



Holloway
LODGING

Real Estate Investment Trust

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Dated as of February 28, 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 year ended December 31, 2007 and should be read in conjunction with the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2007.

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 audited 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 YEAR ENDED DECEMBER 31, 2007

The following summarizes the key highlights for the year ended December 31, 2007:

- distributable income increased by \$8.2 million to \$9.2 million (\$0.32 per unit) from \$1.0 million (\$0.15 per unit) for the years ended December 31, 2007 and 2006, respectively;
- hotel revenues increased by 350% to \$69.8 million from \$15.4 million for the years ended December 31, 2007 and 2006, respectively;
- during the year, the REIT purchased 14 hotels and other related assets for a total purchase price of \$270.6 million;
- in June and July, the REIT issued 18,338,000 units at \$5.35 per unit for gross proceeds of \$98.1 million and \$51.8 million of 6.5% convertible debentures in a "bought deal" public offering for total gross proceeds of \$150.0 million;
- on July 17, 2007, the REIT graduated from the TSX Venture Exchange to the TSX;
- a 20% distribution increase from \$0.0375 to \$0.045 per unit per month (from \$0.45 per unit per year to \$0.54 per unit per year) became effective with the August distribution to unitholders of record as of July 31, 2007;
- as a result of the acquisition activity in 2007, total assets have increased over 200% and unitholders' equity has increased approximately 164%;
- on September 15, 2007, Michael Jackson joined Holloway as President and Chief Operating Officer.

OVERVIEW OF HOLLOWAY LODGING REIT, ITS STRATEGIES AND OBJECTIVES

Holloway is an open-ended real estate investment trust that was formed under the laws of the Province of Ontario pursuant to a Declaration of Trust on March 28, 2006. 2006 was the initial year of active operations for the REIT. On June 7, 2006, Holloway Capital Corporation (“HCC”) was reorganized into Holloway Lodging REIT and acquired its first hotel, the Super 8 in Truro, Nova Scotia. Since that time the REIT has acquired twenty-one additional properties.

Holloway’s Operating Strategy and Objectives

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

The REIT’s objectives are to:

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

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

Acquisition Strategy and 2007 Activity

Our mission is to strategically grow to become one of North America’s top-performing lodging REITs. Holloway continued its acquisition strategy in 2007 having more than doubled the size of the REIT over the course of the year. During 2007, the REIT acquired 10 hotels in Alberta, 3 hotels in British Columbia and 1 hotel in South Carolina, US. The number of hotels has increased by 14 or 175% to 22 as of December 31, 2007 from 8 at the end of 2006. The number of guest rooms and suites has increased by 1,489 or 160% to 2,424 at the end of 2007 from 935 at the end of 2006.

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 December 31, 2007.

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	152
		Total Rooms/Suites	152
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
		GRAND TOTAL	2,424

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

SELECTED FINANCIAL INFORMATION

The following is a summary of Holloway's financial information for the most recent three years.

(in 000's)	2007	2006	2005
BALANCE SHEET			
Total assets	415,216	137,801	300
Total long-term debt	230,114	65,137	-

NON-GAAP HOTEL INDUSTRY PERFORMANCE INDICATORS

The following describes the key performance measures and financial indicators commonly used in the hotel REIT industry.

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.

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 set out below. Distributable income reflects the ability of the REIT to earn income and make cash distributions to unitholders. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable income may differ from similar calculations reported by other entities and accordingly, may not be comparable.

Distributable income is defined as the consolidated net income of the REIT and its subsidiaries for the period computed in accordance with GAAP adjusted for the following items:

- add backs:
 - depreciation and amortization;
 - future income tax expense;
 - losses on dispositions of assets;
 - amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; and
 - amortization of deferred financing 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 has been added back in the calculation of distributable income.

Readers should refer to the table “Results of Operations for the Three Months and Year Ended December 31, 2007 and 2006” which follows for the reconciliations 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.

RESULTS OF OPERATIONS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2007 and 2006

The following table provides a summary of the operating results for the three months and year ended December 31, 2007 and 2006.

