Consolidated financial statements

Lakeview Hotel Investment Corp.

June 30th, 2017

Unaudited

Lakeview Hotel Investment Corp.

Supplement to Consolidated Financial Statements
for the six months ended June 30, 2017 and 2016

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-109 Part 4 Subsection 4.3 [3][a], if an auditor has not performed a review of interim financial statements, the statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The unaudited interim financial statements of Lakeview Hotel Investment Corp. for the six months ended June 30, 2017 and 2016 were prepared by, and are the responsibility of, the Company's management.

Lakeview Hotel Investment Corp.'s independent auditor did not perform a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Lakeview Hotel Investment Corp.

Consolidated statements of financial position

[See note 1 regarding going concern uncertainty]

Unaudited

As at	June 30, 2017 $	December 31, 2016 $
Assets *[notes 8, 9 and 10]*		
Current		
Cash	**443,939**	244,762
Reserve fund *[note 2]*	**87,159**	116,320
Cash held in trust *[note 10]*	**996,792**	3,302,754
Accounts receivable *[note 16[b]]*	**902,416**	1,035,643
Inventory	**74,376**	59,380
Prepaid expenses	**366,140**	127,663
Assets held for sale *[notes 19 and 20]*	**—**	3,265,618
Total current assets	**2,870,822**	8,152,140
Mortgage receivable *[note 3]*	**400,000**	400,000
Franchise fees *[note 4]*	**16,093**	16,841
Income properties *[notes 5, 8, 9, 10 and 19]*	**57,962,383**	58,722,693
Investment in Lakeview Flag Licensing General Partnership *[note 6]*	**1,267,304**	1,038,263
Investment in Lakeview Flag Management General Partnership *[note 7]*	**573,056**	477,596
	63,089,658	68,807,533
Liabilities and shareholders' deficiency		
Current		
Cheques issued in excess of cash on deposit	**29,587**	16,809
Accounts payable and accrued liabilities *[note 15]*	**6,932,916**	5,553,553
Lakeview Perks loyalty program	**185,758**	182,991
Current portion of mortgage payable *[note 9]*	**163,746**	160,174
Current portion of other long-term debt *[note 10]*	**3,720,383**	8,248,532
Total current liabilities	**11,032,390**	14,162,059
Long-term interest payable *[notes 8 and 11]*	**2,063,873**	1,056,310
Shareholder's loan payable *[note 11]*	**360,000**	60,000
Debentures *[note 8]*	**30,861,287**	30,776,344
Mortgage payable *[note 9]*	**6,215,104**	6,287,097
Other long-term debt *[note 10]*	**33,490,588**	34,408,302
Interest rate swap *[note 10]*	**478,670**	951,340
Total liabilities	**84,501,912**	87,701,452
Shareholders' deficiency	**(21,412,254)**	(18,893,919)
	63,089,658	68,807,533

See accompanying notes

On behalf of the Board:

"Sean Shore"
Director

"Keith Levit"
Director

Lakeview Hotel Investment Corp.

Consolidated statements of net income (loss) and comprehensive income (loss)

[see note 1 regarding going concern uncertainty]

Unaudited	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Revenue				
Rooms	**3,686,209**	4,869,360	**8,215,216**	9,300,783
Food and beverage	**596,080**	702,715	**1,222,938**	1,427,393
Income from Lakeview Flag Licensing General Partnership *[note 6]*	**101,822**	110,723	**229,041**	212,382
Income from Lakeview Flag Management General Partnership *[note 7]*	**51,689**	67,743	**113,460**	130,370
Other income	**98,784**	127,234	**179,696**	257,055
	4,534,584	5,877,775	**9,960,351**	11,327,983
Expenses				
Amortization				
Franchise fees *[note 4]*	**374**	919	**748**	2,111
Income properties *[note 5]*	**520,022**	654,704	**1,042,248**	1,384,573
Food and beverage	**209,803**	252,513	**418,107**	524,683
General and administration *[notes 9, 10 and 15]*	**1,198,020**	1,485,430	**2,482,720**	2,741,707
Insurance	**50,904**	62,030	**107,900**	125,438
Interest				
Loan and other *[note 11]*	**7,574**	—	**10,554**	—
Mortgages, debentures and other long-term debt *[notes 8, 9 and 10]*	**1,441,219**	1,601,054	**2,887,247**	3,239,898
Maintenance	**155,390**	157,335	**303,081**	311,566
Marketing *[note 15]*	**368,187**	414,231	**773,573**	805,904
Property taxes	**261,139**	344,949	**544,681**	668,358
Rent	**—**	13,541	**—**	33,872
Salaries and benefits *[note 15]*	**1,769,262**	1,966,792	**3,558,340**	3,986,272
Supplies	**135,450**	143,364	**274,122**	272,768
Unrealized loss (gain) on change in fair value of interest rate swap *[note 10]*	**(354,582)**	(122,471)	**(472,670)**	11,709
Utilities	**233,988**	272,115	**563,136**	600,541
	5,996,750	7,246,506	**12,493,787**	14,709,400
Loss and comprehensive loss before the following	**(1,462,166)**	(1,368,731)	**(2,533,436)**	(3,381,417)
Gain on sale of income property *[note 19]*	**15,101**	2,734,149	**15,101**	2,734,149
Net income (loss) and comprehensive income (loss) for the period	**(1,447,065)**	1,365,418	**(2,518,335)**	(647,268)
Basic and diluted net income (loss) and comprehensive income (loss) per share *[note 14]*	**(0.074)**	0.070	**(0.129)**	(0.033)

See accompanying notes

Consolidated statements of shareholders' deficiency

[see note 1 regarding going concern uncertainty]

Unaudited

	Shareholders' capital $ *[note 12]*	Warrants $ *[note 8]*	Contributed capital $	Accumulated loss and comprehensive loss $	Total shareholders' deficiency $
Balance, January 1, 2016	62,025,669	409,344	60,525	(77,951,877)	(15,456,339)
Net loss and comprehensive loss for the period	—	—	—	(647,268)	(647,268)
Balance, June 30, 2016	62,025,669	409,344	60,525	(78,599,145)	(16,103,607)
Balance, January 1, 2017	62,025,669	409,344	54,445	(81,383,377)	(18,893,919)
Net loss and comprehensive loss for the period	—	—	—	(2,518,335)	(2,518,335)
Warrants expired *[note 8]*	—	(409,344)	—	409,344	—
Stock options expired *[note 13]*	—	—	(11,200)	11,200	—
Balance, June 30, 2017	**62,025,669**	**—**	**43,245**	**(83,481,168)**	**(21,412,254)**

See accompanying notes

Lakeview Hotel Investment Corp.

Consolidated statements of cash flows

[see note 1 regarding going concern uncertainty]

Unaudited	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Operating activities				
Net income (loss) for the period	**(1,447,065)**	1,365,418	**(2,518,335)**	(647,268)
Add (deduct) items not involving cash				
Amortization of income properties *[note 5]*	**520,022**	654,704	**1,042,248**	1,384,573
Amortization of franchise fees *[note 4]*	**374**	919	**748**	2,111
Income from Lakeview Flag Licensing General Partnership *[note 6]*	**(101,822)**	(110,723)	**(229,041)**	(212,382)
Income from Lakeview Flag Management General Partnership *[note 7]*	**(51,689)**	(67,743)	**(113,460)**	(130,370)
Amortization of discount on bankers' acceptance *[note 10]*	**—**	—	**—**	168,066
Accretion of debentures *[note 8]*	**42,702**	20,375	**84,943**	40,257
Accretion of mortgages payable *[note 9]*	**1,105**	23,518	**2,316**	47,973
Accretion of other long-term debt *[note 10]*	**88,086**	52,487	**170,206**	104,114
Gain on sale of income property *[note 19]*	**(15,101)**	(2,734,149)	**(15,101)**	(2,734,149)
Loss on derecognition of franchise fees *[note 4]*	**—**	2,726	**—**	2,726
Loss on derecognition of income properties *[note 5]*	**317**	2,136	**13,030**	2,136
Loss on derecognition of financial liability *[note 9]*	**—**	19,804	**—**	19,804
Unrealized loss (gain) on change in fair value of interest rate swap *[note 10]*	**(354,582)**	(122,471)	**(472,670)**	11,709
	(1,317,653)	(892,999)	**(2,035,116)**	(1,940,700)
Net change in non-cash working capital balances related to operations *[note 21]*	**1,087,524**	(991,915)	**2,298,608**	942,473
Cash provided by (used in) operating activities	**(230,129)**	(1,884,914)	**263,492**	(998,227)
Investing activities				
Net proceeds from sale of income property *[note 19]*	**3,280,719**	9,882,472	**3,280,719**	9,882,472
Additions to income properties *[note 5]*	**(172,661)**	(50,950)	**(294,968)**	(177,407)
Distributions from Lakeview Flag Management General Partnership *[note 7]*	**—**	—	**18,000**	—
Cash provided by investing activities	**3,108,058**	9,831,522	**3,003,751**	9,705,065
Financing activities				
Repayment of debentures *[note 8]*	**—**	(37,500)	**—**	(75,000)
Repayment of mortgages payable *[note 9]*	**(39,906)**	(5,848,295)	**(70,737)**	(5,974,161)
Advance (repayment) of revolving term operating facility *[note 10]*	**1,052**	(2,180)	**46,168**	(3,993)
Repayment of syndicated term facility *[note 10]*	**(3,155,000)**	(636,500)	**(5,662,237)**	(636,500)
Discount on bankers' acceptance *[note 10]*	**—**	2,841	**—**	(165,654)
Cash held in trust *[note 10]*	**(120,153)**	—	**2,305,962**	—
Advance of shareholder's loan payable *[note 11]*	**120,000**	—	**300,000**	—
Cash used in financing activities	**(3,194,007)**	(6,521,634)	**(3,080,844)**	(6,855,308)
Net increase (decrease) in cash during the period	**(316,078)**	1,424,974	**186,399**	1,851,530
Cash, net of cheques issued in excess of cash on deposit, beginning of period	**730,430**	453,565	**227,953**	27,009
Cash, net of cheques issued in excess of cash on deposit, end of period	**414,352**	1,878,539	**414,352**	1,878,539
Supplemental cash flow information				
Interest paid	**811,500**	2,130,548	**1,646,910**	3,078,784
Interest received	**4,143**	2,414	**8,160**	2,515

Cash consists of cash and cheques issued in excess of cash on deposit

See accompanying notes

Lakeview Hotel Investment Corp.

