TEMPLE
Hotels Inc.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(UNAUDITED)

TEMPLE HOTELS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of Canadian dollars)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash	**$ 13,904**	$ 67,922
Marketable securities	**403**	403
Trade and other receivables	**8,507**	5,214
Deposits and prepaids	**2,645**	1,625
Inventories	**1,366**	1,393
Net investment in lease	**236**	228
	27,061	76,785
Non-current assets		
Property and equipment (Note 4)	**464,020**	470,390
Investment property (Note 5)	**10,906**	11,077
Investment in hotel properties	**10,970**	10,428
Net investment in lease	**3,188**	3,308
Other assets	**2,070**	1,781
Intangible assets (Note 6)	**1,670**	2,051
Goodwill	**1,608**	1,608
	494,432	500,643
	$ 521,493	$ 577,428
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and other liabilities	**$ 18,808**	$ 19,405
Debt (Note 8)	**380,068**	387,688
	398,876	407,093
Non-current liabilities		
Debt (Note 8)	**96,428**	141,328
Deferred income tax (Note 7)	**2,334**	2,358
	98,762	143,686
Total liabilities	**497,638**	550,779
Shareholders’ equity	**23,855**	26,649
	$ 521,493	$ 577,428

Approved by the Directors

"Chris Cahill"

"Brent McLean"

TEMPLE HOTELS INC.
CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(In thousands of Canadian dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Revenue				
Room revenue	**$ 32,113**	$ 30,517	**$ 57,495**	$ 55,579
Other hotel revenue	**11,276**	11,438	**22,133**	22,142
	43,389	41,955	**79,628**	77,721
Expenses				
Hotel operating costs	**30,672**	28,959	**59,512**	57,640
Hotel operating income	**12,717**	12,996	**20,116**	20,081
Interest expense (Note 9)	**7,393**	8,019	**14,678**	15,898
Other expense (income) (Note 10)	**(1,658)**	(76)	**(1,776)**	(183)
Share based compensation	**31**	85	**66**	173
General and administrative expenses	**879**	865	**1,606**	1,673
Depreciation (Note 4 and 5)	**3,573**	5,910	**8,587**	12,112
Amortization of intangible assets (Note 6)	**191**	199	**381**	391
Net income (loss) before equity income, impairment, change in fair value of financial instruments and income taxes	**2,308**	(2,006)	**(3,426)**	(9,983)
Equity income on investment in hotel properties	**411**	317	**542**	478
Recovery of (provision for) impairment	**-**	303	**-**	(43,574)
Change in fair value of financial instruments	**-**	23	**-**	90
Net income (loss) before income taxes	**2,719**	(1,363)	**(2,884)**	(52,989)
Deferred income tax recovery (expense) (Note 7)	**(11)**	383	**24**	(16,369)
Net income (loss) and comprehensive income (loss)	**$ 2,708**	$ (980)	**$ (2,860)**	$ (69,358)
Net income (loss) per common share (Note 11)				
Basic and diluted	**$ 0.11**	$ (0.08)	**$ (0.11)**	$ (5.34)

TEMPLE HOTELS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of Canadian dollars)

	Six Months Ended June 30	
	2017	2016
Share capital (Note 12)		
Balance, beginning of period	**$ 295,412**	$ 245,707
Common shares issued as part of the DRIP	**-**	92
Value associated with deferred shares converted	**-**	13
Balance, end of period	**295,412**	245,812
Equity component of convertible financial instruments		
Balance, beginning of period	**7,862**	7,980
Convertible debentures retired	**(2,529)**	-
Convertible debenture repurchases	**-**	(118)
Balance, end of period	**5,333**	7,862
Contributed surplus		
Balance, beginning of period	**1,049**	751
Value of deferred shares granted	**66**	132
Value associated with deferred shares converted	**-**	(13)
Value of share options granted	**-**	41
Balance, end of period	**1,115**	911
Cumulative earnings (loss)		
Balance, beginning of period	**(182,393)**	(49,284)
Net loss	**(2,860)**	(69,358)
Convertible debentures retired	**2,529**	-
Convertible debenture repurchases	**-**	68
Balance, end of period	**(182,724)**	(118,574)
Cumulative dividends to shareholders		
Balance, beginning and end of period	**(95,281)**	(95,281)
Shareholders' equity	**$ 23,855**	$ 40,730

