



Holloway
LODGING

Real Estate Investment Trust

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008**

Dated as of November 13, 2008

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, 2008 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, 2008, the audited consolidated financial statements and the notes thereto for the year ended December 31, 2007 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, are 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.

HIGHLIGHTS OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

The following summarizes the key highlights for the three and nine months ended September 30, 2008:

- hotel revenues increased by 3.6% to \$25.7 million from \$24.9 million for the three months ended September 30, 2008 and 2007;
- distributable income was \$0.13 per unit for the three months ended September 30, 2008 and 2007;
- hotel gross profit margin was 71% for the three months ended September 30, 2008 and 2007;
- the "same hotel" portfolio achieved a RevPAR growth of 0.9% based on increased occupancy for the three months ended September 30, 2008; and
- for the nine months ended September 30, 2008, hotel EBITDA increased 1.9 percentage points to 35.2% from 33.3%.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 and 2007

The following table provides a summary of the operating results for the three and nine months ended September 30, 2008 and 2007.

(in 000's except number of units and per unit results)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Hotel revenues	\$ 25,748	\$ 24,858	\$ 72,125	\$ 47,493
Hotel expenses	22,443	21,200	65,541	42,032
Income from hotel operations	3,305	3,658	6,584	5,461
Net trust expenses	1,782	1,448	5,627	3,244
Provision for future income taxes	742	933	984	551
Net income (loss) for the period – basic and diluted	\$ 781	\$ 1,277	(\$ 27)	\$ 1,666
Weighted average basic units outstanding	39,130,370	39,046,143	39,130,628	25,101,068
Weighted average diluted units outstanding	39,130,370	39,236,224	39,130,628	25,252,585
Basic income (loss) per unit	\$ 0.02	\$ 0.03	(\$ 0.00)	\$ 0.07
Diluted income (loss) per unit	\$ 0.02	\$ 0.03	(\$ 0.00)	\$ 0.07
<u>Reconciliation to funds from operations (FFO)</u>				
Add/(deduct):				
Depreciation and amortization on real property	\$ 3,295	\$ 2,982	\$ 9,730	\$ 5,199
Provision for future income taxes	742	933	984	551
Funds from operations – basic and diluted	\$ 4,818	\$ 5,192	\$ 10,687	\$ 7,416
Basic FFO per unit	\$ 0.12	\$ 0.13	\$ 0.27	\$ 0.30
Diluted FFO per unit	\$ 0.12	\$ 0.13	\$ 0.27	\$ 0.29
<u>Reconciliation to distributable income</u>				
Add/(deduct):				
Depreciation and amortization – trust and other assets	\$ 56	\$ 61	\$ 183	\$ 94
Accretion on mortgages and convertible debentures ¹	542	562	1,601	881
Unit-based compensation	120	91	462	286
Unrealized foreign exchange loss	200	–	329	–
FF&E reserve	(772)	(746)	(2,164)	(1,425)
Distributable income – basic and diluted	\$ 4,964	\$ 5,160	\$ 11,098	\$ 7,252
Basic distributable income per unit	\$ 0.13	\$ 0.13	\$ 0.28	\$ 0.29
Diluted distributable income per unit	\$ 0.13	\$ 0.13	\$ 0.28	\$ 0.29
Distributions declared	\$ 0.135	\$ 0.135	\$ 0.405	\$ 0.36
<u>Reconciliation of cash flow from operating activities to distributable income</u>				
Cash flow from operating activities	\$ 7,843	\$ 5,819	\$ 13,774	\$ 8,265
Changes in non-cash working capital balances	(2,107)	87	(512)	412
FF&E reserve	(772)	(746)	(2,164)	(1,425)
Distributable income	\$ 4,964	\$ 5,160	\$ 11,098	\$ 7,252

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

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. The REIT owns 22 hotel properties with 2,423 guest rooms and suites.

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.

Our mission is to strategically grow to become one of North America's top-performing lodging REITs. In 2006 and 2007, the REIT acquired 8 and 14 hotels, with 934 and 1,489 guest rooms and suites, respectively. The REIT continues to explore accretive acquisition opportunities.

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-two hotels owned by Holloway as at September 30, 2008.

Property	City	Acquisition Date	Number of Rooms
CANADA			
Alberta			
Super 8 Motel	Drayton Valley	August 4, 2006	60
5 Calgary Downtown Suites & Spa Hotel	Calgary	August 23, 2006	302
Wingate by Wyndham	Calgary	September 1, 2006	103
Radisson Hotel and Suites	Fort McMurray	January 31, 2007	134
Super 8 Motel	Three Hills	April 13, 2007	82
Super 8 Motel	Slave Lake	June 22, 2007	58
Super 8 Motel	Whitecourt	June 22, 2007	59
Super 8 Motel	High Level	June 22, 2007	81
Super 8 Motel	Grande Prairie	June 22, 2007	149
Holiday Inn	Grande Prairie	June 22, 2007	146
Best Western	Grande Prairie	June 22, 2007	100
Pomeroy Inn and Suites	Grande Prairie	June 22, 2007	152
Northwest Inn	Slave Lake	June 22, 2007	99
Total Rooms/Suites			1,525
British Columbia			
Super 8 Motel	Fort St. John	June 22, 2007	93
Super 8 Motel	Fort Nelson	June 22, 2007	142
Holiday Inn Express	Kamloops	September 12, 2007	80
Total Rooms/Suites			315
New Brunswick			
Holiday Inn Express and Suites	Moncton	August 4, 2006	151
Total Rooms/Suites			151
Northwest Territories			
Super 8 Motel	Yellowknife	September 29, 2006	66
Total Rooms/Suites			66
Nova Scotia			
Super 8 Motel	Truro	June 7, 2006	50
Radisson Suite Hotel	Halifax	August 4, 2006	104
Holiday Inn Express	Halifax	August 4, 2006	98
Total Rooms/Suites			252
UNITED STATES			
South Carolina			
Holiday Inn Express	Myrtle Beach	November 2, 2007	114
Total Rooms/Suites			114
TOTAL			2,423

Approximately 63% of Holloway's hotel rooms and suites are located in Alberta.

