



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2013**

As at March 3, 2014

# HOLLOWAY LODGING CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 31, 2013

### INTRODUCTION

Holloway Lodging Corporation (“Holloway” or the “Company”) is a hotel company that owns a portfolio of hotels in Canada and the United States. The following management’s discussion and analysis (“MD&A”) is a discussion of the results of operations and financial condition of Holloway for the three months and year ended December 31, 2013, and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto as at and for the year ended December 31, 2013. The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRS”) and are presented in thousands of Canadian dollars, unless otherwise noted. This MD&A includes forward-looking information. Forward-looking information is subject to certain risks and uncertainties, which could result in actual results differing materially from the forward-looking information. See “Forward-Looking Information” at the end of this document. Additional information about Holloway filed with the applicable Canadian securities regulatory authorities, including the audited financial statements of the Company and the notes thereto, are available at [www.sedar.com](http://www.sedar.com). The Company’s common shares are traded on the TSX under the symbol HLC.

### HOTEL PORTFOLIO

The table below provides details on the hotels in which the Company has an interest at December 31, 2013. The Company has a majority ownership interest in 18 hotels (with 1,798 rooms) and has a minority ownership interest in three hotels (with 259 rooms).

PROPERTY	LOCATION	NO. OF ROOMS	INTEREST
<b>Alberta</b>			
Best Western®	Grande Prairie	100	100%
Holiday Inn®	Grande Prairie	145	100%
Travelodge®	Slave Lake	99	100%
Pomerooy Inn and Suites®	Grande Prairie	152	100%
Super 8®	Drayton Valley	60	100%
Super 8®	Grande Prairie	149	100%
Super 8®	High Level	81	100%
Super 8®	Slave Lake	58	100%
Super 8®	Whitecourt	59	100%
		<b>903</b>	
<b>British Columbia</b>			
Holiday Inn Express®	Kamloops	80	100%
Super 8®	Fort Nelson	142	100%
Super 8®	Fort St. John	101	100%
		<b>323</b>	
<b>Newfoundland and Labrador</b>			
Super 8®	St. John’s	82	18%
<b>New Brunswick</b>			
Holiday Inn Express® and Suites	Moncton	151	100%
Super 8®	Dieppe	85	6%
		<b>236</b>	
<b>Northwest Territories</b>			
Super 8®	Yellowknife	66	100%
<b>Nova Scotia</b>			
Super 8®	Truro	50	100%
Super 8®	Windsor	66	100%
Holiday Inn Express®	Stellarton	125	90%
		<b>241</b>	
<b>Ontario</b>			
Super 8® *	Toronto	92	19%
<b>South Carolina - USA</b>			
Holiday Inn Express®	Myrtle Beach	114	100%
	<b>Total Rooms</b>	<b>2,057</b>	

\*The Company’s economic interest has been diluted to a nominal amount.

## REVIEW OF 2013 AND OUTLOOK FOR 2014

Two thousand thirteen was a good year for Holloway by many measures. First, we increased our revenue, our NOI and, most importantly, our cash flow. Our results this year were the best since before the financial crisis. Second, we completed several significant capital projects at our hotels, including the addition of eight rooms at the Super 8® hotel in Fort St. John and the rebranding of the Northwest Inn in Slave Lake to a Travelodge® hotel. Third, we successfully internalized our hotel accounting from our third party hotel manager and achieved greater control over our business and financial reporting as a result. Fourth, we continued returning capital to shareholders – we repaid \$4.6 million of debt, repurchased \$2.6 million of stock and paid \$2.5 million in dividends. In total, we returned \$9.7 million to our shareholders in 2013 or 14% of the Company's market capitalization at year end.

We expect Holloway to have another positive year in 2014. Western Canada remains very busy with oil, gas, forestry and infrastructure development and several of the markets we are in are evolving from smaller tertiary markets to larger secondary cities. This is a positive development for Northern Alberta and British Columbia as well as for us. We are targeting higher rates in these markets while maintaining or growing our occupancy. In Eastern Canada and the U.S., we expect stable operating results.

A significant area of focus for Holloway in 2014 will be acquiring additional hotels. In the last few years we have been patient, waiting for the right property at the right price. We do not intend to change that approach. To that end, in February 2014, Holloway entered into a credit agreement for a \$17.0 million term loan which can be used to fund hotel acquisitions. As always, we will compare the returns we can generate on hotel acquisitions to other uses of our capital, including repurchasing our own shares. We will also look to opportunistically reduce our existing mortgage debt.

## DIVIDEND DECLARATION

On March 3, 2014, the Board of Directors declared a quarterly dividend of \$0.035 per share, representing an annual dividend of \$0.14 per share. The dividend will be payable on April 15, 2014 to shareholders of record on March 31, 2014.

## SUMMARY OF OPERATING RESULTS

The following table provides a summary of the operating results for the three months and years ended December 31, 2013 and 2012.

