Holloway Lodging Corporation

Consolidated Financial Statements
December 31, 2015 and 2014

March 9, 2016

Management's Responsibility for Financial Reporting

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

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

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

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

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

March 9, 2016

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, 2015 and 2014 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, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered 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

Holloway Lodging Corporation

Consolidated Statements of Financial Position

As at December 31, 2015 and 2014

(in thousands of Canadian dollars)

	2015 $	2014 $
Assets		
Current assets		
Cash	2,022	3,473
Restricted cash	37	347
Trade and other receivables (note 5)	3,244	5,697
Inventories	441	597
Prepaid expenses and deposits	2,207	2,258
	7,951	12,372
Non-current assets		
Property and equipment (notes 6, 7 and 8)	312,471	330,307
Loan receivable (notes 9 and 11)	5,536	–
Capital reserve – restricted	2,829	2,304
Other assets (note 10)	647	616
Franchise business (note 11)	–	14,700
Minority interest investments in hotel properties	–	190
Deferred income tax assets (note 22)	26,929	21,800
Funds held on behalf of franchisees	–	167
	348,412	370,084
Total assets	356,363	382,456
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 13)	12,250	12,210
Accrued interest on convertible debentures	1,306	1,309
Current portion of secured credit facilities (note 14)	19,529	9,007
Current portion of mortgages and loan payable (note 15)	6,375	6,248
Share-based liability (note 16)	476	–
	39,936	28,774
Non-current liabilities		
Secured credit facilities (note 14)	–	18,000
Mortgages and loan payable (note 15)	117,871	129,510
Convertible debentures (note 17)	88,968	88,061
Funds to be spent on behalf of franchisees	–	167
	206,839	235,738
Total liabilities	246,775	264,512
Equity		
Equity attributable to shareholders of the Company	107,437	115,913
Non-controlling interest	2,151	2,031
Total equity	109,588	117,944
Total liabilities and equity	356,363	382,456

Contingencies and commitments (note 24)

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 Financial Position

As at December 31, 2015 and 2014

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

	2015 $	2014 $
Hotel revenues		
Rooms	94,949	83,865
Food and beverage	10,509	9,159
Rental	1,376	1,008
Franchising	412	1,272
Other	3,437	2,233
	110,683	97,537
Hotel expenses		
Operating expenses	72,514	58,284
Property taxes and insurance	6,760	4,623
Management fees (note 12)	121	1,411
Depreciation and amortization	13,702	12,650
	93,097	76,968
Income before the following	17,586	20,569
Other (income) and expenses		
Interest and accretion on debt	16,394	12,174
Corporate and administrative	2,433	2,657
Share-based expense (recovery), net of share based payments	(64)	418
Investment income	(471)	(308)
Gain on disposals of property and equipment, franchise business, minority interest investments in hotel properties and repurchase of convertible debentures	(8,365)	(114)
Amounts reclassified to profit and loss on minority interest investments in hotel properties	141	(689)
Impairment (reversal of impairment) of hotel properties, net (note 8)	15,580	(10,258)
Acquisition, integration and redevelopment costs	813	816
Provision for settlement of hotel management agreements and loan receivable (note 12)	–	5,828
Unrealized foreign exchange gain	(55)	–
	26,406	10,524
Income (loss) before income taxes	(8,820)	10,045
Recovery of income taxes (note 22)	(5,129)	(17,288)
Net income (loss) for the years	(3,691)	27,333
Attributable to:		
Shareholders of the Company	(3,811)	27,256
Non-controlling interest	120	77
	(3,691)	27,333
Basic and diluted earnings (loss) per share (note 19)	(0.20)	1.46

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, 2015 and 2014

(in thousands of Canadian dollars)

	2015 $	2014 $
Net income (loss) for the years	(3,691)	27,333
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss		
Cumulative translation adjustments	279	178
Fair value adjustments of minority interest investments in hotel properties	–	379
Items reclassified in the years to profit or loss		
Previously recognized fair value adjustment of minority interest investments in hotel properties	141	(689)
Other comprehensive income (loss)	420	(132)
Comprehensive income (loss) for the years	(3,271)	27,201
Comprehensive income (loss) attributable to:		
Shareholders of the Company	(3,391)	27,124
Non-controlling interest	120	77
	(3,271)	27,201

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, 2015 and 2014

(in thousands of Canadian dollars)

	Common shares (note 18) $	Contributed surplus $	Deficit $	Accumulated other comprehensive income (loss) $	Equity attributable to shareholders of the Company $	Non-controlling interest $	Total equity $
Balance, January 1, 2014	223,713	2,327	(140,683)	28	85,385	22	85,407
Net income for the year	–	–	27,256	–	27,256	77	27,333
Other comprehensive loss for the year	–	–	–	(132)	(132)	–	(132)
Comprehensive income for the year	–	–	27,256	(132)	27,124	77	27,201
Shares and options issued on acquisition of Royal Host Inc., net of shares acquired and issuance costs (note 6)	5,691	10	–	–	5,701	–	5,701
Non-controlling interest arising on acquisition of subsidiary (note 7)	–	–	–	–	–	2,739	2,739
Acquisition of non-controlling interest in subsidiary (note 7)	–	–	(90)	–	(90)	(11)	(101)
Dividends paid to shareholders	–	–	(2,611)	–	(2,611)	–	(2,611)
Distributions paid to non-controlling interests (note 7)	–	–	–	–	–	(255)	(255)
Share-based compensation	–	418	–	–	418	–	418
Exercise of stock options	51	(211)	–	–	(160)	–	(160)
Proceeds on sale of common shares	426	–	–	–	426	–	426
Repurchase of common shares	(22)	–	–	–	(22)	–	(22)
Repurchase of partnership units (note 7)	–	–	(258)	–	(258)	(541)	(799)
Balance, December 31, 2014	229,859	2,544	(116,386)	(104)	115,913	2,031	117,944
Balance, January 1, 2015	229,859	2,544	(116,386)	(104)	115,913	2,031	117,944
Net loss for the year	–	–	(3,811)	–	(3,811)	120	(3,691)
Other comprehensive income for the year	–	–	–	420	420	–	420
Comprehensive loss for the year	–	–	(3,811)	420	(3,391)	120	(3,271)
Dividends paid to shareholders	–	–	(2,693)	–	(2,693)	–	(2,693)
Share-based compensation	–	119	–	–	119	–	119
Reclassification of share-based compensation from equity-settled to cash-settled liability (note 16)	–	(816)	–	–	(816)	–	(816)
Exercise of stock options	21	(5)	–	–	16	–	16
Conversion of convertible debentures to common shares	1	–	–	–	1	–	1
Repurchase of common shares	(1,712)	–	–	–	(1,712)	–	(1,712)
Balance, December 31, 2015	228,169	1,842	(122,890)	316	107,437	2,151	109,588

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, 2015 and 2014

(in thousands of Canadian dollars)

	2015 $	2014 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the years	(3,691)	27,333
Adjustments for non-cash items (note 23)	17,630	(9,084)
	13,939	18,249
Changes in items of working capital (note 23)	(1,641)	1,635
Net cash generated from operating activities	12,298	19,884
Investing activities		
Decrease (increase) in capital reserves and restricted cash	(215)	566
Acquisition of hotel properties and additions to property and equipment	(29,519)	(14,373)
Acquisition of subsidiaries and repurchase of partnership units, net of cash acquired and additions to other assets	(105)	(2,697)
Acquisition of Royal Host Inc., net of cash acquired (note 6)	–	(16,033)
Proceeds from sales of hotel properties and equipment and minority interest investments in hotel properties, net of costs	25,261	10,074
Proceeds from sale of franchise business, net of costs (note 11)	15,718	–
Net cash provided by (used in) investing activities	11,140	(22,463)
Financing activities		
Funds drawn on secured credit facilities	13,522	16,000
Repayment of secured credit facilities	(21,000)	(9,858)
Proceeds from mortgages and loan payable, net of deferred financing fees	–	10,943
Repayment of mortgages and loan payable	(12,567)	(9,340)
Settlement of share-based liability	(157)	–
Repurchase of common shares	(1,712)	(22)
Proceeds from sale of common shares and exercise of options, net of share issuance costs	17	429
Repurchase and conversion of convertible debentures	(299)	(86)
Dividends paid to shareholders	(2,693)	(2,611)
Distributions paid to non-controlling interests	–	(255)
Net cash provided by (used in) financing activities	(24,889)	5,200
Increase (decrease) in cash during the years	(1,451)	2,621
Cash – Beginning of years	3,473	852
Cash – End of years	2,022	3,473
Supplemental cash flow information		
Interest paid	15,053	11,432

