Holloway Lodging Corporation

Interim Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2019
(in thousands of Canadian dollars)

August 9, 2019

Management's Report

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

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

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

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

As at June 30, 2019

(in thousands of Canadian dollars)

	June 30, 2019	December 31, 2018 Restated (note 2)
	$	$
Assets		
Current assets		
Cash	1,245	32,610
Trade and other receivables	5,224	3,628
Inventories	369	419
Prepaid expenses and deposits	1,703	1,037
Current portion of loans receivable (note 4)	2,200	1,000
Asset held-for-sale (note 3)	-	3,206
	10,741	41,900
Non-current assets		
Loans receivable (note 4)	4,720	7,457
Property and equipment (notes 2, 3 and 5)	251,438	241,150
Investment property (notes 2 and 6)	19,545	2,525
Other assets	477	537
Deferred income tax assets (note 2)	10,533	18,892
	286,713	270,561
Total assets	297,454	312,461
Liabilities		
Current liabilities		
Revolving credit facilities (note 3)	28,477	15,000
Trade payables and accrued liabilities	9,835	8,369
Accrued interest on convertible debentures	530	1,290
Current portion of mortgages payable	10,357	11,377
Current portion of convertible debentures (note 7)	-	40,205
Share-based liability (note 8)	-	902
	49,199	77,143
Non-current liabilities		
Mortgages payable	54,738	67,165
Convertible debentures (note 7)	48,710	50,020
Lease obligation (note 2)	624	-
	104,072	117,185
Total liabilities	153,271	194,328
Equity		
Equity attributable to shareholders of the Company	142,532	116,450
Non-controlling interest	1,651	1,683
Total equity	144,183	118,133
Total liabilities and equity	297,454	312,461

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Income (Loss)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

(in thousands of Canadian dollars)

	For the three months ended June 30, 2019	June 30, 2018	For the six months ended June 30, 2019	June 30, 2018 Restated (note 2)
	$	$	$	$
Revenues				
Hotel: Rooms	17,520	22,613	34,138	42,319
Food and beverage	2,091	2,536	4,255	4,900
Rental	219	328	470	647
Other	1,000	1,158	2,055	2,205
Management services	264	27	463	90
	21,094	26,662	41,381	50,161
Expenses				
Operating expenses	14,378	16,982	29,346	33,608
Property taxes and insurance	1,226	1,395	2,497	2,915
Depreciation and amortization	3,360	3,926	6,956	7,849
	18,964	22,303	38,799	44,372
Income before the following	2,130	4,359	2,582	5,789
Other (income) and expenses				
Interest and accretion on debt	2,306	3,260	4,734	6,506
Corporate and administrative	592	444	1,192	1,497
Share-based expense (note 8)	-	18	202	317
Interest income	(135)	(163)	(343)	(315)
Insurance proceeds, net of clean-up and other costs (note 5)	(949)	-	(949)	-
Loss (gain) on disposals of assets (notes 3 and 4)	523	71	(2,956)	75
Gain on debenture extension (note 7)	(1,600)	-	(1,600)	-
Selling costs on property and equipment sales (note 3)	337	-	1,217	-
Revaluation of hotel properties (notes 2 and 5)	(200)	-	6,400	-
Fair value change of investment property (notes 2 and 6)	-	-	-	(900)
Write-off of deferred financing fees and discount on debenture redemption	-	-	362	-
Unrealized foreign exchange (gain) loss	(5)	(113)	108	(258)
	869	3,517	8,367	6,922
Income (loss) before income taxes	1,261	842	(5,785)	(1,133)
Provision for (recovery of) income taxes (notes 2 and 9)	(2,714)	410	(4,895)	(80)
Net income (loss) for the period	3,975	432	(890)	(1,053)
Attributable to:				
Shareholders of the Company	3,993	429	(820)	(1,004)
Non-controlling interest	(18)	3	(70)	(49)
	3,975	432	(890)	(1,053)
Basic earnings (loss) per share (notes 2 and 10)	0.26	0.02	(0.05)	(0.05)
Diluted earnings (loss) per share (notes 2 and 10)	0.18	0.02	(0.05)	(0.05)

