Management's Discussion and Analysis
for the Three Months Ended March 31, 2018

As at May 14, 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 ended March 31, 2018, and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and the notes thereto as at and for the three months ended March 31, 2018, as well as the audited consolidated financial statements and MD&A thereon 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 shares and earnings per share amounts, unless otherwise noted. This MD&A is dated as at May 14, 2018. In this MD&A, the Company includes the following non-IFRS financial measures which are defined in the "Non-IFRS financial measures" section.

- Free cash flow
- Hotel operating income or operating income
- Funds from operations; and
- Adjusted funds from operations

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, 2018, Holloway's portfolio consisted of 33 hotels with 3,764 rooms of which 32 are operated by Holloway and one has been leased to a third party on a triple net basis. Of the 32 hotels operated by Holloway, 26 hotels are limited service and six hotels are full service properties. In addition, 30 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 $4,000 senior secured loan receivable.

Management Services: As of March 31, 2018, the Company provided management and accounting services to two hotels. Additional information regarding this division is available at www.hlcorpmanagement.ca.

First Quarter Review and Outlook

Hotel Performance

In the first quarter of 2018, hotel operating income increased 9.1% on approximately the same amount of revenue generated in the first quarter of 2017. The changes in revenue, hotel operating income and certain other financial metrics are shown in the tables below for the three months ended March 31, 2018.

	Three Months Ended March 31		
	2018	2017	Variance
Hotel revenue	$ 23,436	$ 23,454	(0.1%)
Operating income[(1)]	5,300	4,860	9.1%
Operating income margin	22.6%	20.7%	1.9 ppt
Net income (loss) attributable to shareholders	(2,129)	3,511	
per basic and diluted share	(0.12)	0.19	
Funds from operations[(1)]	1,107	550	101.3%
per basic share	0.06	0.03	
Adjusted funds from operations[(1)]	918	170	440.0%
per basic share	0.05	0.01	
Dividends declared per share	0.035	0.035	

(1) Refer to "Non-IFRS Financial Measures" section

	Three Months Ended March 31			
	Hotel Revenue		Operating Income[(1)]	
2017	$ 23,454	100%	$ 4,860	100%
Hotels sold or temporarily closed[(2)]	(534)		129	
Ontario hotels	390		177	
Atlantic hotels	(83)		(123)	
Western hotels	54		57	
Northern hotels	155		200	
2018	$ 23,436	100%	$ 5,300	109%

(1) Refer to "Non-IFRS Financial Measures" section
(2) Represents three hotels (sold - Travelodge in Belleville, ON and Holiday Inn in Oakville, ON; and leased - former Travelodge in Slave Lake, AB)

First Quarter Review

Holloway recorded a strong first quarter. Total revenue remained consistent with the prior year despite the sale of two hotels in the first quarter of 2017. Operating income increased by 9.1% and our operating income margin increased 1.9 percentage points to 22.6%. Funds from operations and adjusted funds from operations (both of which exclude non-cash items) increased by over 100% and 400%, respectively.

The continuing improvement across the portfolio was evident in the first quarter, as all regions except the Atlantic region increased their revenues and hotel operating income over the first quarter of 2017.

The Ontario region performed well. The Holiday Inn® in Ottawa, ON increased its revenue and hotel operating income by 10.2% and 16.7%, respectively while the DoubleTree® in London, ON increased its revenue 6.9% and hotel operating income 5.4%.

The performance of our Western Canada hotels continued their modest improvement. Although our hotels in smaller markets have continued to have subdued results, we are pleased with the results of our four hotels in Grande Prairie, AB.

The Northern region increased revenue by $155 and hotel operating income by $200. The Quality Inn® in Yellowknife, NT was a key contributor to this result, increasing revenue by 12.8% and its operating income by more than 100%.

