

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Financial Statements
March 31, 2007

May 15, 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 March 31, 2007

	March 31, 2007 \$	December 31, 2006 \$
Assets		
Current assets		
Cash and cash equivalents	12,225,845	31,982,672
Accounts receivable	1,567,959	1,546,975
Inventories	386,347	341,562
Prepaid expenses and deposits	1,538,616	1,532,633
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	15,718,767	35,403,842
Capital reserve	1,579,265	1,720,429
Mezzanine loans receivable (note 4)	12,913,000	8,000,000
Property and equipment (note 5)	114,438,803	91,200,153
Other assets (note 6)	413,488	1,477,541
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	145,063,323	137,801,965
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	5,477,585	5,698,219
Distributions payable	625,080	529,552
Accrued interest on convertible debentures	269,840	674,600
Current portion of obligations under capital leases (note 7)	79,399	96,509
Current portion of mortgages payable (note 8)	1,830,349	1,535,676
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	8,282,253	8,534,556
Obligations under capital leases (note 7)	83,301	97,565
Mortgages payable (note 8)	58,414,586	48,027,952
Convertible debentures (note 9)	14,714,474	15,379,667
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	81,494,614	72,039,740
Unitholders' equity (note 10)	63,568,709	65,762,225
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	145,063,323	137,801,965
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Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Unitholders' Equity

For the three-month period ended March 31, 2007 and the year ended December 31, 2006

	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	-	-	-	430,000	-	-	-	430,000
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	-	54,500,228	-	-	-	-	-	54,500,228
Units issued in property acquisitions	-	7,497,000	920,000	-	-	-	-	8,417,000
Equity component of convertible debentures	-	-	-	-	5,300,000	-	-	5,300,000
Issuance costs on equity component of convertible debentures	-	-	-	-	(318,000)	-	-	(318,000)
Units issued to trustees	-	62,645	-	-	-	-	-	62,645
Units issued to management	-	58,099	-	-	-	-	-	58,099
Net loss	-	-	-	-	-	(1,207,608)	-	(1,207,608)
Distributions	-	-	-	-	-	-	(2,632,358)	(2,632,358)
Balance, December 31, 2006	-	63,270,181	920,000	430,010	4,982,000	(1,207,608)	(2,632,358)	65,762,225
Net loss	-	-	-	-	-	(398,612)	-	(398,612)
Unit-based compensation related to options	-	-	-	87,500	-	-	-	87,500
Distributions	-	-	-	-	-	-	(1,875,241)	(1,875,241)
Issuance costs	-	(7,163)	-	-	-	-	-	(7,163)
Balance March 31, 2007	-	63,263,018	920,000	517,510	4,982,000	(1,606,220)	(4,507,599)	63,568,709

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Operations and Comprehensive Loss
For the three-month periods ended March 31, 2007 and 2006

	For the three-month period ended March 31, 2007 \$	For the three-month period ended March 31, 2006 \$
Hotel revenues		
Rooms	7,392,564	-
Other	2,254,387	-
	9,646,951	-
Hotel cost of sales	3,410,210	-
Hotel gross profit	6,236,741	-
Hotel operating expenses		
Sales and marketing	456,668	-
General and administrative	792,733	-
Maintenance, property taxes and insurance	1,494,851	-
Management and other fees	624,713	-
Depreciation and amortization	955,934	-
Land lease expense	470,878	-
Interest on mortgages and bank charges	953,703	-
	5,749,480	-
Income from hotel operations	487,261	-
Trust (income) expenses		
Interest income	(441,027)	-
General and administrative expenses	429,607	10,221
Expenditures related to abandoned property acquisitions	211,460	-
Depreciation and amortization	4,573	-
Debenture interest	435,790	-
Other interest	5,076	-
Accretion of discount on convertible debentures	152,894	-
Unit-based compensation	87,500	80,000
	885,873	90,221
Net loss and comprehensive loss for the periods	(398,612)	(90,221)
Basic and diluted loss per unit (note 10)	(0.02)	(0.08)

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Cash Flows

For the three-month periods ended March 31, 2007 and 2006

	For the three-month period ended March 31, 2007 \$	For the three-month period ended March 31, 2006 \$
Cash provided by (used in)		
Operating activities		
Net loss for the periods	(398,612)	(90,221)
Charges to income not involving cash		
Unit-based compensation	87,500	80,000
Depreciation and amortization	960,507	-
Accretion of mortgages and convertible debentures	145,262	-
	794,657	(10,221)
Net change in non-cash working capital balances related to operations (note 11)	(341,126)	(62,192)
Cash flow from operating activities	453,531	(72,413)
Investing activities		
Decrease in capital reserve	141,164	-
Issuance of mezzanine loans	(4,913,000)	-
Acquisition of hotel property (note 3)	(22,750,000)	-
Increase in other assets	(136,944)	-
Additions to property and equipment	(1,794,425)	-
Cash flow used in investing activities	(29,453,205)	-
Financing activities		
Repayment of capital lease obligations	(31,374)	-
Proceeds from mortgages	11,583,500	-
Financing fees	(174,455)	-
Repayment of mortgages payable	(347,948)	-
Issuance of common shares of Holloway Capital Corporation, net of issuance costs, subsequently converted to units	-	855,151
Issuance costs	(7,163)	-
Distributions paid to unitholders	(1,779,713)	-
Cash flow from financing activities	9,242,847	855,151
Net change in cash and cash equivalents during the periods	(19,756,827)	782,738
Cash and cash equivalents – Beginning of periods	31,982,672	300,000
Cash and cash equivalents – End of periods	12,225,845	1,082,738

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 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 March 31, 2007, the REIT owned nine hotels in Canada with 1,069 guest rooms.

