



Holloway
LODGING

Real Estate Investment Trust

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007**

Dated as of August 20, 2007



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007

HIGHLIGHTS

The following summarizes the key highlights that occurred during the three months ended June 30, 2007:

- on June 21, 2007, the REIT issued 17,758,000 units at a price of \$5.35 per unit and \$45.0 million aggregate principal amount of 6.5% convertible debentures in a "bought deal" public offering for total gross proceeds of \$140.0 million;
- on June 22, 2007, the REIT purchased ten hotels (the "Pomeroy hotels") located in northern Alberta and British Columbia from the Pomeroy Group for \$215.3 million and in addition, purchased parking lots located adjacent to two of the hotels and a restaurant for \$2.9 million;
- obtained mortgage financing of \$100.0 million bearing interest at 6.82% and repayable in ten years on the Pomeroy hotels;
- during April 2007, the REIT purchased the Super 8 Motel in Three Hills, AB for \$10.0 million and obtained mortgage financing of \$5.0 million on this hotel;
- as a result of these transactions, total assets have increased by over \$273.5 million since December 31, 2006;
- announced a 20% increase in distributions (\$0.54 annually from \$0.45 annually) starting with the July, 2007 distributions (payable August 15, 2007); and
- subsequent to the end of the quarter, the REIT graduated from the TSX Venture Exchange to the TSX.

INTRODUCTION

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Real Estate Investment Trust ("Holloway" or the "REIT") for the three and six months ended June 30, 2007 and should be read in conjunction with the unaudited interim consolidated financial statements of the REIT and the notes thereto as at and for the three and six months ended June 30, 2007, the audited consolidated financial statements and the notes thereto for the year ended December 31, 2006 and the MD&A thereon.

The financial statements of Holloway 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 the REIT filed with the applicable Canadian securities regulatory authorities, including the unaudited financial statements of the REIT and the notes thereto, is available at www.sedar.com. The REIT's units and convertible debentures are publicly traded on the TSX under the symbols HLR.UN, HLR.DB and HLR.DB.A, respectively.

OVERVIEW

Holloway 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. 2006 was the initial year of active operations for the REIT. On June 7, 2006, Holloway Capital Corporation ("HCC") was reorganized into the REIT and acquired its first hotel, the Super 8 in Truro, Nova Scotia. Since that time the REIT has acquired nineteen additional properties.

Holloway's principal business is to invest, directly or indirectly, in the ownership and operation of hotel properties. The management of the REIT has considerable expertise in hotel operations and management and possesses the resources necessary to maximize revenue and profits from its hotel portfolio. The REIT capitalizes on the hotel operating, development, finance, and transactional experience of its management and Trustees.

The REIT's objectives are to:

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

The REIT intends to make stable cash distributions to unitholders on a monthly basis. The REIT commenced distributions on its units in August, 2006.

The table below details the twenty hotels owned by Holloway as at June 30, 2007.

Property	City, Province	Acquisition Date	Number of Rooms	Purchase Price Paid to the Vendor
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	98	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 & Spa Hotel	Calgary, AB	August 23, 2006	302	29,500,000
Wingate by Wyndham	Calgary, AB	September 1, 2006	103	15,250,000
Super 8 Motel	Yellowknife, NT	September 29, 2006	66	8,250,000
Radisson Hotel and Suites	Fort McMurray, AB	January 31, 2007	134	22,750,000
Super 8 Motel	Three Hills, AB	April 13, 2007	82	10,000,000
Super 8 Motel	Fort St. John, BC	June 22, 2007	93	12,600,000
Super 8 Motel	Fort Nelson, BC	June 22, 2007	142	19,500,000
Super 8 Motel	Slave Lake, AB	June 22, 2007	58	11,500,000
Super 8 Motel	Whitecourt, AB	June 22, 2007	59	9,100,000
Super 8 Motel	High Level, AB	June 22, 2007	81	11,100,000
Super 8 Motel	Grande Prairie, AB	June 22, 2007	149	30,300,000
Holiday Inn	Grande Prairie, AB	June 22, 2007	146	44,700,000
Best Western	Grande Prairie, AB	June 22, 2007	100	29,200,000
Pomeroy Inn and Suites	Grande Prairie, AB	June 22, 2007	152	35,900,000
Northwest Inn	Slave Lake, AB	June 22, 2007	99	11,100,000
Total			2,230	\$338,050,000

