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

As at May 10, 2017

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 ended March 31, 2017, and should be read in conjunction with the unaudited interim consolidated condensed financial statements of the Company and the notes thereto as at and for the three months ended March 31, 2017, as well as the audited consolidated financial statements and MD&A thereon for the year ended December 31, 2016. 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 shares and earnings per share amounts, unless otherwise noted. This MD&A is dated as at May 10, 2017.

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 March 31, 2017, Holloway's portfolio consisted of 33 hotels with 3,754 rooms of which 26 hotels are limited service properties and 7 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 the first quarter of 2017, the Company provided management and accounting services for two hotels in Newfoundland and Labrador and one hotel in Alberta. Additional information regarding this division is available at www.hlcorpmanagement.ca.

First Quarter Overview and Outlook

Hotel Performance

In the first quarter of 2017, Holloway realized a 6.7% increase in revenue, a 54.0% increase in hotel operating income and a 6.3 percentage point increase in operating income margin compared to the first quarter of last year. The changes are shown in the tables below for the three months ended March 31, 2017.

	Three Months Ended March 31		
	2017	2016	Variance
Revenue	$ 23,454	$ 21,976	6.7%
Operating income[1]	4,860	3,156	54.0%
Operating income margin	20.7%	14.4%	6.3 ppt
Net income attributable to shareholders	3,511	(3,438)	
per basic and diluted share	0.19	(0.18)	
Funds from operations	550	(2,007)	
per basic share	0.03	(0.11)	
Adjusted funds from operations	246	(2,509)	
per basic share	0.01	(0.13)	
Dividends declared per share	0.035	0.035	

(1) Before depreciation and amortization.

	Three Months Ended March 31			
	Revenue		Operating Income[1]	
2016	$ 21,976	100%	$ 3,156	100%
Hotel acquired[2]	1,241		193	
Hotels sold and temporarily closed/reopened[2]	(1,551)		(137)	
Ontario hotels	1,284		1,095	
Atlantic hotels	123		240	
Western hotels	545		472	
Northern hotels	(164)		(159)	
2017	$ 23,454	107%	$ 4,860	154%

(1) Before depreciation and amortization.
(2) Represents six 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 Q1, 2017 and Travelodge in Sydney, NS for Q1, 2016).

Our first quarter results were notably better than the prior year. The improvement was driven by (i) the performance of our two renovated Ontario hotels, (ii) the performance of the Travelodge in Sydney, NS and the Westmark® Hotel and Conference Center in Whitehorse, YT which were not open or owned, respectively, in the prior year period, and (iii) the improvement in business levels in Western Canada. These improvements were offset partially by the sale of three Ontario hotels between September 2016 and March 2017.

The performance of our Western Canada hotels improved throughout the quarter as oil and gas activity increased in Alberta and BC. These hotels improved their revenue by 8.0% and operating income by 26.3%. The improved performance of our Ontario hotels was driven by the two renovated properties, which contributed $1.2 million of revenue improvement and $0.9 million of operating income improvement during the quarter.

In the final month of the first quarter, our Super 8® in Grande Prairie, AB was damaged due to a significant release of water into the hotel. As a result of this incident, we have temporarily closed the hotel to complete repairs. We anticipate recovering the cost of repairs and lost business from our insurer.

Balance Sheet and Capital Allocation

During the first quarter, we sold the Holiday Inn® in Oakville, ON for gross proceeds of $19.4 million, resulting in a gain on sale of $7.8 million. We also sold the Travelodge in Belleville, ON for gross proceeds of $7.0 million, resulting in a nominal loss of $143 thousand related to disposition costs.

Holloway's financial position remains strong. During the first quarter, we reduced our debt by $22.7 million. At quarter-end, we had $215.6 million of principal amount of debt of which $92.8 million or 43.0% is in the form of convertible debentures with no financial covenants.

We did not repurchase any common shares or debentures during the first quarter.

Outlook

We are pleased with our first quarter results. Our renovated hotels are performing well, our Western Canada hotels are beginning their recovery and our other hotels are generally exhibiting satisfactory results. We were also able to sell two Ontario hotels in the first quarter at attractive prices.