Notes to consolidated financial statements

June 30, 2017
Unaudited

1. Going concern uncertainty, general information, basis of presentation and significant accounting policies

Going concern uncertainty

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ["IFRS"], which contemplates that Lakeview Hotel Investment Corp. [the "Company"] will continue in operations and be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. Although a partial recovery of oil prices has occurred during 2017, the significant decline during 2016 had a substantial impact on the financial performance of the Company, including the impact on the Company's operating income. As a result of these events and conditions as well as current period operating losses and significant working capital and shareholder deficiencies, there exists uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and therefore on its ability to realize its assets and discharge its liabilities in the normal course of business.

As at June 30, 2017, the Company showed an excess of $8,161,568 [December 31, 2016 - $6,009,919] of current liabilities over current assets, a shareholders' deficiency of $21,412,254 [December 31, 2016 - $18,893,919] and a net loss for the six months ended June 30, 2017 of $2,518,335. The uncertainties caused by the significant fluctuation in oil prices and the large working capital and shareholder deficits as a result of the events described above are material, thus leading to significant doubt about the appropriateness of the going concern assumption and ultimately the use of accounting principles applicable thereto.

The Company's ability to continue as a going concern is dependent on the continued support of its operating and syndicated term facility lenders, the continued financial support from Lakeview Management Inc. ["LMI"] and other related parties and the ability of the Company to meet its working capital requirements and debt covenants for the twelve month period following June 30, 2017.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenue and expenses and the classification used on the statements of financial position. These adjustments would be material.

General information

The principal purpose of the Company is to provide its shareholders with an opportunity to participate in a diversified portfolio of hotel and extended-stay properties, and commercial and office properties ancillary thereto, located throughout Canada and the United States. The Company has a portfolio of 12 hotels that comprise approximately 872 guest rooms as at June 30, 2017. The principal and head office of the Company is located at 600 - 185 Carlton Street, Winnipeg, Manitoba, R3C 3J1. The Company was incorporated in Canada and its shares are listed on the TSX Venture Exchange ["TSXV"] and trade under the symbol LHR.

The Company is managed as a single business segment that carries out hotel operations, which includes room rental, food and beverage as well as other incidental services. The Company determines and presents business segments based on the information provided internally to the CEO, who is the Company's Chief Operating Decision Maker ["CODM"]. When making resource allocation decisions, the CODM evaluates the operating results of the consolidated entity.

The Company'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. The Company's third quarter revenues are generally the strongest and the second quarter revenues are generally the weakest.

These unaudited interim consolidated financial statements have been approved for issue by the Board of Directors on August 29, 2017.

Basis of presentation

These interim consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ["IASB"] and in accordance with IAS 34, *Interim Financial Reporting*. The accounting policies followed in these interim financial statements are the same as those applied in the Company's audited annual financial statements for the year ended December 31, 2016.

Significant accounting policies

[a] Principles of consolidation

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries as follows: Lakeview Flag Operating LP General Partner Inc., Lakeview Flag Operating Limited Partnership, 2330407 Manitoba Ltd., 1164656 Alberta Ltd., 1184720 Alberta Ltd., 1208406 Alberta Ltd., 1208417 Alberta Ltd., Vaughan Steeles Super 8 Ltd., 1227671 Alberta Ltd., 1236406 Alberta Ltd., 1236412 Alberta Ltd., 0759566 B.C. Ltd., 0760018 B.C. Ltd., 0760024 B.C. Ltd., 1312258 Alberta Ltd., 1317639 Alberta Ltd., 1323785 Alberta Ltd., 1360841 Alberta Ltd., 0816064 B.C. Ltd., 2178222 Ontario Inc., 1368641 Alberta Ltd. and 0824414 B.C. Ltd. Transactions within the consolidated group are eliminated upon consolidation.

[b] Cash

Cash includes cash on hand and deposits held with banks.

[c] Inventory

Inventory, consisting of hotel food, liquor and supplies, is recorded at the lower of cost, on a first-in, first-out basis, and net realizable value.

[d] Assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sales transaction rather than through continuing use and a sale is considered highly probable. Furthermore, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. No amortization is recorded on such assets from the date of classification as assets held for sale.

[e] Franchise fees

Franchise fees include the application and initial fees associated with the transfer of membership of hotel franchises to the Company. Franchise fees are stated at cost less accumulated amortization. Amortization is recorded using the straight-line method over the shorter of the term of the franchise agreement and the period over which management estimates the franchise will be retained.

[f] Income properties

Income properties include land, buildings, parking lots, signs, furniture, fixtures and equipment and automobiles. The Company accounts for its income properties under the cost model whereby the assets are initially recorded at cost and subsequently amortized over their useful lives, unless an impairment is identified requiring a write-down to estimated fair value. The cost initially recognized with respect to a building is further allocated amongst its significant component parts with each part being amortized separately. The Company has identified the significant components of a building to be the roof, packaged terminal air conditioner ["PTAC"] units, interior finishing [including wallpaper, paint, flooring and carpeting] and the heating, ventilation and air conditioning ["HVAC"] system required for the swimming pools.

Amortization is calculated, once an asset is available for use, on a straight-line basis over its estimated useful life as follows:

Buildings	40 years
Roof	30 – 40 years
PTAC units	15 years
Interior finishing	10 years
HVAC system – swimming pools	25 years
Parking lots	20 years
Signs	20 years
Furniture, fixtures and equipment	3 – 10 years
Automobiles	5 years

Methods of amortization and useful lives of the assets are reviewed annually and adjusted prospectively if appropriate.

Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations, which extend the estimated useful life of an asset and enhance the service potential, are capitalized to income properties. When significant parts of income properties are required to be replaced, the Company derecognizes the replaced part and recognizes the new part with its own useful life and amortizes it separately. Any gain or loss arising on derecognition of an asset [either as a result of replacement, disposal or because no future economic benefits are expected from its use or disposal] is included in the consolidated statements of net income (loss) and comprehensive income (loss) when the asset is derecognized.

[g] Impairment of income properties

The Company assesses at each reporting date whether events or changes in circumstances indicate that the carrying amount of an income property may not be recoverable. If such indicators of impairment are present, income properties are tested for impairment by estimating their recoverable amount. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units or "CGUs"]. In the current structure of the Company, each individual hotel and the ancillary commercial and office property related thereto would be considered a CGU. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is defined as the present value of future cash flows expected to be derived from the asset or CGU. An impairment loss is the amount by which the asset's carrying amount exceeds its recoverable amount and, if identified, will be recognized in the consolidated statements of net income (loss) and comprehensive income (loss).

The Company also assesses at each reporting date whether there is any indication that a previously recognized impairment loss may no longer exist or may have been reduced. If such an indication exists, the recoverable amount of the CGU will be recalculated. If an impairment loss has been found to no longer exist or to be reduced, the Company will reverse the impairment loss by increasing the carrying amount of the CGU to its recoverable amount. The reversal of an impairment loss cannot exceed the carrying amount of the CGU, net of amortization, that would have existed had the impairment not been recognized.

[h] Investment in jointly controlled entities

The Company's 49% investment in Lakeview Flag Licensing General Partnership ["LFLGP"] is accounted for using the equity method as the Company has joint control over LFLGP by a contractual agreement. The decisions about relevant activities require the unanimous consent of the joint venture investors. The remaining 51% of LFLGP is owned by LMI.

Under the equity method, the investment in LFLGP was initially recorded at cost. The carrying value of the investment is subsequently adjusted to reflect the Company's 49% share of the net income of LFLGP. Distributions received from LFLGP will reduce the carrying amount of the investment.

The financial statements of LFLGP are prepared for the same reporting period as those of the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company accounts for its 50% interest in the jointly controlled Lakeview Flag Management General Partnership ["LFMGP"] using the equity method. The Company has joint control by a contractual agreement. The decisions about relevant activities require the unanimous consent of the joint venture investors. The Company's 50% partnership interest entitles it to 25% of LFMGP's net income and 25% of any distribution made by LFMGP. The remaining 50% of LFMGP is owned by LMI and entitles LMI to 75% of LFMGP's net income and any distribution made by LFMGP. Application of the equity method with respect to the Company's investment in LFMGP will be the same as described above for the Company's investment in LFLGP.

The financial statements of LFMGP are prepared for the same reporting period as those of the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

At each reporting date the Company assesses whether there is any objective evidence that an investment in jointly controlled entities is impaired. An investment is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the investment and such events have had an impact on the estimated future cash flow.

[i] Revenue recognition

Room revenue is recognized when the services are performed and collection is reasonably assured, which is generally on the night the rooms are rented.

Food, beverage and gift shop revenue is recognized when the services are performed.

Interest income is recognized on an accrual basis using the effective interest method.

Other income related to ancillary hotel services is recognized when the services are performed.

[j] Related parties

During 2017 and 2016, the Company had transactions with the following related parties:

Related parties	Nature of relationship
Lakeview Management Inc. ["LMI"]	Shareholder and administrator
Free to Guest Movies Ltd. ["FTG"]	A company with some common shareholders to LMI
Lakeview Flag Licensing General Partnership ["LFLGP"]	Joint venture investee
Lakeview Flag Management General Partnership ["LFMGP"]	Joint venture investee
Keith Levit Photography	A business owned by the President and Director

[k] Lakeview Perks Loyalty Program

Under the Lakeview Perks Loyalty Program, members earn points based on their spending at Lakeview Inn & Suites hotels and Lakeview Resorts. Points can be redeemed for hotel stays at participating hotels or for other services or merchandise. The Company defers revenue equal to the estimated fair value of its future obligation to redeem points, taking into account the expected redemption rate. Management adjusts the estimated liability based on redemption experience and additional points awarded, and such adjustments are recorded on a prospective basis in the results of operations.

