ALL IN WEST! CAPITAL CORPORATION

Consolidated Financial Statements
December 31, 2014 and 2013

April 28, 2015

Independent Auditor's Report

To the Shareholders of All in West! Capital Corporation

We have audited the accompanying consolidated financial statements of All in West! Capital Corporation (the Corporation), which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of operations and comprehensive income, shareholders' deficiency, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of All in West! Capital Corporation as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter or other matter

Without qualifying our opinion, we draw your attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

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ALL IN WEST! CAPITAL CORPORATION
Consolidated Balance Sheets
(In Canadian dollars)

	December 31, 2014	December 31, 2013
ASSETS		
CURRENT		
Cash and cash equivalents	$ 407,263	$ 146,375
Restricted cash	199,552	176,476
Accounts receivable	454,205	337,496
Other receivables	18,696	37,950
Inventories	31,388	32,118
Prepaid expenses and deposits	118,152	96,749
	1,229,256	827,164
NON-CURRENT		
Investment properties (Note 4)	20,890,000	20,000,000
	$ 22,119,256	$ 20,827,164
LIABILITIES		
CURRENT		
Accounts payable and other liabilities (Note 5)	$ 4,111,394	$ 3,308,667
Long-term debt (Note 6)	15,634,257	18,232,668
Convertible debentures (Note 7)	10,024,930	10,024,930
	29,770,581	31,566,265
GOING CONCERN (Note 1)		
SHAREHOLDERS' DEFICIENCY		
Capital stock (Note 8b)	11,328,007	11,328,007
Contributed surplus (Note 8c)	761,541	761,541
Equity component of convertible debentures (Note 7)	653,937	653,937
Deficit	(20,394,810)	(23,482,586)
	(7,651,325)	(10,739,101)
	$ 22,119,256	$ 20,827,164

Cornelius Martens
Mr. Cornelius Martens
President and CEO

Wayne Townsend
Mr. Wayne Townsend
Chairman of the Audit Committee

See accompanying notes to consolidated financial statements.

ALL IN WEST! CAPITAL CORPORATION

Consolidated Statements of Operations and Comprehensive Income

For the years ended December 31, 2014 and 2013
(In Canadian dollars)

	2014	2013
NET RENTAL INCOME		
Investment properties revenue	$ 5,504,756	$ 4,723,230
Investment properties operating expenses	(3,158,260)	(2,814,836)
	2,346,496	1,908,394
OTHER (INCOME) AND EXPENSES		
General and administrative (Note 9)	193,960	214,546
Interest on convertible debentures	796,094	796,094
Interest on long-term debt	1,059,436	1,161,375
Interest income	(3,878)	(4,154)
Gain on extinguishment of long-term debt net of costs (Note 6)	(1,983,430)	-
Fair value adjustment on investment properties (Note 4)	(803,462)	(783,480)
	(741,280)	1,384,381
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	$ 3,087,776	$ 524,013
Basic and diluted income per share (Note 8d)	$ 0.18	$ 0.03

See accompanying notes to consolidated financial statements.

ALL IN WEST! CAPITAL CORPORATION

Consolidated Statements of Shareholders' Deficiency

For the years ended December 31, 2014 and 2013
(In Canadian dollars)

	Capital Stock	Equity Component of Convertible Debentures	Deficit	Contributed Surplus	Total
Shareholders' deficiency, January 1, 2013	11,328,007	653,937	(24,006,599)	761,541	(11,263,114)
Comprehensive income for the year	-	-	524,013	-	524,013
Shareholders' deficiency, December 31, 2013	11,328,007	653,937	(23,482,586)	761,541	(10,739,101)
Comprehensive income for the year	-	-	3,087,776	-	3,087,776
Shareholders' deficiency, December 31, 2014	$ 11,328,007	$ 653,937	$(20,394,810)	$ 761,541	$ (7,651,325)

See accompanying notes to consolidated financial statements.

ALL IN WEST! CAPITAL CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(In Canadian dollars)

	2014	2013
Cash provided by (used for):		
Operating activities:		
Net income for the year	$ 3,087,776	$ 524,013
Adjustments for non-cash items:		
Non-cash interest	6,030	5,886
Gain on extinguishment of long-term debt	(1,994,820)	-
Fair value adjustment on investment properties	(803,462)	(783,480)
Changes in non-cash working capital items:		
Accounts receivable	(116,709)	(7,551)
Other receivables	19,254	(21,741)
Inventories	730	1,956
Prepaid expenses and deposits	(21,403)	5,091
Accounts payable and other liabilities	802,727	895,489
	980,123	619,663
Investing activities:		
Additions to investment properties	(86,538)	(6,520)
Increase in restricted cash	(23,076)	(1,750)
	(109,614)	(8,270)
Financing activities:		
Repayment of long-term debt	(609,621)	(506,205)
	(609,621)	(506,205)
Increase in cash and cash equivalents	260,888	105,188
Cash and cash equivalents at beginning of year	146,375	41,187
Cash and cash equivalents at end of year	$ 407,263	$ 146,375
Supplemental cash flow information:		
Interest paid (net)	$ 1,061,237	$ 1,121,203
Income taxes paid	$ -	$ -

See accompanying notes to consolidated financial statements.