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
For the three and six months ended June 30, 2019 and 2018

(in thousands of Canadian dollars)

	For the three months ended June 30, 2019	June 30, 2018	For the six months ended June 30, 2019	June 30, 2018 Restated (note 2)
	$	$	$	$
Net income (loss) for the period	3,975	432	(890)	(1,053)
Items that will not be reclassified to profit or loss				
Revaluation surplus (notes 2 and 5)	(940)	-	52,060	-
Income taxes	240	-	(13,351)	-
	(700)	-	38,709	-
Items that will be reclassified to profit or loss				
Cumulative translation adjustments (note 6)	(334)	-	(334)	-
Income taxes	92	-	92	-
	(242)	-	(242)	-
Other comprehensive income (loss)	(942)	-	38,467	-
Comprehensive income (loss) for the period	3,033	432	37,577	(1,053)
Comprehensive income (loss) attributable to:				
Shareholders of the Company	3,051	429	37,647	(1,004)
Non-controlling interest	(18)	3	(70)	(49)
	3,033	432	37,577	(1,053)

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited)

For the six months ended June 30, 2019 and 2018

(in thousands of Canadian dollars)

	Common shares $	Contributed surplus $	Deficit $	Revaluation surplus (note 2) $	Accumulated other comprehensive loss $	Equity attributable to shareholders of the Company $	Non-controlling interest $	Total equity $
Balance, January 1, 2018	220,126	6,347	(122,389)	-	-	104,084	1,735	105,819
Net loss and comprehensive loss for the period	-	-	(1,004)	-	-	(1,004)	(49)	(1,053)
Dividends paid to shareholders	-	-	(1,279)	-	-	(1,279)	-	(1,279)
Repurchase of common shares (note 10)	(2,359)	1,202	-	-	-	(1,157)	-	(1,157)
Balance, June 30, 2018 – restated (note 2)	217,767	7,549	(124,672)	-	-	100,644	1,686	102,330
Balance, January 1, 2019 – restated (note 2)	205,443	13,573	(102,566)	-	-	116,450	1,683	118,133
Net loss for the period	-	-	(820)	-	-	(820)	(70)	(890)
Other comprehensive income for the period	-	-	-	38,709	(242)	38,467	-	38,467
Comprehensive income for the period	-	-	(820)	38,709	(242)	37,647	(70)	37,577
Transfer upon sale of properties (note 3)	-	-	8,037	(8,037)	-	-	-	-
Contributions from non-controlling interests	-	-	-	-	-	-	38	38
Exercise of options	24	-	-	-	-	24	-	24
Dividends paid to shareholders	-	-	(1,091)	-	-	(1,091)	-	(1,091)
Repurchase of common shares (note 10)	(19,051)	8,553	-	-	-	(10,498)	-	(10,498)
Balance, June 30, 2019	186,416	22,126	(96,440)	30,672	(242)	142,532	1,651	144,183

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the six months ended June 30, 2019 and 2018

(in thousands of Canadian dollars)

	For the six months ended June 30, 2019	June 30, 2018 Restated (note 2)
	$	$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(890)	(1,053)
Adjustments for non-cash items (note 11)	6,303	7,572
	5,413	6,519
Changes in items of working capital (note 11)	(2,812)	(1,255)
Net cash generated from operating activities	2,601	5,264
Investing activities		
Additions to property and equipment and change in other assets	(2,389)	(3,182)
Additions of investment property	(17,458)	-
Proceeds from sales of assets and property and equipment, net of costs (note 3)	34,790	-
Proceeds from sale of loan receivable (note 4)	4,513	-
Net cash (used in) provided by investing activities	19,456	(3,182)
Financing activities		
Proceeds from (repayment of) revolving credit facilities	13,477	(1,796)
Proceeds from mortgages, net of deferred financing fees	-	4,980
Repayment of mortgages payable	(13,664)	(2,179)
Repurchase of common shares	(10,498)	(1,157)
Redemption of convertible debentures	(40,565)	-
Dividends paid to shareholders	(1,091)	(1,279)
Settlement of share-based liability	(1,080)	-
Contributions from non-controlling interests	38	-
Financing fees on convertible debentures	(39)	-
Net cash used in financing activities	(53,422)	(1,431)
(Decrease) increase in cash	(31,365)	651
Cash – beginning of period	32,610	691
Cash – end of period	1,245	1,342
Supplemental cash flow information		
Interest paid	4,976	5,923
Interest received	438	171

Cash is comprised of cash on hand and balances with financial institutions.

