



Holloway
LODGING

Real Estate Investment Trust

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011**

As at August 8, 2011

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, 2011 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, 2011.

The financial statements of Holloway are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. On January 1, 2011, all public reporting entities in Canada were required to adopt IFRS with comparative periods restated.

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 interim 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 and HLR.DB.A, respectively.

Highlights – Q2, 2011

- Results improved for the second quarter of 2011 compared to the second quarter 2010 as follows:
 - Revenue increased 13.9% or \$2.4 million;
 - Hotel operating income increased 28% or \$1.2 million;
 - Hotel operating income margin increased 3.1 percentage points to 27.8% from 24.7%;
 - Occupancy increased 9.6 percentage points to 66.2% from 56.6%;
 - Revenue per available room increased 13.4% to \$78.32 from \$69.06;
 - Distributable income was \$0.4 million compared to a (\$0.9 million) loss for the same period prior year; this represents a \$1.3 million improvement;
- In May, the community of Slave Lake, AB sustained significant damage from forest fires. The REIT owns the Northwest Inn and the Super 8 in Slave Lake. The hotels suffered very minor damage and our staff made significant efforts assisting and housing the many workers and residents working on the clean-up and re-building efforts. Staff in head office and other Holloway hotels have been fund-raising to assist our co-workers in these hotels; and
- On June 30, 2011, the REIT sold the Radisson Suite hotel in Halifax, NS for \$12.3 million. After repayment of the mortgage and closing costs, the net cash proceeds were \$6.1 million. The net cash proceeds were used to repay a portion of the 8% convertible debentures that matured on August 1, 2011.

Overview of Holloway Lodging REIT and its Strategies

Holloway 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. 2006 was the initial year of active operations for the REIT. As at June 30, 2011, the REIT owned 21 hotel properties with 2,282 guest rooms and suites and has equity ownership interests, ranging from 2.52% to 19.06% in six other hotels. The hotels in which the REIT has an equity ownership interest represent an additional 472 rooms.

HOLLOWAY'S OPERATING STRATEGY

Holloway's principal business is to invest, directly or indirectly, in the ownership and operation of hotel properties. 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.

Hotel Portfolio

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-one hotels wholly owned by Holloway on June 30, 2011.

PROPERTY	LOCATION	No. of Rooms
Alberta		
5 Calgary Downtown Suites & Spa Hotel	Calgary	302
Best Western	Grande Prairie	100
Holiday Inn	Grande Prairie	146
Northwest Inn	Slave Lake	99
Pomeroy Inn and Suites	Grande Prairie	152
Radisson Hotel and Suites	Fort McMurray	134
Super 8	Drayton Valley	60
Super 8	Grande Prairie	149
Super 8	High Level	81
Super 8	Slave Lake	58
Super 8	Three Hills	82
Super 8	Whitecourt	59
		1,422
British Columbia		
Holiday Inn Express	Kamloops	80
Super 8	Fort Nelson	142
Super 8	Fort St. John	93
		315
New Brunswick		
Holiday Inn Express and Suites	Moncton	151
Northwest Territories		
Super 8	Yellowknife	66
Nova Scotia		
Holiday Inn Express	Halifax	98
Super 8	Truro	50
Super 8	Windsor	66
		214
South Carolina - USA		
Holiday Inn Express	Myrtle Beach	114
	Total Rooms	2,282

The table below details the six hotels in which the REIT has minority equity ownership interests.

PROPERTY	LOCATION	PERCENT OWNERSHIP	No. of Rooms
British Columbia			
Super 8*	Langley	8.41%	81
New Brunswick			
Super 8	Dieppe	6.00%	85
Newfoundland and Labrador			
Super 8	St. John's	17.63%	82
Nova Scotia			
Super 8	Amherst	15.72%	50
Ontario			
Super 8	Barrie	2.52%	82
Super 8*	Toronto	19.06%	92
			174
	Total Rooms		472

*Investments in these hotels have been written down to nil for accounting purposes.

Operating Results

The following table provides a summary of the operating results for the three and six months ended June 30, 2011 and 2010.

(in \$000's except number of units and per unit results)	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Hotel revenues	19,692	17,291	38,476	33,872
Hotel expenses	14,218	13,028	28,324	25,615
Hotel operating income before depreciation	5,474	4,263	10,152	8,257
Other expenses	8,417	7,958	16,336	16,605
Provision for (recovery of) deferred income taxes	-	(1,176)	-	(2,516)
Loss for the periods	(2,943)	(2,519)	(6,184)	(5,832)
Weighted average basic units outstanding	39,031,716	39,031,716	39,031,716	39,031,716
Weighted average diluted units outstanding	39,031,716	39,031,716	39,031,716	39,031,716
Basic income (loss) per unit	(0.08)	(0.06)	(0.16)	(0.15)
Diluted income (loss) per unit	(0.08)	(0.06)	(0.16)	(0.15)
Reconciliation to funds from operations (FFO)				
Add/(deduct):				
Depreciation and amortization on real property	2,517	2,484	5,039	4,971
Provision for deferred income taxes	-	(1,175)	-	(2,516)
Gain or loss on sale of assets	498	181	498	181
Funds from operations – basic and diluted	72	(1,029)	(647)	(3,196)
Basic FFO per unit	0.00	(0.03)	(0.02)	(0.08)
Diluted FFO per unit	0.00	(0.03)	(0.02)	(0.08)
Reconciliation to distributable income				
Add/(deduct):				
Depreciation and amortization – trust and other assets	46	46	93	96
Accretion of mortgages, convertible debentures and deferred financing fees	862	794	1,703	1,473
Fair value adjustment on Class B LP units and derivative liability	1	(180)	(31)	(2)
Unit-based compensation	-	-	-	15
FF&E reserve	(591)	(519)	(1,154)	(1,016)
Distributable income – basic and diluted	390	(888)	(36)	(2,630)
Basic distributable income per unit	0.01	(0.02)	0.00	(0.07)
Diluted distributable income per unit	0.01	(0.02)	0.00	(0.07)
Reconciliation of cash generated from operating activities to distributable income				
Net cash generated from operating activities	2,204	768	2,510	1,550
Changes in items of working capital	(1,223)	(1,137)	(1,292)	(3,164)
Write off of deferred financing fee	-	-	(100)	-
FF&E reserve	(591)	(519)	(1,154)	(1,016)
Distributable income	390	(888)	(36)	(2,630)

Q2 Operating Results

The results of operations for the three months ended June 30, 2011 and 2010 represent the operations of twenty-two hotels for the second quarter of 2011 and for June 2010 as the Super 8 in Windsor, NS was acquired on June 1, 2010.