The decrease in revenue and operating income in the Atlantic region is largely a result of an increase in room supply affecting the Travelodge® hotel in Dartmouth, NS as two hotels were closed for renovations in the prior year period but have since reopened. In addition, a portion of the rooms at our Travelodge hotel in New Glasgow, NS were closed for part of the quarter as the hotel undergoes significant renovations.

In January 2018 we leased the former Travelodge hotel in Slave Lake, AB to a third party. 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. As this property has been closed for much of the last two years, the lease will allow us to convert a negative cash flow property to a positive cash flow property.

We continue to work on growing our hotel management business. During the first quarter, we entered into one management agreement and one letter of intent for the management of two new-build hotels. The development of these hotels (and therefore potential management services revenue) will depend on financing and other factors that are outside of our control.

Balance Sheet and Capital Allocation

At March 31, 2018, the Company had $205,718 of debt compared to $212,500 at March 31, 2017, representing a decrease of $6,782 or 3.2%. Our convertible debentures comprise 43.6% of the debt and have no financial covenants. Our weighted average cost of debt at the end of the first quarter was 5.62% compared to 6.29% for the same period in 2017.

During the first quarter, Holloway repurchased 91,000 (not in thousands) common shares at an average price of $5.71 per share for a total cost of $520.

Outlook

For the remainder of 2018, we expect the performance of our hotels in Atlantic and Northern Canada to remain steady. In Ontario and Alberta, we are continuing with initiatives to mitigate the impact of higher than usual minimum wage increases, including cost reduction, productivity and revenue management strategies. With three of our four Grande Prairie, AB hotels having been renovated within the past two years and ongoing signs of recovery, we expect growth in this market. We expect our smaller Western Canada hotels to continue to experience volatile and generally more modest recoveries.

Our capital program, including several energy management projects and the renovation of our Travelodge hotel in New Glasgow, NS, is underway. Our capital requirements and budget for 2018 is less than in the last few years.

We continue working on the redevelopment of the Travelodge hotel in Ottawa, ON. In April 2018, we filed with the City of Ottawa the documents required for the City's technical review of the project. We anticipate the demolition of the non-operated structures to be completed by the end of May 2018 or shortly thereafter.

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 during the balance of the year. 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 May 11, 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 June 15, 2018 to shareholders of record on May 31, 2018.

Operating Results

Hotel Performance

The following tables summarize the performance of Holloway's portfolio of hotels for the three months ended March 31, 2018 compared to the same period 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 March 31	Base Portfolio			Acquired/Sold/Closed Hotels[1]			Total		
	2018	2017	Variance	2018	2017	Variance	2018	2017	Variance
Hotel revenues	$ 23,421	$ 22,905	2.3%	$ 15	$ 549	(97.3%)	$ 23,436	$ 23,454	(0.1%)
Hotel operating income	5,345	5,035	6.2%	(45)	(175)	74.3%	5,300	4,860	9.1%
Hotel operating income margin	22.8%	22.0%	0.8 ppt	(300.0%)	(31.9%)	(268.1 ppt)	22.6%	20.7%	1.9 ppt

(1) Represents three hotels (sold - Travelodge in Belleville, ON and Holiday Inn in Oakville, ON; leased - former Travelodge in Slave Lake, AB).

Revenue from our base portfolio increased $516 or 2.3% while hotel operating income increased $310 or 6.2%. See our "First Quarter Review and Outlook" for further commentary. The hotel operating income margin improved due to a 1.8% RevPAR increase.