We expect the results of our Western Canada hotels to gradually improve as the year progresses (assuming stable or increasing oil and gas prices), although we are likely to see some choppiness in the results from time to time. Our Ontario hotels are expected to perform well in the coming months, particularly in Ottawa which will be host to numerous Canada 150 celebrations. Results in Northern and Atlantic Canada are expected to be stable.

Many of our 2017 capital projects are underway. Our 11-room expansion at the Super 8 in Fort St. John, BC will be completed by the end of May (several weeks late, but still on budget). The renovation of the Holiday Inn in Grande Prairie, AB commenced in April. The demolition of the non-operated structures at the Travelodge in Ottawa, ON is in progress and is expected to be completed in the third quarter.

Finally, we continue to advance the process of refinancing the mortgages that mature in 2017.

Dividend Declaration

On May 10, 2017, 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 June 15, 2017 to shareholders of record on May 31, 2017.

Operating Results

Hotel Performance

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

Three Months Ended March 31	Base Portfolio			Acquired/Sold/Closed Hotels [2]			Total		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Hotel revenue	$ 21,354	$ 19,565	9.1%	$ 2,100	$ 2,411	(12.9%)	$ 23,454	$ 21,976	6.7%
Hotel operating income [1]	4,942	3,295	50.0%	(82)	(139)	(41.0%)	4,860	3,156	54.0%
Hotel operating income margin	23.1%	16.8%	6.3 ppt	(3.9%)	(5.8%)	1.9 ppt	20.7%	14.4%	6.3 ppt

(1) Before depreciation and amortization.
(2) Represents six 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 Q1, 2017 and Travelodge in Sydney, NS for Q1, 2016).

Revenue from our base portfolio of hotels increased $1.8 million primarily from the two renovated properties, the Holiday Inn in Ottawa, ON ($0.9 million) and the Doubletree® in London, ON ($0.3 million) and our Western hotels ($0.5 million). Our base hotel operating income increased $1.6 million or 50%, a material increase given the 9.1% increase in hotel revenue. This is a result of our lean operations in the hotels and the focus on managing our ADR during the downturn.

Key Performance Measures

Three Months Ended March 31	Base Portfolio			Acquired/Sold/Closed Hotels			Total		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Occupancy									
Atlantic	47.5%	47.0%	0.5 ppt	28.9%	-	28.9 ppt	45.0%	47.0%	(2.0 ppt)
Ontario	50.9%	43.3%	7.6 ppt	42.3%	49.4%	(7.1 ppt)	50.0%	44.9%	5.1 ppt
Western	52.3%	44.3%	8.0 ppt	-	21.4%	(21.4 ppt)	48.1%	42.4%	5.7 ppt
Northern	60.0%	65.4%	(5.4 ppt)	42.4%	-	42.4 ppt	53.2%	65.4%	(12.2 ppt)
Total	51.4%	46.3%	5.1 ppt	31.4%	43.9%	(12.5 ppt)	48.7%	46.0%	2.7 ppt
ADR									
Atlantic	$ 105.67	$ 103.51	$ 2.16	$ 87.76	$ -	$ 87.76	$ 104.11	$ 103.51	$ 0.60
Ontario	114.26	107.97	6.29	86.89	98.47	(11.58)	111.98	105.34	6.64
Western	128.10	136.25	(8.15)	-	77.10	(77.10)	128.10	133.84	(5.74)
Northern	142.51	135.85	6.66	119.19	-	119.19	135.28	135.85	(0.57)
Total	$ 120.04	$ 119.40	$ 0.64	$ 102.02	$ 96.41	$ 5.61	$ 118.45	$ 116.55	$ 1.90
RevPAR									
Atlantic	$ 50.19	$ 48.65	$ 1.54	$ 25.36	$ -	$ 25.36	$ 46.85	$ 48.65	$ (1.80)
Ontario	58.16	46.75	11.41	36.75	48.64	(11.89)	55.99	47.30	8.69
Western	67.00	60.36	6.64	-	16.50	(16.50)	61.62	56.75	4.87
Northern	85.51	88.85	(3.34)	50.54	-	50.54	71.97	88.85	(16.88)
Total	$ 61.70	$ 55.28	$ 6.42	$ 32.03	$ 42.32	$ (10.29)	$ 57.69	$ 53.61	$ 4.08

RevPAR for the base portfolio increased $6.42 or 11.6%. The Atlantic Canada base portfolio RevPar increased $1.54 or 3.2%. Significant RevPar increases were achieved at the Travelodges in Dartmouth, NS and Saint John, NB. Other hotels in the region were impacted by the lack of sports team business due to public sector worker strikes and work to rule actions in Nova Scotia throughout much of the first quarter.