1. Going concern

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which assumes that All in West! Capital Corporation ("the Company") will continue operations and be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. There is significant doubt about the appropriateness of the going concern assumption and ultimately the use of accounting principles applicable to a going concern because of the material uncertainties caused by successive years of operating losses, the position of default on all major debt instruments without current secured remediation, and a large working capital deficit. Apart from the current year, the Company has experienced a general decline in room revenues over the past few years, reflecting a weak economic environment and a marked decline in the natural gas industry in the vicinity of the Company's hotel properties since 2008. The outlook for the Company's hotel properties remains uncertain and the weakness is expected to continue until the economy, and natural gas activity in particular, in the area of the properties improves.

Management is continuing to assess various strategies to improve operating results and cash flows and to adjust the Company's capital structure. This includes the implementation of various cost reduction measures, and specific actions to address cash flow, as described in the following paragraphs. Management disposed of one of the hotel properties in fiscal 2012 and continues to consider the possibility of the disposition of other properties.

Management commenced a plan consisting of reduced payments to various stakeholders and debt holders in an effort to reduce cash outflows and improve liquidity. This plan included the voluntary waiving of asset management fees by Marwest Management Canada Ltd. ("Marwest Management"), the waiving of payments of director fees by the Directors of the Company, ceasing interest payments to the holders of its Series A Debentures, Series B Debentures and Series C Debentures (see Note 7), and deferring certain mortgage principal payments to mortgage holders (see Note 6). Management's forecast indicates that without such measures, with stakeholders and debt holders, the Company would be cash deficient during the first quarter of fiscal 2015. Even with reduced payments, there can be no assurance that the Company will be in a position to meet obligations as they come due.

The Company ceased making interest payments on the Series A Debentures and the Series B Debentures on April 30, 2010, and ceased making interest payments on the Series C Debentures on November 30, 2010. The non-payment of interest on all series of debentures has resulted in the Company being in a default position on these debt instruments. As a result of the defaults, the indenture trustee may in its discretion, or upon the request of the debenture holders, declare the principal and interest on all debentures then outstanding, to be immediately due and payable. If payment of the full amount of any or all series of debentures were to be demanded, the Company would not be able to satisfy these obligations without additional external funding (see Note 7). On March 7, 2012, the Company delivered formal notice to the indenture trustee for its Series A Debentures, which matured on March 31, 2012, that the Company would default on its obligation to repay the principal amount and accrued interest on the maturity date. On September 5, 2012, the Company delivered formal notice to the indenture trustee for its Series B Debentures, which matured on September 28, 2012, and its Series C Debentures, which matured on October 1, 2012, that the Company would default on its obligation to repay the principal amounts and accrued interest on the maturity dates.

1. Going concern (continued)

In conjunction with the modification of certain loan agreements, the deferral of certain mortgage principal payments commenced in fiscal 2010. Despite the modifications made to certain repayment schedules, the Company continues to be in a default position on its three mortgages.

An agreement to defer mortgage principal payments with one of the lenders expired on October 31, 2010. The Company reinstated full mortgage payments on this mortgage on November 30, 2011. This mortgage, with a current carrying value of $3,872,920 became payable in full on September 14, 2012, however, pursuant to an agreement signed with the lender on November 7, 2012, a 12-month extension of existing terms had been agreed to by the parties, with the indebtedness due September 30, 2013. The mortgage was subsequently renewed and is due the earlier of demand or September 30, 2016. This mortgage is considered to be in default by the lender due to being in arrears and a cross-default provision with respect to defaults on other loans.

On November 15, 2012, a mortgage with a carrying value of $6,494,820, held on one of the Company's investment properties with a carrying value of $3,640,000, was assigned by the original lender to Lexor Management Inc. ("Lexor"), a related party by virtue of close family members of key management personnel. The original mortgage agreement and all significant terms and conditions of the mortgage remained substantially unchanged from those agreed upon with the original mortgage holder upon assignment of the mortgage. The deferral of mortgage principal payments had continued on a month-to-month basis. On June 1, 2014 the mortgage was amended (see Note 6) to a three year term, and debt in the amount of $1,994,820 was forgiven. The mortgagor has the option of purchasing the property for the mortgage carrying value of $4,500,000 at anytime during the three year period. At the end of the three year term the Company may turn ownership of the property to Lexor to satisfy repayment of the mortgage. The mortgage is considered to be in default by the lender due to being in arrears and a cross-default provision with respect to defaults on other loans as such the lender retains the right to call the property on demand.