NON-GAAP LODGING INDUSTRY PERFORMANCE INDICATORS

The following describes the key performance measures and financial indicators commonly used by lodging REITs.

Occupancy, Average Daily Rate and Revenue Per Available Room

The key performance measures used to measure performance in the lodging industry are occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR"). These are non-GAAP measures.

Occupancy represents the number of rooms sold compared to the total number of rooms in the hotel. Average daily rate is defined as room revenue divided by the number of rooms occupied / sold. 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.

Funds from Operations (“FFO”)

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 on 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.

Distributable Income

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 summarized 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 fees;
- 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; and
 - unrealized gains or losses on foreign exchange.

Readers should refer to the table “Results of Operations for the Three and Nine Months Ended September 30, 2008 and 2007” which follows for the reconciliation of net income to FFO and to distributable income.

Hotel EBITDA

Hotel EBITDA, a commonly used non-GAAP measure of performance in the lodging industry, is defined as income before interest, income taxes, depreciation and amortization. The REIT has also added back the expenses of the trust and unrealized foreign exchange gains or losses in the calculation of hotel EBITDA. The expenses of the trust include general and administrative, debenture and other interest, accretion of the discount on the convertible debentures and deferred financing fees, unit-based compensation, depreciation and amortization and expenditures related to abandoned property acquisitions, net of interest income from the trust operations.

THREE MONTHS ENDED SEPTEMBER 30, 2008 and 2007

Results of Operations

The results of operations for the three months ended September 30, 2008 include the operation of twenty-two hotels for the full quarter. For the comparative three months of 2007, the REIT owned 20 hotels for the full quarter and acquired the Holiday Inn Express in Kamloops, BC on September 12, 2007.

Hotel Operations

The hotel properties generated revenue of approximately \$25.7 million for the three months ended September 30, 2008 compared to \$24.9 million for the three months ended September 30, 2007. Hotel EBITDA has increased to \$9.7 million from \$9.6 million.

There were two additional hotels in the portfolio for the third quarter in 2008 compared with the prior year. The Holiday Inn Express in Kamloops, BC was acquired on September 12, 2007 and the Holiday Inn Express in Myrtle Beach, SC was acquired on November 2, 2007. Two restaurants which were in the 2007 results are no longer in operation. The food and beverage space has been leased out at the Radisson Suite Hotel in Halifax, NS and the food and beverage operation at the Holiday Inn Express in Moncton, NB has been closed and is being converted to meeting space.

Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the three months ended September 30, 2008.

Region	3 Months Ended September 30, 2008		
	Occupancy	ADR	RevPAR
Atlantic Canada	86.61%	\$ 135.32	\$ 117.20
Western Canada	69.48%	\$ 144.74	\$ 100.56
United States	66.47%	\$ 107.70	\$ 71.59
Totals	72.18%	\$ 141.26	\$ 101.96

Overall demand during the three months ended September 30, 2008 was particularly strong in Halifax, NS, downtown Calgary, AB, Whitecourt, AB, Slave Lake, AB, Kamloops, BC, Fort St. John, BC and Yellowknife, NT.

Demand in Grande Prairie and Three Hills, AB continues to be impacted by reduced oil and gas exploration activity in these areas, coupled with increased supply in both markets.

Same Hotel Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the three months ended September 30, 2008 and 2007, for the twenty hotels which were owned for the entire third quarter in 2007 and 2008.

Region	3 Months Ended September 30, 2008			3 Months Ended September 30, 2007			RevPAR Change
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada	86.61%	\$ 135.32	\$ 117.20	89.89%	\$ 129.95	\$ 116.81	0.3%
Western Canada	68.31%	\$ 145.64	\$ 99.49	65.74%	\$ 149.78	\$ 98.46	1.0%
Totals	71.62%	\$ 143.38	\$ 102.69	70.12%	\$ 145.16	\$ 101.79	0.9%

The Atlantic Canada RevPAR has increased 0.3% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 due to improved performance at both of the Halifax, NS hotels. Demand decreased in Moncton, NB and Truro, NS due to new supply that is still being absorbed in these markets.

Western Canada RevPAR increased by 1.0%. The growth was led by the Radisson Hotel and Suites in Fort McMurray, AB. This hotel achieved significant gains in ADR due to strong yield management practices and a robust market. The 5 Calgary Downtown Suites and Spa hotel also achieved solid growth this quarter due to a continued buoyant market and strong group business. The Super 8 in Drayton Valley, AB experienced a decline in RevPAR due to the impact of supply increases in this market. However, this hotel continues to lead its competitive set in RevPAR penetration. The Wingate by Wyndham in Calgary declined due to both lower occupancy and rate.

In Grande Prairie, AB the Pomeroy Inn and Suites achieved strong growth compared to the prior year when it was under renovation. The Holiday Inn, Best Western, and Super 8 hotels all experienced occupancy declines due to increased supply in the city compared to the prior year and reduced exploration activity in the area.

