Management's Discussion and Analysis for the Three Months and Year Ended December 31, 2017

As at March 7, 2018

Introduction and Forward-Looking Statements

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Corporation ("Holloway" or the "Company") for the three months and year ended December 31, 2017, and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto as at and for the year ended December 31, 2017. The financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in thousands of Canadian dollars, except for shares and per share amounts, unless otherwise noted. This MD&A is dated as at March 7, 2018.

This MD&A sets out management's assessment of Holloway's future plans and operations and contains forward-looking statements as defined under applicable Canadian securities legislation. These forward-looking statements often contain words such as "anticipate", "does not anticipate", "believe", "estimate", "forecast", "intend", "expect", "does not expect", "could", "may", "will", "should", "plan" or other similar terms and contain estimates or assumptions about the outcome of future events. These forward-looking statements are provided in the interest of providing readers with information regarding Holloway. Readers are cautioned that management's expectations, estimates and assumptions, although considered reasonable, may prove to be incorrect and readers should not place undue reliance on forward-looking statements which are subject to risks, uncertainties, and other factors that could result in the outcome of these events being materially different from those anticipated in this MD&A. These factors and assumptions include, but are not limited to: general economic conditions, levels of travel in Holloway's key market areas, political conditions and events, competitive pressures, changes in government policy or regulations and lodging industry conditions. Holloway's actual results may differ materially from those expressed in, or implied by these forward-looking statements. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Holloway does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances, unanticipated events or circumstances, or should its estimates or assumptions change, after the date hereof, except as expressly required by law. Additional information relating to Holloway and the risks to which its business is subject is contained in its Annual Information Form, which is available on SEDAR at www.sedar.com.

Business Overview

Holloway owns and operates hotels across Canada and provides hotel management services to third parties.

Hotels: At December 31, 2017, Holloway's portfolio consisted of 33 hotels with 3,764 rooms of which 27 hotels are limited service properties and 6 hotels are full service properties. Of the Company's 33 hotels, 31 are operated under internationally recognized hotel brands, one is operated under a regional hotel brand and one is unbranded.

Other Assets: Holloway currently owns three freestanding single tenant properties leased to nationally recognized restaurant chains and seven land parcels that are being held for future development. Holloway also holds a US $4.0 million senior secured loan receivable resulting from the sale of the Travelodge® franchise business.

Management Services: In 2016, Holloway launched its management services division. During 2017, the Company provided management and accounting services to two hotels for the entire year and one hotel for part of the year. Additional information regarding this division is available at www.hlcorpmanagement.ca.

Fourth Quarter Overview and Outlook

Hotel Performance

In the fourth quarter of 2017, Holloway achieved a 23.4% increase in operating income and a 5.1 percentage point increase in operating income margin on a similar amount of revenue compared to the fourth quarter of 2016. The changes in revenue, hotel operating income and certain other financial metrics are shown in the tables below for the three months and year ended December 31, 2017.

	Three Months Ended December 31			Years Ended December 31		
	2017	2016	Variance	2017	2016	Variance
Hotel revenues	$ 24,765	$ 24,595	0.7%	$ 105,569	$ 106,412	(0.8%)
Operating income[(1)]	6,910	5,598	23.4%	32,031	29,338	9.2%
Operating income margin	27.9%	22.8%	5.1 ppt	30.3%	27.6%	2.7 ppt
Net income (loss) attributable to shareholders	404	(2,302)		6,478	(1,045)	
per basic and diluted share	0.02	(0.12)		0.34	(0.06)	
Funds from operations	3,907	1,374	184.4%	17,359	10,726	61.8%
per basic share	0.21	0.07		0.92	0.57	
Adjusted funds from operations	3,497	1,153	203.3%	15,854	9,256	71.3%
per basic share	0.19	0.06		0.84	0.49	
Dividends declared per share	0.035	0.035		0.14	0.14	

(1) Before depreciation and amortization.

	Three Months Ended December 31				Years Ended December 31			
	Revenue		Operating Income[(1)]		Revenue		Operating Income[(1)]	
2016	$ 24,595	100%	$ 5,598	100%	$ 106,412	100%	$ 29,338	100%
Hotels acquired or reopened[(2)]	-		-		2,000		550	
Hotels sold or temporarily closed[(3)]	(2,033)		(365)		(11,073)		(2,906)	
Ontario hotels	1,119		983		5,338		3,598	
Atlantic hotels	154		(19)		1,320		687	
Western hotels	755		467		1,651		638	
Northern hotels	175		246		(79)		126	
2017	$ 24,765	101%	$ 6,910	123%	$ 105,569	99%	$ 32,031	109%

(1) Before depreciation and amortization.
(2) Years ended December 31 (acquired - Westmark in Whitehorse, YT and reopened - Travelodge in Sydney, NS).
(3) Three months ended December 31 represents three hotels (sold - Travelodge in Belleville, ON and Holiday Inn in Oakville, ON; closed - Travelodge in Slave Lake, AB). Year ended December 31 represents five hotels (sold - Travelodge in Barrie, ON, Travelodge in Belleville, ON and Holiday Inn in Oakville, ON; closed - Travelodge in Slave Lake, AB and Super 8 in Grande Prairie, AB).

Fourth Quarter Review

Holloway finished the year with a strong fourth quarter. Our hotels generated the same amount of revenue and higher operating income compared to the prior year despite having two fewer hotels in the portfolio. Funds from operations and adjusted funds from operations (both of which measures exclude non-cash items) increased substantially in both the fourth quarter and the full year.

In Ontario, the Holiday Inn® in Ottawa continued its strong performance and generated 83% and 87% of the revenue and operating income increases for the Ontario region, respectively. The improvement was due to the hotel renovations along with overall increase in demand in the Ottawa market.

In Atlantic Canada, all but three hotels increased revenue over the fourth quarter of 2016, primarily due to rate increases offset marginally by reduced demand.

Western Canada continues its gradual rebound, realizing an increase in both revenue and operating income. While the performance of our hotels in smaller Alberta and BC markets are rebounding only gradually, we are seeing more meaningful improvements in the larger Western Canadian markets. The Super 8® in Grande Prairie, AB, which had been closed since mid-March due to water damage, re-opened in early October. This hotel underwent significant renovations and is expected to generate positive performance in the coming quarters. Guest reviews of the Holiday Inn in Grande Prairie, AB have been very positive and we have been able to increase ADR at the hotel since completion of renovations.

The increase in revenue from our Northern hotels was driven by the Quality Inn® in Yellowknife, NT which increased occupancy as a result of increased crew business. The closure of the property's food and beverage operations improved the operating income.

Annual Review

For the year ended December 31, 2017, the Company generated the same level of revenue and increased operating income by 9% from fewer hotels as three hotels were sold in late 2016 and early 2017. All hotels in Ontario experienced higher revenue with the Holiday Inn in Ottawa, ON providing 72% of the increase for the year. The Days® Inn in Moncton, NB and the Travelodge® in Dartmouth, NS were the key contributors to the increased revenue in the Atlantic region. The Quality Inn in Grande Prairie, AB contributed the majority of the Western region's revenue increase due to additional crew business.