TEMPLE HOTELS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of Canadian dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Operating activities				
Net income (loss)	**$ 2,708**	$ (980)	**$ (2,860)**	$ (69,358)
Items not affecting cash				
Depreciation	**3,573**	5,910	**8,587**	12,112
Amortization of intangible assets	**191**	199	**381**	391
Amortization of tenant inducements	**6**	6	**11**	13
Amortization of transaction costs	**301**	246	**579**	556
Accretion - convertible debentures	**523**	506	**1,033**	1,012
Change in fair value of financial instruments	**-**	(23)	**-**	(90)
Deferred income taxes	**11**	(383)	**(24)**	16,369
Share based compensation	**31**	85	**66**	173
Gain on debenture repurchases	**-**	-	**-**	(226)
Provision for (recovery of) impairment	**-**	(303)	**-**	43,574
Equity income on investment in hotel properties	**(411)**	(317)	**(542)**	(478)
	6,933	4,946	**7,231**	4,048
Working capital adjustments (Note 15)	**(644)**	29	**(4,883)**	522
Cash provided by operating activities	**6,289**	4,975	**2,348**	4,570
Investing activities				
Capital expenditures	**(1,075)**	(1,827)	**(2,046)**	(4,186)
Receipt of net investment in lease	**56**	52	**112**	104
Change in other assets	**(195)**	177	**(300)**	(1,617)
Cash used in investing activities	**(1,214)**	(1,598)	**(2,234)**	(5,699)
Financing activities				
Proceeds of mortgage debt	**15,588**	-	**15,588**	-
Lump sum principal payments on mortgage loans	**-**	-	**(10,713)**	-
Regular repayment of principal on mortgage loans	**(3,638)**	(3,242)	**(7,543)**	(7,051)
Expenditures on transaction costs	**(296)**	(123)	**(409)**	(360)
Revolving loan advances	**6,000**	-	**6,000**	-
Convertible debenture repurchases	**-**	-	**-**	(1,278)
Convertible debenture redemption	**(34,282)**	-	**(57,055)**	-
Dividends paid on common shares	**-**	-	**-**	(1,853)
Cash used in financing activities	**(16,628)**	(3,365)	**(54,132)**	(10,542)
Net increase (decrease) in cash during the period	**(11,553)**	12	**(54,018)**	(11,671)
Cash, beginning of period	**25,457**	11,477	**67,922**	23,160
Cash, end of period	**$ 13,904**	$ 11,489	**$ 13,904**	$ 11,489

1 Nature and description of Company

Temple Hotels Inc. ("Temple" or the "Company") owns and operates hotel property investments in Canada.

The head office for the Company is located at 55 City Centre Drive, Suite 1000, Mississauga, Ontario, L5B 1M3. Temple is listed on the Toronto Stock Exchange ("TSX"). The following schedule reflects securities of Temple, which trade on the TSX and the related trading symbol:

Common shares	TPH
Series E Convertible Debentures	TPH.DB.E
Series F Convertible Debentures	TPH.DB.F

2 Statement of compliance and significant accounting policies

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and thus do not contain all the disclosures applicable to the annual audited consolidated financial statements.

These condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements and should be read in conjunction with the most recent annual audited consolidated financial statements.

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on August 8, 2017.

Seasonality

Temple's financial results for any individual quarter are not necessarily indicative of results to be expected for the full year. Revenues from hotel operations tend to fluctuate throughout the year, based on changes in seasonal demands.

3 Significant accounting judgments, estimates and assumptions

The preparation of Temple's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected. Management bases their judgments, estimates and assumptions on factors they believe to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. In the process of applying Temple's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2016.

Future changes to significant accounting policies

(i) IFRS 9 - Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for years beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the impact of IFRS 9 on its consolidated financial statements.

(ii) IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 11 - Construction Contracts and IAS 18 - Revenue, as well as various IFRIC and SIC interpretations, specifies the steps and timing for entities to recognize revenue and enhance disclosure requirements effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the impact of IFRS 15 on its consolidated financial statements.

(iii) IAS 40 – Investment Property ("IAS 40")

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the impact this new amendment will have on its consolidated financial statements.

(iv) IFRS 16 – Leases ("IFRS 16")

IFRS 16 replaces IAS 17 - Leases and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted so long as IFRS 15 has been adopted. The Company is currently assessing the impact of IFRS 16 on its consolidated financial statements.

