

Holloway Lodging Corporation

Interim Condensed Consolidated Financial Statements
(Unaudited)

March 31, 2019

(in thousands of Canadian dollars)

May 10, 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 March 31, 2019

(in thousands of Canadian dollars)

	March 31, 2019	December 31, 2018 Restated (note 2)
	\$	\$
Assets		
Current assets		
Cash	655	32,610
Trade and other receivables	4,708	3,628
Inventories	384	419
Prepaid expenses and deposits	1,061	1,037
Current portion of loans receivable	2,000	1,000
Asset held-for-sale (note 3)	-	3,206
	8,808	41,900
Non-current assets		
Loans receivable	8,545	7,457
Property and equipment (notes 2, 3 and 4)	264,401	241,150
Investment property (notes 2 and 5)	8,931	2,525
Other assets	496	537
Deferred income tax assets (note 2)	7,482	18,892
	289,855	270,561
Total assets	298,663	312,461
Liabilities		
Current liabilities		
Revolving credit facilities	29,141	15,000
Trade payables and accrued liabilities	8,938	8,369
Dividends payable	545	-
Accrued interest on convertible debentures	1,318	1,290
Current portion of mortgages payable	10,428	11,377
Current portion of convertible debentures (notes 6 and 13)	50,176	40,205
Share-based liability (note 7)	25	902
	100,571	77,143
Non-current liabilities		
Mortgages payable	55,514	67,165
Convertible debentures (note 6)	-	50,020
Lease obligation (note 2)	668	-
	56,182	117,185
Total liabilities	156,753	194,328
Equity		
Equity attributable to shareholders of the Company	140,241	116,450
Non-controlling interest	1,669	1,683
Total equity	141,910	118,133
Total liabilities and equity	298,663	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 Loss
(Unaudited)
For the three months ended March 31, 2019 and 2018

(in thousands of Canadian dollars)

	For the three months ended	
	March 31, 2019	March 31, 2018 Restated (note 2)
	\$	\$
Revenues		
Hotel: Rooms	16,618	19,706
Food and beverage	2,164	2,364
Rental	250	319
Other	1,056	1,047
Management services	199	63
	<u>20,287</u>	<u>23,499</u>
Expenses		
Operating expenses	14,969	16,625
Property taxes and insurance	1,271	1,521
Depreciation and amortization	3,596	3,923
	<u>19,836</u>	<u>22,069</u>
Income before the following	<u>451</u>	<u>1,430</u>
Other (income) and expenses		
Interest and accretion on debt	2,428	3,244
Corporate and administrative	600	1,053
Share-based expense	202	298
Interest income	(208)	(152)
(Gain) loss on disposal of assets (note 3)	(3,478)	3
Selling costs on property and equipment sales (note 3)	879	-
Revaluation of hotel properties (notes 2 and 4)	6,600	-
Fair value change of investment property (notes 2 and 5)	-	(900)
Write-off of deferred financing fees and discount on debenture redemption	362	-
Unrealized foreign exchange loss (gain)	112	(145)
	<u>7,497</u>	<u>3,401</u>
Loss before income taxes	(7,046)	(1,971)
Recovery of income taxes (notes 2 and 8)	<u>(2,181)</u>	<u>(490)</u>
Net loss for the period	<u>(4,865)</u>	<u>(1,481)</u>
Attributable to:		
Shareholders of the Company	(4,813)	(1,429)
Non-controlling interest	(52)	(52)
	<u>(4,865)</u>	<u>(1,481)</u>
Basic and diluted loss per share (notes 2 and 9)	(0.30)	(0.08)

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

For the three months ended March 31, 2019 and 2018

(in thousands of Canadian dollars)

	For the three months ended March 31, 2019	March 31, 2018 Restated (note 2)
	\$	\$
Net loss for the period	(4,865)	(1,481)
Items that will not be reclassified to profit or loss		
Revaluation surplus (notes 2 and 4)	53,000	-
Income taxes	(13,591)	-
Other comprehensive income	39,409	-
Comprehensive income (loss) for the period	34,544	(1,481)
Comprehensive income (loss) attributable to:		
Shareholders of the Company	34,596	(1,429)
Non-controlling interest	(52)	(52)
	34,544	(1,481)

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited)

For the three months ended March 31, 2019 and 2018

(in thousands of Canadian dollars)

	Common shares \$	Contributed surplus \$	Deficit \$	Revaluation surplus (note 2) \$	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	-	-	(1,429)	-	(1,429)	(52)	(1,481)
Dividends declared to shareholders	-	-	(640)	-	(640)	-	(640)
Repurchase of common shares (note 9)	(1,090)	570	-	-	(520)	-	(520)
Balance, March 31, 2018 – restated (note 2)	219,036	6,917	(124,458)	-	101,495	1,683	103,178
Balance, January 1, 2019	205,443	13,573	(102,566)	-	116,450	1,683	118,133
Net loss for the period	-	-	(4,813)	-	(4,813)	(52)	(4,865)
Other comprehensive income for the period	-	-	-	39,409	39,409	-	39,409
Comprehensive income for the period	-	-	(4,813)	39,409	34,596	(52)	34,544
Transfer of revaluation surplus to deficit on sale of properties (note 3)	-	-	4,851	(4,851)	-	-	-
Contributions from non-controlling interests	-	-	-	-	-	38	38
Dividends declared to shareholders	-	-	(545)	-	(545)	-	(545)
Repurchase of common shares (note 9)	(18,719)	8,459	-	-	(10,260)	-	(10,260)
Balance, March 31, 2019	186,724	22,032	(103,073)	34,558	140,241	1,669	141,910