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

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

1 General information

Holloway Lodging Corporation, together with its subsidiaries (the "Company" or "Holloway"), is a hospitality company that owns and operates hotels, provides hotel management services to third parties and owns three commercial office buildings in Houston, TX. As at June 30, 2019, the Company owned and operated 24 hotels and held a 62% interest in another hotel in Canada, with a total of 2,890 guest rooms. One of the hotel properties in Slave Lake, AB has been leased to a third party on a triple net basis. The address of its registered office is 145 Hobsons Lake Drive, Suite 106, Halifax, Nova Scotia.

The results of operations for the six months ended June 30, 2019 represent the results of 25 hotels for the full period and 6 hotels for part of the period as the Company:

- sold the Travelodge® in Dartmouth, NS on January 15, 2019;
- sold the Travelodge® in Moncton, NB on March 6, 2019;
- sold the Days Inn® in Moncton, NB on March 6, 2019;
- sold the Super 8® in Windsor, NS on March 28, 2019;
- sold the Super 8® in Timmins, ON on June 18, 2019; and
- sold the Travelodge® in Timmins, ON on June 18, 2019.

The results of operations for the six months ended June 30, 2018 represent the operations of 33 hotels for the full period.

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

2 Basis of preparation, changes in accounting policies and new accounting standard

These unaudited interim condensed consolidated financial statements ("condensed financial statements") have been prepared in accordance with generally accepted accounting principles in Canada as set out in the CPA Canada Handbook – Accounting – Part 1 which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and in accordance with IAS 34, *Interim Financial Reporting*. These condensed financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2018. The accounting policies followed in these condensed financial statements are the same as those applied in the Company's audited annual financial statements for the year ended December 31, 2018, except as discussed below.

These condensed consolidated financial statements were approved for issue by the Board of Directors on August 8, 2019.

Foreign currency translation

The consolidated financial statements of entities that have a functional currency different from the reporting entity's currency ("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)

2 Basis of preparation, changes in accounting policies and new accounting standard (continued)

Changes in accounting policies

On January 1, 2019, the Company adopted the revaluation model for measurement after recognition for certain assets classified under IAS 16, *Property, Plant and Equipment* ("IAS 16") and adopted the fair value model for measurement after recognition under IAS 40, *Investment Property* ("IAS 40"). This note explains the impact of these accounting policy changes on the Company's financial statements.

IAS 16, *Property, Plant and Equipment*

Effective January 1, 2019, the Company changed its accounting policy for measurement after recognition of certain asset classes of its property and equipment from the cost model to the revaluation model. The change in accounting policy is accounted for prospectively as required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The policy choice is by asset class, and as such, the Company has elected to change its land and buildings and components asset classes to the revaluation model. All other asset classes will continue to be accounted for under the cost model. This accounting policy change will provide consistent carrying values of our property and equipment with our controlling shareholder's purchase price allocation on their acquisition of control. Under the revaluation model, land and buildings and components are carried at fair value at the date of revaluation and subsequently depreciated until the next revaluation.

The Company has elected the net method for adjustment upon revaluation. The net method eliminates accumulated depreciation and accumulated impairment against the carrying amount of the asset and then revalues the net carrying amount. Depreciation on the carrying amount is charged to profit and loss.

Land and buildings and components are revalued on a sufficiently regular basis using third party offers, internal models or external appraisals, when available, so that the carrying value of an asset does not materially differ from its fair value at each reporting date. The Company has established a methodology to evaluate when circumstances indicate that the carrying amount may differ materially from its fair value, which includes significant changes in operating performance, economic activity, regional development opportunities and new competition in the markets in which each hotel operates.