TEMPLE HOTELS INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(In thousands of Canadian dollars)

4 Property and equipment

June 30, 2017	Cost	Accumulated Impairment Provision	Accumulated Depreciation	Net Book Value
Land	$ 79,346	$ (20,505)	$ -	$ 58,841
Buildings	571,973	(126,198)	(85,637)	360,138
Furniture and equipment	79,914	(7,069)	(42,554)	30,291
Paving	29,100	(3,202)	(12,825)	13,073
Signage	1,562	(196)	(593)	773
Computer equipment	3,090	(251)	(1,961)	878
Vehicles	278	(15)	(237)	26
	$ 765,263	$ (157,436)	$ (143,807)	$ 464,020

December 31, 2016	Cost	Accumulated Impairment Provision	Accumulated Depreciation	Net Book Value
Land	$ 79,346	$ (20,505)	$ -	$ 58,841
Buildings	571,313	(126,198)	(80,347)	364,768
Furniture and equipment	78,714	(7,069)	(40,571)	31,074
Paving	29,100	(3,202)	(11,929)	13,969
Signage	1,562	(196)	(526)	840
Computer equipment	2,904	(251)	(1,795)	858
Vehicles	278	(15)	(223)	40
	$ 763,217	$ (157,436)	$ (135,391)	$ 470,390

Transactions in property and equipment for the six months ended June 30, 2017 are summarized as follows:

June 30, 2017	Opening Net Book Value	Additions	Depreciation for the Period	Closing Net Book Value
Land	$ 58,841	$ -	$ -	$ 58,841
Buildings	364,768	660	(5,290)	360,138
Furniture and equipment	31,074	1,200	(1,983)	30,291
Paving	13,969	-	(896)	13,073
Signage	840	-	(67)	773
Computer equipment	858	186	(166)	878
Vehicles	40	-	(14)	26
	$ 470,390	$ 2,046	$ (8,416)	$ 464,020

(In thousands of Canadian dollars)

5 Investment property

Investment property comprises the Cortona Residence located in Fort McMurray, Alberta, and is held to earn rental income and capital appreciation. A key characteristic of an investment property is that it generates cash flows which are largely independent of the active business process of the Company's hotel operations.

June 30, 2017	Cost	Accumulated Impairment Provision	Accumulated Depreciation	Net Book Value
Land	$ 2,301	$ (1,183)	$ -	$ 1,118
Buildings	19,840	(9,715)	(1,273)	8,852
Furniture and equipment	471	(196)	(131)	144
Paving	2,577	(1,070)	(715)	792
	$ 25,189	$ (12,164)	$ (2,119)	$ 10,906

December 31, 2016	Cost	Accumulated Impairment Provision	Accumulated Depreciation	Net Book Value
Land	$ 2,301	$ (1,183)	$ -	$ 1,118
Buildings	19,840	(9,715)	(1,152)	8,973
Furniture and equipment	471	(196)	(123)	152
Paving	2,577	(1,070)	(673)	834
	$ 25,189	$ (12,164)	$ (1,948)	$ 11,077

Transactions in investment property for the six months ended June 30, 2017 are summarized as follows:

June 30, 2017	Opening Net Book Value	Depreciation for the Period	Closing Net Book Value
Land	$ 1,118	$ -	$ 1,118
Buildings	8,973	(121)	8,852
Furniture and equipment	152	(8)	144
Paving	834	(42)	792
	$ 11,077	$ (171)	$ 10,906

(In thousands of Canadian dollars)

The following chart reflects the revenue, expenses and net income (loss) and comprehensive income (loss) of the investment property for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Revenue	$ 556	$ 556	$ 1,112	$ 1,112
Operating costs	5	3	8	6
Operating income	551	553	1,104	1,106
Interest expense	200	163	378	352
Depreciation	62	126	171	296
Amortization of intangible assets	71	71	143	143
Net income before provision for impairment	218	193	412	315
Provision for impairment	-	-	-	(8,193)
Net income (loss) and comprehensive income (loss)	$ 218	$ 193	$ 412	$ (7,878)

6 Intangible assets

Transactions in intangible assets for the six months ended June 30, 2017 are summarized as follows:

June 30, 2017

	Opening Net Book Value	Amortization for the Period	Closing Net Book Value
Franchise fees	$ 497	$ (31)	$ 466
Lease intangibles	1,554	(350)	1,204
	$ 2,051	$ (381)	$ 1,670

7 Income tax

The deferred income tax liabilities of Temple and its wholly owned subsidiary corporations consist of the following:

The Company

Discretionary capital cost allowance claims can be reduced in future periods to increase future taxable income and utilize unused tax losses. As at June 30, 2017, the Company has deductible temporary differences of $175,997 (December 31, 2016 - $173,201) for which no deferred tax asset has been recognized, as it is not probable that the deferred tax asset will be realized, of which $2,666 (December 31, 2016 - $4,918) have no expiration and $173,331 (December 31, 2016 - $168,283) relates to unused tax losses that expire beginning in 2030.

