

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Financial Statements
June 30, 2007

August 20, 2007

Management's Report

The accompanying unaudited interim consolidated financial statements of Holloway Lodging Real Estate Investment Trust are the responsibility of management. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The unaudited interim consolidated financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgement.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the financial statements. The Board of Trustees have reviewed and approved these unaudited interim consolidated financial statements.

(signed) "Glenn Squires"
President and Chief Executive Officer

(signed) "Tracy Sherren"
Chief Financial Officer

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Balance Sheet

As at June 30, 2007

	June 30, 2007 \$	December 31, 2006 \$
Assets		
Current assets		
Cash and cash equivalents	36,436,950	31,982,672
Restricted cash	2,800,283	—
Accounts receivable	2,185,018	1,546,975
Mezzanine loan receivable (note 4)	158,910	—
Inventories	556,896	341,562
Prepaid expenses and deposits	2,870,408	1,532,633
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	45,008,465	35,403,842
Capital reserve	1,293,253	1,720,429
Mezzanine loans receivable (note 4)	12,913,000	8,000,000
Property and equipment (note 5)	347,078,043	91,200,153
Other assets (note 6)	1,304,508	1,477,541
Future income taxes (note 13)	3,711,000	—
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	411,308,269	137,801,965
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,470,661	5,698,219
Distributions payable	1,446,499	529,552
Accrued interest on convertible debentures	746,723	674,600
Current portion of obligations under capital leases (note 7)	380,734	96,509
Current portion of loans payable (note 8)	3,999,080	1,535,676
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	14,043,697	8,534,556
Obligations under capital leases (note 7)	515,876	97,565
Loans payable (note 8)	161,151,956	48,027,952
Convertible debentures (note 9)	54,246,150	15,379,667
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	229,957,679	72,039,740
Unitholders' equity (note 10)	181,350,590	65,762,225
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	411,308,269	137,801,965

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Unitholders' Equity

For the six-month period ended June 30, 2006 and the six-month period ended June 30, 2007

	Share capital \$	Units \$	Class B LP units \$	Contributed surplus \$	Equity component of convertible debentures \$	Accumulated income (losses) \$	Accumulated distributions \$	Total \$
Balance, December 31, 2005	300,000	-	-	-	-	-	-	300,000
Initial public offering, net of issuance costs	852,209	-	-	-	-	-	-	852,209
Unit-based compensation related to options	-	-	-	80,000	-	-	-	80,000
Units issued in exchange for shares	(1,152,209)	1,152,209	-	-	-	-	-	-
Creation of trust	-	-	-	10	-	-	-	10
Units issued by private placement, net of issuance costs	-	773,378	-	-	-	-	-	773,378
Units issued in property acquisitions	-	-	920,000	-	-	-	-	920,000
Net loss	-	-	-	-	-	(708,276)	-	(708,276)
Balance June 30, 2006	-	1,925,587	920,000	80,010	-	(708,276)	-	2,217,321
Balance, December 31, 2006	-	63,270,181	920,000	430,010	4,982,000	(1,207,608)	(2,632,358)	65,762,225
Unit-based compensation related to options	-	-	-	194,584	-	-	-	194,584
Exercise of options	-	18,797	-	(2,527)	-	-	-	16,270
Units issued, net of issuance costs, net of tax of \$1,423,000	-	91,691,091	-	-	-	-	-	91,691,091
Units issued in property acquisitions	-	22,000,000	-	-	-	-	-	22,000,000
Equity component of convertible debentures	-	-	-	-	4,150,000	-	-	4,150,000
Issuance costs on equity component of convertible debentures	-	-	-	-	(155,625)	-	-	(155,625)
Exchange of units	-	46,000	(46,000)	-	-	-	-	-
Net income	-	-	-	-	-	2,294,310	-	2,294,310
Distributions	-	-	-	-	-	-	(4,602,265)	(4,602,265)
Balance, June 30, 2007	-	177,026,069	874,000	622,067	8,976,375	1,086,702	(7,234,623)	181,350,590

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)
For the three and six-month periods ended June 30, 2007 and 2006