RESULTS OF OPERATIONS

The conversion of HCC to the REIT in 2006 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 for the three and six months ended June 30, 2007 and the comparative figures for the three and six months ended June 30, 2006 reflect the combined results of operations of HCC and the REIT as conversion to the REIT occurred in the second quarter of 2006. The REIT owned one property for twenty-four days during the three months ended June 30, 2006. The income statement for the three and six months ended June 30, 2007 reflects the revenues and expenses of the hotel properties and the expenses related to the operation of the REIT.

The following table provides a summary of the operating results for the three and six months ended June 30, 2007 and 2006.

(in 000's except per unit results)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Hotel revenues	\$ 12,987	\$ 89	\$ 22,634	\$ 89
Hotel expenses	11,672	69	20,832	69
Income from hotel operations	1,315	20	1,802	20
Net trust expenses	910	638	1,796	728
Future income tax recovery	2,288	-	2,288	-
Net income (loss) for the period – basic	2,693	(618)	2,294	(708)
Add: interest on convertible debentures (that are dilutive)	94	-	Not dilutive	-
Net income (loss) for the period – diluted	2,787	(618)	2,294	(708)
Weighted average basic units outstanding	19,432	1,835	18,013	1,458
Weighted average diluted units outstanding	20,299	1,835	18,168	1,458
Basic income (loss) per unit	0.14	(0.34)	0.13	(0.49)
Diluted income (loss) per unit	0.14	(0.34)	0.13	(0.49)
<u>Reconciliation to funds from operations</u>				
Add/(deduct):				
Depreciation and amortization on real property	1,272	13	2,217	13
Future income tax recovery	(2,288)	-	(2,288)	-
Funds from operations – basic and diluted	1,677	(605)	2,223	(695)
Basic FFO per unit	0.09	(0.33)	0.12	(0.48)
Diluted FFO per unit	0.08	(0.33)	0.12	(0.48)
<u>Reconciliation to distributable income</u>				
Add/(deduct):				
Depreciation and amortization – trust and other assets	18	-	33	-
Reorganization expenses – one time item	-	419	-	419
Accretion on mortgages and convertible debentures ¹	174	-	319	-
Unit-based compensation	107	-	195	80
FF&E reserve	(390)	(3)	(679)	(3)
Distributable income (loss) – basic and diluted	1,586	(189)	2,091	(199)
Basic and diluted distributable income (loss) per unit	0.08	(0.10)	0.12	(0.14)
<u>Reconciliation of cash flow from operating activities to distributable income</u>				
Cash flow from operating activities	1,993	(401)	2,446	(473)
Changes in non-cash working capital balances	(17)	(204)	324	(142)
FF&E reserve	(390)	(3)	(679)	(3)
Reorganization expenses – one-time item	-	419	-	419
Distributable income (loss)	1,586	(189)	2,091	(199)

¹Includes the amortization of deferred finance fees which is included in interest expense in the financial statements.

Three Months and Six Months ended June 30, 2007

Holloway owned twenty hotel properties for varying lengths of time during the three and six months ended June 30, 2007. The results include the operations of the hotel properties during the quarter or from the date of acquisition during the quarter. The ten hotels purchased from the Pomeroy Group were acquired on June 22, 2007 so the results for the quarter only include their operations for nine days. The properties generated revenue of approximately \$13.0 and \$22.6 million and income from hotel operations of approximately \$1.3 and \$1.8 million for the three and six months ended June 30, 2007, respectively.

The major trust revenues and expenses for the three and six months ended June 30, 2007 included the following:

- interest income of \$0.4 and \$0.9 million from mezzanine loans on development properties and short-term investing of excess cash;
- general and administrative expenses of approximately \$0.5 and \$0.9 million, which include salaries and benefits of employees of the REIT, professional fees, travel and other expenses;
- interest expense of approximately \$0.5 and \$1.0 million on the convertible debentures;
- non-cash accretion of the discount on the convertible debentures of \$0.2 and \$0.3 million; and
- non-cash unit-based compensation expense of \$0.1 and \$0.2 million for options granted in 2006 and 2007 which will vest in 2007, 2008 and 2009 and are being expensed on a straight-line basis.