Hotel EBITDA

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

(in 000's)	Three months ended September	Three months ended September
	30, 2008	30, 2007
Net income	\$ 781	\$ 1,277
Net trust expenses	1,782	1,448
Depreciation and amortization	3,341	3,035
Interest on mortgages and loans payable and accretion of deferred financing fees	2,841	2,897
Unrealized foreign exchange loss	200	–
Provision for future income taxes	742	933
Hotel EBITDA	\$ 9,687	\$ 9,590
Number of rooms available	222,916	206,268
Hotel EBITA per available room	\$ 43.46	\$ 46.49

Hotel EBITDA has increased slightly when comparing the three months ended September 30, 2008 to the three months ended September 30, 2007 due to stronger performance at the 5 Calgary Downtown Suites and Spa hotel and the Radisson Hotel and Suites in Fort McMurray, AB along with the addition of the Holiday Inn Express in Kamloops, BC and Holiday Inn Express in Myrtle Beach, SC which were acquired in September, 2007 and November, 2007, respectively. These gains were offset by weaker performance at the Wingate by Wyndham in Calgary, the Holiday Inn in Grande Prairie and the Best Western in Grande Prairie, AB.

Hotel EBITDA per available room decreased by 6.5% to \$43.46 from \$46.49 for the three months ended September 30, 2008 and 2007, respectively, due to higher property tax in northern Alberta and British Columbia along with lower margins at Holiday Inn Grande Prairie and Best Western Grande Prairie.

Hotel EBITDA Margin Analysis

The following table provides the REIT's hotel margins for its base portfolio and its 2007 acquisitions for the three months ended September 30, 2008 and 2007.

(in 000's)			
2008	Base Portfolio	2007 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 10,959	\$ 14,789	\$ 25,748
Hotel cost of sales	3,102	4,471	7,573
Hotel gross profit	\$ 7,857	\$ 10,318	\$ 18,175
Percentage	71.7%	69.8%	70.6%
Hotel overhead expenses ⁽²⁾	\$ 3,900	\$ 4,588	\$ 8,488
Hotel EBITDA	\$ 3,957	\$ 5,730	\$ 9,687
Hotel EBITDA margin	36.1%	38.7%	37.6%
2007			
Hotel revenues	\$ 11,905	\$ 12,954	\$ 24,859
Hotel cost of sales	3,713	3,504	7,217
Hotel gross profit	\$ 8,192	\$ 9,450	\$ 17,642
Percentage	68.8%	73.0%	71.0%
Hotel overhead expenses ⁽²⁾	\$ 4,040	\$ 4,012	\$ 8,052
Hotel EBITDA	\$ 4,152	\$ 5,438	\$ 9,590
Hotel EBITDA margin	34.9%	42.0%	38.6%
Variance			
Hotel revenues	(\$ 946)	\$ 1,835	\$ 889
Hotel cost of sales	611	(967)	(356)
Hotel gross profit	(\$ 335)	\$ 868	\$ 533
Percentage	2.9%	(3.2%)	(0.4%)
Hotel overhead expenses ⁽²⁾	\$ 140	(\$ 576)	(\$ 436)
Hotel EBITDA	(\$ 195)	\$ 292	\$ 97
Hotel EBITDA margin	1.2%	(3.3%)	(1.0%)

⁽¹⁾ The 2007 acquisitions represent hotels acquired in 2007.

⁽²⁾ Hotel overhead expenses include sales, marketing, general, administrative, maintenance, utilities, property taxes, insurance, management and other fees, and land lease expense. These expenses exclude depreciation, amortization, interest on mortgages and loans, accretion of deferred financing fees, and unrealized foreign exchange gains or losses.

The base portfolio EBITDA margin increased to 36.1% from 34.9% due in part to higher revenues and lower departmental costs at the 5 Calgary Downtown Suites and Spa Hotel. Improved margins compared to the prior year were also achieved as a result of operating efficiencies due to the lease out of the food and beverage operation at the Radisson Suite Hotel in Halifax in the first quarter of 2008. This lease along with the closure of the restaurant at the

Holiday Inn Express in Moncton in December 2007 and lower revenues at the Wingate in Calgary accounted for the lower revenues in the quarter compared to the prior year.

The acquisition portfolio EBITDA margin decreased to 38.7% from 42.0% primarily due to increased property taxes in northern Alberta and British Columbia and a 2.8% decline in ADR in the Western Canadian portfolio.

Corporate Operations

Corporate net trust expenses were \$1.8 million for the three months ended September 30, 2008 and \$1.4 million for the three months ended September 30, 2007. During the three months ended September 30, 2008, the REIT generated interest income of \$0.7 million from loans receivable and the investment of cash balances, compared to \$0.9 million during the third quarter of 2007. In 2007, the REIT had not deployed some of the cash from the equity and debentures issuances in June and July, 2007 thus resulting in higher interest income on invested cash balances.

General and administrative expenses have decreased approximately \$70,000 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The expenses for the third quarter of 2007 include a one-time fee of \$150,000 for graduating to the TSX and higher legal expenses pertaining thereto. Salaries and wages are higher in this quarter compared to 2007 as our President and Chief Operating Officer Michael Jackson was hired on September 15, 2007.

The REIT incurred \$32,000 in due diligence expenses related to abandoned property acquisitions during the three months ended September 30, 2008, whereas in 2007 the recovery of \$126,000 expenses related to the Holiday Inn Express in Myrtle Beach that had been written off in a previous quarter.

The total debenture interest expense and the non-cash accretion of the discount on the debentures and deferred financing fees is consistent for the third quarters in 2007 and 2008 as the debentures outstanding of \$72.1 million has not changed.

Funds from Operations (“FFO”)

FFO for the three months ended September 30, 2008 was \$4.8 million (\$0.12 basic and diluted FFO per unit) compared to \$5.2 million (\$0.13 basic and diluted FFO per unit) for the same period in 2007 due to higher property taxes in northern Alberta and British Columbia and the other changes as previously noted.

