



**Holloway**  
LODGING

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*Real Estate Investment Trust*

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010**

**Q3**

As at November 9, 2010

# Introduction

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Real Estate Investment Trust ("Holloway" or the "REIT") for the three and nine months ended September 30, 2010 and should be read in conjunction with the unaudited interim consolidated financial statements of the REIT and the notes thereto as at and for the three and nine months ended September 30, 2010, and the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2009, 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](http://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.

## Key Events

The key events that have occurred since June 30, 2010 were as follows:

- Revenues for the third quarter of 2010 increased 6.9% compared to the third quarter of 2009; occupancy increases were experienced in all regions;
- RevPAR increased 4.9% for the three months ended September 30, 2010 compared to the three months ended September 30, 2009; and
- Distributable income increased \$0.3 million from \$1.4 million for the third quarter of 2009 to \$1.7 million for the third quarter of 2010.

## 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. As at September 30, 2010, the REIT owned

22 hotel properties with 2,386 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 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;
- enhance the value of its assets to provide unitholders with long-term unit value through active asset management; and
- increase cash flow from operations in order to resume distributions to unitholders at the appropriate time.

## 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-two hotels wholly owned by Holloway as at September 30, 2010. Approximately 60% of Holloway's rooms are located in Alberta.

PROPERTY	LOCATION	NO. OF ROOMS
<b>Alberta</b>		
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	<u>59</u>
	<b>Total Rooms</b>	<b>1,422</b>
<b>British Columbia</b>		
Holiday Inn Express	Kamloops	80
Super 8	Fort Nelson	142
Super 8	Fort St. John	<u>93</u>
	<b>Total Rooms</b>	<b>315</b>
<b>New Brunswick</b>		
Holiday Inn Express and Suites	Moncton	<u>151</u>
	<b>Total Rooms</b>	<b>151</b>
<b>Northwest Territories</b>		
Super 8	Yellowknife	<u>66</u>
	<b>Total Rooms</b>	<b>66</b>
<b>Nova Scotia</b>		
Holiday Inn Express	Halifax	98
Radisson Suite Hotel	Halifax	104
Super 8	Truro	50
Super 8	Windsor	<u>66</u>
	<b>Total Rooms</b>	<b>318</b>
<b>South Carolina - USA</b>		
Holiday Inn Express	Myrtle Beach	<u>114</u>
	<b>Total Rooms</b>	<b>114</b>
	<b>Total</b>	<b>2,386</b>

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

PROPERTY	LOCATION	PERCENT OWNERSHIP	NO. OF ROOMS
<b>British Columbia</b>			
Super 8	Langley	8.41%	81
<b>New Brunswick</b>			
Super 8	Dieppe	6.00%	85
<b>Newfoundland and Labrador</b>			
Super 8	St. John's	17.63%	82
<b>Nova Scotia</b>			
Super 8	Amherst	15.72%	50
<b>Ontario</b>			
Super 8	Barrie	2.52%	82
Super 8	Toronto	19.06%	92
<b>Total</b>			<b>472</b>

# Operating Results

The following table provides a summary of the operating results for the three and nine months ended September 30, 2010 and 2009.

(in \$000's except number of units and per unit results)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Hotel revenues	21,173	19,800	55,045	56,046
Hotel expenses	14,486	13,588	40,123	40,165
Hotel operating income	6,687	6,212	14,922	15,881
Other expenses	8,556	7,842	26,591	28,663
Provision for (recovery of) future income taxes	-	(412)	(2,516)	(2,643)
Loss from continuing operations for the period	(1,869)	(1,218)	(9,153)	(10,139)
Income from discontinued operations	-	79	-	234
Loss and comprehensive loss for the period	(1,869)	(1,139)	(9,153)	(9,905)
Weighted average basic units outstanding	39,135,216	39,135,216	39,135,216	39,135,216
Weighted average diluted units outstanding	39,135,216	39,135,216	39,135,216	39,135,216
Basic income (loss) per unit	(0.05)	(0.03)	(0.23)	(0.25)
Diluted income (loss) per unit	(0.05)	(0.03)	(0.23)	(0.25)
<b>Reconciliation to funds from operations (FFO)</b>				
Add/(deduct):				
Depreciation and amortization on real property	3,202	3,231	9,564	9,854
Provision for (recovery of) future income taxes, continuing operations	-	(412)	(2,516)	(2,643)
(Gain) loss on disposal	(72)	-	62	-
Loss on acquisition of hotel property	-	-	47	-
Provision for impairment on investments in hotel properties	423	-	423	-
Provision for impairment on mezzanine loans and advances	-	-	-	4,700
Provision for future income taxes, discontinued operations	-	43	-	165
<b>Funds from operations – basic and diluted</b>	<b>1,684</b>	<b>1,723</b>	<b>(1,573)</b>	<b>2,171</b>
Basic FFO per unit	0.04	0.04	(0.04)	0.06
Diluted FFO per unit	0.04	0.04	(0.04)	0.06
<b>Reconciliation to distributable income</b>				
Add/(deduct):				
Depreciation and amortization – trust and other assets	47	52	143	192
Accretion of mortgages, convertible debentures and deferred financing fees	820	647	2,293	1,859
Unit-based compensation	-	16	15	49
Unrealized foreign exchange loss (gain)	(161)	(408)	(103)	(651)
FF&E reserve	(635)	(607)	(1,651)	(1,755)
<b>Distributable income – basic and diluted</b>	<b>1,755</b>	<b>1,423</b>	<b>(876)</b>	<b>1,865</b>
Basic distributable income per unit	0.04	0.04	(0.02)	0.05
Diluted distributable income per unit	0.04	0.04	(0.02)	0.05
Distributions declared	-	-	-	0.105
<b>Reconciliation of cash flow from operating activities to distributable income</b>				
Cash flow from operating activities	790	2,103	2,340	3,215
Changes in non-cash working capital balances	1,600	(73)	(1,565)	405
FF&E reserve	(635)	(607)	(1,651)	(1,755)
<b>Distributable income</b>	<b>1,755</b>	<b>1,423</b>	<b>(876)</b>	<b>1,865</b>

# Q3 Operating Results

The results of operations for the three months ended September 30, 2010 and 2009 represent the continuing operations of twenty-two hotels for the full quarter of 2010, and twenty-one hotels for the full quarter of 2009. The Super 8 Windsor was acquired in June 2010.