(in 000's except number of units and per unit results)	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006
Hotel revenues	22,258	8,610	69,751	15,392
Hotel expenses	21,764	8,213	63,796	13,472
Income from hotel operations	494	397	5,955	1,920
Net trust expenses	1,778	1,669	5,022	3,128
Future income tax (expense) recovery	1,138	-	587	-
Net income (loss) for the period – basic	(146)	(1,272)	1,520	(1,208)
Add: interest on convertible debentures (that are dilutive)	Not dilutive	Not dilutive	Not dilutive	Not dilutive
Net income (loss) for the period – diluted	(146)	(1,272)	1,520	(1,208)
Weighted average basic units outstanding	39,153,317	14,203,943	28,643,005	6,732,826
Weighted average diluted units outstanding	39,153,317	14,203,943	28,760,887	6,732,826
Basic income (loss) per unit	0.00	(0.09)	0.05	(0.18)
Diluted income (loss) per unit	0.00	(0.09)	0.05	(0.18)
Reconciliation to funds from operations (FFO)				
Add/(deduct):				
Depreciation and amortization on real property	3,149	817	8,348	1,270
Future income tax expense (recovery)	(1,138)	-	(587)	-
Funds from operations – basic and diluted	1,865	(455)	9,281	62
Basic FFO per unit	0.05	(0.03)	0.32	0.01
Diluted FFO per unit	0.05	(0.03)	0.32	0.01
Reconciliation to distributable income				
Add/(deduct):				
Depreciation and amortization – trust and other assets	60	64	154	104
Reorganization expenses – one time item	-	-	-	419
Accretion on mortgages and convertible debentures ¹	456	204	1,337	360
Unit-based compensation	199	471	485	551
FF&E reserve	(668)	(258)	(2,093)	(462)
Distributable income – basic and diluted	1,912	26	9,164	1,034
Basic distributable income per unit	0.05	0.00	0.32	0.15
Diluted distributable income per unit	0.05	0.00	0.32	0.15
Distributions declared	0.135	0.1125	0.495	0.1875
Reconciliation of cash flow from operating activities to distributable income				
Cash flow from operating activities	3,645	(107)	11,910	3,180
Changes in non-cash working capital balances	(986)	391	(574)	(2,103)
Foreign exchange loss	(186)	-	(186)	-
Unit-based compensation accrued	107	-	107	-
FF&E reserve	(668)	(258)	(2,093)	(462)
Reorganization expenses – one-time item	-	-	-	419
Distributable income	1,912	26	9,164	1,034

¹Includes the amortization of deferred finance fees which is included in interest expense in the financial statements in 2007 and in depreciation and amortization in 2006.

THREE MONTHS ENDED DECEMBER 31, 2007 and 2006

Results of Operations

The results of operations for the three months ended December 31, 2007 include the operation of twenty-one hotels for the full quarter and the Holiday Inn Express in Myrtle Beach, South Carolina since November 2, 2007. The dollar value of revenues and expenses has increased substantially when comparing the fourth quarter results for 2007 to 2006 due to the number of acquisitions made during the year.

Hotel Operations

The hotel properties generated revenue of approximately \$22.3 million compared to \$8.6 million for the three months ended December 31, 2007 and 2006, respectively. Hotel EBITDA has increased to \$6.6 million from \$1.8 million or 266%. 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 three months ended December 31, 2007. For hotels which were acquired during the period, the table provides the statistics for the period of time the hotels were owned by the REIT.

Region	3 Months Ended December 31, 2007		
	Occupancy	ADR	RevPAR
Atlantic Canada	63.50%	\$113.42	\$72.03
Western Canada	60.71%	\$146.57	\$88.98
United States	36.99%	\$67.76	\$25.06
Totals	60.43%	\$139.09	\$84.05

Overall demand during the three months ended December 31, 2007 was particularly strong in downtown Halifax, NS, Yellowknife, NT, Drayton Valley AB, Whitecourt, AB and Fort St. John, BC. The results at the Grande Prairie, AB hotels as well as the Super 8 in Three Hills, AB were impacted by decreased natural gas exploration and production activity resulting in lower occupancy levels. The Pomeroy Inn and Suites in Grande Prairie continues to undergo renovations resulting in low occupancy. The renovations are expected to be completed during the second quarter of 2008. These renovations are the responsibility of the vendor.

