

**MANAGEMENT'S
DISCUSSION AND
ANALYSIS FOR THE
THREE AND SIX MONTHS
ENDED JUNE 30, 2009**

Dated as at August 10, 2009



Holloway
LODGING

Real Estate Investment Trust

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 six months ended June 30, 2009 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 six months ended June 30, 2009, the audited consolidated financial statements and the notes thereto for the year ended December 31, 2008 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 traded on the TSX under the symbols HLR.UN, HLR.DB and HLR.DB.A, respectively.

OVERVIEW OF HOLLOWAY LODGING REIT, ITS STRATEGIES AND OBJECTIVES

Holloway is an open-ended real estate investment trust that was formed under the laws of the Province of Ontario pursuant to a Declaration of Trust on March 28, 2006. 2006 was the initial year of active operations for the REIT. The REIT owns 22 hotel properties with 2,423 guest rooms and suites and has equity ownership interests, ranging from 2.52% to 19.06% in nine hotels. The hotels in which the REIT has an equity ownership interest represent an additional 694 rooms.

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:

- 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 through active asset management; and
- increase cashflow from operations in order to resume distributions to unitholders at the appropriate time.

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 wholly owned by Holloway as at June 30, 2009. Approximately 63% of Holloway's rooms and suites are located in Alberta.

Property	Location	Number of Rooms/ Suites
Alberta		
Super 8 Motel	Drayton Valley	60
5 Calgary Downtown Suites & Spa Hotel	Calgary	302
Wingate by Wyndham	Calgary	103
Radisson Hotel and Suites	Fort McMurray	134
Super 8 Motel	Three Hills	82
Super 8 Motel	Slave Lake	58
Super 8 Motel	Whitecourt	59
Super 8 Motel	High Level	81
Super 8 Motel	Grande Prairie	149
Holiday Inn	Grande Prairie	146
Best Western	Grande Prairie	100
Pomeroy Inn and Suites	Grande Prairie	152
Northwest Inn	Slave Lake	<u>99</u>
	Total Rooms/Suites	1,525
British Columbia		
Super 8 Motel	Fort St. John	93
Super 8 Motel	Fort Nelson	142
Holiday Inn Express	Kamloops	<u>80</u>
	Total Rooms/Suites	315
New Brunswick		
Holiday Inn Express and Suites	Moncton	<u>151</u>
	Total Rooms/Suites	151
Northwest Territories		
Super 8 Motel	Yellowknife	<u>66</u>
	Total Rooms/Suites	66
Nova Scotia		
Super 8 Motel	Truro	50
Radisson Suite Hotel	Halifax	104
Holiday Inn Express	Halifax	<u>98</u>
	Total Rooms/Suites	252
South Carolina - USA		
Holiday Inn Express	Myrtle Beach	<u>114</u>
	Total Rooms/Suites	114
	TOTAL	2,423

The table below provides details on the nine hotels in which the REIT has minority equity ownership interests.

Property	Location	Percent Ownership	Number of Rooms
British Columbia			
Super 8 Hotel	Langley	16.81%	81
New Brunswick			
Super 8 Motel	Dieppe	6.00%	85
Newfoundland and Labrador			
Super 8 Motel	St. John's	17.63%	82
Nova Scotia			
Super 8 Motel	Amherst	15.72%	50
Ontario			
Super 8 Motel	Barrie	2.52%	82
Super 8 Motel	Midland	15.11%	65
Super 8 Hotel	Toronto	19.06%	92
Quebec			
Super 8 Hotel	Ste-Foy	15.00%	79
Super 8 Hotel	Trois-Rivieres	15.00%	78
	TOTAL		694

OPERATING RESULTS

The following table provides a summary of the operating results for the three and six months ended June 30, 2009 and 2008.

(in \$000's except number of units and per unit results)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Hotel revenues	18,917	23,669	38,245	46,377
Hotel expenses	13,562	15,637	27,791	30,822
Hotel operating income	5,355	8,032	10,454	15,555
Other expenses	12,690	8,007	21,329	16,271
Provision for (recovery of) future income taxes	(1,049)	203	(2,109)	242
Net loss for the period – basic and diluted	(6,286)	(178)	(8,766)	(958)
Weighted average basic units outstanding	39,135,216	39,108,768	39,135,216	39,130,759
Weighted average diluted units outstanding	39,135,216	39,108,768	39,135,216	39,130,759
Basic loss per unit	(0.16)	(0.01)	(0.22)	(0.02)
Diluted loss per unit	(0.16)	(0.01)	(0.22)	(0.02)
Reconciliation to funds from operations (FFO)				
Add/(deduct):				
Depreciation and amortization on real property	3,319	3,237	6,623	6,435
Provision for impairment of mezzanine loans and advances	4,700	–	4,700	–
Provision for (recovery of) future income taxes	(1,049)	203	(2,109)	242
Funds from operations – basic and diluted	684	3,262	448	5,719
Basic FFO per unit	0.02	0.08	0.01	0.15
Diluted FFO per unit	0.02	0.08	0.01	0.15
Reconciliation to distributable income				
Add/(deduct):				
Depreciation and amortization – trust and other assets	55	63	140	127
Accretion of mortgages, convertible debentures and deferred financing fees	614	538	1,212	1,058
Unit-based compensation	15	118	33	342
Unrealized foreign exchange loss (gain)	(437)	(31)	(243)	128
FF&E reserve	(568)	(710)	(1,147)	(1,391)
Distributable income – basic and diluted	363	3,240	443	5,983
Basic distributable income per unit	0.01	0.08	0.01	0.15
Diluted distributable income per unit	0.01	0.08	0.01	0.15
Distributions declared	0.0525	0.135	0.105	0.27
Reconciliation of cash flow from operating activities to distributable income				
Cash flow from operating activities	1,340	4,296	1,107	5,780
Changes in non-cash working capital balances	(409)	(346)	483	1,594
FF&E reserve	(568)	(710)	(1,147)	(1,391)
Distributable income	363	3,240	443	5,983

SECOND QUARTER OPERATING RESULTS

The results of operations for the three months ended June 30, 2009 and 2008 include the operation of twenty-two hotels for the full quarter.

