value hierarchy (note 25). Key factors of estimation uncertainty included in the internal models for the CGUs tested for impairment or reversal of impairment were:

Pre-tax discount rates	11.8% to 12.0%
Capitalization rate	10.0% to 11.0%
Growth rates	Consistent with industry and market/hotel outlook

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Critical accounting estimates and judgments (continued)

b) Depreciation of property and equipment

The Company records depreciation on its property and equipment using the straight-line method over the estimated useful life of each category. If different estimated useful lives of the assets or depreciation methods were used, the impact on the Company's net loss could be material.

c) Income taxes

Deferred income tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets recorded in the consolidated statement of financial position. Significant estimates and judgments are used in determining the future consolidated taxable income, which includes consideration of the history of profitability. Actual results will differ from the amounts estimated for future taxable income. Management considers both favourable and unfavourable evidence in determining whether or not it is probable that the future economic benefits will flow to the entity and the amount of deferred income tax assets that should be recognized. In making its assessment, management considers past operating results, forecasted future results and economic conditions of the locations in which it operates.

5 Trade and other receivables

	December 31, 2016 $	December 31, 2015 $
Trade receivables	3,100	2,732
Less: allowance for doubtful accounts	(58)	(110)
Trade receivables – net	3,042	2,622
Receivables from credit card companies	366	248
Other receivables	172	374
	3,580	3,244

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

6 Acquisitions and disposals of property and equipment

2016

Westmark® Whitehorse Hotel and Conference Center, Whitehorse, YT

On April 8, 2016, the Company acquired the Westmark® Whitehorse Hotel and Conference Center in Whitehorse, YT with a total cost of $9,787 which was paid in cash. The total costs include costs of acquisition of $510 and a realized foreign exchange loss of $502 which is recorded in the consolidated statement of loss in relation to settling a forward contract to manage the exposure of the purchase price in US dollars.

The following table summarizes the fair value of assets acquired at the acquisition date:

	$
Assets acquired	
Land	1,617
Building and components	5,287
Furniture, fixtures and equipment	1,664
Paving	64
Signage	12
Computer equipment	24
Inventory	107
	8,775

Travelodge®, Barrie, ON

On September 26, 2016, the Company sold the Travelodge® in Barrie, ON for gross proceeds of $8,725. After closing costs, the net cash proceeds were $8,634. The Company recognized a gain on disposal of property and equipment of $2,942 in the consolidated statement of loss.

2015

Ramada®, Trenton, ON

On January 23, 2015, the Company sold the Ramada® in Trenton, ON for gross proceeds of $3,950. After closing costs, the net cash proceeds were $3,760. A portion of the proceeds were used to fully repay a $3,000 secured credit facility. The Company recognized a gain on disposal of property and equipment of $116 in the consolidated statement of loss.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

6 Acquisitions and disposals of property and equipment (continued)

2015 (continued)

Days Inn®, Whitehorse, YT

On January 30, 2015, the Company acquired the Ramada® in Whitehorse, YT for a gross purchase price of $8,228 which was paid in cash. The property was rebranded as a Days Inn®.

The following table summarizes the fair value of assets acquired at the acquisition date:

	$
Assets acquired	
Land	2,470
Building and components	4,372
Furniture, fixtures and equipment	1,250
Paving	100
Signage	11
Computer equipment	25
	8,228

Travelodge®, Toronto, ON

On February 4, 2015, the Company sold the Travelodge® in Toronto, ON for gross proceeds of $13,000. A portion of the proceeds were used to fully repay a $2,000 secured credit facility. After closing costs, the net cash proceeds were $12,705. The Company recognized a gain on disposal of property and equipment of $1,646 in the consolidated statement of loss.

Land, Orillia, ON

On April 15, 2015, the Company sold a vacant parcel of land in Orillia, ON for gross proceeds of $1,084. After closing costs, the net cash proceeds were $1,048. The Company recognized a gain on disposal of property and equipment of $88 in the consolidated statement of loss.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

6 Acquisitions and disposals of property and equipment (continued)

2015 (continued)

Days Inn®, Sydney, NS

On March 25, 2015, the Company acquired the first and second mortgages receivable in the amount of $1,919 on the Days Inn® in Sydney, NS. The mortgages were in default due to non-payment of principal, interest and property taxes. During the foreclosure period, the Company recorded management income of $122 which is included in other revenue, representing the net profit of the hotel for this period. The Company concluded foreclosure proceedings against the borrower and obtained ownership of the property on September 10, 2015.

The following table summarizes the fair value of assets acquired at the acquisition date:

	$
Assets acquired	
Land	576
Building and components	1,324
Furniture, fixtures and equipment	19
	1,919

Costs of acquisition of $39 were recognized in the consolidated statement of loss.