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Hotel revenues				
Rooms	10,505,105	87,243	17,897,669	87,243
Other	2,482,523	1,676	4,736,910	1,676
	12,987,628	88,919	22,634,579	88,919
Hotel cost of sales	4,452,992	16,206	7,863,202	16,206
Hotel gross profit	8,534,636	72,713	14,771,377	72,713
Hotel operating expenses				
Sales and marketing	552,641	3,604	1,009,309	3,604
General and administrative	981,945	5,167	1,774,680	5,167
Maintenance, property taxes and insurance	1,689,070	9,966	3,183,921	9,966
Management and other fees	839,536	9,097	1,464,249	9,097
Depreciation and amortization	1,281,809	12,570	2,237,741	12,570
Land lease expense	630,302	—	1,101,180	—
Interest on mortgages and bank charges	1,244,321	12,035	2,198,024	12,035
	7,219,624	52,439	12,969,104	52,439
Income from hotel operations	1,315,012	20,274	1,802,273	20,274
Trust (income) expenses				
Interest income	(416,325)	—	(857,352)	—
General and administrative expenses	496,082	218,889	925,689	229,110
Expenditures related to abandoned property acquisitions	6,349	—	217,809	—
Depreciation and amortization	7,683	—	12,256	—
Debenture interest	515,211	—	951,001	—
Other interest	18,783	—	23,859	—
Accretion of discount on convertible debentures	175,223	—	328,117	—
Unit-based compensation	107,084	—	194,584	80,000
Reorganization expenses	—	419,440	—	419,440
	910,090	638,329	1,795,963	728,550
	404,922	(618,055)	6,310	(708,276)
Future income tax recovery (note 13)	2,288,000	—	2,288,000	—
Net income (loss) and comprehensive income (loss) for the periods	2,692,922	(618,055)	2,294,310	(708,276)
Income (loss) per unit (note 10)				
Basic	0.14	(0.34)	0.13	(0.49)
Diluted	0.14	(0.34)	0.13	(0.49)

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Cash Flows

For the three and six-month periods ended June 30, 2007 and 2006

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net income (loss) for the periods	2,692,922	(618,055)	2,294,310	(708,276)
Charges (credits) to income not involving cash				
Unit-based compensation	107,084	-	194,584	80,000
Depreciation and amortization	1,289,492	12,570	2,249,997	12,570
Accretion of mortgages and convertible debentures	174,206	-	319,468	-
Future income tax recovery	(2,288,000)	-	(2,288,000)	-
	1,975,704	(605,485)	2,770,359	(615,706)
Net change in non-cash working capital balances related to operations (note 11)	16,820	204,365	(324,306)	142,173
Cash flow from (used in) operating activities	1,992,524	(401,120)	2,446,053	(473,533)
Investing activities				
Increase in restricted cash	(2,800,283)	-	(2,800,283)	-
Decrease in capital reserve	286,012	-	427,176	-
Issuance of mezzanine loans	(158,910)	-	(5,071,910)	-
Acquisition of hotel properties (note 3)	(210,560,619)	(4,601,561)	(233,457,508)	(4,601,561)
Increase in other assets	(13,552)	(43,279)	(62,513)	(43,279)
Additions to property and equipment	(1,618,196)	-	(3,353,712)	-
Cash flow used in investing activities	(214,865,548)	(4,644,840)	(244,318,750)	(4,644,840)
Financing activities				
Repayment of capital lease obligations	(37,834)	-	(69,208)	-
Proceeds from mortgages	106,035,250	2,700,000	117,618,750	2,700,000
Financing fees	(841,733)	-	(1,016,188)	-
Repayment of mortgages payable	(440,657)	-	(788,606)	-
Issuance of common shares of Holloway Capital Corporation, net of issuance costs, subsequently converted to units	-	(2,942)	-	852,209
Issuance of units, net of issuance costs	90,945,938	773,378	90,938,775	773,378
Issuance of Class B Limited Partnership units	-	920,000	-	920,000
Exercise of options	16,270	-	16,270	-
Issuance of convertible debentures, net of issuance costs	43,312,500	-	43,312,500	-
Creation of trust	-	10	-	10
Distributions paid to unitholders	(1,905,605)	-	(3,685,318)	-
Cash flow from financing activities	237,084,129	4,390,446	246,326,975	5,245,597
Net change in cash and cash equivalents during the periods	24,211,105	(655,514)	4,454,278	127,224
Cash and cash equivalents – Beginning of periods	12,225,845	1,082,738	31,982,672	300,000
Cash and cash equivalents – End of periods	36,436,950	427,224	36,436,950	427,224

