



**Holloway**  
LODGING

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*Real Estate Investment Trust*

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED MARCH 31, 2007**

**Dated as of May 15, 2007**



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2007**

### **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 months ended March 31, 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 months ended March 31, 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](http://www.sedar.com). The REIT's units and convertible debentures are publicly traded on the TSX Venture Exchange under the symbols HLR.UN and HLR.DB, respectively.

### **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](http://www.sedar.com). The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.

## 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.

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. Over the long-term, the REIT expects to maintain a reasonable payout ratio based on its financial results.

On April 3, 2006, the REIT entered into an Arrangement Agreement with Holloway Capital Corporation ("HCC"), a capital pool company listed on the TSX Venture Exchange, in connection with its proposed qualifying transaction. The plan of arrangement and qualifying transaction involved three primary components:

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

On June 7, 2006, the plan of arrangement and qualifying transaction were completed. All of the issued and outstanding shares of HCC were transferred to the REIT in exchange for units based on the exchange ratio of one unit for five shares. All of the outstanding options to purchase shares of HCC were exchanged for unit options having identical terms, subject to adjustment of the number of units underlying the unit options and the exercise price of the unit options based on the exchange ratio of one unit for five shares. On June 9, 2006, the units were listed for trading on the TSXV.

During 2006, the REIT acquired eight hotel properties and during the three months ended March 31, 2007 acquired the Radisson Hotel and Suites in Fort McMurray, Alberta. The table below details the nine hotels owned by Holloway as at March 31, 2007.

<b>Property</b>	<b>City, Province</b>	<b>Acquisition Date</b>	<b>Number of Rooms</b>	<b>Purchase Price</b>
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 and Spa Hotel	Calgary, AB	August 23, 2006	302	\$ 29,500,000
Wingate Inn	Calgary, AB	September 1, 2006	103	\$ 15,250,000
Super 8 Motel	Yellowknife, NT	September 29, 2006	66	\$ 8,250,000
Radisson Hotel and Suites	Fort McMurray, AB	January 31, 2007	134	\$ 22,750,000
<b>Total</b>			<b>1,069</b>	<b>\$ 113,050,000</b>

There have been no significant changes in Holloway's strategy, economic environment or risks since the MD&A for the year ended December 31, 2006 except that the proposed tax rules for income trusts were tabled in legislation in March, 2007 (see "New Proposed Tax Rules for Income Trusts").

## **RESULTS OF OPERATIONS**

The conversion of HCC to the REIT has been accounted for as a continuity of interests. The unaudited consolidated financial statements reflect the financial position, results of operations and cash flows as if the REIT had always carried on the business formerly carried on by HCC. All assets and liabilities are recorded at historical cost. As a result, this MD&A and the financial statements to which it relates reflect the operations of the REIT for the three months ended March 31, 2007 and the comparative figures for the three months ended March 31, 2006 reflect the results of operations of HCC. HCC did not own any properties during the three months ended March 31, 2006.

The income statement for the three months ended March 31, 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 months ended March 31, 2007 and 2006.

	<b>Three months ended March 31, 2007</b>	<b>Three months ended March 31, 2006</b>
Hotel revenues	\$ 9,646,951	\$ –
Hotel expenses	9,159,690	–
Hotel operating income	487,261	–
Net trust expenses	885,873	90,221
Net loss for the period	\$ (398,612)	\$ (90,221)
<b>Per Unit Results:</b>		
Weighted average basic units outstanding	16,668,808	1,077,778
Basic and diluted loss per unit	(\$0.02)	(\$0.08)

### **Three Months ended March 31, 2007**

Holloway owned nine hotel properties during the three months ended March 31, 2007. The results include the operations of the eight hotel properties acquired during 2006 and the operations of the Radisson Hotel and Suites in Fort McMurray, Alberta from January 31, 2007, the date of acquisition. These properties generated revenue of approximately \$9.65 million and income from hotel operations of approximately \$0.49 million for the three months ended March 31, 2007.

