

**MANAGEMENT'S
DISCUSSION AND
ANALYSIS
FOR THE
THREE MONTHS ENDED
MARCH 31, 2009**

Dated as at May 7, 2009



Holloway
LODGING

Real Estate Investment Trust

INTRODUCTION

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Real Estate Investment Trust ("Holloway" or the "REIT") for the three months ended March 31, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements of the REIT and the notes thereto as at and for the three months ended March 31, 2009, the audited consolidated financial statements and the notes thereto for the year ended December 31, 2008 and the MD&A thereon.

The financial statements of Holloway are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A includes forward-looking information. Forward-looking information is subject to certain risks and uncertainties, which could result in actual results differing materially from the forward-looking information. See "FORWARD-LOOKING INFORMATION".

Additional information about the REIT filed with the applicable Canadian securities regulatory authorities, including the unaudited financial statements of the REIT and the notes thereto, are available at www.sedar.com. The REIT's units and convertible debentures are traded on the TSX under the symbols HLR.UN, HLR.DB and HLR.DB.A, respectively.

INDUSTRY OVERVIEW

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

Even though Canada has conservative lending practices, due to the global recession and the severe decrease in the stock market and available credit, the hospitality industry is being impacted. Revenues are down, as a result of declining occupancy and in some cases, room rates as well, as companies attempt to take market share from their competitors. Companies are cutting expenses and travel and accommodations are one of the areas being cut. In addition, consumers are spending less as they are focused on keeping their jobs and conserving cash. As a result, 2009 will be an extremely tough year in the hospitality industry.

Due to the REIT's concentration of hotels in markets where the oil and gas industry is a primary business driver, the activity level in the oil and gas sector has a significant impact upon the performance of the REIT's hotels in Western Canada. According to statistics compiled by the Canadian Association of Oilwell Drilling Contractors, the average monthly active drilling rig count for western Canada declined by 35% for the first quarter of 2009 with continued year over year decreases anticipated for the remainder of 2009.

OVERVIEW OF HOLLOWAY LODGING REIT, ITS STRATEGIES AND OBJECTIVES

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

Holloway's Operating Strategy and Objectives

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

The REIT's objectives are to:

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

PORTFOLIO OF HOTELS

Holloway's portfolio consists primarily of limited service hotels with a small number of full service hotels. The table below provides details on the twenty-two hotels wholly owned by Holloway as at March 31, 2009. Approximately 63% of Holloway's rooms and suites are located in Alberta.

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

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

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

RESULTS OF OPERATIONS

The following table provides a summary of the operating results for the three months ended March 31, 2009 and 2008.

(in \$000's except number of units and per unit results)	Three months ended March 31, 2009	Three months ended March 31, 2008
Hotel revenues	19,328	22,708
Hotel expenses	14,229	15,204
Hotel operating income	5,099	7,504
Other (income) expenses	8,639	8,246
Provision for (recovery of) future income taxes	(1,060)	39
Net income (loss) for the period – basic and diluted	(2,480)	(781)
Weighted average basic units outstanding	39,135,216	39,152,750
Weighted average diluted units outstanding	39,135,216	39,152,750
Basic income (loss) per unit	(0.06)	(0.02)
Diluted income (loss) per unit	(0.06)	(0.02)
<u>Reconciliation to funds from operations (FFO)</u>		
Add/(deduct):		
Depreciation and amortization on real property	3,304	3,198
Provision for (recovery of) future income taxes	(1,060)	39
Funds from operations – basic and diluted	(236)	2,456
Basic FFO per unit	(0.01)	0.06
Diluted FFO per unit	(0.01)	0.06
<u>Reconciliation to distributable income</u>		
Add/(deduct):		
Depreciation and amortization – trust and other assets	86	63
Accretion of mortgages, convertible debentures and deferred financing fees	598	521
Unit-based compensation	18	224
Unrealized foreign exchange loss	193	142
FF&E reserve	(580)	(681)
Distributable income – basic and diluted	79	2,725
Basic distributable income per unit	0.00	0.07
Diluted distributable income per unit	0.00	0.07
Distributions declared	0.0525	0.135
<u>Reconciliation of cash flow from operating activities to distributable income</u>		
Cash flow from operating activities	(233)	1,485
Changes in non-cash working capital balances	892	1,921
FF&E reserve	(580)	(681)
Distributable income	79	2,725

OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2009 and 2008

The results of operations for the three months ended March 31, 2009 and 2008 include the operation of twenty-two hotels for the full quarter.

Hotel Revenues

(in \$000's)	Three months ended March 31, 2009	Three months ended March 31, 2008	Variance
Room revenue	16,583	19,576	(2,993)
Other revenue	2,745	3,132	(387)

Room Revenue - Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the twenty-two wholly-owned hotels for the three months ended March 31, 2009 and 2008.

