Holloway Lodging Corporation

Consolidated Financial Statements
December 31, 2017 and 2016

March 7, 2018

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 7, 2018

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, 2017 and 2016 and the consolidated statements of income (loss), comprehensive income (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, 2017 and 2016 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.

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, 2017 and 2016

(in thousands of Canadian dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash	691	1,183
Trade, other and insurance proceeds receivable (notes 5 and 7)	4,385	3,580
Capital reserve - restricted	–	3,371
Inventories	490	533
Prepaid expenses and deposits	975	2,819
	6,541	11,486
Non-current assets		
Property and equipment (notes 6 and 7)	284,047	305,624
Loan receivable (note 8)	5,018	5,371
Other assets	687	746
Deferred income tax assets (note 18)	26,116	28,172
	315,868	339,913
Total assets	322,409	351,399
Liabilities		
Current liabilities		
Secured credit facilities (note 9)	25,339	17,630
Trade payables and accrued liabilities (note 10)	9,389	9,640
Accrued interest on convertible debentures	1,290	1,304
Current portion of mortgages payable (note 11)	6,864	94,166
Share-based liability (note 12)	525	709
	43,407	123,449
Non-current liabilities		
Mortgages payable (note 11)	83,723	33,130
Convertible debentures (note 13)	89,460	89,815
	173,183	122,945
Total liabilities	216,590	246,394
Equity		
Equity attributable to shareholders of the Company	104,084	103,118
Non-controlling interest	1,735	1,887
Total equity	105,819	105,005
Total liabilities and equity	322,409	351,399

Contingencies and commitments (note 20)

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 Income (Loss)

For the years ended December 31, 2017 and 2016

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

	2017 $	2016 $
Revenues		
Hotel: Rooms	88,924	89,754
Food and beverage	10,541	11,882
Rental	1,232	1,368
Other	4,872	3,408
Management services	166	112
	105,735	106,524
Hotel expenses		
Operating expenses	67,293	70,313
Property taxes and insurance	6,245	6,761
Depreciation and amortization	15,452	15,433
	88,990	92,507
Income before the following	16,745	14,017
Other (income) and expenses		
Interest and accretion on debt	14,278	16,190
Corporate and administrative	2,400	1,784
Share-based expense	314	233
Investment income	(640)	(640)
Insurance proceeds, net of clean-up and other costs (note 7)	(1,978)	–
Gain on disposals of property and equipment and repurchase of convertible debentures	(6,581)	(2,665)
Impairment of hotel properties, net (note 7)	–	300
Acquisition and redevelopment costs	10	665
Realized foreign exchange loss	–	926
Unrealized foreign exchange loss (gain)	362	(224)
	8,165	16,569
Income (loss) before income taxes	8,580	(2,552)
Provision for (recovery of) income taxes (note 18)	2,056	(1,243)
Net income (loss) for the years	6,524	(1,309)
Attributable to:		
Shareholders of the Company	6,478	(1,045)
Non-controlling interest	46	(264)
	6,524	(1,309)
Basic and diluted earnings (loss) per share (note 15)	0.34	(0.06)

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

Holloway Lodging Corporation

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

	2017 $	2016 $
Net income (loss) for the years	6,524	(1,309)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss		
Cumulative translation adjustments	–	21
Items reclassified to profit or loss		
Cumulative translation adjustments	(337)	–
Other comprehensive income (loss)	(337)	21
Comprehensive income (loss) for the years	6,187	(1,288)
Comprehensive income (loss) attributable to:		
Shareholders of the Company	6,141	(1,024)
Non-controlling interest	46	(264)
	6,187	(1,288)

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, 2017 and 2016

(in thousands of Canadian dollars)

	Common shares $ (note 14)	Contributed surplus $	Deficit $	Accumulated other comprehensive income $	Equity attributable to shareholders of the Company $	Non-controlling interest $	Total equity $
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
Balance, January 1, 2017	226,414	2,946	(126,579)	337	103,118	1,887	105,005
Net income for the year	–	–	6,478	–	6,478	46	6,524
Other comprehensive loss for the year	–	–	337	(337)	–	–	–
Comprehensive income for the year	–	–	6,815	(337)	6,478	46	6,524
Dividends paid to shareholders	–	–	(2,625)	–	(2,625)	–	(2,625)
Distributions paid to non-controlling interests	–	–	–	–	–	(198)	(198)
Repurchase of common shares	(6,288)	3,401	–	–	(2,887)	–	(2,887)
Balance, December 31, 2017	220,126	6,347	(122,389)	–	104,084	1,735	105,819