Holiday Inn Express®, Myrtle Beach, SC

On December 10, 2015, the Company sold the Holiday Inn Express® in Myrtle Beach, SC for gross proceeds of $7,598. After repayment of the existing mortgage and closing costs, net cash proceeds were $2,155. The Company recorded a gain on disposal of property and equipment of $308 in the consolidated statement of loss.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

7 Property and equipment

	For the year ended December 31, 2016					
	Opening net book value $	Additions, acquisitions and transfers $	Disposals and write-offs $	Depreciation $	(Impairment) reversal of impairment, net $	Closing net book value $
Land	50,885	1,617	(1,667)	–	1	50,836
Land lease	283	–	–	(9)	101	375
Buildings and components	236,058	6,922	(3,854)	(9,822)	(288)	229,016
Renovations in progress	865	(110)	(98)	–	–	657
Furniture, fixtures and equipment	22,132	5,416	(257)	(4,620)	(114)	22,557
Paving	541	91	–	(223)	–	409
Landscaping	46	207	–	(23)	–	230
Signage	709	128	(80)	(138)	–	619
Computer equipment and websites	931	608	(125)	(580)	–	834
Vehicles	17	77	–	(6)	–	88
Leasehold improvements	4	–	–	(1)	–	3
	312,471	14,956	(6,081)	(15,422)	(300)	305,624

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

7 Property and equipment (continued)

	As at December 31, 2016			
	Cost $	Accumulated impairment losses $	Accumulated depreciation $	Net book value $
Land	60,576	(9,740)	–	50,836
Land lease	500	(15)	(110)	375
Buildings and components	346,546	(63,695)	(53,835)	229,016
Renovations in progress	657	–	–	657
Furniture, fixtures and equipment	52,206	(4,865)	(24,784)	22,557
Paving	2,566	(457)	(1,700)	409
Landscaping	264	–	(34)	230
Signage	1,307	–	(688)	619
Computer equipment and websites	2,236	–	(1,402)	834
Vehicles	292	–	(204)	88
Leasehold improvements	34	–	(31)	3
	467,184	(78,772)	(82,788)	305,624

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

7 Property and equipment (continued)

	For the year ended December 31, 2015						
	Opening net book value $	Additions, acquisitions and transfers $	Disposals and write-offs $	Depreciation $	Impairment $	Foreign exchange[1] $	Closing net book value $
Land	56,940	3,046	(6,550)	–	(2,741)	190	50,885
Land lease	292	–	–	(9)	–	–	283
Buildings and components	254,600	16,543	(14,354)	(9,465)	(12,159)	893	236,058
Renovations in progress	2,894	(1,821)	(208)	–	–	–	865
Furniture, fixtures and equipment	13,376	14,334	(1,806)	(3,223)	(680)	131	22,132
Paving	651	147	(22)	(237)	–	2	541
Landscaping	32	22	(3)	(5)	–	–	46
Signage	449	418	(49)	(121)	–	12	709
Computer equipment and websites	1,044	429	(29)	(514)	–	1	931
Vehicles	29	17	–	(29)	–	–	17
Leasehold improvements	–	4	–	–	–	–	4
	330,307	33,139	(23,021)	(13,603)	(15,580)	1,229	312,471

1. Foreign exchange impact prior to the sale of the Holiday Inn Express® in Myrtle Beach, SC on December 10, 2015.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

7 Property and equipment (continued)

	As at December 31, 2015			
	Cost $	**Accumulated impairment losses** $	**Accumulated depreciation** $	**Net book value** $
Land	60,626	(9,741)	–	50,885
Land lease	500	(116)	(101)	283
Buildings and components	343,815	(63,407)	(44,350)	236,058
Renovations in progress	865	–	–	865
Furniture, fixtures and equipment	47,906	(4,751)	(21,023)	22,132
Paving	2,475	(457)	(1,477)	541
Landscaping	65	–	(19)	46
Signage	1,346	–	(637)	709
Computer equipment and websites	2,150	–	(1,219)	931
Vehicles	222	–	(205)	17
Leasehold improvements	4	–	–	4
	459,974	(78,472)	(69,031)	312,471

During 2016, the Company recognized impairment losses of $6,600 and a reversal of previously recorded impairment losses of $6,300 in respect to various CGUs. During 2015, the Company recognized impairment losses of $16,000 and a reversal of a previously recorded impairment loss of $420 in respect to various CGUs. Refer to note 4 regarding the use of estimates in the determination of the values of the CGUs.

8 Loan receivable

The senior secured loan receivable is denominated in US dollars (US$4,000) and bears interest at 12.0%. Interest and principal payments are due semi-annually. The maturity date of the note is April 30, 2027.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

9 Other assets

The following table summarizes significant changes in franchise fees and other intangible assets for the years ended December 31, 2016 and 2015:

	Franchise fees $	Other $	Total $
For the year ended December 31, 2016			
Opening net book value	473	174	647
Additions	122	–	122
Disposals	(3)	–	(3)
Amortization for the year	(54)	(31)	(85)
Closing net book value	538	143	681
As at December 31, 2016			
Cost	880	212	1,073
Accumulated amortization	(342)	(69)	(392)
Net book value	538	143	681
For the year ended December 31, 2015			
Opening net book value	409	207	616
Additions	189	–	189
Disposals	(79)	–	(79)
Foreign exchange(1)	6	–	6
Amortization for the year	(52)	(33)	(85)
Closing net book value	473	174	647
As at December 31, 2015			
Cost	925	212	1,137
Accumulated amortization	(452)	(38)	(490)
Net book value	473	174	647

(1) Foreign exchange impact prior to the sale of the Holiday Inn Express® in Myrtle Beach, SC on December 10, 2015.