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, 2015, the Company owned and operated 34 hotels (December 31, 2014 – 35 hotels) and held a 62% interest in another hotel in Canada, with a total of 3,973 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, 2015 represent the operations of 33 hotels for the full year and five hotels for part of the year as the Company:

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

The results of operations for the year ended December 31, 2014 represent the operations of 17 hotels for the full year and 20 hotels for part of the year as the Company:

- sold the Holiday Inn Express® in Kamloops, BC on April 1, 2014;
- acquired the Days Inn® in Whitecourt, AB on June 6, 2014;
- acquired a controlling interest in the partnership that owns the Super 8® in St. John's, NL on June 25, 2014, which is now consolidated; and
- acquired 17 hotels as a result of the acquisition of Royal Host Inc. ("Royal Host") on July 1, 2014.

2 Basis of preparation

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

These consolidated financial statements were approved for issue by the Board of Directors on March 9, 2016.

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

3 Summary of significant accounting policies

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

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the minority interest investments in hotel properties, which are recognized at fair value through other comprehensive income (loss) and certain financial assets and liabilities, including derivatives, which are recognized at fair value through the consolidated statement of income (loss).

The preparation of consolidated financial statements conforming to IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in applying certain accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Consolidation

These financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Intercompany balances, income and expense amounts are eliminated.

The Company applies the acquisition method to account for business combinations. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the total of consideration transferred, non-controlling interest recognized and any previously held interest is less than the fair value of the net assets of the subsidiary acquired the difference is recognized as a gain in the consolidated statement of income (loss). The Company recognizes any non-controlling interest in the subsidiary at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. Any acquisition related costs are expensed as they are incurred.

Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency and presentation currency of the Company is the Canadian dollar.

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

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

3 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

ii) Transactions and balances

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

Cash

Cash includes cash on hand and balances with banks.

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 recognized initially and subsequently at fair value. The Company's share-based liability is included in this category. Derivatives which are forward foreign exchange contracts are also included in this category unless they are designated as hedges.

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. The Company's minority interest investments in hotel properties were included in this category.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried 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 statement of income (loss) and are included in amounts reclassified to profit and loss on minority interest investments in hotel properties. Impairment losses on available-for-sale investments, when recorded on the consolidated statement of income (loss), are not reversed.

Investment income on available-for-sale investments is included in the consolidated statement of income (loss) as investment income when the Company's right to receive payment is established.

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

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

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. The Company's loans and receivables included in current assets due to their short-term nature comprise cash, restricted cash and trade and other receivables. The Company's loans and receivables, included in non-current assets comprise its loan receivable, capital reserve – restricted and funds held on behalf of franchisees. 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.

iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables and accrued liabilities, accrued interest on convertible debentures, secured credit facilities, mortgages and loan payable, convertible debentures and funds to be spent on behalf of franchisees. Trade payables and accrued liabilities are initially recognized at the amount required to be paid, less when material, a discount to reduce the payables to fair value. Subsequently, trade payables and accrued liabilities are measured at amortized cost using the effective interest method. Convertible debentures, secured credit facilities and mortgages and loan payable are recognized initially at fair value, net of any transaction costs incurred and, subsequently, at amortized cost using the effective interest method. These liabilities are classified as current liabilities if payment is due within twelve months or if a waiver for a covenant breach has not been received by the period end date. Otherwise, they are presented as non-current liabilities.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or "events") has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 ("FIFO") method. Net realizable value is the estimated replacement cost. If the carrying value exceeds the net realizable value, a write-down is recognized in the consolidated statement of income (loss).

Capital reserves

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

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

3 Summary of significant accounting policies (continued)

Minority interest investments in hotel properties

In 2014, the minority interest investments in hotel properties represented equity ownership interest in two hotel partnerships or co-tenancies of 6.00% and 19.06%. The investments were accounted for as available-for-sale investments and were measured at fair value at each reporting period with changes in value recognized in other comprehensive income (loss). Significant or prolonged declines in fair value are removed from other comprehensive income (loss) and recognized in the consolidated statement of income (loss). One minority interest investment was disposed of in 2015. The change in value of the remaining minority interest investment has been recorded in the consolidated statement of income (loss) in 2015 as the loss is considered to be prolonged.

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of income (loss) during the period in which they are incurred.

Land is not depreciated. The major categories of property and equipment are depreciated on a straight-line basis as follows:

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

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates each component separately. Building components include core structure, HVAC/mechanical, roofing, elevators, windows/doors and other. The carrying amount of a replaced component is derecognized when replaced. Residual values, the method of amortization and the useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are presented as gain or loss on disposal of property and equipment in the consolidated statement of income (loss).

(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

Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the asset's carrying value exceeds its recoverable amount. For the purpose of measuring the recoverable amount, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is defined as the present value of the expected future cash flows of the relevant asset or CGU, as determined by management.

The Company assesses at the end of each reporting period or when events or circumstances warrant such consideration, whether there are any indicators of potential reversals of impairments. If such indicators exist, the Company calculates the recoverable amount of the asset and if it is greater than the carrying amount the impairment is reversed up to the asset's recoverable amount. That recoverable amount cannot exceed the carrying amount that would have existed if no impairment loss had been recognized previously.

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

Other assets

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

Leases

Leases entered into by the Company, in which substantially all of the benefits and risks of ownership are transferred to the Company, are recorded as finance leases and classified as property and equipment and obligations under finance leases. At the inception of the lease, the asset and the obligation under finance lease are recorded at the lesser of the fair value of the leased asset and the net present value of the minimum lease payments. Each lease payment is allocated between the obligation and interest expense over the lease period. Assets under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. All other leases are classified as operating leases and lease payments are expensed in the period in which they are incurred.

Convertible debentures

Convertible debentures were recorded at their fair value on the acquisition of Royal Host, with debt issuance costs recorded as a reduction of the carrying value. Over the term of the debentures, the liability will increase to the face value using the effective interest method, with the related accretion expense included in interest and accretion on debt in the consolidated statement of income (loss).

(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, 2015.

Income tax

Income tax comprises current and deferred taxes. Income tax is recognized in the consolidated statement 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 (loss) or equity, respectively.

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

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

In general, 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. However, deferred income tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable income nor loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Dividends

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

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

3 Summary of significant accounting policies (continued)

Revenue

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

Loyalty programs

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

Debenture repurchases

If the Company repurchases its own debentures the difference between the book value and the consideration paid is recognized as a gain or loss on repurchase of convertible debentures in the consolidated statement of income (loss).

Share repurchases

If the Company repurchases its own shares, those shares and the consideration paid are deducted from equity and the associated shares are cancelled.

Share-based compensation

The Company grants share options to certain employees and directors. Share options vest equally over three years and expire after five years. Each grant is considered a separate award with its own vesting period and grant date fair value. The fair value of each grant is measured at the date of grant using the Black-Scholes option pricing model. Prior to May 29, 2015, compensation expense was recognized over the grant's vesting period by increasing contributed surplus based on the number of options expected to vest. The number was reviewed at least annually, with any change in estimate being recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

On May 29, 2015, the Company settled stock options for cash. As a result, the stock option obligation changed from an equity-settled obligation to a cash-settled obligation and was recorded in the consolidated statement of financial position. The share-based liability is remeasured to fair value based on the number of options expected to vest at each reporting date up to and including the settlement date. Changes to the share-based liability are included in share-based expense (recovery) in the consolidated statement of income (loss). The assumptions and models used for estimating the fair value of the share-based liability are disclosed in note 16.

