MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2008

Dated as at March 11, 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 and year ended December 31, 2008 and should be read in conjunction with the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2008.

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 audited 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.

HIGHLIGHTS OF THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2008

The following summarizes the key highlights for the three months and year ended December 31, 2008:

- during the fourth quarter, the REIT acquired beneficial ownership interest in nine hotel properties from Winport Developments Limited Partnership. The equity ownership percentages range from 2.52% to 19.06%;
- hotel revenues increased by 34% to $93.5 million from $69.8 million for the years ended December 31, 2008 and 2007, respectively;
- distributable income was $0.32 per unit for the years ended December 31, 2008 and 2007, respectively ;
- hotel operating income margin increased to 33.5% from 32.4% for the year ended December 31, 2008 and 2007, respectively;
- hotel EBITDA increased 39% to $31.3 million from $22.6 million for the year ended December 31, 2008 and 2007, respectively;
- the REIT has taken a $3.0 million non-cash provision for impairment on mezzanine loans receivable;
- in light of the current economic conditions and a desire to conserve cash, Holloway reduced distributions to $0.21 per unit annually effective with the November 2008 distributions (payable to unitholders on December 15, 2008); and
- management of all of Holloway's hotels was consolidated under a single management company, Pacrim Hospitality Services Inc. ("PHSI").

SUMMARY OF SELECTED ANNUAL INFORMATION

The following table provides key financial information for the past three years.

(in 000's except per unit results, number of rooms, ADR and RevPAR)	**2008**	**2007**	**2006**
Hotel revenues	$ 93,495	$ 69,751	$ 15,392
Total revenues (hotel and REIT interest income)	$ 96,296	$ 72,192	$ 15,569
Net income (loss) and comprehensive income (loss)	($ 5,080)	$ 1,520	($1,208)
Basic and diluted income (loss) per unit	($ 0.13)	$ 0.05	($ 0.18)
Basic and diluted FFO per unit	$ 0.29	$ 0.32	$ 0.01
Basic and diluted distributable income per unit	$ 0.32	$ 0.32	$ 0.15
Distributions declared per unit	$ 0.485	$ 0.495	$ 0.1875
Total assets	$ 393,386	$ 415,216	$ 137,802
Total indebtedness (obligations under capital leases, mortgages and loans payable, promissory notes payable and convertible debentures)	$ 232,514	$ 230,114	$ 65,137
Unitholders' equity	$ 150,094	$ 173,806	$ 65,762
Number of rooms/suites	2,423	2,423	934
Occupancy	65.14%	66.02%	73.20%
ADR	$ 140.05	$ 137.77	$ 117.68
RevPAR	$ 91.23	$ 90.96	$ 86.15

RESULTS OF OPERATIONS

The following table provides a summary of the operating results for the three months and years ended December 31, 2008 and 2007.

(in 000's except number of units and per unit results)	Three months ended December 31, 2008	Three months ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2007
Hotel revenues	$ 21,370	$ 22,258	$ 93,495	$ 69,751
Hotel expenses	15,295	15,520	62,178	47,184
Hotel operating income	6,075	6,738	31,317	22,567
Other (income) expenses	11,671	8,022	36,106	21,634
Provision for (recovery of) future income taxes	(693)	(1,138)	291	(587)
Net income (loss) for the period – basic and diluted	**($ 4,903)**	**($ 146)**	**($ 5,080)**	**$ 1,520**
Weighted average basic units outstanding	39,136,183	39,153,317	39,132,025	28,643,005
Weighted average diluted units outstanding	39,136,183	39,153,317	39,132,025	28,760,887
Basic income (loss) per unit	($ 0.13)	$ 0.00	($ 0.13)	$ 0.05
Diluted income (loss) per unit	($ 0.13)	$ 0.00	($ 0.13)	$ 0.05
Reconciliation to funds from operations (FFO)				
Add/(deduct):				
Depreciation and amortization on real property	$ 3,302	$ 3,149	$ 13,032	$ 8,348
Provision for impairment of mezzanine loans	3,000	-	3,000	-
Provision for (recovery of) future income taxes	(693)	(1,138)	291	(587)
Funds from operations – basic and diluted	**$ 706**	**$ 1,865**	**$ 11,243**	**$ 9,281**
Basic FFO per unit	$ 0.02	$ 0.05	$ 0.29	$ 0.32
Diluted FFO per unit	$ 0.02	$ 0.05	$ 0.29	$ 0.32
Reconciliation to distributable income				
Add/(deduct):				
Depreciation and amortization – trust and other assets	$ 58	$ 60	$ 241	$ 154
Accretion on mortgages and convertible debentures[1]	569	456	2,170	1,337
Unit-based compensation	9	198	471	484
Unit-based compensation accrued	-	(107)	-	(107)
Unrealized foreign exchange loss	691	187	1,020	187
FF&E reserve	(641)	(668)	(2,805)	(2,093)
Distributable income – basic and diluted	**$ 1,392**	**$ 1,991**	**$ 12,340**	**$ 9,243**
Basic distributable income per unit	$ 0.04	$ 0.05	$ 0.32	$ 0.32
Diluted distributable income per unit	$ 0.04	$ 0.05	$ 0.32	$ 0.32
Distributions declared	$ 0.08	$ 0.135	$ 0.485	$ 0.495
Reconciliation of cash flow from operating activities to distributable income				
Cash flow from operating activities	$ 2,708	$ 3,645	$ 16,332	$ 11,910
Changes in non-cash working capital balances	(675)	(986)	(1,187)	(574)
FF&E reserve	(641)	(668)	(2,805)	(2,093)
Distributable income	**$ 1,392**	**$ 1,991**	**$ 12,340**	**$ 9,243**

[1]Includes the amortization of deferred financing fees which is included in interest expense in the financial statements.

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 in nine hotels. The equity ownership percentages range from 2.52% to 19.06%. 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.

Our mission is to strategically grow to become one of North America's top-performing lodging REITs. In 2006 and 2007, the REIT acquired 8 and 14 hotels, with 934 and 1,489 guest rooms and suites, respectively. On December 22, 2008, the REIT acquired beneficial ownership interests in nine hotel properties with 694 rooms. The equity ownership percentages range from 2.52% to 19.06%. The REIT continues to explore accretive acquisition opportunities.

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 December 31, 2008. Approximately 63% of Holloway's hotel rooms and suites are located in Alberta.