Revenue

(in \$000's)	Three months ended June 30, 2009	Three months ended June 30, 2008	Variance
Room revenue	16,361	20,417	(4,056)
Other revenue	2,556	3,252	(696)
Total	18,917	23,669	(4,752)

Room Revenue - Key Performance Measures

Region	Three Months Ended June 30, 2009			Three Months Ended June 30, 2008			RevPAR Change
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada (\$Cdn)	70.37%	\$120.39	\$84.72	76.51%	\$125.25	\$95.83	(11.6%)
Western Canada (\$Cdn)	51.84%	\$139.58	\$72.36	63.05%	\$147.78	\$93.18	(22.3%)
United States (\$US)	68.37%	\$86.00	\$58.80	71.62%	\$101.33	\$72.57	(19.0%)

The Atlantic Canada RevPAR has decreased by 11.6% for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. In Moncton, the number of rooms available in the competitive set has increased 25% over the prior year. In Truro, there are 30% more rooms available in the second quarter of 2009 versus the prior year. In the second quarter of 2008, Halifax hosted the World Hockey Championships which increased business levels significantly for a large part of May 2008, but no city-wide event of comparable scale occurred in the second quarter of this year. These factors were exacerbated by reduced market demand caused by the current general economic conditions. All four of the REIT's hotels in the Atlantic region ranked first in market share among their respective competitive sets in the second quarter and three of the four hotels posted solid growth in market share.

The Western Canada RevPAR decreased by 22.3%. Within the Western region, the combination of sharply lower demand, room supply increases in many markets and the resulting downward pressure on rates produced substantial decline in RevPAR for the quarter. The largest occupancy declines were in downtown Calgary, Slave Lake, Fort McMurray, Fort St. John and Yellowknife. The decline in exploration and mining as well as gas and oilwell maintenance activity has a major affect on each our Alberta and British Columbia markets as demand is largely reliant on the gas and oil business. The increase in available room supply has been a major factor in Grande Prairie, Slave Lake, Drayton Valley and Fort St. John. In Slave Lake, the increase in room supply is the highest of any of the markets at 40%. Many of the REIT's hotels in the Western region ranked first in market share among their respective competitive sets in the second quarter and posted solid growth in market share.

The RevPAR for the Holiday Inn Express in Myrtle Beach, South Carolina decreased by 19.0%, primarily due to the drop in average rate due to lower leisure business levels and less group activity on account of the general economic conditions in the United States region. Despite this, the hotel achieved growth in market share and is well ahead of fair market share.

Other Revenue

Lower food and beverage revenue, due to a decline in business levels at the Holiday Inn in Grande Prairie and the 5 in Calgary, accounted for the majority of the decline in other revenue. There were lower ancillary revenues at the Radisson in Fort McMurray and several other hotels due to lower occupancy levels.

Expenses

(in \$000's)	Three months ended June 30, 2009	Three months ended June 30, 2008	Variance
Operating expenses	11,874	13,698	(1,824)
Property taxes and insurance	1,145	1,346	(201)
Management fees	543	593	(50)
Total	13,562	15,637	(2,075)

Operating Expenses

Operating expenses include wages, supplies, and overhead expenses such as repairs and maintenance, sales and marketing, and administrative expenses related to the operations of the hotel. These expenses have decreased \$1.8 million when comparing the three months ended June 30, 2009 to the same period in 2008. Savings were achieved across all departments as wages were controlled as a result of lower business levels. Across the portfolio, positions were consolidated and hours curtailed as operations warranted. All departmental expense categories achieved savings as efficiencies were identified. Various rooms' department expenses which are a function of occupancy, food and beverage cost of goods sold, sales expenses, administrative costs, as well as maintenance and utilities were all lower due to declining business levels and cost saving initiatives.

Property Taxes and Insurance

Property taxes and insurance expenses have decreased \$0.2 million from \$1.3 million to \$1.1 million for the three months ended June 30, 2009 and 2008, respectively. There were several reassessments in Alberta which resulted in lower property tax expenses. Insurance expenses have remained flat when compared to the same period last year.

Management Fees

Management fees are based on the hotel revenues which have declined from the prior year.

Hotel Operating Income

The following table provides the REIT's hotel margins for its portfolio for the three months ended June 30, 2009 and 2008.

(in \$000's except %, HOI and HOI per available room)	Three months ended June 30, 2009	Three months ended June 30, 2008	Variance
Hotel revenues	18,917	23,669	(4,752)
Hotel operating expenses	11,874	13,698	(1,824)
Hotel gross margin	7,043	9,971	(2,928)
Percentage	37.2%	42.1%	(4.9%)
Hotel overhead expenses ⁽¹⁾	1,688	1,939	(251)
Hotel operating income (HOI)	5,355	8,032	(2,677)
Hotel operating income margin	28.3%	33.9%	(5.6%)
Number of rooms available	220,493	220,293	200
HOI per available room	24.29	36.46	(12.17)

⁽¹⁾ Hotel overhead expenses include property taxes, insurance and management fees.

Hotel operating income per available room decreased by \$12.17 to \$24.29 from \$36.46 for the three months ended June 30, 2009 and 2008, respectively. The hotel operating income margin decreased to 28.3% from 33.9%. The decrease is attributable to the substantial revenue decline. While cost savings have been achieved across all operating departments as outlined in the "Hotel Expenses" section above, the magnitude of these savings did not proportionally offset the revenue declines.

Other Income and Expenses

Interest on Mortgages and Other Debt and Accretion of Deferred Financing Fees

Interest on mortgages and other debt and accretion of deferred financing fees has remained flat when comparing to the three months ended June 30, 2008. This is due to a decrease in mortgage interest expense as principal balances are paid down.

Convertible Debentures Interest and Accretion

The total debenture interest expense and the non-cash accretion of the discount on the debenture has increased \$0.1 million to \$1.9 million for the second quarters of 2009 over 2008 as the non-cash accretion on convertible debentures has increased. The accretion increases over the term to the maturity dates of the debentures.

Corporate and Administrative

Corporate administrative expenses were \$0.5 million for the three months ended June 30, 2009 and \$0.8 million for the three months ended June 30, 2008. This decrease is due in part to a \$0.1 million decrease in unit-based compensation. In addition, there were two additional corporate employees during the first quarter of 2008 whose positions were subsequently eliminated later in 2008, resulting in quarterly savings of \$60,000. There were also lower expenses incurred for professional fees and expenses related to the annual meeting.

Interest Income

During the three months ended June 30, 2009 and 2008, the REIT generated interest income of \$0.2 million and \$0.7 million respectively from loans receivable and the investment of cash balances. The REIT is recording an allowance against the interest income from the mezzanine loans as the mezzanine loans on The Yorkland Hotel are in default and collectability is uncertain.