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

Holloway Lodging Corporation

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the three months ended March 31, 2019 and 2018

(in thousands of Canadian dollars)

	For the three months ended March 31, 2019	March 31, 2018 Restated (note 2)
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(4,865)	(1,481)
Adjustments for non-cash items (note 10)	6,325	2,994
	1,460	1,513
Changes in items of working capital (note 10)	(441)	319
Net cash generated from operating activities	1,019	1,832
Investing activities		
Additions to property and equipment and change in other assets	(841)	(1,598)
Acquisition of investment property	(6,406)	-
Proceeds from sales of assets and property and equipment, net of costs (note 3)	24,777	-
Net cash provided by (used in) investing activities	17,530	(1,598)
Financing activities		
Proceeds from revolving credit facilities	14,141	1,159
Repayment of mortgages payable	(12,760)	(1,119)
Repurchase of common shares	(10,260)	(520)
Redemption of convertible debentures	(40,565)	-
Settlement of share-based liability	(1,079)	-
Contributions from non-controlling interests	38	-
Financing fees on convertible debentures	(19)	-
Net cash used in financing activities	(50,504)	(480)
Decrease in cash	(31,955)	(246)
Cash – beginning of period	32,610	691
Cash – end of period	655	445
Supplemental cash flow information		
Interest paid	2,113	2,934
Interest received	57	-

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.

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

(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 and provides hotel management services to third parties. As at March 31, 2019, the Company owned and operated 26 hotels and held a 62% interest in another hotel in Canada, with a total of 3,055 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 three months ended March 31, 2019 represent the results of 27 hotels for the full period and 4 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; and
- sold the Super 8® in Windsor, NS on March 28, 2019.

The results of operations for the three months ended March 31, 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 for the changes discussed below.

These condensed consolidated financial statements were approved for issue by the Board of Directors on May 10, 2019.

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*.

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

(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)

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 upon 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 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 property 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.

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%.

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

(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)

If the capitalization rate had been 0.25% higher/lower, the estimated fair value under the capitalized income approach would result in a change of \$4,500 to property and equipment. If the value of the comparable hotel sales had been 5% higher/lower, the estimated fair value would result in a change of \$2,800 to property and equipment.

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 upon their acquisition of control.

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.

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

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

(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 40, *Investment Property* (continued)

Interim Condensed Consolidated Statement of Loss and Comprehensive Loss For the three months ended March 31, 2018

	As originally presented \$	Accounting policy change \$	As restated \$
Fair value change of investment property	-	(900)	(900)
Loss before income taxes	(2,871)	900	(1,971)
Recovery of income taxes	(690)	200	(490)
Net loss and comprehensive loss for the period	(2,181)	700	(1,481)
Attributable to:			
Shareholders of the Company	(2,129)	700	(1,429)
Non-controlling interest	(52)	-	(52)
	(2,181)	700	(1,481)
Basic and diluted loss per share	(0.12)	0.04	(0.08)

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	<u>738</u>

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

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

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 loss for the three months ended March 31, 2019. 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. In the three months ended March 31, 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.

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. In the three months ended March 31, 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. In the three months ended March 31, 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. In the three months ended March 31, 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.

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

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

4 Property and equipment

For the period ended March 31, 2019

	Opening net book value \$	Additions \$	Transfers \$	Disposals \$	Depreciation \$	Revaluation through other comprehensive income \$	Revaluation through profit and loss \$	Closing net book value \$
Land	34,249	17	1,978	(4,456)	-	9,830	(990)	40,628
Buildings and components	184,791	116	-	(15,389)	(2,402)	43,170	(5,610)	204,676
Furniture, fixtures, equipment and other	20,114	534	-	(1,092)	(1,195)	-	-	18,361
Right-of-use asset	-	738	-	-	(20)	-	-	718
Renovations in progress	1,996	-	(1,978)	-	-	-	-	18
	239,154	1,405	-	(20,937)	(3,617)	53,000	(6,600)	264,401

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

As at March 31, 2019

	Valuation \$	Cost \$	Accumulated impairment losses \$	Accumulated depreciation \$	Net book value \$
Land	40,628	-	-	-	40,628
Buildings and components	207,078	-	-	(2,402)	204,676
Furniture, fixtures, equipment and other	-	52,775	(3,966)	(30,448)	18,361
Right-of-use asset	-	738	-	(20)	718
Renovations in progress	-	18	-	-	18
	247,706	53,531	(3,966)	(32,870)	264,401

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

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

5 Investment property

	\$
Beginning balance, January 1, 2019 (note 2)	2,525
Additions through acquisition	<u>6,406</u>
Ending balance, March 31, 2019	<u>8,931</u>

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.