10 Franchise business

The following table summarizes significant changes in the franchise business for the year ended December 31, 2015:

	2016 $	2015 $
Beginning balance	–	14,700
Amortization	–	(150)
Disposal	–	(14,550)
Ending balance	–	–

On March 31, 2015, the Company sold the franchise business which owned the master franchise rights to the Travelodge® and Thriftlodge® hotel brands in Canada for gross proceeds of $21,030. The purchase price was satisfied through the issuance of a US$4,000 senior secured loan receivable (note 8) and a cash payment of $15,718, net of closing costs. The cash proceeds were used to fully repay the $16,000 secured credit facility. The Company recognized a gain on disposal of franchise business of $6,220 in the consolidated statement of loss.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

11 Secured credit facility

	December 31, 2016 $	December 31, 2015 $
Credit facility	17,630	19,529

The Company has a credit facility with a Canadian chartered bank for $45,000 (December 31, 2015 - $25,000). The facility has no set expiry and is subject to an annual review. The facility has availability that is determined by a borrowing base calculation and bears interest at the Canadian bank prime rate plus 1.50%. The weighted average interest rate at December 31, 2016 was 4.20% and the available balance of the facility was $27,370 (December 31, 2015 - $5,471). The facility is secured by a registered charge on nine hotel properties (2015 – seven registered hotels). Subsequent to year-end, the facility was repaid in full.

12 Trade payables and accrued liabilities

	December 31, 2016 $	December 31, 2015 $
Trade payables	3,864	6,612
Accrued expenses and liabilities	5,776	5,638
	9,640	12,250

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

13 Mortgages and loan payable

	December 31, 2016 $	December 31, 2015 $
Mortgages payable, bearing interest at a weighted average rate of 5.85% (December 31, 2015 – 5.94%) and maturing on various dates from May 2017 to September 2029. Individual first charges on 22 hotel properties with a net book value of $228,557 have been pledged as security for individual mortgages	127,848	124,156
Promissory note payable, bearing interest at 6.00% which was repaid in March 2016	–	445
Less: Deferred financing fees	(552)	(355)
	127,296	124,246
Less: Current portion	(94,166)	(6,375)
	33,130	117,871

On March 2, 2016, the Company obtained three mortgages on three previously unencumbered properties with a five-year term bearing interest at 4.25%. Individual first charges on the hotel properties have been pledged as security for the individual mortgages.

On March 8, 2016, the Company refinanced a mortgage on one hotel property which was to mature in March 2018, bearing interest at 4.25%, reduced from 6.50% with a new five-year term.

During 2016, the Company reclassified $89,769 to current liabilities, representing the principal amount of mortgages that mature in May and July, 2017. These mortgages are secured by 12 hotel properties. The Company expects to fully refinance these mortgages on or before their maturity.

Excluding the impact of refinancing, estimated future principal repayments over the next five years are as follows:

	$
Year ending December 31, 2017	94,307
2018	9,130
2019	5,894
2020	3,619
2021	10,878
Thereafter	4,020

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

13 Mortgages and loan payable (continued)

The following table summarizes significant changes in mortgages and loan payable for the years ended December 31, 2016 and 2015:

	2016 $	2015 $
Beginning balance	124,246	135,758
Proceeds from new mortgages	12,392	–
Repayment of debt	(9,145)	(12,448)
Additions to deferred financing fees	(492)	(119)
Write-off of deferred financing fees on mortgages repaid during the year	–	21
Amortization of deferred financing fees	295	196
Impact of foreign exchange prior to the sale of the Holiday Inn Express® in Myrtle Beach, SC	–	838
Ending balance	127,296	124,246

14 Share-based liability

On May 29, 2015 (the “Modification Date”), the Company settled stock options for cash. As a result, the stock option obligation changed from an equity settled obligation to a cash settled obligation. Prior to the Modification Date, compensation expense was recognized over the vesting period by increasing contributed surplus based on the number of options expected to vest. Upon the options becoming cash-settled, the fair value was calculated as of the Modification Date and this fair value was removed from contributed surplus and recorded as a liability. Subsequent to the Modification Date, the change in fair value of the share-based liability is recognized in share-based expense (recovery) in the consolidated statement of loss.