Property	City	Acquisition Date	Number of Rooms
Alberta			
Super 8 Motel	Drayton Valley	August 4, 2006	60
5 Calgary Downtown Suites & Spa Hotel	Calgary	August 23, 2006	302
Wingate by Wyndham	Calgary	September 1, 2006	103
Radisson Hotel and Suites	Fort McMurray	January 31, 2007	134
Super 8 Motel	Three Hills	April 13, 2007	82
Super 8 Motel	Slave Lake	June 22, 2007	58
Super 8 Motel	Whitecourt	June 22, 2007	59
Super 8 Motel	High Level	June 22, 2007	81
Super 8 Motel	Grande Prairie	June 22, 2007	149
Holiday Inn	Grande Prairie	June 22, 2007	146
Best Western	Grande Prairie	June 22, 2007	100
Pomeroy Inn and Suites	Grande Prairie	June 22, 2007	152
Northwest Inn	Slave Lake	June 22, 2007	99
		Total Rooms/Suites	**1,525**
British Columbia			
Super 8 Motel	Fort St. John	June 22, 2007	93
Super 8 Motel	Fort Nelson	June 22, 2007	142
Holiday Inn Express	Kamloops	September 12, 2007	80
		Total Rooms/Suites	**315**
New Brunswick			
Holiday Inn Express and Suites	Moncton	August 4, 2006	151
		Total Rooms/Suites	**151**
Northwest Territories			
Super 8 Motel	Yellowknife	September 29, 2006	66
		Total Rooms/Suites	**66**
Nova Scotia			
Super 8 Motel	Truro	June 7, 2006	50
Radisson Suite Hotel	Halifax	August 4, 2006	104
Holiday Inn Express	Halifax	August 4, 2006	98
		Total Rooms/Suites	**252**
South Carolina - USA			
Holiday Inn Express	Myrtle Beach	November 2, 2007	114
		Total Rooms/Suites	**114**
		TOTAL	2,423

The table below provides details on the nine hotels in which the REIT acquired equity ownership on December 22, 2008.

Property	City	Percent Ownership	Number of Rooms
British Columbia			
Super 8 Motel	Langley	16.81%	81
		Total Rooms/Suites	**81**
New Brunswick			
Super 8 Motel	Dieppe	6.00%	85
		Total Rooms/Suites	**85**
Newfoundland and Labrador			
Super 8 Motel	St. John's	17.63%	82
		Total Rooms/Suites	**82**
Nova Scotia			
Super 8 Motel	Amherst	15.72%	50
		Total Rooms/Suites	**50**
Ontario			
Super 8 Motel	Barrie	2.52%	82
Super 8 Motel	Midland	15.11%	65
Super 8 Motel	Toronto	19.06%	92
		Total Rooms/Suites	**239**
Quebec			
Super 8 Motel	Ste-Foy	15.00%	79
Super 8 Motel	Trois-Rivieres	15.00%	78
		Total Rooms/Suites	**157**
		TOTAL	694

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 and year ended December 31, 2008 and 2007 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 EBITDA

Hotel EBITDA, a commonly used non-GAAP measure of performance in the lodging industry, is defined as income before interest, income taxes, depreciation and amortization. The REIT has also added back the expenses of the trust and unrealized foreign exchange gains or losses in the calculation of hotel EBITDA. The expenses of the trust include general and administrative, debenture and other interest, accretion of the discount on the convertible debentures and deferred financing fees, unit-based compensation, depreciation and amortization and expenditures related to abandoned property acquisitions, net of interest income from the trust operations.

THREE MONTHS ENDED DECEMBER 31, 2008 and 2007

Results of Operations

The results of operations for the three months ended December 31, 2008 include the operation of twenty-two hotels for the full quarter. For the comparative three months of 2007, the REIT owned 21 hotels for the full quarter and acquired the Holiday Inn Express in Myrtle Beach, South Carolina on November 2, 2007.

Hotel Operations

The hotel properties generated revenue of approximately $21.4 million for the three months ended December 31, 2008 compared to $22.3 million for the three months ended December 31, 2007. Hotel EBITDA has decreased to $6.1 million from $6.7 million.

There was one additional hotel in the portfolio for the full fourth quarter in 2008 compared with the prior year as the Holiday Inn Express in Myrtle Beach, SC was acquired on November 2, 2007. The food and beverage space has been leased out at the Radisson Suite Hotel in Halifax, NS as of the first quarter 2008 and the food and beverage operation at the Holiday Inn Express in Moncton, NB was closed at the end of 2007 and is being converted to meeting space. These changes have been implemented to improve the contribution from the respective facilities.

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 December 31, 2008.

	3 Months Ended December 31, 2008		
Region	Occupancy	ADR	RevPAR
Atlantic Canada	58.80%	$ 115.17	$ 67.72
Western Canada	59.90%	$ 143.94	$ 86.22
United States	36.89%	$ 95.16	$ 35.10
Totals	58.63%	$ 137.70	$ 80.73

Overall demand during the three months ended December 31, 2008 was particularly strong in Whitecourt, AB, and Fort St. John, BC. Demand was weaker in Fort Nelson, BC, the Northwest Inn in Slave Lake, AB, and in Myrtle Beach, SC.

Same Hotel Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the three months ended December 31, 2008 and 2007, for the twenty-one wholly-owned hotels which were owned for the entire fourth quarter in 2007 and 2008.

	3 Months Ended December 31, 2008			3 Months Ended December 31, 2007			RevPAR
Region	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Change
Atlantic Canada	58.80%	$ 115.17	$ 67.72	63.50%	$ 113.65	$ 72.17	(6.17%)
Western Canada	59.90%	$ 143.94	$ 86.22	60.71%	$ 146.81	$ 89.13	(3.26%)
Totals	59.70%	$ 139.00	$ 82.98	61.20%	$ 140.75	$ 86.14	(3.67%)

The Atlantic Canada RevPAR has decreased by 6.17% for the three months ended December 31, 2008 compared to the three months ended December 31, 2007 due to reduced occupancy at the Radisson Suite Hotel in Halifax and the Super 8 in Truro. Demand decreased across the competitive set in the downtown Halifax market. In Truro, new supply is still being absorbed in the market. The Holiday Inn Express in Moncton achieved healthy growth in both occupancy and rate during the quarter compared to the prior year.

Western Canada RevPAR decreased by 3.26%. Within the Western region, results were mixed as several hotels achieved solid growth versus the prior year but these gains were offset by RevPAR declines in other areas. Hotels with growth included the Radisson Hotel and Suites in Fort McMurray, the Super 8 in Three Hills, the Super 8 in Fort Nelson and the Holiday Inn Express in Kamloops. Hotels where RevPAR declined from the prior year include the Super 8 in Drayton Valley, the Super 8 in Yellowknife, the Super 8 in Slave Lake and the Wingate by Wyndham in Calgary. These declines are attributed to lower oil and gas activity in the respective areas. In the case of Yellowknife, the slowdown in the mining sector is also a contributing factor. The decline at the Super 8 in Drayton Valley was also due to the impact of room supply increases in this market. In Grande Prairie, the Holiday Inn, the Best Western and the Super 8 hotel all experienced occupancy and rate declines due to increased supply in the city compared to the prior year and reduced oil and gas exploration activity in the area.

Hotel EBITDA

Reconciliation of the net income (loss) to hotel EBITDA is presented in the table below:

(in 000's)	Three months ended December 31, 2008	Three months ended December 31, 2007
Net income (loss)	$ (4,903)	$ (146)
Interest on mortgages and other debt and accretion of deferred financing fees	2,938	2,856
Convertible debentures interest and accretion	1,828	1,770
Corporate and administrative	560	719
Interest income	(706)	(719)
Unrealized foreign exchange loss	691	187
Depreciation and amortization	3,360	3,209
Provision for impairment of mezzanine loans	3,000	-
Provision for (recovery of) future income taxes	(693)	(1,138)
Hotel EBITDA	$ 6,075	$ 6,738
Number of rooms available	222,916	217,564
Hotel EBITA per available room	$ 27.25	$ 30.97

Hotel EBITDA has decreased when comparing the three months ended December 31, 2008 to the three months ended December 31, 2007 due to weaker performance at the Holiday Inn in Grande Prairie, the Best Western in Grande Prairie, the Northwest Inn in Slave Lake, the Wingate by Wyndham in Calgary and the Super 8 in Drayton Valley. These declines offset gains at several hotels notably the Holiday Inn Express in Moncton and the Super 8 in Three Hills. The fourth quarter 2008 results include the full three months for the Holiday Inn Express in Myrtle Beach which was acquired in November, 2007, whereas the fourth quarter 2007 results only include two months for this hotel.

