



Holloway
LODGING

Real Estate Investment Trust

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

Dated as of November 13, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 nine months ended September 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 nine months ended September 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 OF HOLLOWAY LODGING REIT, ITS STRATEGIES AND OBJECTIVES

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 Holloway Lodging REIT and acquired its first hotel, the Super 8 in Truro, Nova Scotia. Since that time the REIT has acquired twenty additional properties.

Holloway's Operating Strategy and Objectives

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.

Acquisition Strategy and 2007 Activity

Holloway has continued with its acquisition strategy in 2007 having more than doubled the size of the REIT in 2007. The REIT acquired 10 hotels in northern Alberta and British Columbia near the end of the second quarter. The third quarter was focused on integrating these properties into the REIT. In addition, the REIT acquired the Holiday Inn Express in Kamloops, BC on September 12, 2007.

HIGHLIGHTS OF THE THREE MONTHS ENDED SEPTEMBER 30, 2007

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

- distributable income has increased over 310% to \$5.2 million (\$0.13 per unit) from \$1.2 million for the three month periods ended September 30, 2007 and 2006, respectively;
- hotel revenues have increased over 270% to \$24.9 million from \$6.7 million for the three months ended September 30, 2007 and 2006, respectively;
- on July 17, 2007, the REIT graduated from the TSX Venture Exchange to the TSX;
- on July 18, 2007, the REIT issued 580,000 units at \$5.35 per unit for gross proceeds of \$3.1 million and \$6.8 million of 6.5% convertible debentures in connection with the exercise of an over allotment option that had been granted to the underwriters of the REIT's June 2007 public offering of units and debentures. This brought the total gross proceeds of the offering, including the units and debentures issued pursuant to the exercise of the over-allotment option to \$150 million;
- the REIT instituted a 20% distribution increase from \$0.0375 to \$0.045 per unit per month (from \$0.45 per unit per year to \$0.54 per unit per year) effective with the August distribution to unitholders of record as of July 31, 2007;
- on September 12, 2007, the REIT purchased the Holiday Inn Express in Kamloops, BC for \$11.3 million; and
- on September 15, 2007 Michael Jackson joined Holloway as President and Chief Operating Officer.

PORTFOLIO OF HOTELS

Holloway's portfolio consists primarily of limited service hotels with a small number of full service hotels. The table below provides details on the twenty-one hotels owned by Holloway as of September 30, 2007.

Property	City, Province	Acquisition Date	Number of Rooms
Super 8 Motel	Truro, NS	June 7, 2006	50
Radisson Suite Hotel	Halifax, NS	August 4, 2006	104
Holiday Inn Express	Halifax, NS	August 4, 2006	98
Holiday Inn Express and Suites	Moncton, NB	August 4, 2006	152
Super 8 Motel	Drayton Valley, AB	August 4, 2006	60
5 Calgary Downtown Suites & Spa Hotel	Calgary, AB	August 23, 2006	302
Wingate by Wyndham	Calgary, AB	September 1, 2006	103
Super 8 Motel	Yellowknife, NT	September 29, 2006	66
Radisson Hotel and Suites	Fort McMurray, AB	January 31, 2007	134
Super 8 Motel	Three Hills, AB	April 13, 2007	82
Super 8 Motel	Fort St. John, BC	June 22, 2007	93
Super 8 Motel	Fort Nelson, BC	June 22, 2007	142
Super 8 Motel	Slave Lake, AB	June 22, 2007	58
Super 8 Motel	Whitecourt, AB	June 22, 2007	59
Super 8 Motel	High Level, AB	June 22, 2007	81
Super 8 Motel	Grande Prairie, AB	June 22, 2007	149
Holiday Inn	Grande Prairie, AB	June 22, 2007	146
Best Western	Grande Prairie, AB	June 22, 2007	100
Pomeroy Inn and Suites	Grande Prairie, AB	June 22, 2007	152
Northwest Inn	Slave Lake, AB	June 22, 2007	99
Holiday Inn Express	Kamloops, BC	September 12, 2007	80
Total			2,310

Approximately 66% of Holloway's hotel rooms are located in Alberta.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 and 2006