The major trust revenues and expenses for the three months ended March 31, 2007 included the following:

- interest income of \$0.44 million from mezzanine loans on development properties and short-term investing of excess cash;
- general and administrative expenses of approximately \$0.43 million, which include salaries and benefits of employees of the REIT, professional fees, travel and other expenses. These expenses included some non-recurring professional fees related to initial securities filings including the annual information form;
- expenses of \$0.21 million related to the investigation and analysis of additional property acquisitions which did not close. One of these potential acquisitions was a hotel in Myrtle Beach, South Carolina, which the REIT announced its intention to purchase at the end of 2006. Issues discovered during due diligence caused this potential acquisition not to proceed at this time;
- interest expense of approximately \$0.44 million on the convertible debentures;
- non-cash accretion of the discount on the convertible debentures of \$0.15 million; and
- non-cash unit-based compensation expense of \$0.09 million for options granted in 2006 which will vest in November, 2007 and 2008 and are being expensed on a straight-line basis.

## **CASH FLOW FOR THE THREE MONTHS ENDED MARCH 31, 2007**

During the three months ended March 31, 2007, the REIT's cash and cash equivalents decreased by approximately \$19.76 million. The REIT issued units on December 29, 2006 for gross proceeds of \$13.00 million which was partially deployed in the first quarter of 2007.

### **Operating Activities**

Cash flow from operations was approximately \$0.79 million reflecting the cash generated by the hotels and the head-office operations of the REIT. Changes in non-cash working capital balances used approximately \$0.34 million, the majority of which was the semi-annual payment of interest on the convertible debentures. Due to the seasonality in the hospitality industry, the first quarter is typically slower than the stronger second and third quarters.

### **Investing Activities**

Investing activities utilized \$29.45 million during the three months ended March 31, 2007. On January 31, 2007, the REIT purchased the Radisson Hotel and Suites in Fort McMurray, Alberta for \$22.75 million. On January 19, 2007, the REIT made mezzanine loans on two development properties for \$4.91 million. In addition, the REIT had approximately \$1.79 million in additions to property and equipment, primarily at the Holiday Inn Express in Halifax, Nova Scotia and at the Holiday Inn Express and Suites in Moncton, New Brunswick. The product improvement plans (PIPs) commenced in 2006 and continued in the first quarter of 2007. It is expected the improvements will be completed in the second quarter of 2007.

### **Financing Activities**

Financing activities provided over \$9.24 million in cash during the three months ended March 31, 2007. The REIT obtained mortgage financing on the Radisson Hotel and Suites in Fort McMurray, Alberta of \$11.00 million and increased its mortgage on the Holiday Inn Express and Suites in Moncton, New Brunswick by \$0.58 million to finance the capital improvements being made to the hotel. The REIT paid distributions to unitholders of approximately \$1.78 million.

## **LIQUIDITY AND WORKING CAPITAL**

As at March 31, 2007, the REIT had working capital of approximately \$7.44 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 March 31, 2007, the REIT had total mortgage debt outstanding of \$60.24 million with a weighted average interest rate of 6.77%. A first charge on the properties is pledged as security for the mortgages. The mortgages mature on various dates from April, 2010 to January, 2012.

## Financial Commitments

The following chart summarizes the REIT's future financial commitments as at March 31, 2007.

<b>(in \$000s)</b>	<b>Remainder of 2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Mortgages payable - principal	\$ 1,382	\$ 1,927	\$ 2,531	\$ 11,212	\$ 34,193
Mortgages payable - interest	3,448	4,027	3,897	3,163	1,904
Obligations under capital leases	84	60	51	6	-
Convertible debentures	-	-	-	-	20,238
Convertible debentures - interest	1,619	1,619	1,619	1,619	1,619
Land lease	123	123	123	123	123
Operating leases	59	56	23	11	6
<b>Total</b>	<b>\$ 6,715</b>	<b>\$ 7,812</b>	<b>\$ 8,244</b>	<b>\$ 16,134</b>	<b>\$ 58,083</b>

The total debt (including mortgages and obligations under capital leases) to gross book value ("GBV") was 41.0 % at March 31, 2007 (December 31, 2006 – 35.8%) and the total debt plus the face value of convertible debentures to GBV was 54.7% at March 31, 2007 (December 31, 2006 – 50.3%).