Key Performance Measures

Three Months Ended March 31	Base Portfolio			Acquired/Sold/Closed Hotels			Total		
	2018	2017	Variance	2018	2017	Variance	2018	2017	Variance
Occupancy									
Atlantic Canada	42.0%	45.0%	(3.0 ppt)	-	-	-	42.0%	45.0%	(3.0 ppt)
Ontario	52.1%	50.9%	1.2 ppt	-	42.3%	(42.3 ppt)	52.1%	50.0%	2.1 ppt
Western Canada	49.4%	52.3%	(2.9 ppt)	-	-	-	49.4%	48.1%	1.3 ppt
Northern Canada	54.7%	53.2%	1.5 ppt	-	-	-	54.7%	53.2%	1.5 ppt
Total	49.2%	50.2%	(1.0 ppt)	-	24.1%	(24.1 ppt)	49.2%	48.7%	0.5 ppt
ADR									
Atlantic Canada	$ 108.00	$ 104.11	$ 3.89	$ -	$ -	$ -	$ 108.00	$ 104.11	$ 3.89
Ontario	117.44	114.26	3.18	-	86.89	(86.89)	117.44	111.98	5.46
Western Canada	133.98	128.10	5.88	-	-	-	133.98	128.10	5.88
Northern Canada	141.14	135.28	5.86	-	-	-	141.14	135.28	5.86
Total	$ 124.05	$ 119.41	$ 4.64	$ -	$ 86.89	$ (86.89)	$ 124.05	$ 118.45	$ 5.60
RevPAR									
Atlantic Canada	$ 45.36	$ 46.85	$ (1.49)	$ -	$ -	$ -	$ 45.36	$ 46.85	$ (1.49)
Ontario	61.19	58.16	3.03	-	36.75	(36.75)	61.19	55.99	5.20
Western Canada	66.19	67.00	(0.81)	-	-	-	66.19	61.62	4.57
Northern Canada	77.20	71.97	5.23	-	-	-	77.20	71.97	5.23
Total	$ 61.03	$ 59.94	$ 1.09	$ -	$ 20.94	$ (20.94)	$ 61.03	$ 57.69	$ 3.34

For the three months ended March 31, 2018, RevPAR for the base portfolio increased $1.09 or 1.8%. The portfolio performed well with all regions generating increases in ADR. The Ontario and Northern hotels were particularly impressive as both regions increased both occupancy and ADR and, as a result, RevPAR increased 5.2% and 7.3%, respectively. The increase in rates helped to offset increases in Ontario's minimum wage effective January 1, 2018.

The decrease in occupancy in Atlantic Canada is a result of returning room supply in Dartmouth, NS and renovations at the Travelodge in New Glasgow, NS. Please refer to the discussion in our 'First Quarter Review' section for further details.

The decrease in occupancy in Western Canada is attributed to reduced activity in our more rural locations. Lodging demand in these areas is volatile. The reduced demand has been moderately offset by higher rates which increased $5.88 or 4.6% resulting in an overall RevPAR decrease of 1.2%.

Management Services

We continue business development activities related to our Management Services division. Our offering of flexible contracts and transparent fees has been well received in the market, although the sales cycle in this business is longer than we would like. We look forward to securing additional clients in the upcoming quarters. Please refer to the discussion in our 'First Quarter Review' section for further details.

Other Expenses

	Three Months Ended March 31		
	2018	2017	Variance
Interest and accretion on debt	$ 3,244	$ 3,817	$ (573)
Corporate and administrative	1,053	616	437
Share-based expense	298	59	239
Investment income	(152)	(162)	10
Loss (gain) on disposals of property and equipment	3	(7,689)	7,692
Unrealized foreign exchange (gain) loss	(145)	51	(196)
Provision for (recovery of) income taxes	(690)	926	(1,616)

Interest expense decreased during the three months ended March 31, 2018 compared to the same period in 2017 due to the refinancing of higher interest rate mortgages in 2017 which resulted in a reduced weighted average cost of debt.

Corporate and administrative expenses during the three months ended March 31, 2018 are higher as a result of legal expenses incurred in a long-running legal matter inherited in our acquisition of Royal Host and which proceeded to trial during the quarter. The increase in share-based expense for the three months ended March 31, 2018 is primarily due to an increase in Holloway's share price.

During the three months ended March 31, 2018, the Company recorded investment income of $152 from the US dollar loan receivable.