Hotel EBITDA per available room decreased by 12% to $27.25 from $30.97 for the three months ended December 31, 2008 and 2007, respectively, due to higher property taxes in northern Alberta, British Columbia, Nova Scotia and Myrtle Beach along with lower margins at the Holiday Inn in Grande Prairie, the Best Western in Grande Prairie, the Northwest Inn in Slave Lake, the Wingate by Wyndham in Calgary and the Super 8 in Drayton Valley.

Hotel EBITDA Margin Analysis

The following table provides the REIT's hotel margins for its base portfolio and its 2007 acquisitions for the three months ended December 31, 2008 and 2007.

(in 000's) 2008	Base Portfolio	2007 Acquisitions [1]	Total
Hotel revenues	$ 7,603	$ 13,767	$ 21,370
Hotel cost of sales	2,745	4,558	7,303
Hotel gross profit	$ 4,858	$ 9,209	$ 14,067
Percentage	63.9%	66.9%	65.8%
Hotel overhead expenses [2]	$ 3,366	$ 4,626	$ 7,992
Hotel EBITDA	$ 1,492	$ 4,583	$ 6,075
Hotel EBITDA margin	19.6%	33.3%	28.4%
2007			
Hotel revenues	$ 8,478	$ 13,780	$ 22,258
Hotel cost of sales	3,229	4,031	7,260
Hotel gross profit	$ 5,249	$ 9,749	$ 14,998
Percentage	61.9%	70.7%	67.4%
Hotel overhead expenses [2]	$ 3,583	$ 4,677	$ 8,260
Hotel EBITDA	$ 1,666	$ 5,072	$ 6,738
Hotel EBITDA margin	19.7%	36.8%	30.3%
Variance			
Hotel revenues	($ 875)	($ 13)	($ 888)
Hotel cost of sales	484	(527)	(43)
Hotel gross profit	($ 391)	($ 540)	($ 931)
Percentage	2.0%	(3.8%)	(1.6%)
Hotel overhead expenses [2]	$ 217	$ 51	$ 268
Hotel EBITDA	($ 174)	($ 489)	($ 663)
Hotel EBITDA margin	(0.1%)	(3.5%)	(1.9%)

(1) The 2007 acquisitions represent hotels acquired in 2007.
(2) Hotel overhead expenses include sales, marketing, general, administrative, maintenance, utilities, property taxes, insurance, management and other fees and land lease expense. These expenses exclude depreciation, amortization, interest on mortgages, loans, and capital leases, accretion of deferred financing fees, and unrealized foreign exchange gains or losses.

The base portfolio EBITDA margin decreased slightly to 19.6% from 19.7%. This decline was due to the lower operating margins at the Wingate by Wyndham in Calgary, the Super 8 in Truro, the Super 8 in Yellowknife and the Super 8 in Drayton Valley, as revenue declines were only partially offset by reductions in operating and overhead expenses. Improved margins compared to the prior year were achieved as a result of operating efficiencies due to the lease out of the food and beverage operation at the Radisson Suite Hotel in Halifax in the first quarter of 2008. This lease, along with the closure of the restaurant at the Holiday Inn Express in Moncton in December 2007, and lower revenues noted above accounted for the lower revenues in the quarter compared to the prior year. The acquisition portfolio EBITDA margin decreased to 33.3% from 36.8% primarily due to lower operating margins at the Holiday Inn in Grande Prairie, the Best Western in Grande Prairie, and the Northwest Inn in Slave Lake. For both the Holiday Inn and Best Western hotels lower revenue, due to declines in both occupancy and ADR, caused the lower operating margin. There were higher food and beverage operating costs at both the Best Western and Northwest Inn. To address these food and beverage costs, changes to both personnel and processes had been implemented by the end of the fourth quarter. There were increased property taxes in northern Alberta, British Columbia, Nova Scotia and Myrtle Beach due to reassessments. Improved margins were achieved at the Super 8 in Three Hills as revenue improved substantially while costs remained constant.

Corporate Operations

During the three months ended December 31, 2008 and 2007, the REIT generated interest income of $0.7 million from loans receivable and the investment of cash balances.

Corporate administrative expenses were $0.5 million for the three months ended December 31, 2008 and the three months ended December 31, 2007 respectively.

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 fourth quarters in 2008 and 2007 as the debentures outstanding of $72.1 million has not changed.

The REIT has recorded a $3.0 million provision for impairment on the mezzanine loans receivable from Winport Developments Limited Partnership and Pacrim North York Limited Partnership. The loans are in default and the REIT issued a demand notice for payment (see "SUBSEQUENT EVENTS").

Funds from Operations ("FFO")

FFO for the three months ended December 31, 2008 was $0.7 million ($0.02 basic and diluted FFO per unit) compared to $1.9 million ($0.05 basic and diluted FFO per unit) for the same period in 2007 due to RevPAR declines of 3.67% and increased unrealized foreign exchange losses of $0.6 million.

Distributable Income

The REIT generated $1.4 million in distributable income ($0.04 basic and diluted per unit) for the three months ended December 31, 2008 compared to $2.0 million ($0.05 basic and diluted per unit) for the same period in 2007. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions. A distribution of $0.045 per unit per was declared for October and distributions of $0.0175 per unit per month were declared for November and December, 2008. Distributions declared totalled $3.1 million for the three months ended December 31, 2008.

The REIT's fourth quarter distributions exceeded the distributable income. Excess, un-deployed cash was used to fund the distribution shortfall. On November 13, 2008, the REIT announced a reduction in its monthly cash distribution to $0.0175 per unit per month or $0.21 per unit on an annualized basis. The reduction started with the November distributions which were payable to unitholders on December 15, 2008.

The following table shows the reconciliation between standardized distributable cash and distributable income for the three months ended December 31, 2008 and December 31, 2007 respectively.