## REVENUES

(in \$000's)	Three months ended		
	September 30, 2010	September 30, 2009	Variance
Room revenue	18,812	17,436	1,376
Other revenue	2,361	2,364	(3)
<b>Total</b>	<b>21,173</b>	<b>19,800</b>	<b>1,373</b>

## Room Revenue - Key Performance Measures

Region	Three months ended						
	September 30, 2010			September 30, 2009			RevPAR
	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	Change
Atlantic Canada (\$Cdn)	87.01%	\$123.20	\$107.20	85.25%	\$128.40	\$109.46	(2.1%)
Western Canada (\$Cdn)	65.60%	\$123.53	\$81.04	56.53%	\$135.38	\$76.53	5.9%
United States (\$US)	68.43%	\$99.81	\$68.30	65.19%	\$92.12	\$60.05	13.7%
<b>Weighted Average Total (\$Cdn)</b>	<b>69.94%</b>	<b>\$122.53</b>	<b>\$85.70</b>	<b>61.95%</b>	<b>\$131.87</b>	<b>\$81.69</b>	<b>4.9%</b>

The Atlantic Canada RevPAR has decreased 2.1% for the three months ended September 30, 2010, compared to the three months ended September 30, 2009. The decline is attributed to lower occupancy and rate at the Super 8 in Truro.

In Moncton, there was an encouraging improvement in demand versus last year due to a very strong tourist season as well as work crews in the area working on various capital projects and business expansions. The Moncton market has shown impressive resilience and has remained robust in spite of a significant increase in room supply over the last several years.

In Halifax, there was an increase in demand in the suburban market while in downtown the demand was in line with the prior year with modest rate growth. In suburban Halifax, the higher demand was accompanied by a decline in rates due to the price consciousness of the business mix and the proliferation of third party internet booking sites.

The downtown market had less group business which was offset by individual travellers paying higher rates.

Four of the REIT hotels in Atlantic Canada exceeded their fair market share in the third quarter.

The western Canada RevPAR has increased 5.9% compared to the third quarter of 2009. Demand exceeded last years' levels by a large margin in many markets. Along with demand growth, rates have declined due to the increased room supply in numerous markets and corresponding price cutting by the new entrants. There is heightened price sensitivity among business and leisure customers and an expansion of the use of discounted internet booking sites as a distribution channel.

Several markets showed encouraging RevPAR growth during the quarter. These included Fort Nelson, Fort St. John, Three Hills and Grande Prairie. There was increased oil and gas activity servicing in

these areas along with increased corporate travel. In Calgary, there was moderate RevPAR growth due to higher demand.

Several of the REIT's hotels in the western region increased their market share and most achieved in excess of fair share.

In Fort McMurray, there has been a stabilization of demand however, the rate continues to decline. A new market entrant in High Level caused significant rate contraction in that market. In Kamloops, there was a RevPAR decline due in part to 10% of the rooms being under renovation during the quarter.

RevPAR for the Holiday Inn Express in Myrtle Beach, South Carolina increased 13.7% compared to the prior year. There was growth in both demand and rate on the strength of increased leisure and group business.

## Other Revenue

Higher food and beverage revenue in Fort McMurray was offset by lower food and

beverage and parking revenue in Calgary. Other revenues in total are in line with the prior year.

## Expenses

(in \$000's)	Three months ended		
	September 30, 2010	September 30, 2009	Variance
Operating expenses	12,789	11,896	893
Property taxes and insurance	1,161	1,188	(27)
Management fees	536	504	32
<b>Total</b>	<b>14,486</b>	<b>13,588</b>	<b>898</b>

## 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 \$0.9 million when comparing the three months ended

September 30, 2010 to the same period in 2009. The increase is primarily attributed to the increased occupancy in the hotels, and having one additional hotel in 2010 versus 2009, due to the acquisition of the Super 8 Windsor in June 2010.

## Property Taxes and Insurance

Property taxes and insurance expenses have decreased marginally for the three months ended

September 30, 2010 compared to the third quarter of 2009 due to successful property tax appeals.

## Management Fees

Management fees are based on the hotel revenues which are higher for the third quarter

of 2010 compared to the third quarter of 2009.

## HOTEL OPERATING INCOME

The following table provides the REIT's hotel margins for its portfolio for the three months ended September 30, 2010 and 2009.

Three months ended				
(in \$000's except percentages, number of rooms available and HOI per available room)	September 30, 2010	September 30, 2009	Variance	
Hotel revenues	21,173	19,800	1,373	
Hotel operating expenses	12,789	11,896	893	
Hotel gross margin	8,384	7,904	480	
Percentage	39.6%	39.9%	(0.3%)	
Hotel overhead expenses <sup>(1)</sup>	1,697	1,692	5	
Hotel operating income (HOI)	6,687	6,212	475	
Hotel operating income margin	31.6%	31.4%	0.2%	
Number of rooms available	219,512	213,440	6,072	
<b>HOI per available room</b>	<b>\$30.46</b>	<b>\$29.10</b>	<b>\$1.36</b>	

<sup>(1)</sup> Hotel overhead expenses include property taxes, insurance and management fees.

Hotel operating income per available room increased by \$1.36 to \$30.46 from \$29.10 for the three months ended September 30, 2010 and 2009, respectively. The hotel operating income

margin increased to 31.6% from 31.4%. The increase is attributed to the revenue increase as a consequence of increased occupancy.

## OTHER INCOME AND EXPENSES

Three months ended				
(in \$000's)	September 30, 2010	September 30, 2009	Variance	
Interest on mortgages and other debt	2,706	2,724	(18)	
Accretion on convertible debentures, mortgages and deferred financing fees	820	701	119	
Interest on convertible debentures	1,247	1,247	-	
Corporate and administrative	382	517	(135)	
Interest income	(38)	(176)	138	
Unrealized foreign exchange loss (gain)	(161)	(408)	247	
Loss (gain) on disposal	(72)	-	(72)	
Provision for impairment on investments in hotel properties	423	-	423	
Depreciation and amortization	3,249	3,237	12	
<b>Total</b>	<b>8,556</b>	<b>7,842</b>	<b>714</b>	

### Interest on Mortgages and Other Debt

Interest on mortgages and other debt has decreased marginally for the three months ended September 30, 2010 compared to the three

months ended September 30, 2009 due to the decline in the mortgage principal outstanding.

### Interest on Convertible Debentures

The total interest on the convertible debentures was \$1.2 million for the third quarters of 2010

and 2009 as the face value of the debentures payable is 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 \$0.1 million to \$0.8 million for the third quarter of 2010 compared to \$0.7 million for the

third quarter of 2009, 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 administrative expenses were \$0.4 million for the three months ended September 30, 2010 and \$0.5 million for the three months

ended September 30, 2009, due to lower expenses for wages and lower consulting fees.

### Interest Income

During the three months ended September 30, 2010 and 2009, the REIT generated interest income of \$0.04 million and \$0.2 million

respectively from loans receivable. There was lower interest revenue from the loan to Pacrim Hospitality Services Inc. as the interest rate on this loan is 1%.

### Unrealized Foreign Exchange Gain/Loss

The unrealized foreign exchange gain/loss 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 marginally for the three months ended

September 30, 2010 compared to the third quarter of 2009.

### (Gain)Loss on Disposal

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

additional proceeds of \$72,000 from the sale of these hotels, thereby reducing the loss on disposal.

### Provision for Impairment on Investments in Hotel Properties

The REIT recorded a provision for impairment of \$0.4 million during the three months ended September 30, 2010 against its investment in the

Super 8 in Toronto, ON which represents the total cost of this investment. The performance of the hotel no longer supports the carrying value of the investment.