The third mortgage, with a carrying value of $7,277,009, is considered to be in a default position as a result of a cross-default provision with other lenders. At December 31, 2014, principal and interest payments on this mortgage had been paid and were current.

If payment of the full amount of any or all of the mortgages were to be demanded, the Company would not be able to satisfy these obligations with current Company resources (see Note 6).

As at April 28, 2015, the indenture trustee, debenture holders or mortgage lenders have not demanded payment in full of amounts outstanding.

The success of management's planned initiatives and actions referred to above cannot be assured, and may be subject to material change or revision at any time.

If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses, and the balance sheet classifications used. These adjustments would be material.

2. General information

The Company was incorporated under the Canada Business Corporation Act on August 16, 2005. Its common shares were listed for trading on the TSX Venture Exchange on October 11, 2005. The address of the Company's registered office is 360 Main Street, Suite 400, Winnipeg, Manitoba, R3C 3Z3.

The Company and its subsidiaries own and operate hotels. The Company completed a Qualifying Transaction on April 2, 2007 with the purchase of the Best Western Grande Mountain Getaways & Hotel Phase I, a limited-service hotel located in Grande Cache, Alberta.

As at December 31, 2014, the Company owned three hotel properties: Phase I of the Grande Mountain Getaway & Hotel located in Grande Cache, Alberta (the "Phase I Grande Cache Property"); Phase II of the Grande Mountain Getaway & Hotel located in Grande Cache, Alberta (the "Phase II Grande Cache Property"); and the Econo Lodge Inn & Suites located in Hinton, Alberta (the "Econo Lodge").

3. Significant accounting policies

(a) Basis of presentation and measurement:

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

Standards issued but not yet effective for the current accounting period are described in Note 3(p).

The consolidated financial statements are prepared on the historical cost basis with the exception of investment properties, which are recorded at fair value.

(b) Approval of financial statements:

These consolidated financial statements, were approved by the Board of Directors on April 28, 2015, have been prepared on the basis of IFRS issued and effective as of December 31, 2014.

(c) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. A subsidiary is an entity which the Company controls. Control is established when the Company has rights to an entity's variable returns, and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is obtained. All inter-company transactions, balances and unrealized gains and losses are eliminated on consolidation.

3. Significant accounting policies (continued)

(d) Accounting policies adopted during the period:

IFRIC 21 provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized. The adoption of IFRIC 21 did not affect the consolidated financial statements or disclosures as it was determined that no changes were required to the existing accounting treatment of levies.

(e) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, cash with financial institutions, and short-term investments with original maturities of three months or less.

(f) Restricted cash:

Restricted cash represents funds held by mortgagors restricted for improvements to the properties.

(g) Financial instruments:

Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

The Company has designated its cash and cash equivalents, restricted cash, accounts receivable and other receivables as "loans and receivables" and its accounts payable and other liabilities, long-term debt, and convertible debentures as "other liabilities", all of which are reflected on the balance sheet at amortized cost using the effective interest method.

The Company has recorded the interest expense for both the long-term debt and convertible debentures using the effective interest method. Transaction costs that are directly attributable to the issue of financial instruments classified as other than FVTPL are included in the initial carrying value of such instruments and amortized using the effective interest method so as to yield a constant rate of interest over the life of the respective financial instrument.

(h) Investment properties:

Investment properties include properties that are held by the Company to earn rental income or for capital appreciation, or both.

Acquired investment properties are measured initially at cost, including related transaction costs in connection with asset acquisitions.

3. Significant accounting policies (continued)

(h) Investment properties (continued):

Borrowing costs that are incurred for the purpose of acquiring a qualifying investment property are capitalized as part of its cost.

After initial recognition, investment properties are recorded at fair value, determined based on available market evidence. If market evidence is not available, the Company uses alternative valuation methods, such as recent prices on unobservable markets or discounted cash flow projections. Valuations, where obtained externally, are performed by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Related fair value gains and losses are recorded in the consolidated statements of operations and comprehensive income in the period in which they arise.

(i) Business combinations:

Accounting for business combinations under IFRS 3, “Business Combinations” (“IFRS 3”) only applies if it is considered that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Company. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired.

The Company applies judgment in determining if the acquisition of an individual property qualifies as a business. Transaction costs incurred as part of a business combination are expensed as incurred.

(j) Inventories:

Inventories, comprised of operating supplies, including food and beverage, are valued at the lower of cost (first-in, first-out basis) and net realizable value. Net realizable value is the estimated selling price, less costs to sell.

The cost of inventory recognized as an expense was $207,880 for the year ended December 31, 2014 (December 31, 2013 - $145,825).

(k) Revenue recognition:

Revenue from investment properties includes room and other revenues and is recognized upon provision of services.

3. Significant accounting policies (continued)

(l) Per share calculations:

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted income per share is calculated based on the weighted-average number of common shares outstanding during the period. The diluted per share amounts are calculated using the treasury stock method, as if all the common share equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting period, or the period of issue, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period. The diluted per share amounts for convertible debentures are calculated using the if-converted method, whereby conversion is not assumed for the purposes of computing diluted earnings per share if the effect is anti-dilutive.