On transition to the revaluation model, initial increases in fair value are recorded in other comprehensive income and accumulated within equity in revaluation surplus. Initial decreases in fair value are recorded in profit and loss. Subsequently, increases in fair value are recorded in other comprehensive income and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously charged to profit and loss, in which case the reversal is recorded in profit and loss. Decreases in fair value are charged against other comprehensive income and the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset, and thereafter are recorded in profit and loss.

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

2 Basis of preparation, changes in accounting policies and new accounting standard (continued)

IAS 16, *Property, Plant and Equipment* (continued)

To determine the fair value at January 1, 2019, the Company used a capitalized income internal model and considered hotel sales in comparable markets. The fair value models were prepared internally. Capitalization rates used were obtained from an independent third party. In the Company's internal models, each hotel's recent historical operating income was normalized for any unusual and non-recurring events and reduced by a capital expenditure reserve of 4% of revenues. A 4% capital expenditure reserve may not reflect actual capital expenditures for a particular hotel.

A capitalization rate specific to the market in which each hotel operates was applied to the operating income. In situations where the capitalized income value resulted in a fair value which differed significantly from the price per room metrics in recent market transactions, the Company used comparable hotel sales prices, professional judgement and management expertise to determine the fair value. The fair value may not reflect the realizable value in the event a particular hotel is sold by the Company.

On January 1, 2019, the Company recorded a revaluation surplus of $53,000 on 20 hotels where the fair value exceeded the carrying value and a revaluation expense of $6,600 on 8 hotels where the carrying value exceeded the fair value. One hotel's fair value equaled its carrying value.

These are level 3 fair value measurements under the fair value hierarchy. A key factor of estimation uncertainty used in the internal models was the capitalization rate, which ranged from 9.0% - 11.0%. If the capitalization rate had been 0.25% higher/lower, the estimated fair value under the capitalized income approach would have changed the value of property and equipment by $4,500. If the value of the comparable hotel sales had been 5% higher/lower, the estimated fair value would have changed the value of property and equipment by $2,800.

On June 30, 2019, the Company revalued 4 hotels based on third party offers. The value of 2 hotels increased by a total of $2,130, and the value of 2 hotels decreased by a total of $2,870. The increases in fair value were recorded in other comprehensive income and accumulated in revaluation surplus except for 1 hotel where the increase was partially recorded in the statement of income (loss) as it reversed a $200 revaluation decrease previously charged to profit and loss. The decreases in fair value were charged against other comprehensive income.

IAS 40, *Investment Property*

Effective January 1, 2019, the Company changed its accounting policy for measurement after recognition of its investment property from the cost model to the fair value model. The change in policy was applied retrospectively, which means the policy was applied to transactions, events and conditions as if it had always been in effect. This accounting policy change will provide consistent carrying values of our investment property with our controlling shareholder's purchase price allocation on their acquisition of control.

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

2 Basis of preparation and new accounting standards (continued)

IAS 40, *Investment Property* (continued)

Investment property is held either to earn rental income, for capital appreciation (including future re-development) or both, but not for sale in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs, and subsequently measured at fair value at each reporting date. The difference between the fair value at the reporting date and the carrying value is recognized in profit and loss. Under the fair value model, investment property is not depreciated.

Selected adjusted financial statement information reflecting the change in accounting policy is presented below. The accounting policy change did not impact the results of the Company for the three months ended June 30, 2018.

