

FRANCHISE DISCLOSURE DOCUMENT



Coast Hotels USA, Inc.
a Delaware corporation
925 Fourth Avenue, Suite 2900
Seattle, WA 98104
(206) 370-8316
www.coasthotels.com

The franchisee will operate a hotel under the “Coast” brand and franchisee will participate in the advertising, marketing, reservation system, and quality standards designed and implemented by Coast Hotels USA, Inc. The initial investment is estimated to be between \$42,500 to \$571,000, none of which are payments to us or to our affiliates. This estimate does not include the cost to purchase or lease real estate.

This disclosure document (“Disclosure Document”) summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agrees carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. NOTE, HOWEVER, THAT NO GOVERNMENTAL AGENCY HAS VERIFIED THE INFORMATION CONTAINED IN THIS DOCUMENT.

The terms of your contract will govern your franchise relationship. Don’t rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as “[A Consumer’s Guide to Buying a Franchise](#),” which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC’s home page at www.ftc.gov for additional information. Contact your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance Date: August 8, 2023.

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit F .
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit E includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Coast hotel in my area?	Item 12 and the "territory" provisions in the Franchise Agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be Coast franchisee?	Item 20 or Exhibit F list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this Disclosure Document to better understand this franchise opportunity. See the table of contents.

What You Need to Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The Franchise Agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The Franchise Agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the Franchise Agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your Franchise Agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The Franchise Agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in **Exhibit A**.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda, **Exhibit D**. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. Out-of-State Dispute Resolution. The Franchise Agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Washington. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Washington than in your own state.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” (if any) to see whether your state requires other risks to be highlighted.

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Item 1. THE FRANCHISOR AND ITS AFFILIATES.

To simplify the language in this Disclosure Document, “Coast” means Coast Hotels USA, Inc., the franchisor. “You” means the person or legal entity, including your owners who buy the Franchise, the franchisee.

Coast’s principal business address is 925 Fourth Avenue, Suite 2900, Seattle, Washington 98104.

Coast was formed on October 26, 2022 as a Delaware corporation. Coast is the exclusive licensee in the United States for Coast Hotels Limited, a British Colombian company (“CHC”), which has a principal place of business of #700 – 535 Thurlow Street, Vancouver, BC V6E 3L2. As the exclusive licensee, only Coast can grant franchisees the right to use the “Coast” name, symbols and marks as detailed in Item 13.

Coast will do business as Coast Hotels USA, Inc. Coast’s agents for service of process are shown in **Exhibit B**. We are a wholly-owned subsidiary of CHC. We have no predecessor.

Coast franchises the right to operate a hotel under the Coast brand. You will participate in a system designed by Coast that includes advertising and marketing of hotel accommodations, a central reservation system, and uniform quality standards for hotels that we authorize to use the Coast brand (the “Coast System”). You must include “Coast” in the franchised hotel’s name.

The business in which you as a Coast franchisee will participate is highly competitive. Your competitors are regional, national and international hotel management and marketing companies. Some of your competitors focus on particular types of hotel properties or hotel locations. Other competitors focus on providing a combination of management and joint marketing services to hotel properties. Currently, your principal market is for mid-sized, first-class hotel properties located in the western United States and Canada. There are no regulations exclusively specific to hotel operations.

Coast began operating franchises in 2022 when it acquired certain franchise contracts (the “Acquisition”) pursuant to a Franchise Purchase Agreement, dated December 21, 2022, by and among Coast Hotels USA, LLC, Coast Hotels USA Inc., and Coast Hospitality, LLC. Coast acquired the franchise contracts from a master franchisee and, in relation to the Acquisition, intends to begin offering franchises pursuant to the terms of this Franchise Disclosure Document. Coast has not offered franchises in other lines of business and has no other business activities. Coast does not own or operate hotels itself.

Neither our parent nor our affiliates have offered franchises in any line of business or engage in business activities outside of hotel operations, management or investment.

Item 2. BUSINESS EXPERIENCE.

Hayashi (Jin) Sasaki – President and Chief Executive Officer

Mr. Sasaki joined APA Hotel International in 2016 where he serves as President and Chief Executive Officer. Mr. Sasaki joined CHC in September 2018 as President and Chief Executive Officer. Mr. Sasaki joined Coast in October 2022 as President and Chief Executive Officer. Mr. Sasaki still serves in each of these roles.

Manalo (Manny) Ilao – Chief Financial Officer

Mr. Ilao joined our parent company, Coast Hotels Limited, in 2004 and served as Director of Finance & Administration till September 2018, when he was promoted to Chief Financial Officer, where he still serves. In October 2022, Mr. Ilao joined Coast as our Chief Financial Officer.

Mark Hope – Senior Vice President, Development

Mr. Hope joined our parent company, Coast Hotels Limited, in March 1993 and served as Senior Executive Director of Development till August 2018. Mr. Hope was promoted to Vice President of Development & Revenue in September 2018, where he served till May 2022. In May 2022, Mr. Hope was promoted to Senior Vice President, Development, where he still serves. In October 2022, Mr. Hope joined Coast as our Senior Vice President, Development.

Item 3. LITIGATION.

No litigation is required to be disclosed in this Disclosure Document.

Item 4. BANKRUPTCY.

No bankruptcy information is required to be disclosed in this Disclosure Document.

Item 5. INITIAL FRANCHISE FEE.

You must pay us a non-refundable application fee (the “Application Fee”) due upon your signing of the Franchise Agreement attached hereto as **Exhibit C**. The Application Fee is equal to the greater of (i) \$15,000.00, plus applicable taxes, and (ii) \$150.00 per room, plus applicable taxes.

Item 6. OTHER FEES.

Name of Fee ¹	Amount	Due Date	Remarks
Royalty Fee	3-5% of Gross Room Sales ²	Payable monthly on the 15th day of the next month. ³	“Gross Room Sales” means gross room revenues, exclusive of sales tax, room tax, returns, refunds and allowances. ⁴
Marketing Fee	2-3% of Gross Room Sales ⁵	Payable monthly on the 15th day of the next month. ⁶	“Gross Room Sales” means gross room revenues, exclusive of sales tax, room tax, returns, refunds and allowances. ⁷
If guest chooses Alaska Mileage	\$.0205 USD/mile on 500 mile qualified stay	Payable monthly on the 15 th day of the next month, if applicable.	This fee amount is negotiated by Coast with Alaska Airlines and may change from time to time. This fee is a pass-through payment: we collect this fee and remit it to CHC.

¹ All fees are imposed by and payable to Coast and are non-refundable.

² We negotiate the percentage Royalty Fee rate that you will pay to us before you sign the Franchise Agreement.

³ Each Royalty Fee and Marketing Fee payment must be accompanied by a copy of your state sales tax report for your hotel for the month before the payment, or by any other documentation of the amount of Gross Room Sales received by you in that month as may be reasonably required by Coast. If you fail to pay any Royalty Fee within 15 days of the due date, you must pay Coast a late payment charge equal to 5% of the amount of the delinquent payment. In addition, you must pay Coast interest on the amount of any delinquent Royalty Fee (plus any applicable late payment charge) from the due date of the Royalty Fee until paid, at a rate equal to 2% per year over the prime lending rate then in effect at U.S. Bank, Seattle, Washington.

⁴ You should also consult Items 8 and 9 of this Franchise Disclosure Document.

⁵ We negotiate the percentage Marketing Fee rate that you will pay to us before you sign the Franchise Agreement.

⁶ If you fail to pay any Marketing Fee within 15 days of the due date, you must pay Coast a late payment charge equal to 5% of the amount of the delinquent payment. In addition, you must pay Coast interest on the amount of any delinquent Marketing Fee (plus any applicable late payment charge) from the due date of the Marketing Fee until paid, at a rate equal to 2% per year over the prime lending rate then in effect at U.S. Bank, Seattle, Washington.

⁷ You should also consult Items 8 and 9 of this Franchise Disclosure Document.

Name of Fee ¹	Amount	Due Date	Remarks
Aeroplan Mileage	\$.0198 CDN per mile based on 250-500 mile qualified stay.	Payable monthly on the 15 th day of the next month, if applicable.	This fee is a pass-through payment: we collect this fee and remit it to CHC.
Coast Rewards (frequent stay)	\$6.00 per room per month for monthly maintenance. \$.045 USD per point issued. [Points issued by hotel will be \$.045 for each dollar spent by guest.]	Payable monthly on the 15 th day of the next month, if applicable.	Costs of the program will be reviewed annually by Coast.
More Rewards	\$.01 per point issued. Guest receives 1 point per pre-tax dollar spent.	Payable monthly on the 15 th day of the next month, if applicable.	This fee is a pass-through payment: we collect this fee and remit it to CHC. CHC may increase this fee annually.
Central Reservation System	Based on extent of participation. ⁸ Currently the fee is \$9.00 per confirmed reservation.	Payable monthly on the 15 th day of the next month.	Coast will establish a per reservation cost each year.
Annual Franchisee Meeting – General Manager & Director of Sales Meeting Fee – Registration Fee	We hold an annual meeting which your General Manager and Director of Sales must attend. The annual meeting fee is \$1,100 per person or less, whether or not they attend.	Before annual meeting begins if you register to attend.	You are also responsible for your employees' travel expenses to attend the meeting, which we may hold at a different Coast hotel each year in the United States or Canada.
Inspections	Reimbursement of our actual travel expenses for economy airfare; plus comp room at your hotel when we determine that an overnight stay is required.	Within 30 days of invoice.	

⁸ Per reservation fees are calculated based on the projected cost of operating the computer reservation system. The projected cost is intended to allocate to each franchisee the portion of the total costs of operating the system equal to the percentage of total reservations made for the applicable hotel in the system, divided by the total reservations made for all hotels utilizing the system.

Name of Fee ¹	Amount	Due Date	Remarks
Marketing Support	Reimbursement of our actual travel expenses for economy airfare; plus comp room.	Within 30 days of invoice.	In addition to Marketing Fees. We typically send one of our marketing team employees to each franchised hotel once/year to discuss your local marketing activities.
Guest Satisfaction Survey	Included in Loyalty Program Costs.	Within 30 days of invoice.	This fee is a pass-through payment: we collect this fee and remit it to CHC.
Customer Relations Management (E-Mail Marketing)	Monthly fee included in loyalty program.	Within 30 days of invoice.	This fee is a pass-through payment: we collect this fee and remit it to CHC.
Cvent Transient	\$875 per year, subject to prevailing Cvent Contract.	Within 30 days of invoice.	Cvent is a corporate group booking agency. This fee is a pass-through payment: we collect this fee and remit it to CHC.
Online Marketing Advertising (META) Marketing	15% commission and \$3.00 per reservation	Payable monthly on the 15 th day of the next month, if applicable.	This fee is a pass-through payment: we collect this fee and remit it to CHC.
Social Media (optional program)	\$500-\$1,500 per month depending upon program	Payable monthly on the 15 th day of the next month, if applicable.	Payable only if you elect to participate in the Coast brand social media program. This fee is a pass-through payment: we collect this fee and remit it to CHC.
Digital Marketing SEO/PPC (optional program)	\$500-\$2000 per month (estimated). This fee is hotel-specific.	Payable monthly on the 15 th day of the next month, if applicable.	Payable only if you elect to receive these services. This fee is a pass-through payment: we collect this fee and remit it to CHC.
Public Relations (optional program)	\$250 - \$500 per month. This fee is hotel-specific.	Payable monthly on the 15 th day of the next month, if applicable.	Payable only if you elect to receive these services.

Name of Fee ¹	Amount	Due Date	Remarks
Print/Digital Advertising (optional program)	\$200 per quarter	Payable monthly on the 15 th day after the end of each calendar quarter.	Fee amount is an estimate and may vary
Sales Mission & Trade Show – Exhibitor Fee (optional program)	Costs vary depending on event and the number of participating Coast hotels, but should not exceed \$1,500 per event.	Discretionary exhibitions in which you may opt to participate.	Payable only if you elect to exhibit at a sales mission and trade show in which we decide to participate.

Item 7. YOUR ESTIMATED INITIAL INVESTMENT.

TYPE	AMOUNT	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENTS IS TO BE MADE
Application Fee	The greater of (i) \$15,000.00, plus applicable taxes, and (ii) \$150.00 per room, plus applicable taxes.	Cash or credit	Upon signing the Franchise Agreement	Coast
Land	Note 1	N/A	N/A	N/A
Building and Site Work	Note 1	N/A	N/A	N/A
Equipment, fixtures, décor & signs (Note 2)	Low = \$25,000 High = \$100,000	Cash or credit as per agreement with Contractors and Suppliers	Per agreement	Contractors and Suppliers
Inventory and Supplies (Note 2)	Low = \$3,000 High = \$100,000 (Notes 1 and 3)	Cash or credit as per agreement with Contractors and Suppliers	Per agreement	Coast or other suppliers (See Items 8 and 9, below)
Insurance	Low = \$5,000 High = \$100,000 Varies depending upon coverage limits Note 1	Cash as per policy	Per insurance policy	Insurance Company
Central Reservation System and Property Management System	Low = \$5,000 High = \$100,000 Note 4	Cash or credit	Monthly	Coast
Security deposits and other prepaid expenses required to commence operations and working capital	\$0 to \$25,000. Note 1	Cash or credit	As incurred	Various vendors and suppliers
Additional Fund	\$2,000-\$5,000 Note 5	Cash or Credit	As incurred	Employees; Suppliers; Utilities
TOTAL	Low = \$42,500 High = \$571,000 Note 6			

THE FOLLOWING NOTES ACCOMPANY THE ITEM 7 CHART

General: Item 7 explains your likely initial investment to open and begin operating a hotel under the Coast brand. In these notes, we explain each expense category in detail and the variables that

influence the low and high initial investment estimates. You are responsible for investigating your own initial investment expenses. These notes are an integral part of Item 7. As we disclose in Item 10, Coast does not offer direct or indirect financing and will not guarantee any financing that you secure from a third-party lender to fund your initial investment expenses.

Refund Conditions. None of the initial investment payments are refundable unless you negotiate for refund terms with the third-party vendor or supplier. We make no representation regarding your ability to obtain refund terms with third parties with which you deal.

- Note 1: Coast anticipates that you and all other franchisees will already own, lease, or operate an established hotel, or will acquire a hotel under separate terms, before becoming a participant in the Coast System. Under this assumption, you would not be required to make additional investment in land, improvements, furniture, insurance, deposits, prepaid expenses and the like as a prerequisite to participating in the Coast System. However, Coast requires (i) you qualify for, receive, and maintain a rating either from the American Automobile Association of not less than “Three Diamonds” or from Mobil of not less than “Three Stars,” and (ii) a minimum insurance coverage which may or may not be met by your present insurance (See Paragraph 10 of Franchise Agreement attached hereto as **Exhibit B**). The cost of this insurance will vary depending upon the hotel, you, the hotel location, the level of room sales, the replacement value of the hotel property and other factors.
- Note 2: You are not required to purchase any of these items from Coast, although they are available through Coast as described in Item 8 below. The actual amount will depend on the size of your hotel.
- Note 3: You are not required to maintain a minimum level of inventory, other than that necessary to operate the hotel in the ordinary course of business consistent with past practice. Inventory items include paper products (folios, guest checks, etc.), guest room directories, bathroom amenities (soap, shampoo, shower caps, etc.), and other collateral materials (rate cards, brochures describing the features and benefits of your hotel, etc.).
- Note 4: The central reservation system provides you with daily information via computer/website regarding guests making reservations for hotel rooms at your hotel through Coast’s “800” telephone number and/or web-based systems. Per reservation fees are calculated based on the projected cost of operating the computer reservation system. The projected cost of the central reservation system software is intended to allocate to each franchisee the portion of the total costs of operating the system equal to the percentage of total reservations made for the applicable hotel in the system, divided by the total reservations made for all hotels utilizing the system. You must also operate using property management system (“PMS”) software that registers check-ins and tracks room availability at your own hotel and communicates this information to the centralized reservation database to keep the centralized reservation system up-to-date. You choose the particular

property management system for your hotel, which must be compatible with the central reservation system. We will provide you with a list of vendors that offer compatible PMS software.

Note 5: This estimates your initial start-up expenses. These expenses include payroll costs. These figures are estimates and Coast cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as: how much you follow the Coast System; your management skills; experience and business acumen; local economic conditions; the local market; the prevailing wage rate; competition; and sales/hotel occupancy.

Note 6: Coast relied upon the extensive hotel experience of its officers listed in Item 2 to compile these estimates. You should review these figures carefully or with a business adviser before making any decision to purchase the franchise.

Item 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES.

You have no obligation to purchase or lease from designated sources. You must use in the operation of your hotel any supplies, including guest room amenities and printed materials that have been designed and are made available by Coast for your use. You may purchase these supplies from Coast or from a vendor of your choice, provided that if these supplies are purchased from a vendor other than Coast, they must be of identical quality and design to those sold or otherwise made available by Coast. Coast may require you to submit samples of supplies purchased from vendors other than Coast. Coast has 30 days to approve or disapprove of the sample supplies and will inform you in writing of the approval or disapproval. If approval is subsequently revoked, Coast will notify you in writing and you must immediately discontinue use of the supply. Coast does not charge a fee for the review of supplies from other vendors.

Coast has no written specifications/standards for supplies. The executive staff of Coast determines which supplies meet the Coast standards. The supplies designed and made available by Coast for use by hotels in the Coast System may vary. Coast will provide you with updated lists of these supplies upon request.

You also must use signs that include the word “Coast” in identifying your hotel, with the wording and with the design approved by Coast. You may purchase these signs from a vendor of your choice.

Approximately 10% of all franchisee’s purchases are purchases of supplies that must be made through Coast or third-party vendors recommended or approved by Coast. Coast does not receive payments from purchases by you from third party vendors. Coast does not participate in any purchasing or distribution cooperatives. Coast negotiates purchasing arrangements with third party suppliers for the benefit of franchisees for various hotel in-room amenity products like shampoo and soap. There are no material benefits to you for using Coast-recommended or approved vendors.

No officer of the franchisor owns an interest in any third-party vendors or suppliers.

Item 9. YOUR OBLIGATIONS.

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS DISCLOSURE DOCUMENT.