Region	3 Months Ended March 31, 2009			3 Months Ended March 31, 2008			RevPAR Change
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	
Atlantic Canada (\$Cdn)	55.96%	\$114.21	\$63.92	60.97%	\$114.70	\$69.93	-8.6%
Western Canada (\$Cdn)	56.77%	\$142.20	\$80.72	65.57%	\$147.44	\$96.68	-16.5%
United States (\$US)	45.03%	\$71.88	\$32.37	49.52%	\$82.30	\$40.75	-20.6%

The Atlantic Canada RevPAR has decreased by 8.6% for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 due to reduced occupancy at each of the four properties in the Atlantic region. Demand decreased in each of the competitive sets in the region due to the general economic environment. Despite this, the Holiday Inn Express and Suites in Moncton and the Super 8 Motel in Truro achieved increases in their market share compared to the prior year.

Western Canada RevPAR decreased by 16.5%. Within the Western region, the combination of sharply lower demand in many markets coupled with downward pressure on rates resulted in a substantial decline in RevPAR for the quarter. The largest occupancy declines in Alberta were in Fort McMurray, Drayton Valley, Slave Lake, High Level and Whitecourt, due to substantial reduction in oil and gas activity and decreased demand from oil crews and associated service companies. In Fort McMurray, the postponement and scaling back of various oil sands activities has had a substantial impact on business levels. In Grande Prairie, the average rate decline has been the predominant contributor causing the decline in RevPAR as lower demand from oil and gas crews translates into downward rate pressure as those companies which are active in the market are constraining expenses and requiring rate concessions in order for the hotel to secure the business. Changes to the business mix such that the weekend leisure segment has increased versus the corporate segment also results in additional compression on rates, due to the rate sensitivity of the leisure segment in this operating environment. Exacerbating the situation is the fact that markets such as Grande Prairie, Drayton Valley and Slave Lake, have all had significant increases in room supply within the last year.

Occupancy in Yellowknife, NT, was down due to the reduction in business from the mining sector. In the British Columbia markets of Fort St. John and Fort Nelson, both occupancy and rate declines were experienced due to the reduction in business from the oil and gas as well as the forestry sectors.

With regard to the market share, the Super 8 Motel in Drayton Valley experienced an increase as did the Super 8 Motel in Grande Prairie and the Wingate by Wyndham in Calgary. Market share at the Super 8 Motel in Fort St. John and Super 8 Motel in Slave Lake each exceed 150% of fair share.

The decline in RevPAR for the Holiday Inn Express in Myrtle Beach, our U.S. property, is primarily due to the drop in average rate due to lower leisure business levels and less group activity on account of the general economic conditions.

Other Revenue

The lower food and beverage revenue is due to a decline in business levels at the Holiday Inn in Grande Prairie and the 5 Calgary Downtown Suites and Spa Hotel in Calgary. Also, the prior year comparative period included \$0.1 million in food and beverage revenue from a restaurant operation which was leased out in February 2008.

Hotel Expenses

(in \$000's)	Three months ended March 31, 2009	Three months ended March 31, 2008	Variance
Operating expenses	12,449	13,500	(1,051)
Property taxes and insurance	1,286	1,114	172
Management fees	494	590	(96)

Operating Expenses

Operating expenses include wages, supplies, and overhead expenses such as repairs and maintenance, sales and marketing, and administrative expenses related to the operations of the hotel. The expenses have decreased \$1.0 million when comparing the three months ended March 31, 2009 to the same period in 2008. With the decline in revenues, the hotels are working on managing and controlling expenses. The key expenses showing declines include rooms' department wages and various departmental expenses which are a function of occupancy, food and beverage cost of goods sold due to lower revenues, as well as maintenance and utilities due to the lower occupancy. Administration expenses were down due to the comparative period having a one-time expense related to the closure and lease out of a food and beverage operation and lower expenses for wages and travel under the current management contract for 10 hotels in Alberta and British Columbia as compared to the previous management contract which was terminated January 31, 2008.

Property Taxes and Insurance

Property taxes and insurance expenses have increased \$0.2 million from \$1.1 million to \$1.3 million for the three months ended March 31, 2009 and 2008, respectively. Property taxes have increased in northern Alberta, British Columbia, and Myrtle Beach. Insurance expenses have remained consistent for the first quarter in the 2009 compared to the first quarter of 2008.

Management Fees

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

Hotel Operating Income

The following table provides the REIT's hotel margins for its portfolio for the three months ended March 31, 2009 and 2008.