Interim Condensed Consolidated Statement of Financial Position
As at December 31, 2018

	As originally presented $	Accounting policy change $	As restated $
Investment property (previously included in property and equipment)	1,625	900	2,525
Deferred income tax assets	19,092	(200)	18,892
Equity attributable to shareholders of the Company	115,750	700	116,450

Interim Condensed Consolidated Statement of Loss and Comprehensive Loss
For the six months ended June 30, 2018

	As originally presented $	Accounting policy change $	As restated $
Fair value change of investment property	-	(900)	(900)
Loss before income taxes	(2,033)	900	(1,133)
Recovery of income taxes	(280)	200	(80)
Net loss and comprehensive loss for the period	(1,753)	700	(1,053)
Attributable to:			
Shareholders of the Company	(1,704)	700	(1,004)
Non-controlling interest	(49)	-	(49)
	(1,753)	700	(1,053)
Basic and diluted loss per share	(0.09)	0.04	(0.05)

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

2 Basis of preparation and new accounting standards (continued)

New accounting standard

IFRS 16, *Leases*

IFRS 16, *Leases* replaces IAS 17, *Leases*. The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. The Company has selected the modified retrospective approach without the use of practical expedients as its transition method for this standard. The Company elected to apply exemptions for low value and short-term leases upon transition. The Company evaluated the impact of this new standard and at January 1, 2019, recorded a right-of-use asset and corresponding lease obligation of $738 on its interim condensed consolidated statement of financial position related to the Company's head office space lease. The right-of-use asset is presented in property and equipment. The current portion of the lease obligation is presented in trade payables and accrued liabilities. The standard did not have an impact on the Company's opening deficit.

A reconciliation of operating lease commitments disclosed at December 31, 2018 and the right-of-use asset is presented below.

	$
Operating lease commitments disclosed at December 31, 2018	544
Commitments on low value and short-term leases	(71)
Commitments in excess of five years, not disclosed	470
Discount	(205)
Right-of-use asset	738

3 Disposals of asset held-for-sale and property and equipment

Travelodge®, Dartmouth, NS

On January 15, 2019, the Company sold the Travelodge® hotel in Dartmouth, NS, for gross proceeds of $6,900 and recorded a gain on sale of $3,478 in the consolidated statement of income (loss). This property was accounted for as an asset held-for-sale at December 31, 2018. It was not subject to the revaluation model and accordingly, the gain on sale was recorded in the consolidated statement of loss. The Company received net cash proceeds of $3,199 after selling costs, the repayment of a $2,823 mortgage secured by the property and the provision of a $700 vendor take-back second mortgage.

Days Inn®, Moncton, NB

On March 6, 2019, the Company sold the Days Inn® hotel in Moncton, NB, for gross proceeds of $9,000. The Company received net cash proceeds of $4,056 after selling costs, the repayment of a $3,624 mortgage secured by the property and the provision of a $1,000 vendor take-back second mortgage. On January 1, 2019, a revaluation adjustment of $2,000 on this property was recognized in other comprehensive income. Upon disposition, this revaluation surplus was transferred to deficit within equity.

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

3 Disposals of asset held-for-sale and property and equipment (continued)

Travelodge®, Moncton, NB

On March 6, 2019, the Company sold the Travelodge® hotel in Moncton, NB, for gross proceeds of $5,000. The Company received net cash proceeds of $1,790 after selling costs and the repayment of a $3,028 mortgage secured by the property. On January 1, 2019, a revaluation adjustment of $1,000 on this property was recognized in other comprehensive income. Upon disposition, this revaluation surplus was transferred to deficit within equity.

Single tenant property, Timmins, ON

On March 18, 2019, the Company sold its single tenant property located in Timmins, ON, for gross proceeds of $1,725. The Company received net cash proceeds of $1,648 after selling costs. On January 1, 2019, a revaluation adjustment of $614 on this property was recognized in other comprehensive income. Upon disposition, this revaluation surplus was transferred to deficit within equity.

Super 8®, Windsor, NS

On March 28, 2019, the Company sold the Super 8® hotel in Windsor, NS, for gross proceeds of $5,300. The Company received net cash proceeds of $2,452 after selling costs, the repayment of a $2,157 mortgage secured by the property and the provision of a $500 vendor take-back second mortgage. On January 1, 2019, a revaluation adjustment of $2,900 on this property was recognized in other comprehensive income. Upon disposition, this revaluation surplus was transferred to deficit within equity.