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

1 Basis of presentation and corporate reorganization

Holloway Lodging Real Estate Investment Trust (“Holloway Lodging REIT” or the “REIT”) is an open-ended real estate investment trust that was formed under the laws of the Province of Ontario pursuant to the Declaration of Trust on March 28, 2006. On April 3, 2006, Holloway Lodging 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 Holloway Lodging REIT by way of a plan of arrangement;
- ii) a private placement of trust units of Holloway Lodging 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 Holloway Lodging 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, the vendor, 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. Accordingly, these 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.

The objectives of the REIT are: (a) to generate stable cash distributions on a tax efficient basis; (b) to expand its asset base and increase its funds from operations through accretive acquisitions and internal growth initiatives; and (c) to enhance the value of its assets to maximize long-term unit value through active management of its assets.

As at June 30, 2007, the REIT owned 20 hotels in Canada with 2,230 guest rooms.

Revenues from hotel operations tend to fluctuate throughout the year, with greater demand in the second and third quarters of the calendar year.

2 Significant accounting policies

The accompanying unaudited financial statements have been prepared in accordance with the requirements of Canadian Institute of Chartered Accountants (CICA) Handbook Section 1751, “Interim Financial Statements”. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. These unaudited interim financial statements should be read in conjunction with the audited financial statements of the REIT for the year ended December 31, 2006.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

2 Significant accounting policies (continued)

Changes in accounting policies

Commencing with the first quarter of 2007, the REIT adopted five new accounting standards issued by the Accounting Standards Board: (i) Section 1530 Comprehensive Income; (ii) Section 3251 Equity; (iii) Section 3855 Financial Instruments – Recognition and Measurements; (iv) Section 3861 Financial Instruments – Disclosure and Presentation; and (v) Section 3865 Hedges.

The new standards prescribe how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

The REIT has implemented the following classifications:

- Cash and cash equivalents are classified as “Financial Assets Held for Trading”. These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the REIT, the measured amount generally corresponds to cost.
- Accounts payable, capital leases, convertible debentures and mortgages payable are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost net of transaction costs using the effective interest rate method. For the REIT, the measured amount generally corresponds to cost.

These new standards have been applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities are recognized as an adjustment to the opening balance of unitholders' capital or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. No adjustment was required by the REIT upon initial application of the new standards.

Due to the adoption of these new accounting policies, as at January 1, 2007, deferred finance charges were netted against the related mortgages payable and convertible debentures. As a result, deferred financing charges decreased from \$1,190,245 to \$nil, mortgages payable decreased from \$49,563,628 to \$49,222,500, and convertible debentures decreased from \$15,379,667 to \$14,530,550.

In the opinion of management, the unaudited interim financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The unaudited interim financial statements were prepared using the same policies and methods of computation as the audited financial statements of the REIT for the year ended December 31, 2006, with the exception of the implementation of the new financial instruments standards.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

3 Hotel acquisitions

Holloway Lodging REIT acquired the following hotels, restaurant operations and parking lots during the six months ended June 30, 2007. The acquisitions have been accounted for using the purchase method and accordingly, the results of operations of the hotels since the dates of acquisition have been included in the consolidated statement of operations. The following table details the acquisitions and the preliminary purchase price allocation:

Hotel	Radisson	Super 8	Super 8	Northwest Inn	Best Western	Holiday Inn	Holiday Inn Parking Lot	Pomeroy Inn & Suites
Location	Fort McMurray, AB	Three Hills, AB	Slave Lake, AB	Slave Lake, AB	Grande Prairie, AB	Grande Prairie, AB	Grande Prairie, AB	Grande Prairie, AB
Date of acquisition	January 31	April 18	June 22	June 22	June 22	June 22	June 22	June 22
	\$	\$	\$	\$	\$	\$	\$	\$
Assets acquired								
Land	2,000,000	1,160,000	1,080,000	1,110,000	2,930,000	4,440,000	-	3,590,000
Building	19,400,000	7,489,000	9,666,077	8,746,043	24,992,308	36,804,466	-	30,438,677
Furniture, fixtures and equipment	1,250,000	1,082,000	580,000	990,000	1,000,000	2,920,000	-	1,520,000
Leaseholds	-	-	-	-	3,321	3,945	-	3,343
Paving	-	144,000	65,856	94,080	101,949	167,680	1,500,000	128,838
Signage	-	25,000	50,000	50,000	50,000	50,000	-	50,000
Pool	-	100,000	-	-	-	-	-	-
Computer equipment – Hardware	100,000	-	6,458	30,751	30,675	84,337	-	41,326
Computer equipment – Software	-	-	10,135	34,089	-	599	-	-
Vehicles	-	-	13,500	-	-	-	-	-
Vehicle loans assumed	-	-	-	-	-	-	-	-
Assets under capital lease	-	-	9,400	107,107	53,864	158,294	-	341,277
Obligations under capital leases assumed	-	-	(8,303)	(107,946)	(35,873)	(80,329)	-	(326,801)
Franchise fee	-	-	-	-	27,417	83,353	-	42,904
Intangible assets	-	-	26,877	45,876	46,339	67,655	-	70,436
	22,750,000	10,000,000	11,500,000	11,100,000	29,200,000	44,700,000	1,500,000	35,900,000
Financed by								
Cash	22,750,000	8,000,000	10,431,847	10,069,000	26,487,821	40,548,137	1,500,000	32,565,506
Issuance of REIT units	-	2,000,000	1,068,153	1,031,000	2,712,179	4,151,863	-	3,334,494
	22,750,000	10,000,000	11,500,000	11,100,000	29,200,000	44,700,000	1,500,000	35,900,000

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

3 Hotel acquisitions (continued)

Hotel	Super 8	Super 8	Super 8	Super 8	Staff House	Super 8	Super 8 Parking Lot	Sorrentino's Restaurant
Location	Grande Prairie, AB	High Level, AB	Whitecourt, AB	Fort Nelson, BC	Fort Nelson, BC	Fort St. John, BC	Fort St. John, BC	Grande Prairie, AB
Date of acquisition	June 22	June 22	June 22	June 22	June 22	June 22	June 22	June 22
	\$	\$	\$	\$	\$	\$	\$	\$
Assets acquired								
Land	2,940,000	1,110,000	910,000	1,950,000	75,000	1,260,000	-	-
Building	25,469,919	8,851,267	7,401,957	15,594,921	250,000	9,963,304	-	399,043
Furniture, fixtures and equipment	1,490,000	810,000	590,000	1,420,000	-	930,000	-	-
Leaseholds	4,025	3,256	3,001	3,791	-	-	-	-
Paving	220,844	167,516	94,585	359,120	-	233,145	1,000,000	-
Signage	50,000	50,000	50,000	50,000	-	50,000	-	-
Pool	-	-	-	-	-	-	-	-
Computer equipment – Hardware	38,284	25,195	4,147	26,611	-	44,844	-	-
Computer equipment – Software	-	599	4,844	651	-	-	-	-
Vehicles	107,808	-	-	49,835	-	50,139	-	-
Vehicle loans assumed	(98,047)	-	-	(46,468)	-	(48,072)	-	-
Assets under capital lease	57,266	26,689	59,319	40,459	-	47,230	-	10,787
Obligations under capital leases assumed	(54,489)	(17,219)	(62,774)	(32,231)	-	(35,949)	-	(9,830)
Franchise fee	5,345	35,162	17,581	40,216	-	39,557	-	-
Intangible assets	69,045	37,535	27,340	43,095	-	65,802	-	-
	30,300,000	11,100,000	9,100,000	19,500,000	325,000	12,600,000	1,000,000	400,000
Financed by								
Cash	27,485,650	10,069,000	8,254,766	17,688,784	294,813	11,429,676	1,000,000	400,000
Issuance of REIT or LP units	2,814,350	1,031,000	845,234	1,811,216	30,187	1,170,324	-	-
	30,300,000	11,100,000	9,100,000	19,500,000	325,000	12,600,000	1,000,000	400,000

In addition to the purchase price paid to the vendors, as allocated above, the REIT incurred an additional \$5.0 million in other acquisition and closing costs, which were primarily allocated to the acquired buildings.