Balance Sheet and Capital Allocation

Holloway's financial position remains strong. At year-end, we had $205,386 of debt compared to $234,741 at the end of 2016, a decrease of $29,355 or 12.5%. Our convertible debentures comprise 43.6% of the debt and have no financial covenants.

During the year, the Company undertook several transactions which significantly reduced its cost of debt. These transactions included several ordinary course mortgage renewals at lower interest rates, the refinancing of our previous CMBS debt through a term loan and revolving credit facility at substantially lower interest rates and the extension of the maturity date of our 7.50% Series C convertible debentures by three years to September 30, 2021. Despite two Bank of Canada interest rate increases during the year, these transactions resulted in our weighted average cost of debt decreasing from 6.10% to 5.54% during the year. Our total interest expense and principal amortization decreased by $1,804 and $1,395, respectively, year over year; this provides us with additional capital that can be deployed to increase shareholders returns.

Holloway sold two hotels in 2017, the Travelodge in Belleville, ON for proceeds of $7,000 and the Holiday Inn in Oakville, ON for proceeds of $19,438. The Company continued to reinvest in its hotels, completing major renovations at the Holiday Inn and Super 8 hotels in Grande Prairie, AB and also completing several smaller upgrade projects.

Holloway repurchased 518,100 shares (2.7% of our shares outstanding) at an average price $5.57 per share and $1,328 principal amount of our convertible debentures at an average price of $95.74 per $100 face value. The total cost of these repurchases was $4,158.

Finally, Holloway paid dividends of $0.14 per share or $2,625 in 2017.

Outlook

In January 2018, we leased the former Travelodge in Slave Lake, AB to a third party on a triple net basis. The lease has a two year term and the tenant has an option to purchase the property at any time during or at the end of the term. This property has been closed for much of the energy downturn and this lease will allow us to convert a negative cash flow property to a positive cash flow property.

For 2018, we expect results in Atlantic and Northern Canada to remain stable. In Ontario, we are implementing a number of initiatives to mitigate the cost pressures that will result from higher than usual minimum wage increases, including several cost reduction and productivity enhancement initiatives as well as more aggressive revenue management. With three of our four Grande Prairie, AB hotels having been renovated within the past two years and signs of recovery in this market, we expect growth in this market. We expect our smaller Western Canada hotels to continue to experience volatility in their results and generally more modest rebounds. Energy commodity prices and provincial and federal policies with regards to energy infrastructure projects will influence the performance of our Western Canadian hotels.

We are looking forward to a smaller capital budget in 2018 compared to recent years as we have completed significant renovation projects at many of our hotels over the past several years. Our capital program consists of regular maintenance capex, several energy efficiency projects and the renovation of our Travelodge in New Glasgow, NS.

We continue working on the redevelopment site of the Travelodge in Ottawa, ON. We expect the demolition of the non-operated structures on the site will be completed in the middle of 2018.

With stable to improving operating results, lower debt service costs due to the refinancing transactions completed in 2017 and a smaller capital budget, we anticipate our free cash flow will increase in 2018. This free cash flow can be used for debt reduction, share and debenture repurchases, dividend distributions and to take advantage of acquisition opportunities as they arise.

Dividend Declaration

On March 7, 2018, the Board of Directors declared a quarterly dividend of $0.035 per share, representing an annual dividend of $0.14 per share. The dividend is payable on April 13, 2018 to shareholders of record on March 29, 2018.

Operating Results

Hotel Performance

The following tables summarize the performance of Holloway's portfolio of hotels for the three months and year ended December 31, 2017 compared to the same periods in the prior year. The tables segregate the performance of Holloway's base portfolio, meaning hotels that were owned in both the current and prior periods, and the performance of acquired, sold and temporarily closed hotels.

Three Months Ended December 31

	Base Portfolio			Acquired/Sold/Closed Hotels[2]			Total		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Hotel revenues	$ 24,765	$ 22,563	9.8%	$ -	$ 2,033	(100.0%)	$ 24,765	$ 24,595	0.7%
Hotel operating income [1]	6,957	5,291	31.5%	(47)	306	(115.2%)	6,910	5,598	23.4%
Hotel operating income margin	28.1%	23.5%	4.6 ppt	-	15.1%	(15.1 ppt)	27.9%	22.8%	5.1 ppt

(1) Before depreciation and amortization.
(2) Represents three hotels (sold - Travelodge in Belleville, ON and Holiday Inn in Oakville, ON; closed - Travelodge in Slave Lake, AB).

Years Ended December 31

	Base Portfolio			Acquired/Sold/Closed Hotels[2]			Total		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Hotel revenues	$ 93,861	$ 85,630	9.6%	$ 11,708	$ 20,781	(43.7%)	$ 105,569	$ 106,412	(0.8%)
Hotel operating income[1]	29,307	24,369	20.3%	2,724	4,969	(45.2%)	32,031	29,338	9.2%
Hotel operating income margin	31.2%	28.5%	2.7 ppt	23.3%	23.9%	(0.6 ppt)	30.3%	27.6%	2.7 ppt

(1) Before depreciation and amortization.
(2) Represents seven hotels (acquired - Westmark in Whitehorse, YT; sold - Travelodge in Barrie, ON, Travelodge in Belleville, ON and Holiday Inn in Oakville, ON; closed - Travelodge in Slave Lake, AB for Q2, Q3 and Q4 2016 and all of 2017, Travelodge in Sydney, NS for Q1 2016, and Super 8 in Grande Prairie, AB for Q2 and Q3 2017).

Three Months Ended December 31, 2017

Revenue from our base portfolio increased $2,202 or 9.8% and operating income increased 31.5%. See our "Fourth Quarter Review and Outlook" for further commentary. Hotel revenue includes $143 of business interruption insurance proceeds related to the Super 8 in Grande Prairie, AB. The hotel operating income margin increased to 28.1% due to a 9.1% RevPAR increase.

Management services decreased in the fourth quarter of 2017 compared to 2016 as the Company had management contracts for three hotels in the fourth quarter of 2016 compared to contracts for two hotels in the fourth quarter of 2017.

Year Ended December 31, 2017

Revenue from our base portfolio increased $8,231 or 9.6%. Hotel operating income increased $4,938 or 20.3%. This is principally a result of RevPAR increasing 10.3% as well as $277 of business interruption insurance proceeds for the Holiday Inn in Ottawa, ON. The business interruption insurance proceeds for the Super 8 in Grande Prairie, AB of $767 are included in "Acquired/sold/closed hotels" in the table above due to the temporary closure of the hotel for the second and third quarters of 2017.

For the years ended 2017 and 2016, management services increased as a result of this division commencing operations in the second quarter of 2016.