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-month periods ended March 31, 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 lay out 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-month periods ended March 31, 2007 and 2006

3 Hotel acquisition

Holloway Lodging REIT acquired the Radisson Hotel and Suites in Fort McMurray, Alberta on January 31, 2007. The acquisition has been accounted for using the purchase method and accordingly, the results of operations of the hotel since the date of acquisition have been included in the consolidated statement of operations. The REIT acquired the hotel for cash. In connection with the acquisition, the REIT obtained mortgage financing in the amount of \$11 million. The following table details the acquisition:

	2007
	\$
Assets acquired	
Land	2,000,000
Building	19,400,000
Furniture, fixtures and equipment	1,250,000
Computer equipment	100,000
	<u>22,750,000</u>

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

4 Mezzanine loans receivable

The REIT provides mezzanine loans on hotel projects being developed by Winport Developments Limited Partnership and its partners. These loans bear interest at 12% per year.

	March 31,	December 31,
	2007	2006
	\$	\$
Winport Developments Limited Partnership and Pacrim North York Limited Partnership, principal balance due November 3, 2011	8,000,000	8,000,000
RegWin Hotel Ltd., principal balance due January 19, 2012	3,000,000	-
Windsor 8 Motel Limited, principal balance due January 19, 2012	1,913,000	-
	<u>12,913,000</u>	<u>8,000,000</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2007 and 2006

5 Property and equipment

			March 31, 2007
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	10,251,896	-	10,251,896
Land lease	500,000	9,555	490,445
Buildings	91,444,297	1,222,982	90,221,315
Renovations in progress	2,497,831	-	2,497,831
Furniture, fixtures and equipment	10,069,471	828,673	9,240,798
Paving	1,097,500	68,798	1,028,702
Signage	329,398	20,165	309,233
Computer equipment and website	476,732	78,149	398,583
	<u>116,667,125</u>	<u>2,228,322</u>	<u>114,438,803</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-month periods ended March 31, 2007 and 2006

6 Other assets

			March 31, 2007
	Cost \$	Accumulated amortization \$	Net \$
Franchise fees	433,245	19,757	413,488

			December 31, 2006
	Cost \$	Accumulated amortization \$	Net \$
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.

	March 31, 2007 \$	December 31, 2006 \$
Present value of future minimum lease payments	162,700	194,074
Less: Current portion	<u>79,399</u>	<u>96,509</u>
	<u>83,301</u>	<u>97,565</u>

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

	\$
Remainder of 2007	74,726
2008	52,894
2009	48,369
2010	<u>6,649</u>
Future minimum lease payments	182,638
Less: Amounts representing interest	<u>19,938</u>
Present value of future minimum lease payments	<u>162,700</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2007 and 2006

8 Mortgages payable

	March 31, 2007 \$	December 31, 2006 \$
Mortgages payable, bearing interest at a weighted average rate of 6.77% (December 31, 2006 - 6.78%) and maturing on various dates from April, 2010 to January 2012. First charges on all the hotel properties have been pledged as security for these mortgages	60,244,935	49,563,628
Less: Current portion	<u>1,830,349</u>	<u>1,535,676</u>
	<u>58,414,586</u>	<u>48,027,952</u>

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

	\$
Remainder of 2007	1,382,106
2008	1,926,771
2009	2,530,784
2010	11,211,945
2011	34,193,407

The current portion of long-term debt on the balance sheet is based on the year ending March 31, 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.

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 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.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2007 and 2006

9 Convertible debentures (continued)

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.

	March 31, 2007 \$	December 31, 2006 \$
Debt component	14,088,882	14,938,000
Accretion of convertible debentures	625,592	441,667
	<u>14,714,474</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.

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.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2007 and 2006

10 Unitholders' equity (continued)

Unit options

Options to purchase an aggregate 805,000, exercisable 375,000, (December 31, 2006 – 805,000, exercisable 375,000) units have been granted to certain trustees, officers and employees of the REIT at prices ranging from \$1.00 to \$4.88 per unit. These options expire at various dates ranging from February 17, 2011 to November 30, 2011.

Subsequent to March 31, 2007, the REIT issued options to purchase an aggregate of 62,000 units at a price of \$4.88 per unit. The options expire April 4, 2012.

Number of REIT units outstanding

The number of REIT units outstanding as at March 31, 2007 was 16,208,808 (March 31, 2006 – 1,600,000).

Weighted average number of units

The basic weighted average number of units outstanding for the three months ended March 31, 2007 and 2006 was 16,668,808 and 1,077,778, respectively. The diluted weighted average number of units outstanding is the same as the basic weighted number of units outstanding, as the REIT had a net loss and the exercise of potentially dilutive securities would be anti-dilutive.

11 Change in non-cash working capital

	For the three-month period ended March 31, 2007 \$	For the three-month period ended March 31, 2006 \$
Accounts receivable	(20,984)	(103,076)
Inventories	(44,785)	-
Prepaid expenses and deposits	(5,983)	(4,125)
Accounts payable and accrued liabilities	135,386	45,009
Accrued interest on convertible debentures	(404,760)	-
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	(341,126)	(62,192)

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2007 and 2006

12 Agreements

Hotel Management Agreement

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 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.

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.

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.

13 Subsequent events

On April 13, 2007, the REIT purchased the Super 8 Motel in Three Hills, Alberta for \$10.0 million. On April 26, 2007, the REIT obtained mortgage financing of \$5.0 million on this property.