The following table summarizes the changes in share-based liability for the years ended December 31, 2016 and 2015:

	2016 $	2015 $
Beginning balance	476	–
Reclassification of share-based liability from contributed surplus	–	816
Options exercised	–	(157)
Change in fair value of share-based liability	233	(183)
Ending balance	709	476

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

14 Share-based liability (continued)

The fair value of the options were measured at December 31, 2016 using the Black-Scholes option pricing model with the following assumptions (not in thousands):

	Option grant			
	March 2016	**December 2014**	**November 2014**	**August 2012**
Exercise price	$4.80	$6.37	$6.37	$3.70
Closing price at December 31, 2016	$5.18	$5.18	$5.18	$5.18
Volatility	44.7%	22.2%	22.4%	16.1%
Annual dividend yield	2.7%	2.7%	2.7%	2.7%
Expected remaining option life	6.21 years	2.96 years	2.88 years	0.56 years
Annual risk-free interest rate	0.94%	0.57%	0.57%	0.51%
Fair value per option	$1.78	$0.29	$0.29	$1.42

Movements in the number of options outstanding and related weighted average exercise prices are as follows:

	2016		2015	
	Weighted average exercise price in $ per share	**Options**	**Weighted average exercise price in $ per share**	**Options**
At January 1	5.30	582,000	5.14	652,999
Granted	4.80	200,000	–	–
Exercised	–	–	3.74	(68,377)
Forfeited	–	–	4.43	(2,622)
Expired	9.20	(12,000)	–	–
At December 31	5.11	770,000	5.30	582,000

Of the 770,000 outstanding options (2015 – 582,000), 570,000 options are exercisable (2015 – 473,667).

Options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	**Exercise price per share** $	**December 31, 2016** $	**December 31, 2015** $
October 2016	9.20	–	12,000
August 2017	3.70	245,000	245,000
November 2019	6.37	310,000	310,000
December 2019	6.37	15,000	15,000
March 2023	4.80	200,000	–
		770,000	582,000

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

14 Share-based liability (continued)

On March 18, 2016, the Company granted a total of 200,000 options to purchase common shares to directors and certain employees with an exercise price of $4.80 per share. The options vest equally over three years commencing on March 18, 2017 and expire after seven years. The fair value of the options were measured at the grant date using the Black-Scholes option pricing model with the following assumptions (not in thousands of dollars):

	Option grant March 2016
Exercise price	$4.80
Closing price on grant date	$4.76
Volatility	46.3%
Annual dividend yield	2.9%
Expected option life	7 years
Annual risk-free interest rate	0.68%
Fair value per option	$1.61

15 Convertible debentures

The Company holds two series of convertible debentures. The Series B debentures (HLC.DB) have a maturity date of February 28, 2020, bear interest at 6.25% payable semi-annually on April 30 and October 31 and have a face value of $52,187 (December 31, 2015 - $52,294). The Series C debentures (HLC.DB.A) have a maturity date of September 30, 2018, bear interest at 7.50% payable semi-annually on March 31 and September 30 and have a face value of $40,572 (December 31, 2015 - $40,583). The debentures were recorded at fair value on the acquisition of Royal Host in 2014.

Both series of debentures can be converted at the option of the holder for $285 in cash and 28 common shares of the Company for each $1,000 principal amount of debentures outstanding (amounts not in thousands). The Company has the option to repay the principal amount of the debentures, in whole or in part, at maturity or redeem the debentures in whole or in part, at or prior to maturity, in cash or by issuing the number of equivalent common shares of the Company (the "Redemption Option"). The number of common shares to be issued is calculated by dividing the aggregate principal amount by 95% of the current market price of the common shares (calculated in accordance with the indenture).

The Redemption Option is required to be accounted for as an embedded derivative financial instrument. On initial recognition, the Redemption Option was recorded at its calculated fair value and grouped with the debentures. The Redemption Option is adjusted to its fair value at each reporting date and any change in the fair value is included in interest and accretion on debt in the consolidated statement of loss. On initial recognition, the carrying value of the liability portion of the debentures was increased by the amount of the debt premium arising from the Redemption Option, which is amortized over the term of the debentures.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

15 Convertible debentures (continued)

	December 31, 2016 $	December 31, 2015 $
Face value of convertible debentures	92,759	92,877
Discount and embedded derivative	(2,868)	(3,813)
Deferred financing fees	(76)	(96)
Total	89,815	88,968

The following table summarizes the significant changes in the convertible debentures for the years ended December 31, 2016 and 2015:

	2016 $	2015 $
Beginning balance	88,968	88,061
Change in fair value of embedded derivative	–	240
Accretion of discount and amortization of deferred financing fees	960	993
Debentures repurchased under NCIB, net of gain	(113)	(318)
Conversion of debentures	–	(8)
Ending balance	89,815	88,968

On January 13, 2015, the Company initiated a 12 month Normal Course Issuer Bid ("NCIB") to repurchase up to $4,102 of its issued and outstanding Series B debentures and $3,437 of its issued and outstanding Series C debentures. The Company repurchased and cancelled Series B debentures with a $333 face value for $293 (average cost of $88.11 per $100 face value - prices not in thousands) and Series C debentures with a $18 face value for $17 (average cost of $93.85 per $100 face value - prices not in thousands) pursuant to this NCIB. The Company recorded a gain on the repurchase of the debentures of $20 which represents the difference between the book value at the time of repurchase and the amount paid.