(in \$000's except number of shares and per share results)	Three months ended		Years ended	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
Hotel revenues	14,338	13,276	59,957	58,373
Hotel expenses	9,458	8,882	38,447	38,328
Hotel operating income before depreciation and amortization	4,880	4,394	21,510	20,045
Hotel depreciation and amortization	2,229	1,961	8,993	7,845
Income from hotel operations	2,651	2,433	12,517	12,200
Other expenses	2,126	2,309	9,710	5,457
Reversal of impairment of hotel properties, net	(3,450)	(12,993)	(3,450)	(12,993)
Income before income taxes	3,975	13,117	6,257	19,736
Provision for income taxes	1,113	-	1,787	-
<b>Net income for the periods</b>	<b>2,862</b>	<b>13,117</b>	<b>4,470</b>	<b>19,736</b>
Weighted average basic and diluted shares outstanding	17,934,404	18,709,258	18,137,856	17,727,238
Basic and diluted income per share	0.16	0.70	0.25	1.11
<b>Reconciliation to funds from operations (FFO)</b>				
Add / (deduct):				
Depreciation and amortization on real property	2,218	1,962	8,913	7,745
Provision for income taxes	1,113	-	1,787	-
Loss (gain) on disposal of hotel properties and equipment	19	6	15	(5,588)
Reversal of impairment of hotel properties, net	(3,450)	(12,993)	(3,450)	(12,993)
(Gain) loss on disposal of minority interest investments in hotel properties	(33)	-	(129)	101
Gain on acquisition of subsidiary	-	(433)	-	(433)
<b>FFO – basic and diluted</b>	<b>2,729</b>	<b>1,659</b>	<b>11,606</b>	<b>8,568</b>
<b>Basic and diluted FFO per share</b>	<b>0.15</b>	<b>0.09</b>	<b>0.64</b>	<b>0.48</b>
<b>Reconciliation to adjusted funds from operations (AFFO)</b>				
Add/(deduct):				
Depreciation and amortization – corporate and other assets	37	1	123	105
Accretion of mortgages, loan due to a related party, convertible debentures and deferred financing fees	42	40	207	739
Fair value adjustment of Class B LP units and derivative liability	-	(5)	-	21
Share-based compensation	75	102	378	503
FF&E reserve	(438)	(406)	(1,831)	(1,780)
<b>AFFO – basic and diluted</b>	<b>2,445</b>	<b>1,391</b>	<b>10,483</b>	<b>8,156</b>
<b>Basic and diluted AFFO per share</b>	<b>0.14</b>	<b>0.07</b>	<b>0.58</b>	<b>0.46</b>
<b>Dividends paid per share</b>	<b>0.035</b>	<b>0.035</b>	<b>0.14</b>	<b>0.065</b>

## 2013 OPERATING RESULTS

The results of operations for the year ended December 31, 2013 represent the continuing operations of eighteen hotels. In 2012, the Company owned seventeen hotels for the entire year and four hotels for part of the year. During 2012, the Company sold the 5 Calgary Downtown Suites Hotel in Calgary, AB, the Radisson® Hotel and Suites in Fort McMurray, AB and the Super 8® hotel in Three Hills, AB and acquired a 90% interest in the Holiday Inn Express® hotel in Stellarton, NS.

## Key Performance Measures

Region	Years ended						RevPAR Change
	December 31, 2013			December 31, 2012			
	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	
Atlantic Canada (\$Cdn)	60.4%	\$106.91	\$64.57	54.8%	\$109.78	\$60.16	7.3%
Western Canada (\$Cdn)	71.3%	\$131.32	\$93.63	69.4%	\$126.98	\$88.12	6.2%
United States (\$US)	65.6%	\$87.46	\$57.37	61.7%	\$85.76	\$52.91	8.4%
<b>Weighted Average Total (\$Cdn)</b>	<b>68.5%</b>	<b>\$124.12</b>	<b>\$85.02</b>	<b>66.6%</b>	<b>\$122.33</b>	<b>\$81.47</b>	<b>4.4%</b>

*Atlantic Canada:* RevPar increased due to the addition of the Holiday Inn Express® Stellarton for the full year versus only one month of the prior year.

*Western Canada:* RevPar increased due to strong growth at a number of hotels, especially those in Grande Prairie and Fort St. John. Sources of business in Western Canada included oil and gas crews, retail, government, sports groups and ongoing construction activity related to several major infrastructure projects. This growth was offset slightly by lower demand in Fort Nelson due to reduced oil crew business and Slave Lake due to the prior year having had non-recurring crew business as a pipeline project in the area was completed.

*United States:* RevPar increased due to the hotel targeting higher-rated business segments in high season while capturing additional group business in the shoulder seasons.

## Hotel Operating Income

Due to increases in hotel occupancy and room rates and tight cost controls, the portfolio achieved improved operating efficiencies which resulted in gains in hotel operating income. These higher business levels combined with decreased departmental and operating expenses resulted in an improved operating income margin.

(in \$000's)	Years ended			
	December 31, 2013	December 31, 2012	Variance	% Variance
<b>Revenue:</b>				
Rooms	54,648	51,970	2,678	5.2%
Food and beverage	3,809	4,475	(666)	(14.9%)
Other	1,500	1,928	(428)	(22.2%)
<b>Total revenue</b>	<b>59,957</b>	<b>58,373</b>	<b>1,584</b>	<b>2.7%</b>
Departmental and operating expenses	34,224	34,244	20	(0.1%)
<b>Hotel gross margin</b>	<b>25,733</b>	<b>24,129</b>	<b>1,604</b>	<b>6.6%</b>
<b>Gross margin percentage</b>	<b>42.9%</b>	<b>41.3%</b>	<b>-</b>	<b>1.6 ppt</b>
Less:				
Property taxes and insurance	2,901	2,795	(106)	3.8%
Management fees	1,322	1,289	(33)	2.6%
<b>Hotel operating income before depreciation (HOI)</b>	<b>21,510</b>	<b>20,045</b>	<b>1,465</b>	<b>7.3%</b>
<b>Hotel operating income margin</b>	<b>35.9%</b>	<b>34.3%</b>	<b>-</b>	<b>1.6 ppt</b>
Number of rooms available	655,119	649,339	5,780	
<b>HOI per available room</b>	<b>\$32.83</b>	<b>\$30.87</b>	<b>\$1.96</b>	<b>6.3%</b>
Less:				
Depreciation and amortization	8,993	7,845	(1,148)	14.6%
<b>Income from hotel operations</b>	<b>12,517</b>	<b>12,200</b>	<b>317</b>	<b>2.6%</b>

## Revenue

Room revenue: The increase is due primarily to improvements in room rates in Western Canada.