## Funds from Operations (“FFO”)

FFO for the three months ended September 30, 2010 was \$1.7 million (\$0.04 basic and diluted

FFO per unit) compared to \$1.7 million (\$0.04 basic and diluted FFO per unit) for the same period in 2009.

## Distributable Income

Distributable income was \$1.8 million (\$0.04 basic and diluted distributable income per unit) for the three months ended September 30, 2010 compared to \$1.4 million (\$0.04 basic and diluted distributable income per unit) for the same period in 2009. 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 September 30, 2010 and 2009, respectively.

(in \$000's)	Three months ended	
	September 30, 2010	September 30, 2009
Net Cash Provided by Operating Activities	790	2,103
Capital expenditures including acquisitions and other assets	(731)	(403)
<b>Standardized Distributable Cash</b>	<b>59</b>	<b>1,700</b>
<u>Reconciliation to Distributable Income:</u>		
<b>Standardized Distributable Cash</b>	<b>59</b>	<b>1,700</b>
Capital expenditures in excess of (less than) FF&E reserve	96	(204)
Changes in non-cash working capital balances	1,600	(73)
<b>Distributable Income</b>	<b>1,755</b>	<b>1,423</b>

## CASH FLOW FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

During the three months ended September 30, 2010, the REIT's cash and cash equivalents decreased by \$0.5 million from \$0.8 million to \$0.3 million primarily as a result of mortgage repayments and capital improvements at several hotels.

For the comparative period in 2009, cash and cash equivalents decreased by \$0.8 million from \$1.3 million to \$0.5 million.

(in \$000's)	Three months ended	
	September 30, 2010	September 30, 2009
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss from continuing operations for the periods	(1,869)	(1,218)
Charges (credits) to income not involving cash		
Unit-based compensation	-	16
Depreciation and amortization	3,249	3,237
Accretion of mortgages, convertible debentures and deferred financing fees	820	701
(Gain) loss on disposal	(72)	-
Provision for impairment on investments in hotel properties	423	-
Unrealized foreign exchange loss (gain)	(161)	(408)
Provision for (recovery of) future income taxes	-	(412)
Subtotal	2,390	1,916
Net change in non-cash working capital balances related to operations	(1,600)	(237)
Cash flow from discontinued operations	-	424
<b>Cash flow from (used in) operating activities</b>	<b>790</b>	<b>2,103</b>
<b>Investing activities</b>		
Decrease (increase) in restricted cash	19	46
Decrease (increase) in capital reserves	(38)	(449)
Increase in mezzanine loans and advances receivable	-	(24)
Proceeds from sale of (increase in) investments in hotel properties	72	(5)
Additions to property and equipment and other assets	(731)	(403)
<b>Cash flow from (used in) investing activities</b>	<b>(678)</b>	<b>(835)</b>
<b>Financing activities</b>		
Repayment of capital lease obligations	(69)	(84)
Repayment of mortgage payable, discontinued operations	-	(76)
Proceeds from mortgages and loans payable, net of deferred financing fees	(40)	(41)
Repayment of mortgages and loans payable	(1,232)	(1,155)
Repayment of promissory notes	(221)	-
Increase in line of credit	1,000	-
Distributions paid to unitholders	-	(685)
<b>Cash flow from (used in) financing activities</b>	<b>(562)</b>	<b>(2,041)</b>
<b>Net change in cash and cash equivalents during the periods</b>	<b>(450)</b>	<b>(773)</b>
<b>Cash and cash equivalents, continuing operations – beginning of periods</b>	<b>797</b>	<b>1,004</b>
<b>Cash and cash equivalents, discontinued operations – beginning of periods</b>	<b>-</b>	<b>248</b>
	<b>797</b>	<b>1,252</b>
<b>Cash and cash equivalents, continuing operations – end of periods</b>	<b>347</b>	<b>151</b>
<b>Cash and cash equivalents, discontinued operations – end of periods</b>	<b>-</b>	<b>328</b>
	<b>347</b>	<b>479</b>

## OPERATING ACTIVITIES

Operations provided \$0.8 million in cash for the three months ended September 30, 2010. The cash flow before changes in working capital items provided \$2.4 million in cash. Changes in working capital items used \$1.6 million in cash as accounts receivable increased \$0.8 million and accounts payable and accrued liabilities decreased \$1.5 million (uses of cash). These uses were offset by a decrease in prepaid expenses and deposits of \$0.3 million and an increase in the accrued interest on the convertible debentures of \$0.4 million (sources of cash).

Cash flow from operations was \$2.1 million for the three months ended September 30, 2009 reflecting the cash generated by the hotels and the corporate operations of the REIT. The cash flow before changes in working capital items provided \$1.9 million in cash. Changes in working capital items utilized \$0.2 million in cash as accounts receivable increased \$0.2 million and accounts payable and accrued liabilities decreased \$0.4 million (uses of cash). These uses of cash were partially offset by an increase in the accrued interest on the convertible debentures of \$0.4 million.

## INVESTING ACTIVITIES

Investing activities utilized \$0.7 million during the three months ended September 30, 2010. Additions to property and equipment of \$0.7 million were made at Holiday Inn Express hotels in Myrtle Beach, Halifax and Kamloops and at a number of other hotels. Holloway received additional proceeds of \$0.1 million from the sale of its minority investments in the Super 8 hotels in Ste-Foy and Trois-Rivieres, Quebec.

Investing activities utilized \$0.8 million during the three months ended September 30, 2009 in part due to additions to property and equipment of \$0.4 million at a number of hotels. In addition, the REIT's capital reserves for replacement increased \$0.4 million.

## FINANCING ACTIVITIES

Financing activities utilized \$0.6 million during the three months ended September 30, 2010. The REIT made principal repayments on its mortgage debt and loans payable of \$1.2 million. As a result of the sale of its minority interests in the two hotels referred to above, Holloway repaid \$0.2 million on the promissory notes payable. The REIT drew \$1.0

million on one of its lines of credit during the third quarter of 2010.

Financing activities utilized \$2.0 million in cash during the three months ended September 30, 2009. Holloway made principal repayments of \$1.2 million on its mortgages and loans payable and paid distributions to unitholders of \$0.7 million.

# Year to Date Operating Results

The results of operations for the nine months ended September 30, 2010 and 2009 represent the operations of twenty-one hotels for the first nine months of the year and the Super 8 in Windsor, NS for the months of June to September, 2010.