[l] Net income (loss) and comprehensive income (loss) per share

Basic net income (loss) and comprehensive income (loss) per share is based on the net income (loss) for the period divided by the weighted average number of shares outstanding during the period. Diluted net income (loss) and comprehensive income (loss) per share is computed in accordance with the treasury stock method and is based on the weighted average number of shares and dilutive share equivalents.

[m] Stock-based compensation plan

The Company has a Share Purchase Plan as described in note 13. The fair value method is used to determine the expense for stock-based awards granted to employees and non-employees. Under the fair value method, compensation cost is measured at fair value at the date of grant using the Black-Scholes option pricing model. The compensation expense is expensed over the vesting period with a corresponding credit to contributed surplus. Consideration paid on the exercise of stock options plus the amount of previously recognized expense is credited to shareholders' capital when the options are exercised.

[n] Income taxes

Income taxes are comprised of current and deferred taxes. Income taxes are recognized in the consolidated statements of net income (loss) and comprehensive income (loss) except to the extent that they relate to items recognized directly in other comprehensive income (loss) or directly in shareholders' deficiency, in which case the income tax is also recognized directly in other comprehensive income (loss) or shareholders' deficiency, respectively.

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

Deferred taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted as at the date of the consolidated statements of financial position and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

[o] Significant accounting estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the reported periods. Significant areas requiring the use of management judgment and estimates include the determination of future cash flows in assessing the recoverability of income properties, the estimation of useful lives for amortization purposes, the determination of deferred tax assets and liabilities and the calculation of the estimated liability related to the Lakeview Perks Loyalty Program. As a result, actual results could differ materially from these estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the period in which they become known.

Impairment testing of income properties requires management to assess the property's ability to recover its book value through the normal course of operations. Significant assumptions are used in the assessment of impairment including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount rate, appropriate growth rates [revenue and costs] and changes in market valuation parameters. Management considers various factors in its assessment, including the historical performance of income properties, expected trends in each specific market, including new or expected new hotel supply, as well as local economic conditions.

[p] Financial instruments

The Company has the following financial assets and liabilities:

[i] Cash, reserve fund and cash held in trust are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net income (loss).

[ii] Accounts receivable and mortgage receivable are classified as "loans and receivables" and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method. The carrying amount of these assets is reduced through the use of an allowance account if collection appears to be doubtful. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery.

[iii] Cheques issued in excess of cash on deposit, accounts payable and accrued liabilities, debentures, mortgage payable, other long-term debt, long-term interest payable and shareholder's loan payable are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method. Transaction costs related to the long-term debt are included in the value of the instruments and amortized using the effective interest rate method. Over the term of the debt, the long-term liability will increase to the face value of the debt with the accretion being included in interest on mortgages, debentures and other long-term debt in the consolidated statements of net income (loss) and comprehensive income (loss).

[iv] The interest rate swap is a derivative that is classified as "fair value through profit and loss" and is measured at fair value. Changes in fair value between reporting periods are charged or credited to operations at the end of the reporting period, with a corresponding adjustment recorded on the interest rate swap asset or liability in the consolidated statement of financial position.

[q] Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss), which represents changes in shareholders' deficiency during a period arising from transactions and other events with non-owner sources. For the three and six months ended June 30, 2017 and 2016, there is no difference between the Company's net income (loss) and comprehensive income (loss) nor is there any accumulated other comprehensive income (loss) as at June 30, 2017 or 2016.

[r] Future accounting changes

IFRS 9, *Financial Instruments*

The revised version of IFRS 9 introduces a new chapter on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers* replaces IAS 11, *Construction Contracts* and IAS 18, *Revenue*. The standard specifies the steps and timing for entities to recognize revenue and enhances disclosure requirements. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

IFRS 16, *Leases*

IFRS 16, *Leases* ["IFRS 16"], a new standard on lease accounting, was issued on January 13, 2016 and replaces the current guidance in IAS 17, *Leases*. The new standard results in substantially all leases being recorded on the statement of financial position of the lessee. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

2. Reserve fund

Pursuant to the Hotel Management Agreements with LFMGP, the Company's properties are required to reserve funds in a separate account for ongoing capital repairs, replacements and/or improvements of the property including, but not limited to, the regular repair, replacement and maintenance of the furniture, fixtures and equipment. Under the terms of the Hotel Management Agreements, the properties are required to make monthly deposits into the reserve fund account equal to not less than 2% of monthly gross revenue. The amounts in reserve can be used, subject to approval by the directors, for purposes other than as noted.

	Six months ended June 30, 2017	**Year ended December 31, 2016**
	$	$
Reserve fund, beginning of period	**116,320**	276,978
Allocations to reserve fund	**192,053**	411,907
Use of reserve fund	**(221,214)**	(572,565)
Reserve fund, end of period	**87,159**	116,320

3. Mortgage receivable

Effective June 3, 2016, the Company sold its Days Inn – Ottawa Airport property for total consideration of $10,900,000 plus closing adjustments *[note 19]*. A portion of the consideration was realized through the take-back of a mortgage in the amount of $750,000. The mortgage bears interest at 4% per annum, is due June 1, 2021 and is collateralized by a second ranking charge against the Days Inn – Ottawa Airport property and an assignment of the insurance policy on the property second behind the first mortgage holder. The purchaser is required to make monthly payments of interest only on the mortgage.

The mortgage agreement stipulated that $200,000 of the mortgage would be forgiven if $150,000 of the mortgage was repaid within six months of the closing date. On July 12, 2016, $150,000 of the mortgage was repaid and as a result, the outstanding mortgage receivable balance was reduced to $400,000 as at that date. The forgiven amount of $200,000 was included in general and administration expense for the year ended December 31, 2016.

4. Franchise fees

	Cost	Accumulated amortization	Net book value
	$	$	$
Balance, January 1, 2016	58,290	(35,863)	22,427
Amortization for the year	—	(2,860)	(2,860)
Derecognition of franchise fees	(28,350)	25,624	(2,726)
Balance, December 31, 2016	29,940	(13,099)	16,841
Amortization for the period	—	(748)	(748)
Balance, June 30, 2017	**29,940**	**(13,847)**	**16,093**

5. Income properties

	Land	Buildings	Parking lots	Signs	Furniture, fixtures and equipment	Automobile	Total
	$	$	$	$	$	$	$
Cost							
As at January 1, 2016	10,342,108	85,817,196	578,522	561,838	13,912,614	26,460	111,238,738
Additions	—	146,898	20,300	—	227,695	—	394,893
Derecognitions due to replacement	—	(64,162)	(7,500)	—	(125,733)	—	(197,395)
Transfer to assets held for sale *[note 20]*	(450,000)	(3,461,047)	—	(92,516)	(750,934)	—	(4,754,497)
Sales of assets *[note 19]*	(535,000)	(10,756,068)	—	(70,007)	(1,362,438)	(26,460)	(12,749,973)
As at December 31, 2016	9,357,108	71,682,817	591,322	399,315	11,901,204	—	93,931,766
Additions	—	156,589	—	—	138,379	—	294,968
Derecognitions due to replacement	—	(94,326)	—	—	(114,225)	—	(208,551)
As at June 30, 2017	**9,357,108**	**71,745,080**	**591,322**	**399,315**	**11,925,358**	**—**	**94,018,183**
Accumulated amortization and impairment							
As at January 1, 2016	—	21,625,022	339,163	453,659	12,894,323	26,460	35,338,627
Amortization	—	2,245,844	17,510	7,633	396,042	—	2,667,029
Derecognitions due to replacement	—	(18,480)	(5,006)	—	(123,819)	—	(147,305)
Impairment	—	2,500,000	—	—	—	—	2,500,000
Transfer to assets held for sale *[note 20]*	—	(681,192)	—	(72,520)	(735,167)	—	(1,488,879)
Sales of assets *[note 19]*	—	(2,405,981)	—	(49,266)	(1,178,692)	(26,460)	(3,660,399)
As at December 31, 2016	—	23,265,213	351,667	339,506	11,252,687	—	35,209,073
Amortization	—	861,346	8,943	2,643	169,316	—	1,042,248
Derecognitions due to replacement	—	(81,296)	—	—	(114,225)	—	(195,521)
As at June 30, 2017	**—**	**24,045,263**	**360,610**	**342,149**	**11,307,778**	**—**	**36,055,800**
Net book value							
As at June 30, 2017	**9,357,108**	**47,699,817**	**230,712**	**57,166**	**617,580**	**—**	**57,962,383**
As at December 31, 2016	9,357,108	48,417,604	239,655	59,809	648,517	—	58,722,693

At each reporting date, management performs a review for indicators of impairment in respect of its income properties. Management identifies each hotel property and the ancillary commercial and office property related thereto as a CGU for purposes of testing for impairment. If an impairment indicator is identified, management determines the recoverable amount of the individual income property as the higher of value-in-use and fair value less costs to sell. Value-in-use is based on a discounted cash flow approach whereas fair value less costs to sell is determined giving consideration to comparable sales transactions and price per room metrics. Under the value-in-use calculation, discount rates are applied to the forecasted cash flows expected from the use and eventual disposition of each hotel property. The forecasted cash flow projections cover a five-year period and reflect management's assumptions of hotel activity including occupancy, room rates, revenues, expenses and the residual or terminal value of the CGU.

As at June 30, 2017, management's review did not identify any indicators of impairment with respect to its income properties. However, as at December 31, 2016, management's review identified indicators of impairment that included decreases in occupancy, particularly in oil dependent hotel markets. As a result, management estimated the recoverable amounts of the properties by applying the value-in-use method using level 3 inputs from the fair value hierarchy described in note 16. The key factors of estimation uncertainty included in this model for measuring the recoverability of the CGUs were as follows:

Discount rates	10.75% to 14.50%
Capitalization rates	9.25% to 12%
Growth rates	consistent with industry and market outlook

As at December 31, 2016, the recoverability analysis completed by management led to the recognition of an impairment provision of $2,500,000. The impairment provision was included in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2016.