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, 2017 and 2016

(in thousands of Canadian dollars)

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the years	6,524	(1,309)
Adjustments for non-cash items (note 19)	12,847	13,163
	19,371	11,854
Changes in items of working capital (note 19)	120	459
Net cash generated from operating activities	19,491	12,313
Investing activities		
Decrease (increase) in capital reserves and additions to other assets	3,353	(729)
Proceeds from sales of hotel properties and equipment, net of costs (note 6)	26,097	8,729
Acquisition of hotel properties and additions to property and equipment (notes 6 and 7)	(12,767)	(18,644)
Net cash provided by (used in) investing activities	16,683	(10,644)
Financing activities		
Proceeds from (repayment of) secured credit facilities (note 9)	7,709	(1,899)
Proceeds from mortgages, net of deferred financing fees (note 11)	61,780	11,900
Repayment of mortgages and loan payable	(98,676)	(9,145)
Settlement of share-based liability	(498)	–
Repurchase of convertible debentures	(1,271)	(106)
Repurchase of common shares	(2,887)	(651)
Dividends paid to shareholders	(2,625)	(2,644)
Distributions paid to non-controlling interests	(198)	–
Net cash used in financing activities	(36,666)	(2,545)
Decrease in cash during the years	(492)	(876)
Cash – beginning of years	1,183	2,059
Cash – end of years	691	1,183
Supplemental cash flow information		
Interest paid	13,296	14,625

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, 2017, the Company owned and operated 32 hotels and held a 62% interest in another hotel in Canada, with a total of 3,764 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, 2017 represent the operations of 33 hotels for the full year and 2 hotels for part of the year as the Company:

- sold the Holiday Inn® in Oakville, ON on January 16, 2017; and
- sold the Travelodge® in Belleville, ON on March 17, 2017.

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.

2 Basis of preparation

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

These consolidated financial statements were approved for issue by the Board of Directors on March 7, 2018.

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.

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

3 Summary of significant accounting policies (continued)

Foreign currency translation

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

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 of monetary assets and liabilities at exchange rates denominated in currencies other than an entities' functional currency are recognized in the consolidated statements of income (loss) in operating expenses.

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 statements of income (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 income (loss). When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the consolidated statements of income (loss). Impairment losses on available-for-sale investments, when recorded on the consolidated statements of income (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 statements of income (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 statement of financial position date or beyond.

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

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

The Company assesses at each reporting 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.

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 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 statements of income (loss).

Capital reserves

Capital reserves represent funds held by mortgagors 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 - 60 years
Furniture, fixtures and equipment	2 - 7 years
Paving	10 years
Landscaping	5 years
Signage	10 years
Computer equipment and websites	3 years
Other	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 reporting 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 each reporting date 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 statements of income (loss).

Other assets

Other assets consist of franchise fees and other 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 statements of income (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, 2017 and 2016.

Income tax

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

(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. Room revenue is shown net of the cost of these loyalty programs.

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 statement of financial position 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, 2018, 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 reporting 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 reporting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent reporting 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").

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.

(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)

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.

The Company has reviewed its financial assets and liabilities and is expecting the following changes from the adoption of the new standard on January 1, 2018:

- Modification of financial liabilities – Financial liabilities that are considered modified during the year are to be accounted for by discounting the revised cash flows at the original effective interest rate. This will result in an immediate impact to consolidated net income (loss) for any modified financial liabilities in which the discounted future cash flows are affected. Through its assessment, the Company identified two financial liabilities that were modified. The related gain on modification was considered immaterial.

- Expected credit losses ("ECL") – The new impairment model under IFRS 9 requires the recognition of impairment provisions based on ECL rather than only incurred credit losses as was the case under IAS 39. For the Company, this applies to its loans and receivables measured at amortized cost. Through its assessment, the Company does not expect ECL to have a material impact to the carrying value of these assets.

Based on management's analysis, there is no cumulative impact to the Company's opening deficit from the adoption of the standard as of January 1, 2018. The Company will apply the new standard using the retrospective approach from January 1, 2018.

