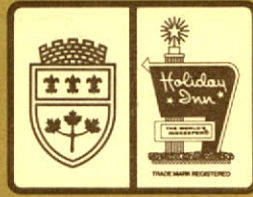


1976 Annual Report

2



COMMONWEALTH *Holiday Inns* OF CANADA LIMITED



HONORABLE ROSS LIBRARY
OF MANAGEMENT
APR 25 1977
MCGILL UNIVERSITY

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On peut se procurer l'édition française de ce rapport en écrivant au Secrétaire, Commonwealth Holiday Inns of Canada Limited, 304 York Street, London, Ontario N6B 1P8.

Corporate Offices
304 York Street,
London, Ontario N6B 1P8

Regional Offices
Holiday Inn Swiss Cottage
128 King Henry's Road
London NW3 3ST, England

Imperial Bank of Commerce Building
Broad Street, Room 303
Bridgetown, Barbados

Sales Offices
CANADA
Montreal, Quebec
Toronto, Ontario
London, Ontario
Calgary, Alberta
Vancouver, British Columbia

UNITED STATES
New York, New York
Buffalo, New York

EUROPE
London, England
Frankfurt, Germany

CARIBBEAN
Bridgetown, Barbados

Registrar and Transfer Agent

The Registrar for the Common Shares and the Preferred Shares is Canada Permanent Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary and Vancouver. The Transfer Agent for the Common Shares and the Preferred Shares is The Royal Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary and Vancouver.

Financial highlights

Year ended October 31, 1976

	1976	1975
Sales	\$ 156,374,192	\$ 120,694,690
Earnings before taxes and extraordinary item	\$ 1,108,101	\$ 1,790,869
Provision for income taxes	\$ 683,000	\$ 1,378,000
Earnings from operations	\$ 425,101	\$ 412,869
Dividends on preferred shares	\$ 400,000	\$ 400,000
Earnings available to common shareholders (before extraordinary item)	\$ 25,101	\$ 12,869
Per share		
Extraordinary Item**	\$ (3,500,000)	
Earnings available to common shareholders (after extraordinary item)	\$ (3,474,899)	\$ 12,869
Per share	(65c)	
Cash flow from operations*	\$ 10,654,597	\$ 8,521,979
Per share	\$ 2.00	\$ 1.60
Working capital	\$ 3,723,524	\$ (656,086)
Additions to plant and equipment	\$ 9,834,346	\$ 19,558,897
Total assets at year end	\$ 162,765,896	\$ 160,361,169

* Cash flow consists of earnings from operations plus charges which do not require an outlay of funds.

** Write-down of investment in Allied Innkeepers (Bermuda) Limited. See Note 3 to consolidated financial statements.

Report to the Shareholders

On behalf of the Board of Directors, we submit the audited financial statements of the Company for the year ended October 31, 1976.

Revenue, which now includes that of the transportation division, was \$156,374,192 compared with \$120,694,690 in the 1975 financial year. Earnings from operations were \$425,101 compared with \$412,896 in the prior year. Cash flow was \$10,654,597, an increase of \$2,132,618 from that reported last year. Working capital was improved during the year and stood at \$3,723,524 at the end of the period compared with a deficit of \$656,086 in 1975.

Profitability of the Company was seriously affected during the first six months of the year by reduced operating levels within the Canadian hotel division. During this period, extremely competitive marketing conditions prevailed in many markets by reason of an oversupply of hotel accommodation and business travel was depressed by weakness in the Canadian economy. The effect of these factors was more pronounced on earnings of the most recently opened Inns and particularly high-rise Inns located in major urban centres.

Operating levels improved during the last half of the year, notwithstanding a large decrease in American tourism. Much of this improvement resulted from an increase in commercial travel which became apparent during the summer and autumn months. The maturing Inns, which had earlier experienced heavy losses, contributed substantial revenues during the summer months and assisted in overcoming the very disappointing results reported at mid-year.



Left to right — Albert E. Shepherd, Ernest B. Fletcher, David Rubinoff.

The Company's hotel operations in the United Kingdom were highly successful throughout 1976. The Inns in London, England operated at near capacity while the Inns outside the capital achieved marked increases in occupancy and earnings.

Charterways Co. Limited, which was in receivership when acquired by the Company in 1975, operated profitably during the year. We are pleased with the progress of this division and much credit is due its officers and employees.

Shareholders were advised in September of the Company's intention to dispose of its investment in certain of its Caribbean hotels. Negotiations with interested parties are progressing favourably and we believe will be successfully concluded in due course.

The Company had agreed, in equal partnership with Atlific Inns, Inc., to furnish, lease and operate an 863-room hotel to be built by a developer on Dorchester Street in Montreal. The hotel was to have been completed and ready for occupancy in February, 1976, subject to certain extensions for unavoidable delays. The owners encountered difficulties in completing the building and construction was substantially halted last autumn. No significant work has been done since that time and it is evident that the building will not be completed for our occupancy under the original agreement. Design, leasehold improvements and marketing costs for this project to date amount to about \$1,100,000, of which this Company is responsible for one-half. The Company believes that a substantial portion of this sum is recoverable from other parties. We intend to write off any

shortfall when the amount is ascertained, but not later than the end of the current fiscal year.

Frank W. Adams, who has served as a director of the Company since 1968, has advised of his impending retirement and of his decision not to stand for re-election for a further term. The Directors and Officers extend their sincere appreciation and gratitude to him for the valuable contribution he has made during his term of office.

We wish to express our appreciation to the Officers and employees of the Company for their loyalty and support during a very challenging year.