The gain on disposals of property and equipment during the three months ended March 31, 2017 of $7,689 is comprised of the gain on sale on the Holiday Inn in Oakville, ON of $7,832 offset by a small loss on sale on the Travelodge in Belleville, ON.

For the three months ended March 31, 2018, the unrealized foreign exchange gain represents the change in the value of the US dollar loan receivable as the value of the Canadian dollar has decreased.

During the three months ended March 31, 2018, the Company recognized an income tax recovery of $690 due to the Company incurring a taxable loss for the period.

Quarterly Results

	Q1 2018	Q1 2017	Q4 2017	Q4 2016	Q3 2017	Q3 2016	Q2 2017	Q2 2016
Total revenue	**$23,641**	$23,672	$24,948	$24,820	$32,153	$32,420	$25,602	$27,786
Operating income	**5,300**	4,916	6,920	5,598	12,713	12,047	7,648	8,534
Net income (loss) attributable to shareholders	**(2,129)**	3,511	404	(2,302)	3,658	4,834	(1,095)	(139)
Funds from operations	**1,107**	550	3,907	1,374	9,879	7,584	3,023	3,804
Adjusted funds from operations	**918**	170	3,497	1,153	9,263	7,185	2,848	3,442
Dividends declared	**640**	661	646	661	657	661	661	661
Per basic share:								
Net income (loss)	**$ (0.12)**	$ 0.19	$ 0.02	$ (0.12)	$ 0.19	$ 0.26	$ (0.06)	$ (0.01)
Funds from operations	**0.06**	0.03	0.21	0.07	0.52	0.40	0.16	0.20
Adjusted funds from operations	**0.05**	0.01	0.19	0.06	0.49	0.38	0.15	0.18
Dividends declared	**0.035**	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	**49%**	49%	49%	48%	65%	63%	53%	53%
ADR	**$124.05**	$118.45	$121.32	$115.64	$125.74	$120.91	$119.35	$116.98
RevPAR	**$61.03**	$57.69	$59.81	$55.16	$81.61	$75.57	$63.14	$62.35

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		
	2018	2017	Variance
Cash flow provided by (used in):			
Operating activities	$ 1,832	$ (800)	$ 2,632
Investing activities	(1,598)	23,684	(25,282)
Financing activities	(480)	(22,657)	22,177

Operating Activities

For the three months ended March 31, 2018, operating activities generated $1,832 compared to using $800 for the same period in 2017. The increase in cash flow from operations is due to the increase in hotel operating income and favorable changes in working capital accounts compared to 2017.

Investing Activities

For the three months ended March 31, 2018, investing activities used $1,598 compared to providing $23,684 for the same period in 2017. For the three months ended March 31, 2018, the use of cash consisted primarily of capital additions at various properties of $1,567.

For the three months ended March 31, 2017, the Company received $26,437 in net proceeds from the sale of the Holiday Inn in Oakville, ON and the Travelodge in Belleville, ON and spent $2,497 on capital additions at various properties.

Financing Activities

For the three months ended March 31, 2018, financing activities used $480 compared to $22,657 for the same period in 2017. For the three months ended March 31, 2018, the Company drew $1,159 on its secured credit facilities, made $1,087 in regular principal repayments on mortgages and repurchased common shares for $520.

For the three months ended March 31, 2017, the Company repaid $17,630 on its secured credit facility funded primarily from the sale of the Oakville hotel, made $1,611 in regular principal repayments on its mortgages and fully repaid the mortgage on the Travelodge in Belleville of $3,415 using the sale proceeds.

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. The Company currently has three unencumbered properties which could provide additional financing.