The REIT is continuing to evaluate the fair value of the assets acquired and as a result, the purchase price allocation may be adjusted.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

4 Mezzanine loans receivable

The REIT provides mezzanine loans on hotel projects being developed by Winport Developments Inc., Winport Developments Limited Partnership and its partners.

	June 30, 2007	December 31, 2006
	\$	\$
Winport Developments Limited Partnership, a related party, and Pacrim North York Limited Partnership, principal balance due November 3, 2011, bearing interest at 12%	8,000,000	8,000,000
RegWin Hotel Ltd., principal balance due January 19, 2012, bearing interest at 12%	3,000,000	—
Windsor 8 Motel Limited, principal balance due January 19, 2012, bearing interest at 12%	1,913,000	—
Winport Developments Inc., a related party, principal balance due December 29, 2007, bearing interest at 11%	158,910	—
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	13,071,910	8,000,000
Less: Current portion	158,910	—
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	12,913,000	8,000,000
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Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

5 Property and equipment

			June 30, 2007
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	32,906,951	—	32,906,951
Land lease	500,000	12,480	487,520
Buildings	282,464,912	1,968,536	280,496,376
Renovations in progress	2,190,215	—	2,190,215
Furniture, fixtures, equipment and other	24,855,662	1,273,667	23,581,995
Paving	5,393,113	103,399	5,289,714
Signage	854,398	31,087	823,311
Computer equipment and website	1,199,236	115,667	1,083,569
Vehicles	221,282	2,890	218,392
	<u>350,585,769</u>	<u>3,507,726</u>	<u>347,078,043</u>

			December 31, 2006
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	8,251,895	—	8,251,895
Land lease	500,000	6,365	493,635
Buildings	72,009,416	692,601	71,316,815
Renovations in progress	1,173,480	—	1,173,480
Furniture, fixtures and equipment	8,779,768	482,029	8,297,739
Paving	1,097,500	41,360	1,056,140
Signage	324,153	11,929	312,224
Computer equipment and website	342,508	44,283	298,225
	<u>92,478,720</u>	<u>1,278,567</u>	<u>91,200,153</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

6 Other assets

	June 30, 2007		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Agreements	500,000	—	500,000
Franchise fees	834,353	29,845	804,508
	<u>1,334,353</u>	<u>29,845</u>	<u>1,304,508</u>
	December 31, 2006		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Franchise fees	296,301	9,005	287,296
Deferred financing fees (note 2)	1,276,657	86,412	1,190,245
	<u>1,572,958</u>	<u>95,417</u>	<u>1,477,541</u>

7 Obligations under capital leases

The REIT assumed various capital lease obligations to acquire computer equipment, signs and hotel equipment.

	June 30, 2007	December 31, 2006
	\$	\$
Present value of future minimum lease payments	896,610	194,074
Less: Current portion	<u>380,734</u>	<u>96,509</u>
	<u>515,876</u>	<u>97,565</u>

Estimated future repayments over the next five years are as follows:

	\$
Remainder of 2007	254,618
2008	383,865
2009	248,543
2010	155,758
2011	<u>3,532</u>
Future minimum lease payments	1,046,316
Less: Amounts representing interest	<u>149,706</u>
Present value of future minimum lease payments	<u>896,610</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

8 Loans payable

	June 30, 2007 \$	December 31, 2006 \$
Mortgages payable, bearing interest at a weighted average rate of 6.73% (December 31, 2006 - 6.78%) and maturing on various dates from April, 2010 to July 2017. First charges on all the hotel properties have been pledged as security for these mortgages	164,958,448	49,563,628
Vehicle loans payable, bearing interest at a weighted average rate of 7.72% and maturing on various dates from January 2009 to April 2011	192,588	-
Less: Current portion	<u>3,999,080</u>	<u>1,535,676</u>
	<u>161,151,956</u>	<u>48,027,952</u>

Estimated future principal repayments over the next five years are as follows:

	\$
Remainder of 2007	1,855,167
2008	4,181,978
2009	4,937,534
2010	13,716,034
2011	36,680,214

The current portion of long-term debt on the balance sheet is based on the year ending June 30, 2008, whereas the repayment schedule above reflects the fiscal year.