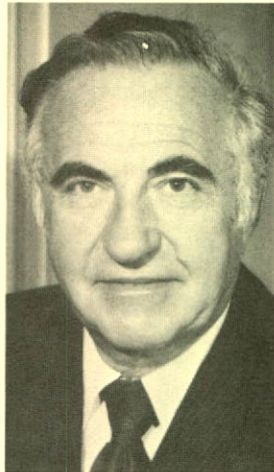
March 14, 1977

Chairman

Deputy Chairman

President

Directors and Officers



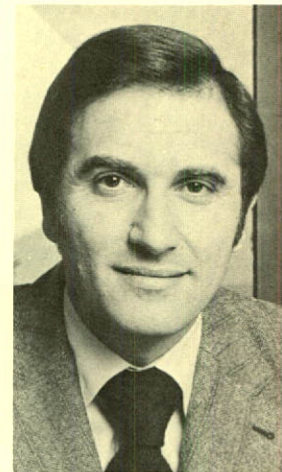
David Rubinoff



Albert E. Shepherd



Ernest B. Fletcher



Robert A. Rubinoff

Directors

David Rubinoff*
Chairman of the Board and
Chief Executive Officer
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Albert E. Shepherd*†
Deputy Chairman of the Board
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Ernest B. Fletcher*
President and Chief Operating Officer
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Robert A. Rubinoff
Executive Vice President
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Frank W. Adams
Senior Vice President and Division President,
Commercial Services Division, Holiday Inns, Inc.,
Memphis, Tennessee

Ludwick M. Clymer
President
Holiday Inns, Inc., Memphis, Tennessee

Frederick W. P. Jones*†
Financial Consultant
London, Ontario

Hon. John P. Roberts, P.C., Q.C.,†
Barrister and Solicitor, Partner of Stikeman,
Elliott, Roberts and Bowman,
Toronto, Ontario

David B. Weldon*†
Chairman, Midland Doherty Limited,
Toronto, Ontario

* Member of the Executive Committee
† Member of the Audit Committee

Corporate Officers

David Rubinoff
Chairman of the Board and
Chief Executive Officer

Albert E. Shepherd
Deputy Chairman of the Board

Ernest B. Fletcher
President and Chief Operating Officer

Robert A. Rubinoff
Executive Vice President

Edward C. Campbell
Senior Vice President, Operations Administrator

Raymond R. Yelle
Senior Vice President — Europe

Andre R. Pettigrew
Group Vice President and Treasurer

Philip Eprile
Vice President, Design and Planning

W. Harvey Gleason
Vice President and Controller

Charles H. King
Vice President and Secretary

John C. Logan
Vice President, Project Development

Jeanette M. Stevens
Assistant Vice President and
Assistant Secretary

Division Vice Presidents

Loris Arevian
Manager of Caribbean Operations

William G. Campbell
Director of Security

Inns and Innkeepers

British Columbia

Vancouver - Broadway, *Ernie Heiland*
Vancouver - City Centre, *Jack Swoboda*

Alberta

Edmonton, *David Koruna*
Lethbridge, *Wayne Beagrie*

Saskatchewan

Saskatoon, *Fred Piefke*

Manitoba

Winnipeg - Downtown, *John Vinkenbrink*

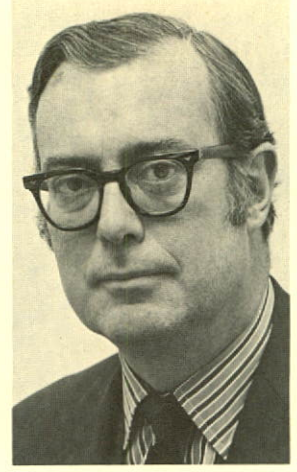
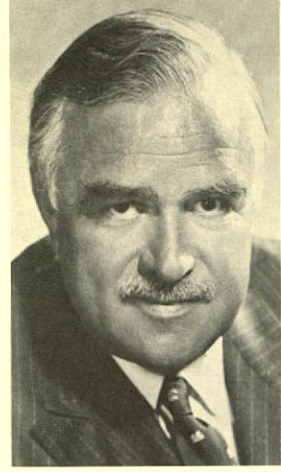
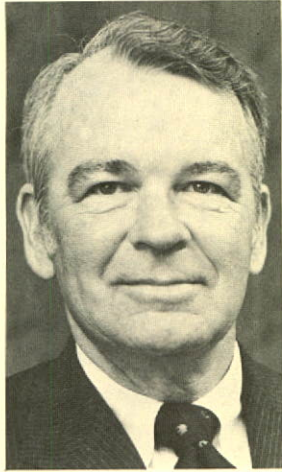
Ontario

Kenora, *Paul Wagner*

Thunder Bay, *Alexander Zikakis*
Sault Ste. Marie, *Peter Pappoulas*
Sudbury, *Maurice Rouleau*
Windsor, *John Brezsnjak*
Chatham, *John Freier*
Sarnia, *Ralph Sabourin*
London - South, *Eric Hall*
London - City Centre, *Rudy Prins*
London - City Centre Tower,
Rudy Prins

Kitchener, *Alex Lloret*
Cambridge, *Duncan Whillans*
Brantford, *Ted Isaac*
Hamilton, *Gus Koppers*
Burlington, *Tony Miele*
St. Catharines, *Carsten Flindt*
Oakville, *Martin Larkin*

Toronto - Downtown, *Dokse Perklin*
Toronto - Don Valley, *Bernhard Kainer*
Toronto - Yorkdale, *Robert Moore*
Toronto - East, *Doug Escott*
Toronto - West, *Peter Pattera*
Toronto - Airport, *Greg Lambert*
Oshawa, *Gerry Kniehl*
Orillia, *Bruce Lee*
Barrie, *John Clarke*
Collingwood, *Greg Gouthreau*
Owen Sound, *Monir Nasif*
Huntsville, *David Wright*
Peterborough, *Len Moran*
Kingston, *Randy Pringle*
Cornwall, *John Greco*
Ottawa - Centre, *Henning Svendsen*
Ottawa - Downtown, *Grant Channing*



Frank W. Adams

Ludwick M. Clymer

Frederick W. P. Jones

John P. Roberts, P.C., Q.C.