Distributable Income

The REIT generated \$5.0 million in distributable income (\$0.13 basic and diluted per unit) for the three months ended September 30, 2008 compared to \$5.2 million (\$0.13 basic and diluted per unit) for the same period in 2007. Distributions of \$0.045 per unit per month were declared and totalled \$5.3 million for the three months ended September 30, 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

The REIT's third quarter distributions slightly exceeded the distributable income. Excess, un-deployed cash was used to fund the distribution shortfall.

Cash flow for the Three Months Ended September 30, 2008 and 2007

During the three months ended September 30, 2008, the REIT's cash and cash equivalents decreased by approximately \$0.7 million from \$8.6 million to \$7.9 million, of which \$0.3 million relates to the distributions to unitholders exceeding distributable income. For the comparative period in 2007, cash and cash equivalents decreased by \$5.5 million from \$36.4 million to \$30.9 million as the REIT acquired the Holiday Inn Express in Kamloops, BC in September, 2007 for \$11.5 million.

Operating Activities

Cash flow from operations was approximately \$7.8 million for the three months ended September 30, 2008 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the three months ended September 30, 2007 cash flow from operations was \$5.8 million. Changes in non-cash working capital balances provided approximately \$2.1 million during the three months ended September 30, 2008. Increased collections of accounts receivable of \$0.5 million and an increase in accounts payable and accrued liabilities of approximately \$0.9 million at September 30, 2008 were the primary reasons for the change in the working capital balances. For the comparative period in 2007, the change in working capital balances used \$0.09 million of cash as increases in accounts receivable and prepaid expenses and deposits were higher than the increases in accounts payable and accrued interest and other liabilities.

Investing Activities

Investing activities utilized \$2.1 million in cash during the three months ended September 30, 2008. For the three months ended September 30, 2007, investing activities utilized \$14.7 million, of which \$11.5 million was due to the acquisition of the Holiday Inn Express in Kamloops, BC.

During the three months ended September 30, 2008 and 2007, the REIT's capital reserves for replacement and improvements increased by \$0.5 million.

During the three months ended September 30, 2008 and 2007, the REIT provided mezzanine loans of \$1.25 million and \$1.5 million on the Wyndham Garden Inn in Toronto, ON.

There were additions of \$0.3 million to property and equipment during the three months ended September 30, 2008. These additions were made at a number of the hotels. During the three months ended September 30, 2007, the additions of \$1.2 million were made at the Radisson in Fort McMurray, the Holiday Inn Express in Moncton and a number of other hotels.

Financing Activities

Financing activities utilized \$6.4 million during the three months ended September 30, 2008, compared to providing \$3.3 million during the three months ended September 30, 2007. In July, 2007, pursuant to an overallotment option granted to the underwriters, the REIT issued 580,000 units at \$5.35 per unit and \$6.8 million in 6.5% convertible debentures for net proceeds of \$2.3 million and \$6.6 million, respectively.

The REIT paid distributions to unitholders of approximately \$5.3 million for the three months ended September 30, 2008, compared to \$5.0 million for the three months ended September 30, 2007.

The REIT made principal repayments on its mortgage debt and loans payable of \$1.0 million and \$0.8 million for the three months ended September 30, 2008 and 2007, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2008 and 2007

Results of Operations

The results of operations for the nine months ended September 30, 2008 include the operation of twenty-two hotels for the full nine months. The dollar value of revenues and expenses has increased substantially when comparing the nine months results for 2008 to the first nine months of 2007 due to the number of acquisitions made during 2007.

Hotel Operations

The hotel properties generated revenue of approximately \$72.1 million for the nine months ended September 30, 2008 compared to \$47.5 million for the nine months ended September 30, 2007. Hotel EBITDA has increased to \$25.4 million from \$15.8 million, an increase of 60%. Depreciation and amortization has increased substantially due to the growth in the asset base.

Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the nine months ended September 30, 2008.

Region	9 Months Ended September 30, 2008		
	Occupancy	ADR	RevPAR
Atlantic Canada	74.74%	\$126.31	\$94.40
Western Canada	66.05%	\$146.60	\$96.83
United States	62.55%	\$98.67	\$61.72
Totals	67.33%	\$140.74	\$94.76

Overall demand during the nine months ended September 30, 2008 was particularly strong in downtown Halifax, NS, Yellowknife, NT, Whitecourt, AB, Fort McMurray, AB, Kamloops, BC, and Fort St. John, BC.

Same Hotel Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the nine months ended September 30, 2008 and September 30, 2007, for the eight hotels which were owned for the entire nine months in 2007 and 2008.

Region	9 Months Ended September 30, 2008			9 Months Ended September 30, 2007			RevPAR Change
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada	74.74%	\$126.31	\$94.40	76.82%	\$120.77	\$92.78	1.7%
Western Canada	70.47%	\$133.03	\$93.75	70.45%	\$134.93	\$95.06	(1.4%)
Totals	72.31%	\$130.03	\$94.02	73.20%	\$128.51	\$94.07	(0.05%)

The Atlantic Canada RevPAR has increased 1.7% for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, due primarily to strong results in Moncton. The RevPAR of the Moncton competitive set experienced strong growth year over year as the market returned to the 2006 levels after a decline in 2007 due to new supply. Both the downtown and suburban Halifax competitive sets experienced occupancy declines in the first nine months of 2008 versus the same period in 2007. However, both the Radisson Suite Hotel in Halifax and the Holiday Inn Express in Halifax continue to lead their respective competitive sets year to date. Both the Moncton and the Halifax markets have experienced new entrants to their respective competitive sets' within the last year.