9551301 Canada Ltd.	June 30, 2017	December 31, 2016
Deferred income tax liability (assets) of the 9551301 Canada Ltd. relating to the temporary differences between accounting and tax values of:		
Property and equipment	$ 2,349	$ 2,376
Debt issue costs	(15)	(18)
Deferred income tax liability	$ 2,334	$ 2,358

(In thousands of Canadian dollars)

8 Debt

	June 30, 2017	December 31, 2016
Secured debt		
Mortgage loans (a)	$ 392,740	$ 395,408
Revolving loan (c)	6,000	-
Total secured debt	398,740	395,408
Unsecured debt		
Convertible debentures (b)	78,760	134,782
Total unsecured debt	78,760	134,782
Unamortized transaction costs		
Mortgage loans	(712)	(696)
Convertible debentures (b)	(292)	(478)
Total unamortized transaction costs	(1,004)	(1,174)
Total debt	476,496	529,016
Less current portion		
Mortgage loans	296,035	286,787
Revolving loan	6,000	-
Convertible debentures	78,760	101,373
Transaction costs	(727)	(472)
Total current debt	380,068	387,688
Total non-current debt	$ 96,428	$ 141,328

Principal payments and principal maturities at face value as at June 30, 2017, are as follows:

	Mortgage Loans		Convertible	
	Principal Payments	Principal Maturities	Debentures (at face value)	Total
2017 (remainder of year)	$ 3,416	$ 230,064	$ 45,164	$ 278,644
2018	4,108	65,866	34,419	104,393
2019	2,764	52,559	-	55,323
2020	1,638	-	-	1,638
2021	1,726	-	-	1,726
Thereafter	16,628	13,971	-	30,599
	$ 30,280	$ 362,460	$ 79,583	$ 472,323

Mortgage loans are secured by charges registered against specific hotel properties and an assignment of the net investment in a lease.

(In thousands of Canadian dollars)

(a) Mortgage loans

	June 30, 2017	December 31, 2016
First mortgage loans	$ 376,740	$ 379,408
Second mortgage loans	16,000	16,000
Total	$ 392,740	$ 395,408
Weighted average interest rate – fixed rate		
First mortgage loans of $233,321 (2016 – $238,661)	4.72%	4.71%
Second mortgage loans of $16,000 (2016 – $16,000)	5.00%	5.00%
Weighted average interest rate – fixed rate	4.74%	4.73%
Weighted average interest rate – variable rate		
First mortgage loans of $143,419 (2016 – $140,747)	4.55%	4.52%

As a condition of certain mortgage loans, the Company is required to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios; arrange for capital expenditures in accordance with predetermined limits; and maintain ongoing liquidity ratios. At June 30, 2017, the Company was not in compliance with ten debt service covenants affecting the ten mortgage loans as follows:

As of June 30, 2017, the Company was not in compliance with a corporate 1.1 to 1.0 debt service coverage requirement in regard to five mortgage loans with an aggregate principal balance of $65,492 in regard to five properties. In addition, the Company was not in compliance with a 1.3 to 1.0 debt service coverage requirement for three of the affected mortgage loans with a principal balance of $39,682. The Company was in compliance with the 1.3 to 1.0 debt service covenant for the other two mortgage loans. The Company has notified the lender of the breach. These five covenant breaches have been resolved through mortgage loan refinancing as more fully explained in Note 19.

As of June 30, 2017, the Company was not in compliance with a 1.4 to 1.0 debt service coverage requirement in regard to four mortgage loans with an aggregate principal balance of $74,592 on four properties. The lender has been notified of the breach and management is in discussion with the lender to resolve the matter.

As of June 30, 2017, the Company was not in compliance with a 1.25 to 1.0 debt service coverage requirement for a mortgage loan with a principal balance of $8,697 at a property. The lender has been notified of the breach and management is in discussion with the lender to resolve the matter.

None of the lenders have demanded payment of the mortgage loans. However, IFRS requires that the loan balance of mortgage loans in breach of debt covenants be included in the current portion of debt. As a result, the current portion of debt includes $45,418 of debt that is scheduled to retire after June 30, 2018.

At December 31, 2016, the Company was not in compliance with nine debt service covenants affecting nine mortgage loans, amounting to $139,187, and, as a result, the current portion included $64,477 of debt that was scheduled to retire after December 31, 2017.