David B. Weldon

Charles A. Cline
Director of Personnel

Hans J. Demuth
Director of Food and Beverage

Howard M. Field
Financial Controller, Europe

James A. Havers
Regional Director, Central Canada

William R. Janzen
Director of Information Systems

Anthony G. Malloy
Director of Internal Audit

Ian M. Marshall
Director of Advertising and Public Relations

John C. Peskett
Director of Sales

Erwin J. Rieck
Director of European Operations

Theodore Smits
Director of Construction,
Planning and Maintenance

Lorenzo Tommasi
Regional Director, Eastern Canada

Joseph W. Whitfield
General Manager, Food and Beverage

George J. Zaritzky
Director of Financial Planning

Assistant Vice Presidents

William C. Anderson
Sales

Bert M. Bornhoeft
District Director

Gordon R. Langford
District Director

William Mathews
Projects Development

John B. Pleasence
District Director

Frederick W. Sillett
Director of Insurance,
Assessments and Benefits

Shirley M. Smith
Personnel Manager

Other Executives

District Directors - Canada
Henry Drosse
Joseph V. Slomka

District Directors - United Kingdom

Michael Beckley
Patrick Dignan
Fritz Ternofsky

Alan Bolam
Assistant Controller

**Philip Eprile Associates Limited
Associated Innkeepers Supply Company**

Kenneth Pharoah, Vice President and
General Manager

Charterways Co. Limited

Albert E. Shepherd
Chairman and Chief Executive Officer

Bruce R. Dodds
President and Chief Operating Officer

Geoffrey P. Davies
Executive Vice President

Lloyd D. Monteith
Vice President, Finance

Robert Van Kleeck
Vice President

Quebec

Montreal - Longueuil, *George Hayes*
Montreal - Pointe Claire, *Guy Warnery*
Sherbrooke, *Gerard St. Laurent*
Quebec City - Downtown, *Ray Ouellet*

Nova Scotia

Halifax - Centre, *Ingo Koch*
Sydney, *Richard Locke*

Michigan

Port Huron, *Rick Blum*

New York

Grand Island - Buffalo/Niagara
Terry O'Brien

Innkeeper at Large

Mrs. M. A. Andersen

Caribbean

Antigua, *John Wood*
Grenada, *Kendall Dunn*
Barbados, *Peter Van Alen*
St. Lucia, *Alex Oostenbrink*
Port of Spain, Trinidad, *Robert Perrin*
Guadeloupe, *Vidar Wilberg*

United Kingdom

Plymouth, *George Van Eeghem*
London - Marble Arch, *Jan Hubrecht*
London - Swiss Cottage,
Jean Pierre Amberg

Slough/Windsor, *Dudley Osborn*

Bristol, *Horst Berl*
Newcastle, *Peter Taylor*

London - Heathrow Airport,

Peitro Cavaliere †
Birmingham - City Centre,
Eduard Van Empel †

Dover - City Centre, *Pierre Sachetti †*
Leicester - City Centre, *Michael Kaile †*
Liverpool - City Centre, *John Ferguson †*

† Jointly operated with Holiday Inns, Inc.

Consolidated balance sheet


October 31, 1976 (with comparative amounts for 1975)

ASSETS	1976	1975
Current:		
Cash	\$ 9,388,080	\$ 3,817,160
Accounts receivable	8,077,297	8,138,355
Amounts due under sale agreements		819,562
Inventories — at the lower of cost and net realizable value	2,617,227	2,716,727
Prepaid expenses	2,845,950	2,635,525
	22,928,554	18,127,329
Fixed — at cost — Notes 2 and 12		
Land	7,617,900	7,768,403
Buildings, leaseholds, etc.	93,360,531	90,442,003
Furnishings and equipment	31,516,618	30,788,817
Transportation equipment	17,430,350	13,769,131
	149,925,399	142,768,354
Less accumulated depreciation and amortization	27,514,380	21,868,081
	122,411,019	120,900,273
Major renovations (net of amortization to date of \$2,999,839 in 1976 and \$1,978,053 in 1975)	3,745,794	3,636,844
	126,156,813	124,537,117
Investments — Note 3	4,294,235	7,718,598
Deferred costs and other assets — Note 4		
Opening and development costs	2,970,285	4,036,345
Cost of borrowing	1,512,720	1,476,129
Franchises — Holiday Inns, Inc.	1,547,474	1,649,074
Transportation operating authorities and goodwill	3,355,815	2,816,577
	9,386,294	9,978,125
	\$162,765,896	\$160,361,169

(See accompanying notes)

On behalf of the Board

Director



Director



LIABILITIES AND SHAREHOLDERS' EQUITY	1976	1975
Current liabilities:		
Accounts payable and accrued charges	\$ 12,680,201	\$ 14,402,705
Taxes payable	1,964,318	1,527,970
Long term debt payable within one year	4,560,511	2,852,740
	19,205,030	18,783,415
Long term debt — Note 5	102,444,065	95,405,537
Deferred gains		
(net of amortization to date of \$364,788 in 1976 and \$285,294 in 1975)	1,270,845	1,350,338
Deferred incomes taxes — Note 6	15,619,781	17,053,486
Minority interest in subsidiary company	1,410,754	1,478,073
Shareholders' equity:		
Capital — Note 7		
Authorized:		
800,000 preferred shares of \$25 par value each		
7,425,000 common shares of no par value		
Issued:		
200,000 8% cumulative, redeemable convertible preferred shares — Series A	5,000,000	5,000,000
5,317,731 common shares	5,317,731	5,317,731
Contributed surplus	4,304,109	4,304,109
Retained earnings — Note 8	8,193,581	11,668,480
	22,815,421	26,290,320
	\$162,765,896	\$160,361,169

Auditors' report

To the Shareholders of
Commonwealth Holiday Inns of Canada Limited.