RevPar at the Ontario base hotels increased $11.41 or 24.4% which was driven by a combination of ADR increasing $6.29 and occupancy increasing 7.6%. The occupancy at the Holiday Inn in Ottawa, ON increased from 25.8% to 52.3% and the occupancy at the Travelodge in Timmins, ON increased from 32.2% to 46.4%. The majority of the hotels increased ADR and all hotels except one increased their RevPAR compared to the prior year.

RevPar at the Western Canada hotels increased by $6.64 or 11.0%. Seven of our hotels experienced revenue increases with six of such experiencing a revenue increase of more than 20%.

The decrease in occupancy at the Northern hotels is principally caused by one hotel which is located in proximity to a new hotel. The Northern hotels achieved an increase in their ADR of $6.66 or almost 5%.

Other Expenses

	Three Months Ended March 31		
	2017	2016	Variance
Interest and accretion on debt	$ 3,817	$ 3,906	$ (89)
Corporate and administrative	616	542	74
Share-based expense (recovery)	59	(141)	200
Investment income	(162)	(162)	-
Management services income	(56)	-	(56)
Loss (gain) on disposals of property and equipment and repurchase of convertible debentures	(7,689)	131	(7,820)
Reversal of impairment of hotel properties	-	(1,100)	1,100
Acquisition and redevelopment costs	-	87	(87)
Unrealized foreign exchange loss	51	542	(491)
Realized foreign exchange loss	-	424	(424)
Provision for (recovery of) income taxes	926	(1,222)	2,148

Interest expense decreased in the first quarter of 2017 compared to the first quarter of 2016 due to the repayment of our revolving credit facility throughout the quarter. The slight increase in corporate and administrative expenses in the three month period ended March 31, 2017 is due principally to a reduction in compensation expense in the first quarter of 2016. The $59 thousand share-based expense is due to an increase in Holloway's share price.

During the three months ended March 31, 2017, the Company recorded investment income of $162 thousand from the loan receivable denominated in US dollars.

The hotel management services division commenced generating income in the second quarter of 2016. This income was generated from two hotel management contracts; one of these contracts concluded in April 2017 as the hotel under management was sold. As this division is in its early stages, we expect the signing of new management agreements to be sporadic although business development activities continue and we are encouraged by the feedback we have received from existing and potential clients.

The gain on disposals of property and equipment during the three months ended March 31, 2017 of $7.7 million is comprised of the gain on sale on the Holiday Inn in Oakville, ON of $7.8 million offset by a small loss on sale on the Travelodge in Belleville, ON of $143 thousand. In the first quarter of 2016, the Company recorded a loss on disposal of $133 thousand related to the write-off of the unamortized balance of franchise fees and signage as a result of rebranding multiple hotels.

During the three months ended March 31, 2017, no impairments or reversals of impairments were recorded. In 2016, the Company recorded a reversal of previously recorded impairments on two hotel properties, one in Ontario and one in Northern Canada, of $1.1 million based on external appraisals.

Acquisition and redevelopment costs include costs that are not related to the day-to-day operations of our hotels (and are not included in calculating hotel net operating income) and are incurred by management at its discretion when pursuing particular strategic transactions. The Company continues to investigate the potential redevelopment of certain properties within its portfolio. Costs associated with these investigations as well as any planning and other similar costs that cannot be capitalized will be shown in this line item. The Company did not incur any acquisition and redevelopment costs for the three months ended March 31, 2017. For the three months ended March 31, 2016, this amount consisted primarily of costs associated with the renovations of the Holiday Inn in Ottawa, ON, the Doubletree in London, ON and the Travelodge in Sydney, NS.

For the three months ended March 31, 2017, the unrealized foreign exchange loss of $51 thousand represents the change in value of the loan receivable denominated in US dollars. In 2016, the Company entered into three foreign exchange contracts for hedging purposes. In July 2015, the Company entered into two forward contracts that expired in February 2016 at a realized foreign exchange loss of $424 thousand. The unrealized foreign exchange loss in 2016 of $542 thousand represents the purchase price hedge for the Westmark hotel which was denominated in US dollars which was settled in the second quarter.