Food and beverage revenue: The decrease is due to lower revenues in one of the full service hotels as a result of a water pipe break, which prompted a temporary closure of the hotel's facilities. The prior year also included two hotels which have been sold and which accounted for \$222 of the decrease.

Other revenue: The decrease is due to the sale of three hotels in 2012, one of which had \$343 in parking revenues.

## Expenses

Operating expenses: Includes wages, supplies and overhead expenses such as repairs and maintenance, sales and marketing and administrative expenses related to the operations of the hotels. These expenses decreased marginally compared to the prior year as increases in maintenance, utilities and sales were offset by decreases in administration and food and beverage costs.

Property taxes: Increased due to higher assessments at several hotels, reflecting their improved operating results.

Insurance: Increased compared to the prior year due to an insurance deductible expense as well as increased premiums upon policy renewal in the fourth quarter.

Management fees: Increased as they are based on hotel revenues which were higher in 2013 compared to 2012.

## Hotel Operating Income per Available Room

Hotel operating income per available room increased by 6.3% or \$1.96 to \$32.83 from \$30.87 for the year ended December 31, 2013 and 2012, respectively. The hotel operating income margin increased to 35.9% from 34.3% due to increased room rates, a decline in lower margin food and beverage revenues compared to higher margin room revenues and lower operating expenses. The number of rooms available changed from year to year as 2012 was a leap year, additional rooms were added in Fort St. John in 2013 and there were three hotels sold and one purchased compared to the prior year.

## OTHER (INCOME) AND EXPENSES

(in \$000's)	Years ended		
	December 31, 2013	December 31, 2012	Variance
Interest on line of credit, mortgages payable and loan due to a related party	7,339	7,678	(339)
Interest on convertible debentures	-	195	(195)
Accretion on convertible debentures, loans due to related parties, mortgages and deferred financing fees	207	739	(532)
Corporate and administrative	2,217	2,523	(306)
Share-based compensation	378	503	(125)
Depreciation and amortization	43	5	38
Investment income	(360)	(287)	(73)
Loss (gain) on disposal of hotel properties and equipment	15	(5,588)	5,603
(Gain) loss on disposal of minority interest investments in hotel properties	(129)	101	(230)
Gain on acquisition of subsidiary	-	(433)	433
Fair value adjustment of Class B LP units and derivative liability	-	21	(21)
Subtotal	9,710	5,457	4,253
Reversal of impairment of hotel properties, net	(3,450)	(12,993)	9,543
<b>Total</b>	<b>6,260</b>	<b>(7,536)</b>	<b>13,796</b>

## Interest Expense and Accretion

*Interest:* Interest on the line of credit, mortgages and other debt decreased \$0.3 million in 2013 due to repayment of the mortgages on the three hotels which were sold in 2012 and repayment of the \$14.8 million related party loan in 2012 as well as overall lower principal balances outstanding on the remaining mortgages.

*Interest on convertible debentures:* Interest on convertible debentures decreased \$0.2 million to nil in 2013 as the Company had no outstanding debentures after January 2012.

*Accretion expense:* Accretion expense decreased \$0.5 million to \$0.2 million in 2013 compared to \$0.7 million in 2012 as the Company had no outstanding debentures after January 2012. In addition, the amortization of deferred financing fees decreased as a result of the repayment of mortgages on the three hotels which were sold in 2012.

## Corporate and Administrative Expenses and Share-Based Compensation

*Corporate and administrative expenses:* Decreased \$0.3 million in 2013 due to lower filing and legal fees related to the corporate conversion in December 2012.

*Share-based compensation:* Decreased in 2013 as one-third of the non-cash expense was recognized when the options were granted in August 2012. The remaining two-thirds of the expense is being recognized over the following two years from September 2012 to August 2014.

## Other Expenses

*Investment income:* Increased marginally in 2013 as a result of increased interest on the loan receivable from Pacrim Hospitality Services Inc. (“Pacrim”) and increased distributions from the minority interest investments in hotel properties.

*Reversal of impairment of hotel properties:* During the fourth quarter of 2013, the Company recorded a reversal of previously recorded impairment on four hotel properties of \$4.4 million and recorded a further impairment of \$1.0 million on one hotel property. During the fourth quarter of 2012, the Company recorded a net reversal of previously recorded impairments of hotel properties of \$13.0 million. The Company increased the carrying value of seven hotel properties by \$19.9 million and decreased the carrying value of four hotel properties by \$6.9 million.

*Disposal of hotel properties and equipment:* In 2013, a small gain was recorded upon the sale of certain hotel equipment that had been fully depreciated, offset slightly by the write-off of obsolete signage. In 2012, gains were recorded on the sale of three hotels.

*Disposal of minority interests in hotel properties:* In 2013, a small gain was recorded on the sale of a minority investment in the Super 8® hotel in Langley, BC, offset by a marginal loss on the receipt of the outstanding receivable related to the Super 8® hotel in Trois Rivieres, QC. In 2012, a loss was recorded on the sale of a minority investment in the Super 8® hotel in Amherst, NS.

*Acquisition of subsidiary:* A gain was recorded on the acquisition of Holloway’s 90% interest in the Holiday Inn Express® hotel in Stellarton, NS as the fair value of the net assets acquired exceeded the purchase price.

## CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

For the year ended December 31, 2013, the Company's unrestricted cash and cash equivalents decreased by \$0.4 million from \$1.3 million to \$0.9 million. The Company's cash flow from operations of \$11.9 million was used for various capital additions across the portfolio, the repurchase of outstanding shares, mortgage repayments and the payment of dividends to shareholders.