Western Canada RevPAR declined by 1.4% compared to the nine months ended September 30, 2007. ADR declined by 1.4% while occupancy remained flat. The 5 Calgary Downtown Suites and Spa Hotel and the Super 8 in Yellowknife achieved sufficient occupancy growth versus the prior year to increase RevPAR. Occupancy at the Wingate by Wyndham in Calgary has declined due primarily to decreased business from a high volume account which did not require a similar volume of accommodation in 2008 compared to 2007. In Drayton Valley, AB a new competitor that opened in the first quarter of 2007 has been increasing their market share. Despite this, the Super 8 continues to lead their competitive set in RevPAR penetration.

Hotel EBITDA

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

(in 000's)	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net income (loss)	(\$ 27)	\$ 1,666
Net trust expenses	5,627	3,244
Depreciation and amortization	9,885	5,273
Interest on loans payable and accretion of financing fees	8,594	5,095
Unrealized foreign exchange loss	329	—
Provision for future income taxes	984	551
Hotel EBITDA	\$ 25,392	\$ 15,829
Number of rooms available	661,882	410,899
Hotel EBITDA per available room	\$38.36	\$38.52

Hotel EBITDA has increased by 60% due to the increase in the number of hotels owned by the REIT in the nine months of 2008 compared to the nine months of 2007. Hotel EBITDA per available room decreased by 0.4% to \$38.36 from \$38.52 for the nine months ended September 30, 2008 and 2007, respectively due to higher property taxes.

Hotel EBITDA Margin Analysis

The following table provides the REIT's hotel margins for its base portfolio and its 2007 acquisitions for the nine months ended September 30, 2008 and 2007.

(in 000's)			
2008	Base Portfolio	2007 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 28,454	\$ 43,671	\$ 72,125
Hotel cost of sales	8,903	12,713	21,616
Hotel gross profit	\$ 19,551	\$ 30,958	\$ 50,509
Percentage	68.7%	70.9%	70.0%
Hotel overhead expenses ⁽²⁾	\$ 11,079	\$ 14,038	\$ 25,117
Hotel EBITDA	\$ 8,472	\$ 16,920	\$ 25,392
Hotel EBITDA margin	29.8%	38.7%	35.2%
2007			
Hotel revenues	\$ 30,370	\$ 17,123	\$ 47,493
Hotel cost of sales	10,078	5,002	15,080
Hotel gross profit	\$ 20,292	\$ 12,121	\$ 32,413
Percentage	66.8%	70.8%	68.2%
Hotel overhead expenses ⁽²⁾	\$ 11,381	\$ 5,204	\$ 16,585
Hotel EBITDA	\$ 8,911	\$ 6,917	\$ 15,828
Hotel EBITDA margin	29.3%	40.4%	33.3%
Variance			
Hotel revenues	(\$ 1,916)	\$ 26,548	\$ 24,632
Hotel cost of sales	1,175	(7,711)	(6,536)
Hotel gross profit	(\$ 741)	\$ 18,837	\$ 18,096
Percentage	1.9%	0.1%	1.8%
Hotel overhead expenses ⁽²⁾	\$ 302	(\$ 8,834)	(\$ 8,532)
Hotel EBITDA	(\$ 439)	\$ 10,003	\$ 9,564
Hotel EBITDA margin	0.5%	(1.7%)	1.9%

⁽¹⁾ The 2007 acquisitions represent hotels acquired in 2007.

⁽²⁾ Hotel overhead expenses include sales, marketing, general, administrative, maintenance, utilities, property taxes, insurance, management and other fees, and land lease expense. These expenses exclude depreciation, amortization, interest on mortgages and loans, accretion of deferred financing fees and unrealized foreign exchange gains or losses.

The base portfolio EBITDA margin increased to 29.8% from 29.3% for the prior year. The lower cost of sales is a result of operating efficiencies due to the lease out of the food and beverage operation at the Radisson Suite Hotel in Halifax and closing the restaurant at the Holiday Inn Express and Suites in Moncton. These changes also accounted for the lower revenues as the decline in the low margin food and beverage revenue was partially offset by higher margin room revenue in markets such as Moncton and Yellowknife.

The acquisition portfolio EBITDA margin decreased to 38.7% from 40.4% partially due to the timing of the 2007 acquisitions. The Radisson Fort McMurray had eight months of activity in the nine months ended September 30, 2007 while ten of the 2007 acquisitions had only three months of activity. Due to the ADR in Fort McMurray, the margin of this property is higher than the margins of the subsequent 2007 acquisitions. For 2008, all of the 2007 acquisitions had

the full nine months of activity. Property tax increases in 2008 in northern Alberta and British Columbia also contributed to the margin decline.

Corporate Operations

Corporate net trust expenses were \$5.6 million for the nine months ended September 30, 2008 and \$3.2 million for the nine months ended September 30, 2007. During the nine months ended September 30, 2008, the REIT generated interest income of \$2.1 million from loans receivable and the investment of cash balances, compared to \$1.7 million in the first nine months of 2007.

General and administrative expenses have increased approximately \$279k in the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The expenses for the first nine months in 2007 include a one-time fee of \$150k for graduating to the TSX and higher legal expenses related thereto. Salaries and wages are higher in 2008 compared to 2007 as the President and Chief Operating Office Michael Jackson was hired on September 15, 2007. In addition, there were two additional corporate employees during part of 2008 whose positions have since been eliminated. Office expenses were higher in 2008 due to increased costs incurred relating to the annual general meeting.