(m) Income taxes:

Income taxes are accounted for using the asset and liability method. Under this method, deferred taxes are recognized for the expected deferred tax consequences of temporary differences between the carrying amount of balance sheet items and their corresponding tax values.

Deferred taxes are computed using enacted or substantively enacted income tax rates or laws for the years in which the temporary differences are expected to reverse or settle. Deferred taxes, for investment properties measured using the fair value model, are based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale.

Deferred income tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable.

(n) Critical accounting judgments:

Following are the critical judgments used in applying the Company's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

(i) Investment properties

The valuation of investment properties is the main area of judgment exercised by the Company. Investment properties are stated at fair value. The fair values of the properties are reviewed regularly by management with reference to independent property valuations and market conditions existing at the reporting date, using generally accepted market practices. Judgment is also applied in determining the extent and frequency of independent appraisals. At each annual reporting period properties will be selected to be valued by a qualified external valuation professional based on the date of the most recent external valuation, the current economic environment and the operating results of the properties. For properties not subject to independent appraisals, internal appraisals are prepared by management during each reporting period (see Note 4).

3. Significant accounting policies (continued)

(n) Critical accounting judgments (continued):

(i) Investment properties (continued)

Judgment is also applied in determining whether certain costs are additions to the carrying amount of an investment property.

The Company also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. The Company considers all the properties it has acquired to date to be asset acquisitions.

(o) Critical accounting estimates and assumptions:

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The estimates and assumptions that are critical in determining the amounts reported in the consolidated financial statements relate to the following:

(i) Fair value of investment properties

The fair value of the investment properties is dependent on available comparable transactions, future cash flows over the holding period and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flows involves assumptions of estimated occupancy, rental rates and residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of a property. These assumptions may not ultimately be achieved.

The critical estimates and assumptions underlying the valuation of investment properties are described in Note 4.

(ii) Deferred income tax liabilities and assets

The critical estimates and assumptions underlying the valuation of deferred tax liabilities and assets are described in Note 10.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies (continued)

(p) Future changes in accounting policies:

IFRS 9 - Financial Instruments - In July 2014, the IASB issued IFRS 9, “Financial Instruments” (“IFRS 9”) to replace International Accounting Standard 39, “Financial Instruments: Recognition and Measurement”. The amended IFRS 9 is a multi-phase project with the goal of improving and simplifying financial instrument reporting. IFRS 9 uses a single approach to determine measurement of a financial asset by both cash flow characteristics and how an entity manages financial impairment, replacing the multiple classification options in IAS 31 with three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is assessing the impact of adopting this standard on its financial statements.

IFRS 15 - Revenue from contracts with customers - In May 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures, IFRS 15 supersedes IAS 11, "Construction Contracts", and IAS 18, "Revenue", as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Company beginning on January 1, 2017, with earlier adoption permitted. The Company is assessing the impact of adopting this standard on its financial statements.

4. Investment properties

	Year ended December 31, 2014	Year ended December 31, 2013
Balance, beginning of period	$ 20,000,000	$ 19,210,000
Capital expenditures	86,537	6,520
Fair value adjustment	803,463	783,480
Balance, end of period	$ 20,890,000	$ 20,000,000

Investment properties with an aggregate fair value of $20,890,000 at December 31, 2014 (December 31, 2014 - $20,000,000) were valued by qualified external valuation professionals during the period.

The Company determined the fair value of investment properties based upon a combination of the discounted cash flow method and the overall capitalization method, both of which are generally accepted appraisal methodologies. Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based upon the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current occupancy rates and room rates, budgeted and actual expenses, and assumptions about rental income from future occupancy rates and average room rates. The Company uses occupancy and average room rates history, market reports, and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

4. Investment properties (continued)

The key valuation assumptions for investment properties are as follows:

	December 31, 2014			December 31, 2013		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Discount rate	13.50%	11.75%	13.00%	13.75%	11.75%	12.75%
Terminal capitalization rate	11.50%	10.75%	11.13%	11.25%	9.75%	10.50%
Capitalization rate	11.00%	10.50%	11.59%	11.00%	9.50%	10.69%
Investment horizon (years)	5.0	5.0	5.0	5.0	5.0	5.0

The most significant inputs or variables to the valuation process, all of which are unobservable, are normalized income, the capitalization rate, the terminal capitalization rate, and the discount rate. An increase in normalized income, or a decrease in the capitalization, discount or growth rate will result in an increase in the estimated fair value of the investment property. The fair value estimate is sensitive to each of the four inputs; however, changes in the capitalization rate have the greatest impact on the fair value estimate. There are also interrelationships between the capitalization rate, discount rate and growth rate.

The valuation process would be classified as level 3 of the fair value hierarchy.