During the three months ended March 31, 2017, the Company recognized an income tax provision of $926 thousand due to the Company generating taxable income for the period. The Company will not pay these amounts in cash due to available tax loss carry-forwards.

Quarterly Results

	Q1 2017	Q1 2016	Q4 2016	Q4 2015	Q3 2016	Q3 2015	Q2 2016	Q2 2015
Total revenue	$23,679	$22,138	$24,820	$23,493	$32,420	$30,471	$27,786	$ 28,712
Hotel operating income[1]	4,860	3,156	5,598	4,641	12,047	10,788	8,534	8,793
Net income (loss) attributable to shareholders	3,511	(3,438)	(2,302)	(12,083)	4,834	2,354	(139)	(907)
Funds from operations	550	(2,007)	1,374	(252)	7,584	6,434	3,804	4,254
Adjusted funds from operations	246	(2,509)	1,153	(474)	7,185	5,615	3,442	3,764
Dividends declared	661	661	661	666	661	671	661	679
Per basic share:								
Net income (loss)	$ 0.19	$ (0.18)	$ (0.12)	$ (0.63)	$ 0.26	$ 0.12	$ (0.01)	$ (0.05)
Funds from operations	0.03	(0.11)	0.07	(0.01)	0.40	0.33	0.20	0.22
Adjusted funds from operations	0.01	(0.13)	0.06	(0.02)	0.38	0.29	0.18	0.19
Dividends declared	0.035	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	49%	46%	48%	51%	63%	68%	53%	61%
ADR	$118.45	$116.55	$115.64	$114.60	$120.91	$118.29	$116.98	$114.56
RevPAR	$57.69	$53.61	$55.16	$58.10	$75.57	$80.44	$62.35	$69.42

(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 March 31		
	2017	2016	Variance
Cash flow provided by (used in):			
Operating activities	$ (800)	$ (760)	$ (40)
Investing activities	23,684	(4,880)	28,564
Financing activities	(22,657)	5,186	(27,843)

Operating Activities

For the three months ended March 31, 2017, operating activities used $800 thousand compared to $760 thousand for the same period in the prior year. The cash generated by the Company increased $2.3 million due to the improved operating results compared to the prior year. Working capital changes offset this increase as accounts receivable and prepaid deposits increased.

Investing Activities

For the three months ended March 31, 2017, investing activities generated $23.7 million compared to using $4.9 million for the same period in 2016. In 2017, the Company sold the Holiday Inn in Oakville, ON for $19.4 million and the Travelodge in Belleville, ON, for $7.0 million and spent $2.5 million on capital additions at various properties.

For the three months ended March 31, 2016, the use of cash consisted of capital additions at various properties of approximately $4.6 million, including the payment of holdbacks on the renovations at the Holiday Inn in Ottawa, ON.

Financing Activities

For the three months ended March 31, 2017, financing activities used $22.7 million compared to generating $5.2 million for the same period in 2016. In 2017, the Company repaid $17.6 million on its secured credit facility funded primarily from the sale of the Oakville hotel, made $1.6 million in regular principal repayments on its mortgages and fully repaid the mortgage on the Travelodge in Belleville of $3.4 million using the sale proceeds.

For the three months ended March 31, 2016, the Company obtained new mortgages of $12.1 million. The Company made $1.5 million in regular principal repayments on its mortgages, repaid a $2.3 million on a hotel that was refinanced with a new lender, fully repaid the $445 thousand loan payable, reduced the secured credit facility by $1.9 million and repurchased common shares and convertible debentures totaling $677 thousand.

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, cash deposited in capital expenditure reserve accounts, free cash flow generated throughout the year and its secured credit facility.

	31-Mar-17
Cash on hand	$ 1,410
Capital expenditure reserves (1)	3,692
Secured credit facility availability(2)	37,747
Total current liquidity (3)	$ 42,849

(1) Contingent on capital expenditures being incurred and/or being released at maturity.
(2) Based on a borrowing base calculation; maximum available is $45.0 million
(3) Excludes proceeds from financing unencumbered assets.