Same Hotel Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the three months ended December 31, 2007 and December 31, 2006, for the eight hotels which were owned for the full quarter in 2006 and 2007.

Region	3 Months Ended December 31, 2007			3 Months Ended December 31, 2006			RevPAR Increase
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada	63.50%	\$113.42	\$72.03	60.78%	\$113.50	\$68.98	4.4%
Western Canada	60.80%	\$133.46	\$81.15	68.73%	\$117.19	\$80.54	0.8%
Totals	61.97%	\$124.59	\$77.21	65.29%	\$115.71	\$75.55	2.2%

The Atlantic RevPAR has increased 4.4% in the three months ended December 31, 2007 compared to the three months ended December 31, 2006, due primarily to the three Nova Scotia hotels. Western Canada RevPAR grew by 0.8% compared to the three months ended December 31, 2006. ADR growth in excess of 13% was achieved as the opportunity existed through rate and segmentation shift versus pure demand growth.

Corporate Operations

Corporate net trust expenses were \$1.8 million for the three months ended December 31, 2007 and \$1.7 million for the three months ended December 31, 2006. Debenture interest expense and the non-cash accretion of the discount on the debentures has increased from \$0.7 million to \$1.7 million. In the fourth quarter of 2006, the REIT had \$20 million in debentures outstanding, whereas in the fourth quarter of 2007, the REIT had \$72 million in debentures outstanding. During the three months ended December 31, 2007, the REIT generated interest income of \$0.7 million from mezzanine loans and the investment of cash balances, compared to \$0.2 million in the fourth quarter of 2006.

Funds from Operations (“FFO”)

FFO for the three months ended December 31, 2007 was \$1.9 million (\$0.05 basic and fully diluted FFO per unit) compared to a loss from operations of (\$0.5) million (\$-0.03 basic and fully diluted FFO per unit) for the same period in 2006. The significant growth in the portfolio of hotels in 2007 and maintaining the net trust expenses at the same level have been the drivers of the growth in funds from operations in the fourth quarter of 2007 compared to the same quarter in 2006.

Distributable Income

The REIT generated approximately \$1.9 million in distributable income (\$0.05 basic and fully diluted per unit) for the three months ended December 31, 2007 compared to \$0.03 million (\$0.00 basic and fully diluted per unit) for the same period in 2006. Distributions of \$0.045 per unit per month were declared and totalled \$5.3 million for the three months ended December 31, 2007. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

YEAR ENDED DECEMBER 31, 2007 and 2006

Results of Operations

The results of operations for the year ended December 31, 2007 include the operation of eight hotels for the full year and fourteen hotels for varying periods of time that were acquired during the year. The increase in the 2007 revenues, expenses and income compared to these same categories for 2006 is due to the significant growth in the number of hotel properties owned in 2007 compared to 2006.

Hotel Operations

The hotel properties generated revenue of approximately \$69.8 million compared to \$15.4 million for the year ended December 31, 2007 and 2006, respectively – an increase of over 350%. Income from hotel operations has increased from \$1.9 million for the year ended December 31, 2006 to \$6.0 million for the year ended December 31, 2007 – an increase of over 200%.

Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the year ended December 31, 2007. The table provides the statistics for the period of time the hotels were owned by the REIT.