(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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, Financial instruments

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

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

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

IFRS 15, Revenue from Contracts and Customers

The IASB issued IFRS 15 "*Revenue from Contacts and Customers*" ("IFRS 15") effective for annual periods beginning on or after January 1, 2018, although the standard is available for early adoption. 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 impact of the new standard on its consolidated financial statements.

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

3 Summary of significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

IAS 1, Presentation of Financial Statements

IAS 1, "*Presentation of Financial Statements*" ("IAS 1") amendments outline disclosure initiatives relating to materiality, ordering of the notes, subtotals, accounting policies and disaggregation with an aim of clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company has evaluated the impact of this amendment and there will be no impact to the consolidated financial statements when adopted.

IFRS 16, Leases

IFRS 16, "*Leases*", a new standard on lease accounting, was issued on January 13, 2016 and replaces the current guidance in IAS 17 "*Leases*" ("IFRS 16"). 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 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.

Critical accounting estimates and assumptions

a) Property and equipment

For the year ended December 31, 2015, the Company assessed 21 CGUs which had indicators of potential impairment or reversal of previously recorded impairments for which the recoverable amount was calculated. The recoverable amount of eleven CGUs exceeded their carrying value and no impairment was recorded on these CGUs. These eleven CGUs did not have previously recorded impairments, so there were no impairment reversals. During 2015, the Company decreased the carrying value of nine CGUs by $16,000 and increased the carrying value of one CGU by reversing a previously recorded impairment by $420 (see note 8). The recoverable amount of the CGUs was determined by internal models or recent independent third party appraisals. The recoverable amount has been determined using stabilized cash flow projections and a terminal growth rate based on long-term average growth rates for the industry. For periods beyond the initial budget period, cash flows were extrapolated using growth rates determined to be reasonable for the specific CGU and the market in which they operate and do not exceed the anticipated long-term average growth rates for the Company's portfolio.

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

4 Critical accounting estimates and judgments (continued)

Critical accounting estimates and assumptions (continued)

a) Property and equipment (continued)

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

These are level 3 fair value measurements under the fair value hierarchy (note 27). Key factors of estimation uncertainty included in models for the CGUs tested for impairment or reversal of impairment were:

Pre-tax discount rates	11.5% to 14.5%
Capitalization rate	9.0% to 12.0%
Growth rates	Consistent with industry and market/hotel outlook

Based on this information, management estimated that the range of reasonable possible values for the assets would be between $55,321 and $62,871 for the nine CGUs that were decreased in value. The final value for the nine CGUs decreased in value was $58,987. Management estimated that the range of reasonable possible values for the asset would be between $3,589 and $4,344 for the CGU that was increased in value. The final value for the CGU increased in value was $2,645 as the full amount of the previously recorded impairment was reversed. Management estimated that the range of reasonable possible values for the assets that are not impaired would be between $155,856 and $177,274. The carrying values for those CGUs was $129,658 as there is no previously recorded impairment available for reversal.

The fair value may not reflect the realizable value in the event a particular CGU is sold by the Company.

b) Depreciation of property and equipment and franchise business

The Company records depreciation on its property and equipment and franchise business 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.

c) Income taxes

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of income (loss), other comprehensive income (loss), or directly in equity, as applicable, in the year that includes the date of enactment or substantive enactment. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and increased or decreased based on the estimated taxable earnings that will be available to allow the asset to be recovered.

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

4 Critical accounting estimates and judgments (continued)

Critical accounting estimates and assumptions (continued)

c) Income taxes (continued)

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

d) Share-based liability

The Company calculates the fair value of the share-based liability at each reporting period using the Black-Scholes option pricing model, using company specific and industry indexes to calculate volatility. If different methods were used to calculate volatility, the impact on the Company's net income (loss) could be material.

e) Business combinations

The purchase price allocation process requires management to use significant estimates and assumptions, and fair value estimates including, but not limited to:

- estimated fair values of tangible assets;
- estimated fair values of intangible assets;
- estimated fair values of liabilities;
- estimated deferred income tax assets and liabilities; and
- estimated fair value of pre-acquisition contingencies.

While management uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value the assets acquired and liabilities assumed at the business combination date, estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the business combination date, any adjustments are recorded to the assets acquired and liabilities assumed.

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

4 Critical accounting estimates and judgments (continued)

Critical accounting estimates and assumptions (continued)

e) Business combinations (continued)

Although management believes the assumptions and estimates made in the past have been reasonable and appropriate, they are based in part on past experience and information obtained from the management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of the assets acquired and liabilities assumed include but are not limited to:

- future expected cash flows from the hotel properties;
- future expected cash flows from the franchise business;
- discount rates applied to future expected cash flows;
- capitalization rates applied to future expected cash flows;
- the fair value of convertible debentures, including future obligations to debentureholders; and
- uncertain tax positions and the fair value of both current and deferred income tax related assets and liabilities assumed in connection with a business combination which are initially estimated as of the acquisition date and are re-evaluated quarterly as management continues to collect information in order to determine their estimated value, with any adjustments to preliminary estimates recorded during the measurement period.

Changes in any of the assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the initial amounts assigned to assets and liabilities in the purchase price allocation. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

f) Critical judgments in applying accounting policies

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies. 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 details the most significant accounting judgments the Company has made in the preparation of these consolidated financial statements and the application of accounting policies:

i) Property and equipment

The Company is required to test for impairment when there is an indication that the carrying value of a CGU may not be recoverable or when a previously recorded impairment could be reversed.

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

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

4 Critical accounting estimates and judgments (continued)

Critical accounting estimates and assumptions (continued)

f) Critical judgments in applying accounting policies (continued)

ii) Trade and other receivables and accrued liabilities

The Company makes judgments in assessing the carrying value of trade and other receivables and the collectability and credit worthiness of various accounts. The Company also makes judgments in assessing the accrued liabilities related to various costs incurred at the balance sheet date.

5 Trade and other receivables

	December 31, 2015 $	December 31, 2014 $
Trade receivables	2,732	5,316
Less: allowance for doubtful accounts	(110)	(243)
Trade receivables – net	2,622	5,073
Receivables from credit card companies	248	297
Other receivables	374	327
	3,244	5,697

6 Acquisition of Royal Host Inc.

On July 1, 2014 (the “acquisition date”), the Company acquired all of the outstanding common shares of Royal Host, a Halifax-based hospitality company that owned 17 hotels across Canada as well as the Canadian master franchise rights to the Travelodge® and Thriftlodge® hotel brands in Canada.

As consideration, the Company paid $1.00 in cash and issued 0.1 of a Holloway common share for each Royal Host common share. Total consideration was $16,380 in cash and 1,637,963 common shares valued at $4.26 per share. At the acquisition date, Royal Host owned 294,679 shares of Holloway. The amounts presented below are net of these shares. The Company funded $16,000 of the cash portion of the purchase price from a secured credit facility and the remaining balance with cash on hand. In addition to the consideration paid, the Company assumed all of the outstanding debt of Royal Host.

The acquisition of Royal Host provided the Company with significantly broader geographic and market diversification, operational and expense synergies as well as redevelopment opportunities for certain properties.

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

6 Acquisition of Royal Host Inc.

The purchase price was allocated, to the assets acquired and liabilities assumed based on their estimated fair values as follows:

	$
Assets acquired	
Cash	347
Trade and other receivables	3,740
Inventories	317
Prepaid expenses and deposits	1,622
Land	38,463
Buildings and components	91,286
Renovations in progress	1,213
Furniture, fixtures and equipment	7,133
Paving	44
Computer equipment and websites	392
Leasehold improvements	31
Franchise business	15,000
Other assets	158
Funds held on behalf of franchisees	12
	159,758
Less liabilities assumed	
Trade payables and accrued liabilities	5,810
Accrued interest on convertible debentures	1,008
Convertible debentures	88,146
Secured credit facilities	19,861
Mortgages payable	22,038
Deferred income tax liabilities	783
	137,646
	22,112
Consideration	
Cash	16,380
Common shares issued, net of shares acquired	5,722
Replacement options issued	10
	22,112

The valuation techniques used to measure the fair value of the franchise business and hotel properties acquired were based on either the assets' value in use or fair value less costs to sell and were determined using an internal model with capitalized historical and future earnings using market appropriate capitalization rates and performance metrics.