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.

6 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, the Company amended the Series B Debentures (HLC.DB), including extending the maturity date, which was February 28, 2020. The Series B Debentures now have a maturity date of February 28, 2023 (note 13), bear interest at 6.25% payable semi-annually on April 30 and October 31 and have a face value of \$50,866 (December 31, 2018 - \$50,866).

The following table summarizes the significant changes in the convertible debentures for the three months ended March 31, 2019:

	\$
Beginning balance, January 1, 2019	90,225
Accretion of discount and amortization of deferred financing fees	175
Deferred financing fees	(19)
Carrying value of fully redeemed debentures	<u>(40,205)</u>
Ending balance, March 31, 2019	<u>50,176</u>

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For the three months ended March 31, 2019 and 2018

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

7 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 will expire. At December 31, 2018, there were 755,000 options outstanding. During the three months ended March 31, 2019, 740,000 options were exercised and settled in cash. Subsequent to March 31, 2019, the remaining 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.

	\$
Beginning balance, January 1, 2019	902
Options exercised	(1,079)
Change in fair value of share-based liability	202
	<hr/>
Ending balance, March 31, 2019	25

8 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 loss:

	For the three months ended	
	March 31, 2019	March 31, 2018 Restated (note 2)
	\$	\$
Loss before income taxes	(7,046)	(1,971)
Combined statutory income tax rate	27.60%	27.51%
	<hr/>	<hr/>
Income tax recovery at the combined statutory income tax rate	(1,945)	(542)
Non-taxable portion of gains	(306)	(38)
Non-deductible expenses	61	87
Change in tax rates	-	28
Other	9	(25)
	<hr/>	<hr/>
Recovery of income taxes	(2,181)	(490)

The statutory tax rate was 27.60% for the three months ended March 31, 2019 (for the three months ended March 31, 2018 - 27.51%).

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Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

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

9 Share capital and loss per share

Basic

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

	For the three months ended	
	March 31, 2019	March 31, 2018 Restated (note 2)
	\$	\$
Net loss attributable to shareholders of the Company	(4,813)	(1,429)
Weighted average number of shares outstanding	15,986,057	18,292,040
Basic loss per share	(0.30)	(0.08)

Diluted

Diluted 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 three months ended March 31, 2019 and 2018, the Company had two categories of potentially dilutive instruments – convertible debentures and options. This calculation is done to determine the number of shares that could have been acquired at fair value based on the subscription rights of the convertible debentures and options. As the Company had a loss for the three months ended March 31, 2019 and 2018, diluted earnings per share is equal to basic earnings per share.

At March 31, 2019, there were 15,583,298 common shares outstanding. During the three months ended March 31, 2019, the Company repurchased and cancelled 1,562,255 shares at a cost of \$10,260 (average price of \$6.57 per share). During the three months ended March 31, 2018, the Company repurchased and cancelled 91,000 shares at a cost of \$520 (average price of \$5.71 per share).

10 Supplemental cash flow information

Adjustments for non-cash items:

	For the three months ended	
	March 31, 2019	March 31, 2018
	\$	\$
Revaluation of hotel properties	6,600	-
Depreciation and amortization	3,627	3,932
Accretion on debt and unrealized foreign exchange gain/loss	314	151
Share-based expense	202	298
Fair value change of investment property	-	(900)
(Gain) loss on disposal of assets	(3,478)	3
Selling costs on property and equipment sales	879	-
Write-off of deferred financing fees and discount on debenture redemption	362	-
Recovery of income taxes	(2,181)	(490)
	<u>6,325</u>	<u>2,994</u>

Holloway Lodging Corporation

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2019 and 2018

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

10 Supplemental cash flow information (continued)

Changes in items of working capital:

	For the three months ended	
	March 31, 2019	March 31, 2018
	\$	\$
Trade and other receivables	(1,080)	(179)
Inventories	35	(6)
Prepaid expenses and deposits	(24)	(354)
Trade payables and accrued liabilities	600	823
Accrued interest on convertible debentures	28	35
	(441)	319

11 Financial instruments and fair values

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

	March 31, 2019		December 31, 2018	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Mortgages payable	65,942	66,924	78,542	79,900
Convertible debentures	50,176	51,092	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.

12 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 months ended March 31, 2019, the Company paid rent, IT support fees and tax services of \$70 to companies owned or partially owned by Clarke's Executive Chairman and his immediate family member.

13 Subsequent events

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) extend the maturity date by three years to February 28, 2023; (2) amend 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) amend 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.

On April 30, 2019, the Company sold US\$3,450 principal amount of its US\$4,000 loan receivable for net proceeds of US\$3,364.