Unrealized Foreign Exchange Gain

The unrealized foreign exchange gain represents the conversion of the US-denominated mortgage on the Holiday Inn Express in Myrtle Beach into Canadian dollars.

Depreciation and Amortization

Depreciation and amortization has increased by \$0.1 million to \$3.4 million from \$3.3 million for the three months ended June 30, 2009 and 2008, respectively. The REIT owns the same number of hotels and the increase in depreciation represents depreciation on capital additions made to the properties.

Provision for Impairment of Mezzanine Loans and Advances

During the second quarter, the REIT recorded an additional provision for impairment of \$4.7 million on the mezzanine loans and advances to The Yorkland Hotel in Toronto. The loans are in default and the REIT issued a demand notice for payment during the first quarter of 2009. On August 6, 2009, a court-appointed receiver for the property was named, with a mandate to sell the property and maximize the return to the debt-holders. The loans have been written down to the estimated fair value of the REIT's underlying security.

Funds from Operations ("FFO")

FFO for the three months ended June 30, 2009 was \$0.7 million (\$0.02 basic and diluted FFO per unit) compared to \$3.3 million (\$0.08 basic and diluted FFO per unit) for the same period in 2008, primarily due to the decline in hotel revenues.

Distributable Income

The REIT generated \$0.4 million in distributable income (\$0.01 basic and diluted per unit) for the three months ended June 30, 2009 compared to \$3.2 million (\$0.08 basic and diluted per unit) for the same period in 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions. A monthly distribution of \$0.0175 per unit was declared for April to June, 2009. Distributions declared totalled \$2.1 million for the three months ended June 30, 2009. The REIT's second quarter distributions exceeded the distributable income. Excess, un-deployed cash was used to fund the distribution shortfall. On July 21, 2009, the REIT suspended distributions.

The following table shows the reconciliation between standardized distributable cash and distributable income for the three months ended June 30, 2009 and 2008, respectively.

(in \$000's)	Three months ended June 30, 2009	Three months ended June 30, 2008
Net Cash Provided by (Used In) Operating Activities	1,340	4,296
Capital expenditures including acquisitions and other assets	(383)	(888)
Standardized Distributable Cash	957	3,408
Reconciliation to Distributable Income:		
Standardized Distributable Cash	957	3,408
Capital expenditures in excess of (less than) FF&E reserve	(185)	178
Changes in non-cash working capital balances	(409)	(346)
Distributable Income	363	3,240

CASH FLOW FOR THE THREE MONTHS ENDED JUNE 30, 2009 and 2008

During the three months ended June 30, 2009, the REIT's cash and cash equivalents decreased by \$3.0 million from \$4.3 million to \$1.3 million, of which \$1.7 million relates to the distributions to unitholders exceeding distributable income. For the comparative period in 2008, cash and cash equivalents decreased by \$2.3 million from \$10.9 million to \$8.6 million primarily due to distributions to unitholders exceeding distributable income by \$2.1 million for that period.

Operating Activities

Cash flow from operations was \$1.3 million for the three months ended June 30, 2009 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the three months ended June 30, 2008, cash flow from operations was \$4.3 million. Changes in non-cash working capital balances provided \$0.4 million during the three months ended June 30, 2009. The decrease in accounts receivable of \$0.2 million, a decrease of \$0.2 million in prepaid expenses and deposits and an increase in accounts payable and accrued liabilities of \$0.4 million were offset by a decrease in accrued interest on convertible debentures of \$0.4 million were the primary reasons for the change in the working capital balances at June 30, 2009. For the comparative period in 2008, the change in working capital balances provided \$0.3 million of cash primarily due to an increase in accounts payable and accrued liabilities.

Investing Activities

Investing activities utilized approximately \$1.0 million during the three months ended June 30, 2009 primarily due to additions to property and equipment of \$0.4 million at the 5 in Calgary and the Best Western in Grande Prairie. For the three months ended June 30, 2008, investing activities utilized \$0.2 million primarily due to additions of \$0.9 million to property and equipment at the Radisson Hotel in Fort McMurray and the Radisson Hotel in Halifax, as well as an increase of \$0.5 million in the REIT's capital reserves. These uses of cash were offset by the receipt of \$1.2 million in restricted cash.

The REIT provided additional advances of \$0.4 million to The Yorkland Hotel in Toronto and \$20,000 to the Super 8 Motel in Windsor, NS where the REIT has provided mezzanine loans.

Financing Activities

Financing activities utilized \$3.4 million during the three months ended June 30, 2009 compared to utilizing \$6.4 million during the three months ended June 30, 2008. The REIT made principal repayments on its mortgage debt and loans payable of \$1.2 million for the three months ended June 30, 2009 compared to \$1.0 million for the second quarter of 2008.

The REIT paid distributions to unitholders of approximately \$2.1 million for the three months ended June 30, 2009 compared to \$5.3 million for the three months ended June 30, 2008, as the monthly distribution was reduced from \$0.045 per month to \$0.0175 per month in November 2008.

YEAR-TO-DATE OPERATING RESULTS

The REIT owned the same portfolio of twenty-two hotels for the six months ended June 30, 2009 and 2008. The operating results were as follows:

Revenues

(in \$000's)	Six months ended June 30, 2009	Six months ended June 30, 2008	Variance
Room revenue	32,943	39,992	(7,049)
Other revenue	5,302	6,385	(1,083)
Total	38,245	46,377	(8,132)

Room Revenue - Key Performance Measures

Region	Six Months Ended June 30, 2009			Six Months Ended June 30, 2008			RevPAR Change
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada (\$Cdn)	63.21%	\$117.67	\$74.38	68.74%	\$120.57	\$82.88	(10.3%)
Western Canada (\$Cdn)	54.29%	\$140.94	\$76.52	64.31%	\$147.56	\$94.90	(19.4%)
United States (\$US)	56.77%	\$80.43	\$45.66	60.57%	\$93.55	\$56.66	(19.4%)

The Atlantic Canada RevPAR has decreased by 10.3% for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 due to reduced occupancy at each of the four properties in the Atlantic region and a decline in rates mainly in the Halifax market. All four of the Holloway hotels in the Atlantic region increased their market share versus the competitive set from the previous year and three of the four rank first in market share.

Western Canada RevPAR decreased by 19.4%. Within the Western region, the combination of sharply lower demand, room supply increases in many markets and the resulting downward pressure on rates produced substantial decline in RevPAR on a year-to-date basis. The largest occupancy declines were in Fort McMurray, Drayton Valley, Slave Lake, Fort St. John, Whitecourt, and Yellowknife.