(in 000's) 2009	Three months ended March 31, 2009	Three months ended March 31, 2008	Variance
Hotel revenues	\$ 19,328	\$ 22,708	(\$ 3,380)
Hotel operating expenses	12,449	13,500	(1,051)
Hotel gross margin	\$ 6,879	\$ 9,208	(\$ 2,329)
Percentage	35.6%	40.5%	(4.9%)
Hotel overhead expenses ⁽¹⁾	1,780	1,704	76
Hotel operating income	\$ 5,099	\$ 7,504	(\$ 2,405)
Hotel operating income margin	26.4%	33.0%	(6.6%)
Number of rooms available	218,070	218,673	(603)
Hotel operating income per available room	\$ 23.38	\$ 34.32	(\$ 10.94)

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

Hotel operating income per available room decreased by \$10.94 to \$23.38 from \$34.32 for the three months ended March 31, 2009 and 2008, respectively. The hotel operating income margin decreased to 26.4% from 33.0%. The decrease is primarily attributable to the substantial revenue decline. While cost savings have been achieved across all departments as outlined in the "Hotel Expenses" section above, the magnitude of these savings did not proportionally offset the revenue declines. Cost reductions initiatives are ongoing and encompass all aspects of the operations. Higher property taxes in northern Alberta, British Columbia, and Myrtle Beach offset savings which were achieved in management fees.

Other (Income) Expenses

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

Interest on mortgages and other debt and accretion of deferred financing fees has increased marginally when comparing the three months ended March 31, 2009 to the three months ended March 31, 2008. This is due to a decrease in mortgage interest expense as principal balances are paid down, offset by an increase in interest expense incurred due to the promissory notes issued in December, 2008.

Convertible Debentures Interest and Accretion

The total debenture interest expense and the non-cash accretion of the discount on the debentures and deferred financing fees is consistent at \$1.8 million for the first quarters in 2009 and 2008 as the principal amount of \$72.1 million has not changed. The variance for the three months ended March 31, 2009 compared to March 31, 2008 relates primarily to a \$0.1 million increase in the non-cash accretion on the convertible debentures.

Corporate and Administrative

Corporate and administrative expenses were \$0.6 million for the three months ended March 31, 2009 and \$0.9 million for the three months ended March 31, 2008. This decrease is due primarily to a \$ 0.2 million decrease in unit-based compensation. In addition, there were two additional corporate employees during the first quarter of 2008 whose positions were eliminated in 2008 resulting in quarterly savings of \$60,000.

Interest Income

During the three months ended March 31, 2009 and 2008, the REIT generated interest income of \$0.3 million and \$0.7 million respectively from loans receivable and the investment of cash balances. The REIT is recording an allowance against the interest income from the mezzanine loans as the mezzanine loans on the Yorkland Hotel are in default and collectability is uncertain.

Unrealized Foreign Exchange Loss

The unrealized foreign exchange 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 by \$0.1 million to \$3.4 million from \$3.3 million for the three months ended March 31, 2009 and 2008, respectively. The REIT owns the same number of hotels and the increase in depreciation represents depreciation on capital additions made to the properties during the prior year.

Funds from Operations ("FFO")

FFO for the three months ended March 31, 2009 was (\$0.2) million [(\$0.01) basic and diluted FFO per unit] compared to \$2.5 million (\$0.06 basic and diluted FFO per unit) for the same period in 2008, primarily due to the declines in hotel revenues.

Distributable Income

The REIT generated \$0.1 million in distributable income (\$0.00 basic and diluted per unit) for the three months ended March 31, 2009 compared to \$2.7 million (\$0.07 basic and diluted per unit) for the same period in 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions. Distributions of \$0.0175 per unit per month were declared for January to March, 2009. Distributions declared totalled \$2.1 million for the three months ended March 31, 2009. The REIT's first quarter distributions exceeded the distributable income. Excess, un-deployed cash was used to fund the distribution shortfall.

The following table shows the reconciliation between standardized distributable cash and distributable income for the three months ended March 31, 2009 and March 31, 2008, respectively.

	2009	2008
Net Cash (Used In) Provided by Operating Activities	(233)	1,485
Capital expenditures including acquisitions and other assets	(559)	(459)
Standardized Distributable Cash	(792)	1,026
Reconciliation to Distributable Income:		
Standardized Distributable Cash	(792)	1,026
Capital expenditures in excess of (less than) FF&E reserve	(21)	(222)
Changes in non-cash working capital balances	892	1,921
Distributable Income	79	2,725

CASH FLOW FOR THE THREE MONTHS ENDED MARCH 31, 2009 and 2008

During the three months ended March 31, 2009 the REIT's cash and cash equivalents decreased by approximately \$0.7 million from \$5.0 million to \$4.3 million, of which \$2.0 million relates to the distributions to unitholders exceeding distributable income. On February 5th, 2009, the mezzanine loan receivable from RegWin Hotel Ltd of \$3.0 million was repaid in full. For the comparative period in 2008, cash and cash equivalents decreased by \$12.0 million from \$22.9 million to \$10.9 million primarily due to the \$6.4 million related party loan as described in the "RELATED PARTY AGREEMENTS" section as well as distributions to unitholders exceeding distributable income by \$2.5 million for that period.