Three Months ended June 30, 2007 compared to Three Months ended June 30, 2006

Income from hotel operations for the three months ended June 30, 2007 was \$1.3 million compared to \$0.02 million for the three months ended June 30, 2006. The REIT purchased its first hotel on June 7, 2006 so the results include twenty-four days of operations. The results for the three months ended June 30, 2007 include the operation of nine hotels for the full quarter, the Super 8 in Three Hills, AB since the middle of April and the ten Pomeroy hotels for nine days. As a result, the income from hotel operations has drastically increased from the prior year. The trust expenses have also increased as the REIT primarily commenced its operations in the second quarter of 2006 and incurred \$0.4 million in reorganization expenses converting from a capital pool corporation to a REIT.

NON-GAAP FINANCIAL MEASURES

The following information provides various non-GAAP measures commonly used in the lodging 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.

Funds from Operations

Funds from operations (“FFO”) is a non-GAAP financial measure used in the hotel industry. The Real Property Association of Canada (“REALpac”) defines FFO as net income excluding depreciation and amortization on real property, 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. FFO for the three and six months ended June 30, 2007 was \$1.7 million and \$2.2 million, respectively.

Distributable Income/Adjusted Funds from Operations (“AFFO”)

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 cash distributions 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. Non-cash unit based compensation has been added back in the calculation of distributable income.

The REIT generated approximately \$1.6 million and \$2.1 million in distributable income for the three and six months ended June 30, 2007. Distributions of \$0.0375 per unit were declared each month and totalled \$2.7 million and \$4.6 million for the three and six months ended June 30, 2007. The distributions per unit are consistent from month to month, whereas distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

On June 25, 2007 the REIT announced an increase in its monthly distributions to unitholders from \$0.0375 per month (\$0.45 annually) to \$0.045 per month (\$0.54 annually). The first increased distribution payment will be made in August to unitholders of record as of July 31, 2007.

SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of the quarterly operating results.

(in 000's except per unit results)	Q1, 2006	Q2, 2006	Q3, 2006	Q4, 2006	Q1, 2007	Q2, 2007
Total revenues (hotel and trust)	–	\$ 89	\$ 6,693	\$ 8,787	\$ 10,088	\$ 13,404
Hotel revenues	–	\$ 89	\$ 6,693	\$ 8,610	\$ 9,647	\$ 12,988
Hotel expenses	–	69	5,190	8,213	9,160	11,673
Income from hotel operations	–	20	1,503	397	487	1,315
Net trust expenses	90	638	731	1,669	886	910
Future income tax recovery	–	–	–	–	–	2,288
Net income (loss) for the period	\$ (90)	\$ (618)	\$ 772	\$ (1,272)	\$ (399)	\$ 2,693
Per Unit Results:						
Basic earnings per unit	–	–	0.08	–	–	0.14
Diluted earnings per unit	–	–	0.06	–	–	0.14
Basic and diluted loss per unit	(0.02)	(0.34)	–	(0.15)	(0.02)	–

The REIT acquired its first property in the second quarter of 2006. The REIT acquired seven additional properties during the third quarter of 2006, one property during the first quarter of 2007, and eleven properties during the second quarter of 2007. As a result, the income from hotel operations has increased in each of the six quarters of the REIT's existence.

Key Performance Measures

The key performance indicators used to measure performance in the lodging 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 relevant as it is the most commonly used indicator of market performance for hotels 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.

The following table provides information on these measures for the three and six months ended June 30, 2007.