REVENUE

(in \$000's)	Three months ended		
	June 30, 2011	June 30, 2010	Variance
Rooms	16,997	14,716	2,281
Food and beverage	1,617	1,515	102
Parking	352	367	(15)
Other	726	693	33
Total	19,692	17,291	2,401

Room Revenue - Key Performance Measures

Region	Three months ended							RevPAR Change
	June 30, 2011			June 30, 2010				
	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR		
Atlantic Canada (\$Cdn)	66.84%	\$113.61	\$75.93	71.90%	\$114.27	\$82.16	(7.6%)	
Western Canada (\$Cdn)	66.05%	\$121.42	\$80.20	52.15%	\$127.77	\$66.63	20.4%	
United States (\$US)	65.72%	\$91.73	\$60.29	69.86%	\$80.28	\$56.08	7.5%	
Weighted Average Total (\$Cdn)	66.19%	\$118.33	\$78.32	56.60%	\$122.01	\$69.06	13.4%	

The Atlantic Canada RevPAR decreased 7.6% for the three months ended June 30, 2011, compared to the three months ended June 30, 2010. The decrease is attributed to lower occupancy in Moncton and the inclusion of Super 8 Windsor which was acquired in June 2010. The Moncton market is absorbing new supply versus the prior year. Four of the REIT hotels in Atlantic Canada exceeded their fair market share in the second quarter.

The Western Canada RevPAR increased 20.4% compared to the second quarter of 2010. There was strong occupancy growth in most markets especially in Calgary, Drayton Valley, Grande Prairie, Fort St. John, Slave Lake and Fort McMurray. Due to the strength of the occupancy increases, there were significant RevPAR gains despite the rate decline.

In Calgary, there was substantial group business and city-wide events and conventions. In Drayton Valley there was increased activity related to oil exploration and servicing. The Grande Prairie market experienced higher demand from corporate, groups, sports and leisure traffic. In Fort St. John, there was higher demand from work crews involved in a plant maintenance project. In Slave Lake, there was significant demand from insurance and construction personnel following a major fire in the town in May. The Fort McMurray market was also impacted by fires in the region as work camps required evacuation due to the proximity of fires and some crews were relocated to the town of Fort McMurray. Several of the REIT's hotels in the Western region increased their market share and most achieved in excess of fair share.

RevPAR for the Holiday Inn Express in Myrtle Beach, South Carolina increased 7.5% compared to the prior year due to higher average rate.

Food and Beverage, Parking and Other Revenue

The increase in food and beverage revenue was due to higher revenues in Grande Prairie and Slave Lake.

Expenses

(in \$000's)	Three months ended		
	June 30, 2011	June 30, 2010	Variance
Operating expenses	12,709	11,472	1,237
Property taxes and insurance	1,022	1,126	(104)
Management fees	487	430	57
Total	14,218	13,028	1,190

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 hotels. These expenses have increased \$1.2 million when comparing the three months ended June 30, 2011 to the same period in 2010. The increase is primarily due to the increased occupancy in the hotels as occupied rooms increased by more than 19% compared to the prior year. In addition, there were increases in utilities and repairs and maintenance. There was also one additional hotel for the full quarter in 2011 versus 2010, due to the acquisition of the Super 8 Windsor in June 2010. The additional hotel accounted for \$0.1 million of the increase in operating expenses in the second quarter.

Property Taxes and Insurance

Property taxes and insurance expenses have decreased for the three months ended June 30, 2011 compared to the second quarter of 2010 due to lower taxes at several of the Alberta properties due to changes in assessments.

Management Fees

Management fees are based on the hotel revenues which were higher for the second quarter of 2011 compared to the second quarter of 2010.

HOTEL OPERATING INCOME

The following table provides the REIT's hotel operating margins for its portfolio for the three months ended June 30, 2011 and 2010.

(in \$000's except percentages, # of rooms available and HOI per available room)	Three months ended		
	June 30, 2011	June 30, 2010	Variance
Hotel revenues	19,692	17,291	2,401
Hotel operating expenses	12,709	11,472	1,237
Hotel gross margin	6,983	5,819	1,164
Percentage	35.5%	33.7%	1.8%
Hotel overhead expenses ⁽¹⁾	1,509	1,556	(47)
Hotel operating income (HOI)	5,474	4,263	1,211
Hotel operating income margin	27.8%	24.7%	3.1%
Number of rooms available	217,022	213,100	3,922
HOI per available room	\$25.22	\$20.00	\$5.22

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

Hotel operating income per available room increased by \$5.22 to \$25.22 from \$20.00 for the three months ended June 30, 2011 and 2010, respectively. The hotel operating income margin increased to 27.8% from 24.7%. The increase is attributed to the revenue increase as a consequence of increased occupancy and the resultant economies of scale.

OTHER INCOME AND EXPENSES

(in \$000's)	Three months ended		Variance
	June 30, 2011	June 30, 2010	
Interest on mortgages and other debt	2,629	2,688	(59)
Interest on convertible debentures	1,247	1,247	-
Accretion on convertible debentures, mortgages and deferred financing fees	862	794	68
Corporate and administrative	652	698	(46)
Investment income	(36)	(23)	(13)
Loss on disposal of investments in hotel properties	-	132	(132)
Loss on acquisition of hotel property	-	47	(47)
Loss on disposal of property and equipment	498	2	496
Acquisition expenses	-	22	(22)
Fair value adjustment on Class B LP units and derivative liability	1	(180)	181
Depreciation and amortization	2,564	2,531	33
Total	8,417	7,958	459

Interest on Mortgages and Other Debt

Interest on mortgages and other debt has decreased marginally for the three months ended June 30, 2011 compared to the three months ended June 30, 2010. The extra interest cost from having one additional hotel was more than offset by lower interest expense on the rest of the portfolio as the mortgages are paid down.

Interest on Convertible Debentures

The total interest on the convertible debentures was \$1.2 million for the second quarter of 2011 and 2010 as the face value of the debentures payable remained the same.

Accretion on Convertible Debentures, Mortgages and Deferred Financing Fees

The total of the non-cash accretion of the discount on the convertible debentures, mortgages and deferred financing fees increased \$0.1 million to \$0.9 million for the second quarter of 2011 compared to \$0.8 million for the second quarter of 2010, as the non-cash accretion on the convertible debentures has increased. The accretion increases over the term of the debentures.

Corporate and Administrative

Corporate and administrative expenses decreased \$0.05 million for the three months ended June 30, 2011 compared to the three months ended June 30, 2010, due to lower expenses for the annual meeting.

Loss on Disposal of Investments in Hotel Properties

During the second quarter of 2010, the REIT sold its minority equity investments in the Super 8 hotels in Ste-Foy and Trois Rivieres, Quebec. The REIT incurred a loss on disposal of \$0.1 million.

Loss on Acquisition of Hotel Property

Pursuant to a quit claim, Holloway acquired the Super 8 in Windsor, NS effective June 1, 2010. The REIT had previously provided a mezzanine loan to this development property. The net liabilities exceeded the net assets acquired by \$47,000.

Loss on Disposal of Hotel Property

On June 30, 2011, the REIT sold the Radisson Suite hotel in Halifax, NS for total proceeds of \$12.3 million. The net proceeds from the sale were received by Holloway and the mortgage on the property was paid out on July 4, 2011. The REIT recognized a loss on sale of \$0.5 million. After repayment of the mortgage and closing costs, the net cash proceeds were \$6.1 million.

Fair Value of Class B LP Units and Derivative Liability

The REIT records the fair value of the Class B LP units and the equity components of its convertible debentures as liabilities. Changes to the fair value of these liabilities are recorded on the income statement.

Depreciation and Amortization

Depreciation and amortization has increased marginally for the three months ended June 30, 2011 compared to the second quarter of 2010.