Debenture interest expense and the non-cash accretion of the discount on the debentures has increased to \$4.4 million from \$3.0 million as the REIT presently has \$72.1 million in debentures outstanding. During the first six months of 2007, the REIT had \$20.4 million in debentures outstanding until June 22, 2007, when \$45.0 million in debentures were issued. The REIT issued an additional \$6.8 million in debentures on July 18, 2007.

Funds from Operations (“FFO”)

FFO for the nine months ended September 30, 2008 was \$10.7 million (\$0.27 basic and diluted FFO per unit) compared to \$7.4 million (\$0.30 basic FFO per unit and \$0.29 diluted FFO per unit) for the same period in 2007 due to the unrealized foreign exchange losses and higher property taxes.

Distributable Income

The REIT generated \$11.1 million in distributable income (\$0.28 basic and diluted per unit) for the nine months ended September 30, 2008 compared to \$7.3 million (\$0.29 basic and diluted per unit) for the same period in 2007. Distributions of \$0.045 per unit per month were declared and totalled \$15.8 million for the nine months ended September 30, 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

The REIT's distributions exceeded the distributable income for the first nine months of 2008. Business levels in Grande Prairie were affected by reduced natural gas exploration and the uncertainty surrounding changes in royalty arrangements by the Alberta government. Excess, un-deployed cash was used to fund the distribution shortfall. To help mitigate this shortfall and as described in the “RELATED PARTY AGREEMENTS” section, effective February 1, 2008, the management of 10 hotels purchased in June 2007 is now being performed by Pacrim Hospitality Services Inc. at a substantially reduced fee.

Cash flow for the Nine Months Ended September 30, 2008 and 2007

During the nine months ended September 30, 2008, the REIT's cash and cash equivalents decreased by approximately \$15.0 million from \$22.9 million to \$7.9 million, primarily due to distributions exceeding the distributable income and the \$6.4 million loan to Pacrim Hospitality Services Inc. (“PHSI”) as described in the RELATED PARTY AGREEMENTS section. For the comparative period in 2007, cash and cash equivalents decreased by \$1.1 million from \$32.0 million to \$30.9 million.

Operating Activities

Cash flow from operations was approximately \$13.8 million for the nine months ended September 30, 2008 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the nine months ended September 30, 2007 cash flow from operations was \$8.3 million. Changes in non-cash working capital balances generated approximately \$0.5 million during the nine months ended September 30, 2008, compared to utilizing \$0.4 million during the nine months ended September 30, 2007. The decrease in prepaid expenses and increase in accounts payable and accrued interest and expenses more than offset the increase in accounts receivable during the nine months of 2008.

Investing Activities

Investing activities utilized \$9.3 million in cash during the nine months ended September 30, 2008. For the nine months ended September 30, 2007, investing activities utilized \$259.0 million primarily due to the acquisition of thirteen hotels during this period. During the first nine months of 2007, the REIT acquired the Radisson Hotel and Suites in Fort McMurray, the Super 8 motel in Three Hills, Alberta, a portfolio of ten hotels located in Alberta and British Columbia and the Holiday Inn Express in Kamloops, BC.

During the nine months ended September 30, 2008 and 2007, the REIT's capital reserves for replacement and improvements increased by \$1.6 million and \$0.07 million, respectively. There were additions of \$1.8 million to property and equipment with improvements being made at the Radisson Hotel and Suites in Fort McMurray, Alberta, the Radisson Suite Hotel in Halifax, Nova Scotia and smaller additions at a number of hotels during the nine months ended September 30, 2008. During the nine months ended September 30, 2007, the REIT had additions of \$3.9 million, primarily at the Holiday Inn Express hotels in Moncton, NB and Halifax, NS.

During the nine months ended September 30, 2008 and 2007, the REIT provided mezzanine loans of \$1.25 million and \$6.4 million, respectively. The \$1.25 million loan was provided on the Wyndham Garden Inn in Toronto, ON. During the first nine months of 2007, the REIT provided a \$3.0 mezzanine loan on the Wingate by Wyndham hotel in Regina, SK, a \$1.9 million loan on the Super 8 motel in Windsor, NS and a \$1.5 million loan on the Wyndham Garden Inn in Toronto, ON.

During the nine months ended September 30, 2008, the REIT provided a loan to Pacrim Hospitality Services Inc. to acquire the management contract for ten of the REIT's properties (see RELATED PARTY AGREEMENTS).

The decrease in the restricted cash of \$1.7 million during the nine months ended September 30, 2008 represents the release of funds related to the Pomeroy Inn and Suites hotel. In connection with mortgage financing on this property acquired in June 2007, the REIT issued a standby letter of credit in the amount of \$2.8 million in favor of the mortgage lender, secured by the restricted cash. As the renovations have been completed, the restricted cash for the Pomeroy Inn and Suites has been completely released.

Financing Activities

Financing activities utilized \$19.4 million during the nine months ended September 30, 2008, compared to providing \$249.6 million during the nine months ended September 30, 2007.

During the nine months ended September 30, 2007, the REIT obtained mortgage financing of \$116.9 million related to the properties acquired. The REIT made principal repayments of \$3.1 million and \$1.6 million for the nine months ended September 30, 2008 and 2007, respectively.

In June and July, 2007, the REIT issued 18.338 million units at a price of \$5.35 per unit for net proceeds of \$93.2 million and \$51.8 million aggregate principal amount of 6.5% convertible debentures (net \$49.9 million).

The REIT paid distributions to unitholders of approximately \$15.8 million for the nine months ended September 30, 2008, compared to \$8.7 million during the nine months ended September 30, 2007. The units issued in June and July,

2007 have been paid distributions for nine months in 2008, whereas in 2007, distributions were only paid for three months on these units.