Operating Activities

Cash flow from operations was approximately (\$0.2) million for the three months ended March 31, 2009 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the three months ended March 31, 2008 cash flow from operations was \$1.5 million. Changes in non-cash working capital balances utilized approximately \$0.9 million during the three months ended March 31, 2009. The increase in accounts

receivable of \$0.3 million, an increase of \$0.4 million in prepaid expenses and deposits and a decrease in accounts payable, accrued liabilities and accrued interest on convertible debentures of approximately \$0.2 million at March 31, 2009 were the primary reasons for the change in the working capital balances. For the comparative period in 2008, the change in working capital balances utilized \$1.9 million of cash due primarily to an increase in accounts receivable and a decrease in accounts payable.

Investing Activities

Investing activities provided approximately \$1.7 million during the three months ended March 31, 2009 primarily due to the repayment of a \$3.0 million mezzanine loan. For the three months ended March 31, 2008, investing activities utilized \$6.8 million primarily due to the \$6.4 million loan to Pacrim Hospitality Services Inc. ("PHSI") as described in the "RELATED PARTY AGREEMENTS" section.

During the three months ended March 31, 2009 and 2008, the REIT's capital reserves for replacement and improvements increased by \$0.3 million and \$0.6 million, respectively.

The REIT provided additional advances of \$0.4 million to the Yorkland Hotel in Toronto and the Super 8 Motel in Windsor, NS where the REIT has provided mezzanine loans. The REIT also provided \$0.3 million to three of the hotels in which Holloway has minority ownership interests.

There were additions of \$0.3 million to property and equipment during the three months ended March 31, 2009. These additions were made at a number of the hotels. During the three months ended March 31, 2008 additions of \$0.5 million were made at the Radisson Hotel and Suites in Fort McMurray and the Radisson Suite Hotel in Halifax.

Financing Activities

Financing activities utilized \$2.2 million during the three months ended March 31, 2009 compared to utilizing \$6.6 million during the three months ended March 31, 2008. The REIT obtained an additional \$1.2 million in mortgage financing on the Radisson Hotel and Suites in Fort McMurray during the three months ended March 31, 2009.

The REIT made principal repayments on its mortgage debt and loans payable of \$1.2 million for the three months ended March 31, 2009 compared to \$1.0 million in the first quarter 2008.

The REIT paid distributions to unitholders of approximately \$2.1 million for the three months ended March 31, 2009 compared to \$5.3 million for the three months ended March 31, 2008, as the monthly distribution was reduced from \$0.045 per month to \$0.0175 in November 2008.

BALANCE SHEET

The following table outlines the significant changes in the consolidated balance sheet between March 31, 2009 and December 31, 2008.

(in \$000's)

Balance Sheet Account	March 31, 2009	December 31, 2008	Increase (Decrease)	Explanation
Cash and cash equivalents	4,321	4,992	(671)	See the "Cash flow for the Three Months Ended March 31, 2009 and 2008" section on page 7.
Capital reserve	1,329	1,553	(224)	The decrease in the internally-controlled capital reserves relate to capital improvements made at the Wingate by Wyndham in Calgary and the Radisson Hotel and Suites in Fort McMurray.
Accounts receivable	4,205	3,887	318	The increase is primarily due to increase in outstanding credit card and other deposits due to the timing of the transactions near the quarter-end and the associated credit card processing time for deposit to the bank.
Prepaid expenses and deposits	2,641	2,239	402	The increase was due to increased deposits made to the property tax reserve accounts, which will be utilized when property taxes are due, primarily in June 2009.
Current portion of mezzanine loans receivable	-	3,000	(3,000)	The \$3.0 million mezzanine loan to RegWin Hotel Ltd. was repaid on February 5, 2009.
Capital reserve - restricted	3,483	2,975	508	The increase is primarily related to the regular capital reserve contributions being held by the mortgage companies.
Mezzanine loans and advances receivable	10,071	9,663	408	The increase is related to additional advances to the Yorkland Hotel in Toronto (\$388) and the Super 8 Motel in Windsor, Nova Scotia (\$20) to assist with operations.
Investments in hotel properties	2,962	2,688	274	The increase is related to additional funds for three of the hotels in which the REIT owns equity ownership interests.
Property and equipment	348,970	352,035	(3,065)	The decrease is primarily related to depreciation and amortization for the quarter.
Future income taxes	2,824	1,764	1,060	The future income tax asset represents temporary differences between income or losses for accounting purposes and income or losses for tax purposes which are expected to reverse in the future.
Accounts payable and accrued liabilities	8,749	9,419	(670)	The decrease is primarily related to 2008 participation rent by 5 Calgary Downtown Suites & Spa Hotel of \$2.2 million which was paid on February 28, 2009. This was offset by increases in property tax accruals and payroll accruals due to timing.
Accrued interest on convertible debentures	1,112	675	437	The increase is a result of the timing of the semi-annual interest payments on the debentures.
Convertible debentures	64,049	63,458	591	The increase is due to the accretion on the convertible debentures which increases the liability so that they will reflect their face value at the maturity date.
Unitholders' equity	145,578	150,094	(4,516)	The decrease is comprised of the distributions of \$2.0 million and the loss of \$2.5 million for the quarter.