For the comparative period in 2012, unrestricted cash and cash equivalents decreased by \$1.1 million from \$2.4 million to \$1.3 million primarily as a result of mortgage and loan repayments, the repurchase of outstanding shares, the payment of dividends and the purchase of a 90% interest in the Holiday Inn Express® hotel in Stellarton, NS. These uses of cash were offset by the proceeds from the sale of three hotels and improved operating results.

(in \$000's)	Years ended	
	December 31, 2013	December 31, 2012
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	4,470	19,736
Adjustments for non-cash items:		
Share-based compensation	378	503
Depreciation and amortization	9,036	7,850
Accretion on convertible debentures, loans due to related parties, mortgages and deferred financing fees	207	739
Loss (gain) on disposal of hotel properties and equipment	15	(5,588)
Gain on acquisition of subsidiary	-	(433)
(Gain) loss on disposal of minority interest investments in hotel properties	(129)	101
Reversal of impairment of hotel properties, net	(3,450)	(12,993)
Fair value adjustment of Class B LP units and derivative liability	-	21
Provision for income taxes	1,787	-
Subtotal	12,314	9,936
Changes in items of working capital	(406)	(2,999)
<b>Net cash generated from operating activities</b>	<b>11,908</b>	<b>6,937</b>
<b>Investing activities</b>		
Increase in restricted cash	(25)	(3)
Decrease (increase) in capital reserves	1,669	(317)
Proceeds from sale of hotel properties and equipment, net of costs	4	51,177
Proceeds from sale of minority interest investments in hotel properties	144	236
Additional investment in minority interest investments in hotel properties	-	(41)
Additions to property and equipment	(3,948)	(2,706)
Additions to other assets	(65)	-
Acquisition of subsidiary net of cash acquired	-	(2,076)
<b>Net cash generated from (used in) investing activities</b>	<b>(2,221)</b>	<b>46,270</b>
<b>Financing activities</b>		
Decrease in line of credit	(519)	(3,299)
Repayment of obligations under finance leases	(10)	(80)
Proceeds from mortgages, net of deferred financing fees	3,296	-
Repayment of mortgages payable	(7,807)	(34,255)
Repayment of loan due to a related party	-	(14,800)
Repurchase of shares	(2,572)	(699)
Dividends paid to shareholders	(2,535)	(1,217)
<b>Net cash used in financing activities</b>	<b>(10,147)</b>	<b>(54,350)</b>
<b>Increase (decrease) in cash</b>	<b>(460)</b>	<b>(1,143)</b>
<b>Cash – beginning of period</b>	<b>1,312</b>	<b>2,455</b>
<b>Cash – end of period</b>	<b>852</b>	<b>1,312</b>



## Operating Activities

In 2013, operations provided \$11.9 million in cash. The cash flow before changes in working capital items was \$12.3 million. This represents an increase over the prior year period of \$2.4 million. Changes in working capital items used \$0.4 million as trade receivables decreased \$0.2 million and accounts payable decreased by \$0.6 million.

In 2012, operations provided \$6.9 million in cash. The cash flow before changes in working capital items was \$9.9 million. Changes in working capital items used \$3.0 million as accounts payable and accrued liabilities decreased \$3.0 million and the accrued interest on the convertible debentures of \$1.5 million was paid in January 2012. These uses of cash were offset somewhat by decreases in accounts receivable and prepaid expenses of \$1.5 million.

## Investing Activities

In 2013, investing activities used \$2.2 million due mainly to various capital additions in the hotels of \$3.9 million. Capital reserves were used to fund a portion of the capital additions.

In 2012, investing activities provided \$46.3 million due to the receipt of proceeds of \$51.2 million from the sale of three hotels. Approximately \$2.7 million was spent on various capital additions across the hotel portfolio and \$2.1 million was spent to acquire a 90% interest in the Holiday Inn Express® in Stellarton, NS.

## Financing Activities

In 2013, financing activities utilized \$10.1 million. The company repurchased its shares for \$2.6 million and made dividend payments to shareholders of \$2.5 million. In addition, mortgage repayments (net of proceeds received from a new mortgage) were \$4.5 million.

In 2012, financing activities utilized \$54.3 million. The Company repaid \$34.3 million on its mortgage debt which includes repayment of the mortgages on the sale of three hotels, regular principal payments, a voluntary partial repayment of a mortgage on one hotel and the voluntary repayment in full of a maturing mortgage on another hotel. In addition, the Company repaid the \$14.8 million loan due to a related party and \$3.3 million on its line of credit. The Company also paid \$0.7 million for the repurchase of its shares under a normal course issuer bid and paid \$1.2 million in dividends to shareholders.

## BALANCE SHEET

The following table outlines the significant balances or changes in the consolidated balance sheet from December 31, 2012 to December 31, 2013.

(in \$000's)	As at December 31, 2013	As at December 31, 2012	Increase (Decrease)	Explanation
<b>Assets</b>				
Cash	852	1,312	(460)	Refer to "Cash Flow for the Year Ended December 31, 2013 and 2012" in the previous section.
Trade and other receivables	2,394	2,597	(203)	Receivables were relatively flat year over year.
Property and equipment	179,937	180,964	(1,027)	The decrease is due to depreciation expense on existing assets offset by the reversal of previous impairments and capital additions across the portfolio.
Capital reserve – restricted	2,517	3,976	(1,459)	The capital reserve held by lenders decreased due to larger than usual capital additions at certain hotels, particularly the room expansion in Fort St. John.
Deferred income tax assets	5,295	7,082	(1,787)	The deferred income tax asset decreased due to the Company generating taxable income in 2013.
<b>Liabilities and Equity</b>				
Line of credit	1,004	1,523	(519)	The Company repaid a portion of its line of credit during the year.
Trade payables and accrued liabilities	5,091	5,571	(480)	The decrease is primarily lower trade payables and accrued interest.
Current portion of mortgages payable	4,261	10,070	(5,809)	The current portion of mortgages declined as one mortgage that was to mature in 2013 was refinanced.
Mortgages payable - long-term	103,338	101,613	1,725	The balance has increased as the mortgage that was included in current liabilities at December 31, 2012 was refinanced in 2013.
Equity	85,407	85,511	(104)	The decrease represents the net income for the year ended December 31, 2013 net of the dividends paid to shareholders and the repurchase of shares.

