



Holloway
LODGING

Real Estate Investment Trust

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2006**

Dated as of November 27, 2006



Management's Discussion and Analysis For the three and nine months ended September 30, 2006

Introduction

The following is a discussion of the results of operations and financial condition of Holloway Lodging Real Estate Investment Trust ("Holloway Lodging" or the "REIT") for the three and nine months ended September 30, 2006.

The following management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements of the REIT and the notes thereto as at and for the three and nine months ended September 30, 2006.

The financial statements of Holloway Lodging are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A includes forward-looking information. Forward-looking information is subject to certain risks and uncertainties, which could result in actual results differing materially from the forward-looking information. See "Forward-Looking Information".

Additional information about Holloway Lodging filed with the applicable Canadian securities regulatory authorities is available at www.sedar.com. Holloway Lodging is publicly traded on the TSX Venture Exchange under the symbol HLR.UN.

Overview

Holloway Lodging is an open-ended real estate investment trust that was formed under the laws of the Province of Ontario pursuant to a Declaration of Trust on March 28, 2006. On April 3, 2006, the REIT entered into an Arrangement Agreement with Holloway Capital Corporation ("HCC"), a capital pool company listed on the TSX Venture Exchange, in connection with its proposed qualifying transaction. The plan of arrangement and qualifying transaction involved three primary components:

- i) the reorganization of HCC into the REIT by way of a plan of arrangement;
- ii) a private placement of trust units of the REIT for gross proceeds to the REIT of \$860,000 at a price of \$2.00 per unit, after giving effect to the exchange of shares of HCC for units pursuant to the plan of arrangement on a one unit for five shares basis; and
- iii) the acquisition by the REIT, through an indirectly wholly-owned limited partnership named Holloway Lodging Limited Partnership ("Holloway Lodging LP"), of a 50 room, three storey "Super 8" branded hotel in Truro, Nova Scotia from Truro Motel 8 Partnership, for a purchase price of \$4.6 million.

On June 7, 2006, the plan of arrangement and qualifying transaction were completed. All of the issued and outstanding shares of HCC were transferred to the REIT in exchange for units based on the exchange ratio of one unit for five shares. All of the outstanding options to purchase shares of HCC were exchanged for unit options having identical terms, subject to

adjustment of the number of units underlying the unit options and the exercise price of the unit options based on the exchange ratio of one unit for five shares.

The arrangement involving conversion to the REIT has been accounted for as a continuity of interests. The unaudited consolidated financial statements reflect the financial position, results of operations and cash flows as if the REIT had always carried on the business formerly carried on by HCC. All assets and liabilities are recorded at historical cost. As a result, this MD&A and the financial statements to which it relates reflect the operations of the REIT as a continuation of HCC and include the results of operations of HCC from January 1, 2006 to June 6, 2006 and the consolidated operations of the REIT from June 7, 2006 to September 30, 2006.

The objectives of the REIT are:

- i) to generate stable cash distributions on a tax efficient basis;
- ii) to expand its asset base and increase its funds from operations through accretive acquisitions and internal growth initiatives; and
- iii) to enhance the value of its assets to maximize long-term unit value through active management of its assets.

The REIT had no operations in 2005.

Overall Performance

On August 1, 2006, Holloway Lodging REIT closed a private placement of trust units and subordinated convertible debentures. The REIT issued \$52.3 million worth of units at a price of \$4.50 per unit and \$20.2 million in subordinated convertible debentures. The debentures will mature five years from the date of issuance and bear interest at 8% per annum. The debentures are convertible into units of the REIT at the holders' option at any time after the second anniversary of the issuance at a conversion price of \$5.40. The proceeds of the issuance were used to partially satisfy the cash portion of the purchase price of hotel/lodging properties described below, invest in mezzanine loans and for general trust purposes. Included in the \$52.3 million worth of units issued by the REIT were approximately \$5.5 million worth of units issued to the vendor of the 5 Calgary Downtown Suites and Spa Hotel and approximately \$2.0 million worth of units issued to the vendor of the Wingate Inn.

Holloway Lodging acquired its initial property, the Super 8 Motel in Truro, Nova Scotia, as its qualifying transaction on June 7, 2006. During the three months ended September 30, 2006, the REIT acquired the following hotel/lodging properties:

- Radisson Suite Hotel, Halifax, Nova Scotia on August 4, 2006;
- Holiday Inn Express, Halifax, Nova Scotia on August 4, 2006;
- Holiday Inn Express Hotel and Suites, Moncton, New Brunswick on August 4, 2006;
- Super 8 Motel, Drayton Valley, Alberta on August 4, 2006;
- 5 Calgary Downtown Suites and Spa Hotel, Calgary, Alberta on August 23, 2006;
- Wingate Inn, Calgary, Alberta on September 1, 2006; and
- Super 8 Motel, Yellowknife, Northwest Territories on September 29, 2006.

