

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Financial Statements
March 31, 2008

May 12, 2008

Management's Report

The accompanying unaudited interim consolidated financial statements of Holloway Lodging Real Estate Investment Trust are the responsibility of management. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The unaudited interim consolidated financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgement.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the financial statements. The Board of Trustees have reviewed and approved these unaudited interim consolidated financial statements.

(signed) "*Glenn Squires*"
Chief Executive Officer

(signed) "*Tracy Sherren*"
Chief Financial Officer

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Balance Sheet

As at March 31, 2008

	March 31, 2008 \$	December 31, 2007 \$
Assets		
Current assets		
Cash and cash equivalents	10,925,474	22,894,439
Restricted cash	1,724,692	2,322,933
Accounts receivable	5,527,715	3,828,493
Loan receivable from a related party	158,910	158,910
Inventories	350,129	427,958
Prepaid expenses and deposits	2,706,065	2,868,726
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	21,392,985	32,501,459
Capital reserve	3,009,303	2,409,626
Mezzanine loans receivable	14,413,000	14,413,000
Loan receivable from a related party (note 4)	6,350,000	–
Property and equipment (note 5)	360,087,880	362,548,159
Other assets	1,234,569	1,289,066
Future income taxes	2,016,000	2,055,000
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	408,503,737	415,216,310
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,919,819	8,859,914
Distributions payable	1,759,577	1,761,899
Accrued interest on convertible debentures	1,112,305	674,600
Current portion of obligations under capital leases (note 6)	346,290	369,039
Current portion of mortgages and loans payable (note 7)	4,548,766	4,359,149
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	15,686,757	16,024,601
Obligations under capital leases (note 6)	576,631	519,381
Mortgages and loans payable (note 7)	162,526,952	163,603,384
Convertible debentures (note 8)	61,787,516	61,263,394
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	240,577,856	241,410,760
Unitholders' equity	167,925,881	173,805,550
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	408,503,737	415,216,310

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Unitholders' Equity

For the three-month periods ended March 31, 2008 and 2007

	Units \$	Class B LP units \$	Contributed surplus \$	Equity component of convertible debentures \$	Accumulated income (losses) \$	Accumulated distributions \$	Total \$
Balance, December 31, 2006	63,270,181	920,000	430,010	4,982,000	(1,207,608)	(2,632,358)	65,762,225
Unit-based compensation related to options	—	—	87,500	—	—	—	87,500
Issuance costs	(7,163)	—	—	—	—	—	(7,163)
Net loss	—	—	—	—	(398,612)	—	(398,612)
Distributions	—	—	—	—	—	(1,875,241)	(1,875,241)
Balance, March 31, 2007	63,263,018	920,000	517,510	4,982,000	(1,606,220)	(4,507,599)	63,568,709
Unit-based compensation related to options	—	—	289,907	—	—	—	289,907
Exercise of options	18,797	—	(2,527)	—	—	—	16,270
Units issued, net of issuance costs, net of tax of \$1,468,000	94,696,211	—	—	—	—	—	94,696,211
Units issued in property acquisitions	22,000,000	—	—	—	—	—	22,000,000
Equity component of convertible debentures, net of issuance costs	—	—	—	4,614,225	—	—	4,614,225
Exchange of units	253,000	(253,000)	—	—	—	—	—
Net income	—	—	—	—	1,918,648	—	1,918,648
Distributions	—	—	—	—	—	(13,298,420)	(13,298,420)
Balance, December 31, 2007	180,231,026	667,000	804,890	9,596,225	312,428	(17,806,019)	173,805,550
Unit-based compensation related to options	—	—	223,944	—	—	—	223,944
Units repurchased and cancelled	(239,424)	—	52,193	—	—	—	(187,231)
Issuance costs	(2,500)	—	—	—	—	—	(2,500)
Net loss	—	—	—	—	(630,506)	—	(630,506)
Distributions	—	—	—	—	—	(5,283,376)	(5,283,376)
Balance, March 31, 2008	179,989,102	667,000	1,081,027	9,596,225	(318,078)	(23,089,395)	167,925,881

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Operations and Comprehensive Loss
For the three-month periods ended March 31, 2008 and 2007