9 Convertible debentures

On August 1, 2006, the REIT issued \$20,238,000 in convertible, redeemable debentures. The debentures bear interest at 8% and mature in five years. The convertible debentures can be converted into units of the REIT at \$5.40 per unit at any time commencing two years and one day from the issuance date and ending on the date that is 15 days prior to the maturity date.

On June 21, 2007, the REIT issued \$45,000,000 in convertible, redeemable debentures. The debentures bear interest at 6.5% and mature in five years. The convertible debentures can be converted into units of the REIT at \$5.35 per unit at any time commencing two years and one day from the issuance date and ending on the date that is 15 days prior to the maturity date.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

9 Convertible debentures (continued)

The convertible debentures have been valued at their estimated fair value at the time of issuance, according to the terms and conditions in place at the time. The difference between the gross proceeds and the estimated fair value of the debt of \$5,300,000 on the August 1, 2006 8% debentures and \$4,150,000 on the June 21, 2007 6.5% debentures represents the value of the conversion feature of the debentures and accordingly, has been recorded as a component of equity. The difference between the recorded value of the debt component of the debentures and their face value has been accounted for as a discount on the issuance of the debt and is being accreted to interest expense, using the effective interest rate method, over the term of the debentures.

The debt component of the convertible debentures is recorded as a liability. The accretion of the discount on the issuance of the debentures increases the debt component to their face value over the term of the debentures.

	June 30, 2007 \$	December 31, 2006 \$
Debt component	55,788,000	14,938,000
Accretion of convertible debentures	769,784	441,667
Deferred finance charges	(2,311,634)	—
	<u>54,246,150</u>	<u>15,379,667</u>

10 Unitholders' equity

The REIT is authorized to issue an unlimited number of units ("REIT units") for the consideration of, and on the terms and conditions determined by, the Declaration of Trust. Each REIT unit is transferable and represents an equal undivided beneficial interest in any distribution from the REIT. All REIT units are of the same class and have equal rights and privileges.

Reorganization of Holloway Capital Corporation

Pursuant to the qualifying transaction and plan of arrangement completed on June 7, 2006, the common shares of HCC with a carrying value of \$1,152,209 were exchanged for REIT units on the basis of one REIT unit for every five common shares of HCC resulting in issuance of 1,600,000 REIT units to current shareholders of HCC. The arrangement involving conversion to the REIT has been accounted for as a continuity of interests.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

10 Unitholders' equity (continued)

Class B limited partnership units

On June 7, 2006, in connection with the acquisition of the Truro Super 8 Motel, Holloway Lodging LP issued 460,000 Class B Limited Partnership units (exchangeable LP units) with a value of \$920,000 to the vendor, Truro Motel 8 Partnership. The exchangeable LP units are exchangeable for units of the REIT on a one-for-one basis pursuant to an exchange agreement entered into between the REIT, Holloway Lodging LP and Truro Motel 8 Partnership. The REIT also issued special voting units to the vendor such that the vendor, as holder of the exchangeable LP units, would hold the economic and voting equivalent of the REIT units.

On April 20, 2007, 23,000 Class B Limited Partnership units were exchanged for units of the REIT.

The number of Class B Limited Partnership units outstanding as at June 30, 2007 was 437,000 (June 30, 2006 - 460,000).

Unit options

Options to purchase an aggregate 867,000, of which 392,333 are exercisable at June 30, 2007, (December 31, 2006 - 805,000, exercisable 375,000) units have been granted to certain trustees, officers and employees of the REIT and Pacrim Hospitality Services Inc. at prices ranging from \$1.00 to \$4.88 per unit. These options expire at various dates ranging from February 17, 2011 to April 4, 2012.

On June 6, 2007, 3,334 options were exercised.

Number of REIT units outstanding

The number of REIT units outstanding as at June 30, 2007 was 38,136,317 (June 30, 2006 – 2,030,000).