At December 31, 2013, the Company had 17,930,002 common shares outstanding. During 2013, the Company repurchased 721,100 shares under its normal course issuer bid at a cost of \$2.6 million (average price of \$3.57 per share).

## LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL COMMITMENTS

The Company's liquidity objective at the most basic level is to generate sufficient cash to meet its liabilities when due and maintain compliance with its debt covenants. The Company is also focused on generating additional liquidity to fund acquisitions of hotels and/or return capital to shareholders. At December 31, 2013, the Company had drawn \$1,004 of its available line of credit of \$5,000. The Company has one hotel that is unencumbered. Based on the Company's projected cash flows from operations and the availability under its current credit line, management believes the Company will be able to meet its obligations as they become due.

The following chart summarizes the Company's future financial commitments as at December 31, 2013.

(in \$000s)	2014	2015	2016	2017	2018	Thereafter
Mortgages payable – principal	4,261	4,525	12,830	79,185	5,069	2,173
Mortgages payable – interest	6,831	6,560	6,005	3,348	214	457
Operating leases	130	123	116	29	-	-
Loan due to a related party	-	-	-	307	-	-
<b>Total</b>	<b>11,222</b>	<b>11,208</b>	<b>18,951</b>	<b>82,869</b>	<b>5,283</b>	<b>2,630</b>

## Q4 2013 OPERATING RESULTS

The results of operations for the three months ended December 31, 2013 represent the operations of eighteen hotels for the full quarter. For the fourth quarter 2012, the Company owned seventeen hotels for the full quarter and a controlling interest in the Holiday Inn Express® hotel in Stellarton, NS which was acquired on November 30, 2012.

### Key Performance Measures

Region	Three months ended						RevPAR Change
	December 31, 2013			December 31, 2012			
	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	
Atlantic Canada (\$Cdn)	53.1%	\$101.04	\$53.65	43.7%	\$103.63	\$45.29	18.4%
Western Canada (\$Cdn)	69.0%	\$131.78	\$90.93	68.5%	\$127.52	\$87.35	4.1%
United States (\$US)	53.0%	\$64.47	\$34.17	40.6%	\$70.75	\$28.72	19.0%
<b>Weighted Average Total (\$Cdn)</b>	<b>64.5%</b>	<b>\$122.91</b>	<b>\$79.28</b>	<b>62.2%</b>	<b>\$121.98</b>	<b>\$75.87</b>	<b>4.5%</b>

RevPar increased in the fourth quarter for the same reasons described above under “2013 Operating Results”.

### Hotel Operating Income

Hotel operating income increased in the fourth quarter for the same reasons described above under “2013 Operating Results” and due to Holloway owning the Holiday Inn Express® in Stellarton, NS for additional months.

(in \$000's)	Three months ended			
	December 31, 2013	December 31, 2012	Variance	% Variance
<b>Revenue:</b>				
Rooms	12,843	11,662	1,181	10.1%
Food and beverage	1,150	1,247	(97)	(7.8%)
Other	345	367	(22)	(6.0%)
<b>Total revenue</b>	<b>14,338</b>	<b>13,276</b>	<b>1,062</b>	<b>8.0%</b>
Departmental and operating expenses	8,408	7,935	(473)	5.9%
<b>Hotel gross margin</b>	<b>5,930</b>	<b>5,341</b>	<b>589</b>	<b>11.0%</b>
<b>Gross margin percentage</b>	<b>41.4%</b>	<b>40.2%</b>	<b>-</b>	<b>1.2 ppt</b>
Less:				
Property taxes and insurance	738	662	(76)	11.5%
Management fees	312	285	(27)	9.5%
<b>Hotel operating income before depreciation (HOI)</b>	<b>4,880</b>	<b>4,394</b>	<b>486</b>	<b>11.1%</b>
<b>Hotel operating income margin</b>	<b>34.0%</b>	<b>33.1%</b>	<b>-</b>	<b>0.9 ppt</b>
Number of rooms available	165,232	157,111	8,121	
<b>HOI per available room</b>	<b>\$29.53</b>	<b>\$27.97</b>	<b>\$1.56</b>	<b>5.6%</b>
Less:				
Depreciation and amortization	2,229	1,961	(268)	13.6%
<b>Income from hotel operations</b>	<b>2,651</b>	<b>2,433</b>	<b>218</b>	<b>9.0%</b>

### Revenue

*Room revenue:* The increase is due to higher occupancy across all regions along with higher rates in Western Canada.

*Food and beverage revenue:* The marginal decrease was due to hosting fewer banquet events in the fourth quarter compared to the prior year.

*Other revenue:* The marginal decrease was primarily due to lower in-room movie revenue as a result of a change in how this service is being delivered to our guests; revenues are now recorded on a net basis whereas previously they were recorded on a gross basis with a corresponding departmental expense.

## Expenses

*Operating expenses:* These expenses increased compared to the prior year due primarily to the addition of one hotel for the full quarter compared to one month in the prior year, which accounted for \$297 of the increase. There were also increases in wages, maintenance and sales offset by decreases in utilities and food and beverage costs.

*Property taxes:* Increased due to higher assessments at several hotels, reflecting their improved operating results.

*Insurance:* Increased compared to the prior year due to increased premiums upon policy renewal in the fourth quarter.