	2008	2007
Net Cash Provided by Operating Activities	$ 2,708	$ 3,645
Capital expenditures including acquisitions and other assets	(423)	(4,979)
Standardized Distributable Cash	$ 2,285	($ 1,334)
Reconciliation to Distributable Income:		
Standardized Distributable Cash	$ 2,285	($ 1,334)
Capital expenditures in excess of (less than) FF&E reserve	(218)	4,311
Changes in non-cash working capital balances	(675)	(986)
Distributable Income	**$ 1,392**	**$ 1,991**

Cash flow for the Three Months Ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in)		
Operating activities		
Net income (loss) and comprehensive income (loss) for the periods	($ 4,903)	($ 146)
Charges (credits) to income not involving cash		
Unit-based compensation	9	91
Depreciation and amortization	3,360	3,209
Accretion of mortgages and convertible debentures	569	456
Unrealized foreign exchange loss	691	187
Provision for impairment of mezzanine loans	3,000	-
Future income tax expense (recovery)	(693)	(1,138)
Net change in non-cash working capital balances related to operations	675	986
Cash flow from operating activities	2,708	3,645
Investing activities		
Decrease (increase) in restricted cash	(77)	477
Increase in capital reserve	(497)	(618)
Acquisition of hotel properties	-	(4,522)
Proceeds from investment in hotel properties	680	-
Additions to property and equipment	(423)	(488)
Increase in other assets	-	31
Cash flow used in investing activities	(317)	(5,120)
Financing activities		
Repayment of capital lease obligations	(93)	(111)
Proceeds from mortgages and loans, net of deferred financing fees	-	(135)
Repayment of mortgages and loans payable	(1,039)	(975)
Issuance of units, net of issuance costs	-	(13)
Units repurchased and cancelled	(1)	-
Distributions paid to unitholders	(4,207)	(5,286)
Cash flow used in financing activities	(5,340)	(6,520)
Net change in cash and cash equivalents during the periods	(2,949)	(7,995)
Cash and cash equivalents – beginning of periods	7,941	30,890
Cash and cash equivalents – end of periods	$ 4,992	$ 22,895

During the three months ended December 31, 2008, the REIT's cash and cash equivalents decreased by approximately $2.9 million from $7.9 million to $5.0 million, of which $2.8 million relates to the distributions to unitholders exceeding distributable income. For the comparative period in 2007, cash and cash equivalents decreased by $8.0 million from $30.9 million to $22.9 million.

Operating Activities

Cash flow from operations was approximately $2.7 million for the three months ended December 31, 2008 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the three months ended December 31, 2007 cash flow from operations was $3.6 million. Changes in non-cash working capital balances provided approximately $0.7 million during the three months ended December 31, 2008. Increased collections of accounts receivable of $1.1 million and a decrease in accounts payable and accrued liabilities of approximately $0.6 million at December 31, 2008 were the primary reasons for the change in the working capital balances. For the comparative period in 2007, the change in working capital balances provided $1.0 million of cash as increases in accounts receivable and prepaid expenses and deposits were lower than the increases in accounts payable and accrued interest and other liabilities.

Investing Activities

Investing activities utilized approximately $0.3 million during the three months ended December 31, 2008. For the three months ended December 31, 2007, investing activities utilized $5.1 million, of which $4.5 million was due to the acquisition of the Holiday Inn Express in Myrtle Beach, South Carolina.

During the three months ended December 31, 2008 and 2007, the REIT's capital reserves for replacement and improvements increased by $0.5 million and $0.6 million, respectively.

There were additions of $0.4 million to property and equipment during the three months ended December 31, 2008. These additions were made at a number of the hotels. During the three months ended December 31, 2007, additions of $0.5 million were made at the Radisson in Fort McMurray, the Holiday Inn Express in Moncton and a number of other hotels.

On December 22, 2008, the REIT acquired beneficial ownership interests in nine hotels located in Canada and an assignment of $680,000 in cash proceeds from Winport Developments Limited Partnership, a related party, for $3.55 million. The equity ownership percentages range from 2.52% to 19.06%. The investments are being accounted for using the cost method. As part of the transaction, Winport Developments Limited Partnership assigned its right to receive $680,000 in proceeds from the sale of Winport Developments Limited Partnership's equity ownership interest in RegWin Hotel Partnership to the REIT. The $680,000 was received on December 23, 2008.

Financing Activities

Financing activities utilized $5.3 million during the three months ended December 31, 2008, compared to utilizing $6.5 million during the three months ended December 31, 2007

The REIT paid distributions to unitholders of approximately $4.2 million for the three months ended December 31, 2008, compared to $5.3 million for the three months ended December 31, 2007.

The REIT made principal repayments on its mortgage debt and loans payable of $1.0 million for each of the three months ended December 31, 2008 and 2007.

YEAR ENDED DECEMBER 31, 2008 and 2007

Results of Operations

The results of operations for the year ended December 31, 2008 include the operation of twenty-two hotels for the full year. The dollar value of revenues and expenses has increased substantially when comparing the results for 2008 to the results for 2007 due to the number of acquisitions made during 2007. The REIT acquired fourteen hotels in 2007.

Hotel Operations

The hotel properties generated revenue of approximately $93.5 million for the year ended December 31, 2008 compared to $69.8 million for the year ended December 31, 2007. Hotel EBITDA has increased to $31.3 million from $22.6 million, an increase of 38.5%. Depreciation and amortization has increased substantially due to the growth in the asset base.

Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the twenty-two wholly-owned hotels for the year ended December 31, 2008.

	Year Ended December 31, 2008		
Region	Occupancy	ADR	RevPAR
Atlantic Canada	70.73%	$ 123.98	$ 87.69
Western Canada	64.50%	$ 145.97	$ 94.15
United States	56.10%	$ 98.09	$ 55.03
Totals	65.14%	$ 140.05	$ 91.23

Overall demand during the year ended December 31, 2008 was particularly strong in downtown Halifax, Yellowknife, Whitecourt, Fort McMurray, Kamloops, and Fort St. John.

Same Hotel Key Performance Measures

The following table provides information on occupancy, ADR and RevPAR for the year ended December 31, 2008 and December 31, 2007, for the eight wholly-owned hotels which were owned for the entire year in 2007 and 2008.

	Year Ended December 31, 2008			Year Ended December 31, 2007			RevPAR
Region	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Change
Atlantic Canada	70.73%	$ 123.98	$ 87.69	73.47%	$ 119.22	$ 87.59	0.11%
Western Canada	67.41%	$ 132.07	$ 89.03	68.02%	$ 134.63	$ 91.58	(2.78%)
Totals	68.84%	$ 128.48	$ 88.45	70.37%	$ 127.68	$ 89.85	(1.56%)

The Atlantic Canada RevPAR has increased 0.11% for the year ended December 31, 2008 compared to the year ended December 31, 2007, due primarily to strong results in Moncton. The RevPAR of the Moncton competitive set experienced strong growth year over year as the market exceeded 2006 levels after a decline in 2007 due to new supply. Both the downtown and suburban Halifax competitive sets experienced occupancy declines in 2008 versus 2007. However, the Holiday Inn Express in Halifax and the Radisson Suite Hotel in Halifax rank first and second respectively within their competitive sets year to date. Both the Moncton and the Halifax markets have experienced new entrants to their respective competitive sets within the last two years.

Western Canada RevPAR declined by 2.78% compared to the year ended December 31, 2007. ADR declined by 1.9% while occupancy declined 0.6 basis points. The 5 Calgary Downtown Suites and Spa Hotel achieved sufficient occupancy growth versus the prior year to increase its RevPAR. Occupancy at the Wingate by Wyndham in Calgary has declined due primarily to decreased business from a high volume account which did not require a similar volume of accommodation in 2008 compared to 2007. In Drayton Valley, a decline in demand from oil and gas crews along with a substantially increased room supply resulted in a RevPAR decline. Despite this, the Super 8 continues to lead their competitive set in RevPAR penetration.