	For the three-month period ended March 31, 2008 \$	For the three-month period ended March 31, 2007 \$
Hotel revenues		
Rooms	19,575,620	7,392,564
Other	3,132,293	2,254,387
	<u>22,707,913</u>	<u>9,646,951</u>
Hotel cost of sales	<u>6,885,038</u>	<u>3,410,210</u>
Hotel gross profit	<u>15,822,875</u>	<u>6,236,741</u>
Hotel operating expenses		
Sales and marketing	939,389	456,668
General and administrative	1,854,470	792,733
Maintenance, property taxes and insurance	3,339,596	1,494,851
Management and other fees	1,584,449	624,713
Depreciation and amortization	3,252,514	955,934
Land lease expense	450,474	470,878
Interest on mortgages and loans payable and accretion of deferred financing fees	2,875,674	953,703
Foreign exchange loss	141,797	-
	<u>14,438,363</u>	<u>5,749,480</u>
Income from hotel operations	<u>1,384,512</u>	<u>487,261</u>
Trust (income) expenses		
Interest income	(708,018)	(441,027)
General and administrative expenses	642,801	429,607
Expenditures related to abandoned property acquisitions	-	211,460
Depreciation and amortization	8,697	4,573
Debenture interest	1,280,132	435,790
Other interest	243	5,076
Accretion of discount on convertible debentures and deferred financing fees	528,219	152,894
Unit-based compensation	223,944	87,500
	<u>1,976,018</u>	<u>885,873</u>
Loss before income taxes	(591,506)	(398,612)
Provision for future income taxes	<u>39,000</u>	<u>-</u>
Net loss and comprehensive loss for the periods	<u>(630,506)</u>	<u>(398,612)</u>
Basic and diluted loss per unit	(0.02)	(0.02)

Holloway Lodging Real Estate Investment Trust

Unaudited Consolidated Statement of Cash Flows

For the three-month periods ended March 31, 2008 and 2007

	For the three-month period ended March 31, 2008 \$	For the three-month period ended March 31, 2007 \$
Cash provided by (used in)		
Operating activities		
Net loss for the periods	(630,506)	(398,612)
Charges (credits) to income not involving cash		
Unit-based compensation	223,944	87,500
Depreciation and amortization	3,261,211	960,507
Accretion of mortgages and convertible debentures	520,768	145,262
Foreign exchange loss	141,797	–
Future income tax expense	39,000	–
	<u>3,556,214</u>	<u>794,657</u>
Net change in non-cash working capital balances related to operations (note 9)	<u>(1,921,533)</u>	<u>(341,126)</u>
Cash flow from operating activities	<u>1,634,681</u>	<u>453,531</u>
Investing activities		
Decrease in restricted cash	598,241	–
(Increase) decrease in capital reserve	(599,677)	141,164
Issuance of mezzanine loans	–	(4,913,000)
Issuance of loan to a related party	(6,350,000)	–
Acquisition of hotel property (note 3)	–	(22,750,000)
Increase in other assets	–	(136,944)
Additions to property and equipment	(608,546)	(1,794,425)
Cash flow used in investing activities	<u>(6,959,982)</u>	<u>(29,453,205)</u>
Financing activities		
Repayment of capital lease obligations	(124,177)	(31,374)
Proceeds from mortgages and loans, net of financing fees	(32,024)	11,409,045
Repayment of mortgages and loans payable	(1,012,034)	(347,948)
Units repurchased and cancelled	(187,231)	–
Issuance costs	(2,500)	(7,163)
Distributions paid to unitholders	(5,285,698)	(1,779,713)
Cash flow (used in) from financing activities	<u>(6,643,664)</u>	<u>9,242,847</u>
Net change in cash and cash equivalents during the periods	<u>(11,968,965)</u>	<u>(19,756,827)</u>
Cash and cash equivalents – Beginning of periods	<u>22,894,439</u>	<u>31,982,672</u>
Cash and cash equivalents – End of periods	<u>10,925,474</u>	<u>12,225,845</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

1 Basis of presentation and nature of operations

Holloway Lodging Real Estate Investment Trust (“Holloway Lodging REIT” or the “REIT”) is an open-ended real estate investment trust that was formed under the laws of the Province of Ontario pursuant to its Declaration of Trust on March 28, 2006.

The objectives of the REIT are: (a) to generate stable cash distributions on a tax efficient basis; (b) to expand its asset base and increase its funds from operations through accretive acquisitions and internal growth initiatives; and (c) to enhance the value of its assets to maximize long-term unit value through active management of its assets.

As at March 31, 2008, the REIT owned 21 hotels in Canada and 1 hotel in the United States with 2,423 guest rooms and suites.

