

Holloway Lodging Corporation

Interim Consolidated Condensed Financial Statements
(Unaudited)

March 31, 2017

(in thousands of Canadian dollars)

May 10, 2017

Management's Report

The accompanying unaudited interim consolidated condensed financial statements of **Holloway Lodging Corporation** (the "Company") have been prepared by the Company's management. The unaudited interim consolidated condensed financial statements have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. The unaudited interim consolidated condensed financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the unaudited interim consolidated condensed financial statements. The Board of Directors have reviewed and approved these unaudited interim consolidated condensed financial statements.

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

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

Holloway Lodging Corporation
Interim Consolidated Statements of Financial Position
(Unaudited)
As at March 31, 2017

(in thousands of Canadian dollars)

	March 31, 2017 \$	December 31, 2016 \$
Assets		
Current assets		
Cash	1,410	1,183
Trade and other receivables	4,106	3,580
Capital reserve – restricted	3,592	3,371
Inventories	483	533
Prepaid expenses and deposits	4,052	2,819
	<u>13,643</u>	<u>11,486</u>
Non-current assets		
Property and equipment (note 3)	286,330	305,624
Loan receivable	5,320	5,371
Capital reserve – restricted	100	65
Other assets	640	681
Deferred income tax assets	27,246	28,172
	<u>319,636</u>	<u>339,913</u>
Total assets	<u>333,279</u>	<u>351,399</u>
Liabilities		
Current liabilities		
Secured credit facility	–	17,630
Trade payables and accrued liabilities	10,162	9,640
Dividends payable	661	–
Accrued interest on convertible debentures	1,359	1,304
Current portion of mortgages payable	93,082	94,166
Share-based liability (note 4)	768	709
	<u>106,032</u>	<u>123,449</u>
Non-current liabilities		
Mortgages payable	29,351	33,130
Convertible debentures	90,067	89,815
	<u>119,418</u>	<u>122,945</u>
Total liabilities	<u>225,450</u>	<u>246,394</u>
Equity		
Equity attributable to shareholders of the Company	105,968	103,118
Non-controlling interest	1,861	1,887
Total equity	<u>107,829</u>	<u>105,005</u>
Total liabilities and equity	<u>333,279</u>	<u>351,399</u>

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

Holloway Lodging Corporation
Interim Consolidated Statements of Income (Loss)
(Unaudited)
For the three months ended March 31, 2017 and 2016

(in thousands of Canadian dollars)

	For the three months ended	
	March 31,	March 31,
	2017	2016
	\$	\$
Revenues		
Rooms	19,742	18,411
Food and beverage	2,588	2,529
Rental	351	331
Other	773	705
	<u>23,454</u>	<u>21,976</u>
Hotel expenses		
Operating expenses	16,903	17,006
Property taxes and insurance	1,691	1,814
Depreciation and amortization	3,813	3,622
	<u>22,407</u>	<u>22,442</u>
Income (loss) before the following	<u>1,047</u>	<u>(466)</u>
Other (income) and expenses		
Interest and accretion on debt	3,817	3,906
Corporate and administrative	616	542
Share-based expense (recovery)	59	(141)
Investment income	(162)	(162)
Management services income	(56)	—
Loss (gain) on disposals of property and equipment (note 3)	(7,689)	131
Reversal of impairment of hotel properties (note 2)	—	(1,100)
Acquisition and redevelopment costs	—	87
Unrealized foreign exchange loss	51	542
Realized foreign exchange loss	—	424
	<u>(3,364)</u>	<u>4,229</u>
Income (loss) before income taxes	4,411	(4,695)
Provision for (recovery of) income taxes (note 5)	926	(1,222)
Net income (loss) for the period	<u>3,485</u>	<u>(3,473)</u>
Attributable to:		
Shareholders of the Company	3,511	(3,438)
Non-controlling interest	(26)	(35)
	<u>3,485</u>	<u>(3,473)</u>
Basic and diluted earnings (loss) per share (note 6)	0.19	(0.18)

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

Holloway Lodging Corporation

Interim Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

For the three months ended March 31, 2017 and 2016

(in thousands of Canadian dollars)

	For the three months ended	
	March 31, 2017	March 31, 2016
	\$	\$
Net income (loss) for the period	3,485	(3,473)
Other comprehensive income		
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 period	3,148	(3,452)
Comprehensive income (loss) attributable to:		
Shareholders of the Company	3,174	(3,417)
Non-controlling interest	(26)	(35)
	3,148	(3,452)