## REVENUES

(in \$000's)	Nine months ended		
	September 30, 2010	September 30, 2009	Variance
Room revenue	47,658	48,590	(932)
Other revenue	7,387	7,456	(69)
<b>Total</b>	<b>55,045</b>	<b>56,046</b>	<b>(1,001)</b>

## Room Revenue - Key Performance Measures

Region	Nine months ended						RevPAR Change
	September 30, 2010			September 30, 2009			
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada (\$Cdn)	73.03%	\$117.81	\$86.04	70.64%	\$122.03	\$86.20	(0.2%)
Western Canada (\$Cdn)	57.27%	\$127.26	\$72.88	54.45%	\$139.18	\$75.78	(3.8%)
United States (\$US)	59.01%	\$84.97	\$50.14	59.60%	\$84.74	\$50.51	(0.7%)
<b>Weighted Average Total (\$Cdn)</b>	<b>60.26%</b>	<b>\$123.30</b>	<b>\$74.30</b>	<b>57.52%</b>	<b>\$133.38</b>	<b>\$76.72</b>	<b>(3.2%)</b>

The Atlantic Canada RevPAR has decreased 0.2% for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, due to a decline in average rates across the region.

In the Moncton market, there has been encouraging occupancy growth versus the same period in the prior year.

The Halifax market had demand in line with the prior year with a moderate rate decline experienced in the suburban market.

Four of the REIT hotels in Atlantic Canada exceeded their fair market share in the first nine months of the year.

The western Canada RevPAR has decreased 3.8% for the nine months ended September 30, 2010

compared to the nine months ended September 30, 2009 due to a decline in average rates.

The majority of the hotels in the western region have experienced occupancy growth year-to-date compared to the prior year. The RevPAR decline is due to the shortfall in average rates throughout the region with this contraction most pronounced in Slave Lake, Grande Prairie and Fort McMurray.

Despite these rate declines, several of the REIT's hotels in the western region increased levels of market share and most achieved in excess of their fair market share.

RevPAR for the Holiday Inn Express in Myrtle Beach, South Carolina decreased 0.7%. Leisure and group business experienced a decline in the first half of the year but has since rebounded.

## Other Revenue

Lower parking revenue in Calgary accounted for the decline in other revenue.

## Expenses

(in \$000's)	Nine months ended		
	September 30, 2010	September 30, 2009	Variance
Operating expenses	35,276	35,160	116
Property taxes and insurance	3,478	3,523	(45)
Management fees	1,369	1,482	(113)
<b>Total</b>	<b>40,123</b>	<b>40,165</b>	<b>(42)</b>

### 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 increased \$0.1 million when comparing the nine months ended September 30, 2010 to the same period in 2009, as the result of increased occupancy.

### Property Taxes and Insurance

Property taxes and insurance expenses have declined marginally for the nine months ended

September 30, 2010 compared to 2009, due to successful property tax appeals.

### Management Fees

Management fees are based on the hotel revenues which are lower for the nine months

ended September 30, 2010 compared to the same period in 2009.

## HOTEL OPERATING INCOME

The following table provides the REIT's hotel margins for its portfolio for the nine months ended September 30, 2010 and 2009.

Nine months ended			
(in \$000's except percentages, number of rooms available and HOI per available room)	September 30, 2010	September 30, 2009	Variance
Hotel revenues	55,045	56,046	(1,001)
Hotel operating expenses	35,276	35,160	(116)
Hotel gross margin	19,769	20,886	(1,117)
Percentage	35.9%	37.3%	(1.4%)
Hotel overhead expenses <sup>(1)</sup>	4,847	5,005	(158)
Hotel operating income (HOI)	14,922	15,881	(959)
Hotel operating income margin	27.1%	28.3%	(1.2%)
Number of rooms available	641,412	633,360	8,052
<b>HOI per available room</b>	<b>\$23.26</b>	<b>\$25.07</b>	<b>(\$1.81)</b>

<sup>(1)</sup> Hotel overhead expenses include property taxes, insurance and management fees.

Hotel operating income per available room decreased by \$1.81 to \$23.26 for the nine months ended September 30, 2010 from \$25.07 for the nine months ended September 30, 2009. The hotel operating income margin decreased to 27.1% from 28.3%. The decrease is attributable to

the revenue decline primarily as a consequence of lower average rates, and as such has a greater impact on operating margins. Operations do not have the same ability to cut costs for wages and supplies with rooms sold at reduced rates as would be the case with reduced occupancy.

## OTHER INCOME AND EXPENSES

(in \$000's)	Nine months ended		
	September 30, 2010	September 30, 2009	Variance
Interest on mortgages and other debt	8,098	8,268	(170)
Accretion on convertible debentures, mortgages and deferred financing fees	2,293	1,909	384
Interest on convertible debentures	3,742	3,742	-
Corporate and administrative	2,425	1,628	797
Interest income	(103)	(660)	557
Unrealized foreign exchange loss (gain)	(103)	(651)	548
Loss on disposal /acquisition of hotel property	109	-	109
Provision for impairment on investments in hotel properties	423	-	423
Provision for impairment of mezzanine loans and advances	-	4,700	(4,700)
Depreciation and amortization	9,707	9,727	(20)
<b>Total</b>	<b>26,591</b>	<b>28,663</b>	<b>(2,072)</b>

### Interest on Mortgages and Other Debt

Interest on mortgages and other debt has decreased \$0.2 million to \$8.1 million for the nine months ended September 30, 2010 compared to

\$8.3 million for the same period in 2009 due to the decline in the mortgage principal balance.

### 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 \$0.4 million to \$2.3 million for 2010

compared to \$1.9 million for the same period in 2009, as the non-cash accretion on the convertible debentures increases as the period to maturity decreases.

### Interest on Convertible Debentures

The total interest on the convertible debentures was \$3.7 million for the first nine months of 2010 and 2009.

### Corporate and Administrative

Corporate administrative expenses were \$2.4 million for the nine months ended September 30, 2010 and \$1.6 million for the nine months ended September 30, 2009. The increase is primarily a

result of severance expenses of \$0.7 million and \$0.2 million in legal and other consulting expenses. On March 19, 2010, the REIT announced the departure of its President and Chief Operating Officer.

## Interest Income

During the nine months ended September 30, 2010 and 2009, the REIT generated interest income of \$0.1 million and \$0.7 million respectively from loans receivable and the

investment of cash balances. Lower interest revenue was earned from the loan to Pacrim Hospitality Services Inc. as the interest rate on this loan declined to 1% during the fourth quarter of 2009.

## Unrealized Foreign Exchange Gain/Loss

The unrealized foreign exchange gain/loss 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 decreased marginally for the nine months ended September 30, 2010 compared to the same period of 2009.

## 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, and incurred a loss on disposal of \$62,000.

## Loss on Acquisition of Hotel Property

On June 1, 2010, the owners of the Super 8 hotel in Windsor, NS relinquished ownership of the hotel to Holloway pursuant to a quit claim. Holloway had provided a \$1.9 million mezzanine

loan to the property which was in default. Holloway assumed all the assets and liabilities of the hotel. As the net liabilities exceeded the net assets, the REIT recorded a \$47,000 loss on acquisition.

## Provision for Impairment on Investments in Hotel Properties

The REIT recorded a provision for impairment of \$0.4 million during the nine months ended September 30, 2010 against its investment in the

Super 8 in Toronto, ON which represents the total cost of this investment. The performance of the hotel no longer supports the carrying value of the investment.