Hotel	3 Months Ended June 30, 2007			6 Months Ended June 30, 2007		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Super 8 Motel Truro	72.5	103.84	75.31	68.4	102.26	69.92
Holiday Inn Express Halifax/Bedford	79.3	112.04	88.87	72.6	107.54	78.07
Radisson Suite Hotel Halifax	88.4	140.64	124.33	85.4	133.55	113.99
Holiday Inn Express Hotel & Suites Moncton	61.2	105.87	64.73	58.8	106.72	62.78
5 Calgary Downtown Suites & Spa Hotel	67.1	134.80	90.49	59.3	127.96	75.81
Super 8 Motel Drayton Valley	60.9	115.35	70.24	74.9	115.16	86.23
Wingate by Wyndham Calgary	81.2	153.66	124.81	74.6	142.78	106.53
Super 8 Motel Yellowknife	89.5	138.84	124.21	86.3	136.68	117.96
Radisson Hotel & Suites Fort McMurray	67.5	168.70	113.81	72.8	163.35	118.99
Super 8 Motel Three Hills	35.1	96.87	33.97	35.1	96.87	33.97
Super 8 Motel Fort Nelson	81.5	138.32	112.71	81.5	138.32	112.71
Super 8 Motel Fort Saint John	81.5	150.87	122.93	81.5	150.87	122.93
Holiday Inn Grand Prairie	45.3	215.34	97.67	45.4	215.34	97.67
Super 8 Motel Grande Prairie	79.6	152.55	121.45	79.6	152.55	121.45
Pomeroy Inn & Suites Grande Prairie	49.2	194.52	95.64	49.2	194.52	95.64
Best Western Grande Prairie	66.9	179.52	120.08	66.9	179.52	120.08
Super 8 Motel High Level	66.7	153.26	102.17	66.7	153.26	102.17
Super 8 Motel Whitecourt	69.3	142.60	98.82	69.3	142.60	98.82
Super 8 Motel Slave Lake	75.3	129.93	97.82	75.3	129.93	97.82
Northwest Inn Slave Lake	34.6	131.99	45.63	34.6	131.99	45.63
Totals	69.9%	\$134.54	\$93.21	67.7%	\$129.04	\$87.34

Overall demand during the three months ended June 30, 2007 was particularly strong at the Wingate by Wyndham in Calgary, AB, the Super 8 Motel in Yellowknife, NT and at the Radisson Suite Hotel in Halifax, NS. The results at the Super 8 Motels in Drayton Valley and Three Hills, AB were impacted by a prolonged road ban due to inclement weather which curtailed oil drilling activity in those locations.

Hotel EBITDA

Hotel EBITDA, a commonly used non-GAAP measure of performance in the lodging industry, is defined as income before interest, taxes, depreciation and amortization. The REIT has also added back the trust’s net expenses.

Reconciliation of the net income (loss) to hotel EBITDA is presented in the table below:

(in 000's)	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Net income (loss)	\$ 2,693	\$ (618)	\$ 2,294	\$ (708)
Net trust expenses	910	638	1,796	729
Depreciation and amortization	1,282	13	2,238	13
Accretion of finance fees included in interest expense	21	-	43	-
Interest on mortgages	1,216	12	2,141	12
Interest on capital leases	5	-	9	-
Future income tax recovery	(2,288)	-	(2,288)	-
Hotel EBITDA	\$ 3,839	\$ 45	\$ 6,233	\$ 46

The hotels produced a solid second quarter and managed expenses in line with expectations. The hospitality industry has seasonal fluctuations with the second and third quarters of the year being the strongest.

CASH FLOW FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007

During the three and six months ended June 30, 2007, the REIT's cash and cash equivalents increased by approximately \$24.2 and \$4.5 million, respectively.

Operating Activities

Cash flow from operations was approximately \$2.0 million and \$2.4 million for the three and six months ended June 30, 2007 reflecting the cash generated by the hotels and the head-office operations of the REIT. Changes in non-cash working capital balances generated approximately \$0.02 million in the three months and used approximately \$0.3 million in the six months ended June 30, 2007.

Investing Activities

Investing activities utilized \$214.9 million and \$244.3 million during the three and six months ended June 30, 2007. On April 13, 2007, the REIT purchased the Super 8 Motel in Three Hills, Alberta for \$10.0 million. On June 22, 2007, the REIT acquired a portfolio of ten hotels located in Alberta and British Columbia from The Pomeroy Group for a purchase price of \$215.3 million. The REIT also purchased two parking lots and the Sorrentino's restaurant for \$2.9 million.