		March 31, 2018
Cash on hand	$	445
Capital expenditure reserves[1]		114
Committed and unfunded mortgage[2]		5,000
Secured credit facilities availability		48,502
Total current liquidity[3]	$	54,061

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

Secured Credit Facilities and Mortgages Payable

		March 31, 2018		December 31, 2017
Secured Credit Facilities				
Principal amount payable	$	26,498	$	25,339
Weighted average interest rate		4.64%		4.49%
Mortgages Payable				
Principal amount payable	$	90,585	$	91,672
Weighted average term to maturity		4.2 years		4.5 years
Weighted average interest rate		4.70%		4.57%

Chartered Bank Secured 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% (4.70% at March 31, 2018). This revolver is secured by nine hotels, is subject to an annual review and has no set expiry date. At March 31, 2018, the Company had drawn $26,498 on this facility. The second revolver has a maximum borrowing capacity of $30,000 with an interest rate of the bank's prime rate plus 1.50% (4.95% at March 31, 2018). At March 31, 2018, the balance is $nil as the Company fully repaid the $4,500 which was outstanding at December 31, 2017. The second revolver, along with the $50,000 mortgage referred to below, is secured by ten hotels.

At March 31, 2018, the credit facilities had a weighted average interest rate of 4.64%.

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 4.70%. These mortgages mature between November 2018 and September 2029 and are secured by individual first charges on 21 hotel properties. 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 March 31, 2018, the Company was in compliance with all covenants.

Convertible Debentures

At March 31, 2018, 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.

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 March 31, 2018:

	Maturity	Interest Rate	March 31, 2018	December 31, 2017
Series B (HLC.DB)	2020	6.25%	$ 50,866	$ 50,866
Series C (HLC.DB.A)	2021	7.50%	40,565	40,565
			$ 91,431	$ 91,431
Weighted average term to maturity			2.6 years	2.9 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 15, 2018, the Company initiated Normal Course Issuer Bids ("NCIBs") to repurchase a maximum of $4,962 principal amount of its Series B convertible debentures and $3,411 principal amount of its Series C convertible debentures. These NCIBs are in effect until January 14, 2019 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, 2018:

	Remainder of 2018	2019	2020	2021	2022	Thereafter
Mortgages payable						
Interest(1)	$ 3,183	$ 3,855	$ 3,398	$ 2,938	$ 1,159	$ 419
Principal(2)	5,707	8,475	6,321	10,910	55,712	3,460
Secured credit facilities						
Interest(1)	1,048	-	-	-	-	-
Principal	26,498	-	-	-	-	-
Convertible debentures						
Interest	4,699	6,221	3,573	2,282	-	-
Principal(3)	-	-	50,866	40,565	-	-
Operating leases	111	38	14	7	2	2
Total	$ 41,246	$ 18,589	$ 64,172	$ 56,702	$ 56,873	$ 3,881

(1) Interest on floating rate debt is based on interest rates prevailing at March 31, 2018.

(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, 2018, the Company had 18,279,966 shares outstanding.

On August 17, 2017, the Company initiated an NCIB to repurchase up to 943,713 of its outstanding common shares. During the three months ended March 31, 2018, the Company repurchased and cancelled 91,000 shares at a cost of $520 (average price of $5.71 per share).

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 its 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 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	
	2018	2017
Dividends declared	$ 640	$ 661
Net income (loss) attributable to shareholders	(2,129)	3,511
Payout ratio	(30.1%)	18.8%
Funds from operations	1,107	550
Payout ratio	57.8%	120.2%
Adjusted funds from operations	918	170
Payout ratio	69.7%	388.8%

Other Information

Statement of Financial Position

The following table outlines significant balances or changes in the condensed consolidated statement of financial position from December 31, 2017 to March 31, 2018:

	March 31, 2018	December 31, 2017	Increase (Decrease)	Explanation
Assets				
Trade, other and insurance proceeds receivable	4,564	4,385	179	The increase in receivables is a result of an increase in operational activities at the hotels. The insurance proceeds outstanding at December 31, 2017 have been paid.
Prepaid expenses and deposits	1,329	975	354	The increase in prepaids is a result of an increase in property tax reserves and prepaid property taxes.
Property and equipment	281,523	284,047	(2,524)	Change is primarily due to the following: - renovations and other capital additions ($1,390); and - depreciation ($3,911).
Loan receivable	5,158	5,018	140	Loan receivable has increased due to the change in the USD.
Deferred income tax assets	26,806	26,116	690	Deferred income tax assets increased as a result of a taxable loss generated during the quarter.
Liabilities				
Secured credit facilities	26,498	25,339	1,159	The secured credit facilities increased as a result of operating activities and capital additions at our properties.
Trade payables and accrued liabilities	10,030	9,389	641	Trade payables and accrued liabilities have increased primarily due to an increase to the accrual for property taxes.
Dividends payable	640	-	640	Quarterly dividend declared on March 7, 2018 to shareholders of record at March 29, 2018. The dividend was paid on April 13, 2018.
Mortgages payable, including current portion	89,584	90,587	(1,003)	The decrease is related to regular principal repayments.
Equity				
Equity attributable to shareholders of the Company	100,795	104,084	(3,289)	Decrease represents the comprehensive loss for the period, dividends declared and the repurchase of common shares.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at March 31, 2018. The Company owns 33 hotels including a 62% interest in a 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
Leased hotel property (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

This document includes certain non-IFRS financial measures, which we use as supplemental indicators of our operating performance and financial position, for internal planning purposes and for industry comparison purposes. These non-IFRS financial measures do not have any standardized meaning as prescribed by IFRS, and therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures below.

Free Cash Flow

The Company believes the best metric of its performance is free cash flow. Free cash flow is defined as cash flow from operating activities before changes in working capital and net of the reserve for replacement of FF&E, which is calculated as 4% of rooms revenue. Other entities may calculate free cash flow differently. Free cash flow should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS.

	Three Months Ended March 31	
	2018	2017
Net cash generated from (used in) operating activities	**$ 1,832**	$ (800)
Add / (deduct):		
Changes in items of working capital	**(319)**	1,790
FF&E reserve	**(788)**	(790)
Free cash flow	**725**	200

Hotel Operating Income

Hotel operating income (or "operating income") is defined as hotel revenue less hotel expenses. Hotel operating income measures hotel results before interest, depreciation and amortization.

	Three Months Ended March 31	
	2018	2017
Hotel: Rooms	**$ 19,706**	$ 19,742
Food and beverage	**2,364**	2,588
Rental	**319**	351
Other	**1,047**	773
Management services	**53**	56
Total Revenues	**23,489**	23,510
Deduct:		
Operating expenses	**16,615**	16,903
Property taxes and insurance	**1,521**	1,691
Management services	**53**	56
Hotel operating income	**$ 5,300**	$ 4,860

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 (loss) 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	
	2018	2017
Net income (loss) attributable to shareholders	**$ (2,129)**	$ 3,511
Add / (deduct):		
Depreciation and amortization on real estate assets	**3,923**	3,802
Loss (gain) on disposals of property and equipment	**3**	(7,689)
Provision for (recovery of) income taxes	**(690)**	926
FFO	**$ 1,107**	$ 550
per basic share	**0.06**	0.03

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, depreciation and amortization of corporate assets, accretion on debt and reserve for replacement of FF&E which is calculated as 4% of rooms revenue. In prior periods, this reserve was calculated based on 3% of rooms revenue. The Company has retroactively restated the reserve for replacement of FF&E for 2017 in the table below. 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	
	2018	2017
FFO	**$ 1,107**	$ 550
Add / (deduct):		
Share-based expense	**298**	59
Depreciation and amortization of corporate assets	**9**	18
Accretion on debt	**292**	333
FF&E reserve	**(788)**	(790)
AFFO	**$ 918**	$ 170
per basic share	**0.05**	0.01

Other performance measures

Throughout this MD&A, the Company refers to the following performance measures that do not have a standardized meaning under IFRS but that are commonly used by hospitality companies and therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial metrics determined in accordance with IFRS.