## Provision for Impairment of Mezzanine Loans and Advances

During the second quarter of 2009, the REIT recorded a provision for impairment of \$4.7 million on the mezzanine loans and advances to the Yorkland Hotel in Toronto, ON.

During the second quarter of 2010, this hotel was sold by the receiver. The proceeds of the sale were not sufficient to provide for any recovery on the mezzanine loans.

## Income from Discontinued Operations

The REIT's income from discontinued operations during the first nine months of 2010 was nil compared with \$0.2 million for the prior year,

which represents the income from the Wingate by Wyndham hotel in Calgary, AB, which was sold on October 5, 2009.

## Funds from Operations (“FFO”)

FFO for the nine months ended September 30, 2010 was (\$1.6) million (\$-0.04 basic and diluted FFO per unit) compared to \$2.2 million (\$0.06 basic and diluted FFO per unit) for the same

period in 2009, primarily due to the decline in hotel revenues combined with one-time corporate and administrative expenses.

## Distributable Income

Distributable income was (\$0.9) million (\$-0.02 basic and diluted distributable income per unit) for the nine months ended September 30, 2010 compared to \$1.9 million (\$0.05 basic and diluted distributable income per unit) for the same period in 2009. Distributable income will fluctuate due to market and economic

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 nine months ended September 30, 2010 and 2009, respectively.

(in \$000's)	Nine months ended	
	September 30, 2010	September 30, 2009
Net Cash Provided by Operating Activities	2,340	3,215
Capital expenditures including acquisitions and other assets	(3,042)	(1,057)
<b>Standardized Distributable Cash</b>	<b>(702)</b>	<b>2,158</b>
<u>Reconciliation to Distributable Income:</u>		
<b>Standardized Distributable Cash</b>	<b>(702)</b>	<b>2,158</b>
Capital expenditures in excess of (less than) FF&E reserve	1,391	(698)
Changes in non-cash working capital balances	(1,565)	405
<b>Distributable Income</b>	<b>(876)</b>	<b>1,865</b>

## CASH FLOW FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

During the nine months ended September 30, 2010, the REIT's cash and cash equivalents decreased by \$3.4 million from \$3.8 million to \$0.4 million primarily as a result of capital improvements at several hotels, one-time corporate expenses and mortgage repayments.

For the comparative period in 2009, cash and cash equivalents decreased by \$4.5 million from \$5.0 million to \$0.5 million.

(in \$000's)	Nine months ended	
	September 30, 2010	September 30, 2009
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss from continuing operations for the periods	(9,153)	(10,139)
Charges (credits) to income not involving cash		
Unit-based compensation	15	48
Depreciation and amortization	9,707	9,727
Accretion of mortgages, convertible debentures and deferred financing fees	2,293	1,909
Loss on disposal of investments in hotel properties	49	-
Loss on disposal of property and equipment	13	-
Loss on acquisition of hotel property	47	-
Unrealized foreign exchange loss (gain)	(103)	(651)
Provision for impairment on investments in hotel properties	423	-
Provision for impairment of mezzanine loans and advances	-	4,700
Provision for (recovery of) future income taxes	(2,516)	(2,643)
Subtotal	775	2,951
Net change in non-cash working capital balances related to operations	1,516	(742)
Cash flow from discontinued operations	49	1,006
<b>Cash flow from (used in) operating activities</b>	<b>2,340</b>	<b>3,215</b>
<b>Investing activities</b>		
Decrease (increase) in restricted cash	(9)	83
Decrease (increase) in capital reserves	(1,199)	(992)
Increase in mezzanine loans and advances receivable	-	(855)
Proceeds from repayment of mezzanine loan	-	3,000
Proceeds from sale of (increase in) investments in hotel properties	271	(283)
Additions to property and equipment and other assets	(3,042)	(1,057)
<b>Cash flow from (used in) investing activities</b>	<b>(3,979)</b>	<b>(104)</b>
<b>Financing activities</b>		
Increase in line of credit	1,000	-
Repayment of capital lease obligations	(222)	(254)
Repayment of mortgage payable and capital lease obligations, discontinued operations	-	(229)
Proceeds from mortgages and loans payable, net of deferred financing fees	10,221	1,069
Repayment of mortgages and loans payable	(12,578)	(3,413)
Repayment of promissory notes	(221)	-
Distributions paid to unitholders	-	(4,794)
<b>Cash flow from (used in) financing activities</b>	<b>(1,800)</b>	<b>(7,621)</b>
<b>Net change in cash and cash equivalents during the periods</b>	<b>(3,439)</b>	<b>(4,510)</b>
<b>Cash and cash equivalents, continuing operations – beginning of periods</b>	<b>3,756</b>	<b>4,860</b>
<b>Cash and cash equivalents, discontinued operations – beginning of periods</b>	<b>30</b>	<b>129</b>
	<b>3,786</b>	<b>4,989</b>
<b>Cash and cash equivalents, continuing operations – end of periods</b>	<b>347</b>	<b>151</b>
<b>Cash and cash equivalents, discontinued operations – end of periods</b>	<b>-</b>	<b>328</b>
	<b>347</b>	<b>479</b>

## OPERATING ACTIVITIES

Operations provided \$2.3 million in cash for the nine months ended September 30, 2010. The cash flow before changes in working capital items provided \$0.8 million in cash. Changes in working capital items provided an additional \$1.5 million in cash as prepaid expenses and deposits decreased \$2.0 million, accounts payable and accrued liabilities increased \$0.4 million and the accrued interest on the convertible debentures increased \$0.4 million (all sources of cash). These sources of cash were offset by the increase in accounts receivable of \$1.3 million (use of cash).

Cash flow from operations was \$3.2 million for the nine months ended September 30, 2009

## INVESTING ACTIVITIES

Investing activities utilized \$4.0 million during the nine months September 30, 2010. Additions to property and equipment of \$3.0 million were made at Holiday Inn Express hotels in Myrtle Beach, Halifax and Kamloops and at a number of other hotels. In addition, the REIT's capital reserves for replacement increased \$1.2 million, including a \$1.0 million reserve arranged in conjunction with the refinancing of the Radisson hotel in Halifax. Holloway received proceeds of \$0.3 million from the sale of its minority equity ownership investments in two hotels.

## FINANCING ACTIVITIES

Financing activities utilized \$1.8 million during the nine months ended September 30, 2010. The REIT made principal repayments on its mortgage debt and loans payable of \$12.6 million, which included \$8.9 million for the mortgages on the Holiday Inn Express and Radisson hotels in Halifax which were re-financed during the first quarter. The REIT received \$10.2 million, net of financing fees, from new mortgages placed on these two properties. Holloway drew \$1.0 million on one of its available lines of credit during the third quarter.

reflecting the cash generated by the hotels and the corporate operations of the REIT. The cash flow before changes in working capital items provided \$3.0 million in cash. Changes in working capital items utilized \$0.7 million as accounts receivable increased \$0.3 million, prepaid expenses and deposits increased \$0.1 million and accounts payable and accrued liabilities decreased \$0.8 million (all uses of cash) while the accrued interest on the convertible debentures increased \$0.4 million (source of cash). The cash flow from discontinued operations provided \$1.0 million in cash representing the operations of the Wingate hotel in Calgary which was sold in 2009.