Region	Year Ended December 31, 2007			Year Ended December 31, 2006			RevPAR Increase
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada	73.47%	\$119.17	\$87.55	71.80%	\$121.33	\$87.11	0.5%
Western Canada	64.13%	\$144.99	\$92.98	74.45%	\$114.56	\$85.28	9.0%
United States	36.99%	\$67.76	\$25.06	-	-	-	-
Totals	66.02%	\$137.77	\$90.96	73.20%	\$117.68	\$86.15	5.6%

While the number and mix of hotels and the period of time for which they were owned in the years ended December 31, 2007 and 2006 varies significantly (the REIT owned 8 hotels in 2006 which were acquired from June 6, 2006 to September 29, 2006 and in 2007, the REIT owned 22 hotels – 8 for the entire year and 14 which were acquired during the year), the RevPAR has increased from \$86.15 to \$90.96. This represents a 5.6% increase. The REIT benefits significantly from average rate yield due to its high percentage mix of assets located in Western Canada which is where most of the hotels were acquired in 2007.

Hotel EBITDA

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

(in 000's)	Three months ended	Three months ended	Year ended	Year ended
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Net income (loss)	(\$ 146)	(\$ 1,272)	\$ 1,520	(\$ 1,208)
Net trust expenses	1,778	1,669	5,022	3,128
Depreciation and amortization	3,200	824	8,473	1,288
Interest on loans payable and accretion of finance fees	2,858	570	7,952	863
Future income tax expense (recovery)	(1,138)	-	(587)	-
Hotel EBITDA	\$ 6,552	\$ 1,791	\$ 22,380	\$ 4,071

Hotel EBITDA has increased by more than 400% due to the increase in the number of hotels and the period of ownership in 2007 compared to 2006.

Corporate Operations

Corporate net trust expenses have increased from \$3.1 million for the year ended December 31, 2006 to \$5.0 million for the year ended December 31, 2007. Debenture interest expense and the non-cash accretion of the discount on the debentures has increased from \$1.1 million in 2006 to \$4.8 million in 2007. In 2006, Holloway had \$20 million in debentures outstanding for five months. In 2007, these \$20 million in debentures were outstanding for the full year and in addition the REIT issued a total of \$52 million in debentures in June and July, 2007. For the year ended December 31, 2007, the REIT generated interest income of \$2.4 million from mezzanine loans and investment of cash balances, compared to \$0.2 million in 2006. The REIT issued an \$8.0 million mezzanine loan in the fourth quarter of 2006 and issued an additional \$4.9 million in mezzanine loans in January, 2007. General and administrative expenses have increased from \$1.1 million to \$2.0 million, primarily because the REIT commenced active operations late in the second quarter of 2006, whereas the 2007 expenses represent a full year of operations. The REIT hired Michael Jackson as President and Chief Operating Officer and Gerald Normandeau as Vice President of Operations in the third quarter of 2007.

The REIT has recorded a net future income tax asset of approximately \$2.0 million which represents the tax effects of temporary differences that are expected to reverse in the future. (Refer to “New Tax Rules for Income Trusts”).

Funds from Operations

FFO for the year ended December 31, 2007 was \$9.3 million (\$0.32 basic and fully diluted FFO per unit) compared to \$0.06 million (\$0.01 basic and fully diluted FFO per unit) for the same period in 2006. FFO in total and per unit has grown significantly due to the increased number of hotels and the length of time they have been owned by the REIT.

Distributable Income

The REIT generated approximately \$9.2 million in distributable income (\$0.32 basic and fully diluted per unit) for the year ended December 31, 2007 compared to \$1.0 million (\$0.15 basic and fully diluted per unit) for the same period in 2006. Distributions of \$0.0375 per unit per month for January to July, 2007 and \$0.045 per unit per month for August to December, 2007 were declared and totalled \$15.2 million for the year ended December 31, 2007. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions. The second and third quarters generally are the strongest in Holloway’s portfolio. Hotels in northern Alberta and northern British Columbia acquired in 2007 are expected to assist in balancing the REIT’s cash flows as they generally have stronger cash flows in the first quarter of the year due to the oil and gas exploration that occurs during the winter months.

The REIT’s 2007 distributions exceeded the distributable income primarily as a result of the timing of acquisitions and not having a full year of operations for the fourteen hotels acquired during the year. The 10 Pomeroy hotels were acquired in June, 2007 which was after the peak drilling season. Business levels were also affected by reduced natural gas exploration and the uncertainty surrounding changes in royalty arrangements by the Alberta government. Excess, undeployed cash was used to fund the distribution shortfall. To help mitigate this shortfall and as described in the “SUBSEQUENT EVENTS” section, effective February 1, 2008, the management of these 10 properties is now being performed by Pacrim Hospitality Services Inc. at a substantially reduced fee.