On January 13, 2016, the Company initiated a 12 month NCIB to repurchase up to $4,068 of its issued and outstanding Series B debentures and $3,434 of its issued and outstanding Series C debentures. At December 31, 2016, the Company repurchased and cancelled Series B debentures with a $101 face value for $90 (average cost of $89.30 per $100 face value - prices not in thousands) and Series C debentures a $3 face value for $3 (average cost of $92.83 per $100 face value - prices not in thousands) pursuant to this NCIB. The Company recorded a gain on the repurchase of the debentures of $6 which represents the difference between the book value at the time of repurchase and the amount paid.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

16 Shareholders' equity

The Company is authorized to issue an unlimited number of common shares. Each common share is transferable and represents an equal undivided beneficial interest in any distribution from the Company. All shares are of the same class and have equal rights and privileges and are not issued or traded with a par value.

Issued and outstanding common shares

The following table summarizes the number of common shares issued and outstanding and the related carrying values as at December 31, 2016 and 2015:

	Number of shares issued and outstanding (not in thousands)	Carrying value $
Balance – January 1, 2015	19,373,761	229,859
Exercise of stock options	3,377	21
Conversion of convertible debentures	228	1
Repurchase of common shares under NCIB	(346,300)	(1,712)
Balance – December 31, 2015	19,031,066	228,169
Repurchase of common shares under NCIB	(142,000)	(1,755)
Balance – December 31, 2016	18,889,066	226,414

On August 17, 2015, the Company initiated a 12 month NCIB to repurchase up to 967,683 of its issued and outstanding shares. The Company repurchased and cancelled 380,200 shares at a cost of $1,781 (average price of $4.68 per share – price not in thousands), pursuant to this NCIB.

On August 17, 2016, the Company initiated a 12 month NCIB to repurchase up to 944,453 of its issued and outstanding shares. At December 31, 2016, the Company had not repurchased any shares pursuant to this NCIB.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

16 Shareholders' equity (continued)

Issued and outstanding common shares (continued)

The following table provides the total common shares outstanding as well as the impact of outstanding options, if exercised, and the conversion of convertible debentures into common shares:

	December 31, 2016	December 31, 2015
Common shares outstanding	18,889,066	19,031,066
Conversion of convertible debentures	2,650,125	2,653,496
Options outstanding (exercisable)	570,000	473,667
Total common shares reflecting exercise and conversion	22,109,191	22,158,229

The Board of Directors declared a quarterly dividend of $0.035 per share in each quarter of 2016, representing an annual dividend of $0.14 per share. The Company declared and paid $2,644 in dividends for the year ended December 31, 2016 (2015 - $2,693). The Company's Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

17 Basic and diluted loss per share

Basic earnings (loss) per share is calculated by dividing the net loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the years. As the Company had a loss in 2015 and 2016, diluted earnings per share is equal to basic earnings per share.

	For the years ended	
	December 31, 2016 $	December 31, 2015 $
Net loss attributable to shareholders of the Company	(1,045)	(3,811)
Weighted average number of shares outstanding	18,894,823	19,254,300
Basic and diluted loss per share	(0.06)	(0.20)

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

18 Expenses by nature

	For the years ended	
	December 31, 2016 $	**December 31, 2015 $**
Salaries, wages and employee benefits	36,667	37,510
Materials, supplies, repairs and utilities	19,783	19,898
Food, beverage and service costs	6,254	6,265
Insurance	1,047	790
Property taxes	5,714	5,970
Management fees	–	121
Royalty and franchise fees	5,242	5,387
Legal, audit and other professional consulting fees	756	1,141
Depreciation and amortization	15,488	13,820
Interest and accretion on debt	16,190	16,394
Impairment of hotel properties, net	300	15,580
Gain on disposals of property and equipment	(2,659)	(2,096)
Gain on disposals of franchise business, minority interest in hotel properties and repurchase of convertible debentures	(6)	(6,269)
Acquisition and redevelopment costs	665	813
Realized foreign exchange loss	923	–
Unrealized foreign exchange gain	(224)	–
Other	3,576	4,650
	109,716	119,974

19 Wages and employee benefits expense

	For the years ended	
	December 31, 2016 $	**December 31, 2015 $**
Salaries and wages	32,223	33,211
Benefits	3,772	3,931
RRSP/pension expense	58	41
Directors fees	228	224
Share-based expense (recovery)	233	(64)
Termination benefits	153	167
	36,667	37,510

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

19 Wages and employee benefits expense (continued)

Compensation of key management:

Key management includes the Company's directors and officers. Compensation awarded to key management included:

	For the years ended	
	December 31, 2016 $	December 31, 2015 $
Salaries and benefits	679	721
Consulting fees	75	150
Share-based expense – cash	–	150
Directors fees	233	236
	987	1,257