Funds from Operations (“FFO”)

FFO for the three months ended June 30, 2011 was \$0.07 million (-\$0.00 basic and diluted FFO per unit) compared to (\$1.0) million (-\$0.03 basic and diluted FFO per unit) for the same period in 2010. FFO has improved due to the increase in hotel revenues and profit margins in 2011 compared to 2010.

Distributable Income

Distributable income was \$0.4 million (\$0.01 basic and diluted distributable income per unit) for the three months ended June 30, 2011 compared to (\$0.9) million (-\$0.02 basic and diluted distributable income per unit) for the same period in 2010, primarily for the same reasons FFO increased year over year. Distributable income will fluctuate due to market conditions, the seasonality in the hospitality industry and the timing of acquisitions and disposals.

The following table shows the reconciliation between standardized distributable cash and distributable income for the three months ended June 30, 2011 and 2010, respectively.

(in \$000's)	Three months ended	
	June 30, 2011	June 30, 2010
Net Cash Generated from Operating Activities	2,204	768
Write off of deferred financing fee	-	-
Capital expenditures including acquisitions and other assets	(444)	(997)
Standardized Distributable Cash	1,760	(229)
<u>Reconciliation to Distributable Income:</u>		
Standardized Distributable Cash	1,760	(229)
Capital expenditures in excess of (less than) FF&E reserve	(147)	478
Changes in items of working capital	(1,223)	(1,137)
Distributable Income	390	(888)

CASH FLOW FOR THE THREE MONTHS ENDED JUNE 30, 2011 AND 2010

During the three months ended June 30, 2011, the REIT's cash and cash equivalents increased by \$0.7 million from \$0.3 million to \$1.0 million primarily as a result of increased revenues and operating income and increased working capital.

For the comparative period in 2010, cash and cash equivalents decreased by \$1.0 million from \$1.8 million to \$0.8 million primarily as a result of lower revenues and operating income as well as significant capital expenditures during the second quarter of 2010.

(in \$000's)	Three months ended	
	June 30, 2011	June 30, 2010
Cash provided by (used in)		
Operating activities		
Net loss for the periods	(2,943)	(2,519)
Adjustments for non-cash items		
Depreciation and amortization	2,564	2,531
Accretion of mortgages, convertible debentures and deferred financing fees		
Loss on sale of property and equipment	861	794
	498	2
Loss on disposal of hotel investments	-	132
Loss on acquisition of hotel property	-	47
Fair value of Class B LP units and derivative liability	1	(180)
Recovery of deferred income taxes	-	(1,176)
Subtotal	981	(369)
Changes in items of working capital	1,223	1,137
Net cash generated from operating activities	2,204	768
Investing activities		
Increase in restricted cash	(5)	(25)
Decrease in capital reserves	395	324
Additional investment in hotel properties	(18)	-
Proceeds from sale of investments in hotel properties	-	199
Additions to property and equipment and other assets	(444)	(997)
Net cash used in investing activities	(72)	(499)
Financing activities		
Decrease in line of credit	(48)	-
Repayment of finance lease obligations	(38)	(76)
Repayment of mortgages and loans payable	(1,318)	(1,228)
Net cash used in financing activities	(1,404)	(1,304)
Net change in cash and cash equivalents during the periods	728	(1,035)
Cash and cash equivalents— beginning of periods	307	1,832
Cash and cash equivalents – end of periods	1,035	797

OPERATING ACTIVITIES

Operations provided \$2.2 million in cash for the three months ended June 30, 2011. The cash flow before changes in working capital items provided \$1.0 million in cash. Changes in working capital items relate primarily to the impact of accrued interest on convertible debentures offset somewhat by an increase in prepaid expenses and deposits at June 30, 2011.

Operations provided \$0.8 million in cash for the three months ended June 30, 2010. The cash flow before changes in working capital items used \$0.4 million in cash. Changes in working capital items provided \$1.1 million in cash as prepaid expenses and deposits decreased \$0.4 million and accounts payable and accrued liabilities increased \$0.6 million.

INVESTING ACTIVITIES

Investing activities utilized \$0.1 million during the three months ended June 30, 2011. Additions to property and equipment of \$0.4 million were made at a number of hotels. The REIT's capital reserves for replacement decreased \$0.4 million and were a source of funds for a portion of the additions.

Investing activities utilized \$0.5 million during the three months ended June 30, 2010 due to additions to property and equipment of \$1.0 million made at a number of hotels. The REIT's capital reserves for replacement decreased \$0.3 million and the REIT received \$0.2 million in cash proceeds on the sale of two of its minority investments in hotel properties.

FINANCING ACTIVITIES

Financing activities utilized \$1.4 million during the three months ended June 30, 2011. The REIT made principal repayments on its mortgage debt and loans payable of \$1.3 million.

Financing activities utilized \$1.3 million during the three months ended June 30, 2010. The REIT made principal repayments on its mortgage debt and loans payable of \$1.2 million.

YTD Operating Results

The results of operations for the six months ended June 30, 2011 and 2010 represent the continuing operations of twenty-two hotels for the first six months of 2011 and twenty-one hotels for the first five months of 2010. The Super 8 hotel in Windsor, NS was acquired in June 2010.

REVENUE

(in \$000's)	Six months ended		
	June 30, 2011	June 30, 2010	Variance
Rooms	33,221	28,846	4,375
Food and beverage	3,162	2,960	202
Parking	681	701	(20)
Other	1,412	1,365	47
Total	38,476	33,872	4,604

Room Revenue – Key Performance Measures

Region	Six months ended						
	June 30, 2011			June 30, 2010			RevPAR Change
	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	
Atlantic Canada (\$Cdn)	59.25%	\$113.11	\$67.02	64.98%	\$113.65	\$73.85	(9.2%)
Western Canada (\$Cdn)	68.09%	\$119.87	\$81.62	53.04%	\$129.61	\$68.74	18.7%
United States (\$US)	53.76%	\$83.38	\$44.83	54.23%	\$75.45	\$40.92	9.6%
Weighted Average Total (\$Cdn)	65.66%	\$117.18	\$76.94	55.22%	\$123.82	\$68.37	12.6%

The Atlantic Canada RevPAR decreased 9.2% for the six months ended June 30, 2011, compared to the six months ended June 30, 2010. The decrease is attributed to lower occupancy in downtown Halifax and Truro and the inclusion of Super 8 Windsor which was acquired June 2010. The Windsor Super 8 had RevPar of \$40.60 for the six months ended June 30, 2011.

Three of the REIT hotels in Atlantic Canada exceeded their fair market share in the first half of 2011.

The Western Canada RevPAR increased 18.7% compared to the first six months of 2010. There was solid occupancy growth in most markets and particularly, in Calgary, Drayton Valley, Grande Prairie, Fort St. John, Slave Lake, and Whitecourt. There were lower rates in Grande Prairie and Slave Lake due to the business mix having been weighted towards crew contracts and at the Northwest Inn in Slave Lake a high proportion of long-term stay business at discounted rates in the first four months of the year. The magnitude of the occupancy increases resulted in significant year over year RevPAR gains despite the rate decline.