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

Holloway Lodging Corporation

Interim Consolidated Statements of Changes in Equity (Unaudited)

For the three months ended March 31, 2017 and 2016

(in thousands of Canadian dollars)

	Common shares \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income (loss) \$	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 period	–	–	(3,438)	–	(3,438)	(35)	(3,473)
Other comprehensive income for the period	–	–	–	21	21	–	21
Comprehensive loss for the period	–	–	(3,438)	21	(3,417)	(35)	(3,452)
Dividends declared to shareholders	–	–	(661)	–	(661)	–	(661)
Repurchase of common shares	(1,739)	1,094	–	–	(645)	–	(645)
Balance, March 31, 2016	226,430	2,936	(126,989)	337	102,714	2,116	104,830
Balance, January 1, 2017	226,414	2,946	(126,579)	337	103,118	1,887	105,005
Net income for the period	–	–	3,511	–	3,511	(26)	3,485
Other comprehensive loss for the period	–	–	337	(337)	–	–	–
Comprehensive income for the period	–	–	3,848	(337)	3,511	(26)	3,485
Dividends declared to shareholders	–	–	(661)	–	(661)	–	(661)
Balance, March 31, 2017	226,414	2,946	(123,392)	–	105,968	1,861	107,829

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

Holloway Lodging Corporation
Interim Consolidated Statements of Cash Flows
(Unaudited)
For the three months ended March 31, 2017 and 2016

(in thousands of Canadian dollars)

	For the three months ended	
	March 31,	March 31,
	2017	2016
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	3,485	(3,473)
Adjustments for non-cash items (note 7)	(2,495)	2,130
	990	(1,343)
Changes in items of working capital (note 7)	(1,790)	583
Net cash used in operating activities	(800)	(760)
Investing activities		
Increase in capital reserves	(256)	(291)
Additions to property and equipment	(2,497)	(4,589)
Proceeds from sales of hotel properties and equipment, net of costs (note 3)	26,437	–
Net cash provided by (used in) investing activities	23,684	(4,880)
Financing activities		
Repayment of secured credit facility	(17,630)	(1,890)
Proceeds from mortgages, net of deferred financing fees	–	12,106
Repayment of mortgages and loan payable	(5,027)	(4,353)
Repurchase of common shares	–	(645)
Repurchase of convertible debentures	–	(32)
Net cash provided by (used in) financing activities	(22,657)	5,186
Increase (decrease) in cash	227	(454)
Cash – Beginning of period	1,183	2,022
Cash – End of period	1,410	1,568
Supplemental cash flow information		
Interest paid	3,519	3,546

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

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

Holloway Lodging Corporation

Notes to the Interim Consolidated Condensed Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

(in thousands of Canadian dollars)

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 March 31, 2017, the Company owned and operated 32 hotels and held a 62% interest in another hotel in Canada, with a total of 3,754 guest rooms. The address of its registered office is 6009 Quinpool Road, 10th Floor, Halifax, Nova Scotia.

The results of operations for the three months ended March 31, 2017 represent the operations of 33 hotels for the full period and 2 hotels for part of the period 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 three months ended March 31, 2016 represent the operations of 35 hotels for the full period.

The Company’s financial results for an individual quarter are not necessarily indicative of results to be expected for the full year. Revenue from hotel operations tend to fluctuate throughout the year. The Company’s third quarter revenues are generally the strongest of the year.

2 Basis of preparation and critical accounting estimates

These unaudited interim consolidated condensed financial statements (“condensed 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, and in accordance with IAS 34 – “*Interim Financial Reporting*”. The accounting policies followed in these condensed financial statements are the same as those applied in the Company’s audited annual financial statements for the year ended December 31, 2016. These condensed financial statements should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2016.

These condensed financial statements were approved for issue by the Board of Directors on May 10, 2017.

Critical accounting estimates

Property and equipment

During the three months ended March 31, 2016, the Company increased the carrying value of two cash generating units (“CGUs”) by reversing previously recorded impairments by \$1,100. The recoverable amount of the CGUs was determined by independent third party appraisals.

Holloway Lodging Corporation

Notes to the Interim Consolidated Condensed Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

3 Disposals of property and equipment

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. A portion of the proceeds were used to fully repay the secured credit facility. The Company recognized a gain on disposal of property and equipment of \$7,832 in the consolidated statement of income.

