Holloway Lodging Corporation

Interim Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2018
(in thousands of Canadian dollars)

May 11, 2018

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 March 31, 2018

(in thousands of Canadian dollars)

	March 31, 2018 $	December 31, 2017 $
Assets		
Current assets		
Cash	445	691
Trade, other and insurance proceeds receivable	4,564	4,385
Inventories	496	490
Prepaid expenses and deposits	1,329	975
	6,834	6,541
Non-current assets		
Property and equipment (note 4)	281,523	284,047
Loan receivable	5,158	5,018
Other assets	693	687
Deferred income tax assets	26,806	26,116
	314,180	315,868
Total assets	321,014	322,409
Liabilities		
Current liabilities		
Secured credit facilities	26,498	25,339
Trade payables and accrued liabilities	10,030	9,389
Dividends payable	640	–
Accrued interest on convertible debentures	1,325	1,290
Current portion of mortgages payable	6,705	6,864
Share-based liability	823	525
	46,021	43,407
Non-current liabilities		
Mortgages payable	82,879	83,723
Convertible debentures	89,636	89,460
	172,515	173,183
Total liabilities	218,536	216,590
Equity		
Equity attributable to shareholders of the Company	100,795	104,084
Non-controlling interest	1,683	1,735
Total equity	102,478	105,819
Total liabilities and equity	321,014	322,409

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 months ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	For the three months ended March 31, 2018 $	March 31, 2017 $
Revenues		
Hotel: Rooms	19,706	19,742
Food and beverage	2,364	2,588
Rental	319	351
Other	1,047	773
Management services	53	56
	23,489	23,510
Hotel expenses		
Operating expenses	16,615	16,903
Property taxes and insurance	1,521	1,691
Depreciation and amortization	3,923	3,813
	22,059	22,407
Income before the following	1,430	1,103
Other (income) and expenses		
Interest and accretion on debt	3,244	3,817
Corporate and administrative	1,053	616
Share-based expense	298	59
Investment income	(152)	(162)
Loss (gain) on disposals of property and equipment (note 4)	3	(7,689)
Unrealized foreign exchange (gain) loss	(145)	51
	4,301	(3,308)
Income (loss) before income taxes	(2,871)	4,411
Provision for (recovery of) income taxes (note 5)	(690)	926
Net income (loss) for the period	(2,181)	3,485
Attributable to:		
Shareholders of the Company	(2,129)	3,511
Non-controlling interest	(52)	(26)
	(2,181)	3,485
Basic and diluted earnings (loss) per share (note 6)	(0.12)	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 months ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	For the three months ended March 31, 2018 $	March 31, 2017 $
Net income (loss) for the period	(2,181)	3,485
Items reclassified to profit or loss		
Cumulative translation adjustments	–	(337)
Other comprehensive loss	–	(337)
Comprehensive income (loss) for the period	(2,181)	3,148
Comprehensive income (loss) attributable to:		
Shareholders of the Company	(2,129)	3,174
Non-controlling interest	(52)	(26)
	(2,181)	3,148

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 three months ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	Common shares $	Contributed surplus $	Deficit $	Accumulated other comprehensive income $	Equity attributable to shareholders of the Company $	Non-controlling interest $	Total equity $
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 income for the period	–	–	337	(337)	–	–	–
Comprehensive loss 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
Balance, January 1, 2018	220,126	6,347	(122,389)	–	104,084	1,735	105,819
Net loss and comprehensive loss for the period	–	–	(2,129)	–	(2,129)	(52)	(2,181)
Dividends declared to shareholders	–	–	(640)	–	(640)	–	(640)
Repurchase of common shares (note 6)	(1,090)	570	–	–	(520)	–	(520)
Balance, March 31, 2018	219,036	6,917	(125,158)	–	100,795	1,683	102,478