As discussed in note 1, should the Company not be able to continue on a going concern basis, the liquidation value of the income properties may be significantly different from the carrying value.

6. Investment in Lakeview Flag Licensing General Partnership

The Company has a 49% interest in LFLGP. The principal purpose of LFLGP is to hold the trademarks, trade names, operating procedures, systems, related items and goodwill associated therewith of the hotel flags known as "Lakeview Inn & Suites" and "Lakeview Resorts" ["Lakeview Flag"].

LFLGP earns income, pursuant to the Sub-franchise Agreement and the License Agreements with the respective hotels, through the payment to it of a license fee of 4% of gross room revenue from each Company property that has opened as or has been converted to a Lakeview Inn & Suites hotel or Lakeview Signature Inn. The license fees are earned effective as of the date of opening or conversion.

Effective May 30, 2017, the Company sold the Lakeview Inn & Suites in Brooks, Alberta *[note 19]* and therefore, no further license fees will be earned from this property as of this date.

Effective September 7, 2016, the Company sold the Lakeview Inn & Suites in Edson, Alberta *[note 19]*; however, LFLGP will continue to earn a license fee equal to 4% of gross room revenue from this property for a period of 15 years ending September 30, 2031 subject to earlier termination as provided within the License Agreement.

Pursuant to the Sub-franchise Agreement and the License Agreements, LFLGP also earns a license fee equal to 4% of gross room revenue received from the following hotels that are owned by LMI and located as follows:

Lakeview Inn & Suites – Bathurst, New Brunswick [Canada]
Lakeview Inn & Suites – Brandon, Manitoba [Canada]
Lakeview Inn & Suites – Grand Forks, North Dakota [United States of America]
Lakeview Inn & Suites – Miramichi, New Brunswick [Canada]
Lakeview Hecla Resort – Hecla/Grindstone Provincial Park, Manitoba [Canada]
Grand Winnipeg Airport Hotel by Lakeview – Winnipeg, Manitoba [Canada]

Effective May 19, 2015, LMI sold the Lakeview Inn & Suites in Grand Forks, North Dakota; however, LFLGP continued to earn a license fee equal to 4% of gross room revenue from this property for one year up to and including May 31, 2016. In addition, effective March 22, 2017, LMI sold the Lakeview Inn & Suites in Bathurst, New Brunswick. LFLGP will earn no further license fees from this property as of this date.

Gross room revenue is the gross income resulting from all room sales made to customers or guests of the respective hotels and does not include any sales tax, which is collected and remitted to the appropriate tax authority by the hotels.

Investment in LFLGP consists of the following:

	Six months ended June 30, 2017 $	Year ended December 31, 2016 $
Investment, beginning of period	**1,038,263**	565,302
Equity income	**229,041**	472,961
Investment, end of period	**1,267,304**	1,038,263

The summarized financial information below represents the amounts presented in LFLGP's financial statements:

	June 30, 2017 $	December 31, 2016 $
Current assets	**2,600,031**	2,131,693
Non-current assets	**2**	2
Current liabilities	**(13,698)**	(12,791)
Net assets	**2,586,335**	2,118,904
Company's ownership interest	**49%**	49%
Carrying amount of the investment	**1,267,304**	1,038,263

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Revenue	**208,119**	226,192	**467,796**	434,322
Expenses	**(318)**	(227)	**(365)**	(889)
Net income	**207,801**	225,965	**467,431**	433,433
The Company's share of net Income for the period	**101,822**	110,723	**229,041**	212,382

As disclosed in note 15, the Company was charged license fees of $121,869 and $144,322 respectively for the three months ended June 30, 2017 and 2016 and of $284,176 and $274,551 respectively for the six months ended June 30, 2017 and 2016 and has an outstanding accounts payable and accrued liability balance payable to LFLGP amounting to $1,313,571 as at June 30, 2017 [December 31, 2016 - $1,015,185]. These same amounts were recorded by LFLGP in its revenue and in its current assets as listed above.

7. Investment in Lakeview Flag Management General Partnership

The Company has a 50% interest in LFMGP, entitling it to 25% of LFMGP's net income. Pursuant to a Property Management Agreement, LFMGP provides hotel management services to each limited service Company property for a fee equal to 5% of gross revenue and to each full service Company property for a fee equal to 4% of gross revenue. Gross revenue includes all income derived from the properties and their operations.

Investment in LFMGP consists of the following:

	Six months ended June 30, 2017 $	Year ended December 31, 2016 $
Investment, beginning of period	**477,596**	236,656
Equity income	**113,460**	259,815
Distribution received	**(18,000)**	(18,875)
Investment, end of period	**573,056**	477,596

The summarized financial information below represents the amounts presented in LFMGP's financial statements:

	June 30, 2017 $	December 31, 2016 $
Current assets	**2,300,245**	1,917,637
Current liabilities	**(8,020)**	(7,252)
Net assets	**2,292,225**	1,910,385
Company's ownership interest	**25%**	25%
Carrying amount of the investment	**573,056**	477,596

	Three months ended June 30,		Six months ended June 30,	
	2017 $	2016 $	2017 $	2016 $
Revenue	**206,838**	271,015	**453,965**	521,754
Expenses	**(80)**	(43)	**(125)**	(275)
Net income	**206,758**	270,972	**453,840**	521,479
The Company's share of net income for the period	**51,689**	67,743	**113,460**	130,370

As disclosed in note 15, the Company was charged management fees of $206,838 and $271,015 respectively for the three months ended June 30, 2017 and 2016 and of $453,965 and $521,754 respectively for the six months ended June 30, 2017 and 2016 and has an outstanding accounts payable and accrued liability balance payable to LFMGP amounting to $2,295,322 as at June 30, 2017 [December 31, 2016 - $1,913,312]. These same amounts were recorded by LFMGP in its revenue and in its current assets as listed above.

8. Debentures

Series A Senior Secured Debentures/New Debentures

Effective March 28, 2008, the Company, through a public offering, issued $10,250,000 Series A Senior Secured Debentures [the "Debentures"]. Effective October 26, 2011, the Debentures were repaid in full in part by proceeds received from a mortgage and in part through the issuance of a new set of debentures ["New Debentures"] to the two largest holders [collectively greater than 98%] of the Series A Debentures.

The New Debentures matured on October 26, 2016 and bore interest at 8.125% per annum. They were collateralized by a second-ranking charge on the Four Points by Sheraton – Prince George hotel, a general security agreement from the Company and Lakeview Flag Operating Limited Partnership, a guarantee from Lakeview Flag Operating Limited Partnership, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements second behind the first mortgage holder *[note 9]*.

Beginning March 31, 2015, in addition to the monthly interest payments, quarterly repayments of principal in the amount of $37,500 were made on the New Debentures up to and including September 30, 2016.

Effective October 31, 2016, the New Debentures were extended and amended such that they will now mature on October 31, 2018. In addition, although monthly interest payments will continue to be paid at 8.125% per annum, no further repayments of principal are required to be made on the New Debentures until maturity. All other terms of the New Debentures have remained the same. The financing costs incurred on the extension and amendment of the New Debentures totalled $5,742.

Details of the New Debentures are described below:

	June 30, 2017 $	December 31, 2016 $
New Debentures		
Principal	**2,744,419**	2,744,419
Financing costs	**(5,742)**	(5,742)
Accretion of debentures and amortization of financing costs	**1,899**	471
	2,740,576	2,739,148

As the New Debentures are scheduled to mature on October 31, 2018, their carrying values as at June 30, 2017 and December 31, 2016 have been reported as long-term liabilities.

Series C Redeemable Subordinated Debentures

Effective March 2, 2012, the holders of the Series C Convertible Redeemable Subordinated Debentures agreed to a restructuring of their terms such that the ability of the debenture holders to convert the debentures into shares of the Company was eliminated. As there was no further conversion option, these debentures were then designated as Series C Redeemable Subordinated Debentures.

The other features of the Series C Redeemable Subordinated Debentures were as follows:

[a] the maturity date of the debentures was June 30, 2017;

[b] interest was calculated and payable semi-annually in arrears at the rate of:
- 6.5% per annum, payable semi-annually in arrears on June 30, 2012, December 31, 2012, June 30, 2013 and December 31, 2013
- 7.5% per annum, payable semi-annually in arrears on June 30, 2014, December 31, 2014, June 30, 2015 and December 31, 2015
- 8.0% per annum, payable semi-annually in arrears on June 30, 2016, December 31, 2016 and June 30, 2017;

[c] on and after March 2, 2012, but prior to the maturity of the debentures, the debentures were redeemable by the Company, in whole or in part, at a price equal to the principal amount thereof plus accrued and unpaid interest from time to time at the Company's sole option on not more than 60 days' and not less than 30 days' prior written notice;

[d] the debentures were to rank senior to all future series of debentures issued by the Company, ranked pari passu with the Series D Redeemable Subordinated Debentures as described below and were subordinate only to property-specific conventional mortgage financing and any vendor take-back mortgage financing; and

[e] while certain other covenants and conditions existed, there were no specific financial covenant requirements. It is currently not the case, but if any of the Company's other debt obligations were ever to be accelerated, an event of default would occur and the debentures would need to be classified as a current liability.

As a means of financing a portion of the costs charged by the soliciting dealer in connection with the restructuring of the debentures, the principal amount of the debentures was increased from $18,000,000 to $18,326,000.

Also effective March 2, 2012, the Company issued 384 share purchase warrants for each $1,000 in face value of debentures held. Each warrant entitled the holder thereof to purchase one share of the Company at an exercise price of $0.65. Including the 125,184 share purchase warrants issued to the soliciting dealer for its $326,000 of debentures that it holds, the Company issued a total of 7,037,184 warrants. The warrants expired on March 2, 2017.