	<u>Obligation</u>	Paragraph in Franchise Agreement	Item in Disclosure Document
a.	Site selection and acquisition/lease	Not applicable	Item 11
b.	Pre-opening purchases/leases	Not applicable	Item 8
c.	Site development and other pre-opening requirements	Not applicable	Item 11
d.	Initial and ongoing training	Not applicable	Item 11
e.	Opening	Not applicable	Item 11
f.	Fees	Paragraphs 3 and 4	Items 5 and 6
g.	Compliance with standards and policies/Operating manual	Paragraphs 6 and 7	Item 11
h.	Trademarks and proprietary information	Paragraphs 6, 7 and 17	Items 13 and 14
i.	Restrictions on product services offered	Paragraphs 7 and 8	Items 8 and 16
j.	Warranty and customer service requirements	Paragraph 7	Item 11
k.	Territorial development and sales quotas	Not applicable	Item 12
l.	Ongoing product/service purchases	Paragraphs 7 and 8	Items 8 and 16
m.	Maintenance, appearance and remodeling requirements	Paragraph 7	Item 11
n.	Insurance	Paragraph 10	Item 7
o.	Advertising	Paragraphs 6 and 7	Item 11
p.	Indemnification	Paragraphs 14 and 15	
q.	Owner's participation/management/staffing	Not applicable	Items 11 and 15
r.	Records/reports	Paragraphs 5 and 7	Item 6
s.	Inspections/audits	Paragraphs 6 and 7	Items 6 and 11
t.	Transfer	Paragraph 17 and 19	Item 17
u.	Renewal	Paragraph 2	Item 17
v.	Post-termination obligations	Paragraph 20	Item 17
w.	Non-competition covenants	Paragraph 13	Item 17
x.	Dispute resolution	Paragraph 25	Item 17

Item 10. FINANCING ARRANGEMENTS.

Coast does not offer direct or indirect financing. Coast does not guarantee your note, lease, or obligation.

Item 11. FRANCHISOR’S OBLIGATIONS.

Except as we list below, we are not required to provide you with any assistance.

Coast has no obligations to you to furnish you with any assistance before the opening of your hotel. This is because you will already own, operate and/or manage an established “3 Diamond” standard (See Item 7 Note 1) hotel when you enter into the Franchise Agreement with us. Coast does not select the location for your business, nor does Coast provide any assistance to help you conform your existing hotel to local ordinances or building codes, secure building permits, or with constructing, remodeling or decorating your hotel. Coast does not assist with your need to negotiate a lease and does not sublease real estate to franchisees. Most franchisees are fully operational before they sign the Franchise Agreement, although this is not required.

Coast does not provide purchasing assistance or furnish written specifications for the equipment, signs, fixtures, opening inventory or supplies that you may choose to use to operate your Coast hotel other than we (i) will provide you with specifications for how the COAST mark must appear on signs (we typically communicate these specifications by e-mail); (ii) negotiate bulk purchasing agreements with third party vendors for hotel in-room amenities like shampoo and soap; and (iii) use commercially reasonable efforts to identify suppliers for various other hotel supplies, including items identified by the Coast logo, negotiate special pricing for Coast hotel owners, and make any discounts from suppliers available you (Franchise Agreement — paragraph 6(g)).

In paragraph 9 of the Franchise Agreement, you acknowledge that Coast is not responsible for providing any training, advice or consultation with respect to hotel operations or management of the hotel other than the specific duties identified in the Franchise Agreement. During the operation of the franchised business, Coast’s only obligations to you are to:

- (a) Defend the name “Coast” and the COAST mark against imitations or infringements by unauthorized hotels in the United States to the extent and in the manner determined by Coast to be necessary or appropriate (Franchise Agreement — paragraph 6(a)).
- (b) Inspect or name its agents to inspect your hotel to make sure the hotel is consistently operated, maintained, and equipped in a manner that complies with the Coast System (Franchise Agreement — paragraph 6(b)).
- (c) Include your hotel in any lists or directories of Coast Hotels published by Coast (Franchise Agreement — paragraph 6(c)).
- (d) Advertise and promote the Coast System and franchised hotels, as we described in this Item 11.
- (e) Provide you with access to the web-based reservation system (Franchise Agreement — paragraph 6(e)).

- (f) Handle toll-free reservations for your hotel at a central reservations office and communicate these reservations to you by means of a computer dedicated-line data link, between the office and your hotel, or by means of a facsimile or other facility acceptable to Coast (Franchise Agreement — paragraph 6(f)).
- (g) Use commercially reasonable efforts to provide information pertaining to the source of hotel supplies, including items identified with the Coast logo, and negotiate bulk purchase rates with suppliers and make any discounts from suppliers available you (Franchise Agreement — paragraph 6(g)).
- (h) By December 1st of each year, advise you and consult with you regarding your proposed sales and marketing plan and budget for the following year for the Coast hotels (Franchise Agreement — paragraph 6(h)).
- (i) Invite the Director of Sales, the direct or other sales personnel from your hotel to participate (at your expense) with sales personnel employed at other Coast hotels in regional sales promotions at which Coast is a participant, and to attend periodic marketing or sales meetings (Franchise Agreement — paragraph 6(i)).
- (j) Identify your hotel in any dedicated website maintained by Coast for the Coast hotels, which identification will typically include information on rooms, meeting space and available packages (Franchise Agreement — paragraph 6(j)).
- (k) At your request, we will send one of our officers or members of senior management to your Coast hotel to discuss your performance and any operating issues without charging any fee. However, during this meeting and any other official visit to your hotel, you must provide our personnel with free accommodations at your hotel (our personnel will pay for their own food, beverage and other personal charges. (Franchise Agreement – paragraph 6(k)).
- (l) Conduct an annual General Manager and Director of Sales meeting for all franchisees at a Coast hotel that we designate, which may change from year to year. We require that both your hotel General Manager and Director of Sales attend this annual meeting and require you to pay the per person registration fee even if either or both cannot attend. You are responsible for the travel expenses incurred by your employees. (Franchise Agreement — paragraph 6(l)).
- (m) We will provide advice in response to your questions about the Coast System or specific administrative and operating issues at your Coast hotel. In our discretion, we decide how best to communicate our advice, whether by telephone, in writing, other electronic format like email, or in person. The method we choose in your case may be different than the methods we use for another franchisee. (Franchise Agreement — paragraph 6(m)).
- (n) Exhibit at one or more sales mission and trade shows each year at which you may join us as a co-exhibitor. Your participation is optional. If you choose to attend, you must pay us an exhibition fee, which will vary depending on the number of Coast hotels participating in the trade show, but will not exceed \$1,500 per event. You are responsible for your own travel expenses and those incurred by your employees. (Franchise Agreement — paragraph 6(n)).

Except as we disclose in this Item 11, Coast has no obligation to furnish you with assistance to (i) develop new products or services; (ii) help you hire or train your employees; or (iii) establish or help you implement administrative, bookkeeping, accounting or inventory control procedures. You alone make all decisions regarding prices. We have no duty to help you resolve operating problems that you may encounter in operating your Coast hotel. Coast does not maintain an operations manual that it shares with franchisees.

Advertising Services (See generally Franchise Agreement — paragraph 11).

As we disclose in Item 6, you must pay us a Marketing Fee of 2-3% of your Gross Room Sales. We will mutually agree on the exact percentage that you must pay as a Marketing Fee before you sign the Franchise Agreement. We use Marketing Fees to conduct advertising promoting the COAST mark. We have sole discretion over all creative concepts, choice of media, content, materials and endorsements and the geographic, market and media placement of all programs. We may use Marketing Fees in our discretion to pay the cost to prepare and produce advertising and marketing materials; purchase media space or time; administer local, regional and national advertising programs; buy direct mail pieces; promote Coast hotels on third party social media sites; obtain endorsements from public figures and influencers; employ advertising, public relations and media buying agencies to assist us in these activities; and support general public relations, market research and other advertising and marketing activities. Additionally, we may use Marketing Fees to furnish our franchisees with samples and templates of advertising and promotional materials at no additional cost, like advertising art, print advertisements, in-room and in-hotel marketing collateral, promotional graphics, and social networking website content. You may, at your cost, customize and use these samples and templates and reproduce them at your sole expense.

We do not promise that we will spend Marketing Fees in any given geographic region or that the benefits you receive will be in proportion to your contributions. We do not maintain a separate bank account for Marketing Fees and may deposit Marketing Fees into our general operating account. At this time, we prepare some marketing materials internally and engage in outside agency to assist us with some advertising and marketing. We have no obligation to prepare and provide our franchisees with a financial accounting that explains how we used Marketing Fees during an accounting period.

Out of Marketing Fees, we may pay ourselves for the direct costs, salaries, travel expenses, administrative costs and other direct overhead that we incur to administer marketing programs including costs to collect Marketing Fees from franchisees that are delinquent in payment; costs to develop specific marketing and advertising programs and content (including costs for market research and production); and wages and associated overhead for personnel who perform marketing functions for Coast hotels. However, we will not use Marketing Fees to cover expenses that we incur directly to recruit new franchisees or for new franchisee advertising.

In any given year, we may spend more or less than the total amount of Marketing Fees that we collect for that year. We will carry-forward any surplus or deficit to a future fiscal period. Coast hotels that we own contribute Marketing Fees at a rate that is equal to the lowest percentage contribution rate that any Coast franchisee then pays to Marketing Fees.

In our most recent fiscal year, we spent Marketing Fees as follows:

Categories	Percentage of Marketing Fees FY 2022
Production	5%
Media Placement	15%
Administrative Expenses	30%
Other – public relations; third party agency; SEO expenses	50%
Grand Total	100.00%

Coast will not unreasonably restrict you from using your own advertising materials that display the COAST mark if you replicate the COAST mark according to our specifications. The Franchise Agreement does not require you to submit your advertising material to us for approval before you may use the material.

There is no advertising council composed of franchisees at this time and we have no plan to form one in the future. There are no local or regional advertising cooperatives at this time, and we have no plan to create local or regional advertising cooperatives in the future.

Typical Length of Time Between Signing Franchise Agreement and Opening Date

Franchisees typically are able to open their hotels under the COAST mark within 60 days of signing a Franchise Agreement. Factors that affect this time are the need to amend their existing hotel lease to permit use as a Coast-brand hotel, the condition of their hotel, events of force majeure like weather and material shortages, and delayed installation of equipment, fixtures and signs.

Computer System

In addition to licensing our central reservation system, you must purchase or license a property management system (PMS) that is compatible with the central reservation system. Other than the central reservation and property management systems, we do not require you to have any other specific computer hardware or software. We will notify you by email of changes that are made to central reservations system software so that you can update your property management software to ensure seamless connectivity. We have unlimited independent remote access to data that is stored on the central reservation system that pertains to your hotel and to data that you store on your property management system. Otherwise, we do not have remote access to any other data that you store on your computers.

Training

We do not offer an initial training program. We offer franchises only to franchisees with experience in hotel operation. We will consult with franchisees if they have specific questions, but we do not offer formal training instruction. (Franchise Agreement — paragraph 6(m)). During the annual general manager and sales meeting, which your General Manager and Director of Sales must attend, we may conduct training in subjects of general interest to our franchisees in our discretion.

Item 12. EXCLUSIVE AREA OR TERRITORY.

The franchise license is location-specific in that it awards you the right to use the COAST marks and Coast System to operate your Coast hotel at a specific location. As noted in Item 11, most franchisees own a fully operational hotel before they sign the Franchise Agreement and rebrand their hotel by adopting the COAST marks. If you do not own or lease a hotel property at a specific address before you sign a Franchise Agreement with us, we will not help you find a location. We will not enter into a Franchise Agreement unless the franchisee identifies the hotel property location to us beforehand even if that property is not yet improved with a hotel building.

If, for some reason, you need to relocate your hotel site (e.g., if your hotel is destroyed by fire), you are solely responsible for determining an appropriate site and must obtain our approval of the new street address before entering into a binding agreement to relocate. The Franchise Agreement does not impose any specific time frame for our reply to your request for site approval or for when you must open your Coast hotel at the new location. You are solely responsible for investigating applicable zoning and building requirements and other laws regulating the operation of a hotel at the approved location.

You will be able to negotiate a territory protection during the franchise agreement process.

Your franchise rights are not contingent on achieving any minimum sales level or other kind of sales or market penetration contingency. We do not award franchisees any type of right of option rights, right of first refusal or preferential right to acquire additional franchises. No limitations are imposed on the customers with whom you may do business.

You may only use the COAST marks and Coast System to operate a hotel. You may not use the COAST marks to engage in any other activities not authorized by us in writing.

We reserve all rights to exploit the COAST marks and engage in all types, methods and channels of distribution regardless of whether we use the method now or adopt it in the future. Our reserved rights include the right to exploit the COAST marks for uses unrelated to hotel and lodging services. We do not have to share the revenue that we derive from these activities with you even if we engage in competitive activities in your trade area. There are no limitations imposed on our right to use the COAST marks in other channels of distribution.

At this time, neither we nor any an affiliate of ours operates or plans to operate or franchise hotel or lodging businesses under a different trademark that will sell goods or services that are the same as or similar to those that Coast franchisees offer. However, nothing in the Franchise Agreement precludes us, our parent or our affiliates from doing so in the future regardless of the proximity of these activities to your Coast hotel.

Item 13. TRADEMARKS, SERVICE MARKS, TRADE NAMES, LOGOTYPES AND COMMERCIAL SYMBOLS.

CHC (Coast Hotels Limited) has granted Coast exclusive rights to certain commercial symbols and marks for use with the Coast System. These include “Coast Hotels,” “Coast Hotels & Resorts” and “Coast Alert.” Coast may acquire or develop and designate additional marks or symbols for use by you with the Coast System. When operating your hotel during the term of the Franchise Agreement, you must exclusively use Coast’s names, symbols, trademarks and copyright-

protected materials. Below are listed marks in the United States which are federally registered with the U.S. Patent and Trademark Office (“PTO”) as principal marks:

<u>Country</u>	<u>Mark</u>	<u>Registration/Serial No.</u>	<u>Registration Date</u>
United States	COAST HOTELS	Registration No. 1,514,046	November 22, 1988 (priority date March 11, 1987 under § 44)
United States	COAST HOTELS & RESORTS	Registration No. 2,575,187	June 4, 2002

There are no presently effective determinations of the PTO, the trademark administrator of the state of Hawaii or any court, or any pending interference, opposition or cancellation proceedings or any pending material litigation involving such trademarks, service marks, trade names, logotypes or other commercial symbols relevant to their use in any state in which a participating hotel is to be located.

There are no infringing uses or superior rights actually known to Coast which could materially affect your use of such trademarks, service marks, trade names, logotypes or other commercial symbols in the state of Hawaii.

There are no agreements currently in effect which materially limit the rights of Coast to use or license the use of its trademarks, service marks, trade names, logotypes or other commercial symbols in the manner contemplated by the Franchise Agreement in the state of Hawaii.

You must promptly notify Coast when you learn of any unauthorized use of Coast’s trademark. Coast will indemnify you and hold you harmless for any claim of infringement resulting from your authorized use of the name Coast or any other proprietary mark. Coast will also defend the name “Coast” and other COAST marks against imitations or infringements by unauthorized hotels.

Item 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION.

The Franchise Agreement does not require, and Coast does not own any rights in or to any patents or pending patents for the Coast System. You will receive the right to use copyright- protected and proprietary information which is part of the Coast System.

You must tell us immediately if you learn about an infringement or challenge to our use of the name Coast or other COAST marks. Coast will take the action that Coast thinks appropriate. If Coast decides to add, modify or discontinue the use of an item covered by a trademark registration, you must also do so.

Item 15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISEE BUSINESS.

You are solely responsible for operating your hotel. You may contract with another person or legal entity to operate the hotel who is an experienced hotel operator. Coast does not require that you personally supervise the franchised business. The manager need not have an ownership interest in you. The manager must sign a written agreement to maintain confidentiality of the information

contained in the franchise agreement and to conform to the covenants not to compete described in Item 17. Personal guarantees are to be negotiated based on the credit worthiness of the owners and their spouses.

Item 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL.

Coast does not restrict the type of goods or services that you may offer, other than:

- (a) The requirement that you qualify for, receive and maintain a rating either from the American Automobile Association of not less than “Three Diamonds” or from Mobil of not less than “Three Stars” and operate, maintain, equip the hotel and related facilities in a manner consistent with the standards established to qualify for one or both of these ratings. The failure to maintain one of these quality ratings constitutes a default under Paragraph 7 of the Franchise Agreement, and Coast may terminate the Franchise Agreement in accordance with its terms if you have not remedied the default within 30 days after written notice of the default from Coast to you;
- (b) The requirement that you refer guests and customers, whenever possible, to other Coast hotels as described in Paragraph 7 of the Franchise Agreement. There is no quota or other requirement with respect to the number of such referrals;
- (c) The requirement that you assist guests and customers to make reservations at other Coast hotels. There is no quota or other request with respect to the number of such reservations;
- (d) The requirement that you not advertise or promote hotels other than Coast hotels at the hotel premises;
- (e) The requirements set forth in Item 8 above.

Item 17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION.

This table lists important provisions of the Franchise and related agreements. You should read these provisions in the agreements attached to this Disclosure Document.

	<u>Provision</u>	<u>Paragraph in Franchise Agreement</u>	<u>Summary</u>
a.	Term of the franchise	Paragraph 2	The standard term is ten years, unless otherwise agreed
b.	Renewal or extension of the term	Paragraph 2	You may renew term of franchise for at least a one five-year period.
c.	Requirements for you to renew or extend	Paragraph 2	You must accept the terms and conditions provided in the franchise agreement and not be in default
d.	Termination by you	Paragraph 19	Detailed circumstances allowing you to terminate are set forth in Paragraph 19 and are subject to state law
e.	Termination by Coast without cause	Paragraph 19	Upon any termination of the license between Coast Hotels Limited and Coast for the COAST marks
f.	Termination by Coast with cause	Paragraph 19	Bankruptcy or insolvency; governmental taking; destruction; material breaches not cured; repeated breaches; voluntary abandonment of business; conviction, sale of hotel and plea of guilty or no contest.
g.	“Cause” defined – defaults which can be cured	Paragraph 19	Material breaches
h.	“Cause” defined – defaults which cannot be cured	Paragraph 19	Repeated material breaches not cured.
i.	Your obligations on termination/nonrenewal	Paragraph 20	Obligations include complete de-identification within 90 days. Coast must repurchase at cost your inventory and supplies related to the franchise, subject to some limitations

	<u>Provision</u>	<u>Paragraph in Franchise Agreement</u>	<u>Summary</u>
j.	Assignment of contract of Coast	Paragraph 19	No restriction on Coast's right to assign
k.	"Transfer" by you – definition	Paragraph 19	Includes a sale of a controlling interest.
l.	Coast's approval of transfer by franchisee	Paragraph 19	Coast's approval is required for any assignment or transfer of rights or duties
m.	Conditions for Coast approval of transfer	Paragraph 19	Coast approval is required for assignment or transfer of rights or duties
n.	Coast's right of first refusal to acquire your business	None	
o.	Coast's option to purchase your business	None	
p.	Your death or disability	Paragraph 17	None, unless it results in a change of control or ownership in your hotel
q.	Non-competition covenants during the term of the franchise	Paragraph 13	Involvement with non-Coast hotels is permissible, provided that this hotel may not use the name "Coast" or other proprietary mark of Coast, or represent or suggest, that it is part of or affiliated with the Coast System. Coast or its affiliates may own, manage, or have entered into Franchise Agreements with hotels that compete with your hotel, and as subject to state law
r.	Non-competition covenants after the franchise is terminated or expires	None	Non-competition provisions are subject to state law
s.	Modification of the agreement	Paragraph 29	Must be in writing by both parties
t.	Integration/merger clause	Paragraph 31	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to applicable state law). Any representations or promises outside of the Franchise Disclosure Document and the Franchise Agreement may not be enforceable.