The REIT re-purchased and cancelled 62,100 units at an average cost of \$3.47 under its normal course issuer bid which utilized \$0.2 million in cash during the nine months ended September 30, 2008.

SUMMARY OF QUARTERLY RESULTS

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

(in 000's except per unit results)	Q3, 2008	Q2,2008	Q1, 2008	Q4, 2007	Q3, 2007	Q2, 2007	Q1, 2007	Q4, 2006
Total revenues (hotel and trust)	\$ 26,440	\$ 24,364	\$ 23,416	\$ 22,329	\$ 25,724	\$ 13,404	\$ 10,088	\$ 8,787
Hotel revenues	\$ 25,748	\$ 23,669	\$ 22,708	\$ 22,258	\$ 24,858	\$ 12,988	\$ 9,647	\$ 8,610
Hotel expenses	22,443	21,774	21,324	21,764	21,200	11,673	9,160	8,213
Income from hotel operations	3,305	1,895	1,384	494	3,658	1,315	487	397
Net trust expenses	1,782	1,870	1,976	1,778	1,448	910	886	1,669
Future income tax recovery (expense)	(742)	(203)	(39)	1,138	(933)	* 382	-	-
Net income (loss) for the period	\$ 781	\$ (178)	\$ (631)	\$ (146)	\$ 1,277	\$ 787	\$ (399)	\$ (1,272)
Per Unit Results:								
Basic earnings per unit	0.02	-	-	0.00	0.03	0.04	-	-
Diluted earnings per unit	0.02	-	-	0.00	0.03	0.04	-	-
Basic and diluted loss per unit	-	(0.01)	(0.02)	-	-	-	(0.02)	(0.15)
Basic FFO per unit	0.12	0.08	0.07	0.05	0.13	0.09	0.03	(0.03)
Diluted FFO per unit	0.12	0.08	0.07	0.05	0.13	0.09	0.03	(0.03)
Basic distributable income per unit	0.13	0.08	0.07	0.05	0.13	0.08	0.03	0.01
Diluted distributable income per unit	0.13	0.08	0.07	0.05	0.13	0.08	0.03	0.01
Occupancy	72.18%	65.69%	64.04%	60.43%	70.26%	69.28%	65.74%	65.29%
ADR	\$141.26	\$141.06	\$139.71	\$139.09	\$144.91	\$134.54	\$121.97	\$115.71
Revpar	\$101.97	\$92.66	\$89.47	\$84.05	\$101.81	\$93.21	\$80.18	\$75.55

* Q2 2007 figures were revised to reduce the future income tax recovery by \$1,906 and to reduce the related future income tax asset. This adjustment is required to properly reflect all the temporary timing differences in the determination of the future tax recovery.

LIQUIDITY AND WORKING CAPITAL

As at September 30, 2008, the REIT had working capital of approximately (\$0.1) million. In addition, the REIT had un-drawn operating lines of credit totaling \$9.7 million. Cash from operations will fluctuate due to the seasonality in the hospitality industry. Based on our forecasted cash flow from operations, the REIT is expected to have sufficient working capital to meet its ongoing commitments and expenditures.

Mortgages Payable

As at September 30, 2008, the REIT had total mortgage debt outstanding of \$166.3 million, excluding deferred financing fees of \$1.3 million which have been netted against mortgages payable in the financial statements with a weighted average interest rate of 6.76%. 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. The amount of debt maturing in 2010 is \$8.9 million. The weighted average maturity is 6.5 years.

Financial Commitments

The following chart summarizes the REIT's future financial commitments as at September 30, 2008.

(in \$000s)	Remainder of 2008	2009	2010	2011	2012	Thereafter
Mortgages payable – principal	\$ 1,107	\$ 5,080	\$ 13,865	\$ 36,453	\$ 17,665	\$ 92,143
Mortgages payable – interest	3,080	11,076	10,211	9,475	6,525	25,819
Obligations under capital leases	117	403	311	132	74	34
Vehicle loans - principal	14	60	34	4	-	-
Vehicle loans - interest	2	5	1	-	-	-
Convertible debentures	-	-	-	20,238	51,844	-
Convertible debentures - interest	1,685	4,989	4,989	4,989	1,685	-
Land lease	31	123	123	123	123	6,396
Operating leases	36	81	40	30	18	1
Total	\$ 6,072	\$ 21,817	\$ 29,574	\$ 71,444	\$ 77,934	\$ 124,393

The total debt (including loans and obligations under capital leases) to gross book value (“GBV”) was 39.6% at September 30, 2008 (September 30, 2007 – 39.0%) and the total debt plus the face value of convertible debentures to GBV was 56.7% at September 30, 2008 (September 30, 2007 – 55.9%).

UNIT INFORMATION

	September 30, 2008	September 30, 2007
Units outstanding	39,136,216	39,153,317
Options outstanding (exercisable)	756,622	392,333
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	8,429,919
Total units reflecting exercise and conversion	52,070,535	51,723,347

NORMAL COURSE ISSUER BID

On December 11, 2007, Holloway initiated a Normal Course Issuer Bid (“NCIB”) to repurchase a maximum of 1.0 million of its issued and outstanding trust units. Management and the trustees believe that the market value of the units may, from time to time, not reflect the value of the REIT and thus have implemented the NCIB in its objective of delivering value to its unitholders. During the three months ended September 30, 2008, the REIT purchased 10,500 units under the NCIB at an average cost of \$2.69. For the nine months ended September 30, 2008 the REIT purchased 62,100 units under the NCIB at an average cost of \$3.47.

RELATED PARTY AGREEMENTS

Hotel Management Agreement

Pacrim Hospitality Services Inc.