The acquisition was accounted for using the purchase method. As such, the results of operations reflect revenue and expenses of Royal Host from the date of acquisition.

The Company finalized the purchase price allocation to the assets acquired and liabilities assumed. There have been no changes to the purchase price allocation since December 31, 2014.

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

7 Acquisitions and disposals of property and equipment

2015

Ramada®, Trenton, ON

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

Days Inn®, Whitehorse, YT

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

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

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

Included in the consolidated financial statements at December 31, 2015 is revenue of $2,372 and a net income of $540. The Company does not have the information available to provide the additional revenue and net income that would have been included in the financial statements if the property had been consolidated from January 1, 2015. Costs of acquisition of $155 were recognized in the consolidated statement of income (loss).

Travelodge®, Toronto, ON

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

Land, Orillia, ON

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

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

7 Acquisitions and disposals of property and equipment (continued)

2015 (continued)

Days Inn®, Sydney, NS

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

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

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

Included in the consolidated financial statements at December 31, 2015 is revenue of $167 and a net loss of $199 (excluding the management income discussed above), as the property was closed in October 2015 for renovations and is expected to re-open in the second quarter of 2016. The Company does not have the information available to provide the additional revenue and net income that would have been included in the financial statements if the property had been consolidated from January 1, 2015. Costs of acquisition of $39 were recognized in the consolidated statement of income (loss).

Holiday Inn Express®, Myrtle Beach, SC

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

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

7 Acquisitions and disposals of property and equipment (continued)

2014

Holiday Inn Express®, Kamloops, BC

On April 1, 2014, the Company sold the Holiday Inn Express® in Kamloops, BC for gross proceeds of $8,900. After repayment of the outstanding secured credit facility and closing costs, the net cash proceeds were $7,872. The Company recognized a reversal of impairment of hotel properties of $1,217 in the consolidated statement of income (loss).

Holiday Inn Express®, Stellarton, NS

On April 17, 2014, the Company acquired the remaining 10% interest in the entity that owns the Holiday Inn Express® in Stellarton, NS from Superior Lodging Corp. ("Superior"), a company owned by a director of Holloway, for a purchase price of $413. The interest acquired consisted of common shares in the capital of the entity and a shareholder loan owed by the entity to Superior. The fair value of the shareholder loan and non-controlling interest acquired were lower than the purchase price and as a result, the Company recognized a charge of $90 directly in equity. This hotel was fully consolidated prior to the acquisition of the remaining 10% interest.

The following table summarizes the consideration paid for the 10% interest at the acquisition date:

	$
Consideration	413
Loan and non-controlling interest	
Shareholder loan	312
Non-controlling interest	11
Total loan and non-controlling interest	323
Difference between consideration paid and shareholder loan and non-controlling interest recorded directly in equity	90
Total	413

Costs of acquisition of $3 related to this acquisition were recognized in the consolidated statement of income (loss).

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

7 Acquisitions and disposals of property and equipment (continued)

2014 (continued)

Days Inn®, Whitecourt, AB

On June 6, 2014, the Company acquired the Days Inn® in Whitecourt, AB for a gross purchase price of $8,890. Holloway paid cash on closing of $3,000 and financed the remainder with a mortgage of $5,000 and a promissory note to the vendor of $890. The promissory note has a two year term and bears interest at 6.00%. One half of the note was repaid in June 2015 with the remaining balance due in June 2016. The mortgage bears interest at a floating rate based on the lender's base rate minus 0.75% and has a fifteen year term.

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

	$
Assets acquired	
Land	1,000
Buildings and components	6,990
Furniture, fixtures and equipment	798
Paving	50
Signage	22
Computer equipment	10
Franchise fees	20
	8,890
Consideration	
Cash	3,000
Mortgage payable	5,000
Loan payable	890
	8,890

Costs of acquisition of $60 related to this acquisition were recognized in the consolidated statement of income (loss).

Super 8®, St. John's, NL

On June 25, 2014, the Company acquired an additional 35% interest in the partnership that owns the Super 8® in St. John's, NL for a purchase price of $2,088. Prior to this transaction, Holloway owned an 18% minority interest in the partnership.

As the initial 18% minority interest was an available-for-sale financial instrument, it was remeasured to its fair value prior to the acquisition of control which resulted in a gain of $299. A gain of $390, previously recorded in other comprehensive income (loss), was also recognized in the consolidated statement of income (loss). Costs of acquisition of $49 related to this acquisition were recognized in the consolidated statement of income (loss).

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

7 Acquisitions and disposals of property and equipment (continued)

2014 (continued)

Super 8®, St. John's, NL (continued)

The following table summarizes the consideration paid for the partnership units, the fair value of the assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

	$
Consideration (cash)	2,088
Fair value of initial 18% minority interest investment	1,019
	3,107
Identifiable assets and liabilities	
Cash	652
Capital reserve	315
Land	1,396
Building and components	7,189
Furniture, fixtures and equipment	457
Paving	4
Signage	13
Computer equipment	23
Franchise fees	9
Other net working capital balances	(169)
Mortgage payable	(4,043)
Total identifiable assets and liabilities	5,846
Non-controlling interest	(2,739)
Total	3,107

The fair value of the non-controlling interest was estimated using the purchase price paid for the acquisition of 35% of the partnership and extended to the remaining 47% non-controlling interest.

In 2014, subsequent to acquiring control of the Super 8® in St. John's NL, the partnership repurchased partnership units totalling $799, which has been recorded as a reduction of the non-controlling interest and retained earnings. As a result of the partnership repurchases, Holloway owns 62% of the partnership.

In December 2014, the partnership paid a $1,000 distribution, of which $255 was paid to the non-controlling interests.

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

8 Property and equipment

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

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

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

8 Property and equipment (continued)

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

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

8 Property and equipment (continued)

For the year ended December 31, 2014	Opening net book value $	Royal Host acquisition (note 6) $	Additions and acquisitions $	Disposals $	Depreciation $	Reversal of impairment $	Foreign exchange $	Closing net book value $
Land	16,779	38,463	2,236	(1,849)	–	1,230	81	56,940
Land lease	300	–	–	–	(8)	–	–	292
Buildings and components	153,697	91,286	15,216	(7,139)	(7,814)	8,902	452	254,600
Renovations in progress	15	1,213	1,666	–	–	–	–	2,894
Furniture, fixtures and equipment	7,186	7,133	3,355	(681)	(3,765)	90	58	13,376
Paving	914	44	110	(251)	(198)	36	(4)	651
Landscaping	17	–	21	–	(6)	–	–	32
Signage	545	–	55	(31)	(119)	–	(1)	449
Computer equipment and websites	427	392	691	(51)	(415)	–	–	1,044
Vehicles	57	–	2	–	(30)	–	–	29
Leasehold improvements	–	31	–	(29)	(2)	–	–	–
	179,937	138,562	23,352	(10,031)	(12,357)	10,258	586	330,307

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

8 Property and equipment (continued)

	As at December 31, 2014			
	Cost $	Accumulated impairment losses $	Accumulated depreciation $	Net book value $
Land	64,231	(7,291)	–	56,940
Land lease	500	(116)	(92)	292
Buildings and components	345,136	(53,980)	(36,556)	254,600
Renovations in progress	2,894	–	–	2,894
Furniture, fixtures and equipment	37,335	(4,242)	(19,717)	13,376
Paving	2,445	(481)	(1,313)	651
Landscaping	46	–	(14)	32
Signage	1,035	–	(586)	449
Computer equipment and websites	1,873	–	(829)	1,044
Vehicles	205	–	(176)	29
	455,700	(66,110)	(59,283)	330,307

During 2015, the Company recognized impairment losses of $16,000 and a reversal of a previously recorded impairment loss of $420 in respect to various CGUs. As at December 31, 2014, the Company recognized a reversal of previously recorded impairment losses of $9,000 in respect to various CGUs. Refer to note 4 regarding the use of estimates in the determination of the values of the CGUs.