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. 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.

Management has assessed the effects of applying the new standard on the Company's financial statements and has identified the following area that will be affected:

- Accounting for variable consideration – IFRS 15 states that the total consideration expected in a contract can include fixed amounts, variable amounts, or both. The Company determines the total transaction price, including an estimate of any variable consideration, at contract inception and reassesses this estimate at each reporting date. This may result in earlier recognition of revenue for any external management services contracts that include variable consideration. No such contracts existed as at and for the year ended December 31, 2017.

Based on management's analysis, there is no cumulative impact to the Company's opening deficit from the adoption of the standard as of January 1, 2018. The Company will apply the new standard using the modified retrospective approach from January 1, 2018.

(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 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 statements 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.

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) Valuation of 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 reporting date.

For the year ended December 31, 2017, the Company determined that there were no indicators of impairment or indicators that previously recorded impairments should be reversed.

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 income (loss) could be material.

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

4 Critical accounting estimates and judgments (continued)

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 statements 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 in the locations in which it operates.

5 Trade, other and insurance proceeds receivable

	December 31, 2017 $	December 31, 2016 $
Trade receivables	2,964	3,100
Less: allowance for doubtful accounts	(40)	(58)
Trade receivables – net	2,924	3,042
Receivables from credit card companies	587	366
Other receivables	189	172
Insurance proceeds receivable	685	–
	4,385	3,580

6 Acquisitions and disposals of property and equipment

2017

Holiday Inn®, Oakville, ON

On January 16, 2017, the Company sold the Holiday Inn® hotel in Oakville, ON for gross proceeds of $19,438. After closing costs, the net cash proceeds were $19,196. The Company recognized a gain on disposal of property and equipment of $7,832 in the consolidated statements of income (loss).

Travelodge®, Belleville, ON

On March 17, 2017, the Company sold the Travelodge® hotel in Belleville, ON for gross proceeds of $7,000. After repayment of the existing mortgage and closing costs, the net cash proceeds were $3,453. The Company recognized a loss on disposal of property and equipment of $144 in the consolidated statements of income (loss).

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

6 Acquisitions and disposals of property and equipment (continued)

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 statements of income (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 the 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 statements of income (loss).

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

7 Property and equipment

	For the year ended December 31, 2017				
	Opening net book value $	Additions, acquisitions and transfers $	Disposals $	Depreciation $	Closing net book value $
Land	50,836	–	(7,783)	–	43,053
Land lease	375	–	–	(11)	364
Buildings and components	229,016	3,995	(10,404)	(9,392)	213,215
Renovations in progress	657	416	(6)	–	1,067
Furniture, fixtures and equipment	22,557	8,342	(1,114)	(5,246)	24,539
Paving	409	64	(2)	(120)	351
Landscaping	230	26	–	(48)	208
Signage	619	101	–	(114)	606
Computer equipment and websites	834	294	(76)	(472)	580
Other	91	6	–	(33)	64
	305,624	13,244	(19,385)	(15,436)	284,047

Disposals consist of primarily of two sold hotels in the year (note 6) and the derecognized property and equipment at the Super 8® in Grande Prairie, AB as a result of the flood.

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

7 Property and equipment (continued)

	As at December 31, 2017			
	Cost **$**	**Accumulated impairment losses** **$**	**Accumulated depreciation** **$**	**Net book value** **$**
Land	52,793	(9,740)	–	43,053
Land lease	500	(15)	(121)	364
Buildings and components	338,436	(63,695)	(61,526)	213,215
Renovations in progress	1,067	–	–	1,067
Furniture, fixtures and equipment	56,921	(4,103)	(28,279)	24,539
Paving	2,627	(457)	(1,819)	351
Landscaping	289	–	(81)	208
Signage	1,358	–	(752)	606
Computer equipment and websites	2,191	–	(1,611)	580
Other	302	–	(238)	64
	456,484	(78,010)	(94,427)	284,047

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

7 Property and equipment (continued)

	For the year ended December 31, 2016					
	Opening net book value $	Additions, acquisitions and transfers $	Disposals $	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
Other	21	77	–	(7)	–	91
	312,471	14,956	(6,081)	(15,422)	(300)	305,624

Disposals consist primarily of the sale of one hotel in the year (note 6).