5. Accounts payable and other liabilities

	December 31, 2014	December 31, 2013
Trade payables	$ 306,634	$ 269,563
Due to related parties (Note 14)	64,657	87,263
Mortgage interest payable	64,721	72,554
Debenture interest payable	3,675,382	2,879,287
	$ 4,111,394	$ 3,308,667

6. Long-term debt

	December 31, 2014	December 31, 2013
Mortgages payable	$ 15,649,929	$ 18,254,370
Financing costs	(15,672)	(21,702)
	15,634,257	18,232,668
Current portion	(15,634,257)	(18,232,668)
Non-current portion	$ -	$ -

6. Long-term debt (continued)

The Company has pledged as security for the mortgages substantially all of its assets. The mortgages bear interest at fixed rates, with a weighted-average effective rate of 6.44% at December 31, 2014 (December 31, 2013 - 6.15%), and a weighted-average nominal rate of 6.49% at December 31, 2014 (December 31, 2013 - 6.20%). One mortgage has a maturity date of June 1, 2017, another mortgage matures the earlier of on demand or September 30, 2016, the third mortgage matures the earlier of on demand or May 31, 2017.

The Company is subject to financial covenants on certain mortgages, which are measured on a quarterly or annual basis and include customary terms and conditions for borrowings of this nature.

At December 31, 2014 and 2013, the Company was in a default position on its three mortgages. Consequently, at those balance sheet dates, the full carrying amount of the mortgages was presented as a current liability.

As described in Note 1, management has implemented a plan consisting of reduced payments to various stakeholders and debt holders in an effort to reduce cash outflows and improve liquidity. This plan includes deferring certain mortgage principal payments to mortgage holders.

An agreement to defer mortgage principal payments with one of the lenders expired on October 31, 2010. The Company reinstated full mortgage payments on this mortgage on November 30, 2011. This mortgage is considered to be in default by the lender due to a cross-guarantee provision with other lenders. The lender maintains their right to declare the full amount of their loan principal to be due and payable on demand. This mortgage with a current carrying value of $3,872,920 became payable in full on September 14, 2012, however, pursuant to an agreement signed with the lender on November 7, 2012, a 12-month extension of existing terms had been agreed to by the parties, with the indebtedness due September 30, 2013. The mortgage has been subsequently renewed and is due the earlier of on demand or September 30, 2016.

On November 15, 2012, a mortgage with a carrying value of $6,494,820, held on one of the Company's investment properties, with a carrying value of $3,640,000, was assigned by the original lender to Lexor Management Inc. The original mortgage agreement and all significant terms and conditions of the mortgage remained substantially unchanged from those agreed upon with the original mortgage holder upon assignment of the mortgage. The deferral of mortgage principal payments continued on a month-to-month basis. On June 1, 2014 the mortgage was amended to a three year term, with an interest rate of 7.5%, previously 6.41%, and debt in the amount of $1,994,820 was forgiven. The mortgagor has the option of purchasing the property for the mortgage carrying value of $4,500,000 at anytime during the three year period and at the end of the three year term the Company may turn ownership of the property to Lexor to satisfy repayment of the mortgage. If the Company disposes of the property prior to the end of the three year term there is a $100,000 prepayment penalty that will be payable to Lexor. This mortgage is considered to be in default by the lender due to being in arrears and a cross-default provision with respect to defaults on other loans as such the lender retains the right to call the property on demand.

6. Long-term debt (continued)

The third mortgage, with a carrying value of $7,277,009, is considered to be in a default position as a result of a cross-guarantee provision with other lenders. At December 31, 2014, principal and interest payments on this mortgage had been paid and were current.

If payment of the full amount of any or all of the debt instruments were to be demanded, the Company would not be able to satisfy these obligations with current Company resources (see Note 1).

Unpaid interest on the mortgages at December 31, 2014 was $64,721 (December 31, 2013 - $72,554).

7. Convertible debentures

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	December 31, 2014	December 31, 2013
Issue date	March 30, 2007	September 27, 2007	October 8, 2009		
Maturity date	March 31, 2012	September 28, 2012	October 1, 2012		
Interest rate	8.00%	7.50%	8.00%		
Carrying value of liability at December 31	$ 6,495,000	$ 1,180,000	$ 2,349,930	$ 10,024,930	$ 10,024,930
Carrying value of equity component at December 31	465,957	87,516	100,464	653,937	653,937

On March 7, 2012, the Company delivered formal notice to the indenture trustee for its Series A Debentures, which matured on March 31, 2012, that the Company had defaulted on its obligation to repay the principal amount and accrued interest on the maturity date. On September 5, 2012, the Company delivered formal notice to the indenture trustee for its Series B Debentures, which matured on September 28, 2012, and its Series C Debentures, which matured on October 1, 2012, that the Company would default on its obligation to repay the principal amounts and accrued interest on the maturity dates. No payments have been made as of the date of issue of these consolidated financial statements and no demands by the holders have been made.