Key Performance Measures

	Three Months Ended December 31								
	Base Portfolio			Acquired/Sold/Closed Hotels			Total		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Occupancy									
Atlantic Canada	49.7%	50.5%	(0.8 ppt)	-	-	-	49.7%	50.5%	(0.8 ppt)
Ontario	56.2%	51.0%	5.2 ppt	-	57.1%	(57.1 ppt)	56.2%	52.1%	4.1 ppt
Western Canada	45.2%	44.0%	1.2 ppt	-	-	-	41.6%	40.4%	1.2 ppt
Northern Canada	51.7%	47.5%	4.2 ppt	-	-	-	51.7%	47.5%	4.2 ppt
Total	50.7%	48.3%	2.4 ppt	-	41.8%	(41.8 ppt)	49.3%	47.7%	1.6 ppt
ADR									
Atlantic Canada	$ 105.56	$ 101.24	$ 4.32	$ -	$ -	$ -	$ 105.56	$ 101.24	$ 4.32
Ontario	119.63	113.72	5.91	-	103.56	(103.56)	119.63	111.65	7.98
Western Canada	132.15	127.24	4.91	-	-	-	132.15	127.24	4.91
Northern Canada	130.93	131.75	(0.82)	-	-	-	130.93	131.75	(0.82)
Total	$ 121.32	$ 116.70	$ 4.62	$ -	$ 103.56	$ (103.56)	$ 121.32	$ 115.64	$ 5.68
RevPAR									
Atlantic Canada	$ 52.46	$ 51.13	$ 1.33	$ -	$ -	$ -	$ 52.46	$ 51.13	$ 1.33
Ontario	67.23	58.00	9.23	-	59.13	(59.13)	67.23	58.17	9.06
Western Canada	59.73	55.99	3.74	-	-	-	54.97	51.40	3.57
Northern Canada	67.69	62.58	5.11	-	-	-	67.69	62.58	5.11
Total	$ 61.51	$ 56.37	$ 5.14	$ -	$ 43.29	$ (43.29)	$ 59.81	$ 55.16	$ 4.65

	Years Ended December 31								
	Base Portfolio			Acquired/Sold/Closed Hotels			Total		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Occupancy									
Atlantic Canada	60.8%	58.8%	2.0 ppt	46.6%	49.2%	(2.6 ppt)	58.9%	57.8%	1.1 ppt
Ontario	60.7%	53.6%	7.1 ppt	42.3%	61.7%	(19.4 ppt)	60.3%	55.5%	4.8 ppt
Western Canada	49.7%	45.6%	4.1 ppt	11.3%	28.4%	(17.1 ppt)	42.0%	42.1%	(0.1 ppt)
Northern Canada	62.9%	61.1%	1.8 ppt	55.3%	62.6%	(7.3 ppt)	60.0%	61.6%	(1.6 ppt)
Total	57.5%	53.0%	4.5 ppt	34.0%	50.7%	(16.7 ppt)	54.0%	52.5%	1.5 ppt
ADR									
Atlantic Canada	$ 111.88	$ 108.50	$ 3.38	$ 110.30	$ 107.60	$ 2.70	$ 111.71	$ 108.42	$ 3.29
Ontario	117.95	112.79	5.16	86.89	104.42	(17.53)	117.37	110.60	6.77
Western Canada	130.03	132.58	(2.55)	121.33	116.01	5.32	129.56	130.32	(0.76)
Northern Canada	139.68	141.26	(1.58)	127.69	120.10	7.59	135.38	134.44	0.94
Total	$ 121.77	$ 119.80	$ 1.97	$ 119.11	$ 109.75	$ 9.36	$ 121.52	$ 117.79	$ 3.73
RevPAR									
Atlantic Canada	$ 68.02	$ 63.80	$ 4.22	$ 51.40	$ 52.94	$ (1.54)	$ 65.80	$ 62.67	$ 3.13
Ontario	71.60	60.46	11.14	36.75	64.43	(27.68)	70.77	61.38	9.39
Western Canada	64.62	60.46	4.16	13.71	32.95	(19.24)	54.42	54.86	(0.44)
Northern Canada	87.86	86.31	1.55	70.61	75.18	(4.57)	81.23	82.82	(1.59)
Total	$ 70.02	$ 63.49	$ 6.53	$ 40.50	$ 55.64	$ (15.14)	$ 65.62	$ 61.84	$ 3.78

Three Months Ended December 31, 2017

For the three months ended December 31, 2017, RevPAR for the base portfolio increased $5.14 or 9.1%. The portfolio performed well, with all regions increasing their RevPAR. The Ontario region generated meaningful increases in both occupancy and ADR. The hotels in Northern Canada also achieved a substantial RevPAR increase due the increased occupancy at the Quality Inn in Yellowknife, NT.

Year Ended December 31, 2017

For the year ended December 31, 2017, RevPAR at our Atlantic Canada hotels increased by $4.22 or 6.6%, as occupancy increased 2.0 percentage points and ADR rose $3.38. All but two hotels experienced an increase in RevPAR compared to 2016.

RevPAR at our Ontario hotels increased $11.14 or 18.4% due to an increase in both ADR of $5.16 and occupancy of 7.1 percentage points. RevPAR increased across the portfolio. The RevPAR at the Holiday Inn in Ottawa, ON increased $34.95 or 54.7%.

RevPAR at our Western Canada hotels increased $4.16 or 6.9% which was driven by an increase in occupancy of 4.1 percentage points. The ADR declined $2.55 due to the mix of business.

Our Northern Canada hotels experienced a 1.8 percentage point increase in occupancy offset by a decline of $1.58 in ADR resulting in a slight increase in RevPAR over the prior year.

Other Expenses

	Three Months Ended December 31			Years Ended December 31		
	2017	2016	Variance	2017	2016	Variance
Interest and accretion on debt	$ 3,236	$ 4,136	$ (900)	$ 14,278	$ 16,190	$ (1,912)
Corporate and administrative	444	548	(104)	2,400	1,784	616
Share-based expense	45	53	(8)	314	233	81
Investment income	(156)	(162)	6	(640)	(640)	-
Insurance proceeds, net of clean-up and other costs	(502)	-	(502)	(1,978)	-	(1,978)
(Gain) loss on disposals of property and equipment and repurchase of convertible debentures	(19)	20	(39)	(6,581)	(2,665)	(3,916)
Impairment of hotel properties, net	-	1,400	(1,400)	-	300	(300)
Acquisition and redevelopment costs	-	31	(31)	10	665	(655)
Realized foreign exchange loss	-	-	-	-	926	(926)
Unrealized foreign exchange (gain) loss	(33)	(131)	98	362	(224)	586
Provision for (recovery of) income taxes	(356)	(1,634)	1,278	2,056	(1,243)	3,299

Interest expense decreased in the fourth quarter and for the 2017 year compared to 2016 due to the repayment of higher interest rate mortgages that were to mature in May and July 2017. Included in interest expense for the year ended December 31, 2017 is $652 of non-recurring costs related to the various refinancing transactions.