Super 8®, Timmins, ON

On June 18, 2019, the Company sold the Super 8® hotel in Timmins, ON, for gross proceeds of $6,500. The Company received net cash proceeds of $5,279 after selling costs and the provision of a $1,000 vendor take-back second mortgage. On January 1, 2019, a revaluation adjustment of $2,900 on this property was recognized in other comprehensive income. Upon disposition, this revaluation surplus was transferred to deficit within equity.

Travelodge®, Timmins, ON

On June 18, 2019, the Company sold the Travelodge® hotel in Timmins, ON, for gross proceeds of $4,900. The Company received net cash proceeds of $4,734 after selling costs. On January 1, 2019, a revaluation adjustment of $1,386 on this property was recognized in other comprehensive income. Upon disposition, this revaluation surplus was transferred to deficit within equity.

The two hotels in Timmins, ON had provided security on one of the Company's revolving credit facilities, which has a maximum borrowing capacity of $45,000, determined by a borrowing base calculation. At June 30, 2019, the maximum borrowing capacity of this credit facility was $40,650.

4 Loans receivable

On April 30, 2019, the Company sold US$3,450 principal amount of its US$4,000 loan receivable for net proceeds of $4,513. The loss on sale of $116 was recorded in the three months ended June 30, 2019.

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

5 Property and equipment

	For the six months ended June 30, 2019							
	Opening net book value $	Additions $	Transfers $	Disposals $	Depreciation $	Revaluation through other comprehensive income $	Revaluation through profit and loss $	Closing net book value $
Land	34,250	936	1,978	(6,854)	-	9,689	(960)	39,039
Buildings and components	184,793	395	-	(24,346)	(4,628)	42,371	(5,440)	193,145
Furniture, fixtures, equipment and other	20,111	1,452	-	(1,512)	(2,290)	-	-	17,761
Right-of-use asset	-	738	-	-	(38)	-	-	700
Renovations in progress	1,996	775	(1,978)	-	-	-	-	793
	241,150	4,296	-	(32,712)	(6,956)	52,060	(6,400)	251,438

Disposals consist primarily of five hotels and one single tenant property sold during the period (note 3).

	As at June 30, 2019				
	Valuation $	Cost $	Accumulated impairment losses $	Accumulated depreciation $	Net book value $
Land	39,039	-	-	-	39,039
Buildings and components	197,564	-	-	(4,419)	193,145
Furniture, fixtures, equipment and other	-	52,347	(3,951)	(30,635)	17,761
Right-of-use asset	-	738	-	(38)	700
Renovations in progress	-	793	-	-	793
	236,603	53,878	(3,951)	(35,092)	251,438

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

5 Property and equipment (continued)

The Super 8® in Yellowknife, NT and the Travelodge® in Sydney, NS were damaged due to a release of water into the hotels. These events resulted in insurance claims under the Company's insurance policy. The Company has incurred $900 on capital improvements to the hotels and has recorded $107 and $219 in business interruption insurance (included in other revenues) in the three and six months ended June 30, 2019, respectively and $949 in property and contents insurance, net of clean-up and other costs in the three and six months ended June 30, 2019. The Company recorded a loss on disposal of $400 on the write-off of the building components that were damaged.

6 Investment property

	$
Beginning balance, January 1, 2019 (note 2)	2,525
Additions through acquisition	17,458
Foreign exchange	(438)
Ending balance, June 30, 2019	19,545

On May 24, 2019, the Company acquired two office buildings in Houston, TX, for US $8,275. On January 30, 2019, the Company purchased a non-performing US dollar loan receivable, secured by an office building, for US $4,800. On March 5, 2019, the Company foreclosed on the office building. The functional currency of these foreign operations is the US dollar.

On January 26, 2018, the Company entered into a lease arrangement with a third party where the Company leased on a triple net basis, its former Travelodge® hotel in Slave Lake, AB. The lease expires on January 15, 2021 and includes an option for the lessee to acquire the hotel at any time during the lease period. On January 1, 2019, the Company changed its accounting policy and retroactively restated the asset from property and equipment to investment property and recorded a fair value adjustment of $900.