The Series A Debentures had a 5-year term which expired March 31, 2012 and continue to bear interest at a rate of 8.00% per annum until repayment.

The Series B Debentures had a 5-year term expiring September 28, 2012 and continue to bear interest at a rate of 7.50% per annum until repayment.

The Series C Debentures have a 3-year term expiring October 1, 2012 and continue to bear interest at a rate of 8.00% per annum until repayment.

The Series C Debentures rank senior to the outstanding 5-year 8.00% Series A Debentures of the Company issued on March 30, 2007 and the outstanding 5-year 7.50% Series B Debentures issued on September 27, 2007. In addition, the conversion rights on the series of debentures are expired.

7. Convertible debentures (continued)

Convertible debentures are compound financial instruments and the proceeds of each issuance, at the time of issue, were allocated net of issue costs between a liability and equity component. Net proceeds of the Series A debenture issuance were allocated between a liability component and an equity component in the amounts of $5,472,933 and $466,315, respectively. Net proceeds from the Series B debenture issuance were allocated between a liability component and an equity component in the amounts of $1,021,886 and $88,259, respectively. Net proceeds of the Series C debenture issuance were allocated between a liability component and an equity component in the amounts of $1,899,452 and $100,464, respectively. The equity components reflect the equity value of the conversion options embedded in the convertible debentures.

The weighted-average effective rate of the debentures at December 31, 2014 is 7.94% (December 31, 2013 - 7.94%).

As described in Note 1, management has implemented a plan consisting of reduced payments to various stakeholders and debt holders in an effort to reduce cash outflows and improve liquidity during the current market conditions. This plan includes deferring interest payments to all debenture holders; and as described, formal notice to the indenture trustees has been delivered that the Company has defaulted on its obligation to repay the principal amounts and accrued interest on the maturity dates.

The deferral of payments on certain debt instruments has resulted in the debt becoming due on demand. If the full amount of any or all of the debt instruments is demanded, the Company would not be able to satisfy these obligations (see Note 1).

Interest on the convertible debentures has continued to accrue subsequent to maturity. The unpaid interest on the convertible debentures at December 31, 2014 was $3,675,382 (December 31, 2014 - $2,879,287).

8. Capital stock

a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares.

b) Issued

	December 31, 2014		December 31, 2013	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning and end of year	17,315,307	$ 11,328,007	17,315,307	$ 11,328,007

These shares have no par value.

8. Capital stock (continued)

c) Contributed surplus

Contributed surplus arises as a result of recording the fair value of options granted under the share option plan and the options granted as part of a share issuance. The fair value of the options is recorded to contributed surplus as the options vest. Upon exercise, the proceeds received, as well as any balance previously recorded to contributed surplus, are credited to capital stock.

d) Weighted-average common shares

The weighted-average and fully diluted weighted-average number of common shares outstanding for the year ended December 31, 2014 was 17,315,307 (December 31, 2013 - 17,315,307). The conversion rights on the convertible debentures are expired.

9. General and administrative

	2014	2013
Mortgage-related costs	$ -	$ 8,500
Professional fees	88,860	109,299
Related party fees (Note 14)	60,000	60,000
Stock exchange and transfer fees	33,842	29,823
Sundry administration	11,258	6,924
	$ 193,960	$ 214,546

10. Income taxes

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian and provincial corporate taxes for the following reasons:

	2014	2013
Income before income taxes	$ 3,087,776	$ 524,013
Statutory rate	25.00 %	25.00 %
Income tax based on statutory rate	771,944	131,003
(Recognition) Derecognition of deferred tax assets and other	(771,944)	(131,003)
	$ -	$ -

No benefit was recognized on losses and other deductible temporary differences which are not reflected in the Company's consolidated financial statements, as follows:

	December 31, 2014	December 31, 2013
Capital losses	$ 148,152	$ 148,152
Non-capital losses	14,908,683	15,942,788
Investment properties	5,352,675	7,375,484
	$ 20,409,510	$ 23,466,424

10. Income taxes (continued)

Deferred income tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable.

The Company has non-capital loss carry-forward in the amount of $14,908,683 as at December 31, 2014, which may be applied against future years' income and which expires as follows:

Year	Amount
2028	791,988
2029	3,683,029
2030	3,459,640
2031	2,359,723
2032	2,010,758
2033	1,642,838
2034	960,707
	$14,908,683

11. Capital disclosures

The objectives of the Company when managing capital are:

a) to safeguard cash and maintain an appropriate level of financial liquidity;
b) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and
c) to maintain investor, creditor, and market confidence to sustain the business.

The Company defines its capital structure as including shareholders' equity, long-term debt, convertible debentures, and working capital.

The Company is in a position of default on each series of convertible debentures and on all of its mortgages (see Note 1).

The Company's approach to capital management remains unchanged for the year ended December 31, 2014.