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

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

<u>Revenue per available room or "RevPAR"</u>: 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.

<u>Base portfolio</u>: 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 condensed 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 condensed consolidated financial statements. The following changes to the Company's accounting policies which became effective on January 1, 208 are as follows:

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") and IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). The impact of the adoption of these standards on the Company's financial statements and also discloses the new accounting policies, where they are different to those applied in prior periods are described below.

IFRS 9, *Financial Instruments* – impact of adoption

IFRS 9 replaces the provisions of IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company has applied the new standard using the retrospective approach from January 1, 2018 and has the following changes from the adoption of the new standard:

- Modification of financial liabilities – financial liabilities that are considered modified are to be accounted for by discounting the revised cash flows at the original effective interest rate. This will result in an immediate impact to condensed consolidated net income (loss) for any modified financial liabilities in which the discounted future cash flows are affected. Management identified two financial liabilities that were modified prior to January 1, 2018. 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. Management determined that the impact to the opening carrying amount of these assets was considered immaterial.

IFRS 9, *Financial Instruments* – accounting policies

(a) Classification

The Company classifies its financial instruments in the following categories: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL (such as derivatives) or the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018 and noted that there were no changes in classification from the transition to IFRS 9. The embedded derivative on the Company's convertible debentures and the share-based liability are classified as FVTPL. The remainder of the Company's financial instruments are classified as amortized cost.

(b) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recorded at fair value and subsequently carried at amortized cost less any impairment.

Financial liabilities at FVTPL

Financial liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the condensed consolidated statements of income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial liabilities held at FVTPL are included in the condensed consolidated statements of income (loss) in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

(c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for ECL on financial assets that are measured at amortized cost which consists of the Company's loan receivable and trade, other and insurance proceeds receivable.

The Company has elected to use the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all loan and trade receivables. To measure the ECL, impairment provisions for the receivables are based on credit risk characteristics and days past due, while loans are based on credit risk characteristics and speculative and non-speculative historical default rates. Loans and trade receivables are written off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery includes, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

(d) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the condensed consolidated statements of income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the condensed consolidated statements of income (loss).

IFRS 15, *Revenue from Contracts with Customers* – impact of adoption

IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts*. 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.

The Company has applied the new standard using the modified retrospective approach from January 1, 2018 and has the following change from the adoption of the new standard:

- 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. Management determined that there was no cumulative impact to the Company's opening deficit or previously-reported results from the adoption of the standard on January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers* – accounting policies

Hotel revenue

Hotel revenue is generated primarily from room occupancy, food and beverage services, rental and ancillary services. The Company recognizes revenue when the services are rendered to the customer and payment of the transaction price is due, as there are no further performance obligations to satisfy at this point due to the nature of its services.

Management services revenue

Management services revenue is generated from providing hotel management and accounting services to third parties. The Company recognizes revenue when the services are rendered to the customer, typically on a monthly basis and payment of the transaction price is due. The total transaction price of certain contracts can include variable consideration based on certain financial criteria being met. As such, the Company assesses the financial criteria at each reporting date and estimates the variable consideration using the most likely amount method.

Critical Accounting Estimates and Judgments

The discussion and analysis of Holloway's financial position and results of operations are based on its condensed consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of the condensed 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. Information regarding the Company's critical accounting estimates is disclosed in note 4 of the Company's December 31, 2017 audited financial statements and its MD&A dated March 7, 2018. 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, other and insurance proceeds receivable, loan receivable, secured credit facilities, trade payables and accrued liabilities, dividends payable, accrued interest on convertible debentures, mortgages payable and convertible debentures.

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

	March 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	$89,584	$90,362	$90,587	$91,107
Convertible debentures	89,636	90,038	89,460	89,651

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 condensed 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. Please refer to the Company's annual MD&A dated March 7, 2018 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 internal 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, 2018 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 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.