(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
Other	326	–	(235)	91
	467,184	(78,772)	(82,788)	305,624

During 2017, the Company recognized impairment losses of $nil (2016 - $6,600) and a reversal of a previously recorded impairment losses of $nil (2016 - $6,300) in respect to various CGUs.

On March 17, 2017, the Super 8® in Grande Prairie, AB was damaged due to a significant release of water into the hotel. This event resulted in an insurance claim under the Company's insurance policy. The hotel reopened on October 1, 2017.

The Company spent $1,839 on capital improvements to the hotel and recorded $767 in business interruption insurance (included in other revenues) and $1,978 in property and contents insurance, net of clean-up and other costs. The Company recorded a loss on disposal of $1,045 on the derecognized portion of the building components and equipment that were damaged. The Company has $685 of insurance proceeds receivable at December 31, 2017.

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 Secured credit facilities

	December 31, 2017 $	December 31, 2016 $
Secured credit facilities	25,339	17,630

The Company has revolving credit facilities with two Canadian chartered banks. The first credit facility has a maximum borrowing capacity of $45,000 (December 31, 2016 - $45,000). This credit facility's availability is determined by a borrowing base calculation and bears interest at prime plus 1.25% (decreased from prime plus 1.50% in November 2017). At December 31, 2017, the Company had drawn $20,839 (December 31, 2016 - $17,630) on this facility. This facility is secured by a registered charge on nine hotel properties (December 31, 2016 - nine hotel properties), is subject to an annual review and has no set expiry.

The second credit facility has a maximum borrowing capacity of $30,000 and was obtained in 2017, as part of the financing secured to repay eleven mortgages totaling $90,385 which were to mature in May and July 2017 (note 11). This credit facility bears interest at prime plus 1.50%. At December 31, 2017, the Company had drawn $4,500 (December 31, 2016 - $nil) on this facility. This facility is secured by a registered charge on ten hotel properties, is subject to an annual review and has a five-year term. Each individual draw must be repaid within one year. Subsequent to December 31, 2017, the second credit facility was fully repaid.

At December 31, 2017, the credit facilities had a weighted average interest rate of 4.49% (December 31, 2016 - 4.20%) and a total available to be drawn of $49,661 (December 31, 2016 - $27,370).

10 Trade payables and accrued liabilities

	December 31, 2017 $	December 31, 2016 $
Trade payables	3,929	3,864
Accrued liabilities and expenses	5,460	5,776
	9,389	9,640

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

11 Mortgages payable

	December 31, 2017 $	December 31, 2016 $
Mortgages payable, bearing interest at a weighted average rate of 4.57% (December 31, 2016 – 5.85%) and maturing on various dates from November 2018 to September 2029. Individual first charges on 21 hotel properties with a net book value of $204,015 have been pledged as security for individual mortgages	91,672	127,848
Less: Deferred financing fees	(1,085)	(552)
	90,587	127,296
Less: Current portion	(6,864)	(94,166)
	83,723	33,130

In May, 2017, the Company repaid eleven mortgages totaling $90,385 which were to mature in May and July 2017. The Company secured financing with a new lender through a loan consisting of a $50,000 mortgage and a $30,000 secured credit facility (note 9). The mortgage bears interest at prime plus 1.50%, has an option to convert the interest to a fixed rate, an amortization period of seventeen years and a five-year term. The loan is secured by a registered charge on ten hotel properties.

In July 2017, the Company obtained a mortgage secured by two hotel properties with a maximum principal amount of $17,500 of which $6,866 was drawn in July 2017 and $5,634 was drawn in October 2017. The mortgage bears interest at 4.45%, has an amortization period of fifteen years and a five-year term.

In October 2017, the Company extended a mortgage on one of its hotels with a principal amount of $4,902 which was to mature in April 2018. The interest rate was reduced from 4.81% to 4.29%. The mortgage has an amortization period of fifteen years and a five-year term.

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.