7 Convertible debentures

At December 31, 2018, the Company had two series of convertible debentures outstanding. On January 3, 2019, the Company fully redeemed the Series C Debentures. The Company paid the holders of the Series C Debentures $1,019.52 per $1,000 principal amount (amounts not in thousands), representing the principal amount of $1,000 and accrued and unpaid interest of $19.52.

On April 26, 2019, at a meeting of the holders of the Series B Debentures, the Company obtained approval to amend the Series B Debentures as follows: (1) extending the maturity date by three years to February 28, 2023; (2) amending the conversion price to $12.50 per common share being a conversion rate of 80 common shares per $1,000 principal amount of the debentures; and (3) amending the redemption provision to, among other things, prohibit the Company from redeeming the debentures until June 1, 2020, except in connection with a change in control of the Company resulting in the acquisition of 100% of the voting or equity interests in the Company and except, for the 60 days following the effective date of the debenture amendments, to allow the Company to redeem up to 10% of the aggregate principal amount, being approximately $5,087 aggregate principal amount, of the debentures at a price equal to the principal amount thereof, plus accrued and unpaid interest. A gain of $1,600 was recognized in the three months ended June 30, 2019 based on the present value of the modified contractual cash flows as a result of extending the maturity date.

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

7 Convertible debentures (continued)

The following table summarizes the significant changes in the convertible debentures for the six months ended June 30, 2019:

	$
Beginning balance, January 1, 2019	90,225
Accretion of discount and amortization of deferred financing fees	329
Deferred financing fees	(39)
Gain on debenture extension	(1,600)
Carrying value of fully redeemed debentures	(40,205)
Ending balance, June 30, 2019	48,710

8 Share-based liability

The Company issues options to purchase common shares to its directors and certain employees which can be settled for cash.

On January 24, 2019, a change of control occurred which resulted in all unvested options vesting immediately and, subject to limited exceptions, all options not exercised within 90 days expired. At December 31, 2018, there were 755,000 options outstanding. During the six months ended June 30, 2019, 740,000 options were exercised and settled with cash and 15,000 options were exercised and settled with the issuance of 3,514 common shares.

The following table summarizes the changes in the share-based liability for the six months ended June 2019.

	$
Beginning balance, January 1, 2019	902
Options exercised	(1,104)
Change in fair value of share-based liability	202
Ending balance, June 30, 2019	-

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

9 Income taxes

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

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018 Restated (note 2)
	$	$	$	$
Income (loss) before income taxes	1,261	842	(5,785)	(1,053)
Combined statutory income tax rate	27.60%	27.51%	27.60%	27.51%
Income tax at the combined statutory income tax rate	348	232	(1,597)	(290)
Non-taxable portion of gains	(269)	(16)	(576)	(35)
Non-deductible expenses	5	11	65	98
Adjustment on change of control	(2,862)	-	(2,862)	-
Change in tax rates	-	-	-	28
Other	64	183	75	119
Provision for (recovery of) income taxes	(2,714)	410	(4,895)	(80)

The statutory tax rate was 27.60% for the six months ended June 30, 2019 (for the six months ended June 30, 2018 - 27.51%).

The Company was subject to an acquisition of control on January 24, 2019 which resulted in the realization of certain tax attributes which were not recognized by the Company prior to that date. The recognition of these tax attributes upon filing of income tax compliance, resulted in a $2,862 deferred income tax asset and income tax recovery. The Company expects to realize the deferred income tax asset in the future.

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

10 Share capital and earnings (loss) per share

Basic

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

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018 Restated (note 2)
	$	$	$	$
Net income (loss) attributable to shareholders of the Company	3,993	429	(820)	(1,004)
Weighted average number of shares outstanding	15,579,273	18,259,844	15,781,541	18,275,855
Basic earnings (loss) per share	0.26	0.02	(0.05)	(0.05)

Diluted

Diluted earnings (loss) per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive instruments convertible into shares. During the six months ended June 30, 2019, the Company had one potentially dilutive instrument, convertible debentures. During the six months ended June 30, 2018, the Company had both convertible debentures and options. This calculation is done to determine the number of shares that could have been acquired at fair value based on the subscription rights of the convertible debentures and options. For the three months ended June 30, 2018 and the six months ended June 30, 2019 and 2018, the potentially dilutive instruments were antidilutive.