	<u>Provision</u>	<u>Paragraph in Franchise Agreement</u>	<u>Summary</u>
u.	Dispute resolution by arbitration or mediation	Paragraph 25	All disputes to be arbitrated in King County, Washington, with the cost of each party's arbitration and attorneys' fees being borne by that party and the cost of the third arbitrator being borne equally by the parties, unless the arbitrator determines otherwise, subject to state law
v.	Choice of forum	Paragraph 26	Seattle, Washington, subject to state law
w.	Choice of law	Paragraph 24	Delaware law applies, subject to state law

These states have statutes which may supersede the franchise agreement in your relationship with Coast including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e et seq.], DELAWARE [Code, tit.], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [Rev. Stat. Chapter 121 1/2 par 1719-1 720], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H. 1-523H. 17], MICHIGAN [Stat. Section 19.854.(27)], MINNESOTA [Stat. Section 80C. 14], MISSISSIPPI [Code Section 75-24- 51], MISSOURI [Stat. Section 407.000], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions which may supersede the Franchise Agreement in your relationship with Coast, including the areas of termination and renewal of your franchise.

See also **Exhibit D**, the State Addendum, which provides additional information regarding rules specific to franchisees in your state.

Item 18. PUBLIC FIGURES.

Coast does not use any public figure to promote its franchise.

Item 19. FINANCIAL PERFORMANCE REPRESENTATIONS.

The FTC'S Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the Disclosure Document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

Coast does not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. Coast also does not authorize its employees or representatives to make any such representation either orally or in writing. If you are purchasing an existing outlet, however, Coast may provide you with the actual records of that outlet. If you received any other financial performance information or projections on your future income, you should report it to the Franchisor's management by contacting Mr. Hayashi Sasaki at Coast Hotels USA, Inc., 925 Fourth Avenue, Suite 2900, Seattle, WA 98104 or 206.370.8316, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20. LIST OF OUTLETS.

Table No. 1 SYSTEMWIDE OUTLET SUMMARY FOR YEARS 2020 TO 2022				
Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2020	0	0	0
	2021	0	0	0
	2022	0	9	9
Company-Owned	2020	0	0	0
	2021	0	0	0
	2022	0	0	0
Total Outlets	2020	0	0	0
	2021	0	0	0
	2022	0	9	9

Table No. 2 TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS (OTHER THAN THE FRANCHISOR) FOR YEARS 2020 TO 2022							
State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Total Outlets (United States)	2020	0	0	0	0	0	0
Total Outlets (United States)	2021	0	0	0	0	0	0
Total Outlets (United States)	2022	0	0	0	0	0	0

Table No. 3

STATUS OF FRANCHISED OUTLETS FOR YEARS 2020 to 2022

<u>STATE</u>	<u>YEAR</u>	<u>TRANSFERS</u>	<u>CANCELED OR TERMINATED</u>	<u>NOT RENEWED</u>	<u>RE- ACQUIRED BY COAST</u>	<u>LEFT THE SYSTEM</u>	<u>TOTAL FROM LEFT COLUMNS</u>	<u>FRANCHISES OPERATING AS OF 12/31</u>
AK	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	1
CA	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	3
HI	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	1
IL	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
IN	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
MD	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
MI	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
MN	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
ND	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
NY	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
OR	2020	0	0	0	0	0	0	0

	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
RI	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
SD	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
VA	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
WA	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	4
WI	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
TOTALS	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	9

Table No. 4 STATUS OF COMPANY-OWNED OUTLETS FOR YEARS 2020 to 2022				
<u>STATE</u>		<u>OUTLETS CLOSED DURING YEAR</u>	<u>OUTLETS OPENED DURING YEAR</u>	<u>TOTAL OUTLETS OPERATING AS OF 12/31</u>
All States	2020	0	0	0
	2021	0	0	0
	2022	0	0	0
TOTALS		0	0	0

Table No. 5			
PROJECTED OPENINGS FROM JANUARY 1, 2023 THROUGH DECEMBER 31, 2023			
	FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT OPEN <u>AS OF 12/31/22</u>	PROJECTED NEW FRANCHISED OUTLETS IN THE <u>NEXT FISCAL YEAR</u>	PROJECTED NEW COMPANY-OWNED OUTLETS IN THE <u>NEXT FISCAL YEAR</u>
Alaska	0	0	0
California	0	0	0
Hawaii	0	0	0
Washington	0	0	0
TOTALS	0	0	0

Item 21. FINANCIAL STATEMENTS.

Attached as **Exhibit E** is Coast's Report of Audit of Financial Statements as of December 31, 2022; December 31, 2021 and December 31, 2020.

Item 22. CONTRACTS.

Exhibit C contains the Franchise Agreement.

Item 23. RECEIPT.

The last pages of the Disclosure Document are detachable documents acknowledging receipt of the Disclosure Document by you.

EXHIBIT A

LIST OF STATE ADMINISTRATORS

Listed below are the names, addresses and telephone numbers of the federal and state agencies having responsibility for franchising disclosure/registration laws:

FEDERAL

Federal Trade Commission
6th and Pennsylvania Avenue, N.W.
Washington, D.C. 20580
(202) 523-1753

STATE AGENCIES

California State of California Department of Financial Protection and Innovation Suite 750 320 W. 4 th Street Los Angeles, California 90013-2344 (213) 576-7500 1 (866) 275-2677 ask.dbo@dbo.ca.gov	Maryland Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202 (410) 576-6360
Hawaii Hawaii Commissioner of Securities Department of Commerce and Consumer Affairs Business Registration Division State of Hawaii P.O. Box 40 Honolulu, Hawaii 96810 (808) 586-2722	Michigan Consumer Protection Division Franchise Section Michigan Department of Attorney General G. Mennen Williams Building, 6 th Floor Lansing, Michigan 48933 (517) 373-7117
Illinois Franchise Bureau Illinois Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	Minnesota Minnesota Department of Commerce Franchise Section 85 7 th Place East St. Paul, Minnesota 55101-2198 (651) 296-6328
Indiana Franchise Section Indiana Securities Division Room E-111 302 West Washington Street Indianapolis, Indiana 46204 (317) 232-6681	New York Bureau of Investor Protection and Securities New York State Department of Law 23rd Floor 120 Broadway New York, New York 10271 (212) 416-8211

North Dakota North Dakota Securities Department State of North Dakota Fifth Floor 600 East Boulevard Avenue Bismarck, North Dakota 58505-0510 (701) 328-4712	Virginia State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9 th floor Richmond, Virginia 23219 (804) 371-9051
Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities State of Oregon Labor and Industries Building Salem, Oregon 97310 (503) 378-4140	Washington Department of Financial Institutions Securities Division State of Washington 150 Israel Rd. SW Tumwater, Washington 98501 (360) 902-8738
Rhode Island Department of Business Regulation Securities Division John O. Pastore Complex 1511 Pontiac Avenue, Building 69-1 Cranston, RI 02920 (401) 222-3048	Wisconsin Division of Securities Department of Financial Institutions Wisconsin Commissioner of Securities P.O. Box 1768 Madison, Wisconsin 53701-1768 (608) 266-8559
South Dakota Division of Insurance Securities Regulations 124 S. Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563	

EXHIBIT B

AGENTS FOR SERVICE OF PROCESS

California State of California Department of Financial Protection and Innovation Suite 750 320 W. 4th Street Los Angeles, California 90013-2344	Michigan Michigan Department of Commerce Corporation & Securities Bureau 6546 Mercantile Way Lansing, MI 48909
Hawaii Hawaii Commissioner of Securities Department of Commerce and Consumer Affairs Business Registration Division State of Hawaii 335 Merchant Street, Room 203 Honolulu, Hawaii 96813	Minnesota Commissioner of Commerce Minnesota Department of Commerce Franchise Section 85 7th Place East St. Paul, Minnesota 55101-2198
Illinois Office of Attorney General State of Illinois 500 South Second Street Springfield, Illinois 62706	New York Secretary of State State of New York 99 Washington Ave Albany, New York 12231
Indiana Secretary of State State of Indiana 201 State House 200 West Washington Street Indianapolis, Indiana 46204	North Dakota North Dakota Securities Commissioner North Dakota Securities Department Fifth Floor 600 East Boulevard Avenue Bismarck, North Dakota 58505-0510
Maryland Maryland Securities Commissioner Office of the Attorney General Securities Division 200 Saint Paul Place Baltimore, Maryland 21202-2020	Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities State of Oregon 350 Winter Street, N.E. Room 21 Salem, Oregon 97310

Rhode Island Department of Business Regulation Securities Division John O. Pastore Complex 1511 Pontiac Avenue, Building 69-1 Cranston, RI 02920	Washington Director of Financial Institutions Securities Division State of Washington 150 Israel Rd. SW Tumwater, Washington 98501
South Dakota Division of Insurance Securities Regulations 124 S. Euclid, Suite 104 Pierre, South Dakota 57501	Wisconsin Commissioner of Securities Wisconsin Securities Commission 345 W. Washington, 4 th Floor Madison, Wisconsin 53703
Virginia Clerk of the State Corporation Commission 1300 East Main Street, 1st Floor Richmond, Virginia 23219	

EXHIBIT C
FRANCHISE AGREEMENT



**COAST HOTELS USA, INC.
FRANCHISE AGREEMENT**

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COAST HOTELS USA, LLC

Franchise Agreement

THIS Franchise Agreement ("Agreement") is effective as of the ____ day of _____, 20__ (the "Effective Date") by and between _____ ("Participant"), and Coast Hotels USA, Inc., a Delaware corporation ("Coast"). The term "Parties" refers to Participant and Coast.

RECITALS

A. Coast is the licensee of Coast Hotels Limited ("CHC") within the United States of the trade name "Coast" and related marks and logos (collectively, the "Marks"), in connection with the marketing and franchising of hotels, and has developed a system for collective advertising and marketing and for assurance of uniform quality standards of hotel accommodations (hereafter called the "Coast Hotels System"). The hotels that participate in the Coast Hotels System in the United States as parties to an effective franchise agreement with Coast may also be referred to herein as the "Coast Hotels."

B. Coast Hotels are granted the right to use the Marks during the term of their respective Franchise Agreements with Coast.

C. CHC operates hotels in Canada. The term "CHC Hotels" refers to hotels operated by CHC in Canada. The term "Affiliated Hotels" refers to hotels marketed under the Marks by CHC in Canada.

D. CHC also operates a central reservation system for the Coast Hotels, the CHC Hotels and the Affiliated Hotels (the "CRS System"), which will provide services to the Participant under the terms of this Agreement.

E. Participant owns the _____ located at _____ in the city of _____ (Hereafter called the "Hotel").

F. Participant recognizes the benefits to be derived from being identified with and licensed by Coast and from being able to utilize the Coast Hotels System and the CRS System.

G. Participant wishes to participate in the Coast Hotels System upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the Parties agree as follows:

AGREEMENT

1. License. Subject to the terms and conditions of this Agreement, Coast grants to Participant the right to use the Coast Hotels System, to use the Marks, and to use such other trade names, service marks, trademarks and trade symbols, emblems, signs, slogans, insignias and designs as Coast has adopted and designated for use in connection with the Coast Hotels System and as Coast may hereafter acquire or develop and designate for use in connection with the Coast Hotels System. The name "Coast" and the Marks shall be used by Participant only in connection with the operation of the Hotel, the Coast Hotels System and only in accordance with the terms of

this Agreement. Participant's use rights under this Paragraph I are nonexclusive. Coast represents and warrants to Participant that, during the entire Term of this Agreement, Coast has and shall retain all rights necessary to grant Participant the use rights set forth in this Paragraph 1.

2. Term.

(a) The term of this Agreement (the "Term") shall be the period of the Initial Term described in Paragraph 2(b), together with the extension thereof discussed in Paragraph 2(c), subject to earlier termination in accordance with Paragraph 19.

(b) The initial term of this Agreement shall be ten (10) years (the "Initial Term") from the Effective Date.

(c) At the expiration of the Initial Term, Participant shall have the option of extending the Term (the "Extension Term") for one five-year period. The terms and conditions of the franchise agreement during the Extension Term shall be as set forth in the then current franchise agreements offered new franchisees, provided that:

(i) Participant gives written notice to Coast of the exercise of the option to extend the Term not less than six (6) nor more than eighteen (18) months prior to the expiration of the Initial Term; and

(ii) At the time the written notice to extend the Term is given, Participant is not in material default of any of the terms or conditions of this Agreement, or any other written amendment to this Agreement entered into between Participant and Coast;

(iii) Participant executes and delivers to Coast the agreed upon franchise agreement prior to the commencement of the Extension Term; and

(iv) Coast reserves the right to waive the requirements set forth in paragraphs 2(c)(i)-(iii).

3. Application Fee, Royalty Fee and Marketing Fee.

(a) Participant shall pay to Coast on the Effective Date a non-refundable application fee (the "Application Fee") equal to the greater of (i) \$15,000.00, plus applicable taxes, and (ii) \$150.00 per room, plus applicable taxes.

(b) For each month or part thereof during the Term, Participant shall pay to Coast on or before the 15th day of the following month a royalty fee (the "Royalty Fee") equal to percent (____%) of the gross room revenues of the Hotel, exclusive of sales tax, room tax, returns, refunds and allowances ("Gross Room Sales").

(c) For each month or part thereof during the Term, Participant shall pay to Coast on or before the 15th day of the following month a marketing fee (the "Marketing Fee") equal to _____percent (____%) of Gross Room Sales.

(d) All payments provided for in this Agreement shall be made in United States currency at the address of Coast set forth in Paragraph 23, below or at such other place as Coast shall designate in writing.

(e) If Participant fails to pay the Application Fee, any Royalty Fee or Marketing Fee, or any other fee referenced herein within fifteen (15) days of the date on which it is due, Participant agrees to pay to Coast a late payment charge equal to five percent (5%) of the amount of the delinquent payment to compensate Coast for the added expense in handling delinquent payments. In addition, Participant agrees to pay Coast interest on the amount of any such delinquent Royalty Fee and/or Marketing Fee (and any applicable late payment charges), from the Royalty Fee and/or Marketing Fee due date until paid in full, at a rate equal to two percent (2%) per annum over the prime lending rate (or its equivalent) generally available at that time from the Bank of America.

4. Other Fees.

In addition to the Royalty Fee and Marketing Fee, Participant shall pay to Coast, or as otherwise directed by Coast, Participant's share of the costs of any affinity, loyalty or reward programs adopted by Coast, based on the extent of participation in such programs by the Hotel;

(a) Participant shall pay a share of the expenses of operations of the CRS System, calculated on a cost per reservation basis. Coast will establish a per reservation cost each year based on the projected cost of operating the CRS System. The projected cost is intended to allocate to Participant the portion of the total costs of operating the CRS System equal to the percentage of total reservations made in the CRS System for the Hotel, divided by the total reservations made in the CRS System for all hotels utilizing that system; and

(b) Coast represents and warrants that **Exhibit A** sets forth in full:

(i) the current method of allocating to Coast Hotels the costs of each of the programs; (ii) the charges that will be payable by Participant for the CRS System and reservations made for the Hotel through the CRS System; and (iii) the current method of allocating the costs of the CRS system to Coast Hotels. If Coast's costs for any such program (including the CRS system) increases, then Coast may allocate such increased costs to the Coast Hotels in accordance with the current method employed for allocating such costs. Coast shall not charge to Participant the costs of any program, including the costs of the CRS System, on a basis that is less favorable to Participant than the basis used with respect to any other Coast Hotel. Coast shall not impose on Participant any charge for any program or any other services or goods except in accordance with the terms of this Agreement.

5. Statements of Gross Room Sales. Each Royalty Fee and Marketing Fee payment made shall be accompanied by a copy of Participant's sales report for the Hotel in the form attached as **Exhibit B** for the month preceding such payment, or by such other documentation of the amount of Gross Room Sales received by Participant in such month as may be reasonably required by Coast. Coast shall have the right at all reasonable times to inspect Participant's books and records.

6. Rights and Responsibilities of Coast. Coast shall:

(a) Defend the name "Coast" and the Marks against imitations or infringements by unauthorized hotels in the United States to the extent and in the manner determined by Coast to be necessary or appropriate;

(b) Have the right to inspect or cause its agents to inspect the Hotel to ensure that the Hotel is consistently operated, maintained, furnished and equipped in such a manner as to comply with the Standards (as defined in Paragraph 7(e)) and to ensure that Participant is complying with its responsibilities as set forth in this Agreement;

(c) Include the Hotel in any and all lists or directories of Coast Hotels published by Coast;

(d) Advertise and promote the Hotel, the Coast Hotels System and Coast Hotels;

(e) Provide Participant with access to the CRS System;

(f) Handle all toll-free reservations of the Hotel in the Coast central reservations office and Coast will communicate such reservations to the Hotel by means of a computer data link, between the Coast central reservations office and the Hotel, or by means of a telex, facsimile or other suitable facility acceptable to Coast and Coast shall receive reservations on behalf of the Hotel through any applicable global distribution system or similar reservation system that Coast, in the sole discretion of Coast, chooses to participate in;

(g) On an on-going basis, use commercially reasonable efforts to provide the Hotel with information pertaining to the source of hotel supplies, including items identified with the Coast logo, and will use commercially reasonable efforts to negotiate bulk purchase rates with suppliers and to make any discounts from suppliers available to the Hotel;

(h) By December 1st of each year, advise Participant of a proposed sales and marketing plan and budget for the following year for the Coast Hotels System and consult with the Participant respecting its content, provided that, Participant acknowledges that each corporate sales and marketing plan and budget will reflect the interest of all of the Coast Hotels and the Coast Hotels System, and that its preparation and final contents will be determined by Coast;

(i) From time to time, invite the director of sales, the general manager or other sales personnel of the Hotel to participate, at Participant's expense, with sales personnel employed at other Coast Hotels in regional sales promotions at which Coast is a participant, and to attend periodic marketing or sales meetings;

(j) Identify the Hotel in any dedicated website that may be maintained by Coast from time to time for the Coast Hotels, which identification will typically include information on rooms, meeting space and available packages; and

(k) During the Term at the request of the Participant, send to the Hotel a Coast officer or senior manager to meet with Participant and discuss Coast's and the Participant's performance under this Agreement. Participant shall, during such meetings or other official visits to the Hotel, provide to such officer or senior manager accommodations at the Hotel without charging such officer or senior manager a nightly room charge (such officer or senior manager shall pay for any other charges he/she incurs at the Hotel, including charges for food and beverages).

(l) Hold an annual franchisee-wide meeting at which the general manager and Director of Sales of Participant's Hotel must each attend, which Coast will conduct at a Coast hotel that it designates, which may change from year to year. Attendance by Participant's general manager and Director of Sales at this meeting is mandatory. Participant must pay Coast a meeting registration fee of \$1,100 or less per person, which is due and payable in full before the meeting begins.