*Management fees:* Management fees increased as they are based on hotel revenues which were higher in the fourth quarter of 2013 compared to the prior year.

## Hotel Operating Income per Available Room

Hotel operating income per available room increased by 5.6% or \$1.56 to \$29.53 from \$27.97 for the three months ended December 31, 2013 and 2012, respectively. The hotel operating income margin increased to 34.0% from 33.1% due to increased room rates and a decline in lower margin food and beverage revenues compared to higher margin room revenues. The number of rooms available increased as it includes one hotel for the full quarter compared to one month in the prior year. Additional rooms were added in Fort St. John in 2013.

## OTHER (INCOME) AND EXPENSES

(in \$000's)	Three months ended		Variance
	December 31, 2013	December 31, 2012	
Interest on line of credit, mortgages payable and loan due to a related party	1,773	1,805	(32)
Accretion on loan due to a related party, mortgages and deferred financing fees	42	40	2
Corporate and administrative	338	942	(604)
Share-based compensation	75	102	(27)
Depreciation and amortization	26	1	25
Investment income	(114)	(149)	35
Loss on disposal of hotel properties and equipment	19	6	13
Gain on disposal of minority interest investments in hotel properties	(33)	-	(33)
Gain on acquisition of subsidiary	-	(433)	433
Fair value adjustment of Class B LP units and derivative liability	-	(5)	5
Subtotal	2,126	2,309	(183)
Reversal of impairment of hotel properties, net	(3,450)	(12,993)	9,543
<b>Total</b>	<b>(1,324)</b>	<b>(10,684)</b>	<b>9,360</b>

## Interest Expense and Accretion

*Interest:* Interest on the line of credit, mortgages and loan due to a related party decreased marginally in the fourth quarter of 2013 due to lower mortgage balances offset by carrying a balance on the line of credit in 2013.

*Accretion expense:* Accretion expense increased marginally in the fourth quarter of 2013 as a result of expensing previously capitalized finance fees on a mortgage that was refinanced with another lender.

## Corporate and Administrative Expenses and Share-Based Compensation

Corporate and administrative expenses: Decreased \$0.6 million in the fourth quarter of 2013 due to lower filing, legal and consulting fees related to the corporate conversion completed in December 2012.

Share-based compensation: Decreased in the fourth quarter of 2013 due to two board members forfeiting their options upon their departure during 2013 and the October 2011 options having fully vested.

## Other Expenses

Investment income: Investment income decreased in the fourth quarter of 2013 as the distribution from the minority investments in hotel properties was lower than in the fourth quarter of 2012.

Reversal of impairment of hotel properties: During the fourth quarter of 2013, the Company recorded a reversal of previously recorded impairment on four hotel properties of \$4.4 million and recorded a further impairment of \$1.0 million on one hotel property. During the fourth quarter of 2012, the Company recorded a net reversal of previously recorded impairments of hotel properties of \$13.0 million. The Company increased the carrying value of seven hotel properties by \$19.9 million and decreased the carrying value of four hotel properties by \$6.9 million.

Disposal of hotel properties and equipment: In the fourth quarter of 2013, a small loss was recorded due to the write-off of obsolete signage.

Disposal of minority interests in hotel properties: In the fourth quarter of 2013, a small gain was recorded on the sale of the minority investment in the Super 8® hotel in Langley, BC.

Acquisition of subsidiary: A gain was recorded on the acquisition of Holloway's 90% interest in the Holiday Inn Express® hotel in Stellarton, NS as the fair value of the net assets acquired exceeded the purchase price.

## CASH FLOW FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012

During the three months ended December 31, 2013, the Company's unrestricted cash and cash equivalents increased by \$0.5 million as the cash generated from operations of \$3.2 million was used for capital additions at various properties, principal repayments on outstanding mortgages and the line of credit and the payment of dividends to shareholders.

During the three months ended December 31, 2012, unrestricted cash and cash equivalents decreased by \$0.9 million to \$1.3 million primarily due to the repurchase of outstanding shares, the payment of dividends to shareholders and the acquisition of a 90% interest in the Holiday Inn Express® in Stellarton, NS.

(in \$000's)	Three months ended	
	December 31, 2013	December 31, 2012
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	2,862	13,117
Adjustments for non-cash items:		
Share-based compensation	75	102
Depreciation and amortization	2,255	1,963
Accretion on mortgages, loan due to a related party and deferred financing fees	42	40
Loss on disposal of hotel properties and equipment	19	6
Gain on disposal of minority interest investments in hotel properties	(33)	-
Gain on acquisition of subsidiary	-	(433)
Reversal of impairment of hotel properties	(3,450)	(12,993)
Fair value adjustment of Class B LP units and derivative liability	-	(5)
Provision for income taxes	1,113	-
Subtotal	2,883	1,797
Changes in items of working capital	282	903
<b>Net cash generated from operating activities</b>	<b>3,165</b>	<b>2,700</b>
<b>Investing activities</b>		
Increase in restricted cash	(9)	(11)
Decrease in capital reserves	213	31
Additions to property and equipment	(579)	(821)
Additions to other assets	(50)	-
Acquisitions of subsidiary net of cash acquired	-	(2,076)
<b>Net cash used in investing activities</b>	<b>(425)</b>	<b>(2,877)</b>
<b>Financing activities</b>		
(Decrease) increase in line of credit	(615)	1,523
Repayment of obligations under finance leases	-	(14)
Repayment of mortgages payable	(1,011)	(1,065)
Repurchase of shares	(32)	(370)
Dividends paid to shareholders	(628)	(654)
<b>Net cash used in financing activities</b>	<b>(2,286)</b>	<b>(580)</b>
<b>Increase (decrease) in cash</b>	<b>454</b>	<b>(757)</b>
<b>Cash – beginning of period</b>	<b>398</b>	<b>2,069</b>
<b>Cash – end of period</b>	<b>852</b>	<b>1,312</b>

### Operating Activities

In the fourth quarter of 2013, operations generated \$3.2 million in cash. Cash flow before changes in working capital items was \$2.9 million in cash. This increase of \$1.1 million over the prior year period reflects the strength of our hotel operations. Changes in working capital items relate mainly to decreased accounts receivable of \$0.5 million and decreased accounts payable of \$0.2 million.