At initial measurement, the debentures were allocated to debt and equity components based on the estimated cost of borrowing without the warrant feature as follows:

	Debt	Equity	Total
	$	$	$
Series C Redeemable Subordinated Debentures	17,916,656	409,344	18,326,000

Effective November 28, 2016, the holders of the Series C Redeemable Subordinated Debentures agreed to certain amendments of their terms such that the maturity date has been extended from June 30, 2017 to August 22, 2019, the interest rate payable has been changed from 8% per annum to 7% per annum retroactive to the last payment date and the payment of accrued interest has been changed from being payable semi-annually to being payable on the maturity date. For greater clarity, as the last payment of accrued interest was made on June 30, 2016, beginning July 1, 2016, interest on the debentures will accrue at the rate of 7% until August 22, 2019, at which time it will be due to be paid. As at June 30, 2017 and December 31, 2016 respectively, unpaid interest that has accrued on the debentures amounted to $1,282,820 and $641,410 and is included in long-term interest payable in the consolidated statements of financial position.

Whereas the amendments to the Series C Redeemable Subordinated Debentures did not affect points [c], [d] or [e] above, two additional restrictive covenants were included:

- the first was to restrict the payment of deferred fees owing by the Company to LMI *[note 15]* where such payment would reduce the deferred fee balance owing to LMI to under $3,100,000 until such time as all accrued and unpaid interest on the debentures owing at the time has been paid to the debenture holders. In connection with the foregoing, the Company acknowledges that any of the $3,100,000 in deferred fees owing to LMI outstanding as of the maturity date is subordinate to the repayment of the principal amount outstanding under the Series C Redeemable Subordinated Debentures along with any additional accrued and unpaid interest payable thereon.

As reported in note 15, the following amounts are owed either directly to LMI or indirectly to LMI through its ownership interest in LFLGP and LFMGP as at June 30, 2017:

	$
LMI	1,208,257
LFLGP [representing LMI's 51% ownership interest]	669,921
LFMGP [representing LMI's 75% ownership interest]	1,721,492
	3,599,670

Of the total amount owed to LMI as at June 30, 2017, a maximum of $3,100,000 is restricted from being paid to LMI until all accrued and unpaid interest to date has been paid on the Series C Redeemable Subordinated Debentures in full.

- the second was to provide that the Company may not increase the principal amount of senior debt [other than in connection with the Company's hotel in Prince George, British Columbia, which includes the New Debentures described above and the mortgage payable in note 9 beyond the amount outstanding as at November 28, 2016 unless either [i] approval has been obtained from the debenture holders or [ii] the amount in excess of such principal amount is used to pay down the accrued interest and principal on the Series C Redeemable Subordinated Debentures and the Company's Series D Redeemable Subordinated Debentures as discussed below on a pro rata basis. The principal amount of senior debt outstanding as at November 28, 2016 was $43,073,000 *[note 10]*.

The financing costs incurred with respect to the amendments to the Series C Redeemable Subordinated Debentures totalled $186,480.

The details of the debentures are outlined in the tables below:

	June 30, 2017					
	Effective interest rate %	Face amount $	Financing costs $	Warrants $	Accretion $	Carrying value $
Series C Redeemable Subordinated Debentures	**7.000**	**18,326,000**	**(186,480)**	**—**	**59,527**	**18,199,047**

	December 31, 2016					
	Effective interest rate %	Face amount $	Financing costs $	Warrants $	Accretion $	Carrying value $
Series C Redeemable Subordinated Debentures	7.637	18,326,000	(186,480)	(409,344)	439,649	18,169,825

As the Series C Redeemable Subordinated Debentures are scheduled to mature on August 22, 2019, as amended, their carrying values as at June 30, 2017 and December 31, 2016 have been reported as long-term liabilities.

Series D Redeemable Subordinated Debentures

Effective September 28, 2012, the holders of the Series D Convertible Redeemable Subordinated Debentures agreed to a restructuring of their terms such that the ability of the debenture holders to convert the debentures into shares of the Company was eliminated. As there was no further conversion option, these debentures were then designated as Series D Redeemable Subordinated Debentures.

The other features of the Series D Redeemable Subordinated Debentures were as follows:

[a] the maturity date of the debentures was May 31, 2018;

[b] interest was calculated and payable semi-annually in arrears at the rate of:
- 8.5% per annum, payable semi-annually in arrears on November 30, 2012
- 9.0% per annum, payable semi-annually in arrears on May 31 and November 30 in each year commencing May 31, 2013 and ending May 31, 2018;

[c] on and after May 31, 2013, but prior to the maturity of the debentures, the debentures were redeemable by the Company, in whole or in part, at a price equal to the principal amount thereof plus accrued and unpaid

interest from time to time at the Company's sole option on not more than 60 days' and not less than 30 days' prior written notice;

[d] the debentures were to rank senior to all future series of debentures issued by the Company, ranked pari passu with the Series C Redeemable Subordinated Debentures and were subordinate only to property-specific conventional mortgage financing and any vendor take-back mortgage financing; and

[e] while certain other covenants and conditions existed, there were no specific financial covenant requirements. It is currently not the case, but if any of the Company's other debt obligations were ever to be accelerated, an event of default would occur and the debentures would need to be classified as a current liability.

As a means of financing a portion of the costs charged by the soliciting dealer in connection with the restructuring of the debentures, the principal amount of the debentures was increased from $9,980,000 to $10,160,000.

Effective November 28, 2016, the holders of the Series D Redeemable Subordinated Debentures agreed to certain amendments of their terms such that the maturity date has been extended from May 31, 2018 to August 22, 2019, the interest rate payable has been changed from 9% per annum to 7% per annum retroactive to the last payment date and the payment of accrued interest has been changed from being payable semi-annually to being payable on the maturity date. For greater clarity, as the last payment of accrued interest was made on May 31, 2016, beginning June 1, 2016, interest on the debentures will accrue at the rate of 7% until August 22, 2019 at which time it will be due to be paid. As at June 30, 2017 and December 31, 2016 respectively, unpaid interest that has accrued on the debentures totalled $770,467 and $414,867 and is included in long-term interest payable in the consolidated statements of financial position.

Whereas the amendments to the Series D Redeemable Subordinated Debentures did not affect points [c], [d] or [e] above, two additional restrictive covenants were included:

- the first was to restrict the payment of deferred fees owing by the Company to LMI *[note 15]* where such payment would reduce the deferred fee balance owing to LMI to under $3,100,000 until such time as all accrued and unpaid interest on the debentures owing at the time has been paid to the debenture holders. In connection with the foregoing, the Company acknowledges that any of the $3,100,000 in deferred fees owing to LMI outstanding as of the maturity date is subordinate to the repayment of the principal amount outstanding under the Series D Redeemable Subordinated Debentures along with any additional accrued and unpaid interest payable thereon.

As discussed above, as at June 30, 2017, a maximum of $3,100,000 is restricted from being paid to LMI until all accrued and unpaid interest to date has been paid on the Series D Redeemable Subordinated Debentures in full.

- the second was to provide that the Company may not increase the principal amount of senior debt [other than in connection with the Company's hotel in Prince George, British Columbia, which includes the New Debentures described above and the mortgage payable in note 9 beyond the amount outstanding as at November 28, 2016 unless either [i] approval has been obtained from the debenture holders or [ii] the amount in excess of such principal amount is used to pay down the accrued interest and principal on the Series D Redeemable Subordinated Debentures and the Company's Series C Redeemable Subordinated Debentures on a pro rata basis. The principal amount of senior debt outstanding as at November 28, 2016 was $43,073,000 *[note 10]*.

The financing costs incurred with respect to the amendments to the Series D Redeemable Subordinated Debentures totalled $108,949.

The details of the debentures are described below:

	June 30, 2017 $	**December 31, 2016 $**
Series D Redeemable Subordinated Debentures		
Face value	**10,160,000**	10,160,000
Financing costs	**(426,161)**	(426,161)
Accretion of debentures and amortization of financing costs	**187,825**	133,532
	9,921,664	9,867,371

As the Series D Redeemable Subordinated Debentures are scheduled to mature on August 22, 2019, as amended, their carrying values as at June 30, 2017 and December 31, 2016 have been reported as long-term liabilities.

The accretion of all three sets of debentures, which increases the debt from the initial carrying amount, is included in interest expense and totalled $42,702 and $20,375 respectively, for the three months ended June 30, 2017 and 2016 and $84,943 and $40,257 respectively, for the six months ended June 30, 2017 and 2016.

Notes to consolidated financial statements

June 30, 2017
Unaudited

9. Mortgage payable

	June 30, 2017 $	December 31, 2016 $
Mortgage payable, net of finance fees of $22,668, bearing interest at 5% per annum, with monthly payments of principal and interest of $40,000, due September 30, 2021, collateralized by a first charge on the Four Points by Sheraton – Prince George hotel, a general security agreement from the Company, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements. In addition, LMI has provided, for no consideration, a guarantee to a maximum of $1,500,000	**6,378,850**	6,447,271
Less current portion	**(163,746)**	(160,174)
	6,215,104	6,287,097

Effective June 3, 2016, the Company sold its Days Inn – Ottawa Airport property *[note 19]*. Of the net sales proceeds received, $5,721,489 was used to repay the related mortgage in full. As a result of the early payment of this mortgage, a prepayment penalty of $90,520 was charged and was included in general and administration expense for the year ended December 31, 2016. In addition, the unamortized balance of the financing costs relating to this mortgage in the amount of $19,804 was charged to loss on derecognition of financial liability and was also included in general and administration expense for the year ended December 31, 2016.

For the three months ended June 30, 2017 and 2016 respectively, principal repayments of the mortgages totalled $39,906 and $5,848,295. For the six months ended June 30, 2017 and 2016 respectively, principal repayments of the mortgages totalled $70,737 and $5,974,161. The accretion of mortgages payable totalling $1,105 and $23,518 for the three months ended June 30, 2017 and 2016 respectively and $2,316 and $47,973 for the six months ended June 30, 2017 and 2016 respectively is included in interest expense.

Notes to consolidated financial statements

June 30, 2017
Unaudited

The estimated future principal repayments required over the next five years with respect to the mortgage outstanding as at June 30, 2017 are as follows:

	$
Remainder of 2017	79,547
2018	167,917
2019	176,508
2020	184,687
2021	5,789,874
Total principal outstanding	6,398,533
Financing costs	(22,668)
Accretion of mortgage and amortization of financing costs	2,985
	6,378,850

As at June 30, 2017, the Company is in compliance with all covenants related to the mortgage payable.