The increase in restricted cash of \$2.8 million represents funds for improvements to the Pomeroy Inn and Suites in Grande Prairie, AB. These repairs are presently ongoing and it is expected they will be completed in 2007 and the funds will be released.

The REIT provided mezzanine loans of \$0.2 million in the three months ended June 30, 2007 and \$5.1 million in the six months then ended.

Additions to property and equipment were \$1.6 million and \$3.4 million in the three and six months ended June 30, 2007. Renovations and improvements were made to the Holiday Inn Express in Halifax, NS, the Holiday Inn Express and Suites in Moncton, NB and the Radisson Suite Hotel in Halifax, NS.

Financing Activities

Financing activities provided \$237.1 million and \$246.3 million in cash during the three and six months ended June 30, 2007. During the three months ended June 30, 2007, the REIT obtained mortgage financing of \$5.0 million on the Super 8 Motel in Three Hills, AB, increased its mortgage on the Holiday Inn Express and Suites in Moncton, NB by \$1.0 million to finance the capital improvements being made to the hotel and obtained mortgage financing of \$100.0 million on the Pomeroy Hotels. In addition, during the six months ended June 30, 2007, the REIT obtained an \$11.0

million mortgage on the Radisson Hotel and Suites in Fort McMurray, AB and increased its mortgage debt on the Moncton property by \$0.6 million.

On June 21, 2007, the REIT issued 17,758,000 units at a price of \$5.35 per unit for gross proceeds of \$95,005,300 and \$45,000,000 aggregate principal amount of 6.5% convertible debentures. The debentures bear interest at 6.5% and mature on June 30, 2012. The debentures are convertible into units of the REIT at the holders' option at any time commencing after the second anniversary of the issuance date and ending on the date that is 15 days prior to the maturity date at a conversion price of \$6.15 per unit.

The REIT paid distributions to unitholders of approximately \$1.9 million and \$3.7 million for the three and six months ended June 30, 2007.

LIQUIDITY AND WORKING CAPITAL

As at June 30, 2007, the REIT had working capital of approximately \$31.0 million. At the current rate of expenditure, the REIT has sufficient working capital to meet its ongoing commitments and expenditures. In addition, the REIT had undrawn operating lines of credit totaling \$1.7 million.

Mortgages Payable

As at June 30, 2007, the REIT had total mortgage debt outstanding of \$166.3 million, excluding deferred finance fees of \$1.3 million which have been netted against mortgages payable in the financial statements with a weighted average interest rate of 6.73%. A first charge on the properties is pledged as security for the mortgages. The mortgages mature on various dates from April, 2010 to July, 2017.

Financial Commitments

The following chart summarizes the REIT's future financial commitments as at June 30, 2007.

(in \$000s)	Remainder of 2007	2	2	2	2011
Mortgages payable – principal	\$ 1,692	\$ 3,863	\$ 4,606	\$13,561	\$36,676
Mortgages payable - interest	5,076	10,791	10,518	9,666	8,087
Obligations under capital leases	255	384	249	156	4
Vehicle loans - principal	36	57	61	34	4
Vehicle loans - interest	6	10	5	1	–
Convertible debentures	–	–	–	–	20,238
Convertible debentures - interest	2,344	4,544	4,544	4,544	4,544
Land lease	123	123	123	123	123
Operating leases	82	149	52	8	7
Total	\$ 9,614	\$19,921	\$20,158	\$28,093	\$69,683

The total debt (including loans and obligations under capital leases) to gross book value (“GBV”) was 40.0% at June 30, 2007 (December 31, 2006 – 35.8%) and the total debt plus the face value of convertible debentures to GBV was 55.8% at June 30, 2007 (December 31, 2006 – 50.3%).

Unit Information

Unit Information	June 30, 2007	June 30, 2006 (after reflecting conversion to the REIT)
Units outstanding	38,573,317	2,490,000
Options outstanding (exercisable)	392,333	160,000
Conversion of convertible debentures (conversion price \$5.40)	3,747,778	–
Conversion of convertible debentures (conversion price \$6.15)	7,317,073	–
Total	50,030,501	2,650,000

In addition to the units and debentures issued during the quarter, 62,000 unit options were granted to employees of Pacrim Hospitality Services Inc., the company that manages ten of the REIT's hotels. These options vest over a three year period (1/3rd on the grant date, 1/3rd in 2008 and 1/3rd in 2009).