In Calgary, there was an increase in long term group business and city wide events and conventions. In Slave Lake, there was high demand from personnel involved with insurance and reconstruction associated with a major fire in the town in May. There was also demand growth due to pipeline and power line

construction. In Fort St. John, Whitecourt and Drayton Valley, the markets experienced increases from energy exploration and oil and gas well servicing along with growth from the forestry sector.

In Grande Prairie, there has been increased demand across the local economy including oil and gas, government and retail. In addition, preliminary work related to construction of a new hospital contributed to the higher demand levels.

Most of the REIT's hotels in the Western region have achieved in excess of fair share.

RevPAR for the Holiday Inn Express in Myrtle Beach, South Carolina increased 9.6% compared to the prior year due to rate growth.

Food and Beverage, Parking and Other Revenue

The REIT operates five full service hotels, which include food and beverage operations, in Calgary, Fort McMurray, Grande Prairie (2 hotels) and Slave Lake. The increase in food and beverage revenue was due to higher revenues in Grande Prairie, Fort McMurray and Slave Lake.

Expenses

(in \$000's)	Six months ended		
	June 30, 2011	June 30, 2010	Variance
Operating expenses	25,165	22,465	2,700
Property taxes and insurance	2,224	2,317	(93)
Management fees	935	833	102
Total	28,324	25,615	2,709

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 hotels. These expenses have increased \$2.7 million when comparing the six months ended June 30, 2011 to the same period in 2010. The increase is primarily due to the increased occupancy in the hotels as occupied rooms increased by more than 21% compared to the prior year. In addition, there were increases in utilities and repairs and maintenance. There was also one additional hotel in 2011 versus 2010, due to the acquisition of the Super 8 Windsor in June 2010. The additional hotel accounted for \$0.3 million of the increase in operating expenses in 2011.

Property Taxes and Insurance

Property taxes and insurance expenses have decreased for the six months ended June 30, 2011 compared to 2010 due to lower taxes at several of the Alberta properties due to changes in assessments.

Management Fees

Management fees are based on the hotel revenues which are higher for the six month period of 2011 compared to the same period of 2010.

HOTEL OPERATING INCOME

The following table provides the REIT's hotel operating margins for its portfolio for the six months ended June 30, 2011 and 2010.

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

(in \$000's except percentages, # of rooms available and HOI per available room)	Six months ended		
	June 30, 2011	June 30, 2010	Variance
Hotel revenues	38,476	33,872	4,604
Hotel operating expenses	25,165	22,465	2,700
Hotel gross margin	13,311	11,407	1,904
Percentage	34.6%	33.7%	0.9%
Hotel overhead expenses ⁽¹⁾	3,159	3,150	9
Hotel operating income (HOI)	10,152	8,257	1,895
Hotel operating income margin	26.4%	24.4%	2.0%
Number of rooms available	431,762	421,900	9,862
HOI per available room	\$23.51	\$19.57	\$3.94

Hotel operating income per available room increased by \$3.94 to \$23.51 from \$19.57 for the six months ended June 30, 2011 and 2010, respectively. The hotel operating income margin increased to 26.4% from 24.4%. The increase is attributed to the revenue increase as a consequence of increased occupancy and the resultant economies of scale.

OTHER INCOME AND EXPENSES

(in \$000's)	Six months ended		
	June 30, 2011	June 30, 2010	Variance
Interest on mortgages and other debt	5,425	5,391	34
Interest on convertible debentures	2,494	2,494	-
Accretion on convertible debentures, mortgages and deferred financing fees	1,704	1,473	231
Corporate and administrative	1,172	2,043	(871)
Investment income	(57)	(64)	7
Loss on disposal of investments in hotel properties	-	132	(132)
Loss on acquisition of hotel property	-	47	(47)
Loss on disposal of property and equipment	498	2	496
Acquisition expenses	-	22	(22)
Fair value adjustment on Class B LP units and derivative liability	(31)	(2)	(29)
Depreciation and amortization	5,131	5,067	64
Total	16,336	16,605	(269)

Interest on Mortgages and Other Debt

Interest on mortgages and other debt has remained virtually the same for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. The extra interest cost from having one additional hotel was offset by lower interest expense on the rest of the portfolio.

Interest on Convertible Debentures

The total interest on the convertible debentures was \$2.5 million for the first half of 2011 and 2010 as the face value of the debentures payable remained the same.

Accretion on Convertible Debentures, Mortgages and Deferred Financing Fees

The total of the non-cash accretion of the discount on the convertible debentures, mortgages and deferred financing fees has increased \$0.2 million to \$1.7 million for the six months ended June 30, 2011 compared to \$1.5 million for the same period of 2010, as the non-cash accretion on the convertible debentures has increased. The accretion increases over the term to the maturity dates of the debentures.

Corporate and Administrative

Corporate and administrative expenses decreased \$0.9 million for the six months ended June 30, 2011 compared to the six months ended June 30, 2010, as 2010 included \$0.7 million in severance expense related to the departure of its President and Chief Operating Officer and higher legal and consulting fees.

Loss on Disposal of Investments in Hotel Properties

During the second quarter of 2010, the REIT sold its minority equity investments in the Super 8 hotels in Ste-Foy and Trois-Rivieres, Quebec. These hotels were sold to an arms-length party. The REIT incurred a loss on disposal of \$0.1 million

Loss on Acquisition of Hotel Property

Pursuant to a quit claim, Holloway acquired the Super 8 in Windsor, NS effective June 1, 2010. The REIT had previously provided a mezzanine loan to this development property. The net liabilities exceeded the net assets acquired by \$47,000.

Loss on Disposal of Hotel Property

On June 30, 2011, the REIT sold the Radisson Suite hotel in Halifax, Nova Scotia for total proceeds of \$12.3 million. The net proceeds from the sale were received by Holloway and the mortgage on the property was paid out on July 4, 2011. The REIT recognized a loss on sale of \$0.5 million. After repayment of the mortgage and closing costs, the net cash proceeds were \$6.1 million.

Fair Value of Class B LP Units and Derivative Liability

The REIT records the fair value of the Class B LP units and the equity components of its convertible debentures as liabilities. Changes to the fair value of these liabilities are recorded on the income statement.

Depreciation and Amortization

Depreciation and amortization has increased marginally for the six months ended June 30, 2011 compared to the first half of 2010 due to the addition of the Super 8 Windsor in June 2010.

Funds from Operations (“FFO”)

FFO for the six months ended June 30, 2011 was (\$0.6) million (-\$0.02 basic and diluted FFO per unit) compared to (\$3.2) million (-\$0.08) basic and diluted FFO per unit) for the same period in 2010. FFO has improved due to the increase in hotel revenues and profit margins in 2011 compared to 2010, along with reduced corporate and administrative expenses compared to the prior year.

Distributable Income

Distributable income was (\$0.04) million (-\$0.00 basic and diluted distributable income per unit) for the six months ended June 30, 2011 compared to (\$2.6) million (-\$0.07 basic and diluted distributable income per unit) for the same period in 2010, primarily for the same reasons FFO has increased year over year. Distributable income will fluctuate due to market conditions, the seasonality in the hospitality industry and the timing of acquisitions and disposals.

The following table shows the reconciliation between standardized distributable cash and distributable income for the six months ended June 30, 2011 and 2010, respectively.