9 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 although the anticipated amortization period for the principal amount of the note is approximately eight years. At December 31, 2015, the foreign exchange impact of this loan receivable was fixed. The Company entered into two forward contracts expiring February 8, 2016 and February 16, 2016 for US$2,000 each, which were settled on their respective expiry dates, subsequent to year end, at a loss of $424, representing the difference between the settlement rates and the spot rates.

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

10 Other assets

The following table summarizes significant changes in franchise fees and other intangible assets for the years ended December 31, 2015 and 2014:

	Franchise fees $	Other $	Total $
For the year ended December 31, 2015			
Opening net book value	409	207	616
Additions	189	–	189
Disposals	(79)	–	(79)
Foreign exchange[(1)]	6	–	6
Amortization for the year	(52)	(33)	(85)
Closing net book value	473	174	647
As at December 31, 2015			
Cost	925	212	1,137
Accumulated amortization	(452)	(38)	(490)
Net book value	473	174	647
For the year ended December 31, 2014			
Opening net book value	269	39	308
Royal Host acquisition (note 6)	158	–	158
Additions	54	181	235
Disposals	(23)	–	(23)
Foreign exchange	4	–	4
Amortization for the year	(53)	(13)	(66)
Closing net book value	409	207	616
As at December 31, 2014			
Cost	860	232	1,092
Accumulated amortization	(451)	(25)	(476)
Net book value	409	207	616

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

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

11 Franchise business

The following table summarizes significant changes in the franchise business for the years ended December 31, 2015 and 2014:

	December 31, 2015 $	December 31, 2014 $
Beginning balance	14,700	–
Royal Host acquisition (note 6)	–	15,000
Amortization	(150)	(300)
Disposal	(14,550)	–
Ending balance	–	14,700

On March 31, 2015, the Company sold the franchise business which owned the master franchise rights to the Travelodge® and Thriftlodge® hotel brands in Canada for gross proceeds of $21,030. The purchase price was satisfied through the issuance of a US$4,000 senior secured loan receivable (note 9) and a cash payment of $15,758, net of closing costs. The cash proceeds were used to fully repay the $16,000 secured credit facility. The Company recognized a gain on disposal of franchise business of $6,220 in the consolidated statement of income (loss).

12 Settlement of hotel management agreements

In December 2014, the Company entered into an agreement with Pacrim Hospitality Services Inc. (“PHSI”), its external third party hotel manager to internalize its hotel management. Under the terms of the agreement, Holloway agreed to settle a loan receivable from PHSI for $nil consideration as well as make a cash payment of $1,000 to PHSI in January 2015. The Company recognized a full allowance of $4,828 against the loan receivable and recorded an expense of $1,000 in 2014. This amount has been recorded as provision for settlement of hotel management agreements and loan receivable in the consolidated statement of income (loss).

Effective January 30, 2015, Holloway internalized its hotel management and all external hotel management contracts have been terminated.

13 Trade payables and accrued liabilities

	December 31, 2015 $	December 31, 2014 $
Trade payables	6,612	3,147
Accrued expenses and liabilities	5,638	7,313
Accrued termination payment (note 12)	–	1,000
Deposits	–	750
	12,250	12,210

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

14 Secured credit facilities

	December 31, 2015 $	December 31, 2014 $
HSBC credit facility	19,529	6,007
Clarke Inc. credit facilities	–	19,000
Clarke Inc. Master Trust credit facility	–	2,000
	19,529	27,007
Less: Current portion	(19,529)	(9,007)
	–	18,000

HSBC credit facility

The Company's HSBC credit facility has availability that is dictated by certain credit measures and bears interest at the Canadian bank prime rate plus 1.50%. At December 31, 2015, the Company had entered into a banker's acceptance of $17,750 with an effective interest rate of 3.95% to reduce interest expense on the credit facility. The weighted average interest rate at December 31, 2015 was 3.97% and the facility was due on December 31, 2015. At December 31, 2015, the maximum capacity of the credit facility was $25,000 and the available balance at December 31, 2015 was $5,471. The facility was secured by a registered charge on seven hotel properties with a net book value of $52,694 at December 31, 2015 (2014 – $57,592). Subsequent to year end, the maximum capacity has increased to $45,000, which will be available as security over additional properties is registered (note 30). The facility is now due on December 31, 2016 and the Company expects to renew the facility with similar terms at its maturity.

Clarke Inc. and Clarke Inc. Master Trust credit facilities

During 2015, the Company fully repaid the following secured credit facilities with Clarke Inc. and Clarke Inc. Master Trust:

- $16,000 which bore interest at 6.50% and was to mature in March 2016;
- $3,000 which bore interest at 7.00% and was to mature in December 2015; and
- $2,000 which bore interest at 6.50% and was to mature in June 2016.

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

15 Mortgages and loan payable

	December 31, 2015 $	December 31, 2014 $
Mortgages payable, bearing interest at a weighted average rate of 5.94% (December 31, 2014 – 6.21%) and maturing on various dates from May 2017 to September 2029. Individual first charges on 19 hotel properties with a net book value of $228,191 have been pledged as security for individual mortgages	124,156	135,321
Promissory note payable, bearing interest at 6.00% and maturing in June 2016	445	890
Less: Deferred financing fees	(355)	(453)
	124,246	135,758
Less: Current portion	(6,375)	(6,248)
	117,871	129,510

The Canadian equivalent amount of mortgages payable denominated in US dollars is $nil (2014 – $4,403).

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

	$
Year ending December 31, 2016	6,375
2017	94,121
2018	10,936
2019	5,441
2020	3,148
Thereafter	4,580

The following table summarizes significant changes in mortgages and loan payable for the years ended December 31, 2015 and 2014:

	For the years ended	
	December 31, 2015 $	December 31, 2014 $
Beginning balance	135,758	107,599
Mortgages assumed on Royal Host acquisition (note 6)	–	22,038
Proceeds from new mortgages and loan payable	–	11,090
Mortgage assumed on acquisition of control of Super 8® St. John's, NL	–	4,043
Repayment of debt	(12,448)	(9,340)
Additions to deferred financing fees	(119)	(161)
Write-off of deferred financing fees on mortgages repaid during the years	21	–
Amortization of deferred financing fees	196	152
Impact of foreign exchange prior to the sale of the Holiday Inn Express® in Myrtle Beach, SC	838	337
Ending balance	124,246	135,758

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

16 Share-based liability

Prior to May 29, 2015, (the "Modification Date") compensation expense was recognized over the vesting period by increasing contributed surplus based on the number of options expected to vest. Upon the options becoming cash-settled, the fair value was calculated as of the Modification Date and this fair value was removed from contributed surplus and recorded as a liability on the Modification Date. Subsequent to the Modification Date, the change in fair value of the share-based liability is recognized in share-based expense (recovery) in the consolidated statement of income (loss).

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

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

The fair value of the options were measured at December 31, 2015 using the Black-Scholes option pricing model with the following assumptions (not in thousands):

	Option grant December 2014	**Option grant November 2014**	**Option grant August 2012**	**Option grant October 20112012**
Exercise price	$6.37	$6.37	$3.70	$9.20
Closing price on value date	$5.15	$5.15	$5.15	$5.15
Volatility	36.5%	27.8%	26.2%	27.4%
Annual dividend yield	2.7%	2.7%	2.7%	2.7%
Expected remaining option life	3.96 years	3.88 years	1.56 years	0.84 years
Annual risk-free interest rate	0.68%	0.68%	0.68%	0.68%
Fair value per option	$0.86	$0.54	$1.41	$0.00

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

16 Share-based liability (continued)

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

	2015		2014	
	Average exercise price in $ per share	Options	Average exercise price in $ per share	Options
At January 1	5.14	652,999	3.86	409,500
Replacement options granted (note 6)	–	–	4.43	6,644
Granted	–	–	6.37	325,000
Exercised	3.74	(68,377)	3.70	(87,930)
Forfeited	4.43	(2,622)	4.43	(215)
At December 31	5.30	582,000	5.14	652,999

Of the 582,000 outstanding options (2014 – 652,999), 473,667 options are exercisable (2014 – 434,332).

