Holloway Lodging Corporation

Interim Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2017
(in thousands of Canadian dollars)

August 9, 2017

Management's Report

The accompanying unaudited interim condensed consolidated financial statements of **Holloway Lodging Corporation** (the "Company") have been prepared by the Company's management. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. The unaudited interim condensed consolidated 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 condensed consolidated financial statements. The Board of Directors have reviewed and approved these unaudited interim condensed consolidated financial statements.

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

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

As at June 30, 2017

(in thousands of Canadian dollars)

	June 30, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash	1,209	1,183
Trade and other receivables	4,731	3,580
Capital reserve - restricted	–	3,371
Inventories	492	533
Prepaid expenses and deposits	2,769	2,819
	9,201	11,486
Non-current assets		
Property and equipment (note 4)	287,060	305,624
Loan receivable	5,191	5,371
Other assets	721	746
Deferred income tax assets	27,246	28,172
	320,218	339,913
Total assets	329,419	351,399
Liabilities		
Current liabilities		
Secured credit facilities (note 5)	39,964	17,630
Trade payables and accrued liabilities	10,641	9,640
Accrued interest on convertible debentures	1,304	1,304
Current portion of mortgages payable (note 5)	8,766	94,166
Share-based liability (note 6)	990	709
	61,665	123,449
Non-current liabilities		
Mortgages payable (note 5)	71,404	33,130
Convertible debentures	90,317	89,815
	161,721	122,945
Total liabilities	223,386	246,394
Equity		
Equity attributable to shareholders of the Company	104,138	103,118
Non-controlling interest	1,895	1,887
Total equity	106,033	105,005
Total liabilities and equity	329,419	351,399

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Income (Loss)

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(in thousands of Canadian dollars)

	For the three months ended June 30, 2017 $	June 30, 2016 $	For the six months ended June 30, 2017 $	June 30, 2016 $
Revenues				
Rooms	21,145	23,052	40,887	41,463
Food and beverage	2,697	3,340	5,284	5,870
Rental	309	354	660	685
Other	1,213	880	1,986	1,584
	25,364	27,626	48,817	49,602
Hotel expenses				
Operating expenses	16,274	17,470	33,177	34,476
Property taxes and insurance	1,514	1,622	3,206	3,435
Depreciation and amortization	3,921	3,892	7,734	7,514
	21,709	22,984	44,117	45,425
Income before the following	3,655	4,642	4,700	4,177
Other (income) and expenses				
Interest and accretion on debt	3,955	4,123	7,773	8,029
Corporate and administrative	670	157	1,285	699
Share-based expense (recovery)	222	104	281	(37)
Investment income	(167)	(160)	(329)	(322)
Management services income	(72)	–	(129)	–
Insurance proceeds (note 7)	(247)	–	(247)	–
Loss (gain) on disposals of property and equipment and repurchase of convertible debentures	207	18	(7,482)	149
Reversal of impairment of hotel properties	–	–	–	(1,100)
Acquisition and redevelopment costs	10	543	10	630
Unrealized foreign exchange (gain) loss	137	(561)	188	(19)
Realized foreign exchange loss	–	502	–	926
	4,715	4,726	1,350	8,955
Income (loss) before income taxes	(1,060)	(84)	3,350	(4,778)
Provision for (recovery of) income taxes (note 8)	–	33	926	(1,189)
Net income (loss) for the period	(1,060)	(117)	2,424	(3,589)
Attributable to:				
Shareholders of the Company	(1,095)	(139)	2,416	(3,576)
Non-controlling interest	35	22	8	(13)
	(1,060)	(117)	2,424	(3,589)
Basic and diluted earnings (loss) per share (note 9)	(0.06)	(0.01)	0.13	(0.19)

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(in thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Net income (loss) for the period	(1,060)	(117)	2,424	(3,589)
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	(1,060)	(117)	2,087	(3,568)
Comprehensive income (loss) attributable to:				
Shareholders of the Company	(1,095)	(139)	2,079	(3,555)
Non-controlling interest	35	22	8	(13)
	(1,060)	(117)	2,087	(3,568)

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited)