Hotel EBITDA

Reconciliation of the net income to hotel EBITDA is presented in the table below:

(in 000's)	Year ended December 31, 2008	Year ended December 31, 2007
Net income (loss)	($ 5,080)	$ 1,520
Interest on mortgages and loans payable and accretion of deferred financing fees	11,533	7,976
Convertible debentures interest and accretion	7,238	4,816
Corporate and administrative	2,844	2,595
Interest income	(2,802)	(2,442)
Unrealized foreign exchange loss	1,020	187
Depreciation and amortization	13,273	8,502
Provision for impairment of mezzanine loan	3,000	-
Provision for (recovery of) future income taxes	291	(587)
Hotel EBITDA	**$ 31,317**	**$ 22,567**
Number of rooms available	884,798	628,463
Hotel EBITDA per available room	**$ 35.39**	**$ 35.91**

Hotel EBITDA has increased by 39% due to the increase in the number of hotels owned by the REIT in 2008 compared to 2007. The REIT acquired fourteen hotels at various points during 2007.

Hotel EBITDA per available room decreased slightly by 1% to $35.39 from $35.91 for the year ended December 31, 2008 and 2007, respectively due to a decline in RevPAR combined with higher property taxes due to reassessments.

Hotel EBITDA Margin Analysis

The following table provides the REIT's hotel margins for its base portfolio and its 2007 acquisitions for the year ended December 31, 2008 and 2007.

(in 000's) 2008	Base Portfolio	2007 Acquisitions [1]	Total
Hotel revenues	$ 36,057	$ 57,438	$ 93,495
Hotel cost of sales	11,648	17,271	28,919
Hotel gross profit	$ 24,409	$ 40,167	$ 64,576
Percentage	67.7%	69.9%	69.1%
Hotel overhead expenses [2]	$ 14,595	$ 18,664	$ 33,259
Hotel EBITDA	$ 9,814	$ 21,503	$ 31,317
Hotel EBITDA margin	27.2%	37.4%	33.5%
2007			
Hotel revenues	$ 38,848	$ 30,903	$ 69,751
Hotel cost of sales	13,307	9,033	22,340
Hotel gross profit	$ 25,541	$ 21,870	$ 47,411
Percentage	65.7%	70.8%	68.0%
Hotel overhead expenses [2]	$ 14,964	$ 9,880	$ 24,844
Hotel EBITDA	$ 10,577	$ 11,990	$ 22,567
Hotel EBITDA margin	27.2%	38.8%	32.4%
Variance			
Hotel revenues	($ 2,791)	$ 26,535	$ 23,744
Hotel cost of sales	1,659	(8,238)	(6,579)
Hotel gross profit	($ 1,132)	$ 18,297	$ 17,165
Percentage	2.0%	(0.9%)	1.1%
Hotel overhead expenses [2]	$ 369	($ 8,784)	$ 8,415
Hotel EBITDA	($ 763)	$ 9,513	$ 8,750
Hotel EBITDA margin	0.0%	(1.4%)	1.1%

(1) The 2007 acquisitions represent hotels acquired in 2007.

(2) Hotel overhead expenses include sales, marketing, general, administrative, maintenance, utilities, property taxes, insurance, management and other fees, and land lease expense. These expenses exclude depreciation, amortization, interest on mortgages, loans and capital leases, accretion of deferred financing fees and unrealized foreign exchange gains or losses.

The base portfolio EBITDA margin was maintained at 27.2% in both 2008 and 2007. The lower cost of sales is a result of operating efficiencies due to the lease out of the food and beverage operation at the Radisson Suite Hotel in Halifax and the conversion of the restaurant at the Holiday Inn Express and Suites in Moncton to meeting space. These changes partially accounted for the lower revenues as the decline in the low-margin food and beverage revenue was partially offset by higher-margin rental revenue in Halifax and room revenue in Moncton. Lower operating margins were experienced at the Wingate by Wyndham in Calgary and the Super 8 in Drayton Valley, as revenue declines were only partially offset by reductions in operating and overhead expenses.

The acquisition portfolio EBITDA margin decreased to 37.4% from 38.8% partially due to lower operating margins at the Holiday Inn and the Best Western hotels in Grande Prairie. Both of the hotels experienced lower revenue, due in large measure to lower ADR which resulted in lower operating margins.

There were increased property taxes in northern Alberta, British Columbia, Nova Scotia and Myrtle Beach due to reassessments.

Corporate Operations

During the year ended December 31, 2008, the REIT generated interest income of $2.8 million from loans receivable and the investment of cash balances, compared to $2.4 million in 2007.

Corporate administrative expenses have increased approximately $0.3 million in the year ended December 31, 2008 compared to the year ended December 31, 2007. The expenses for 2007 include a one-time fee of $150k for graduating to the TSX and higher legal expenses related thereto. Salaries and wages were higher in 2008 compared to 2007 as the President and Chief Operating Office Michael Jackson was hired in September, 2007. In addition, there were two additional corporate employees during part of 2008 whose positions have since been eliminated.

Debenture interest expense and the non-cash accretion of the discount on the debentures has increased to $7.2 million from $4.8 million as the REIT presently has $72.1 million in debentures outstanding. During the first six months of 2007, the REIT had $20.4 million in debentures outstanding until June 22, 2007, when $45.0 million in debentures were issued. The REIT issued an additional $6.8 million in debentures on July 18, 2007.

The REIT has recorded a $3.0 million provision for impairment on the mezzanine loans receivable from Winport Developments Limited Partnership and Pacrim North York Limited Partnership. The loans are in default and the REIT issued a demand notice for payment (see "SUBSEQUENT EVENTS").

Funds from Operations ("FFO")

FFO for the year ended December 31, 2008 was $11.2 million ($0.29 basic and diluted FFO per unit) compared to $9.3 million ($0.32 basic and diluted FFO per unit) for the same period in 2007. The dollar value of FFO has increased as the hotels acquired in 2007 were owned for the entire 2008 year. On a per unit basis, FFO declined due to the unrealized foreign exchange losses and higher property taxes.

Distributable Income

The REIT generated $12.3 million in distributable income ($0.32 basic and diluted per unit) for the year ended December 31, 2008 compared to $9.2 million ($0.32 basic and diluted per unit) for 2007. Distributions of $0.045 per unit per month were declared for the first ten months of 2008 and a distribution of $0.0175 per unit was declared for each of November and December 2008. Distributions declared totalled $19.0 million for the year ended December 31, 2008. Distributable income will fluctuate due to the seasonality in the hospitality industry and the timing of acquisitions.

The REIT's distributions exceeded the distributable income for 2008. Distributions were reduced to $0.0175 per unit per month ($0.21 per unit annually) effective with the November 2008 distribution declaration. Business levels in Grande Prairie were affected by reduced natural gas exploration and the uncertainty surrounding changes in royalty arrangements by the Alberta government. Excess, un-deployed cash was used to fund the distribution shortfall. To address this shortfall and as described in the "RELATED PARTY AGREEMENTS" section, effective February 1, 2008, the management of 10 hotels purchased in June 2007 is now being performed by Pacrim Hospitality Services Inc. at a substantially reduced fee when compared to the previous management agreement.

The following table shows the reconciliation between standardized distributable cash and distributable income for the years ended December 31, 2008 and December 31, 2007 respectively.