In the fourth quarter of 2012, operations generated \$2.7 million in cash. Cash flow before changes in working capital items was \$1.8 million in cash. Changes in working capital items relate to lower trade receivables and the increased accounts payable and accrued liabilities.

## Investing Activities

In the fourth quarter of 2013, investing activities used \$0.4 million in cash due primarily to \$0.6 million in capital additions. These capital additions were offset to some extent by the use of capital reserves of \$0.2 million.

In the fourth quarter of 2012, investing activities used \$2.9 million due to the Company's acquisition of a 90% interest in the Holiday Inn Express® in Stellarton, NS as well as capital expenditures of \$0.8 million at various properties.

## Financing Activities

In the fourth quarter of 2013, financing activities used \$2.3 million. The Company made \$1.0 million in regular mortgage principal payments as well as repaying \$0.6 million on the line of credit. The Company also paid \$0.6 million in dividends to shareholders.

In the fourth quarter of 2012, financing activities used \$0.6 million. The Company made \$1.1 million in regular mortgage payments, repurchased shares totaling \$0.4 million and paid \$0.6 million in dividends to shareholders. The Company drew \$1.5 million on its line of credit for the hotel acquisition described above.

## OTHER INFORMATION ABOUT OUR RESULTS

### QUARTERLY RESULTS

The following table provides a summary of the quarterly operating results for the last eight quarters (not on a same store basis):

(in \$000's except per share results)	Q4 2013	Q4 2012	Q3 2013	Q3 2012	Q2 2013	Q2 2012	Q1 2013	Q1 2012
Revenues	14,451	13,425	16,722	15,342	14,385	13,321	14,758	16,571
Hotel operating income before depreciation	4,880	4,394	6,610	5,932	4,887	4,131	5,135	5,587
Net income for the period	2,862	13,117	1,251	1,228	64	669	294	4,721
Income per share (basic and diluted)	0.16	0.70	0.07	0.06	0.00	0.04	0.02	0.33
FFO / share (basic and diluted)	0.15	0.09	0.22	0.18	0.12	0.08	0.14	0.14
AFFO / share (basic and diluted)	0.14	0.07	0.21	0.17	0.11	0.07	0.13	0.15
Occupancy	64.5%	62.2%	75.8%	75.0%	66.1%	63.0%	67.7%	66.7%
ADR	\$122.91	\$121.98	\$125.39	\$124.82	\$122.73	\$120.31	\$125.22	\$121.94
RevPAR	\$79.28	\$75.87	\$95.05	\$93.62	\$81.12	\$75.80	\$84.77	\$81.33

The hospitality industry is seasonal in nature. The Company's revenues are generally highest in the third quarter and the revenues in the first, second and fourth quarters are comparable. Oil and gas exploration and servicing activities help generate revenues for many of our hotels in the first and fourth quarters of the year, whereas for other hotels, these two quarters are often the lowest in terms of revenue. Many of the Company's costs are largely fixed in nature and are incurred evenly throughout the year. Labor costs for housekeeping and laundry and some supplies are variable as they are based on occupancy.

## SAME STORE RESULTS - 2013 VERSUS 2012

Holloway recorded increases in same-store revenue, RevPar, operating income per available room and operating income margin for the year ended December 31, 2013 compared to the year ended December 31, 2012, as summarized in the following table:

(in thousands where indicated except percentages and per room measures)	2013	2012	\$ INCREASE	% CHANGE
Hotel revenues – same store	56,589	55,848	741	1.3%
Revenue per available room – same store	85.98	83.82	2.16	2.6%
Hotel operating income per available room before depreciation – same store	33.72	32.72	1.00	3.1%
Hotel operating income margin – same store	36.3%	35.7%	-	0.6 ppt

## SELECTED FINANCIAL INFORMATION

The following table provides certain financial information for the past three years (on a non-same store basis) as required by securities laws.

(in \$000's except per share results)	2013	2012	2011
Total revenues (hotel and investment income)	60,317	58,660	77,550
Net income (loss)	4,470	19,736	(8,403)
Basic and diluted income (loss) per share	0.25	1.11	(8.56)
Dividends paid per share	0.14	0.065	-
Total assets	199,408	204,621	235,229
Total long-term financial liabilities	107,906	112,016	201,580

## RELATED PARTY TRANSACTIONS

At December 31, 2013, Geosam Capital Inc. owned 5.3 million or 29.4% of the Company's common shares and is considered a related party. For the years ended December 31, 2013 and 2012, the Company incurred consulting fees of \$100 and \$83 of which \$8 was payable at the end of both years. In 2012, the Company incurred interest expense of \$127 related to the bridge loan from Geosam Capital Inc. as administrative agent for itself and a third party which was fully paid as of December 31, 2012.

Superior Lodging Corp. ("Superior"), a company in which one of Holloway's directors is the CEO and has an ownership interest, receives royalty payments for Super 8® branded hotels. For the years ended December 31, 2013 and 2012, Superior's share of the Company's royalty fees was \$506 and \$522, respectively of which \$32 was payable at the end of both years.

## NON-GAAP LODGING INDUSTRY PERFORMANCE INDICATORS

The following describes the key performance measures and financial indicators commonly used by lodging entities that do not have a standardized meaning under generally accepted accounting principles ("GAAP").