Corporate and administrative expenses decreased in the three months ended December 31, 2017 due largely to a court award of $202 for previously incurred legal costs. Corporate and administrative expenses are higher in 2017 compared to 2016 due to an increase in legal and compensation expenses as well as the reversal of over-accrued liabilities in 2016. The increase in share-based expense for the year ended December 31, 2017 is due to an increase in Holloway's share price and the granting of additional options.

During the three months and year ended December 31, 2017, the Company recorded investment income of $156 and $640 respectively, on the US dollar loan receivable.

During the three months and year ended December 31, 2017, the Company recorded $502 and $1,978 of property insurance proceeds, net of costs primarily related to the clean-up and replacement of property and equipment at the Super 8 in Grande Prairie, AB.

The gain on disposal of property and equipment and repurchase of convertible debentures recorded during the year ended December 31, 2017 of $6,581 is largely comprised of the gain on sale on the Holiday Inn in Oakville, ON of $7,832 offset by the derecognized assets at the Super 8 Grande Prairie, AB of $1,044 associated with the water damage and insurance claim. In 2016, the Company recorded a gain on the sale of the Travelodge in Barrie, ON of $2,942.

No impairments or reversals of impairments were recorded in 2017. During the year ended December 31, 2016, the Company recorded a reversal of previously recorded impairments on five hotel properties of $6,300 based on recent external appraisals and recorded impairments on four hotel properties of $6,600, for a net impairment of $300.

Acquisition and redevelopment costs are not related to the day-to-day operations of our hotels (and are not included in calculating hotel net operating income). These costs are incurred by management at its discretion when pursuing particular strategic transactions. For the year ended December 31, 2016, this amount consisted primarily of costs associated with the acquisition of the Westmark® hotel, the potential redevelopment of the Travelodge Ottawa West site, and costs associated with the renovations of the Holiday Inn in Ottawa, ON, the DoubleTree® in London, ON and the Travelodge in Sydney, NS that could not be capitalized.

For the year ended December 31, 2017, the unrealized foreign exchange loss represents the change in the value of the US dollar loan receivable as the value of the Canadian dollar has increased. In 2016, the Company settled three foreign exchange contracts entered into for hedging purposes. The realized foreign exchange loss of $926 for the year ended December 31, 2016 represents the settlement of two foreign exchange contracts in February 2016 and the purchase price hedge for the Westmark hotel, the purchase of which was denominated in US dollars and settled in April 2016.

During the year ended December 31, 2017, the Company recognized an income tax provision of $2,056 from generating taxable income for the period. The Company will not pay these amounts in cash due to available tax loss carry-forwards.

Quarterly Results

	Q4 2017	Q4 2016	Q3 2017	Q3 2016	Q2 2017	Q2 2016	Q1 2017	Q1 2016
Total revenue	**$ 24,948**	$ 24,820	$ 32,153	$ 32,420	$ 25,602	$ 27,786	$ 23,672	$ 22,138
Operating income[1]	**6,920**	5,598	12,713	12,047	7,648	8,534	4,916	3,156
Net income (loss) attributable to shareholders	**404**	(2,302)	3,658	4,834	(1,095)	(139)	3,511	(3,438)
Funds from operations	**3,907**	1,374	9,879	7,584	3,023	3,804	550	(2,007)
Adjusted funds from operations	**3,497**	1,153	9,263	7,185	2,848	3,442	246	(2,524)
Dividends declared	**646**	661	657	661	661	661	661	661
Per basic share:								
Net income (loss)	**$ 0.02**	$ (0.12)	$ 0.19	$ 0.26	$ (0.06)	$ (0.01)	$ 0.19	$ (0.18)
Funds from operations	**0.21**	0.07	0.52	0.40	0.16	0.20	0.03	(0.11)
Adjusted funds from operations	**0.19**	0.06	0.49	0.38	0.15	0.18	0.01	(0.13)
Dividends declared	**0.035**	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	**49%**	48%	65%	63%	53%	53%	49%	46%
ADR	**$121.32**	$115.64	$125.74	$120.91	$119.35	$116.98	$118.45	$116.55
RevPAR	**$59.81**	$55.16	$81.61	$75.57	$63.14	$62.35	$57.69	$53.61

(1) Before depreciation and amortization.

The hospitality industry is seasonal in nature and therefore, the Company's results fluctuate throughout the year. The Company's revenues are generally highest in the third quarter due to increased leisure travel during the summer months. While certain expenses fluctuate according to occupancy levels, other expenses such as property taxes, insurance and interest are fixed and are incurred evenly throughout the year.

Cash Flow

	Three Months Ended December 31			Years Ended December 31		
	2017	2016	Variance	2017	2016	Variance
Cash flow provided by (used in):						
Operating activities	$ 5,884	$ 3,244	$ 2,640	$ 19,491	$ 12,313	$ 7,178
Investing activities	(1,992)	(1,093)	(899)	16,683	(10,644)	27,327
Financing activities	(4,588)	(2,168)	(2,420)	(36,666)	(2,545)	(34,121)

Operating Activities

For the three months ended December 31, 2017, operating activities generated $5,884 compared to $3,244 for the same period in 2016. For the year ended December 31, 2017, operating activities generated $19,491 compared to $12,313 in 2016. This increase in both periods is primarily a result of higher operating income from our hotels.

Investing Activities

For the three months ended December 31, 2017, investing activities used $1,992 compared to $1,093 for the same period in 2016. This was primarily due to an increase in additions to property and equipment at the Super 8 in Grande Prairie, AB.

For the year ended December 31, 2017, investing activities generated $16,683 compared to a use of cash of $10,644 in 2016. The Company received net proceeds from the sale of the Holiday Inn in Oakville, ON of $19,236 and the Travelodge in Belleville, ON of $6,861. In addition, the Company received $3,353 from the capital reserve accounts, the majority of which were refunded when the related mortgages were repaid. Capital additions at various properties totaled $12,767.

In 2016, the use of cash consisted of the purchase of the Westmark Hotel in Whitehorse, YT for $8,775 and capital additions to various properties of approximately $9,869 offset by the sale of the Travelodge in Barrie, ON for $8,729.

Financing Activities

For the three months ended December 31, 2017, financing activities used $4,588 compared to $2,168 for the same period of 2016. For the three months ended December 31, 2017, the Company repurchased $1,838 of its common shares, repurchased $1,058 of convertible debentures, made $1,072 in mortgage principal repayments and paid dividends of $646. For the three months ended December 31, 2016, the Company made $1,619 in principal repayments on its mortgages and paid dividends of $661.

For the year ended December 31, 2017, financing activities used $36,666 compared to $2,545 for 2016. In 2017, the Company repaid eleven mortgages totalling $90,385 which were to mature in May and July 2017, repaid the $3,386 mortgage secured by the Travelodge in Belleville, ON when the hotel was sold and made $4,905 in regular mortgage principal payments. The Company received financing on two new mortgages totaling $61,780, net of financing fees and drew $7,709 on its two secured credit facilities. The payment of dividends to shareholders and repurchases of the Company's convertible debentures and common shares used $2,625, $1,271 and $2,887 respectively.