(in \$000's)	Six months ended	
	June 30, 2011	June 30, 2010
Net Cash Generated from Operating Activities	2,510	1,550
Write off of deferred financing fee	(100)	-
Capital expenditures including acquisitions and other assets	(1,066)	(2,311)
Standardized Distributable Cash	1,344	(761)
<u>Reconciliation to Distributable Income:</u>		
Standardized Distributable Cash	1,344	(761)
Capital expenditures in excess of (less than) FF&E reserve	(132)	1,295
Changes in items of working capital	(1,248)	(3,164)
Distributable Income	(36)	(2,630)

CASH FLOW FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

During the six months ended June 30, 2011, the REIT's cash and cash equivalents increased by \$0.2 million from \$0.8 million to \$1.0 million primarily as a result of increased revenues and operating income offset by capital expenditures at various hotel properties and mortgage payments.

For the comparative period in 2010, cash and cash equivalents decreased by \$3.0 million from \$3.8 million to \$0.8 million primarily as a result of significant capital expenditures and additions to the capital reserves.

(in \$000's)	Six months ended	
	June 30, 2011	June 30, 2010
Cash provided by (used in)		
Operating activities		
Net loss for the periods	(6,184)	(5,832)
Adjustments for non-cash items		
Unit-based compensation	-	15
Depreciation and amortization	5,131	5,067
Accretion of mortgages, convertible debentures and deferred financing fees	1,804	1,473
Loss on disposal of investments in hotel properties	-	132
Loss on acquisition of hotel properties	-	47
Loss on disposal of property and equipment	498	2
Fair value of Class B LP units and derivative liability	(31)	(2)
Recovery of deferred income taxes	-	(2,516)
Subtotal	1,218	(1,614)
Changes in items of working capital	1,292	3,164
Net cash generated from (used in) operating activities	2,510	1,550
Investing activities		
Decrease (increase) in restricted cash	32	(28)
Decrease (increase) in capital reserves	546	(1,161)
Proceeds from sale of investments in hotel properties	-	199
Additional investment in hotel properties	(18)	-
Additions to property and equipment and other assets	(1,066)	(2,311)
Net cash generated from (used in) investing activities	(506)	(3,301)
Financing activities		
Increase in line of credit	997	-
Repayment of finance lease obligations	(77)	(152)
Proceeds from mortgages and loans, net of deferred financing fees	-	10,261
Repayment of mortgages and loans payable	(2,719)	(11,347)
Net cash generated from (used in) financing activities	(1,799)	(1,238)
Net change in cash and cash equivalents during the periods	205	(2,989)
Cash and cash equivalents– beginning of periods	830	3,786
Cash and cash equivalents – end of periods	1,035	797

OPERATING ACTIVITIES

Operations provided \$2.5 million in cash for the six months ended June 30, 2011. The cash flow before changes in working capital items provided \$1.2 million in cash. Changes in working capital items provided \$1.3 million as accounts payable and accrued liabilities increased \$1.2 million and the accrued interest on

convertible debentures increased \$1.7 million. These sources of cash were offset by an increase in accounts receivable of \$1.2 million and increased prepaid expenses of \$0.4 million.

Operations provided \$1.5 million in cash for the six months ended June 30, 2010. The cash flow before changes in working capital items used \$1.6 million in cash. Changes in working capital items provided \$3.2 million in cash as prepaid expenses and deposits decreased \$1.7 million, and accounts payable and accrued liabilities increased \$2.0 million. These sources of cash were offset by an increase in accounts receivable of \$0.4 million.

INVESTING ACTIVITIES

Investing activities utilized \$0.5 million during the six months ended June 30, 2011. Additions to property and equipment of \$1.1 million were made at a number of hotels. The REIT's capital reserves for replacement decreased \$0.5 million and were a source of funds for a portion of the additions.

Investing activities utilized \$3.3 million during the six months ended June 30, 2010 due to additions to property and equipment of \$2.3 million made at a number of hotels. In addition, the REIT's capital reserves for replacement increased \$1.2 million.

FINANCING ACTIVITIES

Financing activities utilized \$1.8 million during the six months ended June 30, 2011. The REIT made principal repayments on its mortgage debt of \$2.7 million. The REIT drew \$1.0 million on one of its lines of credit during the six months ended June 30, 2011.

Financing activities utilized \$1.2 million during the six months ended June 30, 2010. The REIT made principal repayments on its mortgage debt of \$11.3 offset by the refinancing of mortgage debt of \$10.3 million.

Balance Sheet

The following table outlines the significant balances or changes in the consolidated balance sheet from December 31, 2010 to June 30, 2011.

(in \$000's)	As at June 30, 2011	As at December 31, 2010	Increase (Decrease)	Explanation
Assets				
Trade and other receivables	4,172	2,962	1,210	The increase is due to an increase in the balances on billing accounts for hotel customers, the number of guests in-house at the hotels at June 30 and amounts receivable from the credit card companies.
Proceeds receivable from sale of hotel	11,647	-	11,647	The balance represents the proceeds from the sale of the Radisson Suite hotel in Halifax, NS which was received on July 4, 2011.
Prepaid expenses and deposits	2,941	2,617	324	The increase in prepaid expenses is primarily due to an increase in the property tax balances at the municipalities as many of the 2011 property tax bills had been paid by the end of June.
Property and equipment	220,176	236,200	(16,024)	The decrease is primarily a result of the sale of the Radisson Suite hotel and the depreciation for the first six months of 2011.
Loans receivable from related parties – long-term	6,239	6,398	(159)	The loan receivable from Winport Developments Inc. of \$159 has been reclassified to current assets as it is due on December 31, 2011.
Capital reserve - restricted	4,994	5,440	(446)	The capital reserve contributions held by the mortgage lenders have declined during the quarter as more funds were withdrawn from the reserves than contributed.
Deferred income tax assets	7,082	7,082	-	The deferred 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.
Liabilities and Equity				
Line of credit	3,516	2,519	997	Holloway drew an additional \$1.0 million on one of its available lines of credit during the second quarter of 2011.
Trade payables and accrued liabilities	9,706	8,595	1,111	The increase is primarily a result of increases in accounts payable and accruals due to increased occupancy in the hotels.
Accrued interest on convertible debentures	2,360	675	1,685	The balance has increased as the semi-annual interest payment on the 6.5% debenture was paid in mid-July.
Current portion of mortgages and loans payable	51,905	49,047	2,858	Holloway has seven mortgages maturing in the next twelve months. In addition, the mortgage on the Radisson Suite hotel is included in current liabilities as it was paid out on July 4, 2011.
Current portion of convertible debentures	70,270	19,138	51,132	The 6.5% convertible debentures that mature June 30, 2012 have been reclassified to current liabilities as they are due within the next twelve months.
Mortgages and loans payable	98,341	103,546	(5,205)	The balance of long-term mortgages and loans payable has decreased due to the re-classification of mortgages that mature within the next twelve months and the mortgage on the Radisson Suite hotel that was repaid on July 4, 2011. Under IFRS, waivers for any covenant breaches must have been received by the quarter or year end date for mortgages to be classified as long-term. The REIT had not received the year-end waivers by December 31 but had received them before March 31 resulting in certain mortgages being included in current liabilities at December 31, 2010 which are included in long-term liabilities at June 30, 2011.
Convertible debentures – long-term	-	49,597	(49,597)	Both series of convertible debentures are due within the next twelve months and are included in current liabilities.
Equity	21,961	28,147	(6,186)	The decrease represents the comprehensive loss for the six months ended June 30, 2011.