The decline in exploration and mining as well as gas and oilwell maintenance activity has a major affect on each our Alberta and British Columbia markets as demand is largely reliant on the gas and oil business. The increase in available room supply has been a major factor in Grande Prairie, Slave Lake, Drayton Valley and Fort St. John. In Slave Lake, the room supply increase is the highest of any of the markets at 40%. Many of the REIT's hotels in the Western region ranked first in market share among their respective competitive sets in the second quarter and posted solid growth in market share.

The RevPAR at the Holiday Inn Express in Myrtle Beach, South Carolina decreased 19.4% due to the drop in average rate due to lower leisure business levels and less group activity on account of the general economic conditions. Despite this, the hotel achieved growth in market share and is well ahead of fair market share.

Other Revenue

The lower food and beverage revenue is primarily due to a decline in business levels at the Holiday Inn in Grande Prairie and the 5 in Calgary. Also, the prior year comparative period included \$0.1 million in food and beverage revenue from a restaurant operation which was leased out in February, 2008 and insurance proceeds of \$0.1 million. There were lower ancillary revenues at the Radisson in Fort McMurray and several other hotels due to lower occupancy levels.

Expenses

(in \$000's)	Six months ended June 30, 2009	Six months ended June 30, 2008	Variance
Operating expenses	24,322	27,180	(2,858)
Property taxes and insurance	2,431	2,459	(28)
Management fees	1,038	1,183	(145)
Total	27,791	30,822	(3,031)

Operating Expenses

Operating expenses include wages, supplies, and overhead expenses such as repairs and maintenance, sales and marketing, and administrative expenses related to the operations of the hotel. The expenses have decreased \$2.9 million when comparing the six months ended June 30, 2009, to the same period in 2008. The hotels are staffing and reducing operating expenses as a result of the contracted business levels. Savings were achieved throughout all expense categories with wages accounting for the largest savings area. Operating supplies expenses were down, as were fees tied to revenue, maintenance expenses and utilities.

Property Taxes and Insurance

Property taxes and insurance expenses have remained flat at \$2.4 million for the six months ended June 30, 2009 and 2008, respectively.

Management Fees

Management fees are based on the hotel revenues which have declined from the prior year. In addition, the management fees for January, 2008 for 10 hotels in Alberta and British Columbia were subject to a higher fee under another management agreement which was terminated at the end of January, 2008. Details are described in the "RELATED PARTY AGREEMENTS" section.

Hotel Operating Income

The following table provides the REIT's hotel margins for its portfolio for the six months ended June 30, 2009 and 2008.

(in 000's except %, HOI and HOI per available room)	Six months ended June 30, 2009	Six months ended June 30, 2008	Variance
Hotel revenues	38,245	46,377	(8,132)
Hotel operating expenses	24,322	27,180	(2,858)
Hotel gross margin	13,923	19,197	(5,274)
Percentage	36.4%	41.4%	(5.0%)
Hotel overhead expenses ⁽¹⁾	3,469	3,642	(173)
Hotel operating income (HOI)	10,454	15,555	(5,101)
Hotel operating income margin	27.3%	33.5%	(6.2%)
Number of rooms available	438,563	438,966	(403)
HOI per available room	23.84	35.44	(11.60)

⁽¹⁾ Hotel overhead expenses include property taxes, insurance and management fees.

Hotel operating income per available room decreased by \$11.60 to \$23.84 from \$35.44 for the six months ended June 30, 2009 and 2008, respectively. The hotel operating income margin decreased to 27.3% from 33.5%. The decrease is primarily attributable to the substantial revenue decline. While cost savings have been achieved across all operating departments as outlined in the "Hotel Expenses" section above, the magnitude of these savings did not proportionally offset the revenue declines.

Other Income and Expenses

Interest on Mortgages and Other Debt and Accretion of Deferred Financing Fees

Interest on mortgages and other debt and accretion of deferred financing fees has increased marginally when comparing the six months ended June 30, 2009 to the six months ended June 30, 2008. This is due to a decrease in mortgage interest expense as principal balances are paid down, offset by a \$0.1 million increase in interest expense incurred due to the promissory notes issued in December, 2008.

Convertible Debentures Interest and Accretion

The total debenture interest expense and the non-cash accretion of the discount on the debentures and deferred financing fees has increased marginally to \$3.7 million for the six months ended June 30, 2009 versus 2008. The variance for the six months relates primarily to a \$0.1 million increase in the non-cash accretion on the convertible debentures.

Corporate and Administrative

Corporate administrative expenses were \$1.1 million for the six months ended June 30, 2009 and \$1.6 million for the six months ended June 30, 2008. This decrease is due in part to a \$0.3 million decrease in unit-based compensation. In addition, there were two additional corporate employees during the first half of 2008 whose positions were eliminated later in 2008, resulting in quarterly savings of \$60,000. There were also lower professional fees incurred and corporate expenses are being strictly controlled.

Interest Income

During the six months ended June 30, 2009 and 2008, the REIT generated interest income of \$0.5 million and \$1.4 million respectively from loans receivable and the investment of cash balances. The REIT is recording an allowance against the interest income from the mezzanine loans as the mezzanine loans on The Yorkland Hotel are in default and collectability is uncertain.

Unrealized Foreign Exchange Gain

The unrealized foreign exchange gain represents the conversion of the US-denominated mortgage on the Holiday Inn Express in Myrtle Beach into Canadian dollars.

Depreciation and Amortization

Depreciation and amortization has increased by \$0.2 million to \$6.8 million from \$6.6 million for the six months ended June 30, 2009 and 2008, respectively. The REIT owns the same number of hotels and the increase in depreciation represents depreciation on capital additions made to the properties.

Funds from Operations ("FFO")

FFO for the six months ended June 30, 2009 was \$0.5 million (\$0.01 basic and diluted FFO per unit) compared to \$5.7 million (\$0.15 basic and diluted FFO per unit) for the same period in 2008, primarily due to the decline in hotel revenues.

Distributable Income

The REIT generated \$0.4 million in distributable income (\$0.01 basic and diluted per unit) for the six months ended June 30, 2009 compared to \$6.0 million (\$0.15 basic and diluted per unit) for the same period in 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions. A distribution of \$0.0175 per unit per month was declared for January to June, 2009. Distributions declared totalled \$4.1 million for the six months ended June 30, 2009. The REIT's year-to-date distributions exceeded the distributable income. Excess, un-deployed cash was used to fund the distribution shortfall.