(In thousands of Canadian dollars)

(b) Convertible debentures

June 30, 2017	Due Date		Debt		Equity
Series E	Sept. 30, 2017	$	44,961	$	2,955
Series F	Mar. 31, 2018		33,799		2,528
			78,760		5,483
Transaction costs			(292)		(150)
		$	78,468	$	5,333

December 31, 2016	Due Date		Debt		Equity
Series C	Dec. 31, 2016 (1)	$	22,773	$	875
Series D	June 30, 2017 (2)		34,028		1,654
Series E	Sept. 30, 2017		44,572		2,955
Series F	Mar. 31, 2018		33,409		2,528
			134,782		8,012
Transaction costs			(478)		(150)
		$	134,304	$	7,862

(1) The Series C convertible debentures had a December 31, 2016 due date. Since December 31, 2016 fell on a weekend, the Company repaid the Series C convertible debentures on January 3, 2017, the first business day after December 31, 2016.
(2) The Company repaid the Series D convertible debentures upon maturity on June 30, 2017.

The following chart reflects the face amount, interest rate (payable semi-annually) and conversion price that the debentures are converted to common shares at any time at the option of the holder of the debentures:

June 30, 2017	Rate		Conversion Price		Face Amount
Series E	7.25%	$	40.08	$	45,164
Series F	7.00%		39.12		34,419
				$	79,583

On March 15, 2017, Temple initiated a normal course issuer bid for the purchase of debentures for a twelve month period up to the following amounts:

Series E – $4,404 aggregate principal amount and
Series F – $3,382 aggregate principal amount.

The normal course issuer bid represents 10% of the public float of each series of convertible debentures outstanding as at February 28, 2017. As of August 8, 2017, no debentures have been purchased under this bid.

(c) Revolving loan commitment

On June 30, 2016, Temple entered into a revolving loan agreement with Morguard Corporation ("Morguard"), a related party, for $6,000 secured by a first mortgage charge against a specific hotel property and bears interest at prime plus 2.0% ("Credit Facility"). As of June 30, 2017, the amount drawn on the Credit Facility is $6,000 (December 31, 2016 – $nil). For the three and six months ended June 30, 2017, Temple incurred interest on the Credit Facility of $3 (2016 – $nil) and $3 (2016 – $nil), respectively. Subsequent to June 30, 2017, the Credit Facility was increased to $13,500 and was fully drawn.

(In thousands of Canadian dollars)

9 Interest expense

Interest expense is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Mortgage loans interest	$ 4,469	$ 4,729	$ 8,888	$ 9,484
Amortization of transaction costs - mortgages	196	158	371	342
Line of credit interest	-	-	-	18
Revolving loan and other interest	11	7	21	8
Amortization of deferred finance costs - line of credit and revolving loan	11	-	22	37
Interest on convertible debentures	2,089	2,531	4,157	5,046
Accretion - convertible debentures	523	506	1,033	1,012
Amortization of transaction costs - convertible debentures	94	88	186	177
Gain on debenture repurchases	-	-	-	(226)
	$ 7,393	$ 8,019	$ 14,678	$ 15,898

10 Other expense (income)

Other expense (income) is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Interest revenue	$ (33)	$ (10)	$ (87)	$ (49)
Finance lease interest revenue	(63)	(66)	(127)	(134)
Insurance proceeds - property damage (Note 18)	(2,085)	-	(2,085)	-
Other expense	523	-	523	-
	$ (1,658)	$ (76)	$ (1,776)	$ (183)

11 Per common share calculations

Net income (loss) per common share calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income (loss) – basic and diluted	$ 2,708	$ (980)	$ (2,860)	$ (69,358)
Weighted average number of shares – basic and diluted	25,344,413	12,999,203	25,341,273	12,990,686

(In thousands of Canadian dollars)

Convertible debentures Series C, D, E and F and common share options were not included in the diluted net income (loss) per common share calculation for the three and six months ended June 30, 2017, as the effect would have been anti-dilutive.

	Conversion Price	Number of Common Shares
Convertible debentures		
Series E	$ 40.08	1,126,846
Series F	39.12	879,831
Total		2,006,677

12 Common shares

On June 22, 2017, the common shares were consolidated on the basis of one (1) post-consolidation common share for six (6) pre-consolidation common shares (the "Share Consolidation").

The number of common shares and deferred common shares, the conversion price and the number of common shares issuable upon conversion of the outstanding convertible debentures, the exercise price and the number of common shares issuable upon exercise of the outstanding options of the Company, and per common share amounts, were also proportionally adjusted to reflect the Share Consolidation for all periods presented within these condensed consolidated interim financial statements.