Investing activities utilized \$0.1 million during the nine months ended September 30, 2009. The REIT received \$3.0 million in February, 2009 as a result of the repayment of one of its mezzanine loans. These proceeds were offset by a \$1.0 million increase in Holloway's capital reserves for replacement and \$0.9 million in additional advances to The Yorkland Hotel in Toronto, ON and the Super 8 in Windsor, NS where the REIT had provided mezzanine loans. The REIT also provided \$0.3 million to six of the hotels in which it has minority ownership interests. Additions to property and equipment and other assets of \$1.1 million were made at a number of the hotels.

Pursuant to the sale of its minority interest in two hotels, the REIT repaid \$0.2 million on the promissory notes.

Financing activities utilized \$7.6 million during the nine months ended September 30, 2009. The REIT obtained an additional \$1.1 million, net of financing fees, in mortgage financing on the Radisson Hotel and Suites in Fort McMurray, AB. The REIT made principal repayments on its mortgage debt and loans payable of \$3.4 million and paid distributions to unitholders of \$4.8 million.

# Balance Sheet

The following table outlines the significant changes in the consolidated balance sheet from December 31, 2009 to September 30, 2010.

(in \$000's)	As at September 30, 2010	As at December 31, 2009	Increase (Decrease)	Explanation
<b>Assets</b>				
Cash and cash equivalents	347	3,756	(3,409)	See the "Cash flow for the Nine Months Ended September 30, 2010 and 2009" in the previous section.
Capital reserve	1,106	912	194	The increase in the internally-controlled capital reserves relates to the Holiday Inn Express and Radisson Suite hotels in Halifax where capital reserves once held by the former lender are now internally controlled.
Accounts receivable	3,727	2,438	1,289	The increase is primarily due to an increase in the balances on charge accounts for hotel customers and the number of guests in-house at the hotels at September 30.
Prepaid expenses and deposits	2,493	4,479	(1,986)	The decrease is primarily due to a refund of the \$1.9 million that was on deposit at December 31, 2009 for the potential acquisition for The Yorkland Hotel, which was terminated and the deposit refunded.
Capital reserve - restricted	5,696	4,691	1,005	The increase is related to the capital reserve contributions being held by the mortgage lenders including an additional \$1.0 million arranged in conjunction with the Radisson Suite Hotel Halifax refinancing.
Property and equipment	322,987	326,465	(3,478)	The decrease is the net of additions of \$6.1 million (including the Super 8 in Windsor, NS of \$3.1 million) and the depreciation for the first nine months of 2010 of \$9.7 million.
Future income taxes	7,082	4,566	2,516	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.
<b>Liabilities and Unitholders' Equity</b>				
Line of credit	1,000	-	1,000	Holloway drew \$1.0 million on one of its available lines of credit.
Accounts payable and accrued liabilities	8,419	7,856	563	The increase is primarily a result of increases in accounts payable due to the seasonality of operations, along with capital improvements made at several of the hotels.
Current portion of mortgages and loans payable	7,378	4,953	2,425	The balance has increased as the \$2.2 million mortgage on the Super 8 in Truro, NS is included in the current portion as it matures within the next twelve months.
Current portion of debentures payable	18,756	-	18,756	The increase represents the reclassification to current of the 8% debentures which mature August 1, 2011.
Convertible debentures	49,246	65,935	(16,689)	The decrease is due to the reclassification to current liabilities of the debentures that mature in 2011 and the accretion on the convertible debentures which increases the liability so that they will reflect their face value at the maturity date.
Unitholders' equity	116,575	125,712	(9,137)	The decrease represents the loss for the nine months ended September 30, 2010.

# Quarterly Results

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

(in \$000's except per unit results)	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
<b>Total revenues</b>	21,211	17,314	16,621	16,018	19,977	18,007	18,722	21,195
<b>Hotel revenues</b>	21,173	17,291	16,581	15,939	19,800	17,782	18,464	20,489
<b>Hotel expenses</b>	14,486	13,028	12,587	12,508	13,588	12,897	13,680	14,707
<b>Hotel operating income</b>	6,687	4,263	3,994	3,431	6,212	4,885	4,784	5,782
<b>Other (income) expenses</b>	8,556	9,044	9,013	15,637	7,842	12,434	8,387	11,422
<b>Future income tax expense (recovery)</b>	-	(1,176)	(1,340)	(413)	(412)	(1,131)	(1,100)	(711)
<b>Net income (loss) for the period from continuing operations</b>	(1,869)	(3,605)	(3,679)	(11,793)	(1,218)	(6,418)	(2,503)	(4,929)
<b>Income from discontinued operations</b>	-	-	-	1,361	79	132	23	25
<b>Net income (loss) for the period</b>	(1,869)	(3,605)	(3,679)	(10,432)	(1,139)	(6,286)	(2,480)	(4,904)
<b>Per Unit Results:</b>								
<b>Basic and diluted loss per unit</b>	(0.05)	(0.09)	(0.09)	(0.27)	(0.03)	(0.16)	(0.06)	(0.13)
<b>Basic and diluted FFO per unit</b>	0.04	(0.04)	(0.05)	(0.04)	0.04	0.02	(0.01)	0.02
<b>Basic and diluted distributable income per unit</b>	0.04	(0.02)	(0.04)	(0.04)	0.04	0.01	0.00	0.04
<b>Occupancy</b>	69.94%	56.60%	53.81%	49.32%	61.95%	54.82%	55.72%	58.55%
<b>ADR</b>	\$122.53	\$122.01	\$125.75	\$125.83	\$131.87	\$132.49	\$135.98	\$137.81
<b>RevPAR</b>	\$85.70	\$69.06	\$67.67	\$62.06	\$81.69	\$72.63	\$75.77	\$80.69

## 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 leases (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). The REIT's Declaration of Trust states that Holloway's debt to GBV should not exceed 60%.

<b>Capital Management</b> (in \$'000's except ratios)	<b>As at September 30, 2010</b>	<b>As at December 31, 2009</b>
<b>Capital structure</b>		
Line of credit	1,000	-
Obligations under capital leases	286	507
Mortgages and loans payable	154,045	153,483
Convertible debentures	68,002	65,935
Promissory notes	3,211	3,405
<b>Total debt</b>	<b>226,544</b>	<b>223,330</b>
Unitholders' equity	116,575	125,712
<b>Total capital</b>	<b>343,119</b>	<b>349,042</b>
<b>Ratios</b>		
Total debt	226,544	223,330
Adjustment of convertible debentures to face value	4,080	6,147
Adjustment of promissory notes to face value	119	146
<b>Debt</b>	<b>230,743</b>	<b>229,623</b>
Gross book value	397,152	393,025
<b>Debt to GBV ratio</b>	<b>58.1%</b>	<b>58.4%</b>

	<b>Twelve months trailing from September 30, 2010</b>	<b>Twelve months trailing from December 31, 2009</b>
Earnings base	15,563	18,909
Debt service	20,946	21,520
<b>Debt service coverage ratio</b>	<b>0.74</b>	<b>0.88</b>

The total debt (including obligations under capital leases, mortgages and loans payable and promissory notes) to gross book value ("GBV") was 39.9% at September 30, 2010 (December 31, 2009 – 40.1%) and the total debt plus the face value of convertible debentures and promissory notes to GBV was 58.1% at September 30, 2010 (December 31, 2009 – 58.4%).