The following table shows the reconciliation between standardized distributable cash and distributable income for the six months ended June 30, 2009 and 2008, respectively.

(in \$000's)	Six months ended June 30, 2009	Six months ended June 30, 2008
Net Cash (Used In) Provided by Operating Activities	1,107	5,780
Capital expenditures including acquisitions and other assets	(669)	(1,346)
Standardized Distributable Cash	438	4,434
<u>Reconciliation to Distributable Income:</u>		
Standardized Distributable Cash	438	4,434
Capital expenditures in excess of (less than) FF&E reserve	(478)	(45)
Changes in non-cash working capital balances	483	1,594
Distributable Income	443	5,983

CASH FLOW FOR THE SIX MONTHS ENDED JUNE 30, 2009 and 2008

During the six months ended June 30, 2009 the REIT's cash and cash equivalents decreased by approximately \$3.7 million from \$5.0 million to \$1.3 million, of which \$3.7 million relates to the distributions to unitholders exceeding distributable income. On February 5, 2009, the mezzanine loan receivable from RegWin Hotel Ltd of \$3.0 million was repaid in full. For the comparative period in 2008, cash and cash equivalents decreased by \$14.3 million from \$22.9 million to \$8.6 million primarily due to the \$6.4 million related party loan as described in the "RELATED PARTY AGREEMENTS" section as well as distributions to unitholders exceeding distributable income by \$4.6 million for that period.

Operating Activities

Cash flow from operations was approximately \$1.1 million for the six months ended June 30, 2009 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the six months ended June 30, 2008, cash flow from operations was \$5.8 million. Changes in non-cash working capital balances utilized approximately \$0.5 million during the six months ended June 30, 2009. The increase in accounts receivable of \$0.1 million, an increase of \$0.2 million in prepaid expenses and deposits and a decrease in accounts payable and accrued liabilities of approximately \$0.2 million at June 30, 2009 were the primary reasons for the change in the working capital balances. For the comparative period in 2008, the change in working capital balances utilized \$1.6 million of cash primarily due to an increase in accounts receivable.

Investing Activities

Investing activities provided approximately \$0.7 million during the six months ended June 30, 2009 primarily due to the repayment of a \$3.0 million mezzanine loan in February. For the six months ended June 30, 2008, investing activities utilized \$7.0 million primarily due to the \$6.4 million loan to Pacrim Hospitality Services Inc. ("PHSI") as described in the "RELATED PARTY AGREEMENTS" section.

During the six months ended June 30, 2009 and 2008, the REIT's capital reserves for replacement and improvements increased by \$0.5 million and \$1.1 million, respectively.

The REIT provided additional advances of \$0.8 million to The Yorkland Hotel in Toronto and the Super 8 Motel in Windsor, NS where the REIT has provided mezzanine loans. The REIT also provided \$0.3 million to six of the hotels in which Holloway has minority ownership interests.

There were additions of \$0.7 million to property and equipment during the six months ended June 30, 2009. These additions were made at a number of the hotels. During the six months ended June 30, 2008, additions of \$1.3 million were made primarily at the Radisson Hotel in Fort McMurray and the Radisson Hotel in Halifax.

Financing Activities

Financing activities utilized \$5.6 million during the six months ended June 30, 2009 compared to utilizing \$13.0 million during the six months ended June 30, 2008. The REIT obtained an additional \$1.2 million in mortgage financing on the Radisson Hotel and Suites in Fort McMurray during the six months ended June 30, 2009.

The REIT made principal repayments on its mortgage debt and loans payable of \$2.4 million for the six months ended June 30, 2009 compared to \$2.0 million for the six months ended June 30, 2008.

The REIT paid distributions to unitholders of approximately \$4.1 million for the six months ended June 30, 2009 compared to \$10.6 million for the six months ended June 30, 2008, as the monthly distribution was reduced from \$0.045 per month to \$0.0175 per month in November 2008.

BALANCE SHEET

The following table outlines the significant changes in the consolidated balance sheet from December 31, 2008 to June 30, 2009.

(in \$000's) Balance Sheet Account	As at June 30, 2009	As at December 31, 2009	Increase (Decrease)	Explanation
Cash and cash equivalents	1,255	4,992	(3,737)	See the "Cash flow for the Six Months Ended June 30, 2009 and 2008" section on page 12.
Capital reserve	1,117	1,553	(436)	The decrease in the internally-controlled capital reserves relate to capital improvements made at the 5 in Calgary, the Super 8 in Yellowknife, the Wingate in Calgary and the Radisson Hotel in Fort McMurray.
Accounts receivable	3,519	3,376	143	The increase is primarily due to increases in the outstanding credit card and other deposits due to the timing of the transactions near the quarter-end and the associated credit card processing time for deposit to the bank and interest receivable.
Prepaid expenses and deposits	2,443	2,239	204	The increase was due to increased prepaid property taxes as the taxes for the 2009 fiscal year have been paid to the respective municipalities for many of our hotels.
Current portion of mezzanine loans receivable	–	3,000	(3,000)	The \$3.0 million mezzanine loan to RegWin Hotel Ltd. was repaid on February 5, 2009.
Capital reserve - restricted	3,955	2,975	980	The increase is related to the regular capital reserve contributions being held by the mortgage companies.
Mezzanine loans and advances receivable	6,304	10,174	(3,870)	The decrease is a result of the additional provision for impairment of \$4.7 million, net of additional advances and expenses related to The Yorkland Hotel in Toronto (\$790k) and the Super 8 in Windsor, Nova Scotia (\$40k) to assist with operations.
Investments in hotel properties	2,967	2,688	279	The increase is related to additional funds for six of the hotels in which the REIT owns equity ownership interests.
Property and equipment	346,093	352,035	(5,942)	The decrease is the net of the depreciation for the year of \$6.6 million and additions of \$0.7 million.
Future income taxes	3,873	1,764	2,109	The future income tax asset represents temporary differences between income or losses for accounting purposes and income or losses for tax purposes which are expected to reverse in the future.
Accounts payable and accrued liabilities	9,299	9,419	(120)	Minor decrease from December to June.
Current portion of mortgages and loans payable	14,133	5,155	8,978	Two mortgages totaling \$8.9 million that mature on April 1, 2010 are now included in the current portion.
Mortgages and loans payable	149,140	159,666	(10,526)	The decrease is a result of the re-classification of the two mortgages that mature in April, 2010 and the regular mortgage payments net of the receipt of \$1.2 million in mortgage funds drawn in the first quarter.
Convertible debentures	64,659	63,458	1,201	The increase is due to the accretion on the convertible debentures which increases the liability so that they will reflect their face value at the maturity date.
Unitholders' equity	137,253	150,094	(12,841)	The decrease is comprised of the distributions of \$4.1 million and the loss of \$8.8 million for the six months ended June 30, 2009.