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 \$3,440. The Company recognized a loss on disposal of property and equipment of \$143 in the consolidated statement of income.

4 Share-based liability

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. 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 2017	Option grant March 2016
Exercise price	\$5.36	\$4.80
Closing price on grant date	\$5.35	\$4.76
Volatility	44.3%	46.9%
Annual dividend yield	2.6%	2.9%
Expected option life	7 years	7 years
Annual risk-free interest rate	1.3%	1.1%
Fair value per option	\$1.86	\$1.61

Holloway Lodging Corporation

Notes to the Interim Consolidated Condensed Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

5 Income taxes

The following table is a reconciliation of the expected deferred income tax expense (recovery) at the statutory rate to the amounts recognized in the interim consolidated statement of income (loss):

	For the three months ended	
	March 31, 2017 \$	March 31, 2016 \$
Income (loss) before income taxes	4,410	(4,695)
Combined statutory income tax rate	27.50%	27.28%
Income tax expense (recovery) at the combined statutory income tax rate	1,214	(1,281)
Non-taxable portion of losses (gains)	(518)	103
Non-deductible expenses (recoveries)	22	(34)
Other	208	(10)
Provision for (recovery of) deferred income taxes	926	(1,222)

The statutory tax rate was 27.53% for the three months ended March 31, 2017 (for the three months ended March 31, 2016 – 27.28%). The income tax provision will not require an outlay of cash due to available non-capital loss carry forwards.

6 Share capital and 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 period.

	For the three months ended	
	March 31, 2017 \$	March 31, 2016 \$
Net income (loss) attributable to shareholders of the Company	3,511	(3,438)
Weighted average number of shares outstanding	18,889,066	18,911,522
Basic earnings (loss) per share	0.19	(0.18)

Holloway Lodging Corporation

Notes to the Interim Consolidated Condensed Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

6 Share capital and earnings (loss) per share (continued)

Diluted

Diluted earnings per share for the three months ended March 31, 2017 is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive instruments convertible into shares. 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. During the three months ended March 31, 2017, the Company had two categories of potentially dilutive instruments – convertible debentures and options. For the three months ended March 31, 2017, the convertible debentures were antidilutive. As the Company had a loss for the three months ended March 31, 2016, diluted earnings per share is equal to basic earnings per share.

Diluted earnings per share for the three months ended March 31, 2017 is presented below:

	<u>For the three months ended</u> March 31, 2017 \$
Diluted income attributable to shareholders of the Company	3,511
Weighted average number of diluted shares	18,983,505
Diluted earnings per share	0.19

At March 31, 2017, there were 18,889,066 common shares outstanding. The Company did not repurchase and cancel any shares during the three months ended March 31, 2017.

7 Supplemental cash flow information

Adjustments for non-cash items:

	<u>For the three months ended</u>	
	March 31, 2017 \$	March 31, 2016 \$
Depreciation and amortization	3,820	3,641
Accretion on debt and unrealized foreign exchange loss	389	819
Share-based expense (recovery)	59	(141)
Loss (gain) on disposals of property and equipment	(7,689)	133
Reversal of impairment of hotel properties	–	(1,100)
Provision for (recovery of) deferred income taxes	926	(1,222)
	<u>(2,495)</u>	<u>2,130</u>

Holloway Lodging Corporation

Notes to the Interim Consolidated Condensed Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

(in thousands of Canadian dollars)

7 Supplemental cash flow information (continued)

Changes in items of working capital:

	For the three months ended	
	March 31, 2017	March 31, 2016
	\$	\$
Trade and other receivables	(526)	(216)
Inventories	50	(21)
Prepaid expenses and deposits	(1,233)	(754)
Trade payables and accrued liabilities	(136)	1,519
Accrued interest on convertible debentures	55	55
	(1,790)	583

8 Related party transactions

Clarke Inc. (“Clarke”) and the Clarke Pension Plan are considered related parties of Holloway.

During the first quarter of 2016, the Company repaid mortgages of \$2,429 from the Clarke Pension Plan, no mortgages remain outstanding.

9 Financial instruments and fair values

The following table shows the financial instruments which have fair values that differ from their carrying values:

	March 31, 2017		December 31, 2016	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Mortgages payable	122,433	121,832	127,296	126,172
Convertible debentures	90,067	91,817	89,815	88,207

The methods and assumptions used in estimating the fair values are consistent with those applied in the Company’s audited annual financial statements for the year ended December 31, 2016.