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

Expiry date	Exercise price per share $	December 31, 2015 $	December 31, 2014 $
October 2016	9.20	12,000	12,000
August 2017	3.70	245,000	310,000
April 2017	4.43	–	5,999
November 2019	6.37	310,000	310,000
December 2019	6.37	15,000	15,000
		582,000	652,999

On November 18, 2014 and December 16, 2014, the Company granted a total of 325,000 options to purchase common shares to directors and certain employees with an exercise price of $6.37 per share. The options vest equally over three years and expire after five years. The fair value of the options were measured at their respective grant dates using the Black-Scholes option pricing model with the following assumptions (not in thousands of dollars):

	Option grant December 2014	Option grant November 2014
Exercise price	$6.37	$6.37
Closing price on grant date	$6.05	$6.38
Volatility	33.9%	34.2%
Annual dividend yield	2.3%	2.2%
Expected option life	5 years	5 years
Annual risk-free interest rate	1.5%	1.6%
Fair value per option	$1.42	$1.65

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

17 Convertible debentures

In October 2005, Royal Host issued $60,000 in convertible debentures ("Series B debentures"), of which $23,600 was outstanding on the acquisition date. The debentures bore interest at 6.25% payable semi-annually on April 30 and October 31 and were previously due on October 31, 2020.

In September 2006, Royal Host issued $60,000 in convertible debentures ("Series C debentures"), of which $40,661 was outstanding on the acquisition date. The debentures bear interest at 7.50% payable semi-annually on March 31 and September 30 and are due on September 30, 2018.

In June 2007, Royal Host issued $60,000 in convertible debentures ("Series D debentures"), of which $29,052 was outstanding on the acquisition date. The debentures bore interest at 6.25% payable semi-annually on June 30 and December 31 and were previously due on June 30, 2019.

The estimated fair value of the Series B, Series C and Series D debentures with a face value of $93,313 was $88,146 at the acquisition date based on the closing market price of the debentures.

On July 31, 2014, Holloway assumed the debentures of Royal Host which began trading under the symbols HLC.DB, HLC.DB.A and HLC.DB.B on August 8, 2014. On October 31, 2014, the Series B debentures (HLC.DB) due October 31, 2020 and the Series D debentures (HLC.DB.B) due June 30, 2019 were consolidated into the new Series B debentures (HLC.DB) and the maturity date of the new HLC.DB was amended to February 28, 2020. Interest is paid semi-annually on April 30 and October 31.

Both series of debentures can be converted at the option of the holder for $285 in cash and 28 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 shares of the Company. The number of shares to be issued is calculated by dividing the aggregate principal amount by 95% of the current market price of the shares (calculated in accordance with the indenture).

The debentures contain a redemption option (the "redemption option") whereby the Company can redeem all or part of the debentures at face value. The redemption option is required to be accounted for as an embedded derivative financial instrument. On initial recognition, the redemption option is 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 fair value is included in interest and accretion on debt in the consolidated statement 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.

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

17 Convertible debentures (continued)

The debentures are recorded as financial liabilities at amortized cost and were recorded at fair value and are amortized using the effective interest method.

	December 31, 2015 $	December 31, 2014 $
Face value of convertible debentures	92,877	93,222
Discount and embedded derivative	(3,988)	(5,043)
Deferred financing fees	(96)	(118)
Total	88,793	88,061

The following table summarizes significant changes in convertible debentures for the years ended December 31, 2015 and 2014:

	December 31, 2015 $	December 31, 2014 $
Beginning balance	88,061	–
Assumption of debentures of Royal Host, net of embedded derivative	–	88,146
Change in fair value of embedded derivative	65	(265)
Accretion of discount and amortization of deferred financing fees	993	396
Debentures repurchased under NCIB, net of gain	(318)	(86)
Conversion of debentures	(8)	–
Additions to deferred financing fees	–	(130)
Ending balance	88,793	88,061

On January 13, 2014, Royal Host initiated a Normal Course Issuer Bid (“NCIB”) to repurchase, over the 12 months commencing on January 13, 2014 and ending on January 12, 2015, up to $1,993 of its issued and outstanding Series B debentures, $3,448 of its issued and outstanding Series C debentures and $2,206 of its issued and outstanding Series D debentures, such amounts representing 10% of the Royal Host’s public float as of January 3, 2014.

Subsequent to the acquisition of Royal Host, and the assumption of the debentures by Holloway, the Company continued to operate under this NCIB. The Company repurchased and cancelled $31 face value of the Series B debentures at a cost of $27 (average cost of $87.65 per $100 face value – prices not in thousands). The Company recorded a gain on repurchase of these debentures of $4 which represents the difference between the book value at the time of repurchase and the amount paid. The Company repurchased and cancelled $60 face value of the Series C debentures at a cost of $59 (average cost of $97.98 per $100 face value – prices not in thousands). The Company recorded a gain on repurchase of these debentures of $1 which represents the difference between the book value at time of repurchase and the amount paid.

On January 13, 2015, the Company initiated a NCIB to repurchase, over the 12 months commencing on January 13, 2015 and ending on January 12, 2016, up to $4,102 of its issued and outstanding Series B debentures and $3,437 of its issued and outstanding Series C debentures, such amounts representing 10% of the Company’s public float as of January 5, 2015.

The Company repurchased and cancelled $327 face value of the Series B debentures at a cost of $288 (average cost of $88.15 per $100 face value – prices not in thousands). The Company recorded a gain on repurchase of debentures of $19 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)

17 Convertible debentures (continued)

The Company repurchased and cancelled $10 face value of the Series C debentures at a cost of $9 (average cost of $93.34 per $100 face value – prices not in thousands). The Company recorded a gain on repurchase of debentures of $nil which represents the difference between the book value at the time of repurchase and the amount paid.

18 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 ascribed values as at December 31, 2015 and 2014:

	Number of shares issued and outstanding (not in thousands)	Ascribed value $
Balance – January 1, 2014	17,930,002	223,713
Issued on acquisition of Royal Host, net of shares acquired and issuance costs (note 6)	1,343,284	5,691
Exercise of stock options	11,275	51
Sale of common shares	94,600	426
Repurchase of common shares under NCIB	(5,400)	(22)
Balance – December 31, 2014	19,373,761	229,859
Exercise of stock options	3,377	21
Conversion of convertible debentures	228	1
Repurchase of common shares under NCIB	(346,300)	(1,712)
Balance – December 31, 2015	19,031,066	228,169

At the acquisition date, Royal Host owned 294,679 shares of Holloway. In July 2014, 94,600 of these shares were sold for proceeds of $426. The remaining 200,079 were cancelled under an NCIB.

On August 13, 2014, the Company initiated a NCIB to repurchase over the 12 months commencing on August 15, 2014 and ending on August 14, 2015, up to 978,628 of its issued and outstanding shares, such amount representing 5% of the Company's issued and outstanding shares as of August 13, 2014. The Company repurchased and cancelled 108,100 shares at a cost of $583 (average price of $5.39 per share – price not in thousands).

On August 17, 2015, the Company initiated a NCIB to repurchase over the 12 months commencing on August 17, 2015 and ending on August 16, 2016, up to 967,683 of its issued and outstanding shares, such amount representing 5% of the Company's issued and outstanding shares as of August 11, 2015. At December 31, 2015, the Company had repurchased and cancelled 238,200 shares at a cost of $1,129 (average price of $4.75 per share – price not in thousands) under this NCIB.