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

(in 000's except per unit results)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Hotel revenues	24,858	6,693	47,493	6,782
Hotel expenses	21,200	5,191	42,032	5,259
Income from hotel operations	3,658	1,502	5,461	1,523
Net trust expenses	1,448	730	3,244	1,459
Future income tax (expense) recovery	(933)	-	1,355	-
Net income for the period – basic	1,277	772	3,572	64
Add: interest on convertible debentures (that are dilutive)	Not dilutive	Not dilutive	Not dilutive	Not dilutive
Net income for the period – diluted	1,277	772	3,572	64
Weighted average basic units outstanding	39,046	9,639	25,101	4,215
Weighted average diluted units outstanding	39,236	12,243	25,253	5,171
Basic income per unit	0.03	0.08	0.14	0.02
Diluted income per unit	0.03	0.06	0.14	0.01
<u>Reconciliation to funds from operations</u>				
Add/(deduct):				
Depreciation and amortization on real property	2,982	441	5,199	453
Future income tax expense (recovery)	933	-	(1,355)	-
Funds from operations – basic and diluted	5,192	1,213	7,416	517
Basic FFO per unit	0.13	0.13	0.30	0.12
Diluted FFO per unit	0.13	0.10	0.29	0.10
<u>Reconciliation to distributable income</u>				
Add/(deduct):				
Depreciation and amortization – trust and other assets	61	39	94	40
Reorganization expenses – one time item	-	-	-	419
Accretion on mortgages and convertible debentures ¹	562	156	881	156
Unit-based compensation	91	-	286	80
FF&E reserve	(746)	(186)	(1,425)	(189)
Distributable income – basic and diluted	5,160	1,222	7,252	1,023
Basic distributable income per unit	0.13	0.13	0.29	0.24
Diluted distributable income per unit	0.13	0.10	0.29	0.20
<u>Reconciliation of cash flow from operating activities to distributable income</u>				
Cash flow from operating activities	5,819	3,739	8,265	3,287
Changes in non-cash working capital balances	87	(2,331)	412	(2,494)
FF&E reserve	(746)	(186)	(1,425)	(189)
Reorganization expenses – one-time item	-	-	-	419
Distributable income	5,160	1,222	7,252	1,023

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

THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Results of Operations

The results of operations for the three months ended September 30, 2007 include the operation of twenty hotels for the full quarter and the Holiday Inn Express in Kamloops since September 12, 2007. Because the REIT only owned one hotel for the full third quarter in 2006, and acquired seven hotels during August and September, 2006, the dollar value of revenues, expenses and income from the hotels has increased substantially when comparing the third quarter results for 2007 to 2006.

Hotel Operations

The hotel properties generated revenue of approximately \$24.9 million compared to \$6.7 million for the three months ended September 30, 2007 and 2006, respectively. Income from hotel operations has increased from \$1.5 million for the three months ended September 30, 2006 to \$3.7 million for the three months ended September 30, 2007. Three of the properties acquired in the third quarter of 2006 did not have mortgages on them until the fourth quarter of 2006.

Corporate Operations

Corporate net trust expenses have increased from \$0.7 million for the three months ended September 30, 2006 to \$1.4 million for the three months ended September 30, 2007. Debenture interest expense and the non-cash accretion of the discount on the debentures has increased from \$0.5 million to \$1.8 million. In the third quarter of 2006, the REIT had \$20 million in debentures outstanding for two months, whereas in the third quarter of 2007, the REIT had \$65 million in debentures outstanding for the entire quarter and an additional approximately \$7 million in debentures outstanding since mid-July. In the three months ended September 30, 2007, the REIT generated interest income of \$0.9 million from mezzanine loans and the investment of cash balances. The credit or recovery of expenditures related to abandoned property acquisitions represents costs related to the Holiday Inn Express hotel in Myrtle Beach, South Carolina which were reversed when concerns related to this property were addressed and the REIT decided to purchase this hotel. The general and administrative expenses include a one-time expense of \$150,000 to graduate to the TSX from the TSXV.

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 the key performance measures for the three months ended September 30, 2007. Comparative figures for the three months ended September 30, 2006 have not been presented as the REIT only owned one hotel, the Super 8 motel in Truro, NS for the full quarter in 2006. The “West” statistics include the Holiday Inn Express in Kamloops, BC which was acquired on September 12, 2007 for the period of ownership (19 days).

Region	3 Months Ended September 30, 2007		
	Occupancy	ADR	RevPAR
Atlantic	89.89%	\$129.96	\$116.82
West	65.95%	\$149.40	\$98.53
Totals	70.26%	\$144.92	\$101.82

Overall demand during the three months ended September 30, 2007 was particularly strong in Atlantic Canada, Yellowknife, NT, Fort St. John, BC, and Kamloops, BC. The results at the Grande Prairie, AB hotels as well as the Super 8 in Three Hills, AB were impacted by decreased natural gas exploration and production activity. The Pomeroy Inn and Suites is undergoing remediation work resulting in low occupancy. The unbranded Northwest Inn is in need of some capital refurbishment, with a study underway to refine the scope and timing of the required upgrades.