We have examined the consolidated balance sheet of Commonwealth Holiday Inns of Canada Limited as at October 31, 1976 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the determination of the effect, if any, of the Anti-Inflation Act on 1976 earnings as referred to in note 14 to the consolidated financial statements, these consolidated financial statements present fairly the financial position of the company as at October 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
December 22, 1976.

Clarkson, Gordon & Co.
Chartered Accountants.

Consolidated statement of earnings

Year ended October 31, 1976 (with comparative amounts for 1975)

	1976	1975
Sales and other revenues		
Hotel division	\$137,175,064	\$120,694,690
Transportation division	19,199,128	
	\$156,374,192	\$120,694,690
Earnings from operations before charges as set out below	\$ 36,812,916	\$ 30,078,112
Rent	15,391,025	13,777,116
Depreciation and amortization	7,741,991	4,821,075
Amortization of deferred costs	1,634,399	1,186,419
Interest (including interest on long term debt) of \$10,545,759 in 1976 and \$7,757,392 in 1975)	10,709,400	7,786,633
	35,476,815	27,571,243
Equity in losses of affiliate — <i>Note 3</i>	1,336,101	2,506,869
	228,000	716,000
Earnings before taxes on income and extraordinary item	1,108,101	1,790,869
Taxes on income — <i>Note 6</i>	683,000	1,378,000
Earnings before extraordinary item	425,101	412,869
Extraordinary item: Write down of investment in Allied Innkeepers (Bermuda) Limited to estimated realizable value net of income tax thereon of \$2,000,000 — <i>Note 3</i>	3,500,000	
Net earnings (loss) for year	\$ (3,074,899)	\$ 412,869
Earnings per share — <i>Note 13</i>		
Earnings before extraordinary item	0	0
Net earnings (loss) for year	\$ (0.65)	0

Consolidated statement of retained earnings

Year ended October 31, 1976 (with comparative amounts for 1975)

	1976	1975
Balance beginning of year	\$11,668,480	\$11,655,611
Net earnings (loss) for year	(3,074,899)	412,869
	8,593,581	12,068,480
Dividends on preferred shares	400,000	400,000
Balance end of year	\$ 8,193,581	\$11,668,480
(See accompanying notes)		

Consolidated statement of changes in financial position

Year ended October 31, 1976 (with comparative amounts for 1975)

	1976	1975
Source of funds:		
<i>Operations</i> — consisting of:		
Earnings before extraordinary item	\$ 425,101	\$ 412,869
<i>Add non-fund items</i> —		
Deferred income taxes	683,000	1,378,000
Depreciation and amortization	9,376,390	6,007,494
Other	170,106	723,616
	10,654,597	8,521,979
Mortgages and other long term loans	14,232,113	18,481,018
Investment by minority interest in preference shares of a subsidiary less equity in loss for year	(67,319)	680,764
Excess of proceeds over cost of acquired common shares resold during the year		37,084
Sale of fixed assets	472,661	
Transfer of current liability for taxes to deferred account		200,000
	25,292,052	27,920,845
Application of funds:		
Purchase of fixed assets and major renovations	9,834,346	19,558,897
Investments	2,303,637	887,199
Acquisition of net non-current assets of subsidiary		5,333,970
Deferred costs and franchises	639,938	2,098,266
Transportation operating authorities and goodwill	540,936	
Reduction of long term debt	7,193,585	2,426,801
Dividends on preferred shares	400,000	400,000
	20,912,442	30,705,133
Increase (decrease) in working capital	4,379,610	(2,784,288)
Working capital (deficit) beginning of year	(656,086)	2,128,202
Working capital (deficit) end of year	\$ 3,723,524	\$ (656,086)

Consolidated statement of contributed surplus

Year ended October 31, 1976 (with comparative amounts for 1975)

	1976	1975
Balance beginning of year	\$4,304,109	\$4,267,025
Excess of proceeds over the cost of acquired common shares resold during the year		37,084
Balance end of year	\$4,304,109	\$4,304,109

(See accompanying notes)

Notes to the consolidated financial statements

October 31, 1976

1. Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the company, its wholly owned subsidiaries (principally Charterways Co. Limited) and its partly-owned subsidiary, Allied Inn Keepers of Trinidad and Tobago Limited (65%), but excluding Allied Innkeepers (Bermuda) Limited — See Note 3. All acquisitions of subsidiary companies have been accounted for by the purchase method and all material intercompany transactions have been eliminated. The accounts of Charterways Co. Limited included are for its fiscal year ended August 31, 1976.

The minority interest in the loss of the partly-owned subsidiary (Allied Inn Keepers of Trinidad and Tobago Limited) has been reflected in the accompanying consolidated statement of earnings as a reduction of rent expense related to this property (1976 — \$67,319; 1975 — \$84,232).

Foreign exchange

The accounts of foreign subsidiaries and those of the company to be settled in foreign currencies are translated into Canadian dollars at current rates of exchange except for non-current assets, long term debt and depreciation and amortization which are translated at historic rates of exchange and sales and expenses (other than depreciation and amortization) which are translated at average rates of exchange for the year. Losses, which result from translation, are written off against consolidated income and translation gains are deferred except to the extent of such losses previously recorded. Realized gains or losses on transactions in foreign currencies are recorded in income.

Fixed assets

The company follows the policy of capitalizing interest and property taxes during the construction period in respect of owned Inns and those costs and expenses incurred during the construction period not paid for by the owners in respect of leased Inns. These latter expenditures are carried as leasehold costs.