Cash flow for the Year Ended December 31, 2007 and 2006

During the year ended December 31, 2007, the REIT’s cash and cash equivalents decreased by approximately \$9.1 million from \$32.0 million to \$22.9 million. For the comparative period in 2006, cash and cash equivalents increased by \$31.7 million from \$0.3 million to \$32.0 million. At the end of December 2006, the REIT had raised \$13.0 million by issuing units which was deployed in the first quarter of 2007 with the purchase of a hotel and the issuance of additional mezzanine loans.

Operating Activities

Cash flow from operations was approximately \$11.9 million for the year ended December 31, 2007 reflecting the cash generated by the hotels and the corporate operations of the REIT. Changes in non-cash working capital balances generated approximately \$0.6 million during the year ended December 31, 2007, compared to \$2.1 million in the year ended December 31, 2006. An increase in accounts receivable and having no change in the amount of accrued interest at the end of 2007 as compared to 2006 were the primary reasons for the change in working capital balances. The semi-annual interest on the 6.5% debentures issued in 2007 was paid at the end of December.

Investing Activities

Investing activities utilized \$264.1 million in cash during the year ended December 31, 2007, of which \$250.1 million represents the acquisition of hotel properties and \$4.4 million represents additions to property and equipment. Holloway acquired fourteen hotels in 2007 – 10 in Alberta, 3 in British Columbia and 1 in South Carolina, US. Property improvement plan additions totaling approximately \$3.0 were completed at the Holiday Inn Express in Halifax, Nova Scotia and at the Holiday Inn Express and Suites in Moncton, New Brunswick. During the year ended December 31, 2006, Holloway acquired 8 hotels which utilized \$66.5 million in cash.

The REIT provided mezzanine loans of \$6.4 million during the year ended December 31, 2007. The REIT has a \$9.5 million mezzanine loan (\$1.5 million of which was advanced in 2007) on the Wyndham Garden Hotel in Toronto, Ontario. The renovations and re-branding of this hotel were completed at the end of 2007. In addition, mezzanine loans of \$3.0 million and \$1.9 million were advanced for the Wingate by Wyndham hotel in Regina, Saskatchewan and for the Super 8 in Windsor, Nova Scotia.

In connection with mortgage financing on the Pomeroy Inn and Suites hotel acquired during the year, 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. The mortgage lender required that certain renovations to the hotel, which are being made by the former owner under the terms of the purchase and sale agreement, be supported by the letter of credit. As the repairs are completed, the restricted cash is reduced. At December 31, 2007, the restricted cash was \$2.3 million. These repairs are presently ongoing and are expected to be completed in the second quarter of 2008.

During the years ended December 31, 2007 and 2006, the REIT's capital reserves for replacement and improvements increased \$0.7 and \$1.7 million, respectively.

Financing Activities

Financing activities provided \$243.1 million in cash during the year ended December 31, 2007, compared to \$106.4 million during the year ended December 31, 2006. During the year, the REIT obtained an \$11.0 million mortgage on the Radisson Hotel and Suites in Fort McMurray, AB, a \$5.0 million mortgage on the Super 8 Motel in Three Hills, AB, increased its mortgage debt on the Moncton property by \$1.9 million, obtained mortgage financing of \$100.0 million on the Pomeroy Hotels, and assumed a mortgage on the Holiday Inn Express Myrtle Beach, SC for US\$4.7 million. The Holiday Inn Express in Kamloops is currently unencumbered as this hotel is security for the REIT's \$7.5 million line of credit. In 2006, Holloway obtained mortgage financing of \$34.9 million on the hotels acquired in 2006. The REIT made principal repayments of \$2.6 million and \$0.4 million for the years ended December 31, 2007 and 2006.