Secured Credit Facility and Mortgages Payable

	March 31, 2017	December 31, 2016
Secured Credit Facility		
Principal amount payable	$ -	$ 17,630
Weighted average interest rate	4.20%	4.20%
Mortgages Payable		
Principal amount payable	$122,821	$ 127,845
Weighted average term to maturity	1.4 years	1.7 years
Weighted average interest rate	5.90%	5.85%

<u>Chartered Bank Credit Facility</u>

Holloway has a revolving credit facility with a Canadian chartered bank with a maximum borrowing capacity of $45.0 million (and a current borrowing base of $37.7 million). The credit facility is 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 a hotel acquisition or hotel renovations. The credit facility is secured by a registered charge on eight hotels. The interest rate under the credit facility is based on a spread over banker's acceptance rates or the bank's prime rate plus 1.50%, currently 4.20%.

At March 31, 2017, Holloway had a nil balance drawn under its credit facility. The facility has no set expiry and is subject to an annual review.

<u>Mortgages Payable</u>

The Company has incurred debt under various mortgages with a weighted average interest rate of 5.90%. These mortgages mature between May 2017 and September 2029 and are secured with individual first charges on twenty-one hotel properties.

Included in current liabilities is $91.1 million, representing the principal amount of mortgages that mature in May and July, 2017. The Company expects to refinance these mortgages on or before their maturity dates.

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

Convertible Debentures

At March 31, 2017, the Company had two series of convertible debentures outstanding. The Series B convertible debentures (trading under the symbol "HLC.DB") have an aggregate principal amount outstanding of $52.2 million, 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 under the symbol "HLC.DB.A") have an aggregate principal amount outstanding of $40.6 million, bear interest at 7.50%, have interest payment dates of March 31 and September 30 and mature on September 30, 2018.

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 existing 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 March 31, 2017:

	Maturity	Interest Rate	March 31, 2017	December 31, 2016
Series B (HLC.DB)	2020	6.25%	$ 52,187	$ 52,187
Series C (HLC.DB.A)	2018	7.50%	40,572	40,572
Principal amount			$ 92,759	$ 92,759
Weighted average term to maturity			2.3 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 NCIBs to repurchase a maximum of $4.5 million principal amount of its Series B convertible debentures and $3.4 million principal amount of its Series C convertible debentures. These NCIBs are in effect until January 12, 2018 unless the bid is completed or terminated earlier by the Company. No purchases under the NCIBs were made during the quarter.

Contractual Obligations

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

	Remainder of 2017	2018	2019	2020	2021	Thereafter
Mortgages payable						
Interest(1)	$ 2,703	$ 1,138	$ 862	$ 530	$ 238	$ 566
Principal(2)	92,575	9,010	5,766	3,486	7,964	4,020
Convertible debentures						
Interest	4,783	5,544	3,262	544	-	-
Principal(3)	-	40,572	-	52,187	-	-
Operating leases	280	175	47	25	18	36
Total	$ 100,341	$ 56,439	$ 9,937	$ 56,772	$ 8,220	$ 4,622

(1) Interest on floating rate debt is based on interest rates prevailing at March 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 March 31, 2017, the Company had 18,889,066 shares outstanding.

On August 17, 2016, the Company initiated an NCIB to repurchase up to 944,453 of its outstanding common shares. There were no share repurchases during the first quarter.

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 believes 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 March 31	
	2017	2016
Dividends declared	$ 661	$ 661
Net income (loss) attributable to shareholders	3,511	(3,438)
Payout ratio	18.8%	(19.2%)
Funds from operations	550	(2,007)
Payout ratio	120.2%	(32.9%)
Adjusted funds from operations	246	(2,509)
Payout ratio	268.7%	(26.3%)

Other Information

Balance Sheet

The following table outlines significant balances or changes in the consolidated balance sheet from December 31, 2016 to March 31, 2017:

	March 31, 2017	December 31, 2016	Increase (Decrease)	Explanation
Assets				
Trade and other receivables	4,106	3,580	526	The increase in receivables is a result of the increase in guests in house at the hotels and customer accounts.
Prepaid expenses and deposits	4,052	2,819	1,233	Increase in prepaids is a result of an increase in property tax reserves as well as deposits for renovation projects.
Property and equipment	286,330	305,624	(19,294)	Change is due to the following: - sale of Travelodge hotel in Belleville, ON ($6.8m); - sale of Holiday Inn hotel in Oakville, ON ($11.4m); - renovations and other capital additions $2.7m; - depreciation for the quarter ($3.8m).
Deferred income tax assets	27,246	28,172	(926)	Deferred tax assets decreased primarily as the result of generating taxable income.
Liabilities				
Secured credit facility	-	17,630	(17,630)	Secured credit facility was repaid in full from the funds received on the sale of the Holiday Inn hotel in Oakville, ON.
Dividends payable	661	-	661	Quarterly dividend declared on March 9, 2017 to shareholders of record at March 31, 2017. The dividend was paid on April 13, 2017.
Trade payables and accrued liabilities	10,162	9,640	522	Trade payables and accrued liabilities have increased primarily due to invoices related to the ongoing hotel renovations.
Current portion of mortgages payable	93,082	94,166	(1,084)	The decrease is related primarly to principal repayments during the year.
Mortgages payable	29,351	33,130	(3,779)	The decrease is primarily a result of the repayment of the mortgage on the sale of the Travelodge in Belleville, ON.
Equity				
Equity attributable to shareholders of the Company	105,968	103,118	2,850	Increase primarily represents comprehensive income for the year offset by the dividends declared.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at March 31, 2017. The Company owns 32 hotels and held a 62% interest in another hotel in Canada, with a total of 3,754 guest rooms.

Property	Location	No. of Rooms
Alberta		
Best Western®	Grande Prairie	100
Days Inn®	Whitecourt	79
Holiday Inn®	Grande Prairie	145
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®	Slave Lake	99
		981
British Columbia		
Super 8®	Fort Nelson	142
Super 8®	Fort St. John	101
		243
New Brunswick		
Days Inn®	Moncton	151
Travelodge®	Moncton	75
Travelodge®	Saint John	58
		284
Newfoundland and Labrador		
Super 8® (1)	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	74
Travelodge®	Ottawa	196
Travelodge®	Thunder Bay	93
Travelodge®	Timmins	92
		1,194
Yukon		
Days Inn®	Whitehorse	99
Westmark® Hotel and Conference Center	Whitehorse	181
		280
Total Rooms		**3,754**

(1) 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 March 31	
	2017	2016
Net income attributable to shareholders	**$ 3,511**	$ (3,438)
Add / (deduct):		
Depreciation and amortization of real estate assets	**3,802**	3,622
Reversal of impairment of hotel properties	**-**	(1,100)
Loss (gain) on disposals of property and equipment and repurchase of convertible debentures	**(7,689)**	131
Provision for (recovery of) income taxes	**926**	(1,222)
FFO	**$ 550**	$ (2,007)
per basic share	**0.03**	(0.11)

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 March 31	
	2017	2016
FFO	**$ 550**	$ (2,007)
Add / (deduct):		
Share-based expense (recovery)	**59**	(141)
Depreciation and amortization of corporate assets	**18**	34
Accretion on debt	**333**	275
FF&E reserve	**(714)**	(670)
AFFO	**$ 246**	$ (2,509)
per basic share	**0.01**	(0.13)

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 periods.

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 $10.0 million 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

The significant accounting policies of Holloway are described in note 3 of the Company's December 31, 2016 audited consolidated financial statements. There have been no material changes to the Company's accounting policies.

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 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. Information regarding the Company's critical accounting estimates is disclosed in note 4 of the Company's December 31, 2016 audited financial statements and its MD&A dated March 9, 2017. There have been no material changes to the Company's critical accounting estimates and judgments.

Financial Instruments and Risk Management

Financial Instruments

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

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

	March 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	$122,433	$121,832	$127,296	$126,172
Convertible debentures	90,067	91,817	89,815	88,207

The methods and assumptions used in estimating the fair values are as follows:

- 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 debt 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 an option pricing model and accounted for as a financial asset with the amount of any redemption option being added to the carrying value of the convertible debentures. Any change in the fair value of the redemption option is recorded in interest and accretion on debt in the interim 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 and liquidity 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. Please refer to the Company's annual MD&A dated March 9, 2017 for further discussion of these risks.

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.

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.

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent interim period ended March 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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 conflict 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 9, 2017 which is available on Holloway's profile on the SEDAR website at www.sedar.com.