QUARTERLY RESULTS

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

(in \$000's except per unit results)	Q2, 2009	Q1, 2009	Q4, 2008	Q3, 2008	Q2,2008	Q1, 2008	Q4, 2007	Q3, 2007
Total revenues	19,142	19,586	22,082	26,440	24,364	23,416	22,329	25,724
Hotel revenues	18,917	19,328	21,370	25,748	23,669	22,708	22,258	24,858
Hotel expenses	13,562	14,229	15,295	16,061	15,605	15,204	15,520	15,268
Income (loss) from hotel operations	5,355	5,099	6,075	9,687	8,064	7,504	6,738	9,590
Other (income) expenses	12,690	8,639	11,671	8,164	8,039	8,246	8,022	7,380
Future income tax expense (recovery)	(1,049)	(1,060)	(693)	742	203	39	(1,138)	933
Net income (loss) for the period	(6,286)	(2,480)	(4,903)	781	(178)	(781)	(146)	1,277
Per Unit Results:								
Basic earnings per unit	–	–	–	0.02	–	–	–	0.03
Diluted earnings per unit	–	–	–	0.02	–	–	–	0.03
Basic and diluted loss per unit	(0.16)	(0.06)	(0.13)	–	(0.01)	(0.02)	0.00	–
Basic FFO per unit	0.02	(0.01)	0.02	0.12	0.08	0.07	0.05	0.13
Diluted FFO per unit	0.02	(0.01)	0.02	0.12	0.08	0.07	0.05	0.13
Basic distributable income per unit	0.01	0.00	0.04	0.13	0.08	0.07	0.05	0.13
Diluted distributable income per unit	0.01	0.00	0.04	0.13	0.08	0.07	0.05	0.13
Occupancy	55.70%	56.08%	58.63%	72.18%	65.69%	64.04%	60.43%	70.26%
ADR	133.21	135.60	137.70	141.26	141.08	139.79	139.32	145.04
RevPAR	74.20	76.04	80.73	101.97	92.68	89.52	84.19	101.91

CAPITAL STRUCTURE

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, optimizing the cost of capital, funds its business and growth strategies and builds long-term unitholder value.

In managing its capital structure, the REIT monitors performance throughout the year to ensure 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 Coverage ratio defined as earnings before interest, income taxes, depreciation, amortization, non-cash accretion of deferred financing fees and unit-based compensation (earnings base) to the sum of the annual principal and interest payments of mortgages, loans, promissory notes and capital lease (debt service); and

- a Debt to Gross Book Value (Debt to GBV) ratio defined as mortgages and loans payable, obligations under capital leases, promissory notes and the face value of the 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.

Capital Management (in \$000's except ratios)	As at June 30, 2009	As at December 31, 2008
Capital structure		
Obligations under capital leases	693	867
Mortgages and loans payable	163,273	164,821
Convertible debentures	64,659	63,458
Promissory notes	3,386	3,368
Total debt	232,011	232,513
Unitholders' equity	137,253	150,094
Total capital	369,264	382,608
Ratios		
Total debt	232,011	232,514
Adjustment of convertible debentures to face value	7,423	8,624
Adjustment of promissory notes to face value	165	183
Debt	239,599	241,321
Gross book value	409,681	416,447
Debt to GBV ratio	58.5%	57.9%
Debt service coverage ratio		
	Twelve months trailing from June 30, 2009	Twelve months trailing from December 31, 2008
Earnings base	26,196	32,020
Debt service	21,392	21,093
Debt service coverage ratio	1.22	1.52

The total debt (including obligations under capital leases, mortgages and loans payable and promissory notes) to gross book value ("GBV") was 40.9% at June 30, 2009 (December 31, 2008 – 40.6%) and the total debt plus the face value of convertible debentures to GBV was 58.5% at June 30, 2009 (December 31, 2008 – 57.9%).

The REIT is also subject to financial covenants on its mortgages and loans payable, which are measured on an 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 or has obtained waivers for all of its financial covenants.

Mortgages Payable

As at June 30, 2009, the REIT had total mortgage debt outstanding of \$164.4 million, excluding deferred financing fees of \$1.2 million which have been netted against mortgages payable in the financial statements compared to \$166.0 million outstanding at June 30, 2008. The interest rates on the mortgages payable ranged from 5.88% to 9.06% per annum with a weighted average interest rate of 6.78% per annum. There is no mortgage debt at floating rates. 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 5.7 years. The principal amount of mortgage debt maturing in 2010 is \$8.9 million.

Convertible Debentures Payable

As at June 30, 2009 and 2008, Holloway had two series of debentures outstanding totaling \$72.1 million. The \$20.238 million, 8.0% debentures mature on August 1, 2011 and are convertible to REIT units at \$5.40 per unit. The \$51.844 million, 6.5% debentures mature on June 30, 2012 and are convertible to REIT units at \$6.15 per unit. The weighted average interest rate is 6.9% and the weighted average maturity is 2.74 years.

Promissory Notes Payable

Pursuant to the purchase of equity ownership interests in nine hotel properties on December 22, 2008, the REIT issued two promissory notes for \$3.0 million and \$551,613, respectively to Winport Developments Limited Partnership. The \$3.0 million promissory note bears interest at 6.0% per annum until December 22, 2011 and 12.0% per annum, thereafter. The \$551,613 promissory note does not bear interest and was discounted by \$183,279 at the date of issuance, representing the net present value of the implicit interest. The discount is being accreted to interest expense over five years, the expected term of the promissory notes. The principal of the promissory notes is repayable on the sale of Holloway's ownership interests or the sale of the underlying property.

Financial Commitments

The following chart summarizes the REIT's future financial commitments as at June 30, 2009.