(m) Coast will respond to Participant's questions about the Coast System or specific administrative and operating issues at the Hotel. In Coast's discretion, Coast will decide how best to communicate its responses, whether by telephone, in writing, other electronic format like email, or in person. The method Coast chooses in Participant's case may be different than the methods Coast uses for another franchisee. (Franchise Agreement, paragraph 6(m)).

(n) Exhibit at sales mission and trade shows and invite Participant and Coast's other franchisees to exhibit with Coast at Participant's option. If Participant chooses to participate, Participant must pay Coast an exhibitor fee, which will not exceed \$1,500 per event. Participant is solely responsible for the travel expenses incurred by its employees.

7. Rights and Responsibilities of Participant. During the Term, Participant shall:

(a) Use the name "_____" for its Hotel. Any change in the name of the Hotel is subject to the mutual consent of both Parties. Neither Party shall, without the Parties' mutual consent, identify the Hotel in connection with any other trade name in any advertising, promotional materials, signs, stationery or in any other medium;

(b) File with the applicable state officials a "doing business as" certificate which provides notice that the Participant is transacting business under the name set forth in Paragraph 7(a);

(c) Use the Marks only in accordance with the terms and conditions of this Agreement; acknowledge that the Marks licensed to Participant herein are the exclusive property of Coast or CHC; ensure that all materials bearing the Marks will properly identify the Marks; ensure, as required by Coast, that materials bearing the Marks will identify CHC as the owner of the Marks and that Coast is the licensee of the Marks; and supply to Coast from time to time, and upon request and at no cost to Coast, representative current samples of all uses of the Marks, including promotional materials, letterhead, brochures, menus, wine lists, flyers, stationery, business cards, signage and advertising;

(d) Not acquire any right, title or interest in the Marks; not use, except as permitted by this Agreement, the Marks as part of any other business or trade name; use, promote and advertise the Hotel under the Marks without any prefix, suffix or modifying words, terms, designs or symbols, unless authorized in this Agreement or in writing by Coast; not use the Marks in signing any contract, check, purchase agreement, negotiable instrument, application for any license or permit, or other legal document; not use the Marks in any manner that may cause Coast to incur liability; not alter or modify the Marks (or the Standards, to the extent they pertain to the Marks) in any manner; use no other trademark, service mark, trade name, product name or any other means of designation or commercial identification in connection with the operation of

the Hotel without the express prior written consent of Coast; and not attempt in any way to obliterate or destroy the Marks;

(e) Qualify for, receive, and maintain a rating either from the American Automobile Association of not less than “Three Diamonds” or, alternatively, from Mobil of not less than “Three Stars,” and operate, maintain, furnish and equip the Hotel and related facilities in a manner consistent with the standards established to qualify for one or both of such ratings and comply with such additional standards as Coast may hereafter adopt on a system wide basis (the “Standards”). Coast acknowledges that the Hotel meets all of the Standards as of the date of this Agreement;

(f) Permit inspection of the Hotel by Coast’s representatives from time to time to ensure compliance with this Agreement. Participant shall, to the extent that accommodations are available at the Hotel, provide such representatives with complimentary accommodations at the Hotel during such inspections. Participant’s obligations under the preceding sentence are limited as follows:

(i) Participant is required to waive only the nightly room rate for such accommodations, and Coast shall cause its representatives to pay for all other charges such representatives may incur, including charges for food and beverages; and

(ii) Participant is required to waive the nightly room rate for no more than eight (8) room nights in any twelve month period;

(g) Timely pay all amounts which are payable to Coast pursuant to this Agreement;

(h) Refer guests and customers, whenever possible, to other Coast Hotels, CHC Hotels and Affiliated Hotels, and use reasonable means, without bearing additional costs, to encourage the use of Coast Hotels, CHC Hotels and Affiliated Hotels by the traveling public, including display on the Hotel premises of brochures and promotional materials provided with respect to Coast Hotels, CHC Hotels and Affiliated Hotels and Participant shall not charge a commission to Coast or CHC Hotels or Affiliated Hotels or to any of the Coast Hotels on any such referrals;

(i) Participate in all affinity programs Coast may, from time to time, adopt;

(j) Assist guests and potential guests to make reservations at other Coast Hotels, CHC Hotels and Affiliated Hotels;

(k) Refrain from advertising and promotion of hotels other than Coast Hotels, CHC Hotels and Affiliated Hotels on the Hotel premises;

(l) Deliver to Coast all sales tax reports, Gross Room Sales, financial documents and operating documents as required by Paragraph 5 or any other provision of this Agreement;

(m) Purchase, erect and maintain exterior signage and other branded items, approved by Coast, containing the name “Coast”.

(n) At all times install, keep, maintain and repair all necessary equipment, services and facilities in the Hotel, including necessary data linkages and computer hardware and software reasonably determined by Coast to be necessary or appropriate for participation in the Coast Hotels System and the CRS System and will execute and deliver as requested all necessary software licenses, communication and terminal support agreements and related documents. Coast acknowledges that the Hotel currently has all such necessary equipment, services and facilities, including necessary data linkages and computer hardware and software. If Coast changes or upgrades, on a systemwide basis, the data linkages or computer hardware and software requirements needed to effectively participate in the Coast Hotels System or the CRS System, Participant will comply with such requirements at Participant's expense.

(o) At all times provide in each guest room, the "Coast" guest questionnaire, which when completed by guests shall be promptly delivered to Coast, and will display other Coast material such as directives, newsletters and the like as directed by Coast;

(p) Ensure that the front desk of the Hotel is properly manned 24 hours per day, 7 days per week to service patrons of the Hotel;

(q) Cause the sales manager and the general manager of the Hotel to attend meetings between Coast and Participant as requested by Coast, but Participant is not required, in any twelve-month period, to cause the sales manager or the general manager to attend more than two meetings outside of the Hotel;

(r) Subject to the terms of Paragraph 4(c), cause the Hotel to participate in various employee programs adopted by Coast for Coast hotels, including participation in the "Coastlines" newsletter, employee discount programs subject to availability, and long service award programs;

(s) Participate in all Coast Hotels chain-wide promotional programs which Coast has determined are applicable to all or substantially all of the Coast Hotels, provided that Coast may, upon being satisfied that local conditions or special circumstances pertaining to the Hotel so warrant, exempt the Hotel from participation in any or all of such promotional programs;

(t) Accept all major credit cards in the Hotel, including, Visa, MasterCard, Diners Club and American Express and accept any other credit card directed by Coast;

(u) Honor reservations, subject to availability, for all persons making reservations through the CRS System or redeeming Coast affinity program bonus points or miles;

(v) Promptly deliver to Coast a copy of any notice of default received from any mortgagee, trustee under any deed of trust, or ground lessor with respect to the Hotel, and, upon request of Coast, provide additional information with respect to such alleged default or any action or proceeding in connection therewith;

(w) Not establish its own toll-free reservations telephone line for the Hotel without Coast's prior consent;

(x) Not establish a property specific website without Coast's prior consent;

(y) Use the Marks only in a manner consistent with the Standards and in accordance with all applicable laws, rules and regulations of all governmental authorities in all material respects, the breach of which could reasonably be expected to reflect adversely on Coast or the Marks

(z) Comply with all applicable laws, rules and regulations of all governmental authorities in all material respects, the breach of which could reasonably be expected to reflect adversely on Coast or the Marks; and

(aa) Obtain and maintain in full force and effect from and after the Effective Date all licenses required for the operation of the Hotel, including licenses which provide for the sale of alcoholic beverages (unless no alcoholic beverages are offered at or from the premises of the Hotel).

8. Supplies. Participant agrees to use in the operation of the Hotel such supplies, including but not limited to guest room amenities, printed materials and other items bearing the Marks, as have been designed and are made available from vendors approved by Coast for use by Coast Hotels. Participant may purchase such supplies from vendors of its choice, provided that if such supplies are purchased from vendors other than vendors approved by Coast, such supplies shall in all material respects be of identical quality and design to those sold or otherwise made available from vendors approved by Coast. Coast shall have the right to require Participant to submit samples of supplies purchased from vendors other than from vendors approved by Coast for inspection and approval.

9. Responsibility for Hotel Operations. Except as otherwise provided in this Agreement, Participant shall be solely responsible for operating the Hotel. Participant hereby represents and acknowledges that it is an experienced hotel operator, or will contract with an experienced hotel operator to operate the Hotel. Participant is not relying on Coast for any services or support other than as specifically provided for in this Agreement, and understands and agrees that Coast is not responsible for providing any training, advice or consultation with respect to Hotel operations or management of the Hotel.

10. Insurance. During the term of this Agreement, Participant shall maintain in force a comprehensive general liability policy or policies with limits of not less than \$25,000,000 annual aggregate and \$10,000,000 per occurrence. Participant shall cause Coast and CHC (as a third-party beneficiary of this Agreement) to be named as an additional insured under such insurance policies. Coverage under the policies shall include products liability, completed operations, contractual liability, host liquor liability and fire legal liability. The policies must be placed with an admitted insurance carrier rated "A+5" or better by A.M. Best. Within ten (10) days after the date of this Agreement, Participant shall deliver or cause to be delivered a certificate of insurance confirming such coverage, including a clause requiring thirty (30) days' notice of cancellation to Coast.

(a) Coast shall use Marketing Fees solely for the purpose of paying expenses associated with the creation, development and publication of advertising and marketing programs designed to promote consumer awareness and identity of Coast Hotels. Coast shall not be restricted with respect to what, where and how Marketing Fees are used for these purposes. Coast has complete and sole discretion over the form, content, time, location, market and choice of media and markets for all advertising and marketing activities. Without limiting the scope of Coast's general authority and sole discretion, Coast may use Marketing Fees to pay for the cost to (i) create,

prepare and produce advertising and marketing materials including in-room and in- Hotel marketing collateral, create advertising copy, promotional graphics, brochures, and direct mail materials; (ii) administer local, regional and national advertising programs, including buying media space or time, outdoor advertising art and space, direct mail lists, and customer lead generation and customer-directed advertising; (iii) employ advertising, public relations and media buying agencies; (iv) support public relations, market and consumer research; (v) promote Coast hotels on third party social media sites and obtain endorsements from public figures and influencers; and (vi) reimburse itself for the direct costs, salaries, travel expenses, administrative costs and other direct overhead that Coast incurs to administer marketing programs including costs to collect Marketing Fees from franchisees that are delinquent in payment; costs to develop specific marketing and advertising programs (including costs for market research and production); and wages and associated overhead for personnel who perform marketing functions benefiting Marketing Fees. Coast agrees, however, not to use Marketing Fees to cover expenses that Coast incurs that directly relate to recruiting new franchisees.

(b) Coast makes no representation that Marketing Fees will be spent in a particular geographic region or in Participant's market area. Coast has no obligation to account to Participant for the use of Participant's Marketing Fees or prepare an annual audit showing Marketing Fees revenue and expenses during any accounting period. Coast has no obligation to deposit Marketing Fees in an account separate from Coast's general revenue.

(c) Coast shall make marketing, advertising and promotional formats and sample materials available to Participant with or without additional reasonable charge, in Coast's sole discretion on the same terms which Coast offers to other franchisees. Participant shall be solely responsible for all costs to reproduce the formats and customize the materials for its own use and distribution. In connection with reproduction and use of advertising and promotional materials, Participant shall observe Coast's requirements with respect to replicating the Marks.

(d) While Coast will attempt to expend Marketing Fees during the calendar year in which they are collected, Coast may recover over-expenditures in one year from subsequent years and may carry forward under-expenditures to the next year.

(e) Coast does not owe Participant a fiduciary duty with respect to the use of Marketing Fees or for any other reason.

11. No Financial Projections. Participant acknowledges and agrees that it or its hired manager is fully knowledgeable with respect to all financial aspects of operating the Hotel, and that it has not received from Coast any financial projections or other financial information regarding future operation of the Hotel as part of the Coast Hotels System.

12. No Warranties or Guarantees. Participant acknowledges that it has not received, and Coast expressly disclaims the making of, any warranty or guarantee, express or implied, as to the potential profits or success of the Hotel.

13. Other Hotels. This Agreement only permits participation of the Hotel in the Coast Hotels System. If Participant owns, operates, or manages other hotels and wishes any such hotel to become a participant in the Coast Hotels System, such participation shall be authorized only by execution of a separate agreement with respect to it. Participant may own, manage or be affiliated with other hotels which are not part of the Coast Hotels System, provided that no such hotel shall

use the name “Coast” or the Marks, or represent or suggest, directly or indirectly, that it is part of the Coast Hotels System or affiliated with one or more hotels that are part of the Coast Hotels System. Participant understands and agrees that Coast may enter into Franchise Agreements with other parties that contain different terms and conditions than the term and conditions contained in this Agreement. Participant understands and agrees that Coast may enter into Franchise Agreements with other parties for hotels in the same geographic area as the Hotel and that Coast and its affiliates may own, operate or; manage hotels which may be located in Participant’s geographic area.

14. Indemnity by Participant. Participant agrees to defend, indemnify and hold Coast and CHC (as beneficiary to this Agreement) harmless from and against any and all claims, demands, actions, causes of action, damages, costs, charges, liabilities and expenses, including legal fees and costs, with the exception of those described in Paragraph 15(a) of this Agreement, on account of any actual or alleged loss, injury or damage to any person, entity, or property arising out of the operation of the Hotel or for any breach of this Agreement by Participant. Participant is not required to defend, indemnify, or hold Coast or CHC harmless from or against any claims arising from Coast’s or CHC’s negligence, willful misconduct, or actions in breach of this Agreement.

15. Claims Regarding Trade Names, Marks, and Symbols.

(a) Coast shall indemnify, defend and hold Participant harmless for any claim of infringement resulting from Participant’s use of the name “Coast” or the Marks in accordance with the terms of this Agreement.

(b) Participant agrees not to contest or aid in contesting the validity of the ownership of or rights of Coast or CHC to the name “Coast” or to the Marks and shall, at the request of Coast, take such steps as are reasonably necessary to protect and defend the rights of Coast and CHC with respect to the name “Coast” or the Marks; provided, however, that Participant shall not be required to incur any material expense to protect or defend such rights.

(c) Participant shall promptly notify Coast in writing of any claim, demand or suit based upon or arising out of the use of the name “Coast” or the Marks, or of any attempt by any unauthorized person or entity to use the name “Coast” or the Marks or any name, mark or symbol confusingly similar thereto.

(d) Participant shall not do anything or omit to do anything that might impair, jeopardize, violate or infringe the Marks or Coasts rights relating to the Marks.

(e) Participant shall not claim, adopt, use or apply to register, record or file any trademark, trade-name, copyright or design that is identical to or confusing with any of the Marks.

16. Relationship of Coast Hotels to Participant. Coast is an independent contractor to the Participant. This Agreement does not constitute a joint venture or partnership. Neither Party has authority to create or assume in the other’s name or on its behalf, any obligation, express or implied, or to act or purport to act as its agent or representative for any purpose whatsoever, and neither party shall hold itself out as having any such authority. Participant shall advise each person with whom Participant enters into a written contract on behalf of the Hotel that Participant is an

independent contractor and that all debts incurred by it are for the account of Participant only and not Coast.

17. Assignment. Participant may not assign or otherwise transfer its rights or delegate its duties without the prior written consent of Coast, which consent may not be unreasonably withheld. For purposes of this paragraph, a sale of a controlling interest in Participant shall be deemed to be a “transfer.” Coast may, without the consent of Participant, assign or otherwise transfer its rights or delegate its duties hereunder without the prior consent of Participant, provided that the transferee assumes the obligations of Coast hereunder.

18. Receipt of Agreement. Coast and Participant each acknowledge that it received this Agreement in its final form at least ten (10) days prior to the date on which it executed such Agreement, and that Participant has been accorded ample time and opportunity to consult with advisors of its own choosing regarding the potential benefits and risks of entering into this Agreement. Participant acknowledges that it has received and reviewed a Franchise Disclosure Document in connection with the receipt of the Agreement.

19. Termination.

(a) Upon the happening of any of the following events, either Party shall be entitled to terminate this Agreement immediately upon notice and without providing any further opportunity to cure, and except as to liabilities or claims which shall have accrued or arisen prior to such termination, all obligations hereunder shall cease:

(i) An adjudication that the other party is bankrupt or insolvent or the making by the other Party of an assignment for the benefit of creditors or similar disposition of the assets of its business;

(ii) The voluntary abandonment by the other Party of its business (in the case of Coast, the business of operating the Coast Hotels System, and in the case of Participant, the business of operating the Hotel);

(iii) The conviction of or plea of guilty or no contest by the Participant to a charge of violating any law relating to the operation of its business; and

(iv) In the event the license between CHC and Coast with respect to the Marks is terminated prior to the end of the Term.

(b) Upon the happening of any of the following events, Coast shall be entitled to terminate this Agreement immediately upon notice and without providing any further opportunity to cure (except as provided in Paragraph 19(b)(iii)), and except as to liabilities or claims which shall have accrued or arisen prior to such termination, all obligations hereunder shall cease:

(i) The taking of the Hotel or its services, or such portion thereof, as would make continued operation of the Hotel no longer feasible through lawful condemnation proceedings by a governmental authority or sale to such governmental authority under threat of condemnation. If a taking of the kind set forth in the preceding sentence occurs and this Agreement is terminated, then Participant shall pay Coast the Termination Fee;

(ii) Destruction of the Hotel, or such portion thereof, by fire, earthquake or other natural causes as would make continued operation of the Hotel no longer feasible or there is imminent danger to public health or safety by continued operation of the Hotel, and Participant does not diligently rebuild or repair the Hotel. If a destruction of the kind set forth in the preceding sentence occurs and this Agreement is terminated, then Participant shall pay Coast the amount of the Termination Fee;

(iii) The failure of Participant to cure a material breach of the Agreement, including without limitation, a breach of the Standards or misuse of the Marks, after being given written notice thereof, and a reasonable opportunity to cure the material breach or breaches described in the notice within thirty (30) days of the date of such notice, or if such material breach cannot be cured within thirty (30) days, the failure of Participant to initiate within thirty (30) days substantial and continuing action to cure such breach; provided, after three (3) breaches during the Term of the Agreement, for which Participant has been given notice and an opportunity to cure as described herein, Coast may terminate the Agreement without giving an opportunity to cure. If this Agreement is terminated by Coast pursuant to this Paragraph, then Participant shall pay Coast, as liquidated damages for the period after the date of termination, the Termination Fee, and Participant shall have no further liability to Coast for any damages for lost revenues that would or might have been payable to Coast after the date of such termination.

(iv) If Participant or any of its officers or directors gives any false or misleading information in connection with this Agreement or in connection with the operation of the Hotel. If this Agreement is terminated by Coast pursuant to this Paragraph, then Participant shall pay to Coast, as liquidated damages for the period after the date of termination, the Termination Fee, and Participant shall have no further liability to Coast for any damages for lost revenues that would or might have been payable to Coast after the date of such termination.