QUARTERLY RESULTS

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

(in \$000's except per unit results)	Q1, 2009	Q4, 2008	Q3, 2008	Q2,2008	Q1, 2008	Q4, 2007	Q3, 2007	Q2, 2007
Total revenues (hotel and trust)	\$ 19,586	\$ 22,082	\$ 26,440	\$ 24,364	\$ 23,416	\$ 22,329	\$ 25,724	\$ 13,404
Hotel revenues	\$19,328	\$ 21,370	\$ 25,748	\$ 23,669	\$ 22,708	\$ 22,258	\$ 24,858	\$ 12,988
Hotel expenses	14,229	15,295	16,061	15,605	15,204	15,520	15,268	9,147
Income (loss) from hotel operations	5,099	6,075	9,687	8,064	7,504	6,738	9,590	3,841
Other (income) expenses	8,639	11,671	8,164	8,039	8,246	8,022	7,380	3,436
Future income tax expense (recovery)	(1,060)	(693)	742	203	39	(1,138)	933	(382)
Net income (loss) for the period	(\$2,480)	(\$ 4,903)	\$ 781	(\$ 178)	(\$ 781)	(\$ 146)	\$ 1,277	\$ 787
Per Unit Results:								
Basic earnings per unit	-	-	0.02	-	-	0.00	0.03	0.04
Diluted earnings per unit	-	-	0.02	-	-	0.00	0.03	0.04
Basic and diluted loss per unit	(0.06)	(0.13)	-	(0.01)	(0.02)	-	-	-
Basic FFO per unit	(0.01)	0.02	0.12	0.08	0.06	0.05	0.13	0.09
Diluted FFO per unit	(0.01)	0.02	0.12	0.08	0.06	0.05	0.13	0.09
Basic distributable income per unit	0.00	0.04	0.13	0.08	0.07	0.05	0.13	0.08
Diluted distributable income per unit	0.00	0.04	0.13	0.08	0.07	0.05	0.13	0.08
Occupancy	56.08%	58.63%	72.18%	65.69%	64.04%	60.43%	70.26%	69.28%
ADR	\$135.60	\$ 137.70	\$ 141.26	\$ 141.08	\$ 139.79	\$ 139.32	\$ 145.04	\$ 134.86
Revpar	\$76.04	\$ 80.73	\$ 101.97	\$ 92.68	\$ 89.52	\$ 84.19	\$ 101.91	\$ 93.43

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, provides a return to unitholders by delivering monthly cash distributions, 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 cash distributions, working capital requirements and capital expenditures are funded from operations, available cash on deposit and where applicable, bank borrowings. The REIT will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the REIT may issue debt and/or issue or redeem units.

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

- a Debt Service 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 mortgages, loans, promissory notes and capital lease interest and principal payments (debt service); and
- a Debt to Gross Book Value (Debt to GBV) ratio defined as mortgages and loans payable, obligations under capital leases, promissory notes and the face value of convertible debentures (Debt) divided by total assets plus accumulated depreciation and amortization (GBV). This ratio cannot exceed 60% based on the REIT's Declaration of Trust.

Capital Management (in \$000's except ratios)	As at March 31, 2009	As at December 31, 2008
Capital structure		
Obligations under capital leases	782	866
Mortgages and loans payable	164,976	164,821
Convertible debentures	64,049	63,458
Promissory notes	3,377	3,368
Total debt	233,184	232,513
Unitholders' equity	145,578	150,094
Total capital	378,762	382,607
Ratios		
Total debt	233,184	232,513
Adjustment of convertible debentures to face value	8,033	8,624
Adjustment of promissory notes to face value	174	183
Debt	241,391	241,320
Gross book value	415,694	416,447
Debt to GBV ratio	58.1%	57.9%
	Twelve months trailing from March 31, 2009	Twelve months trailing from December 31, 2008
Earnings base	29,222	32,020
Debt service	21,214	21,093
Debt service coverage ratio	1.38	1.52

The total debt (including obligations under capital leases, mortgages and loans payable and promissory notes) to gross book value ("GBV") was 40.7% at March 31, 2009 (December 31, 2008 – 40.6%) and the total debt plus the face value of convertible debentures and promissory notes to GBV was 58.1% at March 31, 2009 (December 31, 2008 – 57.9%).