Additionally, the company follows the policy of capitalizing certain expenses and reducing the provision for depreciation and amortization during a period immediately following the opening of both owned and leased Inns (subject to predetermined maximum amounts) on the following basis. During the period beginning with the date on which any rooms are first available to be rented and ending not later than twelve months thereafter, rent, interest, insurance, property taxes, depreciation and amortization are charged to income in accordance with a scale established by reference to occupancy. In any month to which this policy applies, such expenses (as incurred before giving effect to the policy) cannot be reduced, by the operation of the policy, below an amount equal to the income from the particular Inn immediately before such charges. In accounting for this policy, the provision for depreciation and amortization is reduced during the applicable period and the appropriate portion of rent, interest, insurance and property taxes is added to either buildings or leasehold costs and depreciated at the company's normal rates.

Depreciation and amortization is computed on a straight-line basis (except as otherwise shown) at the following annual rates:

Hotel assets:	
Buildings and leaseholds	* 2½%
Paving	4
Furniture and equipment	9
Swimming pools	10

* A higher rate is applied to leaseholds, if, at the time of the expenditure, the remaining term of the lease plus one renewal period is less than 40 years.

Transportation assets:

School buses	13⅓%
Highway coaches	8⅓
Other depreciable assets —	
Buildings	5 - 10% (diminishing balance)
Equipment	20 (diminishing balance)
Miscellaneous automotive equipment	33⅓

Gains or losses on the disposal of school buses and highway coaches which occur in the normal course of business are classified to depreciation expense.

Major renovations

The costs of major renovation programs at the Inns, consisting primarily of replacement of equipment and major maintenance, are deferred and amortized over a sixty month period.

Deferred costs and other assets

Costs incurred in connection with the development and opening of Inns are deferred and amortized over the first sixty months of operations. Costs incurred in connection with obtaining long term debt are deferred and amortized over the term of the respective borrowing. In prior years the company did not amortize franchises. Commencing in 1976, franchises are amortized over twenty years. This change is not considered to have any significant effect on the consolidated financial statements for the year. Transportation operating authorities and goodwill arising on the purchase of transportation operations are carried at effective cost based on values determined by management as at August 31, 1975, the effective date of acquisition of Charterways Co. Limited, with subsequent additions at cost. Transportation operating authorities and goodwill as at August 31, 1975 are not amortized and subsequent purchases are amortized on a straight line basis over forty years.

Deferred gains

Gains realized by the company on sale and leaseback transactions are deferred and transferred to income over the terms of the applicable leases.

Income taxes

Income taxes are provided on the basis of accounting income. Income taxes not currently payable, resulting from claiming for income tax purposes deferred costs as incurred, interest during the construction period and capital cost allowances in excess of depreciation and amortization, are credited to deferred income taxes. This account will be charged in those future years, when, as a result of the application of these timing differences, income taxes actually payable will be greater than the amounts provided for in those years (see Note 6).

2. Fixed assets

A major portion of the real estate, furniture and equipment and transportation equipment is pledged to secure mortgages and other long term debt.

The total of amounts carried as leasehold costs (net) in the accompanying consolidated financial statements amounts to \$13,694,000 (\$10,705,000 in 1975).

3. Investments

This consists of investments in Allied Innkeepers (Bermuda) Limited and mortgages, notes and debentures receivable, particulars of which are as follows:

	1976	1975
Allied Innkeepers (Bermuda) Limited:		
Ordinary shares — at cost	\$ 290,000	\$ 240,000
Debentures — at cost	6,911,054	6,326,054
Advances on open account	3,326,730	2,366,735
	10,527,784	8,932,789
Less reduction in carrying value of investment	8,148,292	2,420,292
	2,379,492	6,512,497
Mortgages, notes and debentures receivable	1,914,743	1,206,101
	\$ 4,294,235	\$ 7,718,598

As at June 1, 1976, the company purchased all of the shares and certain debentures of Allied Innkeepers (Bermuda) Limited not previously owned for \$635,000 of which \$50,000 was paid by cash and the balance of \$585,000 was settled by a note payable to one of the vendors due in 1981.

The company purchased these shares and debentures in order to proceed with its decision to liquidate its investment in Allied Innkeepers (Bermuda) Limited through the orderly sale of that company's operating Inns in the Caribbean.

In the accompanying consolidated financial statements, the accounts of Allied Innkeepers (Bermuda) Limited have not been consolidated. The carrying value of the investment has been written down to estimated realizable value; \$228,000 has been charged against earnings based on the company's share of the losses of that company to May 31, 1976 and \$5,500,000, less income taxes of \$2,000,000, has been charged against earnings as an extraordinary item based on the company's decision to liquidate its investment. An estimated capital loss of \$980,000 (when realized for tax purposes) which will be available indefinitely to be applied to offset any future capital gains has not been taken into account.

4. Deferred costs and other assets

These consist of deferred costs and other assets which have not been fully amortized at October 31, 1976 as follows:

	Cost	Accumulated amortization	Unamortized balance October 31	
			1976	1975
Opening and development costs	\$6,224,512	\$3,254,227	\$2,970,285	\$4,036,345
Cost of borrowing	2,085,445	572,725	1,512,720	1,476,129
Franchises	1,627,474	80,000	1,547,474	1,649,074
Transportation operating authorities and goodwill	3,357,513	1,698	3,355,815	2,816,577
	\$13,294,944	\$3,908,650	\$9,386,294	\$9,978,125

During the year deferred costs and franchises were increased by \$639,938 and transportation operating authorities and goodwill by \$540,936. They were reduced by amortization of \$1,634,399 and write-offs of \$138,306. Additionally, deferred costs of \$553,655 which were fully amortized, were eliminated from the accounts.