## **MORTGAGES PAYABLE**

As at September 30, 2010, the REIT had total mortgage debt outstanding of \$154.0 million, excluding deferred financing fees of \$1.0 million which have been netted against mortgages payable in the financial statements compared to \$153.4 million outstanding at December 31, 2009. The interest rates on the mortgages range from 5.88% to 9.06% per annum, with a weighted average interest rate of 6.81% per annum. There

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 ratio presented above. The REIT is in compliance with or has obtained a waiver for the financial covenants that are measured on a quarterly basis.

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 June, 2011 to July, 2017. The weighted average maturity is 5.0 years. On March 1, 2010, the REIT refinanced the two mortgages that were due to mature on April 1, 2010 at an interest rate of 6.6% for a five year term.

## CONVERTIBLE DEBENTURES PAYABLE

As at September 30, 2010 and 2009, 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, 2009 – 6.9%) and the weighted average maturity is 1.5 years (December 31, 2009 – 2.2 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.

## 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 hotel properties. During the third quarter, Holloway repaid \$0.2 million on the \$3.0 million promissory note as a result of the sale of its interests in two 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.

## FINANCIAL COMMITMENTS

The following chart summarizes the REIT's future financial commitments as at September 30, 2010.

(in \$000s)	Remainder of 2010	2011	2012	2013	2014	2015	Thereafter
Mortgages payable - principal	1,257	30,505	21,778	3,309	3,537	11,953	82,696
Mortgages payable - interest	2,612	10,091	7,337	6,681	6,453	5,795	8,206
Obligations under capital leases	70	147	85	11	-	-	-
Vehicle loans - principal	4	4	-	-	-	-	-
Vehicle loans - interest	-	-	-	-	-	-	-
Convertible debentures - principal	-	20,238	51,844	-	-	-	-
Convertible debentures - interest	1,685	4,989	1,685	-	-	-	-
Land lease	123	123	123	123	123	123	5,968
Operating leases	35	62	37	19	14	4	-
Promissory notes – principal	-	-	-	3,330	-	-	-
Promissory notes – interest	42	173	338	329	-	-	-
<b>Total</b>	<b>5,828</b>	<b>66,332</b>	<b>83,227</b>	<b>13,802</b>	<b>10,127</b>	<b>17,875</b>	<b>96,870</b>

# 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. The REIT monitors and forecasts its cash balances and cash flows generated from operations to meet its requirements. At September 30, 2010, the REIT had a working capital deficit of approximately \$28 million, including \$2.2 million in mortgage maturities and \$18.8 million in debenture maturities. Cash from operations will fluctuate due to the seasonality in the hospitality industry. At September 30, 2010, the REIT had drawn \$1.0 million on its available operating lines of credit which total \$5.5 million. With the Debt to GBV ratio at 58.1% at September 30, 2010, the REIT could incur additional indebtedness of approximately \$17 million and not exceed the 60% Debt to GBV ratio. This calculation assumes the additional

indebtedness results in a corresponding increase in the assets of the REIT.

The REIT has no other debt maturing in 2010. The REIT has a \$2.2 million mortgage that matures in the first nine months of 2011. The REIT has approached the existing mortgagor on this maturing mortgage to a positive initial reaction.

The REIT also has \$20.238 million in convertible debentures that are due August 1, 2011. The Board and management established an action plan to raise funds to repay the debenture holders either by new debt financing, by the sale of certain properties, or by some combination thereof.

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 September 30, 2010	As at December 31, 2009
Units outstanding	39,135,216	39,135,216
Options outstanding (exercisable)	1,157,161	1,139,837
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
<b>Total units reflecting exercise and conversion</b>	<b>52,470,074</b>	<b>52,452,750</b>

## 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 and is effective for three years from the date of unitholder approval.

## 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 “OPERATING RESULTS” for the three and nine months ended September 30, 2010 and 2009 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 \$23,000 to \$33,500 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 the lesser of 13% and the trailing three-month yield plus 1% on Holloway's units thereafter. As the yield on Holloway's units has 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 LP 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 LP and used directly to repay the loan in full.

## Significant Accounting Policies

### 2010 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. No new accounting standards have been adopted by Holloway during 2010.

## 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 completed an 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 have been made regarding accounting policy and reporting changes under IFRS and key IFRS disclosure requirements. Work on the detailed analysis of the impacts is substantially complete and preliminary adjustments to financial statements as at January 1, 2010 are currently being reviewed. The activities, deadlines and status of the major components of Holloway's transition plan to IFRS are presented in the following table.

ACTIVITY	DEADLINE	STATUS
<p><b>Accounting Policies:</b></p> <ul style="list-style-type: none"> <li>Review accounting policy alternatives and determine selection.</li> <li>Document and implement policies.</li> </ul>	Decisions made on policy elections in Q3.	Team has reviewed alternatives and compiled documentation. Management and Audit Committee formalized accounting policy elections.
<p><b>Information Technology and Data Systems:</b></p> <ul style="list-style-type: none"> <li>The Trust will use existing accounting systems for IFRS. Additional data gathering will be required for disclosures.</li> </ul>	Additional system reports to be created in Q3.	Team has compiled documentation and commenced testing of system changes. Final testing of system changes continues through Q4; Audit Committee has been advised of requirements and ongoing results of testing.
<p><b>Internal Control Over Financial Reporting:</b></p> <ul style="list-style-type: none"> <li>The Trust will modify its internal controls as required as a result of the policy changes selected. Additional controls may need to be implemented as a result of policy selections.</li> </ul>	Updated controls to be in place by Q4.	Team to review existing controls and update/ implement additional controls as a result of policy selections. Summary for review by management and Audit Committee to continue through Q4.
<p><b>Disclosure Controls and Procedures:</b></p> <ul style="list-style-type: none"> <li>The Trust will modify its disclosure controls as required as a result of the policy changes selected. Additional controls may need to be implemented as a result of policy selections.</li> </ul>	Updated controls to be in place by Q4.	Team to review existing controls and update/ implement additional controls as a result of policy selections. Summary for review by management and Audit Committee to continue through Q4.
<p><b>Financial Reporting Expertise:</b></p> <ul style="list-style-type: none"> <li>IFRS expertise includes existing internal resources, additional resources hired and the use of an external audit firm.</li> </ul>	Development ongoing. Team fully in place Q2.	Existing staff have been tasked with IFRS functions (i.e., review and documentation) over the last year. Full time resources added in Q2 to lead implementation and complete detailed scoping and analysis. Key supporting staff have attended training courses on IFRS and are engaged in transitional testing and review of financial statement impacts. All senior management and Audit Committee members have reviewed requirements and policy changes for implementation under IFRS.
<p><b>Business Activities:</b></p> <ul style="list-style-type: none"> <li>Financial Covenants</li> <li>Declaration of Trust Implications.</li> </ul>	Lenders to be advised of differences by Q4.  Summary report created by Q3.	Discussion and review with lenders continues through Q4.  Declaration of Trust implications have been reviewed by management and the Audit Committee with concurrence by our external auditors.
<p><b>Taxation and Reporting</b></p> <ul style="list-style-type: none"> <li>Review impacts on presentation and measurement of income taxes and document potential changes to future disclosure.</li> </ul>	Additional requirements to be determined during Q4.	Detailed analysis of potential impacts on income tax reporting and measurement to be conducted by internal staff during Q4 with results to be presented to Audit Committee thereafter.