(c) Participant may terminate this Agreement upon the sale of the Hotel, provided that, on or before the effective date of the termination, the Participant pays the Termination Fee to Coast.

(d) In the event of a termination which entitles Coast to a Termination Fee in accordance with Paragraph 19(b)(i), 19(b)(ii), 19(b)(iii), 19(b)(iv), or 19(c), Participant shall pay the following amount to Coast on or before the effective date of termination (the "Termination Fee"):

(i) if the termination occurs during the first five (5) years of the Term, Participant shall pay Coast a Termination Fee equal to the Royalty Fee and Marketing Fee earned during the prior twenty-four (24) months (provided that if the Agreement is terminated in the first twenty-four (24) months, the termination fee shall be the average of the monthly Royalty Fee and Marketing Fees paid to Coast during that period, multiplied by twenty-four (24));

(ii) if the Agreement is terminated after the first five (5) years of the Term, Participant shall pay Coast a Termination Fee equal to the Royalty Fee and Marketing Fee earned during the prior twelve (12) months.

20. Obligations Following Termination.

(a) Upon termination of this Agreement, Participant shall, within ninety (90) days, cease all use of the name "Coast" and the Marks. After termination of this Agreement, Participant shall not do business under any name or in any manner that might tend to give the general public the impression that it is, either directly or indirectly, associated with, licensed by or related to the Coast Hotels System; and

(b) No later than 90 days after the termination of this Agreement and at the request of Coast, Participant shall return to Coast (at cost), any of Participant's unbroken cases of inventory, equipment, signs and/or supplies bearing any of the Marks (or other marks owned or licensed by Coast) then on hand at the Hotel.

21. Confidentiality.

(a) Participant acknowledges that all information related to the Coast Hotels acquired by Participant in the course of its relationship with Coast, other than information relating to the Hotel, is proprietary, confidential and a trade secret of Coast (collectively and individually referred to herein as the "Coast Information") except for and to the extent any such Coast Information:

(i) can be demonstrated by documented evidence to have been in the public domain in the same form prior to the date of its disclosure to or access by Participant;

(ii) becomes part of the public domain by publication or otherwise not due to the fault, negligence, or any unauthorized act or omission on the part of Participant, its affiliates, representatives or sub licensees; or

(iii) is rightfully supplied to Participant, free of any obligation of confidence, by a third party having the legal right to do so provided that it did not originate from Coast.

(b) Coast acknowledges that all information related to the Hotel acquired by Coast in the course of its relationship with Participant is proprietary, confidential and a trade secret of Participant (collectively and individually referred to herein as the "Participant Information") except for and to the extent any such Participant Information:

(i) can be demonstrated by documented evidence to have been in the public domain in the same form prior to the date of its disclosure to or access by Coast;

(ii) becomes part of the public domain by publication or otherwise not due to the fault, negligence, or any unauthorized act or omission on the part of Coast, its affiliates, representatives or sublicensees;

(iii) is rightfully supplied to Coast, free of any obligation of confidence, by a third party having the legal right to do so provided that it did not originate from Participant; or

(iv) is used in a compilation of data that does not identify what portion of the information relates to the Hotel.

(v) Participant shall not use any of the Coast Information, and Coast shall not use any Participant Information, in any other business or as a basis for the design or creation of any other products, or services, or in any other manner whatsoever, other than pursuant to this Agreement. All rights, title and interest in and to the Coast Information and the Participant Information (collectively, "Confidential Information") shall be and remain the exclusive worldwide property of Coast or its affiliates or its designees, or Participant or its affiliates or designees, as the case may be, and shall be held in trust and confidence by Participant or Coast, as the case may be, for same. Each Party shall use its best efforts to keep confidential and protect the other Party's Confidential Information, and the interests in such Confidential Information, both during and after the term of this Agreement.

22. No Statements. Neither Party shall make any statements or comments relating to the contents of this Agreement, or to any media representative or other third party without the prior written approval of the other Party.

23. Notices. All notices or other communications required or permitted by this Agreement shall be in writing and must be personally delivered or sent by facsimile or overnight air courier as follows:

To Coast:	Coast Hotels USA, Inc. 925 Fourth Avenue, Suite 2900 Seattle, WA 98104 Attention: Manny Ilao, Chief Financial Officer E-mail: m.ilao@coasthotels.com
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with a copy to:	K&L Gates LLP 925 Fourth Avenue, Suite 2900 Seattle, Washington 98104 Attention: Stephan Coonrod E-mail: stephan.coonrod@klgates.com
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To Participant:	_____
-----------------	-------

or to such other locations as one Party may notify the other. Notices sent in accordance with this Paragraph are deemed delivered and received on the earliest to occur of the following:

(a) personal delivery; (b) one (1) business day after the date of delivery to an overnight air courier; (c) successful facsimile transmission if sent by facsimile during the receiving party's normal business hours; or (d) the first business day after successful facsimile transmission if sent by facsimile other than during the receiving party's normal business hours.

24. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles.

25. Arbitration. Any disputes arising under or in connection with this Agreement shall be resolved by arbitration as hereinafter set forth, and no legal right of action may arise out of any such dispute until arbitration has been completed; provided, however, that as this provision shall not prevent either party from seeking equitable relief in the state or federal courts located in

King County, State of Washington, in the form of a temporary restraining order or preliminary injunction. The arbitration shall take place as follows:

(a) The party demanding arbitration shall give the other party a written notice which shall contain, in addition to the demand for arbitration, a clear statement of the issue to be resolved by arbitration with an appropriate reference to the provision of the Agreement which is involved, the relief it requests through arbitration, and the name and address of the arbitrator selected by the demanding party.

(b) The party receiving the notice of the demand for arbitration shall provide a written response to the demand within fifteen (15) days following receipt of the demand. The response shall contain a clear statement of its position concerning the issue in dispute and the name and address of the arbitrator it selects as one of the arbitrators to hear the dispute. If the party receiving the notice of demand for arbitration fails to designate its arbitrator within the time allowed, the demanding party shall be entitled to designate the second arbitrator.

(c) Within seven (7) days following the selection of the second arbitrator, the two arbitrators selected in accordance with paragraphs (b) and (c) shall select a third arbitrator. In the event they fail to do so within that time period, either party may apply to the state or federal courts located in King County, State of Washington, to appoint a third arbitrator. The Parties shall be entitled to discovery consistent with the U.S. Federal Rules of Civil Procedure, but only to the extent permitted by the arbitrator.

(d) The arbitrators shall meet in Seattle, Washington, within twenty (20) days after the selection of the third arbitrator and shall allow each party an opportunity to submit oral and written evidence and argument concerning the issue in dispute. The three arbitrators may only resolve the question or questions submitted to arbitration and shall include as part of their consideration a full review of this Agreement and all material incorporated therein by reference.

(e) The decision of the arbitrators shall be final and binding upon the Parties. No legal right of action may arise out of any dispute subject to arbitration until arbitration has been completed.

(f) By consent of both Parties to this Agreement, the method of selection of arbitrators or the arbitrators as selected may be changed at any time.

(g) In any such arbitration, each party shall pay its own costs, witness fees, and attorneys' fees and the fees charged by the arbitrator it selects. The fees charged by the third arbitrator and the costs of the proceeding shall be borne equally, unless the arbitrators determine otherwise.

(h) Except to the extent that the terms of this Agreement provide otherwise, the terms and provisions of the Washington Arbitration Act, RCW 7.04 et g. are incorporated in and made a part of this Agreement.

26. Consent to Jurisdiction and Venue. The Parties hereby consent and submit to the jurisdiction and venue of any state or federal court within King County, State of Washington in any litigation arising out of this Agreement.

27. Court Costs and Attorney Fees. In any dispute arising out of this Agreement, whether or not a lawsuit is commenced, the nonprevailing party shall pay the prevailing party's court costs and attorney fees.

28. Waiver of Breach. The waiver by any party of a breach of any provision of this Agreement by another party shall not operate or be construed as a waiver of any subsequent breach by such party.

29. Modifications. This Agreement may not be changed orally, but only by a written agreement signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

30. Severability. If any provision of this Agreement is held to be invalid or unenforceable for any reason, such action shall not affect the validity or enforceability or the remaining provisions hereof.

31. Entire Agreement. This instrument, together with the exhibits hereto, will constitute the entire agreement between the Parties and will replace all other agreements entered into prior to the Effective Date. Nothing in this or in any related agreement, however, is intended to disclaim the representations made to Participant in the franchise disclosure document or that were furnished to the Participant.

32. Successors. The rights and obligations of the Parties under this Agreement shall inure to the benefit of and bind the successors and assigns.

33. Counterparts. This Agreement may be signed in counterparts, each of which will be considered an original.

34. Headings. The descriptive headings of the paragraphs of this Agreement are for convenience only and do not constitute part of this Agreement.

[Signatures on the following page.]

Dated this ____ day of _____, 20 ____.

PARTICIPANT:

COAST:

COAST HOTELS USA, INC.,
a Delaware corporation

By: _____ By: _____

Name: _____ Name: _____

Title: _____ Title: _____

EXHIBIT A

(Estimated Coast Program Charges, and Current Methods of Allocating Costs)

Required Programs

Program	Current Cost	Cost Allocation Method
Central Reservations	\$9.00 per confirmed reservation. \$3.00 per OTA reservation.	Reservation Fee program cost reviewed annually.
Alaska Mileage	\$.0205 per mile based on 500 mile qualified stay.	Pass through cost to vendor. Cost negotiated with Alaska and subject to change.
Aeroplan Mileage	\$.0198 CDN per mile based on 250-500 mile qualified stay.	Pass through cost to vendor. Cost negotiated with Aeroplan and subject to change.
Coast Rewards (CRM and Guest Satisfaction Survey Monthly Costs Included)	\$6.00 per room per month. \$.045 per point issued.	Monthly maintenance fee is \$6 per room per month. Hotel issued pts are \$.055 per dollar spent. Program costs reviewed annually.
More Rewards	\$.01 per point issued. Guest receives 1 point per pre-tax dollar spent.	Pass through cost to vendor. Program reviewed annually.
Annual GM & Sales Mtg.	\$1,100 plus travel expenses.	Costs built into the annual marketing budget.
Inspections	Economy travel and comp room cost.	Actual cost-plus comp room.

STR Reports	\$850 per year, subject to prevailing STR Contract rate and property size, plus any additional reports hotel may wish to subscribe to.	Actual cost from vendor passed through.
Marketing Support	Economy travel and comp room cost.	Actual cost-plus comp room.
Guest Satisfaction Survey	Included in Loyalty Program Costs.	Vendor cost passed through.
CRM	Monthly fee included in loyalty program. Additional CRM Fees dependent upon usage.	Vendor cost passed through.
Cvent Transient	\$875 per year, subject to prevailing Cvent Contract.	Annual cost passed through to property.
META Marketing	15% commission and \$3.00 per reservation	Vendor cost passed through.

Optional Programs

Program	Current Cost	Cost Allocation Method
Social Media Vendor	\$500-\$1,500 per month depending upon program.	Vendor cost passed through.

Digital Marketing SEO/PPC	\$500-\$2000 per month estimated. Property specific.	Vendor cost passed through.
Accounting Software	\$850 license fee. \$300 per month.	M-3 accounting software program if needed.
Public Relations	\$500 - \$1,000 per month.	Vendor cost passed through.
Print/Digital Advertising	\$200 per quarter.	Estimated Advertising. Costs passed through to property.
Sales Mission & Trade Show	Costs vary depending on event.	Discretionary events that hotel may opt into based on the potential ROI for their hotel.

EXHIBIT B

INFORMATION STATEMENT

Information Statement for the Month of: _____

Hotel: _____

In order to calculate the Royalty Fee and Marketing Fee for the above month the following information is required:

Gross Room Revenues: _____
Times _____ percent (____ % for the Royalty Fee and ____ % for the Marketing Fee)
Equals (Royalty Fee and Marketing Fee): _____

Rooms Available: _____

Rooms Sold: _____

Date: _____

Certified correct by an officer or controller of the owner.

EXHIBIT D
STATE ADDENDUM

CALIFORNIA ADDENDUM

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

Neither Coast nor any person listed in Item 2 of this Franchise Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination, transfer or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Section 101 and following).

The franchise agreement contains a liquidated damages clause. Under California Civil code Section 1671, certain liquidated damages clauses are unenforceable.

The franchise agreement requires binding arbitration. The arbitration will occur in Seattle, Washington. Each party shall pay its own costs, witness fees, and attorney's fees and the fees charged by the arbitrator it selects. The fees charged by the third arbitrator and the costs of the proceeding shall be borne equally, unless the arbitrators determine otherwise.

The franchise agreement requires application of the laws of the state of Washington. This provision may not be enforceable under California law.

Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions code Section 20040.5, code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

Section 31125 of the Franchise Investment Law requires us to give you a disclosure document approved by the Commissioner of the Department of Financial Protection and Innovation before we ask you to consider a material modification of your franchise agreement.

The California Franchise Investment Law requires us to make the following disclosure:

1. "You must sign a general release if you renew or transfer your franchise. California Corporations Code Section 31512 voids a waiver of your rights under the franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043)."

2. Our website is **WWW.COASTHOTELS.COM**. Our website has not been reviewed or approved by the California Department of Financial Protection and Innovation. Any complaints concerning the content of this website may be directed to the California Department of Financial Protection and Innovation at **WWW.DFPI.CA.GOV**.

HAWAII ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT

1. THESE FRANCHISES WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE, OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE FRANCHISE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.

THIS FRANCHISE DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

2. Section 482E-(3) of Hawaii Revised Statutes provides that Franchisee may be entitled to certain compensation upon termination or refusal to renew the franchise. To the extent this Section is applicable to you, you shall have an interest in the franchise upon termination or refusal to renew as specified therein.

3. No release language set forth in the Franchise Agreement shall relieve Company or any other person, directly or indirectly, from liability imposed by the laws concerning franchising in the State of Hawaii.

**WASHINGTON ADDENDUM TO THE
FRANCHISE DISCLOSURE
DOCUMENT, FRANCHISE
AGREEMENT,
AND RELATED AGREEMENTS**

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.
2. RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.
3. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
4. A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
5. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or

elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.
8. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of Washington and federal laws to any provisions of a franchise agreement restricting venue.
9. Transfer fees are collectable to the extent that they reflect Coast's reasonable estimated or actual costs in effecting a transfer.

The undersigned does hereby acknowledge receipt of this addendum.

Dated this _____ day of _____, 20_.

Prospective Franchisee: _____

By: _____

Its: _____

EXHIBIT E
FINANCIAL STATEMENTS



Coast Hotels Limited
Financial Statements
August 31, 2020

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Balance Sheet	3
Statement of Operations and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to Financial Statements	6 – 15

Independent Auditor's Report

To the Shareholders of
Coast Hotels Limited

Prager Metis CPAs, LLC

14 PENN PLAZA
18TH FLOOR
NEW YORK, NY 10122

T 212.643.0099
F 212.947.3878

www.pragermetis.com

We have audited the accompanying financial statements of Coast Hotels Limited (a corporation), which comprise the balance sheet as of August 31, 2020, and the related statements of operations and changes in retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coast Hotels Limited as of August 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
New York, New York
May 30, 2023

Coast Hotels Limited
Balance Sheet
August 31, 2020
(Currency in Canadian Dollars)

Current assets	
Cash	\$ 15,201,584
Short-term investments	12,718,996
Accounts receivable, net	1,281,550
Income tax receivable	1,344,900
Accounts receivable – Canada Emergency Wage Subsidy	726,381
Interest income receivable – short-term investments	167,738
Inventories	283,857
Prepaid expenses and other current assets	458,278
Due from parent company	1,367,756
Total current assets	<u>33,551,040</u>
Property and equipment, net	556,518
Intangible assets, net	<u>1,028,294</u>
Total assets	<u><u>\$ 35,135,852</u></u>
Liabilities and shareholders' equity	
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	\$ 3,989,604
Government remittances payable	1,152,797
Deferred revenue	4,793,500
Total current liabilities	<u>9,935,901</u>
Deferred income taxes	<u>141,000</u>
Total liabilities	<u>10,076,901</u>
Commitments and contingencies	
Shareholder's equity	
Common stock – no par value	
Authorized – 100,000 shares	
Issued and outstanding – 86,281 shares	6,864,300
Additional paid-in capital	397,820
Retained earnings	<u>17,796,831</u>
Total shareholder's equity	<u>25,058,951</u>
Total liabilities and shareholder's equity	<u><u>\$ 35,135,852</u></u>

The accompanying notes are an integral part of these financial statements.

Coast Hotels Limited
Statement of Operations and Changes in Retained Earnings
Year Ended August 31, 2020
(Currency in Canadian Dollars)

Revenue

Hotel	\$ 30,895,373
Management fees and other	2,400,620
Mall and rental	1,349,204
Total revenue	<u>34,645,197</u>

Operating expenses

Cost of services	16,773,915
General and administrative	6,532,905
Rent	6,282,766
Marketing and sales	3,847,206
Repairs and maintenance	3,487,547
Insurance and property taxes	450,339
Depreciation	220,027
Amortization of intangible assets	123,648
Total operating expenses	<u>37,718,353</u>

Loss from operations (3,073,156)

Other income (expense)

Interest income	570,006
Other income	96,530
Foreign currency translation gain	102,267
Royalty fees	(108,940)
Total other income (expense)	<u>659,863</u>

Loss before benefit from income taxes (2,413,293)

Benefit from income taxes

Current	(611,942)
Deferred	8,000
Total benefit from income taxes	<u>(603,942)</u>

Net loss (1,809,351)

Retained earnings, beginning of year 19,606,182

Retained earnings, end of year \$ 17,796,831

The accompanying notes are an integral part of these financial statements.

Coast Hotels Limited
Statement of Cash Flows
Year Ended August 31, 2020
(Currency in Canadian Dollars)

Cash flows from operating activities

Net loss	\$ (1,809,351)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation	220,027
Amortization of intangible assets	123,648
Deferred income taxes	8,000
Foreign currency translation gain	(102,267)
Changes in operating assets and liabilities	
Accounts receivable, net	1,413,743
Income taxes receivable	(794,689)
Accounts receivable – Canada Emergency Wage Subsidy	(726,381)
Interest income receivable – short-term investments	7,828
Inventories	93,050
Prepaid expenses and other current assets	(173,814)
Due from parent company	(1,127,740)
Accounts payable and accrued liabilities	(542,178)
Government remittances payable	(28,635)
Deferred revenue	245,627
Net cash used in operating activities	<u><u>(3,193,132)</u></u>

Cash flows from investing activities

Proceeds from short-term investments	6,218,750
Purchase of property and equipment	<u>(136,236)</u>
Net cash provided by investing activities	<u><u>6,082,514</u></u>

Net increase in cash 2,889,382

Cash at beginning of year 12,312,202

Cash at end of year \$ 15,201,584

The accompanying notes are an integral part of these financial statements.