On June 7, 2006, the REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. ("PHSI"), a related party, to manage certain hotels purchased by the REIT, with an initial term of ten years and an automatic renewal for successive five year terms commencing on the last day of the initial term. PHSI is entitled to a base management fee of 3% of gross hotel revenues, an incentive fee, 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 which currently ranges from \$20,000 to \$35,400 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 and website development and maintenance 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.

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. On February 1, 2008, PHSI acquired management of ten of the REIT's hotel properties located in northern Alberta and British Columbia from Pomeroy. The REIT acquired the hotels (the "Pomeroy Hotels") from affiliates of Pomeroy in June, 2007. Under the terms of an agreement among the REIT, PHSI and Pomeroy, Pomeroy assigned its interest in the hotel management agreement between Pomeroy and the REIT to PHSI on February 1, 2008 in return for a \$6.35 million one-time payment from PHSI. At the same time, the existing hotel management agreement between the REIT and PHSI was amended to include the Pomeroy Hotels. Among other things, the amended hotel management agreement between the REIT and PHSI provides that PHSI receive a base management fee for the Pomeroy Hotels that is significantly lower than the base management fee payable under the previous hotel management agreement with Pomeroy until the REIT generates distributable income that exceeds certain targets.

In order to facilitate the assignment, the REIT loaned PHSI the funds that were paid to Pomeroy in consideration of the assignment. This loan has a ten year term, is pre-payable at any time without penalty and bears interest at 13% per annum during the first six months of the term and at the lesser of 13% and the trailing three-month yield plus 1% on Holloway's units thereafter.

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.

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 March 28, 2008 which is available at www.sedar.com.

OUTLOOK

Statistics Canada has reported that the Canadian GDP grew by 0.1% in the second quarter of 2008. In the third quarter, July was encouraging with 0.7% growth, but August slipped back, posting a 0.3% decline. At the time of this writing, no GDP data is available for September or for the quarter overall.

The financial markets decline began in mid-September and it is quite clear that the credit tightening that has subsequently occurred will be an impediment to global growth in 2009. RBC Financial and others suggest a U.S. recession is likely and the UK and Eurozone economies are slipping. In Canada, domestic demand has remained strong, however trade and manufacturing is expected to continue to restrain growth for the remainder of 2008 and into 2009, as Canada is not immune to the weakness in the U.S. It has been forecast by RBC Financial that Canada will be kept off of a recessionary path by strong domestic performance.

According to information recently published by the Canadian Tourism Research Institute and the Conference Board of Canada, Canadian GDP was forecast to grow by approximately 0.8% in 2008 and approximately 2.2% in 2009. Some more recent forecasts by the Bank of Canada and others have not been quite as optimistic as these produced only a matter of weeks ago.

In the lodging industry, performance is heavily influenced by local economic conditions, as well as the segment orientation of properties. That said, PKF Consulting Inc. has indicated in data released in September that national RevPAR will grow in Canada in 2008 by 3.6% and that western Canada markets will lead the way as they did in 2007.

For 2009, the same regional skew is expected to continue with hotel performance in western Canada expected to be much stronger than the other regions of the country. Central Canada is expected to face the greatest performance

challenges in 2009. For 2009, PKF has forecast RevPAR to grow nationally by 2.3%, assisted to some extent by constraint of new supply and driven entirely by average room rate growth. The west is expected to grow by 3.3%, Atlantic Canada by 1.4% and central Canada by a more modest 1.2%.

The Holloway Lodging portfolio of hotels is well positioned from a geographic distribution perspective and a product segment perspective to capitalize on the market opportunities that have been forecast for the remainder of 2008 and 2009.

SUBSEQUENT EVENT

In light of the recent developments in the economy, the tightening of available credit and the general desire to conserve cash, the Board of Trustees have carefully reviewed and assessed the near-term and medium-term anticipated impact of these events on Holloway. As a result, distributions for November, 2008 will be \$0.0175 per unit or \$0.21 annually.

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 2008, the REIT adopted four new accounting standards issued by the Accounting Standards Board of the CICA as follows: (i) Section 3862 Financial Instruments - Disclosures; (ii) Section 3863 Financial Instruments - Presentation; (iii) Section 1535 Capital Disclosures; and (iv) Section 3031 Inventories. The new standards on financial instruments require disclosures related to the significance of financial instruments on the REIT’s financial position and performance and the nature and extent of risk arising from financial instruments to which the REIT is exposed and how the REIT manages these risks. The new standards on capital disclosures establish disclosure requirements about the REIT’s capital and how it is managed. The new standards on inventories replace the existing standards, revising and enhancing disclosure and presentation requirements. There has been no impact as to how the REIT accounts for inventory.

Note 2 to the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2008 explain the impact of these changes in accounting policies.

Future Changes to Canadian GAAP

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed the mandatory changeover date to International Financial Reporting Standards (“IFRS”) for all Canadian profit-oriented publicly accountable entities. This means that the REIT will be required to prepare IFRS financial statements for interim periods and fiscal years beginning in 2011. Work is currently underway to evaluate the impact this will have on the REIT’s financial statements. The REIT has a preliminary assessment of the key differences between Canadian GAAP as currently applied by Holloway and IFRS. The assessment also includes a summary of the key decisions that will need to be made and a summary of the key IFRS disclosure requirements. The next steps will involve developing a project plan, timelines, personnel requirements and a budget for the next phase of the IFRS project.

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 became subject to the tax commencing in 2007. 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’s 2007 distributions were 100% 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, 2008 that have materially affected, or are reasonably likely to materially affect, the REIT’s internal controls 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 March 28, 2008 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.