(in \$000s)	Remainder of 2009	2010	2011	2012	2013	2014	Thereafter
Mortgages payable – principal	2,457	13,807	36,515	18,811	2,913	3,114	86,517
Mortgages payable – interest	5,581	10,359	9,372	6,586	6,099	5,898	13,899
Obligations under capital leases	199	325	144	85	21	10	10
Vehicle loans – principal	31	34	4	–	–	–	–
Vehicle loans - interest	1	–	–	–	–	–	–
Convertible debentures - principal	–	–	20,238	51,844	–	–	–
Convertible debentures - interest	2,495	4,989	4,989	1,685	–	–	–
Land lease	68	123	123	123	123	123	6,091
Operating leases	75	75	48	33	16	14	–
Promissory notes – principal	–	–	–	–	3,551	–	–
Promissory notes – interest	90	180	184	360	351	–	–
Total	10,997	29,892	71,617	79,527	13,074	9,159	106,517

LIQUIDITY AND WORKING CAPITAL

Liquidity refers to the REIT's having or generating sufficient cash to meet the ongoing operational commitments, as well as to maintain compliance with liquidity covenants on financing contracts and its capital management requirements and objectives. At June 30, 2009, the REIT had working capital deficit of approximately \$15.9 million. This includes \$8.9 million in mortgage maturities which the REIT expects to refinance prior to maturity in April, 2010. Cash from operations will fluctuate due to the seasonality in the hospitality industry. At June 30, 2009, the REIT had not drawn on its available operating line of credit. The un-drawn portion of the operating lines of credit totalled \$0.5 million as at June 30, 2009. There is an additional \$5.0 million operating line, which was finalized subsequent to the quarter-end, using the Holiday Inn Express in Kamloops as security. With the Debt to GBV ratio at 58.5% at June 30, 2009, the REIT could incur additional indebtedness of approximately \$15 million and not exceed the 60% Debt to GBV ratio limit. This calculation assumes the additional indebtedness results in a corresponding increase in the assets of the REIT. The REIT suspended distributions to unitholders on July 21, 2009 which was effective for the July distributions which would have been payable to unitholders on August 14, 2009. Based on the overall cash generation capacity and overall financial position, while there can be no assurance, management believes the REIT will be able to meet its financial obligations as they come due.

UNIT INFORMATION

The following table provides the total units outstanding (including the Class B limited partnership units of Holloway Lodging Limited Partnership, a subsidiary of the REIT which are convertible into units of the REIT) as well as the impact of outstanding options, if exercised and the conversion of convertible debentures to REIT units.

	As at June 30, 2009	As at December 31, 2008
Units outstanding	39,135,216	39,135,216
Options outstanding (exercisable)	1,139,837	967,418
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	52,452,750	52,280,331

Normal Course Issuer Bid

On December 22, 2008, Holloway initiated a Normal Course Issuer Bid ("NCIB") to repurchase over the next 12 months commencing on December 24, 2008 and ending on December 23, 2009, up to 1,880,233 of its issued and outstanding trust units, such amount representing 10% of the REIT's public float as of December 18, 2008. 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 this NCIB in its objective of delivering value to its unitholders. During the three and six months ended June 30, 2009, the REIT did not purchase units under this NCIB.

Under a prior NCIB which was initiated on December 11, 2007 and expired on December 10, 2008, Holloway could repurchase a maximum of 1,000,000 of its issued and outstanding trust units. During the three months ended June 30, 2008, the REIT did not purchase units under this NCIB. During the six months ended June 30, 2008, the REIT purchased 51,600 units under this NCIB at an average cost of \$3.63.

Unitholder Rights Plan

In November, 2008, Holloway's Board of Trustees adopted a Unitholder Rights Plan. The purpose of the rights plan is to provide the Board sufficient time to develop and implement alternatives intended to maximize value for all unitholders in the event of an unsolicited bid for Holloway and to enhance Holloway's ability to prevent unfair acquisition tactics. The Board's actions were not related to any specific acquisition proposal. Holloway is unaware of any take-over bid activity underway at this time. The rights plan is also not intended to, and would not hinder full and fair offers for Holloway that are made to all unitholders; in particular, the rights plan contains a standard "permitted bid" exclusion that makes it inapplicable to a take-over bid made to all unitholders that is open for acceptance for at least 60 days and otherwise complies with customary "permitted bid" requirements. The Unitholder Rights Plan was approved by unitholders at the 2008 Annual General Meeting of the REIT held on May 12, 2009.

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 six months ended June 30, 2009 and 2008 for the reconciliation of net income to FFO and to distributable income.

CSA Distributable Cash

This MD&A is in all material respects in accordance with the recommendations provided in CICA's publication *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*.

Standardized distributable cash is defined as the periodic cash flows from operating activities as reported in the financial statements in accordance with GAAP, including the effects of changes in non-cash working capital and any operating cash flows provided from or used in discontinued operations, less adjustments for:

- total capital expenditures as reported in the GAAP financial statements; and
- restrictions on distributions arising from compliance with financial covenants restrictive at the date of the calculation of standardized distributable cash and limitations arising from the existence of a minority interest in a subsidiary.

Hotel Operating Income

Hotel operating income, a commonly used non-GAAP measure of performance in the lodging industry, is defined as hotel revenues less hotel expenses. Hotel operating income measures hotel results before interest and depreciation and amortization.

RELATED PARTY AGREEMENTS

Hotel Management Agreement

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. The yield on Holloway's units has declined to zero with the suspension of distributions.

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.

SUBSEQUENT EVENTS

On August 5, 2009, the REIT entered into a binding agreement for the conditional sale of its Wingate by Wyndham property in Calgary, Alberta to an arm's length purchaser for \$16.5 million, representing a gain of approximately \$2.0 million. Net proceeds, after payment of the mortgage on the property are expected to be approximately \$9.3 million. The sale is conditional upon, among other things, the purchaser completing its due diligence investigations of the property and being satisfied with the results of such investigations by August 17, 2009. Assuming the satisfaction or waiver of all closing conditions, the transaction is expected to close in early September 2009.

On July 21, 2009, Holloway suspended distributions to unitholders effective immediately. There was no distribution for the month of July, 2009, which would have otherwise been payable on August 14, 2009. "The ongoing economic downturn has presented a number of challenges to the Canadian and global tourism and hospitality industry," said Glenn Squires, CEO. "Faced with the current uncertainty regarding the outlook for our industry, our board of trustees has determined that the REIT and its unitholders would be best served by taking additional steps to conserve cash and strengthen the REIT's balance sheet. The suspension of distributions will allow Holloway to retain additional capital, meet all of its ongoing obligations, strengthen the balance sheet, take advantage of strategic initiatives and position us to improve unitholder value as conditions improve."