10. Other long-term debt

Effective August 25, 2014, the Company was advanced a $500,000 revolving term operating facility and a $47,500,000 syndicated term facility. The details of the two facilities are as follows:

	June 30, 2017 $	December 31, 2016 $
Revolving term operating facility	**497,439**	451,271
Syndicated term facility	**37,410,763**	43,073,000
Financing costs	**(1,308,320)**	(1,308,320)
Accretion of syndicated term facility and amortization of financing costs	**611,089**	440,883
	36,713,532	42,205,563
	37,210,971	42,656,834
Less current portion	**(3,720,383)**	(8,248,532)
	33,490,588	34,408,302

The revolving term operating facility is a $500,000 committed five-year facility terminating on August 22, 2019. The facility is available on a revolving basis where the Company may make multiple drawdowns, repayments and further drawdowns thereunder. The Company borrows under the operating facility by way of a Canadian prime rate loan and pays interest at prime plus 3% per annum. For the three and six months ended June 30, 2017 and 2016, the effective rate of interest was 5.70%. The revolving term operating facility was advanced exclusively by the lead lender of the syndicate described below.

The syndicated term facility was advanced by a syndicate of lenders and is due August 22, 2019. Since the initial advance, certain amendments have been made to the original credit facilities agreement. These have been detailed in the table below.

Amending agreement	Effective date	Financing costs incurred $
First	December 23, 2015	99,289
Second	October 19, 2016	181,517
Third	December 30, 2016	173,751

Pursuant to the first amending agreement, no principal repayment was required to be made on the facility for the quarter ending March 31, 2016, but principal repayments of $636,500 were required to be made at the end of every quarter thereafter beginning with the quarter ending June 30, 2016. Pursuant to the third amending agreement, beginning with the quarter ending March 31, 2017, principal repayments of 1.34% of the then outstanding syndicated term facility principal amount are required to be made at the end of every quarter up to and including the quarter ending December 31, 2017. Thereafter, the principal repayments required to be made at the end of every quarter beginning with the quarter ending March 31, 2018 are $539,544. Also in accordance with the third amending agreement, the regular quarterly scheduled principal repayments for the quarters ending December 31, 2016 and March 31, 2017 may be and are expected to be deferred until September 30, 2017 and the regular quarterly scheduled principal repayments for the quarters ending June 30, 2017 and September 30, 2017 may be and are expected to be deferred until December 31, 2017.

The following table sets forth the details of the quarterly principal repayments required to be paid in 2017:

	Expected date of payment	
	September 30, 2017 $	December 31, 2017 $
Quarterly principal repayments		
December 31, 2016	636,500	—
March 31, 2017	543,571	—
June 30, 2017	—	502,031
September 30, 2017	—	486,218
December 31, 2017	—	472,975
	1,180,071	1,461,224

The Company borrows under the syndicated term facility either through Canadian prime rate loans where the interest is calculated at prime plus 3% per annum or through the issuance of Canadian dollar bankers' acceptances, in which case the interest is calculated at the Canadian bankers' acceptance ["BA"] rate plus 4% per annum. The bankers' acceptances can mature over periods of 30, 60 or 90 days, but as they are issued under the long-term credit facility, their classification is consistent with the facility.

Both facilities above together are collateralized by first charges on certain income properties, an assignment of the insurance policy on the income properties, an assignment of rents and leases of the income properties, an assignment of material contracts and agreements and an unlimited guarantee and general security agreement provided by the Company.

The accretion of the syndicated term facility, which increases the debt from the initial carrying amount, is included in interest expense and totalled $88,086 and $52,487 for the three months ended June 30, 2017 and 2016 respectively and $170,206 and $104,114 for the six months ended June 30, 2017 and 2016 respectively.

The Company is subject to certain financial covenants in its credit facility agreements which must be complied with. The financial covenants require the Company to maintain:

[a] subsequent to the first amending agreement, an EBITDA-to-debt service requirements ratio of not less than 1.00 on a consolidated basis for each of the five quarters commencing with the quarter ending December 31, 2015 up to and including the quarter ending December 31, 2016; subsequent to the third amending agreement, an EBITDA-to-debt service requirements ratio of not less than 0.55 on a consolidated basis for the quarter ending December 31, 2016, not less than 1.00 for the quarter ending March 31, 2017, not less than 1.05 for the quarter ending June 30, 2017, not less than 1.10 for the quarter ending September 30, 2017, not less than 1.15 for the quarter ending December 31, 2017 and not less than 1.35 for every quarter thereafter;

[b] a net operating income-to-debt service requirements ratio on the properties collateralized by the operating and syndicated term facilities agreement of not less than 1.30. This covenant was deleted in its entirety pursuant to the second amending agreement; and

[c] a debt-to-appraised value of income properties collateralized by the operating and syndicated term facilities agreement ratio not greater than 55%; subsequent to the third amending agreement, a debt-to-appraised value ratio not greater than 60% for the quarters ending December 31, 2016 to December 31, 2017; thereafter, a debt-to-appraised value ratio not greater than 55%.

As at June 30, 2017 and December 31, 2016, the Company complied with all financial covenants.

Cash held in trust

Effective September 7, 2016, the Company sold its Lakeview Inn & Suites – Edson, Alberta property for $2,900,000 plus closing adjustments *[note 19]*. As this property formed part of the first charge collateral held by the syndicate, the Company was required pursuant to the second amending agreement to deposit into an account held in trust with the lead lender of the syndicate on behalf of the Company [the "Lakeview Cash Collateral Account"] all cash proceeds realized from the sale. In addition, on October 19, 2016, amounts were withdrawn from the account to pay down a portion of the revolving term operating facility and to fund a portion of the costs associated with the second amending agreement.

Also pursuant to the second amending agreement, the Company deposited $636,500 on October 14, 2016 into a second account held in trust with the lead lender of the syndicate on behalf of the Company [the "Ottawa Cash

Collateral Account"]. The Company will not have any withdrawal rights or privileges related to this account except to apply the amount held to scheduled principal repayments, to the principal remaining on the credit facilities or a portion thereof or to any required property tax payments. A minimum amount representing the next regular quarterly scheduled principal repayment must be maintained in the Ottawa Cash Collateral Account.

A condition of the third amending agreement was that the Company must have completed the sale of one of its hotel properties prior to June 30, 2017. Effective May 30, 2017, the Company did sell its Lakeview Inn & Suites – Brooks, Alberta property *[note 19]*. Of the net sales proceeds received, $3,252,728 was deposited to the Lakeview Cash Collateral Account. On May 31, 2017, $3,155,000 was withdrawn from the account to pay down a portion of the syndicated term facility and $97,728 was withdrawn to fund the interest rate swap break fee.

Details of the amounts held in the two cash collateral accounts are as follows:

	Six months ended June 30, 2017 $	Year ended December 31, 2016 $
Lakeview Cash Collateral Account		
Balance beginning of period	**2,606,187**	—
Cash proceeds realized from sale of Lakeview Inn & Suites – Edson, Alberta	—	2,828,296
Cash proceeds realized from sale of Lakeview Inn & Suites – Brooks, Alberta	**3,252,728**	—
Interest earned	**18**	417
Withdrawal to pay down portion of revolving term operating facility	—	(50,175)
Withdrawal to fund portion of second amending agreement financing costs	—	(172,351)
Withdrawal, January 4, 2017, to pay down portion of syndicated term facility	**(2,507,237)**	—
Withdrawal, May 31, 2017, to pay down portion of syndicated term facility	**(3,155,000)**	—
Withdrawal, January 4, 2017, to fund interest rate swap break fee	**(98,950)**	—
Withdrawal, May 31, 2017, to fund interest rate swap break fee	**(97,728)**	—
Balance, end of period	**18**	2,606,187
Ottawa Cash Collateral Account		
Balance, beginning of period	**696,567**	—
Next regular quarterly scheduled principal repayment	—	636,500
Interest earned	**207**	67
Shareholder's loan from LMI *[note 11]*	**300,000**	60,000
Balance, end of period	**996,774**	696,567
Total cash held in trust	**996,792**	3,302,754

The interest rate swap break fees have been included in general and administration expense for the six months ended June 30, 2017.

Estimated principal repayments required on the syndicated term facility for the remainder of 2017 and for all of 2018 and 2019 are as follows:

	$
2017	
Quarterly principal repayments expected to be made September 30, 2017	1,180,071
Quarterly principal repayments expected to be made December 31, 2017	1,461,224
	2,641,295
2018	2,158,176
2019	32,611,292
	37,410,763

Interest rate swap liability

Effective September 2, 2014, the Company entered into an interest rate swap agreement exclusively with the lead lender of the syndicate whereby the variable interest rate on borrowings through the issuance of bankers' acceptances has been fixed at approximately 6.08%. Settlement of the difference between the fixed and floating rates under the interest rate swap occurs on a monthly basis.

The following has been recorded as interest expense on the syndicated term facility:

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Advance of Canadian prime rate loans at prime plus 3%	**561,205**	—	**1,132,523**	—
Issuance of Canadian bankers' acceptances at BA rate plus 4%	—	549,970	—	1,094,996
Difference between fixed and floating rates under the interest rate swap	**106,936**	123,859	**211,849**	255,160
	668,141	673,829	**1,344,372**	1,350,156

For the three months ended June 30, 2017 and 2016, the effective rate of interest on the syndicated term facility was 6.79% and 6.11% respectively. For the six months ended June 30, 2017 and 2016, the effective rate of interest was 6.77% and 6.12% respectively.

The interest rate swap liability is a financial instrument classified as fair value through profit and loss. The consolidated financial statements therefore reflect an interest rate swap asset or liability calculated at fair value *[note 16]*. Depending on the change in fair value between reporting periods, a corresponding charge or credit to unrealized loss or gain on change in fair value of interest rate swap will be recorded. For the six months ended June 30, 2017, an unrealized gain on change in fair value of interest rate swap of $472,670 [six months ended June 30, 2016 - $11,709 loss] was recognized thereby decreasing the corresponding liability from $951,340 as reported at December 31, 2016 to $478,670 as reported at June 30, 2017.