Funds from Operations

Funds from operations (“FFO”) is a non-GAAP financial measure commonly used in the lodging industry. The calculations presented may differ from similar calculations reported by other entities and accordingly, may not be comparable. 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. Holloway 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. FFO for the three months ended September 30, 2007 was \$5.2 million (\$0.13 basic and fully diluted FFO per unit) compared to \$1.2 million (\$0.13 basic and \$0.10 fully diluted FFO per unit) for the same period in 2006.

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

Distributable income is another 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 for the following items:

- add backs:
 - depreciation and 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;
- deductions:
 - 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 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 \$5.2 million in distributable income (\$0.13 basic and fully diluted per unit) for the three months ended September 30, 2007 compared to \$1.2 million (\$0.13 basic and \$0.10 fully diluted per unit) for the same period in 2006. Distributions of \$0.0375 per unit for July and \$0.045 per unit for August and September, 2007 were declared and totalled \$5.3 million for the three months ended September 30, 2007. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

Cash flow for the Three Months Ended September 30, 2007 and 2006

During the three months ended September 30, 2007, the REIT's cash and cash equivalents decreased by approximately \$5.5 million from \$36.4 million to \$30.9 million.

Operating Activities

Cash flow from operations was approximately \$5.8 and \$3.7 million for the three months ended September 30, 2007 and 2006, respectively reflecting the cash generated by the hotels and the head-office/corporate operations of the REIT. Net income and the non-cash items included in income have increased substantially due to the growth in the operations of the REIT. Changes in non-cash working capital balances used approximately \$0.09 million in the three months ended September 30, 2007 whereas these accounts generated \$2.3 million in the three months ended September 30, 2006 primarily due to the increase in accounts payable and accrued liabilities.

Investing Activities

Investing activities utilized \$14.7 million during the three months ended September 30, 2007. On September 12, 2007, the REIT purchased the Holiday Inn Express in Kamloops, BC for \$11.3 million plus closing costs related to this purchase as well as the 10 hotels purchased in the second quarter.

The REIT provided a mezzanine loan of \$1.5 million, bearing interest at 12%, to Winport Developments Limited Partnership and Pacrim North York Limited Partnership on a Toronto hotel property during the quarter ended September 30, 2007

Capital improvements to property and equipment were \$1.2 million during the three months ended September 30, 2007.

In the three months ended September 30, 2006, investing activities utilized \$65.7 million, of which \$62.8 million was for the acquisition of hotel properties. In addition, the capital reserve accounts increased by \$1.7 million and capital improvements to the hotels were \$1.2 million.

Financing Activities

Financing activities provided \$3.3 million in cash during the three months ended September 30, 2007. On July 18, 2007, pursuant to an over allotment option, a syndicate of underwriters bought an additional 580,000 units at \$5.35 per unit for gross proceeds of \$3.1 million and \$6.8 million in 6.5% convertible debentures.

The REIT paid distributions to unitholders of approximately \$5.0 million for the three months ended September 30, 2007.

In the three months ended September 30, 2006, Holloway received \$67.5 million from financing activities. The REIT obtained mortgage financing of \$7.8 million and approximately \$61.4 million from the issuance of units and convertible debentures, net of finance fees and issuance costs. The REIT paid distributions of \$0.5 million in the three months ended September 30, 2006.

NINE MONTHS ENDED SEPTEMBER 30, 2007 and 2006

Results of Operations

The results of operations for the nine months ended September 30, 2007 include the operation of eight hotels for the full nine months and thirteen hotels for varying periods of time (the majority of which were purchased late in June, 2007). The increase in the 2007 revenues, expenses and income from hotel operations compared to these same categories for 2006 is due to the significant growth in the number of hotel properties owned in 2007 compared to 2006.

Hotel Operations

The hotel properties generated revenue of approximately \$47.5 million compared to \$6.8 million for the nine months ended September 30, 2007 and 2006, respectively. Income from hotel operations has increased from \$1.5 million for the nine months ended September 30, 2006 to \$5.5 million for the nine months ended September 30, 2007.

Corporate Operations

Corporate net trust expenses have increased from \$1.5 million for the nine months ended September 30, 2006 to \$3.2 million of the nine months ended September 30, 2007. Debenture interest expense and the non-cash accretion of the discount on the debentures has increased from \$0.4 million to \$3.0 million. In the first nine months of 2006, Holloway had \$20 million in debentures outstanding for two months. On a year-to-date basis for 2007, these \$20 million in debentures have been outstanding for the full nine months and Holloway issued a total of \$52 million in debentures in June and July, 2007. In the nine months ended September 30, 2007, the REIT generated interest income of \$1.7 million from mezzanine loans and investment of cash balances. General and administrative expenses have increased as the REIT commenced active operations in the second quarter of 2006 whereas 2007 would have active operations for the full nine months.

Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the nine months ended September 30, 2007. The table provides the statistics for the period of time the hotels were owned by Holloway.

Region	9 Months Ended September 30, 2007		
	Occupancy	ADR	RevPAR
Atlantic	76.82%	\$120.77	\$92.78
West	66.10%	\$144.15	\$95.28
Totals	68.98%	\$137.16	\$94.61

Comparative statistics for the nine months ended September 30, 2006 are not presented because of the number of hotels and when they were acquired in both 2007 and 2006.

Funds from Operations

FFO for the nine months ended September 30, 2007 was \$7.4 million (\$0.30 basic and \$0.29 fully diluted FFO per unit) compared to \$0.5 million (\$0.12 basic and \$0.10 fully diluted FFO per unit) for the same period in 2006. FFO in total and per unit has grown due to the increased number of hotels owned by the REIT.

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

The REIT generated approximately \$7.3 million in distributable income (\$0.29 basic and fully diluted per unit) for the nine months ended September 30, 2007 compared to \$1.0 million (\$0.24 basic and \$0.20 fully diluted per unit) for the same period in 2006. Distributions of \$0.0375 per unit for July and \$0.045 per unit for August and September, 2007 were declared and totalled \$5.3 million for the three months ended September 30, 2007. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions. The second and third quarters generally are the strongest in Holloway’s portfolio. Hotels in northern Alberta, northern British Columbia and the southern United States are expected to assist in balancing the REIT’s cash flows.

Cash flow for the Nine Months Ended September 30, 2007 and 2006

During the nine months ended September 30, 2007, the REIT’s cash and cash equivalents decreased by approximately \$1.1 million from \$32.0 million to \$30.9 million. For the comparative period in 2006, cash and cash equivalents increased by \$5.7 million from \$0.3 million to \$6.0 million.

Operating Activities

Cash flow from operations was approximately \$8.3 million for the nine months ended September 30, 2007 reflecting the cash generated by the hotels and the head-office/corporate operations of the REIT. Changes in non-cash working capital balances used approximately \$0.4 million in the nine months ended September 30, 2007, compared to generating \$2.5 million in the nine months ended September 30, 2006. An increase in accounts receivable and a decrease in accounts payable and accrued liabilities in 2007 as compared to 2006 were the primary reasons for the change in working capital balances.

Investing Activities

Investing activities utilized \$259.0 million during the nine months ended September 30, 2007, of which \$249.5 million represents acquisition of hotel properties and additions to property and equipment. Holloway has acquired thirteen hotels in 2007.

The REIT provided mezzanine loans of \$6.6 million in the nine months ended September 30, 2007. Holloway provides mezzanine financing to Winport Developments Limited Partnership and its partners for hotels under construction or refurbishment which will provide a pipeline for future acquisitions.

The increase in restricted cash of \$2.8 million during the nine months ended September 30, 2007 represents funds for improvements to the Pomeroy Inn and Suites in Grande Prairie, AB. These repairs are presently ongoing and it is expected to be completed early in 2008. Funds will be released as work is completed.

Financing Activities

Financing activities provided \$249.6 million in cash during the nine months ended September 30, 2007. During the nine months ended September 30, 2007, the REIT obtained an \$11.0 million mortgage on the Radisson Hotel and Suites in Fort McMurray, AB, a \$5.0 million mortgage on the Super 8 Motel in Three Hills, AB, increased its mortgage debt on the Moncton property by \$1.9 million and obtained mortgage financing of \$100.0 million on the Pomeroy Hotels. The Holiday Inn Express in Kamloops is currently unencumbered.

As a result of an equity raise in June, 2007 and the exercise of an over allotment option granted to the underwriters in connection with the offering in July, the REIT issued 18,338,000 units at a price of \$5.35 per unit for gross proceeds of \$98.1 million and \$51.8 million aggregate principal amount of 6.5% convertible debentures. The debentures 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 \$8.7 million for the nine months ended September 30, 2007.

Financing activities for the nine months ended September 30, 2006 provided \$71.9 million in cash. In August, 2006, the REIT issued 9,965,377 units at \$4.50 per unit for gross proceeds of \$44.8 million and \$20.2 million aggregate principal amount of 8% convertible debentures. The debentures mature on August 1, 2011. 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 \$5.40 per unit. The REIT obtained mortgage financing of \$10.4 million during the nine months ended September 30, 2006. Distributions of \$0.5 million were paid to unitholders as the REIT commenced distributions in August, 2006.