Quarterly Results

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

(in \$000's except per unit results)	Q2 2011	Q2 2010	Q1 2011	Q1 2010	Q4 2010	Q4 2009	Q3 2010	Q3 2009
Total revenues	19,728	17,314	18,806	16,621	18,516	16,018	21,211	19,977
Hotel revenues	19,692	17,291	18,785	16,581	18,406	15,939	21,173	19,800
Hotel expenses	14,218	13,028	14,107	12,587	14,048	12,508	14,486	13,588
Hotel operating income	5,474	4,263	4,678	3,994	4,358	3,431	6,687	6,212
Other (income) expenses	8,387	7,958	7,918	8,647	7,785	15,637	7,967	7,842
Future income tax expense (recovery)	-	(1,176)	-	(1,340)	-	(413)	-	(412)
Net loss for the period from continuing operations	(2,943)	(2,519)	(3,240)	(3,313)	(3,427)	(11,793)	(1,280)	(1,218)
Income from discontinued operations	-	-	-	-	-	1,361	-	79
Net loss for the period	(2,943)	(2,519)	(3,240)	(3,313)	(3,427)	(10,432)	(1,280)	(1,139)
Per Unit Results:								
Basic and diluted loss per unit	(0.08)	(0.07)	(0.08)	(0.08)	(0.08)	(0.27)	(0.03)	(0.03)
Basic and diluted FFO per unit	0.00	(0.04)	(0.02)	(0.02)	(0.02)	(0.04)	0.04	0.04
Basic and diluted distributable income per unit	0.01	(0.02)	(0.01)	(0.01)	(0.01)	(0.04)	0.04	0.04
Occupancy	66.19%	56.60%	65.15%	53.81%	60.77%	49.32%	69.94%	61.95%
ADR	\$118.33	\$122.01	\$116.01	\$125.75	\$116.31	\$125.83	\$122.53	\$131.87
RevPAR	\$78.32	\$69.06	\$75.58	\$67.67	\$70.68	\$62.06	\$85.70	\$81.69

Capital Structure

The REIT defines capital as the aggregate of 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, optimizing 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 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, fair value adjustments for Class B LP units and derivative liability and unit-based compensation (earnings base) to the sum of the annual principal and interest payments of mortgages, loans, promissory notes and finance leases (debt service); and
- a debt to gross book value (debt to GBV) ratio defined as line of credit, mortgages and loans payable, obligations under finance leases, derivative liability, Class B LP units, the face value of the promissory notes and the face value of the convertible debentures (debt) divided by total assets plus accumulated depreciation, amortization and accumulated impairment losses (GBV). The REIT's Declaration of Trust states that Holloway's debt to GBV ratio should not exceed 60%.

Capital Management (in \$000's except ratios)	As at June 30, 2011	As at December 31, 2010
Capital structure		
Line of credit	3,516	2,519
Obligations under finance leases	146	222
Derivative liability	4	34
Class B LP units	33	34
Mortgages and loans payable	150,246	152,593
Convertible debentures	70,270	68,735
Promissory notes	3,222	3,203
Total debt	227,437	227,340
Equity	21,961	28,147
Total capital	249,398	255,487
Ratios		
Total debt	227,437	227,340
Adjustment of convertible debentures to face value	1,779	3,313
Adjustment of promissory notes to face value	91	110
Debt	229,307	230,763
Gross book value	403,748	402,802
Debt to GBV ratio	56.8%	57.3%
	Twelve months trailing from June 30, 2011	Twelve months trailing from December 31, 2010
Earnings base	19,505	16,612
Debt service	21,246	20,994
Debt service coverage ratio	0.92	0.79

The total debt (including line of credit, obligations under finance leases, mortgages and loans payable, derivative liability, Class B LP units and promissory notes) to gross book value ("GBV") was 38.9% at June 30, 2011 (December 31, 2010 – 39.4%) and the total debt plus the face value of the convertible debentures to GBV was 56.8% at June 30, 2011 (December 31, 2010 – 57.3%).

The REIT is also subject to financial covenants on its mortgages and loans payable, the majority of which are measured on an annual basis and include customary terms and conditions for borrowings of this nature. These include the debt service coverage ratio presented above. The REIT has one mortgage with covenants that are measured on a quarterly basis and were in breach at June 30, 2011. This mortgage has two components, both of which mature in the next twelve months and thus, are included in current liabilities. As a result of discussions with this lender, management believes the loans will not be called prior to maturity due to this covenant breach. Under IFRS, waivers must be received before the period end date for the debt to be classified as long-term liabilities.

MORTGAGES PAYABLE

As at June 30, 2011, the REIT had total mortgage debt outstanding of \$150.2 million, net of deferred financing fees of \$1.0 million compared to \$152.6 million outstanding at December 31, 2010. The interest rates on the mortgages range from 5.88% to 9.06% per annum, with a weighted average interest rate of 6.75% 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 July, 2011 to July, 2017. The weighted average maturity is 4.1 years.

CONVERTIBLE DEBENTURES PAYABLE

As at June 30, 2011 and 2010, 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% (December 31, 2010 – 6.9%) and the weighted average maturity is 0.7 years (December 31, 2010 – 1.2 years). The REIT has the option to repay the principal amount of the 6.5% debentures, in whole or in part, at maturity, by issuing the number of units calculated by dividing the aggregate principal amount by 95% of the current market price of the units on the maturity date. This alternative does not exist with the 8.0% debentures.

The REIT entered into a credit facility to finance the repayment of the debentures that mature on August 1, 2011. On July 29, 2011, the REIT borrowed \$14 million under the credit facility to repay part of such debentures. The credit facility bears interest at 12.5% per annum, is due March 31, 2013 and is secured by second mortgages on various hotels. If any hotels are sold, a minimum of 75% of the net proceeds must be used to repay the credit facility.

PROMISSORY NOTES PAYABLE

In connection with the purchase of equity ownership interests in a number of hotel properties on December 22, 2008, the REIT issued two promissory notes for \$3.0 million and \$0.5 million, respectively to Winport Developments Limited Partnership. The notes were assigned by Winport Developments Limited Partnership to its partners/owners. The partners include various Dynamic mutual funds, a Gluskin Sheff mutual fund, Canadian Mortgage Capital Corporation, Holloway Investments Inc., a related party and SLC Development Corporation, a related party.

The \$3.0 million promissory note bears interest at 6.0% per annum until December 22, 2011 and 12.0% per annum, thereafter. The \$0.5 million promissory note does not bear interest and was discounted by \$0.2 million 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 properties. During 2010, Holloway repaid \$0.2 million of the \$3.0 million note as a result of the sales of its interest in two of the hotels.

The notes mature on December 22, 2011, at which time the REIT can pay all or a portion of the notes in cash, by the issuance of units or extend the term of either or both of the notes at its sole discretion. As the REIT can extend the term of the notes, they are presented as a long-term liability in the financial statements.