For the six months ended June 30, 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 income for the period	–	–	(3,576)	–	(3,576)	(13)	(3,589)
Other comprehensive income for the period	–	–	–	21	21	–	21
Comprehensive income for the period	–	–	(3,576)	21	(3,555)	(13)	(3,568)
Dividends paid to shareholders	–	–	(1,322)	–	(1,322)	–	(1,322)
Repurchase of common shares	(1,755)	1,104	–	–	(651)	–	(651)
Balance, June 30, 2016	226,414	2,946	(127,788)	337	101,909	2,138	104,047
Balance, January 1, 2017	226,414	2,946	(126,579)	337	103,118	1,887	105,005
Net income for the period	–	–	2,416	–	2,416	8	2,424
Other comprehensive income (loss) for the period	–	–	337	(337)	–	–	–
Comprehensive income for the period	–	–	2,753	(337)	2,416	8	2,424
Dividends paid to shareholders	–	–	(1,322)	–	(1,322)	–	(1,322)
Repurchase of common shares	(159)	85	–	–	(74)	–	(74)
Balance, June 30, 2017	226,255	3,031	(125,148)	–	104,138	1,895	106,033

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

Holloway Lodging Corporation

Interim Consolidated Statements of Cash Flows

(Unaudited)

For the six months ended June 30, 2017 and 2016

(in thousands of Canadian dollars)

	For the six months ended June 30, 2017 $	June 30, 2016 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	2,424	(3,589)
Adjustments for non-cash items (note 10)	2,361	5,996
	4,785	2,407
Changes in items of working capital (note 10)	(1,511)	(878)
Net cash generated from operating activities	3,274	1,529
Investing activities		
Decrease (increase) in capital reserves and additions to other assets	3,340	(590)
Acquisition of hotel properties and additions to property and equipment	(6,788)	(15,692)
Proceeds from sales of hotel properties and equipment, net of costs (note 4)	26,424	–
Net cash provided by (used in) investing activities	22,976	(16,282)
Financing activities		
Proceeds from secured credit facilities (note 5)	22,334	9,610
Proceeds from mortgages, net of deferred financing fees (note 5)	49,433	11,917
Repayment of mortgages and loan payable (note 5)	(96,588)	(5,932)
Repurchase of common shares	(74)	(651)
Repurchase of convertible debentures	(7)	(32)
Dividends paid to shareholders	(1,322)	(1,322)
Net cash provided by (used in) financing activities	(26,224)	13,590
Increase (decrease) in cash	26	(1,163)
Cash – Beginning of period	1,183	2,022
Cash – End of period	1,209	859
Supplemental cash flow information		
Interest paid	7,352	7,370

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

The accompanying notes are an integral part of these unaudited interim condensed 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 ("Holloway" or the "Company") is a hospitality company that owns and operates hotels. As at June 30, 2017, the Company owned and operated 32 hotels and held a 62% interest in another hotel in Canada, with a total of 3,763 guest rooms. The address of its registered office is 6009 Quinpool Road, 10th Floor, Halifax, Nova Scotia.

The results of operations for the six months ended June 30, 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 six months ended June 30, 2016 represent the operations of 35 hotels for the full period and 1 hotel for part of the period as the Company:

- acquired the Westmark® Whitehorse Hotel and Conference Center in Whitehorse, YT on April 8, 2016.

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 tends 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 condensed consolidated 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 August 9, 2017.

Critical accounting estimates

Property and equipment

During the six months ended June 30, 2016, the Company increased the carrying value of two hotels or 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.

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

3 New standards and interpretations not yet adopted

IFRS 15, Revenue from Contracts and Customers

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

IFRS 9, Financial Instruments

IFRS 9, "*Financial Instruments*" ("IFRS 9") will replace IAS 39, "*Financial instruments: recognition and measurement*". The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company is currently evaluating the impact of the new standard.

IFRS 16, Leases

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

4 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. The Company recognized a gain on disposal of property and equipment of $7,832 in the interim condensed 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 $3,440. The Company recognized a loss on disposal of property and equipment of $157 in the interim condensed consolidated statements of income (loss).

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

5 Secured credit facilities and mortgages payable

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. The mortgage bears interest at a floating interest rate of 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 secured credit facility bears interest at a rate of prime plus 1.50%. The Company drew $15,000 on the secured credit facility. Both the mortgage and secured credit facility are secured by ten hotels.