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 waivers for all its financial covenants.

Mortgages Payable

As at March 31, 2009, the REIT had total mortgage debt outstanding of \$165.0 million, excluding deferred financing fees of \$1.2 million which have been netted against mortgages payable in the financial statements compared to \$164.8 million outstanding at March 31, 2008. The interest rates on the mortgages payable ranged from 5.88% to 9.06% per annum with a weighted average interest rate of 6.77% per annum. There is no mortgage debt at floating rates. A first charge on the majority of the properties is pledged as security for the mortgages. The mortgages mature on various dates from April, 2010 to July, 2017. The weighted average maturity is 6.0 years. The principal amount of mortgage debt maturing in 2010 is \$8.9 million.

Convertible Debentures Payable

As at March 31, 2009 and 2008, Holloway had two series of debentures outstanding totaling \$72.1 million. The \$20.238 million, 8.0% debentures mature on August 1, 2011 and are convertible to REIT units at \$5.40 per unit. The \$51.844 million, 6.5% debentures mature on June 30, 2012 and are convertible to REIT units at \$6.15 per unit. The weighted average interest rate is 6.9% and the weighted average maturity is 2.99 years.

Promissory Notes Payable

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

Financial Commitments

The following chart summarizes the REIT's future financial commitments as at March 31, 2009.

(in \$000s)	Remainder of 2009	2010	2011	2012	2013	2014	Thereafter
Mortgages payable – principal	3,862	13,910	36,526	18,822	2,925	3,126	86,892
Mortgages payable – interest	8,027	10,212	9,397	6,610	6,121	5,920	13,928
Obligations under capital leases	303	330	144	86	21	10	10
Vehicle loans - principal	46	34	4	-	-	-	-
Vehicle loans - interest	2	-	-	-	-	-	-
Convertible debentures - principal	-	-	20,238	51,844	-	-	-
Convertible debentures - interest	4,180	4,989	4,989	1,685	-	-	-
Land lease	92	123	123	123	123	123	6,091
Operating leases	99	57	32	22	12	12	12
Promissory notes – principal	-	-	-	-	3,551	-	-
Promissory notes – interest	135	180	184	360	351	-	-
Total	16,746	29,835	71,637	79,552	13,104	9,191	106,933

LIQUIDITY AND WORKING CAPITAL

Liquidity refers to the REIT's having or generating sufficient cash to meet the ongoing operational commitments and distributions to unitholders, as well as to maintain compliance with liquidity covenants on financing contracts and its capital management requirements and objectives. At March 31, 2009, the REIT had a working capital deficit of approximately \$2.7 million. Cash from operations will fluctuate due to the seasonality in the hospitality industry. At March 31, 2009 the REIT had an available \$0.5 million line of credit which was un-drawn. In addition, the Holiday Inn Express in Kamloops is an unencumbered property. With the Debt to GBV ratio at 58.1% at March 31, 2009, the REIT could incur additional indebtedness of approximately \$17 million and not exceed the 60% Debt to GBV ratio limit. This calculation assumes the additional indebtedness results in a corresponding increase in the assets of the REIT. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the REIT will be able to meet financial obligations as they come due.

UNIT INFORMATION

According to the REIT's Declaration of Trust, the REIT is committed to distributing, at a minimum, 100% of its taxable income to its unitholders. 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.

	March 31, 2009	March 31, 2008
Units outstanding	39,135,216	39,101,717
Options outstanding (exercisable)	1,126,504	770,622
Conversion of convertible debentures (conversion price \$5.40)	3,747,778	3,747,778
Conversion of convertible debentures (conversion price \$6.15)	8,429,919	8,429,919
Total units reflecting exercise and conversion	52,439,417	52,050,036

NON-GAAP LODGING INDUSTRY PERFORMANCE INDICATORS

The following describes the key performance measures and financial indicators commonly used by lodging REITs.

Occupancy, Average Daily Rate and Revenue Per Available Room

The key performance measures used to measure performance in the lodging industry are occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR"). These are non-GAAP measures.

Occupancy represents the number of rooms sold compared to the total number of rooms in the hotel. Average daily rate is defined as room revenue divided by the number of rooms occupied / sold. RevPAR for any given period is defined as total room revenue divided by the total number of rooms in the hotel multiplied by the number of days in the period. RevPAR is relevant as it is the most commonly used indicator of market performance for hotels and represents the combination of the ADR and the average occupancy rate achieved during a period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel.