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

For the three months ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	For the three months ended March 31, 2018 $	March 31, 2017 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	(2,181)	3,485
Adjustments for non-cash items (note 7)	3,694	(2,495)
	1,513	990
Changes in items of working capital (note 7)	319	(1,790)
Net cash generated from (used in) operating activities	1,832	(800)
Investing activities		
Increase in capital reserves	(31)	(256)
Additions to property and equipment	(1,567)	(2,497)
Proceeds from sales of hotel properties and equipment, net of costs (note 4)	–	26,437
Net cash (used in) provided by investing activities	(1,598)	23,684
Financing activities		
Proceeds from (repayment of) secured credit facilities	1,159	(17,630)
Repayment of mortgages payable and payment of deferred financing fees	(1,119)	(5,027)
Repurchase of common shares	(520)	–
Net cash used in financing activities	(480)	(22,657)
(Decrease) increase in cash	(246)	227
Cash – beginning of period	691	1,183
Cash – end of period	445	1,410
Supplemental cash flow information		
Interest paid	2,934	3,519

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 (the "Company" or "Holloway") is a hospitality company that owns and operates hotels. As at March 31, 2018, the Company owned 32 hotels and held a 62% interest in another hotel in Canada, with a total of 3,764 guest rooms. One of the hotel properties in Slave Lake, AB has been leased to a third party on a triple net basis. 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, 2018 represent the results of 33 hotels for the full period.

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 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 new accounting standards

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*. These condensed financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2017. 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, 2017, except for the following new standards.

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") and IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). This note explains the impact of the adoption of these standards on the Company's financial statements and also discloses the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

IFRS 9, *Financial Instruments* – impact of adoption

IFRS 9 replaces the provisions of IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company has applied the new standard using the retrospective approach from January 1, 2018 and has the following changes from the adoption of the new standard:

- Modification of financial liabilities – financial liabilities that are considered modified 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. Management identified two financial liabilities that were modified prior to January 1, 2018. The related gain on modification was considered immaterial.

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

2 Basis of preparation and new accounting standards (continued)

IFRS 9, *Financial Instruments* – impact of adoption (continued)

- 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. Management determined that the impact to the opening carrying amount of these assets was considered immaterial.

IFRS 9, *Financial Instruments* – accounting policies

(a) Classification

The Company classifies its financial instruments in the following categories: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL (such as derivatives) or the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018 and noted that there were no changes in classification from the transition to IFRS 9. The embedded derivative on the Company's convertible debentures and the share-based liability are classified as FVTPL. The remainder of the Company's financial instruments are classified as amortized cost.

(b) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recorded at fair value and subsequently carried at amortized cost less any impairment.

Financial liabilities at FVTPL

Financial liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the condensed consolidated statements of income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial liabilities held at FVTPL are included in the condensed consolidated statements of income (loss) in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

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

2 Basis of preparation and new accounting standards (continued)

IFRS 9, *Financial Instruments* – accounting policies (continued)

(c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for ECL on financial assets that are measured at amortized cost which consists of the Company's loan receivable and trade, other and insurance proceeds receivable.

The Company has elected to use the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all loan and trade receivables. To measure the ECL, impairment provisions for the receivables are based on credit risk characteristics and days past due, while loans are based on credit risk characteristics and speculative and non-speculative historical default rates. Loans and trade receivables are written off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery includes, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

(d) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the condensed consolidated statements of income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the condensed consolidated statements of income (loss).

IFRS 15, *Revenue from Contracts with Customers* – impact of adoption

IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts*. 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 has applied the new standard using the modified retrospective approach from January 1, 2018 and has the following change from the adoption of the new standard:

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

2 Basis of preparation and new accounting standards (continued)

IFRS 15, *Revenue from Contracts with Customers* – impact of adoption (continued)

- 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. Management determined that there was no cumulative impact to the Company's opening deficit or previously-reported results from the adoption of the standard on January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers* – accounting policies

Hotel revenue

Hotel revenue is generated primarily from room occupancy, food and beverage services, rental and ancillary services. The Company recognizes revenue when the services are rendered to the customer and payment of the transaction price is due, as there are no further performance obligations to satisfy at this point due to the nature of its services.