The REIT has identified the significant differences between IFRS and Canadian GAAP in relation to the REIT's primary financial statement items. The key differences are described below.

### ***Property, Plant and Equipment***

The REIT's property and equipment are accounted for under IAS-16 Property, Plant and Equipment. Under IFRS, the REIT may choose the cost model or the revaluation model. Under the cost model, each component of property, plant and equipment is carried at cost less accumulated depreciation and any impairment. Under the

revaluation model, the hotel properties will be revalued periodically. Gains are recorded as a separate component of unitholders equity. Losses are netted against any previously recorded gains. If the loss exceeds the previously recognized gains, the excess is recorded in income.

### ***IFRS 1 – First-time adoption of IFRS***

In general, the conversion to IFRS requires an entity to present its financial statements as if it had always reported under IFRS. IFRS 1 provides guidance on the initial adoption of IFRS and provides certain exceptions and exemptions

which an entity may elect. Under IFRS 1, an entity may record individual items of its property, plant and equipment at fair value on transition to IFRS. The fair value will be the new cost or deemed cost.

### ***Impairment***

Under IFRS, an entity is required to recognize an impairment loss if the recoverable amount is less than the carrying amount (net book value). The recoverable amount is defined as the higher of: a) the estimated fair value less costs to sell; or b) value in use. Value in use is defined as the present value of the estimated future cash flows from the use of the asset and from its disposal at the end of the useful life. When the recoverable

amount is higher than the carrying amount, previously recognized impairment losses are reversed. Impairment losses cannot be reversed under GAAP.

Under GAAP, the undiscounted cash flows from the use of the asset and its eventual disposition are used to measure impairment. As discounted cash flows are used under IFRS, entities may have more impairments.

### ***Business Combinations***

The CICA has issued a new accounting standard, Section 1582 Business Combinations which will be effective for the REIT's 2011 fiscal year, the year of transition to IFRS. The objective of the new standard is to harmonize GAAP with IFRS. The definition of a business is expanded.

Under IFRS costs related to an acquisition must be expensed whereas under GAAP, these costs were capitalized as part of the asset. IFRS 1 allows entities to elect to implement the Business Combinations standard either: a) prospectively from the date of transition to IFRS; or b) retrospectively from a previous date onwards.

### ***Trust Units***

Under GAAP, the REIT'S units are presented as equity. IAS 32 – Financial Instruments defines a financial instrument as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Under IFRS, REIT units would likely be considered a liability as the Declaration of Trust requires the REIT to distribute its taxable income to unitholders. The REIT changed its Declaration of

Trust at its Annual Meeting held on May 12, 2009 to eliminate the mandatory distribution. Thus, the REIT'S units are expected to be presented as equity under IFRS.

The REIT has made preliminary conclusions on the selection of accounting policies and the exceptions and exemptions available under IFRS 1.

# Critical Accounting Estimates

Note 3 to the audited consolidated financial statements for the year ended December 31, 2009 provide 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 HOTEL PROPERTIES

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. A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. Impairment losses are recognized when the net book value of the long-lived asset exceeds the sum of the undiscounted cash flows expected to result from their use and

eventual disposition. 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 and the residual or terminal value for the property. In addition to these estimates, management assessed 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.

No impairments on hotel properties were recorded in the REIT's financial statements for the year ended December 31, 2009.

## 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.

During the year ended December 31, 2009, the REIT wrote down the carrying values of its mezzanine loans and advances to zero.

## 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%. The

investments are accounted for using the cost method. During the year ended December 31, 2009, the REIT has recorded a provision for impairment of \$0.5 million against its investment in the Super 8 in Langley, BC, which represents the total cost of this investment.

## 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 which are amortized up to 40 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.

## 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. The REIT uses the asset and liability method for accounting for income taxes. Under this method, future 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). Future 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 future 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 future 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.

There have been no changes in the REIT's internal controls over financial reporting that occurred during

the most recent interim period ended September 30, 2010 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 has exceeded the "normal growth" rates as defined in the guidelines issued by the Department of Finance, the REIT became subject to the tax commencing in 2007. Accordingly, the REIT has recorded future income tax based on temporary differences that are expected to reverse in the future at the substantively enacted tax rates, which will be in effect at the time the temporary differences are expected to reverse. Distributions from the REIT will be subject to the tax unless they qualify as returns of capital. The REIT's 2009 distributions were 100% return of capital.

## 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, 2009 and under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 26, 2010 which is available at [www.sedar.com](http://www.sedar.com).

# Outlook

According to the Bank of Canada, the global economic recovery is entering a new phase. In advanced economies, temporary factors supporting growth in 2010, such as the inventory cycle and pent-up demand, have largely run their course and fiscal stimulus will shift to fiscal consolidation over the projection horizon.

The Bank concludes that the economic outlook for Canada has changed. The Bank expects the economic recovery to be more gradual than it had projected in July, with growth of 3.0 per cent in 2010, 2.3 per cent in 2011, and 2.6 per cent in 2012. This more modest growth profile reflects a more gradual global recovery and a more subdued profile for household spending.

According to statistics compiled by the Canadian Association of Oilwell Drilling Contractors, the average number of active oil rigs in the third quarter of 2010 increased by 80% compared to the prior year. This continues the growth trend in rig utilization statistics reported in the first two quarters of this year.

Hotel consulting group PKF forecasts that on a national basis, revenue per available room will increase by 4.1% in 2010, after experiencing a decline of 12.3% in 2009. For 2011 PKF is projecting revpar growth of 3.9%.

The growth projections for the broader economy outlined above, the increase in oil and gas exploration activity and the positive hotel sector data point to sustained growth and are encouraging indicators for the REIT and the markets in which it operates.

## 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 26, 2010 which is available at [www.sedar.com](http://www.sedar.com). The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.