20 Income taxes

The following table is a reconciliation of the expected income tax recovery at the statutory rate to the amounts recognized in the consolidated statement of loss for the years ended December 31, 2016 and 2015:

	For the years ended	
	December 31, 2016 $	December 31, 2015 $
Loss before income taxes	(2,552)	(8,820)
Combined statutory income tax rate	27.53%	26.86%
Recovery at the combined statutory income tax rate	(703)	(2,369)
Non-taxable portion of gains	(360)	(2,321)
Non-deductible expenses	86	22
Change in tax rates	(246)	(692)
Other	(20)	231
Recovery of income taxes	(1,243)	(5,129)

The statutory tax rate was 27.53% for the year ended December 31, 2016 (2015 – 26.86%). The income tax provision will not require an outlay of cash due to available non-capital loss carry forwards.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

20 Income taxes (continued)

Deferred income taxes

Components of the net deferred income tax assets are as follows:

	December 31, 2015 $	Recognized in net loss $	December 31, 2016 $
Deferred income tax assets			
Property and equipment	18,527	3,727	22,254
Non-capital losses	9,217	(2,680)	6,537
Net capital losses	10	(10)	–
Deferred financing fees	102	(77)	25
Other assets	187	(20)	167
Deferred income tax liabilities			
Convertible debentures	(1,114)	303	(811)
Net deferred income tax assets	26,929	1,243	28,172

The Company's US subsidiary has non-capital loss carry forwards of US$4,970, which expire between the years 2028 and 2036. The US subsidiaries sold the majority of its assets during 2015 and the Company has no plans to utilize or otherwise benefit from these loss carry forwards.

Deductible temporary differences and unused tax losses for which no deferred income tax assets have been recognized are attributable to the following:

	December 31, 2016 $	December 31, 2015 $
Non-capital losses	6,676	6,858

The Company has Canadian non-capital loss carry forwards which expire in the following years:

Year of expiry	Loss $
2030	5,587
2031	4,075
2032	5,554
2033	4,397
2034	4,096
2035	40
Total	23,749

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

21 Supplemental cash flow information

Adjustments for non-cash items:

	For the years ended	
	December 31, 2016 $	December 31, 2015 $
Depreciation and amortization	15,488	13,820
Accretion on debt, change in fair value of embedded derivative and unrealized foreign exchange gain	1,050	1,393
Share-based expense (recovery)	233	(64)
Gain on disposals of property and equipment,	(2,659)	(2,096)
Gain on disposals of franchise business, minority interest investment in hotel properties and repurchase of convertible debentures	(6)	(6,269)
Amounts reclassified to profit and loss on minority interest investments in hotel properties	–	141
Impairment of hotel properties, net	300	15,580
Write-off of acquisition and redevelopment costs	–	254
Recovery of income taxes	(1,243)	(5,129)
	13,163	17,630

Changes in items of working capital:

	For the years ended	
	December 31, 2016 $	December 31, 2015 $
Trade and other receivables	(326)	2,314
Inventories	(92)	156
Prepaid expenses and deposits	(612)	51
Funds held on behalf of franchisees	–	167
Trade payables and accrued liabilities	1,491	(4,159)
Accrued interest on convertible debentures	(2)	(3)
Funds to be spent on behalf of franchisees	–	(167)
	459	(1,641)

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

22 Contingencies and commitments

Contingencies

In the course of the Company's ordinary activities, the Company is involved in administrative proceedings, litigations and claims. In September 2015, the Company was served with a personal injury claim in the Alberta Court of Queen's Bench seeking over $10,000 in damages. The Company believes the claims are without merit, there are valid defences to any actions or the outcomes will not have a material impact on the Company's consolidated financial position or results of operations. The Company intends to fully defend its interests and take all other action available to it. The outcome of the claims is subject to future court proceedings, and it is not practicable to determine an estimate of the possible financial effect, if any, at this time with sufficient reliability. Accordingly, no amounts have been recorded in the accounts of the Company related to these claims.

Commitments

Franchise agreements

Under the terms of the hotel franchise agreements expiring at various dates through the year 2036, franchise fees (including royalty fees, reservation and marketing assessments) are due to franchise companies on 34 of the 35 hotels owned by the Company at December 31, 2016 (2015 – 32 of 35 hotels). The franchise fees paid to franchisors for all but one hotel are calculated based on a percentage of revenue, with one hotel being based on an annual membership fee.

Operating leases

The Company leases office space and has various equipment operating leases. The minimum annual lease payments over the next five years are as follows:

	$
Year ending December 31, 2017	312
2018	169
2019	39
2020	15
2021	10

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

23 Related party transactions

Clarke Inc. and Clarke Inc. Master Trust are considered related parties of Holloway. The Company repaid a mortgage of $2,429 during the first quarter of 2016 and three credit facilities totalling $21,000 during the first quarter of 2015, which were owed to Clarke Inc. or Clarke Inc. Master Trust.