The estimated future principal repayments over the next five years are as follows:

	$
Year ending December 31, 2018	6,871
2019	8,598
2020	6,445
2021	11,069
2022	55,230
Thereafter	3,459

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

11 Mortgages payable (continued)

The following table summarizes significant changes in mortgages payable for the years ended December 31, 2017 and 2016:

	2017 $	2016 $
Beginning balance	127,296	124,246
Proceeds from new mortgages	62,500	12,392
Repayment of debt	(98,676)	(9,145)
Additions to deferred financing fees	(920)	(492)
Write-off of deferred financing fees on mortgages repaid during the year	107	–
Amortization of deferred financing fees	280	295
Ending balance	90,587	127,296

12 Share-based liability

The Company issues options to purchase common shares to its directors and certain employees. The change in fair value of the share-based liability is recognized in share-based expense in the consolidated statements of income (loss).

The following table summarizes the changes in share-based liability for the years ended December 31, 2017 and 2016:

	2017 $	2016 $
Beginning balance	709	476
Options exercised	(498)	–
Change in fair value of share-based liability	314	233
Ending balance	525	709

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

12 Share-based liability (continued)

At December 31, 2017, the fair value of the options were measured using the Black-Scholes option pricing model with the following assumptions (not in thousands):

	Option grant			
	March 2017	**March 2016**	**December 2014**	**November 2014**
Exercise price	$5.36	$4.80	$6.37	$6.37
Closing price at December 31, 2017	$5.70	$5.70	$5.70	$5.70
Volatility	38.5%	20.9%	17.6%	16.6%
Annual dividend yield	2.5%	2.5%	2.5%	2.5%
Expected remaining option life	6 years	5 years	2 years	2 years
Annual risk-free interest rate	1.9%	1.9%	1.7%	1.7%
Fair value per option	$1.85	$1.25	$0.28	$0.24

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

	2017		2016	
	Weighted average exercise price in $ per share	**Options**	**Weighted average exercise price in $ per share**	**Options**
At January 1	5.11	770,000	5.30	582,000
Granted	5.36	285,000	4.80	200,000
Exercised	3.70	(245,000)	–	–
Expired	–	–	9.20	(12,000)
At December 31	5.62	810,000	5.11	770,000

Of the 810,000 outstanding options (December 31, 2016 - 770,000), 391,667 options are exercisable (December 31, 2016 - 570,000).

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

Expiry date	**Exercise price per share** $	**December 31, 2017** $	**December 31, 2016** $
August 2017	3.70	–	245,000
November 2019	6.37	310,000	310,000
December 2019	6.37	15,000	15,000
March 2023	4.80	200,000	200,000
March 2024	5.36	285,000	–
		810,000	770,000

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

12 Share-based liability (continued)

On March 29, 2017, the Company granted a total of 285,000 options to purchase common shares to directors and certain employees with an exercise price of $5.36 per share. The options vest equally over three years commencing on March 29, 2018 and expire after seven years. 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.

13 Convertible debentures

The Company has two series of convertible debentures outstanding. 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 $50,866 (December 31, 2016 - $52,187). The Series C debentures (HLC.DB.A) have a maturity date of September 30, 2021, bear interest at 7.50% payable semi-annually on March 31 and September 30 and have a face value of $40,565 (December 31, 2016 - $40,572). The debentures were recorded at fair value on the acquisition of Royal Host in 2014.

In August, 2017, the Company obtained approval to amend the Series C Debentures as follows: (1) extend the maturity of the Series C Debentures by three years to September 30, 2021; (2) amend the conversion price to $12.50 per common share; and (3) provide holders with the option to exchange their Series C Debentures for a new series of debentures upon receiving an exchange notice from the Company. The Company also obtained approval to amend the Series B Debentures to provide holders with the option to exchange their Series B Debentures for a new series of debentures upon receiving an exchange notice from the Company. The amendment of the maturity date has been accounted for as a modification.

With the amendment noted above, the Series C Debentures are now convertible at the option of the holder for 80 common shares at $12.50 per share of the Company for each $1,000 principal amount of debentures outstanding (amount not in thousands). The Series B 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).

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

13 Convertible debentures (continued)

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 statements of income (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.