12. Financial instrument risk and fair values

a) Designation and valuation of financial instruments:

The Company enters into financial instruments to finance the Company's operations in the normal course of business.

The fair values of the Company's financial instruments compared to their carrying or face values are as follows:

(i) The fair values of cash and cash equivalents, restricted cash, accounts receivable, other receivables, and accounts payable and other liabilities approximate their carrying values due to the short-term maturity of these instruments.

(ii) In accordance with IFRS 39 - Financial Instruments: Recognition and Measurement, the carrying value of the long term debt approximates the fair value as the fair value of a financial liability with a demand feature is not less than the amount payable on demand. The Company is in a position of default on all of its mortgages and each is due on demand for reasons noted in Note 6. Principal payments are not currently being paid on one of the mortgages as noted in Note 6.

In accordance with IFRS 39 - Financial Instruments: Recognition and Measurement, the carrying value of all series of the Company's debentures approximates their fair value as the fair value of a financial liability with a demand feature is not less than the amount payable on demand. The Series A Debentures became due and payable at March 31, 2012, the Series B Debentures became due and payable on September 28, 2012 and the Series C Debentures became due on October 1, 2012. The Company is in a position of default on each of its series of convertible debentures as noted in Note 1 and Note 7.

In consideration of the going concern disclosures in Note 1, the actual settlement amount of any series of the convertible debentures may materially differ from the carrying amount at December 31, 2014.

b) Risk management:

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(i) Interest rate risk

The Company is exposed to interest rate risk on its borrowing of funds. It mitigates the exposure to this risk by securing long term fixed-rate debt when obtaining financing. The fixed-rate debt is subject to interest rate pricing risk, as the value will fluctuate as a result of changes in market rates.

At December 31, 2014, the Company had no long-term debt at floating rates and thus, a 1% change in interest rates would result in no change in net income.

12. Financial instrument risk and fair values (continued)

b) Risk management (continued):

(ii) Credit risk

Credit risk relates to cash and cash equivalents and accounts receivable balances, and results from the possibility that a counterparty may default on its contractual obligation to the Company. The Company mitigates this risk by assessing, on an ongoing basis, the credit worthiness of customers requesting credit, and by monthly review by management of the aged listings of accounts receivable. Historically, there have been no collection issues and the Company does not believe it is subject to any significant concentration of credit risk.

The following table sets forth details of accounts receivable:

	December 31, 2014	December 31, 2013
Accounts receivable under 30 days aged	$ 110,856	$ 129,690
Accounts receivable over 30 days aged - past due but not impaired	343,349	207,806
	$ 454,205	$ 337,496

(iii) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk through cash flow forecasting and regular monitoring of cash requirements including anticipated investing and financing activities (see Note 1, Note 6 and Note 7).

The Company's three mortgages are due on demand. The success of negotiations with any or all of the lenders cannot be assured. If payment of the full amount of any or all of the mortgages were to be demanded, the Company would not be able to satisfy these obligations.

As described in Note 1, management of the Company has implemented a plan which includes deferring payments or a portion of payments on certain debt instruments, which has resulted in these debts being due on demand. If the full amount of any or all of these debt instruments becomes demanded, the Company would not be able to satisfy these obligations. Management’s cash projections indicate without reduced payments to certain stakeholders and debt holders, current cash balances are forecasted to be completely depleted during the first quarter of fiscal 2015.

12. Financial instrument risk and fair values (continued)

b) Risk management (continued):

(iii) Liquidity risk (continued)

On March 7, 2012, the Company delivered formal notice to the indenture trustee for its Series A Debentures, which matured on March 31, 2012, that the Company would default on its obligation to repay the principal amount and accrued interest on the maturity date. As a result, the Company is in default on its Series A Debentures. On September 5, 2012, the Company delivered formal notice to the indenture trustee for its Series B Debentures, which matured on September 28, 2012, and its Series C Debentures, which matured on October 1, 2012, that the Company would default on its obligation to repay the principal amounts and accrued interest on the maturity dates. As a result, the Company is in default on its Series A, B and C Debentures.

The table below summarizes the contractual maturity of the Company's financial liabilities at the balance sheet date. The amounts disclosed in the table represent the contractual cash flows of each category of debt.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Thereafter	Total
Accounts payable and other liabilities (Note 5)	$ 4,111,394	$ -	$ -	$ -	$ 4,111,394
Long-term debt (Note 6)	15,649,929	-	-	-	15,649,929
Convertible debentures	10,024,930	-	-	-	10,024,930
	$ 29,786,253	$ -	$ -	$ -	$ 29,786,253

13. Agreements with related parties

a) Asset management

On April 2, 2007, the Company entered into an Asset Management Agreement with Marwest Management, a related party by virtue of common shareholders and directors, to provide asset management services on behalf of the Company. The initial term of the agreement is twenty years.

As part of the agreement, Marwest Management shall be responsible for the day-to-day affairs and activities of the Company, as well as provide support services, office space and equipment, and the required personnel to serve as management.