	December 31, 2016 $	December 31, 2015 $
Clarke Inc., a shareholder with significant ownership interest		
IT support fees	122	138
Tax services	12	8
Interest expense	–	271
Included in accounts payable and accrued liabilities	22	11
Clarke Inc. Master Trust, Clarke Inc.’s pension plan		
Interest expense	30	163
Included in accounts payable and accrued liabilities	–	13
Included in mortgages and loan payable	–	2,429

24 Segment reporting

In measuring performance, the Company does not distinguish or group its operations on a geographic or any other basis, and accordingly, has a single reportable segment. The geographic information regarding the Company’s revenue is as follows:

Geographical information

	For the years ended	
	December 31, 2016 $	December 31, 2015 $
Revenues		
Canada	106,412	107,595
United States	–	3,088
	106,412	110,683

Subsequent to the sale of Holiday Inn Express® in Myrtle Beach, SC on December 10, 2015, all non-current assets are held in Canada.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

25 Financial instruments and fair values

The following table shows the carrying values of assets and liabilities by category at December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Assets				
Loans and receivables				
Cash	1,183	1,183	2,059	2,059
Trade and other receivables	3,580	3,580	3,244	3,244
Loan receivable	5,371	5,371	5,536	5,536
Capital reserve – restricted	3,436	3,436	2,829	2,829
	13,570	13,570	13,668	13,668
Liabilities				
Amortized cost				
Trade payables and accrued liabilities	9,640	9,640	12,250	12,250
Accrued interest on convertible debentures	1,304	1,304	1,306	1,306
Secured credit facility	17,630	17,630	19,529	19,529
Mortgages and loan payable	127,296	126,172	124,246	117,584
Convertible debentures	89,815	88,207	88,968	82,906
	245,685	242,953	246,299	233,575
Fair value through profit or loss				
Share-based liability	709	709	476	476

The carrying value of the following items approximate their fair value due to the immediate or short-term maturities of these financial instruments: cash, trade and other receivables, capital reserve – restricted, trade payables and accrued liabilities, accrued interest on convertible debentures and the secured credit facility.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

25 Financial instruments and fair values (continued)

The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- Mortgages and loan payable: The fair value is determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for debt instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions.

- Convertible debentures: The convertible debentures have two components of value: the conventional debentures and the Redemption Option (note 15). The fair value of the convertible debentures is based on the quoted market price for the debentures. The Redemption Option has been accounted for as an embedded derivative that is required to be bifurcated from the underlying debentures, valued using an option pricing model and accounted for as a financial asset with the amount of any Redemption Option being added to the carrying value of the convertible debentures. Any change in the fair value of the Redemption Option is recorded in interest and accretion on debt in the consolidated statement of loss. The Redemption Option is classified as level 2 as defined below.

- Share-based liability: The fair value is determined using the quoted market price for the shares, the Black-Scholes option pricing model and internal valuation techniques which incorporate the share price in calculating volatility.

Fair value hierarchy

The following table classifies financial assets and liabilities that are recognized on the consolidated statement of financial position at fair value in a hierarchy that is based on the significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	December 31, 2016 $	December 31, 2015 $
Level 2		
Redemption Option	25	25
Share-based liability	709	476

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

26 Risk management

The Company's activities expose it to interest rate risk, credit risk, currency risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

a) Interest rate risk

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by primarily using fixed rate debt so cash flow is not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable is 5.85% (2015 – 5.94%) with a weighted average maturity of 1.7 years (December 31, 2015 – 2.4 years).

The Company has one mortgage (December 31, 2015 – three mortgages) and its secured credit facility at floating rates. For the year ended December 31, 2016, if interest rates on the Company's floating rate debt had been 1% higher/lower the net loss would change by $363 (2015 – $390).

b) Credit risk

The credit risk on cash is limited because the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

The amount of trade and other receivables disclosed on the consolidated statement of financial position of $3,580 is net of an allowance for doubtful accounts, estimated by management based on prior experience and their assessment of the current economic environment.

Historically, there have been no significant collection issues and the Company does not believe it is subject to any significant concentration of credit risk. The Company assesses the creditworthiness of customers requesting credit, prior to approval. Listings of trade receivables are reviewed by and discussed with hotel operations personnel on a monthly basis.

Trade receivables are due within 30 days; therefore amounts over 30 days are considered overdue. The allowance for doubtful accounts is generally recorded for trade receivable balances outstanding for more than 120 days. Amounts charged to the allowance are generally written off when there is no expectation of recovering additional cash.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

26 Risk management (continued)

b) Credit risk (continued)

The following table details the trade and other receivables and the related allowance for doubtful accounts:

	December 31, 2016 $	December 31, 2015 $
Trade and other receivables under 30 days aged	2,491	2,343
Trade and other receivables over 30 days aged	1,147	1,011
Less: Allowance for doubtful accounts	(58)	(110)
	3,580	3,244

c) Currency risk

Prior to the sale of its hotel in Myrtle Beach, SC on December 10, 2015, the Company earned revenue and incurred expenses in US currency, and as such, was subject to risk as a result of foreign exchange rate fluctuations. The Company managed its exposure to currency risk by billing for its services in the US in the underlying currency related to the expenditure. As this natural hedging effectively matched the revenue and expenses, the Company's management considered there to be little currency risk.