As a result of the acquisitions, the REIT now owns eight hotel properties. The income statement for the three and nine months ended September 30, 2006 reflects the revenues and expenses of the properties for the period from the date of acquisition to September 30 (or for the full quarter with respect to the Super 8 motel in Truro), the expenses related to the identification and closing of the acquisitions and the expenses related to the operation of the REIT.

Hotel operations are subject to seasonal fluctuations. As such, the financial results are not evenly distributed throughout the year. Revenues are typically higher in quarters two and three than in quarters one and four.

Results of Operations

The following table provides the operating results for the three and nine months ended September 30, 2006.

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Hotel revenues	\$ 6,692,945	\$ 6,781,864
Hotel expenses	5,190,396	5,259,041
Hotel operating income	1,502,549	1,522,823
Trust expenses and reorganization expenses	730,368	1,458,918
Net income for the period	\$ 772,181	\$ 63,905
Per Unit Results		
Basic earnings per unit	\$ 0.080	\$ 0.015
Fully diluted earnings per unit	\$ 0.063	\$ 0.012

Three and Nine Months Ended September 30, 2006

Holloway Lodging REIT owned eight hotel properties for varying lengths of time during the quarter ended September 30, 2006 depending upon when they were acquired by the REIT. These properties generated revenue of approximately \$6.7 million and \$6.8 million for the three and nine months ended September 30, 2006. The income from hotel operations was \$1.5 million for both the three months and nine months ended September 30, 2006.

The REIT incurred general and administrative expenses of \$249,677 and \$478,787 for the three and nine months ended September 30, 2006, respectively. These expenses include salaries and benefits of employees of the REIT, professional fees, travel and other expenses. For the three months and nine months ended September 30, 2006, the REIT also accrued \$269,840 in debenture interest expense, \$29,877 in non-cash amortization of deferred financing fees and \$176,667 in non-cash accretion of the discount on the convertible

debentures. The REIT incurred stock-based compensation expense of \$0 and \$80,000 for the three and nine months ended September 30, 2006, respectively. In addition, the REIT incurred legal, accounting and other fees of \$0 and \$419,440 related to the reorganization of HCC into the REIT for the three and nine months ended September 30, 2006, respectively.

Investment and Financing Activity

Property Acquisitions

As of September 30, 2006, Holloway Lodging owned eight hotel/motel lodging properties as follows:

Property	City, Province	Acquisition Date	Number of Rooms	Purchase Price
Super 8 Motel	Truro, NS	June 7, 2006	50	\$4,600,000
Radisson Suite Hotel	Halifax, NS	August 4, 2006	104	\$11,800,000
Holiday Inn Express	Halifax, NS	August 4, 2006	99	\$6,400,000
Holiday Inn Express and Suites	Moncton, NB	August 4, 2006	152	\$7,800,000
Super 8 Motel	Drayton Valley, AB	August 4, 2006	60	\$6,700,000
5 Calgary Downtown Suites and Spa Hotel	Calgary, AB	August 23, 2006	302	\$29,500,000
Wingate Inn	Calgary, AB	September 1, 2006	103	\$15,250,000
Super 8 Motel	Yellowknife, NT	September 29, 2006	66	\$8,250,000

The following table outlines the financing for the acquisitions:

Financed by	Radisson	HIE Halifax	HIE Moncton	Super 8 Drayton Valley	5 Calgary	Wingate	Super 8 Yellowknife
Cash	\$4,652,166	\$2,202,910	\$3,778,039	\$6,700,000	\$24,001,000	\$13,252,000	\$8,250,000
Mortgages assumed	6,409,064	3,775,202	3,947,700	–	–	–	–
Obligations under capital leases assumed	108,770	51,888	74,261	–	–	–	–
Difference in fair value & carrying value of mortgage payable	630,000	370,000	–	–	–	–	–
Issuance of REIT units	–	–	–	–	5,499,000	1,998,000	–
	\$11,800,000	\$6,400,000	\$7,800,000	\$6,700,000	\$29,500,000	\$15,250,000	\$8,250,000

During the quarter, the REIT obtained mortgage financing of \$7,750,000 on the Wingate Inn in Calgary, Alberta. Subsequent to September 30, 2006, the REIT obtained mortgage financing of \$3,840,000 on the Super 8 motel in Drayton Valley, Alberta and \$4,800,000 in mortgage financing on the Super 8 Yellowknife, NT. The REIT expects to obtain a mortgage on the 5 Calgary Downtown Suites and Spa Hotel in the fourth quarter.