LINE OF CREDIT

The REIT has two available lines of credit for \$5.0 million and \$0.5 million. As at June 30, 2011, the REIT had drawn \$3.5 million of the \$5.0 million line of credit. This line of credit bears interest at prime plus 2.5%, is payable on demand and is secured by a demand collateral mortgage and charge on the Holiday Inn Express in Kamloops, BC.

FINANCIAL COMMITMENTS

The following chart summarizes the REIT's future financial commitments as at June 30, 2011.

(in \$000s)	2011	2012	2013	2014	2015	Thereafter
Mortgages payable - principal	34,407	21,515	3,029	3,238	6,267	82,459
Mortgages payable - interest	4,723	6,889	6,262	6,053	5,687	8,150
Obligations under finance leases	56	80	10	-	-	-
Convertible debentures - principal	20,238	51,844	-	-	-	-
Convertible debentures - interest	4,179	1,685	-	-	-	-
Land lease – minimum payment	62	123	123	123	123	5,968
Operating leases	53	51	30	25	11	1
Promissory notes – principal	-	-	3,312	-	-	-
Promissory notes – interest	97	333	325	-	-	-
Total	63,815	82,520	13,091	9,439	12,089	96,578

Liquidity and Working Capital

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 agreements and its capital management requirements and objectives.

On July 21, 2009, the REIT suspended distributions in order to conserve cash and satisfy its operating obligations, including principal repayments on its mortgages and loans payable and obligations under finance leases. The REIT has \$25.3 million in mortgages that mature in 2011. The REIT expects to refinance its maturing mortgages at similar or better terms with existing or other lenders. The REIT refinanced its mortgage on the Super 8 in Yellowknife, NT in July, 2011 at a 6% interest rate (down from 6.85%). Holloway obtained an additional \$0.75 million on the refinance.

The REIT repaid \$20.2 million in convertible debentures that matured on August 1, 2011, using the proceeds of its credit facility and the net proceeds from the sale of the Radisson Suite hotel.

The Board and management are exploring alternatives to raise funds to repay the 6.5% debentures that mature June 30, 2012 which may include other debt financing, the sale of certain properties, or some combination thereof. There can be no assurance that the REIT will secure alternative financing or that debentures will be repaid in cash. See the section entitled "Risks and Uncertainties".

The REIT monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. At June 30, 2011, the REIT had drawn \$3.5 million (December 31, 2010 - \$2.5 million) from its available lines of credit of \$5.5 million.

Based on overall cash generation capability and overall financial position, while there can be no assurance, management believes the REIT will be able to meet all financial obligations as they become 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 into REIT units.

	As at June 30, 2011	As at December 31, 2010
REIT Units outstanding	39,031,716	39,031,716
Class B LP Units outstanding	103,500	103,500
Options outstanding (exercisable)*	828,849	973,841
Conversion of convertible debentures (conversion price \$5.40*) ¹	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	52,141,762	52,286,754

*Based on the current unit price, exercise of options and conversion of the convertible debentures by the holders is unlikely.

¹ The convertible debentures were repaid on August 1, 2011, and, therefore, no longer represent a potential source of dilution.

NORMAL COURSE ISSUER BIDS

On April 27, 2011, Holloway initiated a Normal Course Issuer Bid (“NCIB”) to repurchase over the next 12 months which commenced on April 29, 2011 and expires on April 28, 2012, up to 2,508,122 of its issued and outstanding REIT units, such amount representing 10% of the REIT’s public float as of April 26, 2011. In addition, on the same day, the REIT initiated a NCIB to repurchase over the next 12 months which commenced on April 29, 2011 and expires on April 28, 2012, up to \$5,184,400 of its issued and outstanding 6.5% convertible debentures due June 12, 2012, such amount representing 10% of the REIT’s public float as of April 26, 2011.

On July 8, 2011, the REIT announced that it had instituted an automatic securities purchase plan (“ASPP”) with a broker to re-purchase the 6.5% convertible debentures. On July 13, 2011, the REIT purchased \$684,000 face value of the debentures at \$73 per \$100 face value.

Non-GAAP Lodging Industry Performance Indicators

The following describes the key performance measures and financial indicators commonly used by lodging REITs that do not have a standardized meaning under generally accepted accounting principles, now IFRS (“GAAP”).

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 deferred 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;
 - impairment of hotel property;
 - deferred 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;
 - deferred 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
 - fair value adjustments on Class B LP units and derivative liability.

Readers should refer to the table “OPERATING RESULTS” for the three and six months ended June 30, 2011 and 2010 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 the 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 \$23 to \$33 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 up to 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 reimbursable expenses plus 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 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 the lesser of 13% and the trailing three-month yield plus 1% on Holloway's units thereafter. As the yield on Holloway's units declined to 0% with the suspension of distributions, the interest rate on the loan became 1% effective October 1, 2009.

Upon certain change of control events, as set out in the Hotel Management Agreement, PHSI is entitled to terminate the entire Hotel Management Agreement upon 60 days prior written notice to Holloway Lodging Limited Partnership and the REIT and to receive a lump sum payment of \$1.5 million in connection with such termination, without detracting from any other remedies available to it under the terms of the Hotel Management Agreement. In addition, PHSI shall be entitled to receive a one-time fee in the amount of the aggregate outstanding principal and accrued and unpaid interest on the loan as of the termination date of the Hotel Management Agreement. Such fee shall be withheld by Holloway Lodging Limited Partnership and used directly to repay the loan in full.

On July 7, 2010, pursuant to the acquisition of the Super 8 hotel in Windsor, NS, PHSI agreed to defer its management and accounting fees and Superior Lodging Corp. ("Superior"), a related party agreed to defer its royalty fees until June 30th of each calendar year. PHSI and Superior are entitled to receive a payment calculated as 3/5th and 2/5th, respectively of 50% of the hotel's "free cash flow" for the prior twelve months (thirteen months for 2010-2011). Free cash flow is defined as net operating income less first mortgage debt service and 3% of total revenues for reserve for replacement. The payment is due on or before July 25th of each year. Any unpaid balance of the PHSI fees will be applied against the principal of the loan receivable from PHSI. Any unpaid balance of the Superior fees is deferred. The terms of the agreement will be revisited annually before June 30th for the foregoing twelve months. As free cash flow was negative for the thirteen months ended June 30, 2011, no payment was made under the agreement to Superior and the fees payable to PHSI reduced the loan by \$66,484.

SUPER 8 FRANCHISE AGREEMENTS

The REIT has various franchise agreements for its Super 8 hotels. A portion of the royalty fees are paid to Superior Lodging Corp., a company in which a trustee is a member of management and has an ownership interest.

Legal Proceedings

In the course of the REIT's ordinary activities, the REIT is involved in administrative proceedings, litigations and claims. The REIT believes that either there are valid defences to any current actions or that the outcome will not have a material impact on the REIT's consolidated financial position or results of operations.