5. Long term debt

Long term debt outstanding at October 31, 1976 and 1975 consists of:

	1976		1975
	Payable within one year	Amount	
(a) Real estate mortgages payable: 7½%-12¾% first and second mortgages due on varying dates from 1976 to 2006	\$2,658,297	\$73,098,004	\$64,108,317
Including payable in foreign currency			
U.S. \$44,940,950 (Cdn. \$44,253,670)			
T.T. \$ 5,063,200 (Cdn. \$ 2,496,529)			
U.K. £ 117,204 (Cdn. \$ 281,290)			
(b) Conditional sales contracts on transportation equipment	167,205	6,405,044	5,776,278
(c) Secured notes payable: 6 7/8% secured notes maturing June 30, 1991, repayable semi-annually by payments of blended principal and interest of \$428,000 U.S. (secured by mortgages and first floating charge on certain property) (\$7,929,148 U.S.)	306,232	8,078,380	8,379,004
Deduct amount of secured notes assumed by Allied Innkeepers (Bermuda) Limited (\$1,613,732 U.S.) for which the company remains directly liable	62,324	1,644,105	1,705,294
	243,908	6,434,275	6,673,710

Notes continued

	1976		1975
	Payable within one year	Amount	
(d) Sinking fund debentures payable: 7½% senior debentures maturing December 1, 1979 (sinking fund payment of \$100,000 in each of the years of 1977 to 1979 and \$50,000 on maturity)	100,000	350,000	450,000
6% Series "B" subordinated debentures maturing June 30, 1979 (sinking fund payments of \$40,000 annually)	40,000	120,000	160,000
	140,000	470,000	610,000

(e) Due to bankers: Repayment terms extending to 1984	300,000	17,488,898	8,257,713
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Including payable in foreign currency
U.S. \$4,000,000 (Cdn. \$3,927,200)

(f) Unsecured notes payable due on varying dates from 1977 to 1983	1,051,101	3,108,355	1,862,259
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Including payable in foreign currency
Portuguese Escudos 26,000,000 (Cdn. \$1,040,000)
U. K. £ 549,308 (Cdn. \$988,755)

(g) Interim financing repayable from proceeds of committed mortgage loans (secured by first mortgage on certain properties)			10,970,000
	\$4,560,511	107,004,576	98,258,277
Less payable within one year		4,560,511	2,852,740
		\$102,444,065	\$95,405,537

Instalments of long term debt payable each year for the next five years are:

1977	\$ 4,560,500	1980	\$6,797,600
1978	18,795,500	1981	9,387,400
1979	13,924,300		

In the above table, the normal instalment payments due in each year in respect of the particular conditional sales contracts and bank loans referred to below are shown as due in the next following year on the assumption that these agreements will be renewed annually.

Real estate mortgages:

Certain mortgages contain participation clauses which may increase interest payable thereon.

Conditional sales contracts:

Conditional sales contracts on transportation equipment include \$5,660,235 which is payable under an agreement with a finance institution whereby the transportation subsidiary is not required to make normal monthly instalments as provided for under the conditional sales contracts until after its 1977 fiscal year. In the accompanying consolidated financial statements no amount is included as due within one year in respect of these contracts.

Due to bankers:

Due to bankers includes \$1,688,295 on which the company may delay monthly repayments to a maximum cumulative period of twelve months. In the accompanying consolidated financial statements no amount is included as due within one year in respect of these loans.

As security for amounts due to bankers, the company has pledged its accounts receivable, its investment in Charterways Co. Limited, a debenture included in other investments at \$942,783, mortgages on certain properties totalling \$11,000,000 and floating charge debentures of \$5,000,000 and \$7,500,000 on its assets and those of Charterways Co. Limited respectively.

6. Deferred income taxes

Deferred taxes were decreased during the year by \$1,433,705, particulars of which are as follows:

Provision for recovery of taxes on extraordinary write down of investment in Allied Innkeepers (Bermuda) Limited	\$2,000,000
Adjustment of deferred taxes in Charterways Co. Limited	116,705
	2,116,705
Less provision for taxes on income	683,000
	\$1,433,705

7. Capital

The preferred shares - Series A, are redeemable after April 29, 1979 at their par value plus a premium of \$1.50 if redeemed prior to April 29, 1982; \$1.00 if redeemed thereafter and prior to April 29, 1985; \$.50 if redeemed thereafter and prior to April 29, 1988; and without premium thereafter and will be convertible into common shares on or prior to April 30, 1979 on the basis of 3 common shares for each preferred share and thereafter to April 30, 1984 on the basis of 2½ common shares for each preferred share.

As at October 31, 1976, common shares are reserved as follows:

For issuance under share purchase warrants:	
At \$2.00 per share (expiring June 30, 1978)	250,000
At \$8.00 per share (expiring November 1, 1984)	250,026
	500,026

For issuance to employees:

At \$7.00 per share (expiring December 16, 1983)	27,300
At \$2.75 per share (expiring May 7, 1986)	* 20,000
At 10% below market price at date option is granted	2,700
	50,000

For issuance to preferred shareholders under conversion privileges attaching to the preferred shares - Series A	600,000
	1,150,026

* Granted during the year ended October 31, 1976

8. Restrictions on dividends

The trust indentures relating to the sinking fund debentures and the preferred shares - Series A contain various restrictions relating to the payment of dividends (other than dividends on the preferred shares - Series A), the redemption, cancellation or retirement of the company's shares or any other such distributions. As at October 31, 1976, under the most restrictive provision, \$704,133 was available for any such distributions.

9. Contingent liabilities

(a) The company is contingently liable with respect to guarantees which at October 31, 1976 amount to \$1,174,000 and with respect to guarantees of lease payments relating to two Caribbean Inns over the next eighteen years amounting to \$9,400,000. These amounts are in addition to certain debt assumed by others which has been excluded from the consolidated balance sheet but in respect of which the company remains directly liable as referred to in note 5.