Mortgages Payable

As at September 30, 2006 the REIT had total mortgage debt outstanding of \$25,450,955 with a weighted average interest rate of 6.8% and a weighted average term to maturity of five years. A first charge on certain of the properties is pledged as security for the mortgages.

Capital Expenses

During the quarter, two hotels began product improvement plans (PIP) as part of their brand reviews. The Holiday Inn Express in Halifax is undergoing a \$1 million upgrade and the Holiday Inn Express in Moncton is undergoing a \$2.5 million upgrade. These improvements were negotiated with the previous owner and adjusted for as part of the purchase and sale agreement. These upgrades are expected to be completed in the fourth quarter of 2006 and the first quarter of 2007, respectively.

Private Placement of Units and Debentures

In order to finance a portion of the purchase price of the acquisitions completed in August and September, the REIT sold, by way of a private placement through its agent, Canaccord Capital Corporation 9,965,477 units at a price of \$4.50 per unit for gross proceeds of \$44.8 million and \$20.2 million in subordinated convertible debentures. Also during the quarter, the REIT issued 1,666,000 REIT units at \$4.50 per unit totaling \$7.5 million to the vendors of two of the properties acquired by the REIT.

Liquidity

As at September 30, 2006, the REIT had working capital of \$2,135,222. At the current rate of expenditure, the REIT has sufficient working capital to meet its ongoing commitments and expenditures.

Financial Commitments

The following chart summarizes the REIT's future commitments as at September 30, 2006.

(in \$000s)	Remainder of 2006	2007	2008	2009	2010
Mortgages payable - principal	\$ 202	\$ 838	\$ 905	\$ 977	\$ 8,971
Mortgages payable - interest	470	1,855	1,789	1,716	1,235
Obligations under capital leases	37	112	54	50	7
Convertible debentures - interest	–	1,619	1,619	1,619	1,619
Land lease	31	123	123	123	123
Total	\$ 740	\$ 4,547	\$ 4,490	\$ 4,485	\$ 11,955

Unit Information

Unit Information	September 30, 2006	December 31, 2005 (after reflecting conversion to the REIT)
Units outstanding	14,121,377	600,000
Options outstanding	160,000	-
Conversion of convertible debentures (conversion price \$5.40)	3,747,778	-

Non-GAAP Financial Measures

The following information provides various non-GAAP measures commonly used in the hotel industry. These measures are not recognized by GAAP and the calculations presented may differ from similar calculations reported by other entities and accordingly, may not be comparable.

Occupancy, ADR and RevPAR

The key performance indicators that are used to measure performance in the hotel industry are occupancy, average daily rate (“ADR”) and revenue per available room (“RevPAR”).

RevPAR for any given period, is defined as total room revenue divided by the total number of rooms in the hotel multiplied by the number of days in the period. RevPAR is presented because it is a commonly used indicator of market performance for hotels and resorts and represents the combination of the ADR and the average occupancy rate achieved during a period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel or resort. RevPAR is the most commonly used measure in the lodging industry to measure the period-over-period performance of comparable properties.

The following table provides information on these measures for the three months ended September 30, 2006 for the Super 8 in Truro and for the other seven properties for period of time they were owned by the REIT.

Property	Occupancy	ADR	RevPar
Super 8 Truro	85.1%	\$113.29	\$96.44
Radisson Halifax	95.3%	\$159.20	\$151.72
Holiday Inn Express Halifax	90.9%	\$116.20	\$105.64
Holiday Inn Express Moncton	82.6%	\$123.96	\$102.36
Super 8 Drayton Valley	87.1%	\$112.07	\$97.62
Wingate Calgary	91.0%	\$134.28	\$122.24
Five Calgary	84.7%	\$103.28	\$87.43
Super 8 Yellowknife	91.2%	\$132.14	\$120.51
Portfolio	87.1%	\$120.45	\$104.95

Overall demand during the quarter was strong. RevPar results at the Five Calgary were impacted by blocks of business being accommodated at lower rates which had been reserved by guests prior to the acquisition, coupled with the rate dilution due to some monthly stays at lower rates.