Significant Accounting Policies

2011 CHANGES TO CANADIAN GAAP

The REIT has prepared its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the REIT has commenced reporting on this basis in its consolidated financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of IFRS

The REIT has adopted IFRS effective January 1, 2010 (the transition date) and has prepared its opening balance sheet as at that date. Prior to the adoption of IFRS, the REIT prepared its financial results in accordance with previous Canadian GAAP. The REIT's consolidated financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS. The REIT's Q2, 2011 interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Subject to certain transition elections, the REIT has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods as if these policies had always been in effect (i.e., retroactive restatement). Notes 2 through 5 in the interim consolidated financial statements provide information on the basis of presentation, significant accounting policies and transition to IFRS.

Statements of Financial Position

The most significant impact on the statements of financial position is related to the REIT's revaluation of property and equipment to reflect fair value at the transition date. The impact of this revaluation resulted in a net \$86.9 million decrease in the value of the REIT's property and equipment at January 1, 2010 as compared to the amount reported under previous Canadian GAAP. These valuation adjustments were derived through the use of third party independent appraisals and management's estimates. IFRS uses discounted cash flows whereas previous Canadian had a two-step process where the first step used undiscounted cash flows.

The transition to IFRS has also changed the REIT's accounting for the conversion option related to its convertible debentures and its Class B LP units. This change resulted in the presentation of the fair value of the conversion option and the Class B LP units as derivative liabilities with a value of \$0.1 million and \$0.1 million respectively at the date of transition.

The implementation of IFRS also resulted in a reduction of \$1.0 million in the carrying value of the REIT's investments in hotel properties.

Statement of Income

In adopting IFRS, the REIT's second quarter income statements for 2011 and 2010 have been restated to comply with IFRS. These changes resulted in net loss based on IFRS of \$(2.5) million for the three months ended June 30, 2010 compared to a net loss of \$(3.6) million under previous Canadian GAAP. This change was due primarily to a reduction in depreciation expense of \$0.7 million which was offset by the recognition of a \$0.2 million loss related to the fair value of Class B LP units and the derivative liability associated with the conversion option on the REIT's convertible debentures.

Critical Accounting Estimates

Note 3 to the unaudited consolidated financial statements for the three months ended June 30, 2011 provides a summary of the REIT's significant accounting policies. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Management believes the estimates described below are the ones most subject to estimation and judgment in the REIT's financial statements.

VALUATION OF PROPERTY AND EQUIPMENT

GAAP requires that long-lived assets, consisting of property and equipment (hotel properties), be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset might not be recoverable. Long-lived assets are reviewed at the individual hotel level, the lowest level for which identifiable cash flows are largely independent when testing and measuring for impairment. The fair value is determined based on the discounted future cash flows expected to be received from the property. The amount of the impairment loss is the amount by which the long-lived asset's carrying value exceeds its fair value.

The future cash flows expected from the use and eventual disposition involve assumptions of occupancy, room rates, revenues, expenses, the residual or terminal value for the property and discount rates. In addition to these estimates, management assesses the effect of new competition in the individual markets and the hotel industry predictions for recovery from the recession. These estimates and assumptions are subject to change.

VALUATION OF LOANS RECEIVABLE

GAAP requires that loans receivable be classified as impaired when, in the opinion of management, there is a reasonable doubt as to the timely collection of principal, interest and the underlying security of the loan. The carrying value of a loan receivable classified as impaired is reduced to its estimated fair value.

VALUATION OF INVESTMENTS IN HOTEL PROPERTIES

GAAP requires the carrying value of investments to be reduced when there has been a significant adverse change in the expected timing or amount of future cash flows. The REIT has equity ownership interests in six hotel partnerships or co-tenancies ranging from 2.52% to 19.06%. These investments are accounted for as available for sale financial investments reflected at fair value at each reporting period with changes in

value recognized in other comprehensive income. Significant or prolonged declines in fair value are removed from other comprehensive income and recognized in profit or loss for the period.

AMORTIZATION OF PROPERTY AND EQUIPMENT

The REIT records amortization on its property and equipment using the straight-line method over the estimated useful life of each category. The two largest categories are buildings and related components which are amortized up to 60 years and furniture, fixtures and equipment, which are amortized up to 7 years. If the estimated useful life of the assets or different amortization methods were used, the impact on the REIT's net income could be material.

FAIR VALUE OF MORTGAGES AND DEBENTURES PAYABLE

Management determines and discloses the fair value of the REIT's mortgages and debentures payable in the notes to the financial statements. Management uses an internally developed model to estimate fair value based on discounting the future payments based on current market rates. The estimated current market rate is based on management's experience in obtaining similar financings and the current market conditions. Changes in the current market for credit, interest rates and credit spreads will impact the estimates used and the fair values reported.

PROVISIONS

Provisions are recognized in the financial statements when all of the following three criteria are met: (i) there is a present obligation as a result of a past event; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) the amount of the obligation can be reliably estimated. Provisions are management's best estimate of the expenditures required to settle the obligation at the end of the reporting period.

INCOME TAXES

Under the provisions of Bill C-52, Budget Implementation Act, 2007, the REIT became a specified investment flow-through ("SIFT") and became subject to tax in 2007 due to exceeding the growth guidelines as outlined in Act. Deferred tax is provided using the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact of the deferred income tax asset recorded on the balance sheet.

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.

It is important to note that all systems of internal controls and procedures can only provide reasonable, rather than absolute assurance that all control issues will be detected. Misstatement and errors may not be detected and controls can be circumvented by collusion among individuals or management override. In addition, the design of any system of control is also based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future events.

Holloway continues to review and document its disclosure controls and procedures, including its internal controls over financial reporting so as to enhance the effectiveness of its systems of controls and procedures.

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, 2011 that have materially affected, or are reasonably likely to materially affect the REIT’s internal controls over financial reporting.

Tax Rules for Income Trusts

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

As the REIT exceeded the “normal growth” rates as defined in the guidelines issued by the Department of Finance, the REIT became subject to the tax commencing in 2007. Accordingly, the REIT has recorded deferred income tax based on temporary differences that are expected to reverse in the future at the substantively enacted tax rates, which will be in effect at the time the temporary differences are expected to reverse. Distributions from the REIT will be subject to the tax unless they qualify as returns of capital. Since inception, the REIT’s distributions have been 100% return of capital.

On April 27, 2011, the REIT announced its intention to convert to a corporation on January 1, 2012 and received unitholder approval at its Annual and Special Meeting on June 6, 2011.

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 cash flow 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, 2010 and under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 24, 2011 which are both available at www.sedar.com.

Outlook

According to the Bank of Canada, the global recovery is proceeding broadly as expected. The U.S. economy continues to grow at a modest pace, limited by the consolidation of household balance sheets. Although commodity prices have declined recently, they are expected to remain at elevated levels, supported by tight global supply and very strong demand from emerging markets. Overall, a broad rebalancing of demand in Canada is underway as the economic expansion progresses. Business investment is now growing strongly, and contributions to growth from both household consumption and government spending are diminishing. The Bank expects a re-acceleration of growth in the second half of the year.

According to statistics compiled by the Canadian Association of Oilwell Drilling Contractors, the average number of active oil rigs in the first quarter of 2011 increased by 23% compared to the same period in the prior year. Holloway has a number of hotels in these areas.

The hotel consulting PKF is projecting RevPAR growth of 3.6% for 2011.

These forecasted business conditions should contribute to sustained momentum for RevPAR growth.

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 24, 2011 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.