11. Shareholder's loan payable

Pursuant to the terms of the third amending agreement related to the other long-term debt *[note 10]*, the Company has entered into a loan agreement, effective December 30, 2016, with LMI pursuant to which LMI has agreed to provide the Company a credit facility in the aggregate amount of $360,000. The total of $360,000 was paid directly by LMI to the Ottawa Cash Collateral Account *[note 10]* in six equal payments of $60,000 each, with the first payment made on December 30, 2016. Each additional payment was made on the last day of every month thereafter, with the final payment being made on May 31, 2017.

The shareholder's loan payable is unsecured, it bears interest at 10% per annum and both the principal and the accrued interest on the loan become due and payable on August 22, 2019.

At June 30, 2017 and December 31, 2016 respectively, $10,586 and $33 of interest has accrued on the loan and has been included in long-term interest payable on the consolidated statements of financial position.

12. Shareholders' capital

The Company is authorized to issue an unlimited number of common shares without par value. Since January 1, 2016, the Company has had 19,557,806 common shares outstanding for a total of $62,025,669. Holders of common shares are entitled to one vote per share at meetings of the shareholders, to dividends when declared by the Board of Directors and to the right to receive a pro-rata share of the remaining property and assets of the Company upon its dissolution or wind-up.

13. Share purchase plan

The Directors have established a Share Purchase Plan to provide incentives to Directors, management and other participants to carry out the business of the Company. The aggregate number of shares reserved for issuance under this plan shall not exceed 1,000,000.

The stock options outstanding and exercisable under the Share Purchase Plan are summarized as follows:

	Six months ended June 30, 2017		Year ended December 31, 2016	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Stock options outstanding, beginning of period	**965,000**	**0.13**	1,000,000	0.14
Stock options expired	**(70,000)**	**0.25**	—	—
Stock options forfeited	—	—	(35,000)	0.30
Stock options outstanding, end of period	**895,000**	**0.12**	965,000	0.13

The following table summarizes information about the options outstanding:

June 30, 2017			December 31, 2016		
Exercise price per share $	Number of options #	Expiry date	Exercise price per share $	Number of options #	Expiry date
—	—	—	0.25	70,000	2017
0.33	**80,000**	**2017**	0.33	80,000	2017
0.10	**815,000**	**2020**	0.10	815,000	2020

14. Basic and diluted net income (loss) per share

The basic and diluted net income (loss) and comprehensive income (loss) per share is calculated based on the following:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Weighted average number of shares	**19,557,806**	19,557,806	**19,557,806**	19,557,806

The effect of the options under the Share Purchase Plan issued to certain directors and management *[note 13]* and of the warrants issued in connection with the restructuring of the Series C Convertible Redeemable Subordinated Debentures *[note 8]* are not presented as they would have no dilutive impact on the income (loss) per share.

15. Related party transactions

In addition to the related party transactions disclosed elsewhere in these consolidated financial statements, during the normal course of business, the Company had the following transactions and balances recorded at their exchange amounts with related parties:

	June 30, 2017 $	December 31, 2016 $
Accounts payable and accrued liabilities to		
FTG	**114,200**	114,200
LMI	**1,208,257**	1,034,345
LFLGP *[note 6]*	**1,313,571**	1,015,185
LFMGP *[note 7]*	**2,295,322**	1,913,312
Company directors	**20,000**	31,000

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Marketing expenses charged by				
LMI	**60,909**	72,114	**141,971**	136,659
Included in general and administration expense				
Accounting fees charged by LMI	**109,626**	125,696	**222,062**	254,205
Asset management fees charged by LMI	**43,361**	56,294	**91,556**	113,099
Reservation fees charged by LMI	**45,682**	54,085	**106,477**	102,495
License fees charged by LFLGP *[note 6]*	**121,869**	144,322	**284,176**	274,551
Management fees charged by LFMGP *[note 7]*	**206,838**	271,015	**453,965**	521,754
Included in salaries and benefits				
Directors' fees	**13,000**	13,000	**20,000**	20,000

Under the License Agreement *[note 6]* and the Property Management Agreement *[note 7]*, the following annual fees are charged to the Company by LMI for accounting services, marketing services and access to the online reservation system.

Accounting fee	$30,000 per annum per hotel
Reservation fee	1.5% of gross room revenue
Marketing fee	2% of gross room revenue

Gross room revenue is defined in note 6.

The reservation and marketing fees are paid to LMI when properties have been converted to Lakeview Inn & Suites hotels.

The accounting fee shall be increased annually by the year-over-year increase in the Consumer Price Index for the province in which the hotel is located.

Pursuant to a Services Agreement between the Company and LMI, LMI has been engaged as the administrator of the Company to administer the affairs of the Company on a day-to-day basis and perform the recordkeeping and reporting functions of the directors. The Services Agreement expires on April 14, 2019.

LMI also charges an asset management fee based on 0.3% of the net book value of income properties. The fee is paid monthly on the last day of every month and is based on the net book value of income properties at the end of the previous month.

Key management in 2017 and 2016 includes the Company's directors, the Chief Executive Officer, the Chief Financial Officer, the Executive Vice President and the Vice President of Operations. The Company does not pay any compensation directly to its executive officers, with the exception of fees paid to the Company's directors. The services of the executive officers other than the directors are provided to the Company by LMI pursuant to the Services Agreement. Accordingly, the Company does not have any specific compensation programs or strategies with respect to its executive officers other than for fees paid to the Company's directors. However, the Company does grant options to the executive officers to purchase shares pursuant to the Share Purchase Plan *[note 13]*. Compensation awarded to key management for the three months ended June 30, 2017 and 2016 consisted only of fees paid to directors totalling $13,000 each period. For the six months ended June 30, 2017 and 2016, compensation awarded to key management also consisted only of fees paid to directors totalling $20,000 each period.

16. Financial instruments

[a] Fair values

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions of the same instrument without modification or on a valuation technique using market-based inputs.

Notes to consolidated financial statements

June 30, 2017
Unaudited

Set out below is a comparison of the carrying amounts and fair value of the Company's financial instruments that are carried in the consolidated financial statements:

	June 30, 2017		December 31, 2016	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial assets				
Cash	**443,939**	**443,939**	244,762	244,762
Reserve fund	**87,159**	**87,159**	116,320	116,320
Cash held in trust	**996,792**	**996,792**	3,302,754	3,302,754
Accounts receivable	**902,416**	**902,416**	1,035,643	1,035,643
Mortgage receivable	**400,000**	**400,000**	400,000	400,000
Financial liabilities				
Cheques issued in excess of cash on deposit	**29,587**	**29,587**	16,809	16,809
Accounts payable and accrued liabilities	**6,932,916**	**6,932,916**	5,553,553	5,553,553
Long-term interest payable	**2,063,873**	**2,063,873**	1,056,310	1,056,310
Debentures	**30,861,287**	**4,740,272**	30,776,344	7,012,048
Other long-term debt	**37,210,971**	**37,908,202**	42,656,834	43,524,271
Mortgage payable	**6,378,850**	**6,398,533**	6,447,271	6,447,271
Interest rate swap	**478,670**	**478,670**	951,340	951,340
Shareholder's loan payable	**360,000**	**290,797**	60,000	60,000

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate fair values:

- The Company's cash, reserve fund and cash held in trust are measured at fair value, and the accounts receivable, cheques issued in excess of cash on deposit and accounts payable and accrued liabilities are carried at amortized cost, which approximates their fair value due to the immediate or short-term nature of these financial instruments.
- The fair value of the mortgage receivable approximates its carrying value as monthly payments of interest are received on the mortgage *[note 3]*.
- The long-term interest payable is carried at amortized cost, which approximates its fair value since the accrual of interest to June 30, 2017 is the amount that would be paid on that date.

- As at June 30, 2017, the fair values of the mortgage payable *[note 9]* and of the New Debentures *[note 8]* approximate their principal balances outstanding since monthly interest is paid on these financial liabilities. As at December 31, 2016, the fair value of the mortgage payable and of the New Debentures approximate their carrying values as these financial liabilities were recently advanced or refinanced at that time.

- The fair value of the revolving term operating facility *[note 10]* approximates its carrying value as it is based on floating prime rates of interest. The Company estimates the fair value of the syndicated term facility *[note 10]* by discounting future cash flows. Since monthly interest is paid on the facility, the fair value approximates the principal balance outstanding. Therefore, as at June 30, 2017, the fair value of the syndicated term facility approximates $37,410,763 and was measured using Level 2 inputs.

- The Company estimates the fair value of its Series C and Series D Redeemable Subordinated Debentures *[note 8]* using unadjusted quoted prices in active markets. As at June 30, 2017, the fair values of the Series C and Series D Redeemable Subordinated Debentures approximate $1,995,853. These fair values do not necessarily represent the amounts the Company might pay in actual market transactions. These fair values were measured with Level 1 inputs.

- The Company estimated the fair value of the shareholder's loan payable at June 30, 2017 by discounting future cash flows using Level 2 inputs. Since interest will not be paid on this financial liability until maturity, the fair value of the shareholder's loan payable approximates $290,797 as at June 30, 2017. As at December 31, 2016, the fair value of the shareholder's loan payable was equivalent to its carrying value as the loan was advanced on December 30, 2016.

- The fair value of the interest rate swap contract is calculated as the present value of the estimated future cash flows, using the notional amount to maturity as per the interest rate swap contracts and an appropriate discount factor.

Fair value measurements recognized in the consolidated statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair value.

- Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities;

- Level 2 inputs – inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs – inputs for the asset or liability that are not based on observable market data ["unobservable inputs"]. These unobservable inputs reflect the entity's own assumptions about the assumptions that the market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances

Each type of fair value is categorized based on the lowest level that is significant to the fair value measurement in its entirety.