As a result of an equity raise in June, 2007 and the exercise of an over allotment option granted to the underwriters in connection with the offering in July, the REIT issued 18,338,000 units at a price of \$5.35 per unit for gross proceeds of \$98.1 million and \$51.8 million aggregate principal amount of 6.5% convertible debentures. The debentures mature on June 30, 2012. The debentures are convertible into units of the REIT at the holders' option at any time commencing after the second anniversary of the issuance date and ending on the date that is 15 days prior to the maturity date at a conversion price of \$6.15 per unit. In August, 2006, the REIT issued 9,965,377 units at \$4.50 per unit for gross proceeds of \$44.8 million and \$20.2 million aggregate principal amount of 8% convertible debentures. These debentures mature on August 1, 2011. The debentures are convertible into units of the REIT at the holders' option at any time commencing after the second anniversary of the issuance date and ending on the date that is 15 days prior to the maturity date at a conversion price of \$5.40 per unit. In December, 2006, Holloway issued 2,524,200 units at \$5.15 per unit for gross proceeds of \$13.0 million.

The REIT paid distributions to unitholders of approximately \$13.9 million for the year ended December 31, 2007, compared to \$2.1 million in 2006. The REIT commenced distributions in August, 2006 at \$0.0375 per unit per month. In July, 2007, Holloway increased its distribution to \$0.045 per unit per month.

SUMMARY OF QUARTERLY RESULTS

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

(in 000's except per unit results)	Q1, 2006	Q2, 2006	Q3, 2006	Q4, 2006	Q1, 2007	Q2, 2007	Q3, 2007	Q4, 2007
Total revenues (hotel and trust)	–	\$ 89	\$ 6,693	\$ 8,787	\$ 10,088	\$ 13,404	\$ 25,724	\$ 22,329
Hotel revenues	–	\$ 89	\$ 6,693	\$ 8,610	\$ 9,647	\$ 12,988	\$ 24,858	\$ 22,258
Hotel expenses	–	69	5,190	8,213	9,160	11,673	21,200	21,764
Income from hotel operations	–	20	1,503	397	487	1,315	3,658	494
Net trust expenses	90	638	731	1,669	886	910	1,448	1,778
Future income tax recovery (expense)	–	–	–	–	–	* 382	(933)	1,138
Net income (loss) for the period	\$ (90)	\$ (618)	\$ 772	\$ (1,272)	\$ (399)	\$ 787	\$ 1,277	\$ (146)
Per Unit Results:								
Basic earnings per unit	–	–	0.08	–	–	0.04	0.03	–
Diluted earnings per unit	–	–	0.06	–	–	0.04	0.03	–
Basic and diluted loss per unit	(0.02)	(0.34)	–	(0.15)	(0.02)	–	–	0.00
Basic distributable income (loss) per unit	(0.009)	(0.10)	0.13	0.006	0.03	0.08	0.13	0.05
Diluted distributable income (loss) per unit	(0.009)	(0.10)	0.10	0.006	0.03	0.08	0.13	0.05

* 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 December 31, 2007, the REIT had working capital of approximately \$16.5 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 \$9.7 million.

Mortgages Payable

As at December 31, 2007, the REIT had total mortgage debt outstanding of \$169.2 million, excluding deferred finance fees of \$1.4 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 weighted average maturity is 7.3 years.

Financial Commitments

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

(in \$000s)	2008	2009	2010	2011	2012
Mortgages payable – principal	\$ 4,302	\$ 5,067	\$ 13,878	\$ 36,448	\$ 17,657
Mortgages payable – interest	11,127	10,818	9,940	9,284	6,450
Obligations under capital leases	452	316	227	42	–
Vehicle loans - principal	57	68	34	4	–
Vehicle loans - interest	10	5	1	–	–
Convertible debentures	–	–	–	20,238	51,844
Convertible debentures - interest	4,989	4,989	4,989	4,310	1,588
Land lease	123	123	123	123	123
Operating leases	242	83	29	27	15
Total	\$ 21,302	\$ 21,469	\$ 29,221	\$ 70,746	\$ 77,677

The total debt (including loans and obligations under capital leases) to gross book value (“GBV”) was 39.7% at December 31, 2007 (December 31, 2006 – 35.8%) and the total debt plus the face value of convertible debentures to GBV was 56.6% at December 31, 2007 (December 31, 2006 – 50.3%).