In 2016, the Company repaid $1,899 on its secured credit facility and made $9,145 in mortgage principal payments of which $6,294 were regular principal payments and $2,851 were supplemental repayments. The payment of dividends to shareholders used $2,644. These uses of cash were offset by obtaining new mortgages of $11,900, net of financing fees.

Liquidity and Capital Structure

The Company uses various forms of debt in the course of its business. The objectives of the Company's debt strategy are to ensure adequate liquidity to fund its strategic plan and permit opportunistic acquisitions, minimize the cost of financing and stagger its debt maturities to manage refinancing risks.

The Company's principal sources of liquidity are cash on hand, free cash flow generated throughout the year and its secured credit facilities.

		December 31, 2017
Cash on hand	$	691
Capital expenditure reserves[1]		83
Committed and unfunded mortgage[2]		5,000
Secured credit facility availability		49,661
Total current liquidity[3]	$	55,435

(1) Contingent on capital expenditures being incurred.
(2) Subject to certain conditions being met.
(3) Excludes proceeds from financing unencumbered assets.

The Company currently has three unencumbered properties which can be mortgaged should circumstances warrant.

Secured Credit Facilities and Mortgages Payable

		December 31, 2017		December 31, 2016
Secured Credit Facilities				
Principal amount payable	$	25,339	$	17,630
Weighted average interest rate		4.49%		4.20%
Mortgages Payable				
Principal amount payable	$	91,672	$	127,848
Weighted average term to maturity		4.5 years		1.7 years
Weighted average interest rate		4.57%		5.85%

Chartered Bank Credit Facilities

The Company has revolving credit facilities with two Canadian chartered banks. The first revolver has a maximum borrowing capacity of $45,000 with an interest rate based on a spread over banker's acceptance rates or the bank's prime rate plus 1.25% (4.45% at December 31, 2017). This revolver is secured by nine hotels, is subject to an annual review and has no set expiry date. The second revolver has a maximum borrowing capacity of $30,000 with an interest rate of prime plus 1.50% (4.70% at December 31, 2017). At the time of refinancing the maturing mortgages, the Company drew $15,000 on this revolver. Each advance must be repaid within one year. At December 31, 2017, the balance outstanding was $4,500 and as of the date of this MD&A, the balance has been repaid in full. The second revolver, along with the $50,000 mortgage referred to below, is secured by ten hotels.

At December 31, 2017, the revolving credit facilities had a weighted average interest rate of 4.49%.

The revolving credit facilities are used to manage working capital fluctuations and the seasonal effects of the hospitality industry as well as provide short-term financing in the event of hotel acquisitions or renovations.

Mortgages Payable

The Company has incurred debt under various mortgages with a weighted average interest rate of 4.57%. These mortgages mature between November 2018 and September 2029 and are secured by individual first charges on 21 hotel properties. During the second quarter of 2017, the Company repaid eleven mortgages totaling $90,385 that were to mature in May and July 2017. To fund such repayments, Holloway entered into an $80,000 loan and a $17,500 mortgage.

The loan consists of a $50,000 mortgage and a $30,000 revolving credit facility discussed above. The mortgage bears interest at a floating interest rate of prime plus 1.50%, has an option to convert the interest rate to a fixed rate, an amortization period of 17 years and a five-year term.

The $17,500 mortgage is secured by two hotels located in Alberta, bears interest at 4.45%, amortization period of 15 years and a five-year term. Holloway drew $12,500 under this mortgage. An additional $5,000 can be drawn when certain conditions are satisfied.

On October 2, 2017, the Company extended a mortgage on one of its hotels with a principal amount of $4,902 which was to mature in April 2018. The interest rate was reduced from 4.81% to 4.29%. The mortgage has a fifteen year amortization period and a five-year term.

The Company is subject to financial covenants on certain of its mortgages and its secured credit facilities, which include customary terms and conditions for borrowings of this nature. At December 31, 2017, the Company was in compliance with all covenants.

Convertible Debentures

At December 31, 2017, the Company had two series of convertible debentures outstanding. The Series B convertible debentures (trading symbol "HLC.DB") have an aggregate principal amount outstanding of $50,866, bear interest at 6.25%, have interest payment dates of April 30 and October 31 and mature on February 28, 2020. The Series C convertible debentures (trading symbol "HLC.DB.A") have an aggregate principal amount outstanding of $40,565, bear interest at 7.50%, have interest payment dates of March 31 and September 30 and mature on September 30, 2021.

In August, 2017, the Company obtained approval to amend the Series C Debentures as follows: (1) extend the maturity of the Series C Debentures by three years to September 30, 2021; (2) amend the conversion price to $12.50 per common share; and (3) provide holders with the option to exchange their Series C Debentures for a new series of debentures upon receiving an exchange notice from Holloway. The Company also obtained approval to amend the Series B Debentures to

provide holders with the option to exchange their Series B Debentures for a new series of debentures upon receiving an exchange notice from Holloway. The amendments referred to above became effective November 9, 2017.

Subject to availability, the Company intends to continue using convertible debentures as a financing source due to the flexible nature of these debt instruments, particularly as the current convertible debentures have no financial covenants and minimal other covenants. In addition, because the convertible debentures are exchange-traded, from time to time, the Company has the opportunity to repurchase its debentures at a discount to their face value.

The following table shows the Company's convertible debentures at December 31, 2017:

	Maturity	Interest Rate	December 31, 2017	December 31, 2016
Series B (HLC.DB)	2020	6.25%	$ 50,866	$ 52,187
Series C (HLC.DB.A)	2021	7.50%	40,565	40,572
			$ 91,431	$ 92,759
Weighted average term to maturity			2.9 years	2.5 years
Weighted average interest rate			6.80%	6.80%

The Company has the option to repay the principal amount of the debentures, in whole or in part, at maturity or redeem the debentures, in whole or in part, at or prior to maturity, in cash or by issuing shares of the Company. The number of shares that would be issued is calculated by dividing the aggregate principal amount by 95% of the "current market price" of the shares (calculated in accordance with the indenture).

On January 13, 2017, the Company initiated Normal Course Issuer Bids ("NCIBs") to repurchase a maximum $4,526 principal amount of its Series B convertible debentures and $3,411 principal amount of its Series C convertible debentures. The NCIB was in effect until January 12, 2018. For the year ended December 31, 2017, Holloway repurchased $1,321 principal amount of its Series B debentures at a cost of $1,264 (average cost of $95.69 per $100 face value) and repurchased $7 principal amount of its Series C debentures at a cost of $7 (average cost of $98.99 per $100 face value).

On January 15, 2018, the Company initiated NCIBs to repurchase a maximum $4,962 principal amount of its Series B debentures and $3,411 principal amount of its Series C debentures. This NCIB is in effect until January 14, 2019 unless the bid is completed or terminated earlier by the Company.