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	Q3, 2007
Total revenues (hotel and trust)	–	\$ 89	\$ 6,693	\$ 8,787	\$ 10,088	\$ 13,404	\$ 25,724
Hotel revenues	–	\$ 89	\$ 6,693	\$ 8,610	\$ 9,647	\$ 12,988	\$ 24,858
Hotel expenses	–	69	5,190	8,213	9,160	11,673	21,200
Income from hotel operations	–	20	1,503	397	487	1,315	3,658
Net trust expenses	90	638	731	1,669	886	910	1,448
Future income tax recovery (expense)	–	–	–	–	–	2,288	(933)
Net income (loss) for the period	\$ (90)	\$ (618)	\$ 772	\$ (1,272)	\$ (399)	\$ 2,693	1,277
Per Unit Results:							
Basic earnings per unit	–	–	0.08	–	–	0.14	0.03
Diluted earnings per unit	–	–	0.06	–	–	0.14	0.03
Basic and diluted loss per unit	(0.02)	(0.34)	–	(0.15)	(0.02)	–	–
Basic distributable income (loss) per unit	(0.009)	(0.10)	0.13	0.006	0.03	0.08	0.13
Diluted distributable income (loss) per unit	(0.009)	(0.10)	0.10	0.006	0.03	0.08	0.13

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, eleven properties during the second quarter of 2007 and one property during the third quarter of 2007. As a result, the revenues have increased in each of the seven quarters since the REIT's inception.

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 to hotel EBITDA is presented in the table below:

(in 000's)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net income	1,277	772	3,572	64
Net trust expenses	1,448	730	3,244	1,459
Depreciation and amortization	3,034	441	5,273	454
Accretion of finance fees included in interest expense	68	–	112	–
Interest on mortgages and other	2,806	284	4,952	296
Interest on capital leases	23	–	31	–
Future income tax expense (recovery)	933	–	(1,355)	–
Hotel EBITDA	9,589	2,227	15,829	2,273

LIQUIDITY AND WORKING CAPITAL

As at September 30, 2007, the REIT had working capital of approximately \$26.0 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 September 30, 2007, the REIT had total mortgage debt outstanding of \$165.7 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 6.79%. A first charge on the majority of 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 September 30, 2007.

(in \$000s)	Remainder of 2007	2	2	2	2011
Mortgages payable – principal	\$ 1,016	\$ 4,238	\$ 4,994	\$13,778	\$23,801
Mortgages payable – interest	2,741	10,814	10,531	9,670	9,066
Obligations under capital leases	143	450	315	222	47
Vehicle loans - principal	18	57	61	34	4
Vehicle loans - interest	3	10	5	1	–
Convertible debentures	–	–	–	–	20,238
Convertible debentures - interest	1,737	4,544	4,544	4,544	4,544
Land lease	31	123	123	123	123
Operating leases	49	141	49	9	9
Total	\$5,738	\$20,377	\$20,622	\$28,381	\$57,832

The total debt (including loans and obligations under capital leases) to gross book value (“GBV”) was 39.0% at September 30, 2007 (December 31, 2006 – 35.8%) and the total debt plus the face value of convertible debentures to GBV was 55.9% at September 30, 2007 (December 31, 2006 – 50.3%).

UNIT INFORMATION

	September 30, 2007	September 30, 2006 (after reflecting conversion to the REIT)
Units outstanding	39,153,317	14,121,377
Options outstanding (exercisable)	392,333	160,000
Conversion of convertible debentures (conversion price \$5.40)	3,747,778	3,747,778
Conversion of convertible debentures (conversion price \$6.15)	8,429,919	–
Total	51,723,347	18,029,155

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 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 November 2, 2007, Holloway purchased the Holiday Inn Express in Myrtle Beach, South Carolina, US for US \$8.7 million and assumed mortgage financing of US \$4.6 million.

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.

OUTLOOK

Overall prospects bode well for the hotel industry in 2008, according to PKF Consulting Inc. There have been notable differences between the regions in 2007 with Western and Atlantic Canada leading the way in performance, contributing strongly to national RevPAR growth. In 2008, growth across the country is forecast to be somewhat more evenly distributed than has been the case in 2007, and the recent past. PKF has forecast an increase in national RevPAR of 4.8 % in 2008, up from a forecast RevPAR growth of 3.8% for 2007. Holloway Lodging remains committed to building sustainable distributions and growing the underlying unit value for its unitholders in what is forecast to be a continued positive economic environment for the hotel industry in 2008.

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 nine months ended September 30, 2007 explain the impact of these changes in accounting policies.

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.

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 September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the REIT's internal control over financial reporting.

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.