Hotel EBITDA

Hotel EBITDA is a commonly used measure of performance in the hotel/lodging industry. It is defined as income before interest, taxes, depreciation and amortization. The REIT has also added back the trust's general and administrative and reorganization expenses. Reconciliation of the net income to hotel EBITA is presented in the table below:

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Net income	\$ 772,181	\$ 63,905
Trust and reorganization expenses	730,368	1,458,918
Depreciation and amortization	441,215	453,542
Interest on mortgages	273,215	285,199
Hotel EBITDA	\$ 2,216,979	\$ 2,261,564

Hotel EBITA for the three months ended September 30, 2006 incorporates the earnings from the Truro Super 8 for the entire quarter and the earnings from the seven other hotels from their date of acquisition which occurred during the quarter.

Distributable Income

Distributable income is a non-GAAP financial measure commonly used by real estate investment trusts as an indication of financial performance. The definition of distributable income is defined in the REIT's Declaration of Trust and is set out below. Distributable income reflects the ability of the REIT to earn income and make distributions of cash to unitholders. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable income may differ from similar calculations reported by other entities and accordingly, may not be comparable.

Distributable income is defined as the consolidated net income of the REIT and its subsidiaries for the period computed in accordance with GAAP adjusted as follows: (i) the following items shall be added back to the consolidated net income of the REIT for the period – depreciation, amortization, future income tax expense, losses on dispositions of assets, amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value and amortization of deferred financing costs, and (ii) the following items shall be deducted from consolidated net income of the REIT for the period – the amount calculated for the reserve for replacement of FF&E, future

income tax credits, interest on convertible debentures to the extent not already deducted in computing net income, gains on dispositions of assets and amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value. Other adjustments may be made to distributable income as determined by the Trustees of the REIT in their discretion. Reorganization expenses have been considered a one-time, non-recurring item and have been added back in the calculation of distributable income.

Reconciliation of the net income to distributable income is presented in the table below:

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Net income	\$ 772,181	\$ 63,905
Add (deduct):		
Depreciation and amortization	445,522	457,849
Accretion of discount on convertible debentures	176,667	176,667
Non-cash land lease expense	2,660	3,440
Amortization of deferred financing fees	31,400	31,643
Non-cash interest expense	(20,425)	(20,425)
Reorganization expenses – one-time item	-	419,440
FF&E reserve	(186,116)	(188,781)
Distributable income	\$ 1,221,889	\$ 943,738
Weighted average basic units outstanding	9,638,681	4,215,087
Basic distributable income per unit	\$ 0.127	\$ 0.224
Weighted average fully diluted units outstanding	12,242,884	5,171,228
Fully diluted distributable income per unit	\$ 0.100	\$ 0.182
Per unit distributions declared	\$ 0.075	\$ 0.075

The REIT generated over \$1.2 million in distributable income for the three months ended September 30, 2006. Distributable income was lower for the nine months ended September 30, 2006 due to start-up costs. The REIT commenced monthly distributions in August. Monthly distributions of \$0.0375 per unit were declared for the months of August and September.

The Canadian Securities Administrators Staff Notice 52-306 (Revised) Non-GAAP Financial Measures requires a reconciliation of cash flows from operating activities to distributable income. The reconciliation consists primarily of the reserve for replacement of furniture, fixtures and equipment and accrued interest on convertible debentures.

Reconciliation of cash flow from operating activities to distributable income is presented in the table below:

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Cash flow from operating activities	\$ 3,779,356	\$ 3,327,758
Add (deduct):		
Changes in non-cash working capital	(2,060,661)	(2,223,989)
Reorganization expenses – one-time item	-	419,440
Accrued interest on convertible debentures	(269,840)	(269,840)
Stock-based compensation	-	(80,000)
FF&E reserve	(186,116)	(188,781)
Distributable income	\$ 1,262,739	\$ 984,588

Funds from Operations

Funds from operations (“FFO”) is a financial measure used in the hotel industry. The Real Property Association of Canada defines FFO as net income excluding depreciation and amortization, extraordinary items, gains or losses on the sale of assets, provisions for impairment and future income taxes. The REIT calculates FFO in accordance with this definition. FFO provides another useful measure of the REIT’s performance as net income incorporates depreciation and amortization of real estate assets, which may not necessarily occur and is based on historical cost accounting. FFO should not be construed as an alternative to net income or cash flow from operating activities. The REIT’s calculation of FFO may not be comparable to similar measures presented by other issuers.