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

18 Shareholders' equity (continued)

Issued and outstanding common shares (continued)

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

	December 31, 2015	December 31, 2014
Common shares outstanding	19,031,066	19,373,761
Conversion of convertible debentures	2,653,496	2,663,353
Options outstanding (exercisable)	473,667	434,332
Total common shares reflecting exercise and conversion	22,158,229	22,471,446

The Board of Directors declared a quarterly dividend of $0.035 per share in each quarter of 2015, representing an annual dividend of $0.14 per share. The Company's Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

The Company declared and paid $2,693 in dividends for the year ended December 31, 2015 (2014 - $2,611).

19 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, 2015 $	December 31, 2014 $
Net income (loss) attributable to shareholders of the Company	(3,811)	27,256
Weighted average number of shares outstanding	19,254,300	18,651,279
Basic earnings (loss) per share	(0.20)	1.46

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

19 Earnings (loss) per share (continued)

Diluted

As the Company has a loss in 2015, diluted earnings per share is equal to basic earnings per share. Diluted earnings per share for the year ended December 31, 2014 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 year ended December 31, 2014, the Company had two categories of potentially dilutive instruments – convertible debentures and options. For the year ended December 31, 2014, the convertible debentures are anti-dilutive.

Diluted earnings per share for the year ended December 31, 2014 is presented below:

	For the year ended December 31, 2014 $
Diluted income attributable to shareholders of the Company	27,256
Weighted average number of diluted shares	18,722,223
Diluted earnings per share	1.46

20 Expenses by nature

	For the years ended	
	December 31, 2015 $	December 31, 2014 $
Salaries, wages and employee benefits	37,510	30,530
Materials, supplies, repairs and utilities	19,898	15,483
Food, beverage and service costs	6,265	5,313
Insurance	790	729
Property taxes	5,970	3,894
Management fees	121	2,176
Royalty and franchise fees	5,387	5,118
Legal, audit and other professional consulting fees	1,141	1,206
Depreciation and amortization	13,820	12,732
Interest and accretion on debt	16,394	12,174
Impairment (reversal of impairment), fair value adjustments and gain or loss on acquisitions or disposals	7,356	(11,061)
Provision for settlement of hotel management agreements and loan receivable	–	5,828
Acquisition, integration and redevelopment costs	813	816
Other	4,509	2,862
	119,974	87,800

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

21 Wages and employee benefits expense

	For the years ended	
	December 31, 2015 $	December 31, 2014 $
Salaries and wages	33,211	26,695
Benefits	3,931	3,116
RRSP/pension expense	41	24
Directors fees	224	262
Share-based expense (recovery)	(64)	418
Termination benefits	167	15
	37,510	30,530

Compensation of key management:

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

	For the years ended	
	December 31, 2015 $	December 31, 2014 $
Salaries and benefits	721	816
Consulting fees	150	158
Share-based expense – cash	150	–
Share-based expense – non-cash	–	398
Directors fees	236	262
	1,257	1,634

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

22 Income taxes

Components of the recovery of income taxes are as follows:

	2015 $	2014 $
Deferred income taxes	(5,129)	2,146
Benefit of recording previously unrecognized deferred tax assets	–	(19,434)
Recovery of income taxes	(5,129)	(17,288)

The following table is a reconciliation of the expected income tax recovery at the statutory rate to the amounts recognized in the consolidated statement of income (loss) for the years ended December 31, 2015 and 2014:

	For the years ended	
	December 31, 2015 $	December 31, 2014 $
Income (loss) before income taxes	(8,820)	10,045
Combined statutory income tax rate	26.86%	25.90%
Income tax expense (recovery) at the combined statutory income tax rate	(2,369)	2,602
Non-taxable portion of gains	(2,321)	(696)
Non-deductible expenses	22	297
Benefit of recording previously unrecognized deferred tax assets	–	(19,434)
Change in tax rates	(692)	–
Other	231	(57)
Recovery of income taxes	(5,129)	(17,288)

The statutory tax rate was 26.86% for the year ended December 31, 2015 (2014 – 25.90%). 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, 2014 $	Recognized in net income (loss) $	December 31, 2015 $
Deferred income tax assets			
Property and equipment	12,878	5,649	18,527
Non-capital losses	10,441	(1,224)	9,217
Net capital losses	1,505	(1,495)	10
Loan receivable	2,032	(2,032)	–
Deferred financing fees	(47)	149	102
Franchise business and other assets	(3,852)	4,039	187
Deferred income tax liabilities			
Convertible debentures	(1,157)	43	(1,114)
Net deferred income tax assets	21,800	5,129	26,929

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

22 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, 2015 $	December 31, 2014 $
Non-capital losses	6,858	3,885
Realized capital losses	–	–
Property and equipment	–	877
	6,858	4,762

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

Year of expiry	Loss $
2029	103
2030	15,549
2031	4,073
2032	5,552
2033	4,396
2034	4,110
2035	6
Total	33,789

The Company's US subsidiary has non-capital loss carry forwards which expire in the following years:

Year of expiry	USD loss $
2028	273
2029	550
2030	637
2031	827
2032	311
2033	238
2034	192
2035	1,925
Total	4,953

As at December 31, 2015, the Company had capital loss carryforwards totalling $74 that are available to reduce capital gains in future years. These losses do not expire.

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

23 Supplemental cash flow information

Adjustments for non-cash items:

	For the years ended	
	December 31, 2015 $	**December 31, 2014 $**
Depreciation and amortization	13,820	12,732
Accretion on debt, change in fair value of embedded derivative and unrealized foreign exchange gain	1,393	287
Share-based expense (recovery)	(64)	418
Gain on disposals of property and equipment, franchise business, minority interest investments in hotel properties and repurchase of convertible debentures	(8,365)	(114)
Amounts reclassified to profit and loss on minority interest investments in hotel properties	141	(689)
Impairment (reversal of impairment) of hotel properties, net	15,580	(10,258)
Write-off of acquisition, integration and redevelopment costs	254	–
Provision for settlement of hotel management agreements and loan receivable	–	5,828
Recovery of income taxes	(5,129)	(17,288)
	17,630	(9,084)

Changes in items of working capital:

	For the years ended	
	December 31, 2015 $	**December 31, 2014 $**
Trade and other receivables	2,314	(464)
Inventories	156	(50)
Prepaid expenses and deposits	51	1,188
Funds held on behalf of franchisees	167	(155)
Trade payables and accrued liabilities	(4,159)	660
Accrued interest on convertible debentures	(3)	301
Funds to be spent on behalf of franchisees	(167)	155
	(1,641)	1,635

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

24 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 in 2015 related to these claims.

Commitments

Franchise agreements

Under the terms of the hotel franchise agreements expiring at various dates through the year 2035, franchise fees (including royalty fees, reservation and marketing assessments) are due to franchise companies on 32 of the 35 hotels owned by the Company at December 31, 2015 (2014 – 33 of 36 hotels). Subsequent to December 31, 2015, the Company entered into new franchise agreements (note 30). The franchise fees paid to franchisors for all but one hotel are calculated based on a percentage of revenue, with one hotel being based on an annual membership fee.

Prior to sale of the Travelodge® franchise business on March 31, 2015, 10 hotels made payments for a portion of their franchise fees to the Travelodge® subsidiary of the Company (2014 – 10). These fees have been eliminated in these consolidated financial statements.