## Unit Information

<b>Unit Information</b>	<b>March 31, 2007</b>	<b>March 31, 2006 (after reflecting conversion to the REIT)</b>
Units outstanding	16,668,808	1,600,000
Options outstanding	375,000	160,000
Conversion of convertible debentures (conversion price \$5.40)	3,747,778	-
<b>Total</b>	<b>20,791,586</b>	<b>1,760,000</b>

## SUMMARY OF QUARTERLY RESULTS

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

	Q1, 2006	Q2, 2006	Q3, 2006	Q4, 2006	Q1, 2007
Total revenues (hotel and trust)	-	-	-	\$ 8,787,288	\$ 10,087,978
Hotel revenues	-	\$ 88,919	\$ 6,692,945	\$ 8,609,839	\$ 9,646,951
Hotel expenses	-	68,645	5,190,396	8,212,515	9,159,690
Hotel operating income	-	20,274	1,502,549	397,324	487,261
Net trust expenses	90,221	638,329	730,368	1,668,837	885,873
Net earnings (loss) for the period	\$ (90,221)	\$ (618,055)	\$ 772,181	\$ (1,271,513)	\$ (398,612)
Per Unit Results:					
Basic earnings per unit	-	-	0.08	-	-
Diluted earnings per unit	-	-	0.06	-	-
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 and one property during the first quarter of 2007. Due to the seasonality in the hospitality industry, the second and third quarters of the year are generally the strongest.

## 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.

### Occupancy, ADR and RevPAR

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 resorts and represents the combination of the ADR and the average occupancy rate achieved during a period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel.

The following table provides information on these measures for the three months ended March 31, 2007 for all hotels, except the Radisson Hotel and Suites in Fort McMurray, Alberta which was acquired on January 31, 2007 and therefore, reflects this hotel’s performance for the two months of ownership.

<b>Property</b>	<b>Occupancy</b>	<b>ADR</b>	<b>RevPAR</b>
Super 8 Motel, Truro, NS	64.18%	\$ 100.47	\$ 64.48
Radisson Suite Hotel, Halifax, NS	82.26%	\$ 125.86	\$ 103.53
Holiday Inn Express, Halifax, NS	65.80%	\$ 102.06	\$ 67.16
Holiday Inn Express & Suites, Moncton, NB	56.48%	\$ 107.66	\$ 60.80
Super 8 Motel, Drayton Valley, AB	89.02%	\$ 115.03	\$ 102.40
Wingate Inn, Calgary, AB	67.93%	\$ 129.62	\$ 88.05
5 Calgary Downtown Suites & Spa Hotel, Calgary, AB	51.28%	\$ 118.89	\$ 60.96
Super 8 Motel, Yellowknife, NT	83.11%	\$ 134.34	\$ 111.65
Radisson Hotel and Suites, Fort McMurray, AB	81.01%	\$ 156.59	\$ 126.85
<b>Portfolio</b>	<b>65.74%</b>	<b>\$ 121.97</b>	<b>\$ 80.19</b>

Overall demand during the three months ended March 31, 2007 was particularly strong at the Super 8 motels in Drayton Valley, AB and Yellowknife, NT and at the Radisson hotels in Fort McMurray, AB and Halifax, NS. The results at the Holiday Inn Express and Suites in Moncton, NB were impacted by ongoing renovations relating to the property improvement plan (PIP). These renovations will be completed early in the second quarter.

With the exception of Holiday Inn Express and Suites in Moncton, the hotels produced a solid first quarter and managed their expenses in line with expectations. In the case of the Wingate Inn in Calgary, AB and the Radisson Hotel and Suites in Fort McMurray, AB, the performance of these hotels surpassed expectations. The Radisson in Fort McMurray is immediately contributing to the strength of the portfolio.

### **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 loss to hotel EBITDA is presented in the table below:

	<b>Three months ended March 31, 2007</b>	<b>Three months ended March 31, 2006</b>
Net loss	\$ (398,612)	\$ (90,221)
Net trust expenses	885,873	90,221
Depreciation and amortization	955,934	-
Interest on mortgages	947,123	-
Hotel EBITDA	\$ 2,390,318	-

## 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.

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

	<b>Three months ended March 31, 2007</b>	<b>Three months ended March 31, 2006</b>
Net loss	\$ (398,612)	\$ (90,221)
Add (deduct):		
Depreciation and amortization	960,507	–
Accretion on mortgages and convertible debentures	145,262	–
Unit based compensation	87,500	80,000
FF&E reserve	(289,409)	–
Distributable income (loss) - basic	505,248	(10,221)
Add: Interest on convertible debentures	Not dilutive	–
Distributable income - diluted	\$ 505,248	\$ (10,221)
Weighted average basic units outstanding	16,668,808	1,077,778
Weighted average diluted units outstanding	20,791,586	1,154,222
Basic and diluted distributable income (loss) per unit	\$ 0.030	\$ (0.009)
Per unit distributions declared	\$ 0.1125	\$ –

The REIT generated approximately \$0.51 in distributable income for the three months ended March 31, 2007. Monthly distributions of \$0.0375 per unit were declared for each of the three months. Due to the seasonality in the hospitality industry, it would be expected the distributable income per unit would be lower than the declared distributions in the first quarter of the year.