Contractual Obligations

The following table shows the Company's contractual obligations as at December 31, 2017:

	2018	2019	2020	2021	2022	Thereafter
Mortgages payable						
Interest[1]	$ 4,084	$ 3,731	$ 3,273	$ 2,834	$ 1,118	$ 419
Principal[2]	6,871	8,598	6,445	11,069	55,230	3,459
Secured credit facility						
Interest[1]	1,133	-	-	-	-	-
Principal	25,339	-	-	-	-	-
Convertible debentures						
Interest	6,221	6,221	3,573	2,282	-	-
Principal[3]	-	-	50,866	40,565	-	-
Operating leases	165	36	13	6	1	-
Total	$ 43,813	$ 18,586	$ 64,170	$ 56,756	$ 56,349	$ 3,878

(1) Interest on floating rate debt is based on interest rates prevailing at December 31, 2017.
(2) Principal includes regular amortization and repayments at maturity.
(3) Principal represents face value of debentures at maturity.

Commitments to Capital Spending

Holloway completes capital improvements and upgrades to its properties on an ongoing basis. Recurring capital expenditures reflect the regular cost of replacing furniture, fixtures and equipment, as well as other capital expenditures that are required in order to maintain the existing productive capacity of the properties. Holloway continually assesses the highest and best use of each of its properties and, subject to certain financial and other conditions being satisfied, pursuing the development or redevelopment of such properties. Development activities will generally occur over long periods of time.

Common Shares

At December 31, 2017, the Company had 18,370,966 shares outstanding.

On August 17, 2017, the Company initiated an NCIB to repurchase up to 943,713 of its outstanding common shares. For the year ended December 31, 2017, the Company repurchased and cancelled a total of 518,100 shares at a cost of $2,887 (average price of $5.57 per share) under this NCIB and the previous NCIB that expired on August 16, 2017.

The Company believes that, on occasion, the shares become available at prices that do not give full effect to their underlying value. Accordingly, management believes that the purchase of shares pursuant to the NCIB represents an investment opportunity for Holloway and an appropriate use of funds.

Dividends

The Company currently pays dividends on a quarterly basis at the discretion of the Company's Board of Directors, which reviews the Company's dividend policy on a regular basis. At the present time, the Board of Directors believe in paying a modest dividend to shareholders while allocating the majority of the Company's free cash flow to other uses that offer higher returns to shareholders and result in the compounding of shareholder capital over time. These alternative uses include acquisitions, upgrades and/or expansions of existing hotels, share repurchases and discounted convertible debenture repurchases and/or regular or supplemental debt repayments.

The following table shows the Company's payout ratio based on various earnings metrics:

	Three Months Ended December 31		Years Ended December 31	
	2017	2016	2017	2016
Dividends declared	$ 646	$ 661	$ 2,625	$ 2,644
Net income (loss) attributable to shareholders	404	(2,302)	6,478	(1,045)
Payout ratio	159.9%	(28.7%)	40.5%	(253.0%)
Funds from operations	3,907	1,374	17,359	10,726
Payout ratio	16.5%	48.1%	15.1%	24.7%
Adjusted funds from operations	3,497	1,153	15,854	9,256
Payout ratio	18.5%	57.3%	16.6%	28.6%

Other Information

Selected Financial Information

The following table provides certain financial information for the past three years:

	2017	2016	2015
Total revenues	$ 106,375	$ 107,164	$ 111,154
Net income (loss) attributable to shareholders	6,478	(1,045)	(3,811)
Per basic and diluted share	0.34	(0.06)	(0.20)
Dividends paid per share	0.14	0.14	0.14
Total assets	322,409	351,399	356,363
Total long-term financial liabilities	173,183	122,945	213,214

Statement of Financial Position

The following table outlines significant balances or changes in the consolidated statement of financial position from December 31, 2016 to December 31, 2017:

	December 31, 2017	December 31, 2016	Increase (Decrease)	Explanation
Assets				
Trade, other and insurance proceeds receivables	4,385	3,580	805	Trade and credit card receivables have increased primarily due to the increase from operational activity and timing of collections. Insurance proceeds receivable consists of business interruption and property insurance proceeds to be received related to the Super 8 in Grande Prairie, AB.
Prepaid expenses and deposits	975	2,819	(1,844)	The decrease in prepaid expenses and deposits is a result of a reduction in the property tax reserves related to the refinanced properties.
Property and equipment	284,047	305,624	(21,577)	Change is primarily due to the following: - sale of Holiday Inn in Oakville, ON ($11,393); - sale of Travelodge in Belleville, ON ($6,869); - renovations and other capital additions ($13,244); - depreciation for the year ($15,436)
Loan receivable	5,018	5,371	(353)	Loan receivable has decreased due to the change in foreign exchange, as the loan is demoninated in USD.
Deferred income tax assets	26,116	28,172	(2,056)	Deferred income tax assets decreased primarily as the result of taxable income generated in the year.
Liabilities				
Secured credit facilities	25,339	17,630	7,709	The secured credit facilities increased as a result of the new financing and capital additions at our properties.
Trade payables and accrued liabilities	9,389	9,640	(251)	Trade payables and accrued liabilities have decreased primarily due to the reduction in interest rates from refinancing resulting in a lower interest payable.
Current portion of mortgages payable	6,864	94,166	(87,302)	The decrease is related to the refinancing completed in May.
Mortgages payable	83,723	33,130	50,593	The increase is primarily a result of the refinancing of mortgages maturing in 2017.
Equity				
Equity attributable to shareholders of the Company	104,084	103,118	966	Increase primarily represents comprehensive income for the year offset by dividends paid and the repurchase of common shares.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at December 31, 2017. The Company owns 32 hotels and held a 62% interest in another hotel in Canada, with a total of 3,764 guest rooms.

Property	Location	No. of Rooms
Alberta		
Best Western®	Grande Prairie	99
Days Inn®	Whitecourt	79
Holiday Inn®	Grande Prairie	146
Quality Inn® and Suites	Grande Prairie	152
Super 8®	Drayton Valley	60
Super 8®	Grande Prairie	148
Super 8®	High Level	81
Super 8®	Slave Lake	58
Super 8®	Whitecourt	59
Travelodge® (1)	Slave Lake	99
		981
British Columbia		
Super 8®	Fort Nelson	142
Super 8®	Fort St. John	112
		254
New Brunswick		
Days Inn®	Moncton	151
Travelodge®	Moncton	75
Travelodge®	Saint John	58
		284
Newfoundland and Labrador		
Super 8® (2)	St. John's	**81**
Northwest Territories		
Quality Inn® and Suites	Yellowknife	129
Super 8®	Yellowknife	66
		195
Nova Scotia		
Holiday Inn Express®	Stellarton	125
Super 8®	Truro	50
Super 8®	Windsor	66
Travelodge®	Dartmouth	75
Travelodge®	New Glasgow	63
Travelodge®	Sydney	117
		496
Ontario		
Airlane	Thunder Bay	155
DoubleTree by Hilton®	London	323
Holiday Inn®	Ottawa	261
Super 8®	Timmins	73
Travelodge®	Ottawa	196
Travelodge®	Thunder Bay	93
Travelodge®	Timmins	92
		1,193
Yukon		
Days Inn®	Whitehorse	99
Westmark® Hotel and Conference Center	Whitehorse	181
		280
Total Rooms		**3,764**

(1) Leased to a third party effective January 16, 2018

(2) Holloway holds a 62% ownership interest in this property.