The number of common shares issued, exercised and converted, are as follows:

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Share Capital	Amount	Share Capital	Amount
Outstanding, beginning of period	25,269,913	$ 295,412	12,939,884	$ 245,707
Issuance of common shares	-	-	12,311,025	50,000
Issue costs	-	-	-	(400)
Common shares issued as part of the DRIP	-	-	16,694	92
Value associated with deferred shares converted	-	-	2,310	13
Outstanding, end of period	25,269,913	$ 295,412	25,269,913	$ 295,412

On January 29, 2016, the Company suspended the payment of dividends.

On March 10, 2016, the Company initiated a normal course issuer bid for the purchase of up to 751,545 common shares for a twelve month period, representing 10% of the public float of the common shares on February 29, 2016. No shares were purchased under this bid.

On March 15, 2017, the Company initiated a normal course issuer bid for the purchase of up to 1,263,497 common shares for a twelve month period, representing 5% of the issued and outstanding common shares. As at August 8, 2017, no shares were purchased under this bid.

(In thousands of Canadian dollars)

13 Common share option plan

The following chart summarizes common share options outstanding:

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	-	$ -	200,500	$ 34.08
Expired during period	-	-	(27,167)	25.20
Cancelled during period	-	-	(173,333)	35.52
Outstanding, end of period	-	$ -	-	$ -

During the year ended December 31, 2016, pursuant to the terms of the common share option plan, as a result of the assignment of the Company's asset management agreement from Shelter Canadian Properties Limited ("Shelter") to Morguard, all outstanding options held by Directors, senior officers and employees of the Company, any subsidiary, and management company, in connection with the asset management agreement with Shelter and Temple, were cancelled.

Share based compensation expense of $nil for the three months ended June 30, 2017 (2016 – $20) and $nil for the six months ended June 30, 2017 (2016 – $41) relating to common shares options was recorded to share based compensation expense.

14 Deferred common share plan

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Outstanding and vested, beginning of period	73,883	39,837	66,840	25,973
Granted during period	6,501	9,753	13,544	23,617
Converted during period	-	(2,310)	-	(2,310)
Outstanding and vested, end of period	80,384	47,280	80,384	47,280

Share based compensation expense of $31 for the three months ended June 30, 2017 (2016 – $65) and $66 for the six months ended June 30, 2017 (2016 – $132) relating to deferred common shares granted was recorded to expense the fair value of share based compensation.

(In thousands of Canadian dollars)

15 Supplementary cash flow information

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Change in:				
Trade and other receivables	$ (964)	$ (1,415)	$ (3,293)	$ (2,020)
Deposits and prepaids	(1,398)	(690)	(1,020)	794
Inventories	(6)	(21)	27	28
Accounts payable and other liabilities	1,724	2,155	(597)	1,720
	$ (644)	$ 29	$ (4,883)	$ 522
Interest received – operating activities	$ 96	$ 76	$ 214	$ 183
Interest paid – operating activities	$ 5,834	$ 6,893	$ 15,523	$ 14,444

16 Related party transactions

In addition to the related party transactions disclosed in Note 8(c), related party transactions also include the following:

On December 23, 2015, Shelter and Morguard entered into an asset management assignment and transition agreement under which Shelter agreed to assign to Morguard the asset management agreement, dated December 31, 2012, with an April 1, 2016 effective date. Under the assignment agreement, Morguard agreed to assume the asset management agreement and all of the duties and obligations of the asset manager and Shelter agreed to provide assistance to Morguard during a six-month transition period.

As at June 30, 2017 and December 31, 2016, Morguard owns a 55.9% interest in the Company through its ownership of 14,136,012 common shares and has convertible debentures that are convertible to 43,380 common shares (December 31, 2016 – 87,714 common shares). Morguard is a related party of the Company by virtue of its ownership of common shares and the asset management agreement with the Company.

Prior to April 1, 2016, Shelter was a related party of the Company by virtue of the asset management agreement with the Company. 2668921 Manitoba Ltd., the parent company to Shelter, was a related party of the Company as 2668921 Manitoba Ltd. is owned by a family member of a former officer and Director of the Company.

Asset management agreement
Pursuant to the terms of the amended and restated Asset Management Agreement dated December 31, 2012, expiring December 31, 2019, Morguard is entitled to receive an asset management fee of 1.5% of the gross revenues of the Company and its subsidiaries on a consolidated basis. The asset management agreement requires Morguard to act as administrator of the Company by providing asset management services, accounting, human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of the Company. Key management personnel are provided by Morguard.

(In thousands of Canadian dollars)

The Company incurred service fees to Morguard of $651 for the three months ended June 30, 2017 (2016 – $629) and $1,194 for the six months ended June 30, 2017 (2016 – $629).