2 Significant accounting policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1751, “Interim Financial Statements”. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the REIT for the year ended December 31, 2007.

In the opinion of management, the unaudited interim consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as otherwise noted hereunder, these unaudited interim consolidated financial statements were prepared using the same policies and methods of computation as the audited consolidated financial statements of the REIT for the year ended December 31, 2007.

Changes in accounting standards

In the first quarter of 2008, the REIT adopted the following new Handbook Sections issued by CICA.

Financial instruments

Section 3862, *Financial instruments – Disclosures*, modifies the disclosure requirements for financial instruments that were included in Section 3861, *Financial Instruments – Disclosure and Presentation*.

Section 3863, *Financial Instruments – Presentation*, carries forward unchanged the presentation requirements of the previous Section 3861, *Financial Instruments – Disclosure and Presentation*.

These new standards 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. Disclosure recommended by the new handbook sections have been included in note 12 of these interim consolidated financial statements.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

2 Significant accounting policies (continued)

Capital disclosures

Section 1535, *Capital Disclosures*, establishes disclosure requirements about the REIT's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the REIT's objectives, policies and processes for managing capital. Disclosures recommended by the new handbook section have been included in note 11 of these interim consolidated financial statements.

Inventories

Section 3031, *Inventories*, replaces the existing standard for inventories, Section 3030, revising and enhancing disclosure and presentation requirements. There has been no impact as to how the REIT accounts for inventory, as the REIT values linen, food, beverages and guest supplies and amenities at the lower of cost, determined on a first-in, first-out basis, and net realizable value. During the quarter, the cost of inventories recognized as expense was \$451,978 (2007 - \$302,579).

3 Hotel acquisition

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

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

In addition to the purchase price paid to the vendor, the REIT incurred an additional \$169,965 in other acquisition and closing costs, which was primarily allocated to the building.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

4 Loan receivable from a related party

On February 1, 2008, Pacrim Hospitality Services Inc. (“PHSI”) acquired the contract related to the 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. As of February 1, 2008, all of the REIT’s hotels are managed by PHSI.

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 is entitled to a base management fee for the Pomeroy hotels that is significantly lower than the base management fee currently payable under the existing hotel management agreement 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.

5 Property and equipment

	March 31, 2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	32,216,832	—	32,216,832
Land lease	500,000	21,258	478,742
Buildings	304,364,704	7,557,615	296,807,089
Renovations in progress	116,976	—	116,976
Furniture, fixtures, equipment and other	29,248,537	4,278,527	24,970,010
Paving	3,638,313	371,528	3,266,785
Signage	985,208	100,773	884,435
Computer equipment and website	1,571,019	465,299	1,105,720
Vehicles	307,601	66,310	241,291
	<u>372,949,190</u>	<u>12,861,310</u>	<u>360,087,880</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

5 Property and equipment (continued)

		December 31, 2007	
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	32,216,832	—	32,216,832
Land lease	500,000	18,331	481,669
Buildings	304,283,875	5,653,060	298,630,815
Renovations in progress	292,359	—	292,359
Furniture, fixtures and equipment	28,664,483	3,243,794	25,420,689
Paving	3,638,313	280,434	3,357,879
Signage	929,774	76,728	853,046
Computer equipment and websites	1,369,521	341,189	1,028,332
Vehicles	307,599	41,061	266,538
	<u>372,202,756</u>	<u>9,654,597</u>	<u>362,548,159</u>

6 Obligations under capital leases

The REIT has various capital lease obligations to acquire computer equipment, signs, furniture and hotel equipment.

	March 31, 2008	December 31, 2007
	\$	\$
Present value of future minimum lease payments	922,921	888,420
Less: Current portion	<u>346,290</u>	<u>369,039</u>
	<u>576,631</u>	<u>519,381</u>

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

	\$
Reminder of 2008	338,233
2009	355,582
2010	262,389
2011	87,713
2012	<u>45,982</u>
Future minimum lease payments	1,089,899
Less: Amounts representing interest at a weighted average rate of 11.45%	<u>166,978</u>
Present value of future minimum lease payments	<u>922,921</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

7 Mortgages and loans payable

	March 31, 2008 \$	December 31, 2007 \$
Mortgages payable, bearing interest at a weighted average rate of 6.76% (2007 - 6.76%) and maturing on various dates from April, 2010 to July, 2017. Individual first charges on most of the hotel properties have been pledged as security for individual mortgages	168,305,010	169,199,091
Vehicle loans payable, bearing interest at a weighted average rate of 7.62% (December 31, 2007 - 7.62%) and maturing on various dates from January, 2009 to April, 2011	141,186	163,090
	168,446,196	169,362,181
Less: Deferred financing fees	1,370,478	1,399,648
Less: Current portion	4,548,766	4,359,149
	<u>162,526,952</u>	<u>163,603,384</u>