	2008	2007
Net Cash Provided by Operating Activities	$ 16,332	$ 11,910
Capital expenditures including acquisitions and other assets	(2,079)	(254,511)
Standardized Distributable Cash	$ 14,253	($ 242,601)
Reconciliation to Distributable Income:		
Standardized Distributable Cash	$ 14,253	($ 242,601)
Capital expenditures in excess of (less than) FF&E reserve	(726)	252,418
Changes in non-cash working capital balances	(1,187)	(574)
Distributable Income	$ 12,340	$ 9,243

Cashflow for the Years Ended December 31, 2008 and 2007

During the year ended December 31, 2008, the REIT's cash and cash equivalents decreased by approximately $17.9 million from $22.9 million to $5.0 million, primarily due to distributions exceeding the distributable income by $7.7 million and the $6.35 million loan to Pacrim Hospitality Services Inc. ("PHSI") as described in the RELATED PARTY AGREEMENTS section. For the comparative period in 2007, cash and cash equivalents decreased by $9.1 million from $32.0 million to $22.9 million.

Operating Activities

Cash flow from operations was approximately $16.3 million for the year ended December 31, 2008 reflecting the cash generated by the hotels and the corporate operations of the REIT. For the year ended December 31, 2007 cash flow from operations was $11.9 million. Changes in non-cash working capital balances generated approximately $1.2 million during the year ended December 31, 2008, compared to generating $0.6 million during the year ended December 31, 2007. The increase in the cash generated by changes in non-cash working capital balances is due to a decrease in prepaid expenses and increase in accounts payable and accrued liabilities versus the prior year.

Investing Activities

Investing activities utilized $9.4 million in cash during the year ended December 31, 2008. For the year ended December 31, 2007, investing activities utilized $264.1 million primarily due to the acquisition of fourteen hotels in 2007. During 2007, the REIT acquired the Radisson Hotel and Suites in Fort McMurray, Alberta, the Super 8 motel in Three Hills, Alberta, a portfolio of ten hotels located in Alberta and British Columbia, the Holiday Inn Express in Kamloops, British Columbia and the Holiday Inn Express in Myrtle Beach, South Carolina.

During the year ended December 31, 2008 and 2007, the REIT's capital reserves for replacement and improvements increased by $2.1 million and $0.7 million, respectively.

There were additions of $2.0 million to property and equipment with improvements being made at the Radisson Hotel and Suites in Fort McMurray, the Radisson Suite Hotel in Halifax and smaller additions at a number of hotels during the year ended December 31, 2008. During the year ended December 31, 2007, the REIT had additions of $4.4 million, primarily at the Holiday Inn Express hotels in Moncton and Halifax.

During the year ended December 31, 2008 and 2007, the REIT provided mezzanine loans of $1.25 million and $6.4 million, respectively. The $1.25 million loan was provided on the Wyndham Garden Inn in Toronto, ON. During 2007, the REIT provided a $3.0 million mezzanine loan on the Wingate by Wyndham hotel in Regina, SK, a $1.9 million loan on the Super 8 motel in Windsor, NS and a $1.5 million loan on the Wyndham Garden Inn in Toronto, ON.

During the year ended December 31, 2008, the REIT provided a loan of $6.35 million to Pacrim Hospitality Services Inc. to acquire the management contract for ten of the REIT's properties (see RELATED PARTY AGREEMENTS).

The decrease in the restricted cash of $1.7 million during the year ended December 31, 2008 represents the release of funds related to the Pomeroy Inn and Suites hotel in Grande Prairie. In connection with mortgage financing on this property acquired in June 2007, the REIT issued a standby letter of credit in the amount of $2.8 million in favour of the mortgage lender, secured by the restricted cash. As the renovations have been completed, the restricted cash for the Pomeroy Inn and Suites in Grande Prairie has been completely released.

Financing Activities

Financing activities utilized $24.8 million during the year ended December 31, 2008, compared to providing $243.1 million during the year ended December 31, 2007.

During the year ended December 31, 2007, the REIT obtained mortgage financing of $116.7 million related to the properties acquired. The REIT made principal repayments of $4.1 million and $2.6 million for the years ended December 31, 2008 and 2007, respectively.

In June and July, 2007, the REIT issued 18.338 million units at a price of $5.35 per unit for net proceeds of $93.2 million and $51.8 million aggregate principal amount of 6.5% convertible debentures (net $49.9 million).

The REIT paid distributions to unitholders of approximately $20.1 million for the year ended December 31, 2008, compared to $13.9 million during the year ended December 31, 2007. The units issued in June and July, 2007 have been paid distributions for twelve months in 2008, whereas in 2007, distributions were only paid for six months on these units.

The REIT re-purchased and cancelled 63,100 units at an average cost of $3.43 under its normal course issuer bid which utilized $0.2 million in cash during the year ended December 31, 2008.

SUMMARY OF QUARTERLY RESULTS

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

(in 000's except per unit results)	Q4, 2008	Q3, 2008	Q2,2008	Q1, 2008	Q4, 2007	Q3, 2007	Q2, 2007	Q1, 2007
Total revenues (hotel and trust)	$ 22,082	$ 26,440	$ 24,364	$ 23,416	$ 22,329	$ 25,724	$ 13,404	$ 10,088
Hotel revenues	$ 21,370	$ 25,748	$ 23,669	$ 22,708	$ 22,258	$ 24,858	$ 12,988	$ 9,647
Hotel expenses	15,295	16,061	15,605	**15,345	15,520	15,268	9,147	7,250
Income (loss) from hotel operations	6,075	9,687	8,064	7,363	6,738	9,590	3,841	2,397
Other (income) expenses	11,671	8,164	8,039	8,105	8,022	7,380	3,436	2,796
Future income tax expense (recovery)	(693)	742	203	39	(1,138)	933	(* 382)	–
Net income (loss) for the period	($ 4,903)	$ 781	($ 178)	($ 781)	($ 146)	$ 1,277	$ 787	($ 399)
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	(0.13)	–	(0.01)	(0.02)	–	–	–	(0.02)
Basic FFO per unit	0.02	0.12	0.08	0.07	0.05	0.13	0.09	0.03
Diluted FFO per unit	0.02	0.12	0.08	0.07	0.05	0.13	0.09	0.03
Basic distributable income per unit	0.04	0.13	0.08	0.07	0.05	0.13	0.08	0.03
Diluted distributable income per unit	0.04	0.13	0.08	0.07	0.05	0.13	0.08	0.03
Occupancy	58.63%	72.18%	65.69%	64.04%	60.43%	70.26%	69.28%	65.74%
ADR	$ 137.70	$ 141.26	$ 141.08	$ 139.79	$ 139.32	$ 145.04	$ 134.86	$ 121.97
Revpar	$ 80.73	$ 101.97	$ 92.68	$ 89.52	$ 84.19	$ 101.91	$ 93.43	$ 80.19

* Q2 2007 figures were revised to reduce the future income tax recovery by $1,906 and to reduce the related future income tax asset. This adjustment is required to properly reflect all the temporary timing differences in the determination of the future tax recovery.

** Q1 2008 figures were revised to increase the hotel expenses by $150 and to reduce property and equipment by $150. This adjustment is required to properly account for a lease termination fee incurred during Q1 2008.