The Canadian Securities Administrators Staff Notice 52-306 (Revised) Non-GAAP Financial Measures requires a reconciliation of cash flow from operating activities to distributable income. The reconciliation of cash flow from operating activities to distributable income is presented in the table below:

	<b>Three months ended March 31, 2007</b>	<b>Three months ended March 31, 2006</b>
Cash flow from operating activities	\$ 453,531	\$ (72,413)
Add (deduct):		
Changes in non-cash working capital	341,126	62,192
FF&E reserve	(289,409)	-
Distributable income (loss)	\$ 505,248	\$ (10,221)

### **Funds from Operations**

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

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

	<b>Three months ended March 31, 2007</b>	<b>Three months ended March 31, 2006</b>
Net loss	\$ (398,612)	\$ (90,221)
Add (deduct):		
Depreciation and amortization on hotel properties	945,182	-
Funds from operations	\$ 546,570	\$ (90,221)
Weighted average basic units outstanding	16,668,808	1,077,778
Basic FFO per unit	\$ 0.033	\$ (0.084)
Weighted average diluted units outstanding	20,791,586	1,154,222
Diluted FFO per unit	\$ 0.026	\$ (0.084)

## **RELATED PARTY TRANSACTIONS**

### **Hotel Management Agreement**

On June 7, 2006, the REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. (“PHSI”) to manage the hotels purchased by the REIT, with an initial term of ten years and an automatic renewal for successive five year terms commencing on the last day of the initial term. PHSI is entitled to a base management fee of 3% of gross hotel revenues, an incentive fee commencing January 1, 2007, a purchasing fee of 4% of the cost of exceptional operating supplies and furniture, fixtures and equipment, a construction fee of 3% of the cost of construction materials, labour and equipment in connection with any construction or capital expenditures and an accounting fee 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.

### **Development Agreement**

On June 7, 2006, the 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.

## **SUBSEQUENT EVENTS**

On April 4, 2007, the REIT issued options to purchase an aggregate of 62,000 units at a price of \$4.88 per unit. One-third of the options vested on April 4, 2007. The options expire April 4, 2012.

On April 13, 2007, the REIT acquired the Super 8 Motel in Three Hills, Alberta for \$10.00 million. As part of this transaction, the REIT issued 404,858 units at \$4.94 units totalling \$2.00 million to the vendor. On April 26, 2007, the REIT obtained mortgage financing of \$5.00 million on this property.

## **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 lay out 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 months ended March 31, 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 March 31, 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](http://www.sedar.com).

## **NEW PROPOSED 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. On March 27, 2007, a Notice of Ways and Means Motion was tabled in Parliament proposing draft legislation to implement the SIFT Proposals (the “2007 Amendments”). Additional information on the new proposed tax rules is described in Holloway’s AIF which is available at [www.sedar.com](http://www.sedar.com).

The REIT will be a SIFT for purposes of the 2007 Amendments unless it qualifies for the exception for certain real estate investment trusts. This new taxation regime is not applicable to real estate investment trusts that meet certain specified criteria relating to the nature of their income and investments (the “REIT Exception”). The REIT believes that, as currently structured, it would not qualify for the REIT Exception.

Under the SIFT Proposals, 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. However, the SIFT Proposals provide that distributions paid by a SIFT as returns of capital generally will not be subject to the tax.

The SIFT Proposals provide that a SIFT which was publicly listed before November 1, 2006 (an “Existing Trust”) would become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if the trust exceeds normal growth as determined by reference to the normal growth guidelines issued by the Department of Finance on December 15, 2006, as amended from time to time (the “Guidelines”). At March 31, 2007, the REIT believes that it has not currently exceeded the amount of growth allowed pursuant to the Guidelines. One of the key strategies of Holloway is to grow and the SIFT Proposals significantly curtail the REIT’s ability to grow. The REIT expects that it will exceed the normal growth guidelines before 2011. Management evaluates potential property acquisitions to assess the impact of the tax on the REIT and its unitholders and estimates the amount of the distributions that will be considered a return of capital (as returns of capital generally will not be subject to the tax).

## **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 March 31, 2007, the REIT owned four hotels in Alberta and acquired an additional hotel in Alberta in April, 2007. Holloway is continuing to assess potential acquisitions to continue its growth strategy.