Notes to consolidated financial statements

June 30, 2017
Unaudited

The following table presents the financial instruments recorded at fair value in the consolidated statements of financial position, classified using the fair value hierarchy described above:

	June 30, 2017			December 31, 2016		
	Level 1 $	Level 2 $	Level 3 $	Level 1 $	Level 2 $	Level 3 $
Financial assets						
Cash	**443,939**	—	—	244,762	—	—
Reserve fund	**87,159**	—	—	116,320	—	—
Cash held in trust	**996,792**	—	—	3,302,754	—	—
Financial liabilities						
Interest rate swap	—	**478,670**	—	—	951,340	—

During the three and six months ended June 30, 2017, there were no transfers between Levels 1 and 2 nor were there any transfers into or out of Level 3.

[b] Risk management

Management's involvement in operations helps identify risks and variations from expectations. The Company does not manage risk through the use of hedging transactions other than through the interest rate swap. As part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk.

It is management's opinion that the Company is not exposed to significant currency risks arising from the financial instruments because it has only minimal foreign currency transactions.

Interest rate risk

The Company is exposed to interest rate risk as it relates to the revolving term operating facility *[note 10]* with prime-based floating interest rates and the renewal or refinancing of its long-term debts as they become due.

Fluctuations in interest rates create a cash flow risk which is minimized by obtaining long-term mortgages and debenture financing. There is a risk that interest rates will fluctuate subsequent to the date the Company commits to a fixed interest rate with the lender. Obtaining long-term mortgages with fixed interest rates minimizes cash flow risk.

The Company borrows under the syndicated term facility *[note 10]* either through prime rate loans or through the issuance of bankers' acceptances at floating rates. To mitigate the risk that future cash flows will fluctuate as a result of changes in floating rates, the Company has entered into an interest rate swap agreement that fixes the interest rate on borrowings through the issuance of bankers' acceptances at approximately 6.08%.

A 10% increase or decrease in the Company's weighted average interest rate would result in an increase or decrease of $120,000 and $240,000 to interest expense for the three and six months ended June 30, 2017 respectively if all outstanding interest-bearing debt were taken into consideration.

Credit risk

The amount of accounts receivable disclosed in the consolidated statements of financial position of $902,416 and $1,035,643 as at June 30, 2017 and December 31, 2016 respectively, is net of allowances for bad debts of $9,327 and $16,709 respectively, estimated by management based on prior experience and its assessment of the current economic environment. The Company does not hold collateral as security. No customer accounts for more than 10% of the accounts receivable balances disclosed at the above reporting dates.

Accounts receivable is subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk. Historically, there have been no collection issues with respect to accounts receivable, and the Company does not believe it is subject to any significant concentration of credit risk. All amounts impaired are past due. The following table sets forth details of the age of accounts receivable that are not overdue as well as an analysis of overdue amounts and the related allowance for doubtful accounts:

	June 30, 2017	**December 31, 2016**
	$	$
Neither impaired nor past due	**666,706**	599,231
Not impaired, yet past the due date as follows:		
Within 30 days	**137,059**	227,620
31 – 60 days	**41,628**	130,782
Over 60 days	**66,350**	94,719
Less allowance for doubtful accounts	**(9,327)**	(16,709)
Total accounts receivable, net	**902,416**	1,035,643

Liquidity risk

Liquidity risk arises when the Company is unable to meet its financial obligations as they become due. The Company manages liquidity risk through cash flow forecasting and regular monitoring of cash requirements including anticipated investing and financing activities.

The Company is continuing to assess various strategies to improve its cash flows and to adjust its capital structure. The Company continues to rely on the support of its related parties by deferring payment of the amounts owing to them *[note 15]* and on the continued support of its operating and syndicated term facility lenders through amendments to the original credit facilities agreement *[note 10]*.

Management has considered liquidity risk in using the going concern assumption as described in note 1.

The table below summarizes the estimated undiscounted contractual payments of the Company's financial liabilities as at June 30, 2017:

	June 30, 2017					
	Total	Year 1	Year 2	Year 3	Year 4	After Year 4
	$	$	$	$	$	$
Revolving term operating facility	558,264	28,354	28,354	501,556	—	—
Syndicated term facility	41,857,214	5,889,059	4,157,569	31,810,586	—	—
Mortgage payable	7,683,964	480,000	480,000	480,000	480,000	5,763,964
Trade payables and provisions	6,932,916	6,932,916	—	—	—	—
Cheques issued in excess of cash on deposit	29,587	29,587	—	—	—	—
New Debentures	3,042,546	222,984	2,819,562	—	—	—
Series C and Series D Redeemable Subordinated Debentures	34,813,683	—	—	34,813,683	—	—
Shareholder's loan payable	447,813	—	—	447,813	—	—
Total contractual payments	95,365,987	13,582,900	7,485,485	68,053,638	480,000	5,763,964

17. Income taxes

The following table is a reconciliation of expected income taxes recoverable at the statutory tax rates to the amounts recognized in the consolidated statements of net income (loss) and comprehensive income (loss) 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
	$	$	$	$
Net income (loss) before income taxes	(1,447,065)	1,365,418	(2,518,335)	(647,268)
Income tax rate	26.6%	26.6%	26.6%	26.6%
	(384,919)	363,201	(669,877)	(172,173)
Utilization of tax losses and deductible temporary differences not previously recognized as tax assets	—	(363,201)	—	—
Current year losses and deductible temporary differences not recognized as tax assets	384,919	—	669,877	172,173
Income tax expense	—	—	—	—

Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized at their tax affected values are attributed to the following under the tax rate applicable to the Company:

	June 30, 2017 $	December 31, 2016 $
Income properties primarily related to net book value and undepreciated capital cost differences	**10,898,000**	10,538,000
Non-capital losses	**5,882,000**	5,572,000
Net deferred income tax asset	**16,780,000**	16,110,000

The Company has incurred non-capital loss carryforwards which expire in the following years:

	$
2029	3,245,963
2030	1,511,658
2032	271,407
2033	1,197,745
2034	1,320,126
2035	6,364,950
2036	7,034,624
2037	1,166,309
	22,112,782

18. Capital management

The Company defines capital as the aggregate of shareholders' deficiency and interest-bearing debt. The objectives of the Company's capital management program are to maintain a level of capital that complies with existing financial covenants related to the mortgage payable and other long-term debt [including contributions to the replacement reserve fund], provides a return to shareholders, optimizes the cost of capital, funds its business strategies and builds long-term shareholder value.

In managing its capital structure, the Company monitors performance throughout the year to ensure working capital requirements and capital expenditures are funded from operations, available cash on deposit and available sources of financing. The Company will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the Company may issue or redeem shares, repay outstanding debt, issue new debt, refinance existing debt under different terms, acquire or dispose of assets or adjust its capital spending to manage its current and projected debt levels.

Notes to consolidated financial statements

June 30, 2017
Unaudited

	June 30, 2017 $	December 31, 2016 $
Capital structure		
Debentures	**30,861,287**	30,776,344
Mortgage payable	**6,378,850**	6,447,271
Other long-term debt	**37,210,971**	42,656,834
Shareholder's loan payable	**360,000**	60,000
Total debt	**74,811,108**	79,940,449
Shareholders' deficiency	**(21,412,254)**	(18,893,919)
Total capital	**53,398,854**	61,046,530

No dividends have been declared by the Board of Directors since February, 2009 in order to preserve capital.

19. Gain on sale of income properties

Effective May 30, 2017, the Company sold its Lakeview Inn & Suites – Brooks, Alberta property and effective June 3, 2016 and September 7, 2016 respectively, the Company sold its Days Inn – Ottawa Airport and its Lakeview Inn & Suites – Edson, Alberta properties. The sales have been summarized as follows:

	2017 Lakeview Inn & Suites Brooks, Alberta $
Gross selling price	**3,400,000**
Costs of disposition	**(119,281)**
Net sales proceeds	**3,280,719**
Carrying value of assets sold	
Land	**450,000**
Building	**2,779,855**
Sign	**19,996**
Furniture, fixtures and equipment	**15,767**
	3,265,618
Gain on sale of income property	**15,101**

	2016		
	Days Inn Ottawa, Ontario $	Lakeview Inn & Suites Edson, Alberta $	Total $
Gross selling price	10,900,000	2,900,000	13,800,000
Costs of disposition	(267,528)	(95,269)	(362,797)
Net sales proceeds	10,632,472	2,804,731	13,437,203
Carrying value of assets sold			
Land	—	535,000	535,000
Buildings	7,712,254	637,833	8,350,087
Signs	12,660	8,081	20,741
Furniture, fixtures and equipment	173,409	10,337	183,746
	7,898,323	1,191,251	9,089,574
Gain on sale of income properties	2,734,149	1,613,480	4,347,629

The net sales proceeds received from the sale of the Days Inn – Ottawa Airport property were received in part by cash of $9,882,472 and through the take-back of a mortgage in the amount of $750,000 *[note 3]*.

20. Assets held for sale

As at December 31, 2016, the Company classified its Lakeview Inn & Suites – Brooks, Alberta property as assets held for sale *[note 19]*. Accordingly, the property was valued at the lower of the fair value less costs to sell and the carrying value.

The carrying value of the assets held for sale as at December 31, 2016 consisted of the following:

	$
Land	450,000
Building	2,779,855
Sign	19,996
Furniture, fixtures and equipment	15,767
	3,265,618

21. Net change in non-cash working capital balances related to operations

The net change in the non-cash working capital balances related to operations is calculated as follows:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
	$	$	$	$
Reserve fund	**7,412**	85,155	**29,161**	157,610
Accounts receivable	**195,026**	(39,206)	**133,227**	120,855
Inventory	**524**	1,687	**(14,996)**	11,924
Prepaid expenses	**(247,743)**	(259,039)	**(238,477)**	(270,403)
Accounts payable and accrued liabilities	**625,160**	(777,168)	**1,379,363**	925,244
Lakeview Perks loyalty program	**1,095**	(3,344)	**2,767**	(2,757)
Long-term interest payable	**506,050**	—	**1,007,563**	—
	1,087,524	(991,915)	**2,298,608**	942,473