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

	\$
Remainder of 2008	3,278,862
2009	5,106,856
2010	13,956,770
2011	36,448,894
2012	17,648,279

8 Convertible debentures

On August 1, 2006, the REIT issued \$20,238,000 in convertible, redeemable debentures. The debentures bear interest at 8%, payable semi-annually on February 1st and August 1st, and mature in five years. The convertible debentures can be converted into units of the REIT at \$5.40 per unit at any time commencing two years and one day from the issuance date and ending on the date that is 15 days prior to the maturity date.

On June 21, 2007, the REIT issued \$45,000,000 in convertible, redeemable debentures. The debentures bear interest at 6.5%, payable semi-annually on June 30th and December 31st, and mature in five years. The convertible debentures can be converted into units of the REIT at \$6.15 per unit at any time commencing two years and one day from the issuance date and ending on the date that is 15 days prior to the maturity date. On July 18, 2007, the REIT issued an additional \$6,844,000 in convertible, redeemable debentures with the same terms as the June 21, 2007 debentures, pursuant to the underwriters exercising their over-allotment option.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

8 Convertible debentures (continued)

The convertible debentures have been valued at their estimated fair value at the time of issuance, according to the terms and conditions in place at the time. The difference between the gross proceeds and the estimated fair value of the debt of \$5,300,000 on the August 1, 2006 8% debentures, \$4,150,000 on the June 21, 2007 6.5% debentures and \$644,000 on the July 18, 2007 6.5% debentures represents the value of the conversion feature of the debentures and accordingly, has been recorded as a component of equity. The difference between the recorded value of the debt component of the debentures and their face value has been accounted for as a discount on the issuance of the debt and is being accreted to interest expense, using the effective interest rate method, over the terms of the debentures.

The debt component of the convertible debentures is recorded as a liability. The accretion of the discount on the issuance of the debentures increases the debt component to their face value over the term of the debentures.

	March 31, 2008 \$	December 31, 2007 \$
Debt component	61,988,000	61,988,000
Accretion of convertible debentures	2,019,692	1,606,938
Deferred financing fees	(2,220,176)	(2,331,544)
	<u>61,787,516</u>	<u>61,263,394</u>

9 Supplemental cash flow information

Net change in non-cash working capital balances related to operations:

	March 31, 2008 \$	March 31, 2007 \$
Accounts receivable	(1,699,222)	(20,984)
Inventories	77,829	(44,785)
Prepaid expenses and deposits	162,661	(5,983)
Accounts payable and accrued liabilities	(900,506)	135,386
Accrued interest on convertible debentures	437,705	(404,760)
	<u>(1,921,533)</u>	<u>(341,126)</u>

Cash and cash equivalents are comprised of the following:

	March 31, 2008 \$	March 31, 2007 \$
Cash on hand and balances with banks	10,925,474	12,189,769
Short-term investments	—	36,076
	<u>10,925,474</u>	<u>12,225,845</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

10 Seasonality

Revenues from hotel operations tend to fluctuate throughout the year, with greater demand in the second and third quarter of the calendar year.

11 Capital management

The REIT defines capital as the aggregate of unitholders' equity and interest-bearing debt. The objectives of the REIT's capital management program are to maintain a level of capital that complies with the investment and debt restrictions according to the REIT's Declaration of Trust, complies with existing debt covenants, provides a return to unitholders by delivering monthly cash distributions, optimizes the cost of capital, funds its business strategies and builds long-term unitholder value.

In managing its capital structure, the REIT monitors performance throughout the year to ensure anticipated cash distributions, working capital requirements and capital expenditures are funded from operations, available cash on deposit and, where applicable, bank borrowings. The REIT will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the REIT may issue debt and/or issue or redeem units.