Note 1 Organization and Business

Coast Hotels Limited (the “Company”) is incorporated in the Province of British Columbia, Canada, and is primarily involved in hotel operations and management. The Company is a wholly owned subsidiary of APA Hotel Canada Inc. (“APA”). APA is a wholly owned subsidiary of APA Hotels International Inc, a Canadian Corporation.

The worldwide outbreak of COVID-19, which was declared a pandemic by the World Health Organization in March 2020, has impacted and may continue to impact global commerce. This contagious disease outbreak adversely affected the Company’s customers as a result of quarantines, facility closures and travel and logistics restrictions in connection with the outbreak. More broadly, the outbreak affected workforces, economies, and financial markets, potentially leading to an economic downturn. The hospitality industry has been hit very hard by the COVID-19 pandemic. Mandatory closures, stay-at-home orders, the onset of economic recession, and travel restrictions have resulted in unprecedented upheaval for the industry.

As of the year ended August 31, 2020, management has been able to effectively navigate the impact of the COVID-19 pandemic in meeting its operational and financial goals.

Basis of Accounting

The financial statements of the Company have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The functional currency of the Company is the Canadian dollar.

Revenue Recognition

Effective January 1, 2019, adoption date, the Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*. ASC 606, and all subsequently issued clarifying Accounting Standards Updates replaced most existing revenue recognition guidance in GAAP. Per the new guidance, revenue is recognized in accordance with a five-step revenue model, as follows: identifying the contract with the customer; identifying the performance obligations in the contract; determining the transaction price; allocating the transaction price to the performance obligations; and recognizing revenue when (or as) the Company satisfies a performance obligation. ASC 606 also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Based on the assessment of the application of ASC 606 guidance, revenue recognized pursuant to the new guidance is consistent with previous revenue recognition standards.

The amount of revenue recognized by the Company reflects the expected consideration to be received for providing services to the customer, which includes estimates for variable consideration. Variable consideration includes allowances for trade terms, sales incentive programs, discounts at a point in time based on meeting one performance obligation by transferring the services provided to its customer.

Note 2 Summary of Significant Accounting Policies (continued)

The timing of revenue recognition occurs based on the services provided to the customer. The Company recognizes revenue from service contracts as the benefits of the service are transferred to the customer which is generally at the time the Company's performance obligations are met.

The Company recognizes revenue from Company-operated hotels when services are provided. Management and other fees, including franchise fees from franchised hotels, are recognized when earned in accordance with the terms of the contracts. Mall and rental revenue is based on occupancies and tenant lease agreements. The Company recognizes interest and other revenue when it is earned.

Deferred Revenue

Deferred revenue represents liabilities for outstanding points earned by members of the Company's rewards program, unused gift cards and vouchers sold, and customer deposits for advance reservations. As of August 31, 2020 deferred revenue amounted to approximately \$4,800,000.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at their invoiced amounts, less an allowance for credit losses that reflects the best estimate of the amounts that will not be collected. The Company reviews each customer balance where all or a portion of the balance exceeds 90 days from the invoice date. Based on the assessment of the customer's current creditworthiness, an estimate of the balance that will not be collected is determined. The Company will write off receivables as a charge to allowance for credit losses when in their estimation, it is probable that the receivable is worthless. The Company analyzes historical collection trends and changes in the individual's payments terms when evaluating the adequacy of the allowance for doubtful accounts. Allowance for doubtful accounts amounted to \$285,676 at August 31, 2020.

Inventories

Inventories are valued at the lower of cost or net realizable value with cost determined on a weighted average basis.

Property and Equipment

Property and equipment are stated at cost. The cost of additions and betterments are capitalized whereas expenditures for repairs and maintenance are expensed in the period incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation of property and equipment is recorded using the declining balance method with the following annual rates:

Asset	Rate
Central reservation systems and computers	20% to 100%
Furniture and equipment	33%

Note 2 Summary of Significant Accounting Policies (continued)

Intangible Assets

Intangible assets represent the values of trademarks. Intangible assets are amortized on a straight-line basis over 40 years.

Impairment of Long-lived Assets

The Company evaluates the recoverability of the recorded amount of long-lived assets whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. If an asset is determined to be impaired, the impairment to be recognized is measured as the amount by which the recorded amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the recorded amount or fair value less cost to sell. The Company determines fair value using a discounted cash flow analysis or other accepted valuation techniques. The Company evaluated the fair value of long-lived assets and the analysis indicated that no impairment existed at August 31, 2020 based on the Company's impairment testing.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Related Party Transactions

Related party transactions in the normal course of business are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties (Note 9).

Advertising Costs and Promotion

The Company expenses advertising and promotion costs as incurred. For the year ended August 31, 2020 the costs were \$932,057, and are included in operating expenses as a component of cost of services and marketing and sales in the statement of operations and changes in retained earnings.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, *Income Taxes*, which requires, among other things, the recognition of deferred tax assets and liabilities measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. ASC 740 also requires a valuation allowance against net deferred tax assets if, based on the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Note 2 Summary of Significant Accounting Policies (continued)

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Management examined all open tax returns for possible uncertain tax positions and determined that there were no uncertain tax positions taken as of August 31, 2020.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the prevailing rates of exchange at the balance sheet date. Revenue and expenses denominated in foreign currencies are translated at the exchange rates prevailing on the transaction dates. Realized and unrealized exchange gains and losses arising from the translations are included in the statement of operations and changes in retained earnings. The Company does not use derivative instruments to mitigate foreign exchange risk. For the year ended August 31, 2020, foreign currency translation gain of \$102,267 was recorded and included as other income (expense) in the accompanying statement of operations and changes in retained earnings.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to record most leases on their balance sheets. Lessees initially recognize a lease liability (measured at the present value of the lease payments over the lease term) and a right-of-use (“ROU”) asset (measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs). Lessees can make an accounting policy election to not recognize ROU assets and lease liabilities for leases with a lease term of 12 months or less at the lease commencement, rather the Company would recognize lease costs associated with its short-term leases on a straight-line basis over the term lease. The ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 for private entities. Though early adoption is permitted, the Company does not intend to early-adopt the ASU.

Note 3 Short-Term Investments

Short-Term investments are comprised of term deposits with maturity dates of more than three months from the date of acquisition. Interest income receivable amounted to approximately \$168,000.

Note 4 Inventories

At August 31, 2020, inventories amounted to \$283,857. The amount of inventories recognized as purchases during the year was \$2,483,725 and has been included in cost of services in the statement of operations and changes in retained earnings.

Note 5 Property and Equipment

Property and equipment as of August 31, 2020 consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Central reservation systems and computers	\$ 1,287,921	\$ 776,147	\$ 511,774
Furniture and equipment	116,435	71,691	44,744
	<u>\$ 1,404,356</u>	<u>\$ 847,838</u>	<u>\$ 556,518</u>

Depreciation expense related to property and equipment for the year ended August 31, 2020 was \$220,027.

Note 6 Intangible Assets

Intangible assets as of August 31, 2020 consists of the following:

Trademarks	\$ 4,945,987
Less: accumulated amortization	<u>(3,917,693)</u>
	<u>\$ 1,028,294</u>

Amortization expense for the year ended August 31, 2020 was \$123,648.

Note 7 Income Taxes

On August 31, 2020, the Company recorded current tax benefit of \$611,942 and deferred tax provision of \$8,000, with net benefit from income tax of \$603,942. Also on August 31, 2020, temporary differences amounted to approximately \$521,000. Deferred income tax liabilities on these temporary differences have been recorded in the amount of \$141,000.

Benefit from income taxes consists of the following:

Current	
Federal and Provincial	\$ (611,942)
Deferred tax benefit	<u>8,000</u>
Income tax benefit	<u>\$ (603,942)</u>

Note 7 Income Taxes (continued)

Deferred income tax liabilities consist of the following:

Property and equipment	\$ 23,500
Intangible assets	117,500
Total deferred income tax liabilities, net	<u>\$ 141,000</u>

Note 8 Management Fees and Other

At August 31, 2020, the Company operated five hotels leased from APA, managed five hotels owned by independent owners and franchised 22 hotels. During the year, franchise fees of \$696,254 have been included in management fees and other in the accompanying statement of operations and changes in retained earnings.

Costs attributable to the Company-operated, franchised, and managed hotels include central reservation, national and local advertising, payroll, system maintenance, and other incidental expenses and cannot be separately recorded. Allocation of these costs to hotels requires discretionary assumptions and estimates, depending on the nature of expenses. Since the allocation of these costs to hotels are arbitrary, management is of the opinion that disclosure of such allocated costs for each category of hotels does not provide any valuable information to the readers of the financial statements.

Note 9 Related Party Transactions

Transactions with APA as of August 31, 2020 are summarized as follows:

Income	
Administrative and office expenses recovery	\$ 60,000
Expenses	
Rent	\$ 5,982,611
Royalty fees	108,940

APA has waived the rent for the five Company-operated hotels for the period from April 1, 2020 to August 31, 2020 due to the COVID-19 pandemic (Note 13).

Note 10 Commitments

At August 31, 2020, operating lease obligations for the hotels and office premises and equipment were as follows:

Year Ending August 31,	APA	Unrelated Parties	Total
2021	\$ 10,256,000	\$ 212,000	\$ 10,468,000
2022	10,256,000	219,000	10,475,000
2023	10,256,000	191,000	10,447,000
2024	-	188,000	188,000
2025 and thereafter	-	631,000	631,000
	<u>\$ 30,768,000</u>	<u>\$ 1,441,000</u>	<u>\$ 32,209,000</u>

The Company has an agreement with APA to pay royalty fees of .50% of the room revenue generated by the Company-operated hotels. The agreement covers the period from December 1, 2018 to April 30, 2029. Rent expense for the year ended August 31, 2020 was \$6,282,766 (Note 9).

Note 11 Contingencies

At August 31, 2020, the Company had outstanding letters of guarantee totaling \$30,000 issued in favor of certain suppliers.

Note 12 Concentration of Credit Risk

Cash

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, term deposits and accounts receivable. The Company maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed Canada Deposit Insurance Corporation ("CDIC") insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its accounts receivable. Concentrations of credit risk with respect to accounts receivable are generally diversified due to the number of entities comprising the Company's customer base and their dispersion across many different geographies. Exposure to losses on receivables is based on factors surrounding the credit

Note 12 Concentration of Credit Risk (continued)

risk of specific customers, historical trends and other factors due to the financial condition of the customer. The Company does not obtain collateral or other security to support the receivables subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance. Exposure to credit losses is monitored and allowances are provided for anticipated losses considered necessary under the circumstances.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company mitigates the risk by monitoring foreign exchange fluctuations. Management believes the Company is not exposed to significant foreign currency risk based on its current operations.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The short-term investments with fixed rates of interest are subject to interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to liquidity risk mainly in respect of its accounts payable and accrued liabilities, government remittances payable, deferred revenue and income taxes payable. The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash and other current financial assets to meet its obligations when due.

Note 13 Impact of the COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the coronavirus, COVID-19, a global pandemic, which significantly impacted the global economy and strained the travel and hospitality industry due to travel restrictions imposed in many countries around the world. As a result, the Company is experiencing historically low levels of hotel occupancy and revenue. While the five Company-operated hotels remained open throughout the year, revenue has declined significantly since March 2020. The restaurants and banquet services at the hotels were closed in March 2020 and reopened in July 2020 with reduction in service hours and seating capacity in order to comply with government regulations. Management and franchise fees are based on revenue earned by the managed and franchised hotels and, therefore, have also decreased since March 2020.

Note 13 Impact of the COVID-19 Pandemic (continued)

The financial impact of the pandemic to the Company's business and operations will depend on future developments, including the duration and the spread of the pandemic, the recovery of worldwide economy, recovery of international and business travel, and related governmental advisories and restrictions. These events are highly uncertain, and the Company cannot determine the ultimate financial impacts at this time. Management will continue to monitor future developments of the COVID-19 pandemic and assess the impact on the Company's future operations and financial health.

Canada Emergency Wage Subsidy ("CEWS") was created in response to COVID-19 to provide a subsidy to employers to cover part of employee wages. During the year, the Company applied for the ("CEWS") and approximately \$3,231,000 was recorded in the accompanying statement of operations and changes in retained earnings as a reduction of related payroll.

As of August 31, 2020, the Company was granted approximately \$3,231,000 of which \$726,381 was recorded as a receivable amount included on the accompanying balance sheet, which was received on September 14, 2020. The Company will continue to apply for applicable government business support programs available in response to the COVID-19 pandemic, subject to eligibility.

The tourism levy at 4% rate of the purchase price of the accommodation is charged on most types of temporary accommodations in Alberta. For the period from March to August 2020, to help the hotel industry impacted by the COVID-19 pandemic, the Company was permitted to keep the tourism levy cash collected which amounted to \$47,941 and included in other income (expense) as other income on the accompanying statement of operations and changes in retained earnings.

Note 14 Subsequent Events

Management has evaluated subsequent events through May 30, 2023, the date which the financial statements were available to be issued.

On April 12, 2022, the Company provided a loan to the parent company in the amount of \$20,656,313. The loan is unsecured and bears interest at 1% per annum. Both principal and interest are due upon the maturity date, April 11, 2023, subject to extension. The repayment of the loan was extended and is due on demand.

On December 21, 2022, the Company entered into the franchise purchase agreement to acquire franchise agreements in the USA for USD\$5,100,000 as a final purchase price supported by a promissory note issued on December 14, 2022 by the Company to Coast Hotels USA, Inc. (the "Borrower"). The loan is a non-revolving loan to enable the Borrower to pay the purchase price for the franchise and other agreements. The loan bears interest compounded annually, at the interest rate prescribed quarterly by Canada Revenue Agency (interest rate at September 30, 2022 was 6.45%), payable on the maturity date, December 14, 2025, subject to extension.

Note 14 Subsequent Events (continued)

During 2022, the Company applied for the following subsidies, all of which were recorded in the statement of operations and changes in retained earnings:

- (a) Canada Emergency Wage Subsidy of approximately \$258,000;
- (b) Canada Emergency Rent Subsidy of approximately \$7,000;
- (c) Tourism and Hospitality Recovery Program of approximately \$2,431,000;
- (d) Alberta Tourism Levy Abatement of approximately \$67,000;
- (e) Alberta Small and Medium Enterprise Relaunch Grant of \$10,000; and
- (f) B.C. Circuit Breaker Business Relief Grant of \$20,000.

The Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy were replaced by the Tourism and Hospitality Recovery Program.

During 2021, the Company applied for the Canada Emergency Wage Subsidy and approximately \$2,575,000 was recorded in the statement of operations and changes in retained earnings as of August 31, 2021, of which approximately \$263,000 was a receivable as of August 31, 2021.



Coast Hotels Limited
Financial Statements
August 31, 2021

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Independent Auditor's Report

To the Shareholders of
Coast Hotels Limited

Prager Metis CPAs, LLC

14 PENN PLAZA
18TH FLOOR
NEW YORK, NY 10122

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F 212.947.3878

www.pragermetis.com

We have audited the accompanying financial statements of Coast Hotels Limited (a corporation), which comprise the balance sheet as of August 31, 2021, and the related statements of income and changes in retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coast Hotels Limited as of August 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
New York, New York
May 30, 2023

Coast Hotels Limited
Balance Sheet
August 31, 2021
(Currency in Canadian Dollars)

Assets

Current assets

Cash	\$ 28,662,822
Short-term investments	2,646,939
Accounts receivable, net	1,633,747
Accounts receivable – other	405,500
Accounts receivable – Canada Emergency Wage Subsidy	263,817
Interest income receivable – short-term investments	144,580
Inventories	202,669
Deposits and prepaid expenses	244,439
Due from parent company	38,922
Total current assets	<u>34,243,435</u>

Property and equipment, net 381,180

Intangible assets, net 904,646

Total assets \$35,529,261

Liabilities and shareholder's equity

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 3,887,418
Government remittances payable	816,784
Deferred revenue	5,169,255
Income taxes payable	170,360
Total current liabilities	<u>10,043,817</u>

Deferred income taxes 108,000

Total liabilities 10,151,817

Commitments and contingencies

Shareholder's equity

Common stock – no par value

Authorized – 100,000 shares

Issued and outstanding – 86,281 shares 6,864,300

Additional paid-in capital 397,820

Retained earnings 18,115,324

Total shareholder's equity 25,377,444

Total liabilities and shareholder 's equity \$35,529,261

The accompanying notes are an integral part of these financial statements.

Coast Hotels Limited
Statement of Income and Changes in Retained Earnings
Year Ended August 31, 2021
(Currency in Canadian Dollars)

Revenue	
Hotel	\$ 16,918,252
Management fees and other	2,465,689
Mall and rental	896,424
Total revenue	<u>20,280,365</u>
Operating expenses	
Cost of services	6,960,950
General and administrative	3,844,642
Rent	3,529,642
Marketing and sales	2,792,543
Repairs and maintenance	2,814,218
Insurance and property taxes	404,749
Depreciation	233,367
Amortization of intangible assets	123,648
Total operating expenses	<u>20,703,759</u>
Loss from operations	<u>(423,394)</u>
Other income (expense)	
Interest income	251,000
Other income	600,011
Foreign currency gain	94,332
Royalty fees	(66,163)
Total other income (expense)	<u>879,180</u>
Income before provision for income taxes	<u>455,786</u>
Provision for income taxes	
Current	170,293
Deferred	(33,000)
Total provision for income taxes	<u>137,293</u>
Net income	318,493
Retained earnings, beginning of year	<u>17,796,831</u>
Retained earnings, end of year	<u><u>\$ 18,115,324</u></u>

The accompanying notes are an integral part of these financial statements.

Coast Hotels Limited
Statement of Cash Flows
Year Ended August 31, 2021
(Currency in Canadian Dollars)

Cash flows from operating activities

Net income	\$ 318,493
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	233,367
Amortization of intangible assets	123,648
Deferred income taxes	(33,000)
Foreign currency translation gain	(94,332)
Changes in operating assets and liabilities	
Accounts receivable, net	(352,197)
Accounts receivable – other	(405,500)
Accounts receivable – Canada Emergency Wage Subsidy	462,564
Income taxes receivable	1,344,900
Interest income receivable – short-term investments	23,158
Inventories	81,188
Prepaid expenses and other current assets	213,839
Due from parent company	1,328,834
Accounts payable and accrued liabilities	(7,854)
Government remittances payable	(336,013)
Deferred revenue	375,755
Income taxes payable	170,360
Net cash provided by operating activities	<u>3,447,210</u>

Cash flows from investing activities

Proceeds from short-term investments	10,072,057
Purchase of property and equipment	<u>(58,029)</u>
Net cash provided by investing activities	<u>10,014,028</u>

Net increase in cash 13,461,238

Cash at beginning of year 15,201,584

Cash at end of year \$ 28,662,822

Supplemental disclosure of cash flow information

Cash paid during the year for	
Income taxes	<u><u>\$ 180,000</u></u>

The accompanying notes are an integral part of these financial statements.