Non-IFRS Financial Measures

Funds from Operations ("FFO")

FFO is a common measure of performance for publicly-traded real estate companies. FFO assumes that the value of real estate investments does not necessarily decrease on a systematic basis over time, an assumption inherent in IFRS, and it adjusts for items included in net income that do not necessarily provide the best indicator of operating performance, such as gains or losses on the sale of assets, provisions for impairment (and impairment reversals) of assets and depreciation and amortization of real estate assets which may not necessarily occur and is based on historical cost accounting. The Real Property Association of Canada 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 income taxes. The Company calculates FFO in accordance with this definition. Other entities may calculate FFO differently. FFO should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS. The Company believes the best metric of its performance is free cash flow.

	Three Months Ended December 31		Years Ended December 31	
	2017	2016	**2017**	2016
Net income (loss) attributable to shareholders	**$ 404**	$ (2,302)	**$ 6,478**	$ (1,045)
Add / (deduct):				
Depreciation and amortization of real estate assets	**3,878**	3,890	**15,406**	15,379
Impairment of hotel properties, net	**-**	1,400	**-**	300
(Gain) loss on disposals of property and equipment and repurchase of convertible debentures	**(19)**	20	**(6,581)**	(2,665)
Provision for (recovery of) deferred income taxes	**(356)**	(1,634)	**2,056**	(1,243)
FFO	**$ 3,907**	$ 1,374	**$ 17,359**	$ 10,726
per basic share	**0.21**	0.07	**0.92**	0.57

Adjusted Funds from Operations ("AFFO")

AFFO is another common measure of performance for publicly-traded real estate companies. AFFO is generally considered reflective of the Company's ability to earn income and pay cash dividends to shareholders. The Company calculates AFFO as FFO adjusted for: share-based expense (recovery), depreciation and amortization of corporate assets, accretion on debt and reserve for replacement of FF&E. Other entities may calculate AFFO differently. AFFO should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS. The Company believes the best metric of its performance is free cash flow.

	Three Months Ended December 31		Years Ended December 31	
	2017	2016	**2017**	2016
FFO	**$ 3,907**	$ 1,374	**$ 17,359**	$ 10,726
Add / (deduct):				
Share-based expense	**45**	52	**314**	233
Depreciation and amortization of corporate assets	**20**	22	**75**	109
Change in fair value of embedded derivative	**-**	-	**-**	-
Accretion on debt	**281**	455	**1,321**	1,429
FF&E reserve	**(756)**	(750)	**(3,215)**	(3,241)
AFFO	**$ 3,497**	$ 1,153	**$ 15,854**	$ 9,256
per basic share	**0.19**	0.06	**0.84**	0.49

Other Non-IFRS Metrics

Throughout this MD&A, the Company refers to the following metrics that do not have a standardized meaning under IFRS but that are commonly used by hospitality companies.

Occupancy: Occupancy represents the number of rooms sold in a hotel compared to the total number of rooms available for sale in the hotel.

Average daily rate or "ADR": ADR is defined as room revenue divided by the number of rooms occupied or sold.

Revenue per available room or "RevPAR": RevPAR 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 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.

Hotel operating income before depreciation: Hotel operating income before depreciation is defined as hotel revenue less hotel expenses. Hotel operating income measures hotel results before interest, depreciation and amortization.

Base portfolio: Hotels that have been owned and operating for the current and prior reporting period(s).

Legal Proceedings

In the course of the Company's ordinary activities, the Company is involved in administrative proceedings, litigation and claims. In September 2015, the Company was served with a personal injury claim in the Alberta Court of Queen's Bench seeking over $10,000 in damages. The Company believes the claims are without merit, there are valid defences to any actions or the outcomes will not have a material impact on the Company's consolidated financial position or results of operations. The Company intends to fully defend its interests. The outcome of the claims is subject to future court proceedings, and it is not practicable to determine an estimate of the possible financial effect, if any, at this time with sufficient reliability. Accordingly, no amounts have been recorded in the accounts of the Company related to these claims.

Significant Accounting Policies and New Standards

The significant accounting policies of Holloway are described in note 3 of the Company's December 31, 2017 audited consolidated financial statements.

New Standards and Interpretations Not Yet Adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2018, and have not been applied in preparing the December 31, 2017 consolidated financial statements. None of the new standards are expected to have a significant effect on the consolidated financial statements of the Company. A description of the new standards is as follows:

IFRS 9, Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9") will replace IAS 39, "Financial instruments: recognition and measurement". The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company has reviewed its financial assets and liabilities and is expecting the following changes from the adoption of the new standard on January 1, 2018:

IFRS 9, "Financial Instruments" ("IFRS 9") will replace IAS 39, "Financial instruments: recognition and measurement". The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition

and measurement, impairment, derecognition and general hedge accounting. The Company has reviewed its financial assets and liabilities and is expecting the following changes from the adoption of the new standard on January 1, 2018:

- Modification of financial liabilities – Financial liabilities that are considered modified during the year are to be accounted for by discounting revised cash flows at the original effective interest rate. This will result in an immediate impact to consolidated net income (loss) for any modified financial liabilities in which the discounted future cash flows are affected. Through its assessment, the Company identified two financial liabilities that were modified. The related gain on modification was considered immaterial.

- Expected credit losses ("ECL") – The new impairment model under IFRS 9 requires the recognition of impairment provisions based on ECL rather than only incurred credit losses as was the case under IAS 39. For the Company, this applies to its loans and receivables measured at amortized cost. Through its assessment, the Company does not expect a material impact to the carrying value of these assets.

Based management's analysis, there is no cumulative impact to the Company's opening deficit from the adoption of the standard as of January 1, 2018. The Company will apply the new standard using the retrospective approach from January 1, 2018.

IFRS 15, Revenue from Contracts and Customers

IFRS 15, "Revenue from Contacts and Customers" ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, "Revenue" and IAS 11, "Construction Contracts", and some revenue related interpretations. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods and services.

Management has assessed the effects of applying the new standard on the Company's financial statements and has identified the following area that will be affected:

- Accounting for variable consideration – IFRS 15 states that the total consideration expected in a contract can include fixed amounts, variable amounts, or both. The Company determines the total transaction price, including an estimate of any variable consideration, at contract inception and reassesses this estimate at each reporting date. This may result in earlier recognition of revenue for any external management services contracts that include variable consideration. No such contracts existed as at and for the year ended December 31, 2017.