The REIT monitors capital using the following financial metrics, including (but not limited to):

- a Debt Service ratio defined as earnings before interest, income taxes, depreciation, amortization, non-cash accretion of deferred finance fees and unit-based compensation (Earnings base) to mortgage, loans and capital lease interest and principal payments (Debt Service); and
- a Debt to Gross Book Value (Debt to GBV) ratio defined as mortgages and loans payable, obligations under capital leases and the face value of convertible debentures (Debt) divided by total assets plus accumulated depreciation and amortization (GBV). This ratio cannot exceed 60% based on the REIT's Declaration of Trust.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

11 Capital disclosures (continued)

	March 31, 2008 \$	December 31, 2007 \$
Capital structure		
Obligations under capital leases	922,921	888,420
Mortgages and loans payable	167,075,718	167,962,533
Convertible debentures	61,787,516	61,263,394
Total debt	229,786,155	230,114,347
Unitholders' equity	167,964,881	173,805,550
Total capital	397,751,036	403,919,897
Ratios		
Total debt	229,786,155	230,114,347
Adjustment of convertible debentures to face value	10,294,484	10,818,606
Debt	240,080,639	240,932,953
Gross book value	421,592,739	425,005,102
Debt to GBV	56.9%	56.7%
	March 31, 2008 \$	March 31, 2007 \$
For the twelve-month periods ended		
Earnings base	28,095,574	4,910,826
Debt Service	17,527,152	3,657,781
Debt Service ratio	1.6x	1.3x

The REIT is also subject to financial covenants in its mortgages and loan payable, which are measured on a quarterly and annual basis and include customary terms and conditions for borrowings of this nature. These include the Debt Service ratio presented above. The REIT is in compliance with all financial covenants.

Cash distributions to unitholders exceed the REIT's distributable income, as defined in the REIT's Declaration of Trust.

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

12 Financial instruments

The REIT's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, mezzanine loans receivable, loan receivable from a related party, accounts payable and accrued liabilities, obligations under capital leases, mortgages and loans payable, and convertible debentures.

The REIT, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Interest rate risk

Investments included in the REIT's cash and cash equivalents earn interest at prevailing and fluctuating market rates. The REIT manages its exposure to interest rate risk through fixed rate lending and borrowing. The fixed rate loans receivable and debt are subject to interest rate pricing risk, as the value will fluctuate as a result of changes in market rates.

Credit risk

In accordance with its investment policy, the REIT invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes and term deposits of Schedule 1 Banks. The credit risk on cash and cash equivalents is limited because the counter-parties are governments and banks with high credit-ratings assigned by international credit-rating agencies.

The amount of accounts receivable disclosed in the balance sheet of \$5,527,715 is net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment. No customer accounts for more than 10% of the accounts receivable balance.

Historically there have been no collection issues and the REIT does not believe it is subject to any significant concentration of credit risk.

The following table sets forth details of accounts receivable and related allowance for doubtful accounts:

	March 31, 2008	December 31, 2007
	\$	\$
Accounts receivable under 30 days aged	3,525,873	2,110,453
Accounts receivable over 30 days aged	2,028,457	1,774,964
Less: Allowance for doubtful accounts	(26,615)	(56,924)
	<u>5,527,715</u>	<u>3,828,493</u>

Holloway Lodging Real Estate Investment Trust

Notes to Unaudited Consolidated Financial Statements

For the three-month periods ended March 31, 2008 and 2007

12 Financial instruments (continued)

Currency risk

The REIT incurs revenue and expenses in U.S. and Canadian currency, and as such, is subject to fluctuations as a result of foreign exchange rate variation. The REIT manages its exposure to currency risk by billing for its services in the U.S. in the underlying currency related to the expenditure. As this natural hedging effectively matches the revenue and expenses, the REIT's management considers there to be little currency risk.

Liquidity risk

The REIT's objective is to have sufficient liquidity to meet liabilities when due, as well as to maintain compliance with liquidity covenants on financing contracts. The REIT monitors its cash balances and cash flows generated from operations to meet requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the REIT will be able to meet financial obligations as they come due while maintaining compliance with all financial covenants.

Fair value of financial instruments

The carrying amounts reported in the balance sheet for accounts receivable, accounts payable and accrued liabilities, distributions payable and accrued interest on convertible debentures approximate fair values due to the immediate or short-term maturities of these financial instruments. The carrying value of the loans receivable and mortgages and loans payable approximates the fair value as interest rates are consistent with current rates. At March 31, 2008, the 8% and 6.5% convertible debentures were trading at approximately 98% and 89% of face value, respectively.

Carrying value of financial instruments

	March 31, 2008	March 31, 2007
	\$	\$
Held for trading	12,650,166	12,225,845
Loans and receivables	26,449,625	14,480,959
Other financial liabilities	240,577,856	81,494,614