As compensation for the services provided, the Company shall pay to Marwest Management an annual advisory fee equal to 0.4% per annum of the Gross Book Value of the consolidated assets of the Company subject to an annual minimum of $250,000, as well as an acquisition fee equal to 0.5% of the cost of such property, including, without limitation, real estate commissions, finder's fees, and any other acquisition costs payable by the Company.

For the 2010 through 2013 fiscal years, the asset management fees payable were voluntarily waived by Marwest Management (see Note 1 and Note 14). This cost reduction has been continued through the year ended December 31, 2014.

13. Agreements with related parties (continued)

b) Property management

On April 2, 2007, the Company entered into a Property Management Agreement with Marwest Management to provide property management services on behalf of the Company. The initial term of the agreement is twenty years.

As part of the agreement, Marwest Management shall be responsible for the management of the day-to-day operations of the Company's portfolio of properties, subject to the terms and conditions of the agreement.

As compensation for the services provided, the Company shall pay to Marwest Management, in the case of hotel or lodging properties, a base fee in an amount equal to 1% of gross room revenue above what a sub-property manager charges Marwest Management to act as property manager, and an incentive fee in the amount of 10% of net income achieved per property in excess of the net income set forth in the approved budget for such property and a disposition fee equal to .25% of the purchase price of any property sold by the Company.

On April 2, 2007, Marwest Management entered into a Property Management Agreement with Lexor, a related party by virtue of close family members of key management personnel, as sub-property manager, to provide property management services to the Company on behalf of Marwest Management. The agreement is on a property-by-property basis, with an initial term for each agreement of five years. As part of the agreement, Lexor shall be responsible for the management of the day-to-day operations of the Company's portfolio of properties, subject to the terms and conditions of the agreement. At the date of these consolidated financial statements these agreements are still in place.

As compensation for the services provided, the Company shall pay to Lexor a base fee in an amount ranging between 3% and 3.5% of gross room revenue for each property.

Marwest Management shall also be entitled to an annual accounting fee in the amount of $20,000 per property, and a disposition fee in an amount equal to 0.25% of the purchase price of the property being disposed of.

c) Development agreement

On April 2, 2007, the Company entered into a Development Agreement with Marwest Development Corporation to provide property development services on behalf of the Company.

As part of the agreement, Marwest Development Corporation has granted the Company the right to provide mezzanine financing on each development property, and to have the option to purchase each development property, all in accordance with the terms and conditions of the agreement.

13. Agreements with related parties (continued)

d) Land lease

In April 2013, the Company entered into a five year land lease agreement with Adora Investment Inc., a related party by virtue of close family members of key management personnel, which terminates on March 31, 2018.

14. Related party transactions

The Company incurred no asset management fees during the year ended December 31, 2014 (2013 - $nil) with Marwest Management. As part of its asset management agreement, Marwest Management is entitled to an annual advisory fee equal to 0.4% per annum of the Gross Book Value of the consolidated assets of the Company, subject to an annual minimum of $250,000. Marwest Management voluntarily agreed to waive the payment of the asset management fee in full for the 2010 through 2013 fiscal years (see Note 1 and Note 13a), and has continued this cost reduction through the year ended December 31, 2014.

The Company incurred property management fees, included in investment properties operating expenses, in the amount of $51,626 (December 31, 2013 - $47,232) during the year ended December 31, 2014, with Marwest Management as part of its property management agreement.

The Company incurred property management fees, included in investment properties operating expenses, in the amount of $160,749 (December 31, 2013 - $146,781) during the year ended December 31, 2014, with Lexor as part of its property management agreement.

Lexor is the holder of the mortgage loan secured against the Econo Lodge in the principal amount of $4,500,000 as at December 31, 2014. On May 30, 2014, $1,994,820 of mortgage debt was forgiven. Interest paid to Lexor was $369,645 (December 31, 2013 - $417,438) during the year ended December 31, 2014. On June 1, 2014 concurrent with the forgiveness of debt and renegotiation of the mortgage agreement the interest rate increased from 6.41% to 7.5%. The Company also incurred $10,000 of financing fees payable to Lexor related to the refinancing of the Econo Lodge mortgage during the year ended December 31, 2014.

The Company incurred $20,945 related to franchise fee negotiation which was performed by Lexor during the year ended December 31, 2014.

The Company incurred accounting fees in the amount of $60,000 (December 31, 2013 - $60,000) during the year ended December 31, 2014, with Marwest Management as part of its property management agreement.

The Company incurred lease payments in the amount of $15,000 (December 31, 2013 - $14,250) during the year ended December 31, 2014, with Adora Investment Inc. as part of its land lease agreement.

Included in accounts payable at December 31, 2014, was $42,053 (December 31, 2013 - $73,511) due to Marwest Management, and $22,604 (December 31, 2013 - $13,752) due to Lexor.