Note 1 Organization and Business

Coast Hotels Limited (the “Company”) is incorporated in the Province of British Columbia, Canada, and is primarily involved in hotel operations and management. The Company is a wholly owned subsidiary of APA Hotel Canada Inc. (“APA”). APA is a wholly owned subsidiary of APA Hotels International Inc, a Canadian Corporation.

The worldwide outbreak of COVID-19, which was declared a pandemic by the World Health Organization in March 2020, has impacted and may continue to impact global commerce. This contagious disease outbreak adversely affected the Company’s customers as a result of quarantines, facility closures and travel and logistics restrictions in connection with the outbreak. More broadly, the outbreak affected workforces, economies, and financial markets, potentially leading to an economic downturn. The hospitality industry has been hit very hard by the COVID-19 pandemic. Mandatory closures, stay-at-home orders, the onset of economic recession, and travel restrictions have resulted in unprecedented upheaval for the industry.

As of the year ended August 31, 2021, management has been able to effectively navigate the impact of the COVID-19 pandemic in meeting its operational and financial goals.

Note 2 Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Company have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The functional currency of the Company is Canadian dollar.

Revenue Recognition

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*. ASC 606 and all subsequently issued clarifying Accounting Standards Updates replaced most existing revenue recognition guidance in GAAP. Per the new guidance, revenue is recognized in accordance with a five-step revenue model, as follows: identifying the contract with the customer; identifying the performance obligations in the contract; determining the transaction price; allocating the transaction price to the performance obligations; and recognizing revenue when (or as) the Company satisfies a performance obligation. ASC 606 also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The amount of revenue recognized by the Company reflects the expected consideration to be received for providing services to the customer, which includes estimates for variable consideration. Variable consideration includes allowances for trade terms, sales incentive programs, discounts at a point in time based on meeting one performance obligation by transferring the services provided to its customer.

The timing of revenue recognition occurs based on the services provided to the customer. The Company recognizes revenue from service contracts as the benefits of the service are transferred to the customer which is generally at the time the Company’s performance obligations are met.

Note 2 Summary of Significant Accounting Policies (continued)

The Company recognizes revenue from Company-operated hotels when services are provided. Management and franchise fees are recognized when earned in accordance with the terms of the contracts. Mall and rental revenue is based on occupancies and tenant lease agreements. The Company recognizes interest and other revenue when it is earned.

Deferred Revenue

Deferred revenue represents liabilities for outstanding points earned by members of the Company's rewards program, unused gift cards and vouchers sold, and customer deposits for advance reservations. As of August 31, 2021 deferred revenue amounted to approximately \$5,200,000.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at their invoiced amounts, less an allowance for credit losses that reflects the best estimate of the amounts that will not be collected. The Company reviews each customer balance where all or a portion of the balance exceeds 90 days from the invoice date. Based on the assessment of the customer's current creditworthiness, an estimate of the balance that will not be collected is determined. The Company will write off receivables as a charge to allowance for credit losses when in their estimation, it is probable that the receivable is worthless. The Company analyzes historical collection trends and changes in the individual's payments terms when evaluating the adequacy of the allowance for doubtful accounts. Allowance for doubtful accounts amounted to \$120,215 at August 31, 2021.

Inventories

Inventories are valued at the lower of cost and net realizable value with cost determined on a weighted average basis.

Property and Equipment

Property and equipment are stated at cost. The cost of additions and betterments are capitalized whereas expenditures for repairs and maintenance are expensed in the period incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation of property and equipment is recorded using the declining balance method with the following annual rates:

Asset	Rate
Central reservation systems and computers	20% to 100%
Furniture and equipment	33%

Intangible Assets

Intangible assets represent the values of trademarks. Intangible assets are amortized on a straight-line basis over 40 years.

Note 2 Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Company evaluates the recoverability of the recorded amount of long-lived assets whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. If an asset is determined to be impaired, the impairment to be recognized is measured as the amount by which the recorded amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the recorded amount or fair value less cost to sell. The Company determines fair value using a discounted cash flow analysis or other accepted valuation techniques. The Company evaluated the fair value of long-lived assets and the analysis indicated that no impairment existed at August 31, 2021 based on the Company's impairment testing.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Related Party Transactions

Related party transactions in the normal course of business are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties (Note 10).

Advertising Costs and Promotion

The Company expenses advertising and promotion costs as incurred. For the year ended August 31, 2021 the costs were \$670,741, and are included in operating expenses as a component of cost of services and marketing and sales in the statement of income and changes in retained earnings.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, *Income Taxes*, which requires, among other things, the recognition of deferred tax assets and liabilities measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. ASC 740 also requires a valuation allowance against net deferred tax assets if, based on the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Management examined all open income tax returns for possible uncertain tax positions and determined that there were no uncertain tax positions taken as of August 31, 2021.

Note 2 Summary of Significant Accounting Policies (continued)

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the prevailing rates of exchange at the balance sheet date. Revenue and expenses denominated in foreign currencies are translated at the exchange rates prevailing on the transaction dates. Realized and unrealized exchange gains and losses arising from the translations are included in the statement of income and changes in retained earnings. The Company does not use derivative instruments to mitigate foreign exchange risk.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to record most leases on their balance sheets. Lessees initially recognize a lease liability (measured at the present value of the lease payments over the lease term) and a right-of-use (“ROU”) asset (measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs). Lessees can make an accounting policy election to not recognize ROU assets and lease liabilities for leases with a lease term of 12 months or less at the lease commencement, rather the Company would recognize lease costs associated with its short-term leases on a straight-line basis over the term lease. The ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 for private entities. Though early adoption is permitted, the Company does not intend to early-adopt the ASU.

Note 3 Short-Term Investments

Short-term investments are comprised of term deposits with maturity dates of more than three months from the date of acquisition. Interest income receivable amounted to approximately \$145,000.

Note 4 Inventories

At August 31, 2021, inventories amounted to \$202,669. The amount of inventories recognized as purchases during the year was \$1,000,161 and has been included in cost of services in the statement of income and changes in retained earnings.

Note 5 Property and Equipment

Property and equipment as of August 31, 2021 consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Central reservation systems and computers	\$ 1,345,950	\$ 994,640	\$ 351,310
Furniture and equipment	<u>116,435</u>	<u>86,565</u>	<u>29,870</u>
	<u>\$ 1,462,385</u>	<u>\$ 1,081,205</u>	<u>\$ 381,180</u>

Depreciation expense related to property and equipment for the year ended August 31, 2021 was \$233,367.

Note 6 Intangible Assets

Intangible assets as of August 31, 2021 consists of the following:

Trademarks	\$ 4,945,987
Less: accumulated amortization	<u>(4,041,341)</u>
	<u>\$ 904,646</u>

Amortization expense for the year ended August 31, 2021 was \$123,648.

Note 7 Income Taxes

On August 31, 2021, the Company recorded current tax provision of \$170,293 and deferred tax benefit of \$33,000, with net provision for income taxes of \$137,293. Also, on August 31, 2021, temporary differences amounted to approximately \$407,000. Deferred income tax liabilities on these temporary differences have been recorded as \$108,000.

Provision for income taxes consists of the following:

Current	
Federal and British Columbia	\$ 166,112
Province Alberta	4,181
Deferred tax benefit	<u>(33,000)</u>
Income tax provision	<u>\$ 137,293</u>

Note 7 Income Taxes (continued)

Deferred income tax liabilities consists of the following:

Property and equipment	\$ 9,000
Intangible assets	<u>99,000</u>
Total deferred income tax liabilities, net	<u>\$ 108,000</u>

Note 8 Management Fees and Other

At August 31, 2021, the Company operated five hotels leased from APA, managed four hotels owned by independent owners and franchised 23 hotels. During the year, franchise fees of \$651,783 have been included in management fees and other in the statement of income and changes in retained earnings.

Costs attributable to the Company-operated, managed; and franchised hotels include central reservation, national and local advertising, payroll, system maintenance, and other incidental expenses and cannot be separately recorded. Allocation of these costs to hotels requires discretionary assumptions and estimates, depending on the nature of expenses. Since the allocation of these costs to hotels are arbitrary, management is of the opinion that disclosure of such allocated costs for each category of hotels does not provide any valuable information to the readers of the financial statements.

Note 9 Other Income

Included in other income is a \$478,500 settlement from a franchised hotel for early termination of the franchise agreement, of which \$405,500 was a receivable as of August 31, 2021. The outstanding amount as of the date of this report of \$73,000 will be repaid in four equal installments of \$18,250 per month.

Note 10 Related Party Transactions

Transactions with APA as of August 31, 2021 are summarized as follows:

Income	
Administrative and office expenses recovery	\$ 60,000
Expenses	
Rent	\$ 3,418,635
Royalty fees	66,163

Due to the COVID-19 pandemic, APA waived the rent for the five Company-operated hotels for the period from January 1, 2021 to June 30, 2021. APA has also reduced the rent by 50% for the period from July 1, 2021 to June 30, 2022 (Notes 11 and 14).

Note 11 Commitments

At August 31, 2021, operating lease obligations for the hotels, office premises, and equipment were as follows:

Year Ending August 31,	APA	Unrelated Parties	Total
2022	\$ 5,983,000	\$ 445,000	\$ 6,428,000
2023	855,000	414,000	1,269,000
2024	-	299,000	299,000
2025	-	255,000	255,000
2026 and thereafter	-	493,000	493,000
	<u>\$ 6,838,000</u>	<u>\$ 1,906,000</u>	<u>\$ 8,744,000</u>

The Company has an agreement with APA to pay royalty fees of 0.50% of the room revenue generated by the Company-operated hotels. The agreement covers the period from December 1, 2018 to April 30, 2029. Rent expense for the year ended August 31, 2021 was \$3,529,642 (Note 10).

Note 12 Contingencies

At August 31, 2021, the Company had outstanding letters of guarantee totaling \$30,000 issued in favor of certain suppliers.

Note 13 Concentration of Credit Risk

Cash

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, term deposits and accounts receivable. The Company maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed Canada Deposit Insurance Corporation (“CDIC”) insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its accounts receivable. Concentrations of credit risk with respect to accounts receivable are generally diversified due to the number of entities comprising the Company’s customer base and their dispersion across many different geographies. Exposure to losses on receivables is based on factors surrounding the credit

Note 13 Concentration of Credit Risk (continued)

risk of specific customers, historical trends and other factors due to the financial condition of the customer. The Company does not obtain collateral or other security to support the receivables subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance. Exposure to credit losses is monitored and allowances are provided for anticipated losses considered necessary under the circumstances.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company mitigates the risk by monitoring foreign exchange fluctuations. Management believes the Company is not exposed to significant foreign currency risk based on its current operations.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The short-term investments and loan receivable from parent company with fixed rates of interest are subject to interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to liquidity risk mainly in respect of its accounts payable and accrued liabilities, government remittances payable, deferred revenue and income taxes payable. The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash and other current financial assets to meet its obligations when due.

Note 14 Impact of COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the coronavirus, COVID-19, a global pandemic, which significantly impacted the global economy and strained the travel and hospitality industry due to travel restrictions imposed in many countries around the world. As a result, the Company is experiencing historically low levels of hotel occupancy and revenue. While the five Company-operated hotels remained open throughout the year, revenue has declined significantly. The restaurants and banquet services at the hotels operated with reduction in service hours and seating capacity in order to comply with government regulations. Management and franchise fees are based on revenue earned by the managed and franchised hotels and, therefore, have also decreased.

As at the date of this report, the Company continues to meet its financial obligations and has not experienced difficulties in the collection of accounts receivable. During the year, the Company applied for the Canada Emergency Wage Subsidy ("CEWS") and approximately \$2,575,000 was recorded in the statement of income and changes in retained earnings, of which approximately \$264,000 was receivable as of August 31, 2021. The Company will continue to apply for applicable government business support programs available in response to the COVID-19 pandemic, subject to eligibility.

Note 14 Impact of COVID-19 Pandemic (continued)

The financial impact of the pandemic to the Company's business and operations will depend on future developments, including the duration and the spread of the pandemic, the recovery of worldwide economy, recovery of international and business travel, and related governmental advisories and restrictions. These events are highly uncertain and the Company cannot determine the ultimate financial impacts at this time. Management will continue to monitor future developments of the COVID-19 pandemic and assess the impact on the Company's future operations and financial health.

Note 15 Subsequent Events

Management has evaluated subsequent events through May 30, 2023, the date which the financial statements were available to be issued.

On April 12, 2022, the Company provided a loan to the parent company in the amount of \$20,656,313. The loan is unsecured and bears interest at 1% per annum. Both principal and interest are due upon the maturity date, April 11, 2023, subject to extension. The repayment of the loan was extended and is due on demand.

On December 21, 2022, the Company entered into the franchise purchase agreement to acquire franchise agreements in the USA for USD\$5,100,000 as a final purchase price supported by a promissory note issued on December 14, 2022 by the Company to Coast Hotels USA, Inc. (the "Borrower"). The loan is a non-revolving loan to enable the Borrower to pay the purchase price for the franchise and other agreements. The loan bears interest compounded annually, at the interest rate prescribed quarterly by Canada Revenue Agency (interest rate at September 30, 2022 was 6.45%), payable on the maturity date, December 14, 2025, subject to extension.

During 2022, the Company applied for the following subsidies, all of which were recorded in the statement of income and changes in retained earnings:

- (a) Canada Emergency Wage Subsidy of approximately \$258,000;
- (b) Canada Emergency Rent Subsidy of approximately \$7,000;
- (c) Tourism and Hospitality Recovery Program of approximately \$2,431,000;
- (d) Alberta Tourism Levy Abatement of approximately \$67,000;
- (e) Alberta Small and Medium Enterprise Relaunch Grant of \$10,000; and
- (f) B.C. Circuit Breaker Business Relief Grant of \$20,000.

The Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy were replaced by the Tourism and Hospitality Recovery Program.



Coast Hotels Limited
Financial Statements
August 31, 2022

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Independent Auditor's Report

To the Shareholders of
Coast Hotels Limited

Prager Metis CPAs, LLC

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Opinion

We have audited the accompanying financial statements of Coast Hotels Limited, which comprise the balance sheet as of August 31, 2022, and the related statement of income and changes in retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coast Hotels limited, as of August 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Coast Hotels limited, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Coast Hotels Limited's ability to continue as a going concern within one year after the date that the statements are available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Coast Hotels Limited's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Coast Hotels Limited's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
New York, New York
May 30, 2023

Coast Hotels Limited
Balance Sheet
August 31, 2022
(Currency in Canadian Dollars)

Assets

Current assets

Cash	\$ 16,259,290
Short-term investments	4,663,440
Accounts receivable, net	3,784,479
Interest receivable – short-term investment	24,732
Loan receivable from parent company	20,656,313
Inventories	290,844
Interest receivable from parent company	80,362
Deposits and prepaid expenses	78,119
Total current assets	<u>45,837,579</u>

Property and equipment, net	324,890
Deferred charges	133,323
Intangible assets, net	<u>780,998</u>

Total assets	<u><u>\$ 47,076,790</u></u>
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Liabilities and shareholders' equity

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 5,464,122
Government remittances payable	1,065,612
Deferred revenue	6,094,907
Income taxes payable	1,178,158
Due to parent company	2,894,028
Total current liabilities	<u>16,696,827</u>

Deferred income taxes	<u>96,000</u>
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Total liabilities	<u><u>16,792,827</u></u>
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Commitments and contingencies

Shareholders' equity

Common stock – no par value

Authorized – 100,000 shares

Issued and outstanding – 86,281 shares	6,864,300
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Additional paid-in capital	397,820
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Retained earnings	<u>23,021,843</u>
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Total shareholders' equity	<u><u>30,283,963</u></u>
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Total liabilities and shareholders' equity	<u><u>\$ 47,076,790</u></u>
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The accompanying notes are an integral part of these financial statements.

Coast Hotels Limited
Statement of Income and Changes in Retained Earnings
Year Ended August 31, 2022
(Currency in Canadian Dollars)

Revenue	
Hotel	\$ 41,246,962
Management fees and other	3,951,146
Mall and rental	1,721,161
Total revenue	<u>46,919,269</u>
Operating expenses	
Cost of services	19,002,860
Rent	6,729,452
General and administrative	6,616,156
Repairs and maintenance	4,042,312
Marketing and sales	3,387,801
Insurance and property taxes	509,071
Depreciation	137,958
Amortization of intangible assets	123,648
Amortization of deferred charges	95,123
Total operating expenses	<u>40,644,381</u>
Income from operations	<u>6,274,888</u>
Other income (expense)	
Interest income	267,629
Other income	204,490
Foreign currency translation gain	90,951
Gain on disposition of property and equipment	17,085
Royalty fees	(164,617)
Total other income (expense)	<u>415,538</u>
Income before provision for income taxes	<u>6,690,426</u>
Provision for income taxes	
Current	1,795,907
Deferred	(12,000)
Total provision for income taxes	<u>1,783,907</u>
Net income	4,906,519
Retained earnings, beginning of year	<u>18,115,324</u>
Retained earnings, end of year	<u><u>\$ 23,021,843</u></u>

The accompanying notes are an integral part of these financial statements.

Coast Hotels Limited
Statement of Cash Flows
Year Ended August 31, 2022
(Currency in Canadian Dollars)

Cash flows from operating activities

Net income	\$ 4,906,519
Adjustments to reconcile net income to net cash provided by operating activities	
Amortization of deferred charges	95,123
Amortization of intangible assets	123,648
Depreciation	137,958
Bad debt	7,474
Gain on disposition of property and equipment	(17,085)
Deferred income taxes benefit	(12,000)
Foreign currency translation gain	(90,951)
Changes in non-cash working capital	
Accounts receivable, net	(2,156,206)
Accounts receivable – other	403,500
Accounts receivable – Canada Emergency Wage Subsidy	263,817
Interest receivable – short-term investment	119,848
Inventories	(88,175)
Deposits and prepaid expenses	166,320
Due from parent company	38,922
Accounts payable and accrued liabilities	1,667,655
Government remittances payable	248,828
Deferred revenue	925,652
Income taxes payable	1,007,798
Due to parent company	2,894,028
Net cash provided by operating activities	<u>10,642,673</u>

Cash flows from investing activities

Proceeds from short-term investment	(2,016,501)
Loan receivable from parent company	(20,656,313)
Interest receivable from parent company	(80,362)
Purchase of property and equipment	(81,668)
Proceeds from disposition of property and equipment	17,085
Addition of deferred charges	(228,446)
Net cash used in investing activities	<u>(23,046,205)</u>

Net decrease in cash (12,403,532)

Cash at beginning of year 28,662,822

Cash at end of year \$ 16,259,290

Supplemental disclosure of cash flow information

Cash paid during the year for	
Income taxes	<u><u>\$ 1,709,268</u></u>

The accompanying notes are an integral part of these financial statements.

Note 1 Organization and Business

Coast Hotels Limited (the “Company”) is incorporated in the Province of British Columbia, Canada, and is primarily involved in hotel operations and management. The Company is a wholly owned subsidiary of APA Hotel Canada Inc. (“APA”). APA is a wholly owned subsidiary of APA Hotels International Inc, a Canadian Corporation.