	December 31, 2017 $	December 31, 2016 $
Face value of convertible debentures	91,431	92,759
Discount and embedded derivative	(1,919)	(2,868)
Deferred financing fees	(52)	(76)
Total	89,460	89,815

The following table summarizes the significant changes in the convertible debentures for the years ended December 31, 2017 and 2016:

	2017 $	2016 $
Beginning balance	89,815	88,968
Accretion of discount and amortization of deferred financing fees	929	960
Carrying value of debentures repurchased under NCIB	(1,284)	(113)
Ending balance	89,460	89,815

On January 13, 2017, the Company initiated a 12 month Normal Course Issuer Bid (“NCIB”) to repurchase up to $4,526 of its issued and outstanding Series B debentures and $3,411 of its issued and outstanding Series C debentures. At December 31, 2017, the Company repurchased and cancelled Series B debentures with a $1,321 face value for $1,264 (average cost of $95.69 per $100 face value - prices not in thousands) and Series C debentures with a $7 face value for $7 (average cost of $98.99 per $100 face value - prices not in thousands) pursuant to this NCIB. The Company recorded a gain on the repurchase of the debentures of $13 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. 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 with 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)

14 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, 2017 and 2016:

	Number of shares issued and outstanding (not in thousands)	Carrying value $
Balance – January 1, 2016	19,031,066	228,169
Repurchase of common shares under NCIB	(142,000)	(1,755)
Balance – December 31, 2016	18,889,066	226,414
Repurchase of common shares under NCIB	(518,100)	(6,288)
Balance – December 31, 2017	18,370,966	220,126

On August 17, 2017, the Company initiated a 12 month NCIB to repurchase up to 943,713 of its issued and outstanding shares. At December 31, 2017, the Company had repurchased and cancelled 446,400 shares at a cost of $2,492 (average price of $5.58 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. The Company repurchased and cancelled 71,700 shares at a cost of $395 (average price of $5.51 per share - price not in thousands), pursuant to this NCIB in 2017.

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 142,000 shares at a cost of $651 (average price of $4.58 per share - price not in thousands), pursuant to this NCIB in 2016.

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, 2017	December 31, 2016
Common shares outstanding	18,370,966	18,889,066
Conversion of convertible debentures	4,698,442	2,650,125
Options outstanding and exercisable	391,667	570,000
Total common shares reflecting exercise and conversion	23,461,075	22,109,191

The Board of Directors declared a quarterly dividend of $0.035 per share in each quarter of 2017, representing an annual dividend of $0.14 per share. The Company declared and paid $2,625 in dividends for the year ended December 31, 2017 (December 31, 2016 - $2,644). The Company's Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

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

15 Basic and diluted earnings (loss) per share

Basic

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to shareholders of the Company by the weighted average number of shares outstanding during the years.

	For the years ended	
	December 31, 2017 $	December 31, 2016 $
Net income (loss) attributable to shareholders of the Company	6,478	(1,045)
Weighted average number of shares outstanding	18,792,951	18,894,823
Basic and diluted earnings (loss) per share	0.34	(0.06)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive instruments convertible into shares. During the years ended December 31, 2017 and 2016, the Company had two categories of potentially dilutive instruments – convertible debentures and options. This calculation is done to determine the number of shares that could have been acquired at fair value based on the subscription rights of the convertible debentures and options. At December 31, 2017, the convertible debentures were anti-dilutive.

As the Company had a loss in 2016, diluted earnings per share is equal to basic earnings per share. Diluted earnings per share for the year ended December 31, 2017 is presented below:

	For the year ended
	December 31, 2017 $
Diluted income arrtibutable to shareholders of the Company	6,478
Weighted average number of diluted shares	18,829,945
Diluted earnings per share	0.34

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

16 Expenses by nature

	For the years ended	
	December 31, 2017 $	December 31, 2016 $
Salaries, wages and employee benefits	35,016	36,667
Materials, supplies, repairs and utilities	19,328	19,783
Food, beverage and service costs	5,708	6,254
Insurance	871	1,047
Information technology and support	1,094	1,211
Property taxes	5,374	5,714
Royalty and franchise fees	5,152	5,242
Legal, audit and other professional consulting fees	1,273	756
Depreciation and amortization	15,481	15,488
Interest and accretion on debt	14,278	16,190
Impairment of hotel properties, net	–	300
Clean-up and other costs covered by insurance	1,032	–
Gain on disposals of property and equipment and repurchase of convertible debentures	(6,581)	(2,665)
Acquisition and redevelopment costs	10	665
Realized foreign exchange loss	16	923
Unrealized foreign exchange loss (gain)	362	(224)
Other	2,418	2,365
	100,832	109,716