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	2008	2007
Capital structure		
Obligations under capital leases	$ 866,381	$ 888,420
Mortgages and loans payable	164,821,009	167,962,533
Convertible debentures	63,457,890	61,263,394
Promissory notes	3,368,334	-
Total debt	$ 232,513,614	$ 230,114,347
Unitholders' equity	150,094,424	173,805,550
Total capital	$ 382,608,038	$ 403,919,897
Ratios		
Total debt	$ 232,513,614	$ 230,114,347
Adjustment of convertible debentures to face value	8,624,110	10,818,606
Adjustment of promissory notes to face value	183,279	-
Debt	$ 241,321,003	$ 240,932,953
Gross book value	$ 416,447,047	$ 425,005,102
Debt to GBV	57.9%	56.7%
Earnings base	$ 32,019,577	$ 22,712,699
Debt service	$ 21,093,105	$ 14,011,587
Debt service coverage ratio	1.52	1.62

The total debt (including loans and obligations under capital leases) to gross book value ("GBV") was 40.6% at December 31, 2008 (December 31, 2007 – 39.7%) and the total debt plus the face value of convertible debentures and promissory notes to GBV was 57.9% at December 31, 2008 (December 31, 2007 – 56.7%).

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

For 2008, cash distributions to unitholders exceeded the REIT's distributable income, as defined in the REIT's Declaration of Trust. On November 13, 2008, the REIT reduced its distributions to $0.21 per unit on an annual basis.

Mortgages Payable

As at December 31, 2008, the REIT had total mortgage debt outstanding of $165.9 million, excluding deferred financing fees of $1.2 million which have been netted against mortgages payable in the financial statements compared to $169.2 million outstanding at December 31, 2007. The interest rates on the mortgages payable ranged from 5.88% to 7.45% per annum with a weighted average interest rate of 6.76% 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 6.2 years. The principal amount of mortgage debt maturing in 2010 is $8.9 million.

Convertible Debentures Payable

As at December 31, 2008 and 2007, 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 3.24 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% per annum until December 22, 2011 and 12% per annum, thereafter. The $551,613 promissory note does not bear interest and therefore, has been discounted by $183,279, 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 December 31, 2008.

(in $000s)	2009	2010	2011	2012	2013	Thereafter
Mortgages payable – principal	$ 5,095	$ 13,881	$ 36,495	$ 17,683	$ 2,919	$ 89,847
Mortgages payable – interest	11,145	10,269	9,186	6,583	6,112	19,825
Obligations under capital leases	412	327	144	86	21	20
Vehicle loans - principal	60	35	4	-	-	-
Vehicle loans - interest	5	2	-	-	-	-
Convertible debentures			20,238	51,844	-	-
Convertible debentures - interest	4,989	4,989	4,989	1,685	-	-
Land lease	123	123	123	123	123	6,338
Operating leases	93	63	34	17	2	-
Promissory note – principal					3,551	
Promissory note – interest	180	180	184	360	351	-
Total	$ 22,102	$ 29,869	$ 71,397	$ 78,381	$ 13,079	$ 116,030

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 December 31, 2008, the REIT had working capital of approximately $0.4 million. Cash from operations will fluctuate due to the seasonality in the hospitality industry. The REIT had drawn $0.2 million of its available operating lines of credit. The un-drawn portion of the operating lines of credit totalled $9.5 million. The Holiday Inn Express in Kamloops, BC is the security on $8.0 million of the un-drawn lines of credit. In November 2008, distributions were reduced to $0.0175 per unit per month in order to conserve cash and satisfy its operating obligations, including principal repayments. With the Debt to GBV ratio at 57.9% at December 31, 2008, the REIT could incur additional indebtedness of approximately $21 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 managements' estimate of the expected cash flow from operations, while there can be no assurance, the REIT is expected to have sufficient working capital to meet its ongoing commitments and expenditures.

DISTRIBUTIONS AND 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. Commencing with the November, 2008 distributions (payable on December 15, 2008), the distributions were reduced to $0.0175 per unit per month ($0.21 per unit per year) from $0.045 per unit per month ($0.54 per unit per year). 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.

	December 31, 2008	December 31, 2007
Units outstanding	39,135,216	39,153,317
Options outstanding (exercisable)	967,418	607,333
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	**52,280,331**	**51,938,347**

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.

Under a prior NCIB which was initiated on December 11, 2007 and expired on December 10, 2008, Holloway could repurchase a maximum of 1,000,000 of its issued and outstanding trust units. During the three months ended December 31, 2008, the REIT purchased 1,000 units under this NCIB at an average cost of $0.82. For the year ended December 31, 2008, the REIT purchased 63,100 units under this NCIB at an average cost of $3.43.

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.

RELATED PARTY AGREEMENTS

Hotel Management Agreement

Pacrim Hospitality Services Inc.

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.

RISKS AND UNCERTAINTIES

Risks Related to the Business of the REIT

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. In addition to the specific conditions discussed in more detail below, 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 which may adversely affect the results of operations;

- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs, property taxes and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating or capital requirements;
- seasonal fluctuations in hotel operating income produced throughout the year;
- increases in operating costs due to inflation which may not necessarily be offset by increased room rates; and
- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Competition

The hotel industry is highly competitive. The REIT's properties face significant local competition from other hotels. Some of the competitors to the hotels in the portfolio may have greater marketing and financial resources than the REIT. The number of competitive hotel properties in a particular area could have a material adverse effect on the occupancy rates and average daily rate of properties in that particular area. New competitors entering markets in which the REIT operates can also adversely affect business levels.

Customer Concentration

In some of the markets in which the REIT operates the customer base may be concentrated due to the type of industries established in those markets. The business levels achieved by the REIT in these markets rely on the ongoing presence and financial stability of these customers. If these customers withdrew from these markets, the REIT could experience a decline in revenue.

Changes to the Alberta Oil and Gas Royalties

A majority of the REIT's properties are located in the province of Alberta. In October 2007 the Government of Alberta released a new royalty framework which increased the royalties charged to oil and gas producers by the Government of Alberta. The increases are on a sliding scale basis based on the price of the related commodity. In November 2008 the Government of Alberta offered companies drilling certain new wells a one-time option of selecting new transitional royalty rates for the period 2009 to 2013. All current wells moved to the new royalty framework on January 1, 2009. Companies that adopt the transitional rates will be required to shift to the new royalty framework on January 1, 2014. As the REIT's properties in Alberta derive a substantial portion of their revenue from customers in the oil and gas sector, any decline in activity in the sector as a result of these royalty increases could result in a decline in revenue for the REIT.

Availability of Additional Capital

The acquisition of hotels, as well as ongoing renovations, refurbishment and improvements required to maintain and operate hotels, are capital intensive. The REIT sets aside 3-4% of revenues for the replacement of furniture, fixtures and equipment and capital improvements ("FF&E or capital reserve"). Where the cost of capital improvements exceeds the capital reserve, or the cost of certain capital improvements reduces the reserve to significantly lower levels, the REIT will be required to fund these activities principally by incurring additional indebtedness.

Access to capital markets for additional borrowing depends on prevailing market conditions and the acceptability of the terms offered. If the REIT were unable to secure additional funding for acquisitions or required improvements, it would be required to curtail these activities, which could have an adverse effect on its results of operations, financial condition and distributions.