Based on management's analysis, there is no cumulative impact to the Company's opening deficit from the adoption of the standard as of January 1, 2018. The Company will apply the new standard using the modified retrospective approach from January 1, 2018.

IFRS 16, Leases

IFRS 16, "Leases" ("IFRS 16"), will replace IAS 17, "Leases". IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Critical Accounting Estimates and Judgments

The discussion and analysis of Holloway's financial position and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and make estimates and assumptions

about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from management's estimates and expectations.

The following discusses the most significant accounting estimates and judgments that the Company has made in the preparation of its consolidated financial statements.

Property and Equipment

The Company has established a methodology for identifying indicators of impairment which includes looking at changes in operating performance, occupancy levels and other factors for each hotel or cash generating unit ("CGU"). Additional factors including oil and gas or other business and economic market activity, regional development opportunities and new competition in the markets in which each CGU operates are also considered. These indicators determine whether the Company tests for impairment or reversal of previously recorded impairments at each reporting date.

For the year ended December 31, 2017, the Company determined that there were no indicators of impairment or indicators that previously recorded impairments should be reversed.

Depreciation of Property and Equipment

The Company records depreciation on its property and equipment using the straight-line method over the estimated useful life of each category. If different estimated useful lives of the assets or depreciation methods were used, the impact on the Company's net income (loss) could be material.

Income Taxes

Deferred income tax assets and liabilities require management's judgement in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets recorded in the consolidated statement of financial position. Significant estimates and judgments are used in determining the future consolidated taxable income, which includes consideration of the history of profitability. Actual results will differ from the amounts estimated for future taxable income. Management considers both favourable and unfavourable evidence in determining whether or not it is probable that the future economic benefits will flow to the entity and the amount of deferred income tax assets that should be recognized. In making its assessment, management considers past operating results, forecasted future results and economic conditions in the locations in which it operates.

Financial Instruments and Risk Management

Financial Instruments

The Company's financial instruments consist of cash, trade, other and insurance proceeds receivable, loan receivable, capital reserve – restricted, secured credit facilities, trade payables and accrued liabilities, accrued interest on convertible debentures, mortgages payable and convertible debentures.

The following financial instruments have fair values that differ from their carrying value:

	December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	$90,587	$91,107	$127,848	$126,725
Convertible debentures	89,460	89,651	89,815	88,207

Mortgages payable: The fair values are determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions.

Convertible debentures: The convertible debentures have two components of value: the conventional debentures and the redemption option. The fair value of the convertible debentures is based on the quoted market price for the debentures. The redemption option has been accounted for as an embedded derivative that is required to be bifurcated from the underlying debentures, valued using the option pricing model and accounted for as a financial asset with the amount of the redemption option being added to the carrying value of the debentures. Any change in the fair value of the redemption option is recorded in interest and accretion on debt in the consolidated statement of income (loss).

Risk Management

The Company's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk, liquidity risk and cyber risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

Interest Rate Risk

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by primarily using fixed rate debt or debt with a fixed-rate option so cash flow is not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable is 4.57% with a weighted average maturity of 4.5 years.

At December 31, 2017, the Company has one mortgage and its secured credit facilities at floating rates. For the year ended December 31, 2017, if interest rates on the Company's floating rate debt had been 1% higher/lower, net income would change by $503.

Credit Risk

The credit risk on cash is limited because the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

The amount of trade, other and insurance proceeds receivable disclosed on the consolidated statement of financial position of $4,385 is net of an allowance for doubtful accounts, estimated by management based on past experience and their assessment of the current economic environment.

Historically, there have been no significant collection issues and the Company does not believe it is subject to any significant concentration of credit risk. The Company assesses the creditworthiness of customers requesting credit, prior to approval. Listings of trade receivables are reviewed by and discussed with hotel operations personnel on a monthly basis.

Trade receivables are due within 30 days; therefore amounts over 30 days are considered overdue. The allowance for doubtful accounts is generally recorded for trade receivable balances outstanding for more than 120 days. Amounts charged to the allowance are generally written off when there is no expectation of recovering additional cash.

Currency Risk

The Company is exposed to some currency risk as it pays certain franchise and royalty payments and receives interest income on its loan receivable in US dollars. For the year ended December 31, 2017, a $0.01 change in the US dollar exchange rate will change the foreign exchange gain or loss recognized in the statement of income (loss) by $70.

Liquidity Risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due, as well as to maintain compliance with the various covenants in its financing agreements and its capital management requirements and objectives. The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. Cash flow forecasting is performed at the hotel level and aggregated in head office.

The Company has two secured credit facilities. The first facility has no set expiry and is subject to an annual review. As at December 31, 2017, the Company had drawn $20,839 of a total availability of $45,000. The second facility expires in 2022 and is subject to an annual review. Each draw must be repaid within one year. As at December 31, 2017, the Company had drawn $4,500 of a total availability of $30,000.

The Company has one mortgage which it expects to fully refinance when it matures in November 2018.

Based on the Company's overall cash generation capability and current financial position, while there can be no assurance, management believes the Company will be able to meet all financial obligations as they become due.

Cyber Risk

The Company relies on its information technology systems, including its networks, equipment, hardware, software, telecommunications, and other information technology (collectively, "IT systems"), and the IT systems of its third-party service providers such as the hotel brands, to operate its business. IT systems are subject to an increasing threat of continually evolving cybersecurity risks including computer viruses, security breaches, and cyberattacks. In addition, the Company is subject to the risk of unauthorized access to its IT systems or its information through fraud or other means. The Company's operations also depend on the timely maintenance, upgrade and replacement of its IT systems, as well as preemptive expenses to mitigate cybersecurity risks and other IT systems disruptions.

Any cybersecurity incidents or other IT systems disruption could result in a detriment to operations, destruction or corruption of data, security breaches, financial losses from remedial actions, the theft or other compromising of confidential or otherwise protected information, fines and lawsuits, or damage to the Company's reputation. Any such occurrence could have an adverse impact on our financial condition and results of operations.

Controls and Procedures

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 IFRS. In addition, the Company 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 acting Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required public disclosure.

During 2017, the Company'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 those acting as CEO and CFO. As at December 31, 2017, based on the evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were appropriately designed and were operating effectively.

During 2017, the Company'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 Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations for the Treadway Commission (COSO 2013), under the supervision of, and with the participation of the those acting as CEO and CFO. As at December 31, 2017, based on the evaluation, those acting as CEO and CFO have concluded that the Company'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.

The Company continually reviews its controls and updates its documentation of 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.

Risks

There are a number of risk factors associated with the Company. These include risks related to real property ownership, risks related to the business of the Company, including the hotel industry, competition, customer concentration, franchised hotels, potential labour disruptions, potential conflicts of interest, availability of additional capital, debt financing, acquisitions and risks relating to the structure of the Company. Information on these risks and uncertainties are described under "Risk Factors" in the Company's Annual Information Form dated March 7, 2018 which is available on Holloway's profile on the SEDAR website at www.sedar.com.