Weighted average number of units

The basic and diluted weighted average number of units outstanding was as follows:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30, 2007</u> (units)	<u>June 30, 2006</u> (units)	<u>June 30, 2007</u> (units)	<u>June 30, 2006</u> (units)
Basic	19,432,346	1,834,725	18,012,963	1,458,343
Diluted	20,298,854	1,834,725	18,168,228	1,458,343

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

10 Unitholders' equity (continued)

Weighted average number of units (continued)

The basic and diluted net income (loss) used in the calculation of net income (loss) per unit was as follows:

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Basic net income (loss)	2,692,922	(618,055)	2,294,310	(708,276)
Add: Notional conversion of convertible debentures	94,149	—	—	—
Diluted income (loss)	2,787,071	(618,055)	2,294,310	(708,276)

11 Change in non-cash working capital

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Accounts receivable	(617,059)	16,308	(638,043)	(86,768)
Inventories	(170,549)	(23,610)	(215,334)	(23,610)
Prepaid expenses and deposits	(1,331,792)	(208,122)	(1,337,775)	(212,247)
Accounts payable and accrued liabilities	1,659,337	419,789	1,794,723	464,798
Accrued interest on convertible debentures	476,883	—	72,123	—
	16,820	204,365	(324,306)	142,173

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

12 Agreements

Hotel Management Agreements

Pacrim Hospitality Services Inc.

On June 7, 2006, Holloway Lodging REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. ("PHSI"), a related party, to manage certain 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.

On November 24, 2006, the parties entered into an amending agreement such that the initial term with respect to each hotel shall commence on the date on which the REIT acquires the hotel for a term of ten years and automatic renewals for successive five-year terms.

Pomeroy Hospitality Ltd.

On June 22, 2007, Holloway Lodging REIT entered into a long-term management agreement with Pomeroy Hospitality Ltd. ("Pomeroy") to manage ten hotels purchased by the REIT, with a term of five years. Pomeroy is entitled to a base management fee of 3% of gross room revenue plus 2.5% of earnings before interest, income taxes, depreciation and amortization on a consolidated basis for all of the hotels, provided that the total management fee does not exceed 4% of gross room revenue. In addition, Pomeroy is entitled to accounting and payroll processing fees per hotel ranging from \$27,600 to \$38,545 per year.

Development Agreement

On June 7, 2006, Holloway Lodging REIT entered into a long-term development agreement with Winport Developments Inc. ("Winport"), a related party, 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, a related party. On May 15, 2007, Winport Developments Inc. was re-instated as an approved developer and recipient of mezzanine loans.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

12 Agreements (continued)

Non-competition, Right of First Opportunity and Participation Agreement

On June 22, 2007, Holloway Lodging REIT entered into a non-competition, right of first opportunity and participation agreement with Pomeroy Gold Ltd. The agreement has a term of five years and provides for (a) limitations on the development of hotels within a defined area without the consent of each party to the agreement; (b) the right of first opportunity for Holloway to purchase certain hotels; and (c) the right for Holloway to invest in certain Pomeroy developments.

13 Future income taxes

Under the provisions of Bill C-52, Budget Implementation Act, 2007, which was substantively enacted on June 12, 2007, the REIT, as a publicly traded income trust, is considered a specified investment flow-through (“SIFT”). As the REIT has exceeded the “normal growth” rates as defined in the guidelines issued by the Department of Finance, the REIT will be subject to tax commencing in the current year. Accordingly, future income tax will be recorded based on temporary differences expected to reverse in the future at the substantively enacted tax rates, which will be in effect at the time the temporary differences are expected to reverse. The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities at June 30, 2007, that are expected to reverse in the future, are presented below:

	June 30, 2007
	\$
Future income tax assets	
Unit issuance costs	3,972,000
Tax losses carried forward	994,000
Other	35,000
	<u>5,001,000</u>
Future income tax liabilities	
Property and equipment – differences in net book value and undepreciated capital cost	(1,167,000)
Other	(123,000)
	<u>(1,290,000)</u>
Net future income tax asset	<u>3,711,000</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three and six-month periods ended June 30, 2007 and 2006

14 Subsequent events

On July 17, 2007, the REIT's trust units and debentures (HRL.UN, HRL.DB and HLR.DB.A) commenced trading on the Toronto Stock Exchange.

On July 18, 2007, the underwriters exercised their over-allotment option that was granted in connection with the sale of 17,758,000 units at \$5.35 per unit and \$45,000,000 of 6.5% convertible debentures which closed on June 21, 2007. The over-allotment was comprised of an additional 580,000 units at \$5.35 and \$6,844,000 of 6.5% convertible debentures.