UNIT INFORMATION

	December 31, 2007	December 31, 2006 *
Units outstanding	39,153,317	16,668,808
Options outstanding (exercisable)	607,333	375,000
Conversion of convertible debentures (conversion price \$5.40)	3,747,778	3,747,778
Conversion of convertible debentures (conversion price \$6.15)	8,429,919	–
Total	51,938,347	20,791,586

* After reflecting conversion to the REIT.

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 year ended December 31, 2007, the REIT did not purchase any units under the NCIB.

AGREEMENTS

Hotel Management Agreements

Pacrim Hospitality Services Inc.

On June 7, 2006, the REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. (“PHSI”), 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 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 which currently ranges from \$15,000 to \$27,000 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 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.

Pomeroy Hospitality Ltd.

On June 22, 2007, the REIT entered into a management agreement with Pomeroy Hospitality Ltd. (“Pomeroy”) to manage ten hotels purchased by the REIT, with a term of five years. Pomeroy is entitled to a base management fee of 3% of gross room revenue plus 2.5% of earnings before interest, income taxes, depreciation and amortization on a consolidated basis for all of the hotels, provided that the total management fee does not exceed 4% of gross room revenue. In addition, Pomeroy is entitled to accounting and payroll processing fees per hotel ranging from \$27,600 to \$38,545 per year.

Development Agreement

On June 7, 2006, the REIT entered into a long-term development agreement with Winport Developments Inc. ("Winport"), a related party, to provide mezzanine financing to Winport and to have the option to purchase properties developed by Winport. The agreement has an initial term of ten years with an automatic renewal for five year terms thereafter. On October 6, 2006, the development agreement was assigned to Winport Developments Limited Partnership, a related party. On May 15, 2007, Winport Developments Inc. was re-instated as an approved developer and recipient of mezzanine loans.

Non-competition, Right of First Opportunity and Participation Agreement

On June 22, 2007, the REIT entered into a non-competition, right of first opportunity and participation agreement with Pomeroy Gold Ltd. The agreement has a five year term and provides for (a) limitations on the development of hotels within a defined area without the consent of each party to the agreement; (b) the right of first opportunity for Holloway to purchase certain hotels; and (c) the right for Holloway to invest in certain Pomeroy developments.

SUBSEQUENT EVENTS

On January 31, 2008, the restaurant at the Radisson Suite Hotel in Halifax, Nova Scotia was closed and the space leased to a local restaurateur. This change is accretive to operations and is in line with the REIT's strategy of primarily operating limited service hotels.

On February 1, 2008, Pacrim Hospitality Services Inc. ("PHSI") acquired management of ten of the REIT's hotel properties located in northern Alberta and British Columbia from Pomeroy Hospitality Ltd. ("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 \$6,350,000 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 prepayable 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.

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.

OUTLOOK

In 2007, based on PKF’s sample of over 190,000 rooms nation wide, the industry experienced solid national RevPAR growth of 5.0%. Most of the growth was achieved in average daily rate performance, with a modest increase in occupancies being achieved as well. This performance was skewed significantly by region, with Western Canada being the strongest area of the country, followed by Atlantic Canada. Central Canada also experienced growth, albeit at a more modest level.

In 2008, the hotel industry in Canada is expected to reflect another year of growth, according to industry analyst PKF Consulting Inc. For 2008, PKF indicates supply growth is forecast at approximately 1.8% of current inventory. On an overall basis, they have forecast another positive year for the hotel industry, with an estimate for national RevPAR to grow over 2007 by 3.6 %. Once again, Western Canada markets are expected to lead the way. In 2008 as was the case in 2007, most of this growth is forecast to be achieved through increased average daily rates. There is still expectation of demand growth being achieved nationally, but at more modest levels than occurred during the 2004-2006 period.