6 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

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

7 Insurance proceeds

On March 17, 2017, the Super 8® in Grande Prairie, AB was damaged due to a significant release of water into the hotel. These interim condensed consolidated financial statements reflect a preliminary loss on disposal of property and equipment of $138. This event resulted in an insurance claim under the Company's insurance policy. Recoveries under this policy are only recognized at the earlier of when proceeds have been received or confirmation has been given by the insurer of the amount of any settlement. As at June 30, 2017, $337 of business interruption insurance proceeds has been received and/or confirmed by the insurer and has been recognized in other revenue. The Company has also received a $500 advance from the insurance company towards future property and equipment purchases and repairs. Of this amount, $220 has been recognized as income representing the amount spent on capital purchases and repairs to date. Additional proceeds are expected to be received throughout the remainder of 2017. The Company is in the process of determining the portion of building and other assets to be written off.

8 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		For the six months ended	
	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Income (loss) before income taxes	(1,060)	(84)	3,350	(4,778)
Combined statutory income tax rate	27.54%	27.27%	27.54%	27.27%
Income tax expense (recovery) at the combined statutory income tax rate	(292)	(23)	923	(1,303)
Non-taxable portion of (gains) losses	24	(7)	(494)	96
Non-deductible expenses (recoveries)	66	34	88	–
Change in tax rates	(13)	10	(13)	11
Other	215	19	422	7
Provision for (recovery of) income taxes	–	33	926	(1,189)

The statutory tax rate was 27.54% for the six months ended June 30, 2017 (for the six months ended June 30, 2016 – 27.27%). The income tax provision will not require an outlay of cash due to available non-capital loss carry forwards.

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

9 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		For the six months ended	
	June 30, 2017 $	June 30, 2016 $	June 30, 2017 $	June 30, 2016 $
Net income (loss) attributable to shareholders of the Company	(1,095)	(139)	2,416	(3,576)
Weighted average number of shares outstanding	18,886,141	18,889,766	18,887,595	18,900,644
Basic earnings (loss) per share	(0.06)	(0.01)	0.13	(0.19)

Diluted

Diluted earnings per share for the six months ended June 30, 2017 is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive instruments convertible into shares. During the six months ended June 30, 2017, 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. For the three and six months ended June 30, 2017, the convertible debentures were anti-dilutive. As the Company had a loss for the three months ended June 30, 2017 and the three and six months ended June 30, 2016 diluted earnings per share is equal to basic earnings per share.

Diluted earnings per share for the six months ended June 30, 2017 is presented below:

	For the six months ended
	June 30, 2017 $
Diluted income attributable to shareholders of the Company	2,416
Weighted average number of diluted shares	19,002,849
Diluted earnings per share	0.13

At June 30, 2017, there were 18,876,266 common shares outstanding. During the six months ended June 30, 2017, the Company repurchased and cancelled 12,800 shares at a cost of $74 (average price of $5.76 per share).

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

10 Supplemental cash flow information

Adjustments for non-cash items:

	For the six months ended	
	June 30, 2017 $	June 30, 2016 $
Depreciation and amortization	7,748	7,548
Accretion on debt and unrealized foreign exchange loss	888	625
Share-based expense (recovery)	281	(37)
Loss (gain) on disposals of property and equipment and repurchase of convertible debentures	(7,482)	149
Reversal of impairment of hotel properties	–	(1,100)
Provision for (recovery of) income taxes	926	(1,189)
	2,361	5,996

Changes in items of working capital:

	For the six months ended	
	June 30, 2017 $	June 30, 2016 $
Trade and other receivables	(1,159)	(1,286)
Inventories	41	(112)
Prepaid expenses and deposits	50	(902)
Trade payables and accrued liabilities	(443)	1,423
Accrued interest on convertible debentures	–	(1)
	(1,511)	(878)

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

11 Related party transactions

Clarke Inc. and the Clarke Pension Plan are considered related parties of Holloway. During the first quarter of 2016, the Company repaid a mortgage of $2,429 from the Clarke Pension Plan. No mortgages remain outstanding.

12 Financial instruments and fair values

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

	June 30, 2017		December 31, 2016	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Mortgages payable	80,170	80,114	127,296	126,172
Convertible debentures	90,317	91,992	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.

13 Subsequent events

On July 20, 2017, the Company drew $6,866 on a mortgage secured by two hotels. The mortgage with a maximum principal amount of $17,500, bears interest rate at 4.45%, has a fifteen year amortization and a five year term. The remaining balance is expected to be drawn over several quarters as certain conditions are satisfied. The proceeds were used to reduce the Company's secured credit facilities.

On August 9, 2017, at a meeting of the holders of the Series C Debentures, 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 Holloway. At a separate meeting held on August 9, 2017 of the holders of the Series B Debentures, the Company 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 Holloway.