The Company is exposed to some currency risk as it pays certain franchise and royalty payments and receives interest income on its loan receivable in US currency. A $0.01 change in the US dollar exchange rate will change the foreign exchange gain or loss recognized in the consolidated statement of loss by $24 (2015 – $25).

As of December 31, 2016, the foreign exchange impact of the loan receivable dominated in US dollars (note 8) was not fixed and therefore subject to fluctuation in the US dollar. At December 31, 2015, the foreign exchange impact of this loan receivable was fixed as the Company had entered into two forward contracts expiring February 8, 2016 and February 16, 2016 for US$2,000 each, which were settled on their respective expiry dates, at a loss of $424, representing the difference between the settlement rates and the spot rates.

d) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due, as well as to maintain compliance with various covenants in its financing agreements and its capital management requirements and objectives. The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. Cash flow forecasting is performed at the hotel level and aggregated in head office.

The Company has a secured credit facility (note 11) that has no set expiry and is subject to an annual review. As at December 31, 2016, the Company had drawn $17,630 (2015 – $19,529) from its available secured credit facility of $45,000 (2015 – $25,000).

The Company has eleven mortgages that mature in May and July, 2017. The principal amount at maturity is $89,769. The Company expects to fully refinance these mortgages on or before their maturity.

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

26 Risk management (continued)

d) Liquidity risk (continued)

Based on the Company's overall cash generation capability and current financial position, while there can be no assurance, management believes the Company will be able to meet all financial obligations as they become due.

The tables below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

				December 31, 2016
	Less than 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $
Trade payables and accrued liabilities	9,640	–	–	–
Convertible debentures (face value)	–	–	92,759	–
Convertible debentures interest	1,521	4,783	15,654	–
Secured credit facility	–	17,630	–	–
Secured credit facility interest	55	189	–	–
Mortgages payable	534	93,772	29,521	4,020
Mortgage interest	1,175	3,526	3,203	566

				December 31, 2015
	Less than 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $
Trade payables and accrued liabilities	12,250	–	–	–
Convertible debentures (face value)	–	–	92,877	–
Convertible debentures interest	1,522	4,790	15,676	–
Secured credit facility	–	19,529	–	–
Secured credit facility interest	194	581	–	–
Mortgages and loan payable	1,594	4,781	113,646	4,580
Mortgages and loan payable interest	1,836	5,507	5,965	768

(in thousands of Canadian dollars, except shares, share prices and earnings per share)

27 Capital management

The Company defines capital as the aggregate of equity and interest-bearing debt. The objectives of the Company's capital management program are to maintain a level of capital that complies with existing debt covenants, optimizes the cost of capital, funds its business strategies, provides returns to shareholders and builds long-term shareholder value.

In managing its capital structure, the Company monitors performance throughout the year to ensure anticipated working capital requirements and capital expenditures are funded from operations, available cash on deposit and, where applicable, borrowings. The Company will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the Company may issue, redeem or repay debt, issue or redeem shares, adjust the amount of dividends paid to shareholders or sell assets to reduce debt.

The Company monitors capital using certain financial metrics, including (but not limited to):

- A debt service coverage ratio defined as earnings before interest, income taxes, depreciation, amortization, non-cash accretion and share-based expense (recovery) to the sum of the annual principal and interest payments on its secured credit facility, mortgages and loan payable and convertible debentures ("debt service"). The Company's covenants require the debt service coverage ratio to exceed various levels ranging from 1.25 – 1.40.

	For the years ended	
	December 31, 2016 $	December 31, 2015 $
Earnings base	27,258	28,566
Debt service	21,055	20,940
Debt service coverage ratio	1.29	1.36

The Company is also subject to financial covenants on certain of its mortgages payable and secured credit facility, which include customary terms and conditions for borrowings of this nature. At December 31, 2016, all covenants measured on an annual basis were in compliance. At December 31, 2015, all covenants measured on an annual basis were in compliance except two mortgages for which waivers were obtained from the lenders prior to December 31, 2015.

28 Subsequent events

On January 13, 2017, the Company initiated a NCIB to repurchase a maximum of $4,526 principal amount of its issued and outstanding Series B debentures and $3,411 principal amount of its issued and outstanding Series C debentures. The NCIB will be in effect until January 12, 2018 or such earlier time as the bid is completed or terminated at the option of the Company.

On January 16, 2017, the Company sold the Holiday Inn® hotel in Oakville, ON for proceeds of $19,438. A portion of the proceeds were used to fully repay the secured credit facility. The Company expects to record a gain on sale of approximately $7,835 in the first quarter of 2017.