17 Wages and employee benefits expense

	For the years ended	
	December 31, 2017 $	December 31, 2016 $
Salaries and wages	31,105	32,223
Benefits	3,301	3,767
RRSP/pension expense	56	58
Directors fees	230	233
Share-based expense	314	233
Termination benefits	10	153
	35,016	36,667

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, 2017 $	December 31, 2016 $
Salaries and benefits	848	679
Consulting fees	250	75
Share-based expense – cash	507	–
Directors fees	230	233
	1,835	987

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

18 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 statements of income (loss) for the years ended December 31, 2017 and 2016:

	For the years ended	
	December 31, 2017 $	December 31, 2016 $
Income (loss) before income taxes	8,580	(2,552)
Combined statutory income tax rate	27.54%	27.53%
Income tax expense (recovery) at the combined statutory income tax rate	2,363	(703)
Non-taxable portion of gains	(478)	(360)
Non-deductible expenses	108	86
Change in tax rates	(13)	(246)
Other	76	(20)
Provision for (recovery of) income taxes	2,056	(1,243)

The statutory tax rate was 27.54% for the year ended December 31, 2017 (Deecmber 31, 2016 - 27.53%). The income tax provision will not require an outlay of cash due to available non-capital loss carry forwards.

Deferred income taxes

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

	December 31, 2016 $	Recognized in net income $	December 31, 2017 $
Deferred income tax assets			
Property and equipment	22,254	309	22,563
Non-capital losses	6,537	(2,658)	3,879
Other assets	167	60	227
Deferred income tax liabilities			
Convertible debentures	(811)	268	(543)
Deferred financing fees	25	(35)	(10)
Net deferred income tax assets	28,172	(2,056)	26,116

The Company's US subsidiary has non-capital loss carry forwards of US $4,976, 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 at the present time.

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

18 Income taxes (continued)

Deferred income taxes (continued)

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

	December 31, 2017 $	December 31, 2016 $
Non-capital losses	6,243	6,676

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

Year of expiry	Loss $
2032	5,552
2033	4,396
2034	4,095
2035	38
2037	1
Total	14,082

19 Supplemental cash flow information

Adjustments for non-cash items:

	For the years ended	
	December 31, 2017 $	December 31, 2016 $
Depreciation and amortization	15,481	15,488
Accretion on debt, unrealized foreign exchange gain and net change of other assets	1,577	1,050
Share-based expense	314	233
Gain on disposals of property and equipment and repurchase of convertible debentures	(6,581)	(2,665)
Impairment of hotel properties, net	–	300
Provision for (recovery of) income taxes	2,056	(1,243)
	12,847	13,163

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

19 Supplemental cash flow information (continued)

Changes in items of working capital:

	For the years ended	
	December 31, 2017	December 31, 2016
	$	$
Trade, other and insurance proceeds receivable	(805)	(326)
Inventories	43	(92)
Prepaid expenses and deposits	1,644	(612)
Trade payables and accrued liabilities	(748)	1,491
Accrued interest on convertible debentures	(14)	(2)
	120	459

20 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 32 of the 33 hotels owned by the Company at December 31, 2017 (December 31, 2016 - 34 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's fees 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, 2018	165
2019	36
2020	13
2021	6
2022	1

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

21 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 which was owed to Clarke Inc. Master Trust.

	December 31, 2017 $	December 31, 2016 $
Clarke Inc., a shareholder with significant ownership interest		
IT support fees	–	122
Tax services	18	12
Included in accounts payable and accrued liabilities	–	22
Clarke Inc. Master Trust, Clarke Inc.'s pension plan		
Interest expense	–	30

22 Financial instruments and fair values

The following table shows the carrying values of assets and liabilities by category at December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Assets				
Loans and receivables				
Cash	691	691	1,183	1,183
Trade, other and insurance proceeds receivable	4,385	4,385	3,580	3,580
Loan receivable	5,018	5,018	5,371	5,371
Capital reserve – restricted	–	–	3,436	3,436
	10,094	10,094	13,570	13,570
Liabilities				
Amortized cost				
Trade payables and accrued liabilities	9,389	9,389	9,640	9,640
Accrued interest on convertible debentures	1,290	1,290	1,304	1,304
Secured credit facilities	25,339	25,339	17,630	17,630
Mortgages payable	90,587	91,107	127,296	126,172
Convertible debentures	89,460	89,651	89,815	88,207
	216,065	216,776	245,685	242,953
Fair value through profit or loss				
Share-based liability	525	525	709	709

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, other and insurance proceeds receivable, capital reserve – restricted, trade payables and accrued liabilities, accrued interest on convertible debentures and the secured credit facilities.