The Company incurred service fees to Shelter of $nil for the three months ended June 30, 2017 (2016 – $nil) and $nil for the six months ended June 30, 2017 (2016 – $535).

Property management agreement
The Company has entered into a property management agreement with Shelter for the management of Cortona Residence in Fort McMurray, Alberta, at an annual fee of $0.1 for a term which expires April 30, 2018.

Construction management agreement
The Company has entered into a construction management agreement with the asset manager. The agreement provides for the asset manager to receive a fee equal to 5% of construction costs and requires the asset manager to approve all plans and specifications, manage the tender process, arrange financing and perform construction management services related to the guest room renovations and building upgrades as reflected in approved budgets or acquisition plans. For the three months ended June 30, 2017, a service fee of $nil (2016 – $nil) was charged for such services. For the six months ended June 30, 2017, a service fee of $nil (2016 – $38 to Shelter) was charged for such services. Effective April 1, 2016, Morguard assumed all asset management responsibilities and Shelter will no longer provide such services.

Management compensation
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly, and include directors.

The executive officers of the Company are employed by Morguard, and the Company does not directly or indirectly pay any compensation to them. Any variability in compensation paid by Morguard to the executive officers of the Company has no impact on the Company's financial obligations, including its obligations under the various Agreements with Morguard and Morguard's affiliates.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Director fees	$ 24	$ 13	$ 52	$ 26
Deferred shares granted to directors	31	65	66	132
Options granted to key management personnel	-	-	-	8
	$ 55	$ 78	$ 118	$ 166

Other
During the three and six months ended June 30, 2016, hotel operating costs include $nil and $18, respectively, for rental premises. Shelter, as agent for the beneficial owner, is the manager of the rental premises.

Included in accounts payable and other accrued liabilities is $253 (December 31, 2016 - $184) due to Morguard relating to the service fees, the construction management fees, revolving loan interest and standby fees.

Guarantees
As at June 30, 2017, certain of the mortgage loans payable have been guaranteed for up to $3,000 by Shelter. No fees were charged to the Company in regard to the guarantees.

(In thousands of Canadian dollars)

17 Segmented financial information

The Company owns and operates hotel properties in Canada. Operating segments have been aggregated regionally to segregate properties in Fort McMurray, Alberta (the "Fort McMurray" operating segment); properties in other Alberta locations (the "Other Alberta" operating segment); and other properties (the "Other Canada" operating segment) to reflect the unique revenue and income patterns of each segment. Investments in hotel properties are included in "Corporate". The Company has applied judgment by aggregating its operating segments according to the nature of property operations

Three Months Ended June 30, 2017:

	Fort McMurray	Other Alberta	Other Canada	Corporate	Total
Room revenue	$ 6,532	$ 5,318	$ 20,263	$ -	$ 32,113
Other hotel revenue	324	4,661	6,291	-	11,276
Hotel operating costs	(3,925)	(8,318)	(18,429)	-	(30,672)
Hotel operating income	2,931	1,661	8,125	-	12,717
Interest expense	(1,251)	(1,154)	(2,066)	(2,922)	(7,393)
Other income (expense)	2,086	2	(457)	27	1,658
Share based compensation	-	-	-	(31)	(31)
General and administrative expenses	-	-	-	(879)	(879)
Depreciation	(403)	(586)	(2,584)	-	(3,573)
Amortization of intangible assets	(90)	(14)	(87)	-	(191)
Equity income on investment in hotel properties	-	-	-	411	411
Income tax expense	-	-	-	(11)	(11)
Net income (loss)	$ 3,273	$ (91)	$ 2,931	$ (3,405)	$ 2,708

Three Months Ended June 30, 2016:

	Fort McMurray	Other Alberta	Other Canada	Corporate	Total
Room revenue	$ 4,748	$ 5,679	$ 20,090	$ -	$ 30,517
Other hotel revenue	634	4,699	6,105	-	11,438
Hotel operating costs	(2,732)	(8,286)	(17,941)	-	(28,959)
Hotel operating income	2,650	2,092	8,254	-	12,996
Interest expense	(1,178)	(1,215)	(2,298)	(3,328)	(8,019)
Other income (expense)	1	-	73	2	76
Share based compensation	-	-	-	(85)	(85)
General and administrative expenses	-	-	-	(865)	(865)
Depreciation	(1,315)	(1,265)	(3,330)	-	(5,910)
Amortization of intangible assets	(90)	(22)	(87)	-	(199)
Equity income on investment in hotel properties	-	-	-	317	317
Recovery of (provision) for impairment	-	875	(572)	-	303
Change in fair value of financial instruments	-	-	23	-	23
Income tax recovery	-	-	-	383	383
Net income (loss)	$ 68	$ 465	$ 2,063	$ (3,576)	$ (980)