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, 2016	327
2017	309
2018	167
2019	45
2020	25

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

24 Contingencies and commitments (continued)

Commitments (continued)

Lease revenue

The Company is committed to leasing space in some of its hotels to outside parties. The lease revenue over the next five years is as follows:

	$
Year ending December 31, 2016	1,120
2017	979
2018	930
2019	853
2020	811

25 Related party transactions

The information below details the related party transactions not disclosed elsewhere in these consolidated financial statements, including amounts received or receivable, paid or payable and year-end balances:

	December 31, 2015 $	December 31, 2014 $
Clarke Inc., a shareholder with significant ownership interest		
IT support fees	138	83
Tax services	8	–
Interest expense	271	642
Included in accounts payable and accrued liabilities	11	276
Clarke Inc. Master Trust, a pension plan administered by a shareholder with significant ownership interest		
Interest expense	163	157
Included in accounts payable and accrued liabilities	13	42
Included in mortgages and loan payable	2,429	2,704

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

26 Segment reporting

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

Geographical information

	For the years ended	
	December 31, 2015 $	**December 31, 2014 $**
Revenues		
Canada	107,595	94,948
United States	3,088	2,589
	110,683	97,537

	December 31, 2015 $	**December 31, 2014 $**
Property and equipment		
Canada	312,471	324,089
United States	–	6,218
	312,471	330,307

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

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

27 Financial instruments and fair values

As explained in note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statement of income (loss) or comprehensive income (loss). Those categories are: fair value through profit or loss; loans and receivables; available-for-sale assets; and, for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Assets				
Loans and receivables				
Cash	2,022	2,022	3,473	3,473
Restricted cash	37	37	347	347
Trade and other receivables	3,244	3,244	5,697	5,697
Loan receivable	5,536	5,536	–	–
Capital reserve – restricted	2,829	2,829	2,304	2,304
Funds held on behalf of franchisees	–	–	167	167
	13,668	13,668	11,988	11,988
Available-for-sale				
Minority interest investments in hotel properties	–	–	190	190
Liabilities				
Amortized cost				
Trade payables and accrued liabilities	12,250	12,250	12,210	12,210
Accrued interest on convertible debentures	1,306	1,306	1,309	1,309
Secured credit facilities	19,529	19,529	27,007	26,986
Mortgages and loan payable	124,246	117,584	135,758	126,039
Convertible debentures	88,968	82,906	88,061	86,216
Funds to be spent on behalf of franchisees	–	–	167	167
	246,299	233,575	264,512	252,927
Fair value through profit or loss				
Share-based liability	476	476	–	–

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

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

27 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:

- Minority interest investments in hotel properties: The fair value is determined using internal valuation techniques. The Company uses an earnings approach based on the hotel's recent operating performance to determine the value of the investment and deducts the outstanding debt on the hotel property.

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

- Convertible debentures: The convertible debentures have two components of value: the conventional debentures and the redemption option (note 17). The fair value of the convertible debentures is based on the quoted market price for the debentures. The redemption option has been accounted for as an embedded derivative that is required to be bifurcated from the underlying debentures, valued using an option pricing model and accounted for as a financial asset with the amount of any redemption option being added to the carrying value of the convertible debentures. Any change in the fair value of the redemption option is recorded in interest and accretion on debt in the consolidated statement of income (loss). The redemption option is classified as level 2 as defined below.

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

Fair value hierarchy

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	December 31, 2015 $	December 31, 2014 $
Level 2		
Redemption option	25	357
Share-based liability	476	–
Level 3		
Minority interest investments in hotel properties	–	190

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

28 Risk management

The Company's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

a) Interest rate risk

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by primarily using fixed rate debt so cash flow is not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable is 5.94% (2014 – 6.21%) with a weighted average maturity of 2.4 years (December 31, 2014 – 3.2 years).

The Company has three mortgages and its secured credit facility at floating rates. For the year ended December 31, 2015, if interest rates on the Company's floating rate debt had been 1% higher/lower, net income would change by $390 (2014 – $183).

b) Credit risk

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

The amount of trade and other receivables disclosed on the consolidated statement of financial position of $3,244 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)

28 Risk management (continued)

b) Credit risk (continued)

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

	December 31, 2015 $	December 31, 2014 $
Trade and other receivables under 30 days aged	2,343	3,804
Trade and other receivables over 30 days aged	1,011	2,136
Less: Allowance for doubtful accounts	(110)	(243)
	3,244	5,697

c) Currency risk

Prior to the sale of its hotel in Myrtle Beach, SC on December 10, 2015, the Company earned revenue and incurred expenses in US currency, and as such, was subject to risk as a result of foreign exchange rate fluctuations. The Company manages its exposure to currency risk by billing for its services in the US in the underlying currency related to the expenditure. As this natural hedging effectively matches the revenue and expenses, the Company's management considers there to be little currency risk. However, a $0.01 change in the US dollar exchange rate would change the cumulative translation adjustments recognized in other comprehensive income (loss) by $16 (2014 – $16).

In addition, the Company is exposed to some currency risk as it pays certain franchise and royalty payments and receives interest income on its loan receivable in US currency. A $0.01 change in the US dollar exchange rate will change the foreign exchange gain or loss recognized in the consolidated statement of income (loss) by $25 (2014 – $32).

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. Cash flow forecasting is performed at the hotel level and aggregated in head office.

The Company had one credit facility which matured on December 31, 2015 and is presented as a current liability. The Company renewed the facility on February 8, 2016 (see note 30).

In 2015, the Company extended a mortgage on one hotel property which was to mature in July 2016 to February 2020 with an interest rate of 4.25%, reduced from 6.00%.

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

28 Risk management (continued)

d) Liquidity risk (continued)

The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. At December 31, 2015, the Company had drawn $19,529 (2014 – $27,007) from its available secured credit facility of $25,000 (2014 – $49,000).

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

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

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

	December 31, 2014			
	Less than 3 months $	3 months to 1 year $	1 to 5 years $	Over 5 years $
Trade payables and accrued liabilities	12,210	–	–	–
Convertible debentures (face value)	–	–	40,601	52,621
Convertible debentures interest	1,523	4,811	21,530	548
Secured credit facilities	–	9,007	18,000	–
Secured credit facilities interest	412	1,204	325	–
Mortgages and loan payable	1,562	4,686	124,823	5,140
Mortgages and loan payable interest	2,023	6,069	12,739	1,052
Funds to be spent on behalf of franchisees	–	–	167	–

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

29 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 to gross book value ("Debt to GBV") ratio defined as secured credit facilities, mortgages and loan payable and convertible debentures ("Debt") divided by total assets plus accumulated impairments, depreciation and amortization ("GBV"). The Company's Articles state that the Company's Debt to GBV should not exceed 60%; and

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

	December 31, 2015 $	December 31, 2014 $
Capital structure		
Secured credit facilities	19,529	27,007
Mortgages and loan payable	124,246	135,758
Convertible debentures	88,968	88,061
Total debt	232,743	250,826
Equity	109,588	117,944
Total capital	342,331	368,770
Ratios		
Total debt	232,743	250,826
Gross book value	505,257	508,625
Debt to GBV – including convertible debentures	46.1%	49.3%
Debt to GBV – excluding convertible debentures	28.5%	32.0%

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

29 Capital management (continued)

	For the years ended	
	December 31, 2015 $	December 31, 2014 $
Earnings base	28,566	30,059
Debt service	20,940	16,731
Debt service coverage ratio	1.36	1.80

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, 2015, all covenants measured on an annual basis were in compliance except two mortgages for which waivers were obtained from the lenders prior to December 31, 2015. At December 31, 2014, all covenants measured on an annual basis were in compliance.

30 Subsequent events

On January 13, 2016, the Company initiated a NCIB to repurchase, over the 12 months commencing on January 13, 2016 and ending on January 12, 2017, up to $4,068 of its issued and outstanding Series B convertible debentures and $3,434 of its issued and outstanding Series C convertible debentures, such amounts representing 10% of the Company's public float as of January 5, 2016. The NCIB will be in effect until January 12, 2017 or such earlier time as the bid is completed or terminated at the option of the Company.

On February 8, 2016, the Company increased its maximum borrowing capacity on the HSBC credit facility to $45,000 from $25,000 which will be available as security over additional properties is registered. The facility is now due on December 31, 2016.

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 five-year term.

In 2016, the Company commenced three new franchise agreements on the following hotel properties:

- The branding of the Yellowknife Inn in Yellowknife, NT to a Quality Inn® and the Holloway Inn and Suites in Grande Prairie, AB to a Quality Inn® were completed on March 3, 2016; and
- The rebranding of the Holiday Inn Express® in Moncton, NB to a Days Inn® was completed on March 8, 2016.