AGREEMENTS

Hotel Management Agreements

Pacrim Hospitality Services Inc.

On June 7, 2006, the REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. ("PHSI") 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 per hotel 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, the 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, the 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.

Non-competition, Right of First Opportunity and Participation Agreement

On June 22, 2007, the 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.

SUBSEQUENT EVENTS

On July 17, 2007 the REIT's trust units and debentures (HLR.UN, HLR.DB and HLR.DB.A) commenced trading on the Toronto Stock Exchange and ceased trading on the TSX Venture 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 \$45.0 million 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 per unit and \$6,844,000 of 6.5% convertible debentures.

SIGNIFICANT ACCOUNTING POLICIES

Note 2 to the REIT's audited consolidated financial statements for the year ended December 31, 2006 summarizes the REIT's significant accounting policies.

Changes to Canadian GAAP

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

Commencing with the first quarter of 2007, the REIT adopted five new accounting standards issued by the Accounting Standards Board of the CICA as follows: (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 the financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

Note 2 to the unaudited consolidated financial statements for the three and six months ended June 30, 2007 explain the impact of these changes in accounting policies.

INTERNAL CONTROLS

There have been no changes in the REIT's internal control over financial reporting that occurred during the most recent interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the REIT's internal control over financial reporting.

RISKS AND UNCERTAINTIES

There are a number of risks inherent in an investment in the REIT. The underlying value of the properties and the REIT's income and ability to make distributions to unitholders will depend on the ability of the REIT to increase revenues from the properties and to generate income in excess of operating expenses. The REIT directly or indirectly owns and operates hotels. As a result, the REIT is subject to the operating risks inherent in the hotel industry. These risks include cyclical downturns arising from changes in general and local economic conditions, changes in the level of business and commercial travel and tourism, increases in the supply of accommodations in local markets, competition from other hotels, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in wages, prices, energy costs and construction and maintenance costs, availability of financing for operating or capital requirements, seasonal fluctuations in hotel operating income produced throughout the year and other factors.

Although the REIT intends, to the extent possible, to make equal monthly cash distributions to the unitholders, such cash distributions are not guaranteed and may fluctuate with its performance. The REIT depends on revenue generated from the properties to make such distributions. The amount of distributable income will depend upon numerous factors, including the profitability of the properties, fluctuations in working capital, interest rates, capital expenditures and other factors which may be beyond the control of the REIT.

In addition, there are a number of other 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. Additional information on these risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated May 1, 2007 which is available at www.sedar.com.

The most significant change in Holloway's strategy, economic environment or risks since the MD&A for the year ended December 31, 2006 is that the REIT's tax status has changed as described below.

NEW TAX RULES FOR INCOME TRUSTS

On October 31, 2006, The Minister of Finance (Canada) announced proposals (the "SIFT Proposals") to amend the Tax Act to change the taxation regime applicable to certain "specified investment flow-through" entities ("SIFTs"), including certain income trusts and their investors. 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 SIFT. Under Bill C-52, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital generally will not be subject to the tax.

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, the REIT has recorded future income tax based on temporary differences that are 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. Distributions from the REIT will be subject to the tax unless they qualify as returns of capital. The REIT expects that its 2007 distributions will be a return of capital.

OUTLOOK

Industry analysts such as PKF suggest that strong growth will continue in 2007. Room demand is expected to increase by 3%, whereas supply is expected to increase by 1%. Our hotels are well positioned to capitalize on these market opportunities. The Canadian economy is expected to grow by 2.3%, with Alberta expected to achieve double-digit growth. As of June 30, 2007, the REIT owned thirteen hotels in Alberta. Holloway is continuing to assess potential acquisitions to continue its growth strategy.

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 Holloway's Annual Information Form ("AIF"), dated May 1, 2007 which is available at www.sedar.com. The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.