Occupancy: Occupancy represents the number of rooms sold compared to the total number of rooms in the hotel.

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

Revenue per available room or "RevPar": RevPar for any given period is defined as total room revenue divided by the total number of rooms in the hotel multiplied by the number of days in the period. RevPAR is relevant as it is the most



commonly used indicator of market performance for hotels and represents the combination of the ADR and the average occupancy rate achieved during a period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel.

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

Funds from operations or “FFO”: FFO is a non-GAAP financial measure commonly used in the lodging industry. The calculations presented may differ from similar calculations reported by other entities and accordingly, may not be comparable. The Real Property Association of Canada 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 deferred income taxes. The Company calculates FFO in accordance with this definition. FFO provides another useful measure of the Company’s performance as net income incorporates depreciation and amortization on real estate assets, which may not necessarily occur and is based on historical cost accounting. FFO should not be construed as an alternative to net income or cash flow from operating activities.

Adjusted funds from operations or “AFFO”: AFFO is another non-GAAP financial measure commonly used by lodging entities as an indication of financial performance. AFFO reflects the ability of the Company to earn income and pay cash dividends to shareholders. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. AFFO may differ from similar calculations reported by other entities and accordingly, may not be comparable. AFFO is defined as the consolidated net income of the Company and its subsidiaries for the period computed in accordance with GAAP adjusted for the following items:

- add backs: depreciation and amortization; impairment of hotel properties; deferred income tax expense; losses on dispositions of assets; amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; and amortization of deferred financing fees;
- deductions: reserve for replacement of FF&E; deferred income tax credits; interest on convertible debentures to the extent not already deducted in computing net income; gains on dispositions of assets; and amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value;
- other adjustments as determined by the directors of the Company in their discretion: reversals of impairment of hotel properties; non-cash share-based compensation; and fair value adjustments on Class B LP units and derivative liability.

Readers should refer to the table “Operating Results” for the three months and years ended December 31, 2013 and 2012 for the reconciliation of net income to FFO and AFFO.

## LEGAL PROCEEDINGS

In the course of the Company’s ordinary activities, the Company is involved in administrative proceedings, litigation and claims. The Company believes that either there are valid defences to any current actions or that the outcome will not have a material impact on the Company’s consolidated financial position or results of operations.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to use judgment in applying its accounting policies and 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. The following discusses the most significant judgments and estimates that the Company has made in the preparation of the financial statements.

Valuation of property and equipment: The Company is required to test for impairment when there is an indication that the carrying value of a cash generating unit (“CGU”) may not be recoverable or when a previously recorded impairment could be reversed. Property and equipment is reviewed at the individual hotel level, the lowest level for which

identifiable cash flows are largely independent when testing and measuring for impairment or reversal of impairment. The fair value is determined based on the discounted future cash flows expected to be received from the property. The amount of the impairment loss is the amount by which the hotel property's carrying value exceeds its recoverable amount.

The Company has established a methodology for identifying indicators of impairment which includes looking at changes in operating performance, occupancy levels, room rates, revenues, expenses, rates and other factors for each CGU. Additional factors include oil and gas or other business and economic market activity, regional development opportunities and new competition in the markets in which each CGU operates are also considered in the review methodology. These indicators determine whether the Company tests for impairment or reversal of previously recorded impairments at each balance sheet date. The Company values its properties using a discounted cash flow analysis, starting with a base year's financial results and applying certain growth assumptions for a term certain and a terminal capitalization rate at the end of such term. These estimates and assumptions, including the discount rates involve significant judgment and are subject to change.

Valuation of loan receivable: The carrying value of a loan receivable classified as impaired is determined using valuation techniques based on discounted future cash flows expected to be received from the loan. The estimated cash flows and the collectability of the principal balance at maturity are subject to significant judgement and uncertainty.

Valuation of minority interest investments in hotel properties: The Company's minority interest investments in hotel properties were not traded in an active market and their fair value was estimated using internal valuation models. Valuations for these investments require the use of inputs and capitalization rates that cannot be derived from current market prices but are based on management estimates of appropriate amounts.

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

Income taxes: Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income, other comprehensive income, or directly in equity, as applicable, in the year that includes the date of enactment or substantive enactment. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax asset recorded on the statement of financial position.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In addition, the Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities legislation is accumulated and communicated to management, including the acting Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required public disclosure.

During 2013, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), under the supervision of, and with the participation of those acting as CEO and CFO. As at December 31, 2013, based on the evaluation, the CEO/COO and CFO have concluded that the Company's disclosure controls and procedures were appropriately designed and were operating effectively.

During 2013, the Company's management also evaluated the design and operating effectiveness of the internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), using the Committee of Sponsoring Organizations Internal Control – Integrated Framework, under the supervision of, and with the participation of the CEO/COO and CFO. As at December 31, 2013, based on the evaluation, those acting as CEO and CFO have concluded that the Company's internal controls over financial reporting were appropriately designed and were operating effectively.

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

The Company continually reviews its controls and updates its documentation of its disclosure controls and procedures, including its internal controls over financial reporting so as to enhance the effectiveness of its systems of controls and procedures.

## RISK FACTORS

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, investment concentration in the oil and gas industry, franchised hotels, availability of additional capital, and debt financing 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 4, 2014 which is available at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to Holloway's future outlook and anticipated events or results and may include statements regarding Holloway's future financial position, business strategy, financial results, plans and objectives. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Forward-looking information is subject to certain factors, including risks and uncertainties, that could cause actual results to differ materially from what Holloway currently expects and there can be no assurance that such statements will prove to be accurate. Some of these risks and uncertainties are described under "Risk Factors" in Holloway's annual information form for the year ended December 31, 2013 which is available on Holloway's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com). Holloway does not intend to update or revise any such forward-looking information should its assumptions and estimates change.