Funds from Operations ("FFO")

Funds from operations ("FFO") is a non-GAAP financial measure commonly used in the lodging industry. The calculations presented may differ from similar calculations reported by other entities and accordingly, may not be comparable. The Real Property Association of Canada ("REALpac") defines FFO as net income excluding depreciation and amortization on real property, extraordinary items, gains or losses on the sale of assets, provisions for impairment and future income taxes. Holloway calculates FFO in accordance with this definition. FFO provides another useful measure of the REIT's performance as net income incorporates depreciation and amortization on real estate assets, which may not necessarily occur and is based on historical cost accounting. FFO should not be construed as an alternative to net income or cash flow from operating activities.

Distributable Income

Distributable income is another non-GAAP financial measure commonly used by real estate investment trusts as an indication of financial performance. The definition of distributable income is defined in the REIT's Declaration of Trust and is summarized below. Distributable income reflects the ability of the REIT to earn income and make cash distributions to unitholders. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable income may differ from similar calculations reported by other entities and accordingly, may not be comparable.

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

- add backs:
 - depreciation and amortization;
 - future income tax expense;
 - losses on dispositions of assets;
 - amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; and
 - amortization of deferred financing fees;
- deductions:
 - reserve for replacement of FF&E;
 - future income tax credits;
 - interest on convertible debentures to the extent not already deducted in computing net income;
 - gains on dispositions of assets; and
 - amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value;
- other adjustments as determined by the Trustees of the REIT in their discretion:
 - non-cash unit based compensation; and
 - unrealized gains or losses on foreign exchange.

Readers should refer to the table "RESULTS OF OPERATIONS" for the three months ended March 31, 2009 and 2008 for the reconciliation of net income to FFO and to distributable income.

CSA Distributable Cash

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

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

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

Hotel Operating Income

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

NORMAL COURSE ISSUER BID

On December 22, 2008, Holloway initiated a Normal Course Issuer Bid ("NCIB") to repurchase over the next 12 months commencing on December 24, 2008 and ending on December 23, 2009, up to 1,880,233 of its issued and outstanding trust units, such amount representing 10% of the REIT's public float as of December 18, 2008. Management and the trustees believe that the market value of the units may, from time to time, not reflect the value of the REIT and thus have implemented this NCIB in its objective of delivering value to its unitholders. During the three months ended March 31, 2009, the REIT did not purchase units under this NCIB.

Under a prior NCIB which was initiated on December 11, 2007 and expired on December 10, 2008, Holloway could repurchase a maximum of 1,000,000 of its issued and outstanding trust units. For the three months ended March 31, 2008, the REIT purchased 51,600 units under this NCIB at an average cost of \$3.63.

UNITHOLDER RIGHTS PLAN

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

RELATED PARTY AGREEMENTS

Hotel Management Agreement

On June 7, 2006, the REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. ("PHSI"), a related party, to manage certain hotels purchased by the REIT, with an initial term of ten years and an automatic renewal for successive five year terms commencing on the last day of the initial term. PHSI is entitled to a base management fee of 3% of gross hotel revenues, an incentive fee, a purchasing fee of 4% of the cost of exceptional operating supplies and furniture, fixtures and equipment, a construction fee of 3% of the cost of construction materials, labour and equipment in connection with any construction or capital expenditures and an accounting fee per hotel which currently ranges from \$20,000 to \$35,400 per year depending on the size of the hotel when accounting services are provided by PHSI. In addition, Intergy, a division of PHSI provides central reservation services and website development and maintenance for the hotels purchased by the REIT. A commission of 10% is paid on reservations made through Intergy.

On November 24, 2006, the parties entered into an amending agreement such that the initial term with respect to each hotel shall commence on the date on which the REIT acquires the hotel for a term of ten years and automatic renewals for successive five-year terms.

On June 22, 2007, the REIT entered into a management agreement with Pomeroy Hospitality Ltd. ("Pomeroy") to manage ten hotels purchased by the REIT, with a term of five years. On February 1, 2008, PHSI acquired management of ten of the REIT's hotel properties located in northern Alberta and British Columbia from Pomeroy. The REIT acquired the hotels (the "Pomeroy Hotels") from affiliates of Pomeroy in June, 2007. Under the terms of an agreement among the REIT, PHSI and Pomeroy, Pomeroy assigned its interest in the hotel management agreement between Pomeroy and the REIT to PHSI on February 1, 2008 in return for a \$6.35 million one-time payment from PHSI. At the same time, the existing hotel management agreement between the REIT and PHSI was amended to include the Pomeroy Hotels. Among other things, the amended hotel management agreement between the REIT and PHSI provides that PHSI receive a base management fee for the Pomeroy Hotels that is significantly lower than the base management fee payable under the previous hotel management agreement with Pomeroy until the REIT generates distributable income that exceeds certain targets.

In order to facilitate the assignment, the REIT loaned PHSI the funds that were paid to Pomeroy in consideration of the assignment. This loan has a ten year term, is pre-payable at any time without penalty and bears interest at 13% per annum during the first six months of the term and at the lesser of 13% and the trailing three-month yield plus 1% on Holloway's units thereafter.