Diluted earnings per share for the three months ended June 30, 2019 is presented below:

	Three months ended
	June 30, 2019
	$
Diluted income attributable to shareholders of the Company	3,470
Weighted average number of diluted shares	19,648,553
Diluted earnings per share	0.18

At June 30, 2019, there were 15,559,112 common shares outstanding. During the six months ended June 30, 2019, the Company repurchased and cancelled 1,589,955 shares at a cost of $10,498 (average price of $6.60 per share). During the six months ended June 30, 2018, the Company repurchased and cancelled 196,900 shares at a cost of $1,157 (average price of $5.88 per share).

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

11 Supplemental cash flow information

Adjustments for non-cash items:

	For the six months ended June 30, 2019 $	June 30, 2018 Restated (note 2) $
Revaluation of hotel properties	6,400	-
Depreciation and amortization	6,977	7,868
Accretion on debt and foreign exchange changes	601	292
Share-based expense	202	317
Fair value change of investment property	-	(900)
(Gain) loss on disposal of assets	(2,956)	75
Gain on debenture extension	(1,600)	-
Selling costs on property and equipment sales	1,217	-
Write-off of deferred financing fees and discount on debenture redemption	362	-
Recovery of income taxes	(4,900)	(80)
	6,303	7,572

Changes in items of working capital:

	For the six months ended June 30, 2019 $	June 30, 2018 $
Trade and other receivables	(1,596)	(746)
Inventories	50	35
Prepaid expenses and deposits	(666)	(1,669)
Trade payables and accrued liabilities	160	1,125
Accrued interest on convertible debentures	(760)	-
	(2,812)	(1,255)

12 Financial instruments and fair values

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

	June 30, 2019		December 31, 2018	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Mortgages payable	65,095	65,012	78,542	79,900
Convertible debentures	48,710	51,375	90,225	90,627

The methods and assumptions used in estimating the fair values are consistent with those applied in the Company’s audited annual financial statements for the year ended December 31, 2018.

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

13 Related party transactions

The Company's controlling shareholder as of January 24, 2019 is Clarke Inc. ("Clarke"), which is a public company listed on the Toronto Stock Exchange. Clarke and companies owned or partially owned by Clarke's Executive Chairman and his immediate family member are considered related parties of the Company. During the three and six months ended June 30, 2019, the Company paid rent, IT support fees and tax services of $80 and $150, respectively to companies owned or partially owned by Clarke's Executive Chairman and his immediate family member.

14 Subsequent events

On July 25, 2019, the Company sold the Travelodge® hotel in Sydney, NS for gross proceeds of $5,050. After repayment of the existing mortgage and closing costs, the net cash proceeds were $1,820. The hotel property has been revalued in the six months ended June 30, 2019 to reflect its fair value.

On August 6, 2019, the Company sold its leasehold interest in the Super 8® hotel in Truro, NS for gross proceeds of $3,000. After repayment of the existing mortgage and closing costs, the net cash proceeds were $1,070. The hotel property has been revalued in the six months ended June 30, 2019 to reflect its fair value.

On August 8, 2019, the Company entered into a definitive agreement (the "Arrangement Agreement") pursuant to which Clarke agreed to acquire all outstanding common shares of the Company by way of a statutory plan of arrangement under the Ontario Business Corporations Act. Under the terms of the Arrangement Agreement, Holloway shareholders, other than Clarke, will receive 0.65 common shares of Clarke for each Holloway common share they own. The acquisition is valued at approximately $132 million on an equity value basis as of the announcement date on August 9, 2019. As of August 9, 2019, Clarke owned 7,952,715 common shares of Holloway, representing approximately 51% of the outstanding Holloway common shares.

The transaction, which is subject to approval by both Holloway and Clarke shareholders, and other customary conditions and approvals, is expected to close in the third quarter of 2019. Upon closing, Holloway will become a wholly-owned subsidiary of Clarke.