The Holloway Lodging portfolio of hotels is well positioned from a geographic distribution perspective to capitalize on the market opportunities that have been forecast for 2008. Holloway Lodging remains committed to building sustainable distributions, and growing the underlying value for its unitholders during what is forecast to be another positive year for the hotel industry in Canada in 2008.

SIGNIFICANT ACCOUNTING POLICIES

Changes to Canadian GAAP

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

Commencing with the first quarter of 2007, the REIT adopted five new accounting standards issued by the Accounting Standards Board of the CICA as follows: (i) Section 1530 Comprehensive Income; (ii) Section 3251 Equity; (iii) Section 3855 Financial Instruments – Recognition and Measurements; (iv) Section 3861 Financial Instruments – Disclosure and Presentation; and (v) Section 3865 Hedges. The new standards prescribe how financial instruments are to be recognized depending on their classification. Depending on the financial instruments’ classification, changes in subsequent measurements are recognized in net income or comprehensive income.

Note 2 to the audited consolidated financial statements for the year ended December 31, 2007 explain the impact of these changes in accounting policies.

Future Changes to Canadian GAAP

The Canadian Institute of Chartered Accountants has issued accounting standards that become effective for the REIT on January 1, 2008: Section 1535, Capital Disclosures; Section 3031, Inventories; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535 established disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosures for the REIT will be required by this standard.

Section 3031 will replace Section 3030, *Inventories*, revising and enhancing disclosure and presentation requirements. This new section will limit the choices in which to calculate carrying values and will provide new disclosure requirements. There will be no impact in how the REIT accounts for inventory; however, there will be additional disclosure requirements.

Section 3862 and 3863 will replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by the REIT and the disclosure already in place, it is not expected that revised sections will have a significant impact on the financial statements.

Management of the REIT monitors changes to accounting pronouncements and they will be incorporated into the REIT's financial reporting for 2008.

NEW TAX RULES FOR INCOME TRUSTS

On October 31, 2006, The Minister of Finance (Canada) announced proposals (the "SIFT Proposals") to amend the Tax Act to change the taxation regime applicable to certain "specified investment flow-through" entities ("SIFTs"), including certain income trusts and their investors. Under the provisions of Bill C-52, Budget Implementation Act, 2007, which was substantively enacted on June 12, 2007, the REIT, as a publicly traded income trust, is considered a SIFT. Under Bill C-52, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital generally will not be subject to the tax.

As the REIT has exceeded the "normal growth" rates as defined in the guidelines issued by the Department of Finance, the REIT is subject to 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 are 100% a return of capital.

INTERNAL CONTROLS

As at December 31, 2007, the CEO and CFO evaluated the design of the REIT's internal control over financial reporting. Based on their evaluation, the CEO and CFO concluded that the design of internal control over financial reporting was effective at December 31, 2007 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the REIT's internal control over financial reporting that occurred during the most recent interim period ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting. During the fourth quarter of 2007, the REIT hired Scott Messervey, Director of Risk Management.

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with Multilateral Instrument 52-109 regarding certification of disclosure in issuers' annual and interim filings, the CEO and CFO have evaluated the effectiveness of the REIT's disclosure controls and procedures as at December 31, 2007. Based on that evaluation, the CEO and CFO concluded that the design and operation of the REIT's disclosure controls and procedures were effective at December 31, 2007 to provide reasonable assurance that material information relating to the REIT, including its consolidated subsidiaries, would have been made known to them.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the future financial position, property acquisition strategies and opportunities, business strategy, financial results and plans and objectives of the REIT. Particularly, statements regarding the REIT's future operating results, property acquisition strategies and opportunities and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or similar expressions concerning matters that are not historical facts. Forward-looking information is subject to certain facts, including risks and uncertainties, that could cause actual results to differ materially from what the REIT currently expects and there can be no assurance that such statements will prove to be accurate. Some of these risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated May 1, 2007 which is available at www.sedar.com. The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.