Reconciliation of the net income to funds from operations (FFO) is presented in the table below:

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Net income	\$ 772,181	\$ 63,905
Add (deduct):		
Depreciation and amortization	445,522	457,849
Funds from operations	\$ 1,217,703	\$ 521,754
Weighted average basic units outstanding	9,638,681	4,215,087
Basic FFO per unit	\$ 0.126	\$ 0.124
Weighted average fully diluted units outstanding	12,242,884	5,171,228
Fully diluted FFO per unit	\$ 0.099	\$ 0.101

Related Party Transactions

Hotel Management Agreement

On June 7, 2006, Holloway Lodging REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. (“PHSI”) to manage the hotels purchased by the REIT, with an initial term of ten years and an automatic renewal for successive five year terms commencing on the last day of the initial term. PHSI is entitled to a base management fee of 3% of gross hotel revenues, an incentive fee commencing January 1, 2007, a purchasing fee of 4% of the cost of exceptional operating supplies and furniture, fixtures and equipment, a construction fee of 3% of the cost of construction materials, labour and equipment in connection with any construction or capital expenditures and an accounting fee ranging from \$15,000 to \$24,000 per year depending on the size of the hotel when accounting services are provided by PHSI. In addition, Intergy, a division of PHSI provides central reservation services for the hotels purchased by the REIT. A commission of 10% is paid on reservations made through Intergy.

Development Agreement

On June 7, 2006, Holloway Lodging REIT entered into a long-term development agreement with Winport Developments Inc. (“Winport”) to provide mezzanine financing to Winport and to have the option to purchase properties developed by Winport. The agreement has an initial term of ten years with an automatic renewal for five year terms thereafter. On October 6, 2006, the development agreement was assigned to Winport Developments Limited Partnership.

During the period, the REIT incurred management fees of \$182,166 and accounting fees of \$11,850 due to Pacrim Hospitality Services Inc.

Subsequent Events

- a) On October 5, 2006, the REIT obtained mortgage financing of \$3,840,000 on the Super 8 motel in Drayton Valley, Alberta.
- b) On October 24, 2006, the REIT obtained mortgage financing of \$4,800,000 on the Super 8 motel in Yellowknife, Northwest Territories.
- c) On November 2, 2006, the REIT provided mezzanine financing of \$8,000,000 to Winport Developments Limited Partnership. The loan to Winport bears interest at 12% and matures in five years.

Significant Accounting Policies

Note 2 to the REIT's consolidated financial statements for the three and nine months ended September 30, 2006 summarizes the REIT's significant accounting policies.

Future Changes to Canadian GAAP

Management of the REIT monitors new accounting pronouncements issued by the Canadian Institute of Chartered Accountants ("CICA").

The CICA has released Handbook section 1530 – Comprehensive Income which is applicable for the REIT's 2007 fiscal year. This section requires that comprehensive income be calculated and included in the financial statements. In addition, the CICA has released Handbook section 3855 – Financial Instruments – Recognition and Measurement. This section is applicable for the REIT's 2007 fiscal year. This section provides additional guidance on how to measure financial instruments and when to recognize them in the financial statements. Management of the REIT is in the process of assessing the impact of these new accounting pronouncements on the consolidated financial statements of the REIT.

Outlook

While Holloway is continuing to assess additional hotels to acquire to meet its growth strategy, this is tempered by the uncertainty created by the recent government proposal on changes to income trust taxation. Holloway will continue to work with Winport to offer mezzanine financing to develop the proprietary pipeline.

Risks and Uncertainties

There are a number of risk factors associated with the REIT. These include risks related to real property ownership; risks related to the business of the REIT, including the hotel industry, competition, acquisition strategy, development arrangements, franchised hotels, availability of additional capital, debt financing and reliance on key personnel; and risks relating to the structure of the REIT and that cash distributions are not guaranteed and may fluctuate with the REIT's performance. Additional information on these risks and uncertainties are described under "Risk Factors" in the management information circular of Holloway Capital Corporation dated May 4, 2006.

On October 31, 2006, the Canadian government announced a proposal regarding the taxation of income trusts and other flow-through entities. The proposal contains a specific exemption for certain REITs and outlines the requirements a REIT will have to meet in order to be eligible for the exemption. Existing entities will be subject to the new rules in 2011. Draft legislation has not been released. Management of the REIT is continuing to assess the potential impact, if any.

Forward-Looking Information

This MD&A contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the future financial position, property acquisition strategies and opportunities, business strategy, financial results and plans and objectives of the REIT. Particularly, statements regarding the REIT's future operating results, property acquisition strategies and opportunities and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or similar expressions concerning matters that are not historical facts. Forward-looking information is subject to certain facts, including risks and uncertainties, that could cause actual results to differ materially from what the REIT currently expects and there can be no assurance that such statements will prove to be accurate. Some of these risks and uncertainties are described under "Risk Factors" in the management information circular of Holloway Capital Corporation dated May 4, 2006.