Development Agreement

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

LEGAL PROCEEDINGS

On February 20, 2009, the solicitors of the REIT issued a demand letter, on behalf of the REIT, to Winport Developments Limited Partnership, Pacrim North York Limited Partnership and 2113047 Ontario Inc. for payment of approximately \$11.5 million, representing the principal, interest owed on the mezzanine loans receivable and legal fees. The mezzanine loans are in default and the borrower had until March 2, 2009 to make payment to the REIT. Payment was not received and the REIT is proceeding with steps to enforce its security.

SIGNIFICANT ACCOUNTING POLICIES

2009 Changes to Canadian GAAP

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

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

Note 2 to the unaudited interim consolidated financial statements for the three months ended March 31, 2009 explain the impact of these changes in accounting policies.

Future Changes to Canadian GAAP

[Business combinations, consolidated financial statements and non-controlling interests](#)

The CICA has issued new accounting standards, Section 3064 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. Work is currently underway to evaluate the impact this will have on the REIT's financial statements. The REIT has a preliminary assessment of the key differences between Canadian GAAP as currently applied by Holloway and IFRS. The assessment also includes a summary of the key decisions that will need to be made and a summary of the key IFRS disclosure requirements. The REIT is working on the next phase of the IFRS project that includes the development of a project plan, timelines, personnel requirements and detailed analysis of the key areas to be impacted by IFRS.

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 March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

RISKS AND UNCERTAINTIES

There are a number of risks inherent in an investment in the REIT. The underlying value of the properties and the REIT's income and ability to make distributions to unitholders will depend on the ability of the REIT to increase revenues from the properties and to generate income in excess of operating expenses. The REIT directly or indirectly owns and operates hotels. As a result, the REIT is subject to the operating risks inherent in the hotel industry. These risks include cyclical downturns arising from changes in general and local economic conditions, changes in the level of business and commercial travel and tourism, increases in the supply of accommodations in local markets, competition from other hotels, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in wages, prices, energy costs and construction and maintenance costs, availability of financing for operating or capital requirements, seasonal fluctuations in hotel operating income produced throughout the year and other factors.

Although the REIT intends, to the extent possible, to make equal monthly cash distributions to the unitholders, such cash distributions are not guaranteed and may fluctuate with its performance. The REIT depends on revenue generated from the properties to make such distributions. The amount of distributable income will depend upon numerous factors, including the profitability of the properties, fluctuations in working capital, interest rates, capital expenditures and other factors which may be beyond the control of the REIT.

In addition, there are a number of other risk factors associated with the REIT. These include risks related to real property ownership; risks related to the business of the REIT, including the hotel industry, competition, acquisition strategy, development arrangements, franchised hotels, availability of additional capital, debt financing and reliance on key personnel; and risks relating to the structure of the REIT. Additional information on these risks and uncertainties are described under "Risks and Uncertainties" in the REIT's 2008 MD&A and under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 30, 2009 which is available at www.sedar.com.

OUTLOOK

The Bank of Canada stated in its April Monetary Policy Report that in the current environment of continued high uncertainty, the global recession has intensified. As a result, the recession in Canada will be deeper than was previously anticipated, with their projection now suggesting the Canadian economy will contract by 3% in 2009. The Bank now expects the recovery to be delayed in its' start until the 4th quarter, and to be more gradual. The fourth quarter will, of course, be a comparison to the steep decline experienced in the fourth quarter of 2008. They are still projecting growth for the economy in 2010, but now suggest 2.5% growth versus their base case projection made earlier this year which had suggested that real GDP would rebound much more significantly in 2010, growing by 3.8%.

In the lodging industry, performance is heavily influenced by local economic conditions, as well as the segment orientation of properties. Some markets rely more heavily on international visitations than others, and the struggling economies around the world will have an impact on Canadian visits.

PKF Consulting Inc. published their most recent forecast on the hotel industry for 2009, in February. They indicated that national RevPAR will decline by 2.5% in 2009, but maintained their perspective that in general, Western Canada markets will be less negatively impacted than Central

Canada markets. In their January/February 2009 National Market report which reflected a national decline in RevPAR year to date through February of 7.4%, they further forecast that Net Operating Income would decline nationally by 9.4% in 2009.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the future financial position, property acquisition strategies and opportunities, business strategy, financial results and plans and objectives of the REIT. Particularly, statements regarding the REIT's future operating results, property acquisition strategies and opportunities and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or similar expressions concerning matters that are not historical facts. Forward-looking information is subject to certain facts, including risks and uncertainties, that could cause actual results to differ materially from what the REIT currently expects and there can be no assurance that such statements will prove to be accurate. Some of these risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 30, 2009 which is available at www.sedar.com. The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.