Debt Financing

The REIT incurred debt in connection with the acquisition and operation of its properties, including mortgage financing, capital leases and other borrowings. Therefore, the REIT is subject to the risks associated with debt financing, including the risks that cash flow from operations will be

insufficient to meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that terms of such refinancing will not be as favorable to the REIT and the risk that necessary capital expenditures for such purposes as renovations and other improvements will not be able to be financed on favorable terms or at all. In such circumstances, if the REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more of its hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing on unfavorable terms. The REIT's financing arrangements contain covenants that could restrict its ability to operate its business in certain ways. If the REIT fails to comply with the restrictions in its financing arrangements, its lenders may be able to accelerate payment of the related debt. In connection with its financing arrangements, the REIT has granted security interests over the majority of its hotel properties. If the REIT is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

Dependence on and Relationship with Pacrim Hospitality Services Inc. (PHSI)

PHSI provides hotel management services to the REIT pursuant to the Hotel Management Agreement and the REIT depends on PHSI for all aspects of the day-to-day management of its hotels. There can be no assurance that if PHSI stopped providing these services, a suitable replacement would be found in a timely manner or at all.

PHSI will continue to own, acquire and manage hotels independently of the REIT. Subject to the Non-Competition Agreement, these properties may in some circumstances compete with properties owned by the REIT. PHSI will not be required to provide services exclusively to the REIT and may in some circumstances, subject to the Non-Competition Agreement, manage hotels on behalf of competitors to the REIT.

Reliance on Key Personnel

The REIT and PHSI depend on the services of certain key personnel, including in particular Chief Executive Officer Glenn Squires, President and Chief Operating Officer Michael Jackson and Chief Financial Officer Tracy Sherren. In addition, each of these individuals is also employed by PHSI and is not required to devote their time exclusively to the affairs of the REIT. The loss of the services of any of these key personnel could have an adverse effect on the REIT.

Risks Related to Real Property Ownership

General

The REIT owns hotel properties and therefore, is subject to risks generally incident to the ownership of real property. The underlying value of the properties and the REIT's income and ability to make distributions to unitholders depends on the ability of the REIT to maintain or increase revenues from the properties and to generate income in excess of operating expenses. Income from the properties may be adversely affected by changes in national or local economic conditions, changes in interest rates and in the availability, cost and terms of mortgage financing, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate assessed values and taxes payable on such values (including as a result of possible increased assessments as a result of the acquisition of the properties by the REIT) and other operating expenses, changes in governmental laws, regulations, rules and fiscal policies, changes in zoning laws, civil unrest, acts of God, including earthquakes and other natural disasters and acts of terrorism or war (which may result in uninsured losses). When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult to both acquire and to sell real property. Finally, governments can, under eminent domain laws, expropriate or take real property for less compensation than an owner believes the property is worth. Almost all of these factors are beyond the REIT's control.

Liquidity

Real estate investments are relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were to need to liquidate a property, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property. In addition, by concentrating on hotel properties, the REIT is exposed to the adverse effects on that segment of the real estate market and does not benefit from a diversification of its portfolio by property type.

Environmental Matters

The REIT and its properties are subject to various federal, provincial and municipal laws relating to environmental matters. These laws provide that the REIT could be liable for the costs of removal of certain hazardous, toxic or regulated substances released on or in the properties or disposed of at other locations sometimes regardless of whether the REIT knew of or was responsible for their presence. The failure to remove, remediate or otherwise address such substances or locations, if any, could adversely affect the REIT's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the REIT by private plaintiffs. In addition, environmental laws and regulations may change in the future and the REIT may become subject to more stringent environmental laws and regulations. Compliance with more stringent environmental laws and regulations could have a material adverse effect on the REIT's business, financing condition or results of operations and distributions.

Risks Related to the General Economic Environment

As with any commercial enterprise, the REIT is subject to risks associated with the general economic conditions. These risks include the degree to which the overall economy is expanding or contracting, rate of inflation, unemployment rate, level of consumer confidence, and the effects of government initiatives. Any deterioration of the general economic conditions may adversely affect business levels of the REIT.

Risks Related to Distributions to Unitholders

The REIT makes monthly cash distributions to its unitholders. Such cash distributions are not guaranteed. 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.

Additional information on these and other risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 28, 2008 which is available at www.sedar.com.

OUTLOOK

Statistics Canada has reported that the Canadian GDP contracted by 3.4% in the fourth quarter of 2008, as the country fell into recession with the rest of the world. The financial markets decline which began in mid-September became severe in November and the prospect of global growth in 2009 became very slim. Canada is certainly not immune to the weakness in the United States and world-wide, although the expectations are that we will not fare as badly as the U.S. due to some fundamental differences, primarily in our banking industry.

In December, 2008, RBC Financial had forecast that Canada would experience no GDP growth in 2009, down from their earlier fourth quarter forecast of growth of 1.5%. In late February, the Bank of Canada projected our economy would contract through the middle of this year, with real GDP dropping by 1.2% on an average annual basis. It is a widely-held view that we will see continued downward pressure and decline through the second quarter of 2009 and the optimistic projection is that we will start to see some flattening and gradual improvement in the third and fourth quarter of the year. The fourth quarter will, of course be a comparison to the steep decline experienced in the fourth quarter of 2008. In the Bank's best case projection, they see real GDP rebounding 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 the properties. PKF Inc. revised their forecast for 2009 in February. They now indicate that national RevPAR will decline by 2.5% in 2009, but have maintained their perspective that in general, western Canada markets will be less negatively impacted than central Canada markets.

SUBSEQUENT EVENTS

On February 5, 2009, the mezzanine loan receivable from RegWin Hotel Ltd. of $3.0 million was repaid in full.

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 determining its next steps to enforce its security.

SIGNIFICANT ACCOUNTING POLICIES

2008 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 2008, the REIT adopted four new accounting standards issued by the Accounting Standards Board of the CICA as follows: (i) Section 3862 Financial Instruments - Disclosures; (ii) Section 3863 Financial Instruments - Presentation; (iii) Section 1535 Capital Disclosures; and (iv) Section 3031 Inventories. The new standards on financial instruments require disclosures related to the significance of financial instruments on the REIT's financial position and performance and the nature and extent of risk arising from financial instruments to which the REIT is exposed and how the REIT manages these risks. The new standards on capital disclosures establish disclosure requirements about the REIT's capital and how it is managed. The new standard on inventories replaces the existing standards, revising and enhancing disclosure and presentation requirements. There has been no impact as to how the REIT accounts for inventory.

Note 2 to the audited consolidated financial statements for the year ended December 31, 2008 explain the impact of these changes in accounting policies.

Future Changes to Canadian GAAP

Goodwill and intangible assets

The CICA has issued a new accounting standard, Section 3064 Goodwill and Intangible Assets, which establish new standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Section 1000 Financial Statement Concepts was also amended to provide consistency with Section 3064. The new and amended standards will be effective for the REIT's 2009 fiscal year. These new standards are not expected to have a material impact on the REIT's 2009 financial statements.

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.

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 2008 distributions were 100% a return of capital.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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. During 2008, Holloway's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings)*, under the supervision of, and with the participation of the CEO and CFO. As at December 31, 2008, based on the evaluation, the CEO and CFO have concluded that the REIT's disclosure controls and procedures were appropriately designed and were operating effectively.

Management is also 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. During 2008, Holloway's management also evaluated the design and operating effectiveness of the internal controls over financial reporting (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings)*, using the Committee of Sponsoring Organizations Internal Control – Integrated Framework, under the supervision of, and with the participation of the CEO and CFO. As at December 31, 2008, based on the evaluation, the CEO and CFO have concluded that the REIT's internal controls over financial reporting were appropriately designed and were operating effectively.

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

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

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 28, 2008 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.