Note 2 Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Company have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The functional currency of the Company is the Canadian dollar.

Revenue Recognition

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*. ASC 606 and all subsequently issued clarifying Accounting Standards Updates replaced most existing revenue recognition guidance in GAAP. Per the new guidance, revenue is recognized in accordance with a five-step revenue model, as follows: identifying the contract with the customer; identifying the performance obligations in the contract; determining the transaction price; allocating the transaction price to the performance obligations; and recognizing revenue when (or as) the Company satisfies a performance obligation. ASC 606 also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The amount of revenue recognized by the Company reflects the expected consideration to be received for providing services to the customer, which includes estimates for variable consideration. Variable consideration includes allowances for trade terms, sales incentive programs, discounts at a point in time based on meeting one performance obligation by transferring the services provided to its customer.

The timing of revenue recognition occurs based on the services provided to the customer. The Company recognizes revenue from service contracts as the benefits of the service are transferred to the customer which is generally at the time the Company’s performance obligations are met.

The Company recognizes revenue from Company-operated hotels when services are provided. Management and franchise fees are recognized when earned in accordance with the terms of the contracts. Mall and rental revenue are based on occupancies and tenant lease agreements. The Company recognizes interest and other revenue when it is earned.

Deferred Revenue

Deferred revenue represents liabilities for outstanding points earned by members of the Company’s rewards program, unused gift cards and vouchers sold, and customer deposits for advance reservations. As of August 31, 2022 deferred revenue amounted to approximately \$6,095,000.

Note 2 Summary of Significant Accounting Policies (continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at their invoiced amounts, less an allowance for credit losses that reflects the best estimate of the amounts that will not be collected. The Company reviews each customer balance where all or a portion of the balance exceeds 90 days from the invoice date. Based on the assessment of the customer's current creditworthiness, an estimate of the balance that will not be collected is determined. The Company will write off receivables as a charge to allowance for credit losses when in their estimation, it is probable that the receivable is worthless. The Company analyzes historical collection trends and changes in the individual's payment terms when evaluating the adequacy of the allowance for doubtful accounts. Allowance for doubtful accounts amounted to \$121,025 at August 31, 2022. During the year, the Company recorded bad debt expense of \$7,474, included in general and administrative expenses in the statement of income and changes in retained earnings.

Inventories

Inventories are valued at the lower of cost and net realizable value with cost determined on a weighted average basis.

Property and Equipment

Property and equipment are stated at cost. The cost of additions and betterments are capitalized whereas expenditures for repairs and maintenance are expensed in the period incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation of property and equipment is recorded using the declining balance method with the following annual rates:

Asset	Rate
Central reservation systems and computers	20% to 100%
Furniture and equipment	33%

Deferred Charges

Deferred charges represent expenditures incurred for the pre-opening of a new hotel purchased by APA in April 2022. The Company leased the hotel and commenced the operations on April 12, 2022. Deferred charges are amortized on a straight-line basis over 12 months (Note 8).

Intangible Assets

Intangible assets represent the values of trademarks. Intangible assets are amortized on a straight-line basis over 40 years.

Note 2 Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Company evaluates the recoverability of the recorded amount of long-lived assets whenever events or changes in circumstances indicate that the recorded amount of an asset may not be fully recoverable. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. If an asset is determined to be impaired, the impairment to be recognized is measured as the amount by which the recorded amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the recorded amount or fair value less cost to sell. The Company determines fair value using a discounted cash flow analysis or other accepted valuation techniques. The Company evaluated the fair value of long-lived assets and the analysis indicated that no impairment existed at August 31, 2022 based on the Company's impairment testing.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Related Party Transactions

Related party transactions in the normal course of business are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties (Note 12).

Advertising Costs and Promotion

The Company expenses advertising and promotion costs as incurred. For the year ended August 31, 2022 the costs were \$765,290, and are included in operating expenses as a component of cost of services and marketing and sales in the statement of income and changes in retained earnings.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, *Income Taxes*, which requires, among other things, the recognition of deferred tax assets and liabilities measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. ASC 740 also requires a valuation allowance against net deferred tax assets if, based on the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Note 2 Summary of Significant Accounting Policies (continued)

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Management examined all open income tax returns for possible uncertain tax positions and determined that there were no uncertain tax positions taken as of August 31, 2022.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the prevailing rates of exchange at the balance sheet date. Revenue and expenses denominated in foreign currencies are translated at the exchange rates prevailing on the transaction dates. Realized and unrealized exchange gains and losses arising from the translations are included in the statement of income and changes in retained earnings. The Company does not use derivative instruments to mitigate foreign exchange risk. For the year ended August 31, 2022, foreign currency translation gain of \$90,951 was recorded and included as other income (expense) in the accompanying statement of income and changes in retained earnings.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to record most leases on their balance sheets. Lessees initially recognize a lease liability (measured at the present value of the lease payments over the lease term) and a right-of-use (“ROU”) asset (measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs). Lessees can make an accounting policy election to not recognize ROU assets and lease liabilities for leases with a lease term of 12 months or less at the lease commencement, rather the Company would recognize lease costs associated with its short-term leases on a straight-line basis over the term lease. The ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 for private entities. Though early adoption is permitted, the Company does not intend to early-adopt the ASU.

Note 3 Short-Term Investments

Short-term investments are comprised of term deposits with maturity dates of more than three months from the date of acquisition. Interest income receivable amounted to approximately \$25,000.

Note 4 Inventories

At August 31, 2022, inventories amounted to \$290,844. The amount of inventories recognized as purchases during the year was \$2,101,012 and has been included in cost of services in the statement of income and changes in retained earnings.

Note 5 Loan and Interest Receivable from Parent Company

Loan receivable	\$ 20,656,313
Interest receivable	<u>80,362</u>
	<u><u>\$ 20,736,675</u></u>

On April 12, 2022, the Company provided a loan to APA, the parent company, in the amount of \$20,656,313. The loan receivable is a non-revolving unsecured loan advance bearing interest at 1% per annum. Both the principal and interest were due upon maturity date on April 11, 2023, subject to extension. The repayment of the loan was extended and is due on demand (Note 17).

Note 6 Property and Equipment

Property and equipment as of August 31, 2022 consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Central reservation systems	\$ 1,410,533	\$ 1,105,584	\$ 304,949
and computers	<u>116,435</u>	<u>96,494</u>	<u>19,941</u>
Furniture and equipment	<u><u>\$ 1,526,968</u></u>	<u><u>\$ 1,202,078</u></u>	<u><u>\$ 324,890</u></u>

Depreciation expense related to property and equipment for the year ended August 31, 2022 was \$137,958.

Note 7 Intangible Assets

Intangible assets as of August 31, 2022 consists of the following:

Trademarks	\$ 4,945,987
Less: accumulated amortization	<u>(4,164,989)</u>
	<u><u>\$ 780,998</u></u>

Amortization expense for the year ended August 31, 2022 was \$123,648.

Note 8 Deferred Charges

Deferred charges as of August 31, 2022 consist of the following:

Deferred charges	\$ 228,446
Less: accumulated amortization	(95,123)
	<u>\$ 133,323</u>

Amortization expense of deferred charges for the year ended August 31, 2022 was \$95,123 (Note 2).

Note 9 Due to Parent Company

At August 31, 2022, advances from parent company amounted to \$2,894,028. The amounts are unsecured, non-interest bearing and have no specific terms of repayment.

Note 10 Income Taxes

On August 31, 2022, the Company recorded a current tax provision of \$1,795,907 and a deferred tax benefit of \$12,000 with net provision for income taxes of \$1,783,907. Also, on August 31, 2022, temporary differences amounted to approximately \$365,000. Deferred income tax liabilities on these temporary differences have been recorded as \$96,000.

Provision for income taxes consists of the following:

Current	
Federal and British Columbia	\$ 1,716,806
Province Alberta	79,101
Deferred tax benefit	<u>(12,000)</u>
Income tax provision	<u>\$ 1,783,907</u>

Deferred income tax liabilities consist of the following:

Property and equipment	\$ 15,000
Intangible assets	81,000
Total deferred income tax liabilities, net	<u>\$ 96,000</u>

Note 11 Management Fees and Other

At August 31, 2022, the Company operated six hotels leased from APA, managed four hotels owned by independent owners and franchised 24 hotels. During the year, franchise fees of \$1,132,196 have been included in management fees and other in the statement of income and changes in retained earnings.

Costs attributable to the Company-operated, managed; and franchised hotels include central reservation, national and local advertising, payroll, system maintenance, and other incidental expenses and cannot be separately recorded. Allocation of these costs to hotels requires discretionary assumptions and estimates, depending on the nature of expenses. Since the allocation of these costs to hotels are arbitrary, management is of the opinion that disclosure of such allocated costs for each category of hotels does not provide any valuable information to the readers of the financial statements.

Note 12 Related Party Transactions

Transactions with APA as of August 31, 2022 are summarized as follows:

Income

Administrative and office expenses recovery	\$ 60,000
Interest income	80,362

Expenses

Rent	\$ 6,472,360
Royalty fees	164,617

Due to the COVID-19 pandemic, APA reduced the rent by 50% for the period from July 1, 2021 to June 30, 2022 (Notes 13 and 16).

Note 13 Commitments

At August 31, 2022, operating lease obligations for the hotels, office premises, and equipment were as follows:

Year Ending August 31,	APA	Unrelated Parties	Total
2023	\$ 11,556,000	\$ 420,000	\$ 11,976,000
2024	11,556,000	307,000	11,863,000
2025	11,556,000	258,000	11,814,000
2026	2,155,000	244,000	2,399,000
2027 and thereafter	1,300,000	259,000	1,559,000
	<u>\$ 38,123,000</u>	<u>\$ 1,488,000</u>	<u>\$ 39,611,000</u>

The Company has an agreement with APA to pay royalty fees of 0.50% of the room revenue generated by the Company-operated hotels. The agreement covers the period from December 1, 2018 to April 30, 2029. Rent expense for the year ended August 31, 2022 was \$6,729,452 (Note 12).

Note 14 Contingencies

At August 31, 2022, the Company had outstanding letters of guarantee totaling \$70,000 issued in favor of certain suppliers.

Note 15 Concentration of Credit Risk

Cash

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, term deposits and accounts receivable. The Company maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed Canada Deposit Insurance Corporation ("CDIC") insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Note 15 Concentration of Credit Risk (continued)

Accounts Receivable

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its accounts receivable. Concentrations of credit risk with respect to accounts receivable are generally diversified due to the number of entities comprising the Company's customer base and their dispersion across many different geographies. Exposure to losses on receivables is based on factors surrounding the credit risk of specific customers, historical trends and other factors due to the financial condition of the customer. The Company does not obtain collateral or other security to support the receivables subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance. Exposure to credit losses is monitored and allowances are provided for anticipated losses considered necessary under the circumstances.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company mitigates the risk by monitoring foreign exchange fluctuations. Management believes the Company is not exposed to significant foreign currency risk based on its current operations.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The short-term investments and loan receivable from parent company with fixed rates of interest are subject to interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to liquidity risk mainly in respect of its accounts payable and accrued liabilities, government remittances payable, deferred revenue and income taxes payable. The Company's approach to managing liquidity risk is to ensure that it will have sufficient cash and other current financial assets to meet its obligations when due.

Note 16 Impact of COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the coronavirus, COVID-19, a global pandemic. The Company was negatively impacted by various restrictions throughout the last two fiscal years. However, business at the hotels has started to recover in fiscal 2022 with the easing of travel restrictions worldwide and the lifting of local occupancy and other business restrictions. As of the year ended August 31, 2022, management has been able to effectively navigate the impact of the COVID-19 pandemic in meeting its operational and financial goals.

Note 16 Impact of COVID-19 Pandemic (continued)

The Company continues to meet its financial obligations and has not experienced difficulties in the collection of accounts receivable.

During 2022, the Company applied for the following subsidies, all of which were recorded in the statement of income and changes in retained earnings:

- (a) Canada Emergency Wage Subsidy of approximately \$258,000;
- (b) Canada Emergency Rent Subsidy of approximately \$7,000;
- (c) Tourism and Hospitality Recovery Program of approximately \$2,431,000;
- (d) Alberta Tourism Levy Abatement of approximately \$67,000;
- (e) Alberta Small and Medium Enterprise Relaunch Grant of \$10,000; and
- (f) B.C. Circuit Breaker Business Relief Grant of \$20,000.

The Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy were replaced by the Tourism and Hospitality Recovery Program.

Note 17 Subsequent Events

Management has evaluated subsequent events through May 30, 2023, the date which the financial statements were available to be issued.

On December 21, 2022, the Company entered into the franchise purchase agreement to acquire franchise agreements in the USA for USD\$5,100,000 as a final purchase price supported by a promissory note issued on December 14, 2022 by the Company to Coast Hotels USA, Inc. (the "Borrower"). The loan is a non-revolving loan to enable the Borrower to pay the purchase price for the franchise and other agreements. The loan bears interest compounded annually, at the interest rate prescribed quarterly by Canada Revenue Agency (interest rate at September 30, 2022 was 6.45%), payable on the maturity date, December 14, 2025, subject to extension.

On April 12, 2022, the Company provided a loan to APA, the parent company, in the amount of \$20,656,313. The loan receivable is a non-revolving unsecured loan advance bearing interest at 1% per annum. Both the principal and interest were due upon maturity date on April 11, 2023, subject to extension. The repayment of the loan was extended and is due on demand (Note 5).

EXHIBIT F
LIST OF FRANCHISEES

ALASKA

Coast Inn at Lake Hood
3450 Aviation Avenue
Anchorage, AK 99502
(907) 243-2233
Franchisee: International Inn Inc., an Alaska Corporation

CALIFORNIA

Coast Anabelle Hotel
2011 West Olive Avenue
Burbank, CA 91506
(818) 845-7800
Franchisee: Wilshire Royal Hotel Inc., a California Corporation

Safari Inn, a Coast Hotel
1911 West Olive Avenue
Burbank, CA 91506
(818) 845-8586
Franchisee: Wilshire Royal Hotel Inc., a California Corporation

West Beach Inn, a Coast Hotel
306 West Cabrillo Blvd.
Santa Barbara, CA 93101 (805) 963-4277
Franchisee: 360 W. Cabrillo Blvd., LLC, a California Limited Liability Company

HAWAII

Waimea Plantation Cottages, a Coast Resort
9400 Kaumualii Highway
Waimea, HI 96796
(808) 338-1625
Franchisee: Waimea Plantation Cottages, LLC, a Hawaii Limited Liability Company

WASHINGTON

Hotel 116, a Coast Hotel
625 116th Avenue N.E.
Bellevue, WA 98004
(425) 455-9444
Franchisee: Coast Bellevue LLC, a Washington Limited Liability Company

Coast Gateway Hotel
18415 International Blvd.
SeaTac, WA 98188
(206) 248-8200
Franchisee: Coast Gateway LLC, a Washington Limited Liability Company

Coast Wenatchee Center Hotel
201 N. Wenatchee Avenue
Wenatchee, WA 98801
(509) 662-1234
Franchisee: Coast Wenatchee LLC, a Washington Limited Liability Company

Coast Hilltop Inn
928 NW Olsen Street
Pullman, WA 99163
(509) 332-0928
Franchisee: Eagle Fish Associates, LLC, a Washington Limited Liability Company

STATE EFFECTIVE DATES

The following states have franchise laws that require that this Disclosure Document be registered or filed with the states, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This Disclosure Document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	Pending
Hawaii	Pending
Illinois	Not Filed
Indiana	Not Filed
Maryland	Not Filed
Michigan	Not Filed
Minnesota	Not Filed
New York	Not Filed
North Dakota	Not Filed
Rhode Island	Not Filed
South Dakota	Not Filed
Virginia	Not Filed
Washington	Pending
Wisconsin	Not Filed

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

EXHIBIT G

RECEIPTS (COAST COPY)

THIS DISCLOSURE DOCUMENT SUMMARIZES PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

IF COAST OFFERS YOU A FRANCHISE, COAST MUST PROVIDE THIS DISCLOSURE DOCUMENT TO YOU BY THE EARLIEST OF:

- (1) THE FIRST PERSONAL MEETING TO DISCUSS OUR FRANCHISE; OR
- (2) FOURTEEN CALENDAR DAYS BEFORE SIGNING OF A BINDING AGREEMENT;
OR
- (3) FOURTEEN CALENDAR DAYS BEFORE ANY PAYMENT TO COAST.

YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST TEN BUSINESS DAYS BEFORE YOU SIGN ANY FRANCHISE AGREEMENT.

IF COAST DOES NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND THE HAWAII DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS.

The franchisor and the name, principal business address and telephone number of each franchise seller offering the franchise are as follows:

Franchisor:

Coast Hotels USA, Inc.
925 Fourth Avenue, Suite 2900
Seattle, WA 98104
Telephone: (206) 370-8316

Franchise Sellers:

Mark Hope
925 Fourth Avenue, Suite 2900
Seattle, WA 98104
Telephone: (604) 682-7982 / (604) 329-1812

Issuance Date: August 8, 2023

Coast authorizes the respective state agencies identified on Exhibit B to receive service of process for Coast. I have received the Franchise Disclosure Document dated August 8, 2023. This Disclosure Document included the following Exhibits:

- A. List of State Administrators
- B. Agents for Service of Process
- C. Franchise Agreement
- D. State Addendum
- E. Financial Statements
- F. List of Franchisees
- G. Receipts (two copies)

Date

Franchisee

**RECEIPTS
(YOUR COPY)**

THIS DISCLOSURE DOCUMENT SUMMARIZES PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

IF COAST OFFERS YOU A FRANCHISE, COAST MUST PROVIDE THIS DISCLOSURE DOCUMENT TO YOU BY THE EARLIEST OF:

- (1) THE FIRST PERSONAL MEETING TO DISCUSS OUR FRANCHISE; OR
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OR
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YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST TEN BUSINESS DAYS BEFORE YOU SIGN ANY FRANCHISE AGREEMENT.

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The franchisor and the name, principal business address and telephone number of each franchise seller offering the franchise are as follows:

Franchisor:

Coast Hotels USA, Inc.
925 Fourth Avenue, Suite 2900
Seattle, WA 98104
Telephone: (206) 370-8316

Franchise Sellers:

Mark Hope
#700 – 535 Thurlow Street
Vancouver, BC V6E 3L2
Telephone: (604) 682-7982 / (604) 329-1812

Issuance Date: August 8, 2023

Coast authorizes the respective state agencies identified in Exhibit B to receive service of process for Coast. I have received the Uniform Franchise Disclosure Document dated August 8, 2023. This Disclosure Document included the following Exhibits:

- A. List of State Administrators
- B. Agents for Service of Process
- C. Franchise Agreement
- D. State Addendum
- E. Financial Statements
- F. List of Franchisees
- G. Receipts (two copies)

Date

Franchisee