"Holloway has consistently proven to be an industry leader in the areas of RevPAR, market share penetration and profit margin and we fully expect the REIT will continue to maintain its leadership position in these areas. Our hotels are well positioned in their respective markets, have strong brand affiliation with major franchisors such as Intercontinental Hotels Group, Wyndham Worldwide, Carlson Hotels Worldwide and Best Western International, Inc. and, as the majority were built recently, do not have significant capital expenditure requirements. In addition, the REIT does not have significant debt maturing in the near term. We believe Holloway is well positioned to deal with the current environment and the board of trustees intends to revisit Holloway's distribution policy periodically, with a view to restoring distributions at the appropriate time."

LEGAL PROCEEDINGS

On February 20, 2009, the solicitors of the REIT issued a demand letter, on behalf of the REIT, to Winport Developments Limited Partnership, Pacrim North York Limited Partnership and 2113047 Ontario Inc. for payment of approximately \$11.5 million, representing the principal and interest owed on the mezzanine loans receivable and legal fees. The mezzanine loans are in default and the borrower had until March 2, 2009 to make payment to the REIT. Payment was not received. On August 6, 2009, a court-appointed receiver for the property was named, with a mandate to sell the property and maximize the return to the debt-holders. The REIT's loans have been written down to the estimated fair value of the REIT's underlying security.

SIGNIFICANT ACCOUNTING POLICIES

2009 Changes to Canadian GAAP

Management of the REIT monitors new accounting pronouncements issued by the Canadian Institute of Chartered Accountants ("CICA") to assess the applicability and impact on the financial statements and note disclosures of the REIT.

Commencing with the first quarter of 2009, the REIT adopted two new accounting standards issued by the Accounting Standards Board of the CICA as follows: (i) Section 3064 Goodwill and Intangible Assets; and (ii) Section 1000 Financial Statement Concepts was also amended to provide consistency with Section 3064. The new standards on goodwill and intangible assets establish new standards for the recognition, measurement, presentation and disclosure of these items. The REIT does not have any recorded goodwill. There has been no impact as to how the REIT accounts for its intangible assets.

Note 2 to the unaudited interim consolidated financial statements for the three and six months ended June 30, 2009 explain the impact of these changes in accounting policies.

Future Changes to Canadian GAAP

Business combinations, consolidated financial statements and non-controlling interests

The CICA has issued new accounting standards, Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements and Section 1602 Non-controlling Interests which establish new standards for consolidated financial statements and business combinations. The definition of a business is expanded and described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. Net assets, non-controlling interests and goodwill acquired in a business combination will be recorded at fair value. Non-controlling interests will be reported as a component of equity. In addition, acquisition costs will be expensed when incurred. The new and amended standards will be effective for the REIT's 2011 fiscal year. The objective of these new Sections is to harmonize Canadian GAAP with International Financial Reporting Standards. When these standards are adopted by the REIT, acquisition costs will be expensed through the income statement. Other impacts of these standards are still being assessed.

International financial reporting standards

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. 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. Work is currently underway on the detailed analysis of the individual standards, the impact on the REIT's financial statements and the decisions to be made where alternatives exist.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In addition, Holloway maintains disclosure controls and procedures that

are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities legislation is accumulated and communicated to management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), as appropriate to allow timely decisions regarding required public disclosure.

There have been no changes in the REIT’s internal controls over financial reporting that occurred during the most recent interim period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the REIT’s internal controls over financial reporting.

RISKS AND UNCERTAINTIES

There are a number of risks inherent in an investment in the REIT. The underlying value of the properties and the REIT’s cashflow 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.

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 “Risks and Uncertainties” in the REIT’s MD&A for the year ended December 31, 2008 and under “Risk Factors” in Holloway’s Annual Information Form (“AIF”), dated March 30, 2009 which is available at www.sedar.com.

OUTLOOK

The difficulties in the financial markets and the resulting global recession are having a significant impact on the hospitality industry. In March, 2009, PKF Consulting Inc. (“PKF”) revised its 2009 forecast. Originally for 2009, they had expected profitability to be flat but their revised forecast is a decline of 9.4%. In the Atlantic and Western Canada regions where Holloway has all of its hotels, PKF is projecting declines in net income per available room of 11.6% and 4.2%, respectively, for 2009.

Even though Canada has conservative lending practices, due to the global recession and the severe decrease in the stock market and available credit, the hospitality industry is being impacted. PKF reported for the first quarter of 2009 that occupancy rates dropped by 3.8 points and RevPAR declined 7.9% compared to the first quarter of 2008. For May 2009 year to date, occupancy is down 5.3 points and RevPAR has decreased 11.4% compared to May, 2008. Companies are cutting expenses, with travel and accommodations being one of the areas cut. In addition, consumers are spending less as they are focused on keeping their jobs and conserving cash. As a result, 2009 is proving to be an extremely tough year in the hospitality industry.

Leading indicators suggest that the worst has passed for the global recession and that the Canadian economy is expected to begin growing in the second half of this year. The effects of the recession are expected to linger into 2010 and the recovery we experience in Canada is expected to be “more muted than normal”, according to the Bank of Canada.

The first quarter of 2009 saw the largest single quarter contraction in the Canadian economy since 1991, according to RBC. The actual annualized pace of that reduction lies somewhere between 5.4% and 5.7% according to leading economists.

Forecasts for actual contraction of the Canadian economy in 2009 range from a low of 1.7% to a high of 2.5%, with much of that decline already locked in with what has occurred year to date. The Conference Board of Canada reports that July has reflected the 5th straight month of increase in consumer confidence and the measurement of business confidence is up significantly from the first quarter.

Improving global prospects, a recent reaffirmation by the Bank of Canada to its conditional commitment to maintain low interest rates, and government stimulus efforts are expected to help Canada to moderate recovery in 2010.

Forecasts at this point suggest a return to GDP growth in 2010 over 2009 levels of somewhere between 1.6% and 3.0% with the higher estimate coming from the Bank of Canada.

On a provincial basis according to RBC, the highest growth for 2010 is forecast to occur in Newfoundland and Labrador, and Alberta at 3.0% and 2.9% respectively. Recovery is forecast to be more muted in Ontario and Quebec, due to auto industry and manufacturing sector uncertainty.

The hospitality industry is heavily influenced by local economic market conditions, the segment orientation of specific properties and demand generators that are tied largely to employment. There is a tendency to track movement in GDP, and a positive turn in this key metric is important to prospects for improvement in hospitality industry results.

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 30, 2009 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.