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

22 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 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 13). 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 statements of income (loss).

- 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 statements 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, 2017 $	December 31, 2016 $
Level 2		
Redemption Option	25	25
Share-based liability	525	709

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

23 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 or debt with a fixed-rate option, so cash flow is not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable is 4.57% (December 31, 2016 - 5.85%) with a weighted average maturity of 4.5 years (December 31, 2016 - 1.7 years).

The Company has one mortgage (December 31, 2016 - one mortgage) and its secured credit facilities at floating rates. For the year ended December 31, 2017, if interest rates on the Company's floating rate debt had been 1% higher/lower the net income would change by $503 (December 31, 2016 - $363).

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, other and insurance proceeds receivable disclosed on the consolidated statements of financial position of $4,385 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)

23 Risk management (continued)

b) Credit risk (continued)

The following table details the trade, other and insurance proceeds receivable and the related allowance for doubtful accounts:

	December 31, 2017 $	December 31, 2016 $
Receivables under 30 days aged	3,372	2,491
Receivables over 30 days aged	1,053	1,147
Less: Allowance for doubtful accounts	(40)	(58)
	4,385	3,580

c) 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 dollars. A $0.01 change in the US dollar exchange rate will change the foreign exchange gain or loss recognized in the consolidated statements of income (loss) by $70 (December 31, 2016 - $64).

As of December 31, 2017, the foreign exchange impact of the loan receivable dominated in US dollars (note 8) was not hedged and therefore subject to fluctuation in the US dollar. At December 31, 2016, the foreign exchange impact of this loan receivable was hedged as the Company had entered into two forward contracts which expired on February 8, 2016 and February 16, 2016 for US $2,000 each, 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 two secured credit facilities (note 9). The first facility has no set expiry and is subject to an annual review. As at December 31, 2017, the Company had drawn $20,839 (December 31, 2016 - $17,630) of a total availability of $45,000 (December 31, 2016 - $45,000). The second facility expires in 2022 and is subject to an annual review. Each individual draw must be repaid within one year. As at December 31, 2017, the Company had drawn $4,500 (December 31, 2016 - $nil) of total availability of $30,000 (December 31, 2016 - $nil).

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

23 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 statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

				December 31, 2017
	Less than 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $
Trade payables and accrued liabilities	9,389	–	–	–
Convertible debentures (face value)	–	–	91,431	–
Convertible debentures interest	1,521	4,700	12,076	–
Secured credit facilities	–	25,339	–	–
Secured credit facilities interest	285	848	–	–
Mortgages payable	1,103	5,768	81,342	3,459
Mortgage interest	1,021	3,063	10,956	419

				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

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

24 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 to the sum of the annual principal and interest payments on its secured credit facilities, mortgages and convertible debentures ("debt service"). The Company's covenants require the debt service coverage ratio ("DSCR") to exceed various levels ranging from 1.25 - 1.40, with certain DSCR tests only to be met on a property-specific basis.

	For the years ended	
	December 31, 2017 $	December 31, 2016 $
Earnings base	32,039	27,258
Debt service	17,862	21,055
Debt service coverage ratio	1.79	1.29

The Company is also subject to financial covenants on certain of its mortgages payable and secured credit facilities, which include customary terms and conditions for borrowings of this nature. At December 31, 2017 and 2016, all covenants measured on an annual basis were in compliance.

25 Subsequent events

On January 15, 2018, the Company initiated an NCIB to repurchase a maximum of $4,962 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 14, 2019 or such earlier time as the bid is completed or terminated at the option of the Company.

On January 16, 2018, the Company entered into a lease arrangement with a third party on a triple net basis for the Travelodge® in Slave Lake, AB. The lease expires on January 15, 2020 and includes an option for the lessee to acquire the hotel property at any time during the lease period.