(b) In the course of the construction of Inns, the company is subject from time to time to various claims and disputes, most of which are settled without material cost to the company. As at October 31, 1976, there are no unsettled claims or disputes of a material nature against the company which have not been provided for or which, in the opinion of management, cannot be settled without material cost.

10. Long-term leases and fees

The company has entered into agreements to lease properties which are operated as Inns and as transportation terminals for periods varying from 2 to 88 years at total minimum rentals for the remaining terms of the leases of approximately \$277,000,000 (including amounts payable in foreign currencies which are translated at current rates of exchange). Total minimum fixed rentals per year as at October 31, 1976 approximate \$9,800,000. In the case of certain leases, increased rentals are payable if Inn revenues exceed specified amounts. Certain leases provide the company with options to purchase the leased properties.

Under its agreements with Holiday Inns, Inc. the company is required to pay royalties and assessments for advertising and other services which currently amount to approximately \$3,900,000 annually. It has also entered into miscellaneous equipment leases extending to 1986 which require annual rental payments of approximately \$2,100,000 (\$9,900,000 for the remaining terms of the leases).

Rentals, which are determined as a percentage of revenues with no minimum amounts, are excluded from the calculation of the above amounts.

Under the terms of the agreement relating to the 6 7/8% secured notes, the company has agreed not to permit minimum annual lease obligations on real property located in Canada and continental United States to exceed 12% of the net book value of the company's fixed assets located within these two countries. As at October 31, 1976, these minimum annual lease obligations were less than 12% of the net book value of the applicable fixed assets.

11. Statutory information

The aggregate direct remuneration paid or payable by the company to directors and senior officers amounted to \$773,000 for the year ended October 31, 1976 and \$715,000 in 1975. This remuneration includes directors' fees of \$19,500 for 1976 and \$17,300 for 1975.

The liability in respect of past service pension costs not provided for in the accompanying consolidated financial statements as at October 31, 1976 amounts to \$318,900 (based on the present value of future payments). This amount is to be paid in annual instalments of \$31,600 over the next twelve years. During 1976 past service pension costs totalling \$54,720 were charged to expense. All other pension costs are provided and paid for in the year in which such costs are incurred.

12. Appraisal value of real estate

Fixed assets and major renovations related to the company's owned Inns which are included in the accompanying consolidated balance sheet at a net book value of \$79,500,000 have an appraisal value of \$115,100,000 based on appraisals of North American properties by Garth Webb & Associates Ltd. during 1976 and United Kingdom properties, which were not appraised, at net book value translated into Canadian dollars at current rates of exchange. These appraisal values represent depreciated replacement cost of all of the Inn assets plus a value which has been attributed to the Holiday Inn franchises. Appraisal values do not reflect the income tax liability which would result from any sale of the company's owned Inns.

13. Earnings per share

Earnings per common share, after taking into account dividends on preferred shares, have been calculated on the weighted average number of common shares actually outstanding during the year. Fully diluted earnings per share have not been shown as the difference from earnings per share is immaterial.

14. Anti-Inflation Legislation

The operations of the company in Canada are subject to mandatory compliance with the provisions of the federal Anti-Inflation Act which imposes controls on prices, profit margins, employee compensation and shareholder dividends. Under certain circumstances, this Act, which is scheduled to remain in force until December 31, 1978, may require the reduction of profits which exceed prescribed base margins.

Due to uncertainty as to the appropriate application of the Anti-Inflation Act to the operations of a subsidiary, it is not possible to determine the base period margin available to the subsidiary. Accordingly, the company is unable to determine the effect, if any, which the controls imposed by this Act may have on its 1976 reported earnings.

Similar restraints on prices and profit margins apply to the company's operations in the United Kingdom.

Ten Year Review

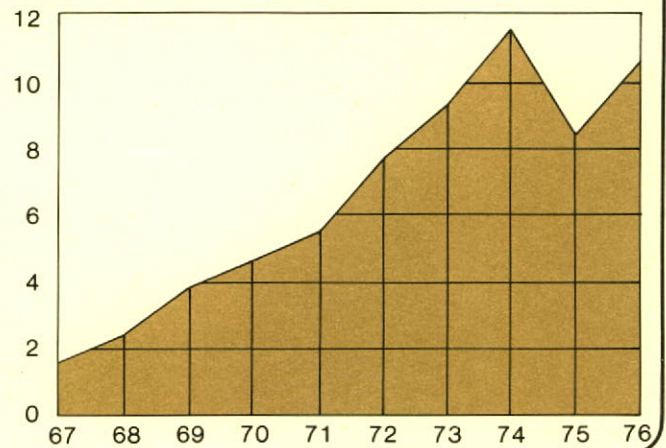
	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Results for the year (thousands of dollars)										
Sales	\$156,374	\$120,695	\$99,692	\$75,909	\$56,843	\$43,024	\$33,259	\$25,432	\$17,654	\$12,454
Earnings from Operations*	425	413	2,660	2,641	2,165	1,590	1,330	1,176	641	468
Cash Flow from Operations**	10,655	8,522	11,551	9,413	7,660	5,500	4,620	3,877	2,375	1,726
Depreciation and Amortization	9,376	6,007	5,344	3,588	2,786	2,184	1,850	1,379	1,038	778
Additions to Plant and Equipment	9,834	19,559	20,116	28,524	22,990	18,460	10,954	10,996	7,653	3,224
Year End Position (thousands of dollars)										
Working Capital	\$ 3,724	\$ (656)	\$ 2,128	\$ 62	\$ 1,956	\$ 1,996	\$ 716	\$ 184	\$ 592	\$ (964)
Fixed Assets at Cost	156,671	148,383	114,217	100,036	75,104	58,823	43,804	32,918	25,025	17,274
Total Assets	162,766	160,361	133,335	119,592	89,516	66,243	49,571	36,031	27,052	17,856
Long Term Debt	102,444	95,406	73,561	70,568	54,322	38,726	32,333	22,593	21,545	13,776
Shareholders' Equity	22,815***	26,290	26,240	19,337	16,593	14,399	8,066	6,783	1,932	1,372
General Statistics (000's omitted)										
Preferred Shares Outstanding	200	200	200				4	4	4	4
Common Shares:										
— Outstanding	5,318	5,318	5,318	5,318	5,308	5,305	2,427	2,411	2,050	2,050
— Reserved for Conversion & Options	1,150	1,150	1,150	550	565	517	3,964	3,959	3,950	675
— Total Outstanding and Reserved	6,468	6,468	6,468	5,868	5,873	5,822	6,391	6,370	6,000	2,725
Inns in Operation (actual at year end)	66	65	54	46	39	34	27	23	17	14
Rooms in Operation (actual at year end)	13,746	13,590	10,909	9,255	7,400	5,754	4,164	3,499	2,558	2,166