(In thousands of Canadian dollars)

Six Months Ended June 30, 2017:

	Fort McMurray	Other Alberta	Other Canada	Corporate	Total
Room revenue	$ 11,051	$ 9,748	$ 36,696	$ -	$ 57,495
Other hotel revenue	685	9,333	12,115	-	22,133
Hotel operating costs	(7,359)	(16,105)	(36,048)	-	(59,512)
Hotel operating income	4,377	2,976	12,763	-	20,116
Interest expense	(2,442)	(2,287)	(4,145)	(5,804)	(14,678)
Other income (expense)	2,088	3	(386)	71	1,776
Share based compensation	-	-	-	(66)	(66)
General and administrative expense	-	-	-	(1,606)	(1,606)
Depreciation	(1,386)	(1,711)	(5,490)	-	(8,587)
Amortization of intangible assets	(180)	(27)	(174)	-	(381)
Equity income on investment in hotel properties	-	-	-	542	542
Income tax recovery	-	-	-	24	24
Net income (loss)	$ 2,457	$ (1,046)	$ 2,568	$ (6,839)	$ (2,860)
Total assets – June 30, 2017	$ 97,535	$ 102,324	$ 307,408	$ 14,226	$ 521,493
Total liabilities – June 30, 2017	$ 90,806	$ 85,561	$ 199,723	$ 121,548	$ 497,638

Six Months Ended June 30, 2016:

	Fort McMurray	Other Alberta	Other Canada	Corporate	Total
Room revenue	$ 8,890	$ 10,500	$ 36,189	$ -	$ 55,579
Other hotel revenue	1,226	9,512	11,404	-	22,142
Hotel operating costs	(6,150)	(16,390)	(35,100)	-	(57,640)
Hotel operating income	3,966	3,622	12,493	-	20,081
Interest expense	(2,376)	(2,416)	(4,639)	(6,467)	(15,898)
Other income (expense)	2	1	145	35	183
Share based compensation	-	-	-	(173)	(173)
General and administrative expense	-	-	-	(1,673)	(1,673)
Depreciation	(2,847)	(2,581)	(6,684)	-	(12,112)
Amortization of intangible assets	(180)	(35)	(176)	-	(391)
Equity income on investment in hotel properties	-	-	-	478	478
Provision for impairment	(29,696)	(4,715)	(9,163)	-	(43,574)
Change in fair value of financial instruments	-	-	90	-	90
Income tax expense	-	-	-	(16,369)	(16,369)
Net loss	$ (31,131)	$ (6,124)	$ (7,934)	$ (24,169)	$ (69,358)
Total assets – December 31, 2016	$ 96,724	$ 122,121	$ 304,362	$ 54,221	$ 577,428
Total liabilities – December 31, 2016	$ 92,454	$ 104,312	$ 199,268	$ 154,745	$ 550,779

18 Contingencies

Legal and other claims
In the normal course of operations, the Company may become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Although the outcome of existing legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

Insurance recoveries
On May 3, 2016, Fort McMurray and the surrounding areas were placed under a mandatory evacuation due to uncontrolled wildfires that extensively damaged the city. The evacuation order, which ended on June 4, 2016, prompted the closure, repair and environmental remediation of all the Company’s properties in Fort McMurray. These events resulted in an insurance claim under the Company’s business interruption policy. Recoveries under this policy are only recognized at the earlier of when proceeds have been received or confirmation has been given by the insurer of the amount of any settlement. Due to the complex and uncertain nature of the settlement negotiations process, the Company has not recognized any additional provision in the financial statements for the six months ended June 30, 2017.

During the three months ended June 30, 2017, the Company settled a property loss claim for a hotel which sustained damages as part of the events in Fort McMurray. The proceeds were recorded to other expense (income) (Note 10).

The Company expects that all amounts required to repair and remediate the hotels will be covered by insurance proceeds.

19 Subsequent event

Subsequent to June 30, 2017, the Company refinanced a five-loan mortgage portfolio with the incumbent lender. The five loans are cross collateralized and three of the loans were refinanced for a five year term at an interest rate of 5.20% and are not subject to any financial covenants during the first 12 months of the term. As a condition of financing, the Company paid down the maturing, aggregate balance by $7,500. The fourth mortgage loan of five in the portfolio will mature in November 2019, and the fifth loan has been extended for 12 months.