Management services revenue

Management services revenue is generated from providing hotel management and accounting services to third parties. The Company recognizes revenue when the services are rendered to the customer, typically on a monthly basis and payment of the transaction price is due. The total transaction price of certain contracts can include variable consideration based on certain financial criteria being met. As such, the Company assesses the financial criteria at each reporting date and estimates the variable consideration using the most likely amount method.

These condensed consolidated financial statements were approved for issue by the Board of Directors on May 11, 2018.

3 Critical accounting estimates

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 period ended March 31, 2018, the Company determined that there were no indicators of impairment or indicators that previously recorded impairments should be reversed.

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

3 Critical accounting estimates (continued)

Property and equipment (continued)

On January 26, 2018, the Company entered into a lease arrangement with a third party where the Company leased on a triple net basis the Travelodge® hotel in Slave Lake, AB. The lease expires on January 15, 2020 and includes an option for the lessee to acquire the hotel at any time during the lease period. The investment property is accounted for using the cost model and its components are amortized on a straight-line basis over a period of 3-60 years. The carrying value of the property is $1,732 (December 31, 2017 - $1,765), net of accumulated depreciation and impairment losses of $1,909 and $8,764 respectively (December 31, 2017 - $1,876 and $8,764 respectively).

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 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 $3,453. The Company recognized a loss on disposal of property and equipment of $144 in the condensed consolidated statements of income (loss).

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 condensed consolidated statements of income (loss):

	For the three months ended	
	March 31, 2018 $	March 31, 2017 $
Income (loss) before income taxes	(2,871)	4,411
Combined statutory income tax rate	27.51%	27.53%
Income tax expense (recovery) at the combined statutory income tax rate	(790)	1,214
Non-taxable portion of gains	(20)	(518)
Non-deductible expenses	87	22
Change in tax rates	28	–
Other	5	208
Provision for (recovery of) income taxes	(690)	926

The statutory tax rate was 27.51% for the three months ended March 31, 2018 (for the three months ended March 31, 2017 - 27.53%). The income tax provision did 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)

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, 2018 $	March 31, 2017 $
Net income (loss) attributable to shareholders of the Company	(2,129)	3,511
Weighted average number of shares outstanding	18,292,044	18,889,066
Basic earnings (loss) per share	(0.12)	0.19

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 three months ended March 31, 2018 and 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. As the Company had a loss for the three months ended March 31, 2018, diluted earnings per share is equal to basic earnings per share. For the three months ended March 31, 2017, the convertible debentures were antidilutive.

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

	For the three months ended
	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, 2018, there were 18,279,966 common shares outstanding. During the three months ended March 31, 2018, the Company repurchased and cancelled 91,000 shares at a cost of $520 (average price of $5.71 per share). No shares were repurchased and cancelled during the three months ended March 31, 2017.

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

7 Supplemental cash flow information

Adjustments for non-cash items:

	For the three months ended March 31, 2018 $	March 31, 2017 $
Depreciation and amortization	3,932	3,820
Accretion on debt, unrealized foreign exchange (gain) loss and net change of other assets	151	389
Share-based expense	298	59
Loss (gain) on disposals of property and equipment	3	(7,689)
Provision for (recovery of) income taxes	(690)	926
	3,694	(2,495)

Changes in items of working capital:

	For the three months ended March 31, 2018 $	March 31, 2017 $
Trade, other and insurance proceeds receivable	(179)	(526)
Inventories	(6)	50
Prepaid expenses and deposits	(354)	(1,233)
Trade payables and accrued liabilities	823	(136)
Accrued interest on convertible debentures	35	55
	319	(1,790)

8 Financial instruments and fair values

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

	March 31, 2018		December 31, 2017	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Mortgages payable	89,584	90,362	90,587	91,107
Convertible debentures	89,636	90,038	89,460	89,651

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, 2017.