* Before dividends on preferred shares and extraordinary item in applicable years.

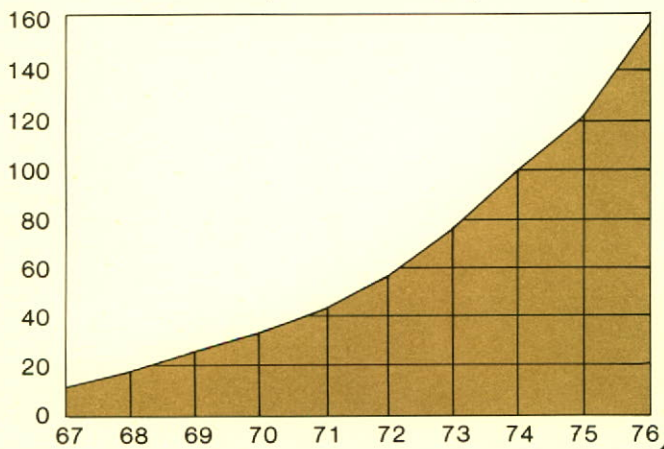
** Cash flow consists of earnings from operations plus charges which do not require an outlay of funds.

*** After write-down of investment in Allied Innkeepers (Bermuda) Limited. See Note 3 to consolidated financial statements.

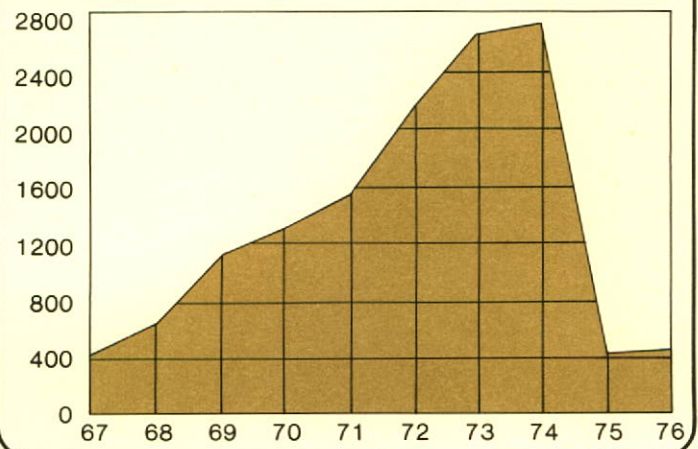
Cash Flow from Operations (millions of dollars)



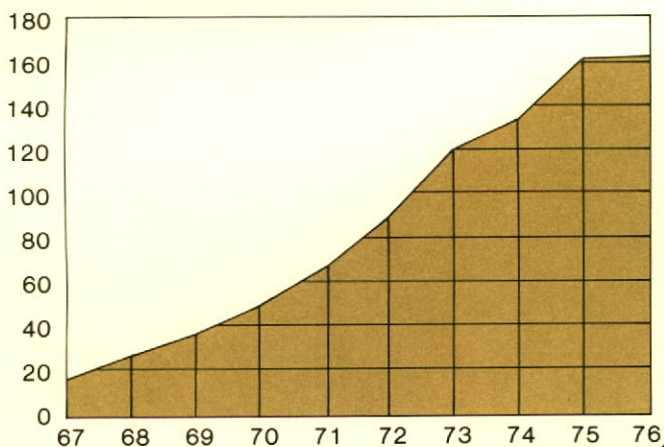
Sales (millions of dollars)



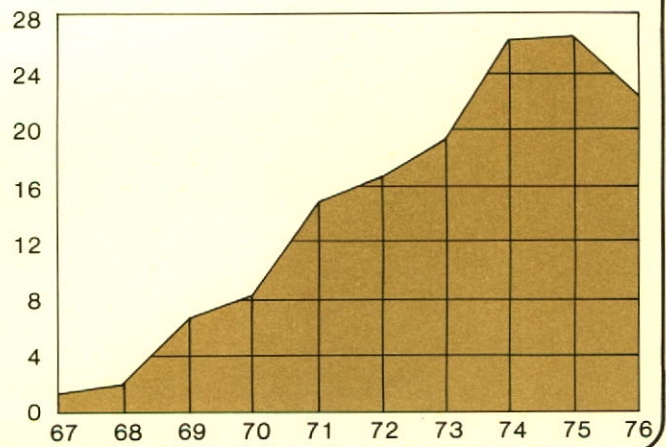
Earnings from Operations (thousands of dollars)

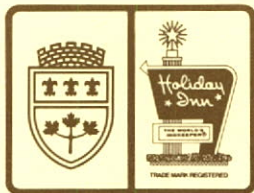


Total Assets (millions of dollars)



Shareholders' Equity (millions of dollars)





COMMONWEALTH *Holiday Inns* OF CANADA LIMITED