Holloway
LODGING
Real Estate Investment Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2009

As at March 16, 2010

Introduction

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Real Estate Investment Trust ("Holloway" or the "REIT") for the three months and year ended December 31, 2009 and should be read in conjunction with the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2009.

The financial statements of Holloway are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A includes forward-looking information. Forward-looking information is subject to certain risks and uncertainties, which could result in actual results differing materially from the forward-looking information. See "FORWARD-LOOKING INFORMATION".

Additional information about the REIT filed with the applicable Canadian securities regulatory authorities, including the audited financial statements of the REIT and the notes thereto, are available at www.sedar.com. The REIT's units and convertible debentures are traded on the TSX under the symbols HLR.UN, HLR.DB and HLR.DB.A, respectively.

Overview

The year 2009 was challenging for many sectors of the economy and these difficult times had a significant impact on the hospitality industry. According to data compiled by PKF Consulting Inc. ("PKF"), on a national basis hotel room demand declined by 6% and average daily rates fell by 5%. To provide some context to this data, the two prior economic shocks of the last ten years, namely the events of 9/11 and the outbreak of SARS resulted in declines in demand of 4.3% and 3.7%, respectively.

Within specific regions of Canada, the level of volatility in demand was much more pronounced. The region experiencing the largest year over year decline was rural Alberta. It is in this area that close to 50% of the REIT's room supply is located, and therefore the REIT experienced significant demand declines in the western region versus the prior year. The primary cause of the decline was the downturn in oil and gas exploration and associated activities. The REIT's hotels in the Atlantic region weathered the recession much better as the sources of business for these hotels are of a much more diversified nature and Atlantic Canada is less prone to volatile economic swings.

Despite these challenges, the REIT has made gains in market share growth and cost containment across its portfolio. Many of our hotels increased their market share versus the prior year. The REIT has also made progress on managing costs in every area of the operation including wages, operating expenses as well as in each area of overhead expenses.

The REIT also completed the sale of the Wingate by Wyndham in Calgary, recognizing a gain of $1.5 million and cash proceeds after mortgage repayment and closing costs of $8.5 million. In addition, subsequent to year-end the REIT refinanced all mortgages maturing in 2010 on more favourable terms.

As Canada moves further out of the recession and demand growth in the economy continues, the benefits of our market share gains, operating cost reductions, a relatively young and well maintained hotel portfolio and no near-term debt maturities will position the REIT favourably as we move into 2010 and beyond.

SUMMARY OF SELECTED FINANCIAL INFORMATION

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

(in $000's except per unit results, number of rooms, ADR and RevPAR)	2009	2008	2007
Hotel revenues	74,427	93,495	69,751
Total revenues (hotel and REIT interest income)	75,166	96,297	72,192
Net income (loss) and comprehensive income (loss)	(20,337)	(5,080)	1,520
Basic and diluted income (loss) per unit	(0.52)	(0.13)	0.05
Basic and diluted FFO per unit	0.01	0.29	0.32
Basic and diluted distributable income per unit	0.01	0.32	0.32
Distributions declared per unit	0.105	0.485	0.495
Total assets	358,211	393,386	415,216
Total indebtedness (mortgages and loans payable, obligations under capital leases, convertible debentures and promissory notes)	223,330	232,513	230,114
Unitholders' equity	125,712	150,094	173,806
Number of rooms/suites*	2,320	2,423	2,423
Occupancy*	55.45%	65.14%	66.02%
ADR*	$131.69	$140.05	137.77
RevPAR*	$73.02	$ 91.23	90.96

*Excludes discontinued operations.

Overview of Holloway Lodging REIT, its Strategies and Objectives

Holloway is an open-ended real estate investment trust that was formed under the laws of the Province of Ontario pursuant to a Declaration of Trust on March 28, 2006. 2006 was the initial year of active operations for the REIT. As at December 31, 2009, the REIT owned 21 hotel properties with 2,320 guest rooms and suites and has equity ownership interests, ranging from 2.52% to 19.06% in eight other hotels. The hotels in which the REIT has an equity ownership interest represent an additional 629 rooms.

HOLLOWAY'S OPERATING STRATEGY AND OBJECTIVES

Holloway's principal business is to invest, directly or indirectly, in the ownership and operation of hotel properties. The management of the REIT has considerable expertise in hotel operations and management and possesses the resources necessary to maximize revenue and profits from its hotel portfolio. The REIT capitalizes on the hotel operating, development, finance, and transactional experience of its management and trustees.

The REIT's objectives are to:

- expand its asset base and increase its funds from operations through accretive acquisitions and internal growth initiatives;
- enhance the value of its assets to provide unitholders with long-term unit value through active asset management; and
- increase cash flow from operations in order to resume distributions to unitholders at the appropriate time.

Portfolio of Hotels

Holloway's portfolio consists primarily of limited service hotels with a small number of full service hotels. The table below provides details on the twenty-one hotels wholly owned by Holloway as at December 31, 2009. Approximately 61% of Holloway's rooms and suites are located in Alberta.

PROPERTY	LOCATION	NO. OF ROOMS
Alberta		
Super 8	Drayton Valley	60
5 Calgary Downtown Suites & Spa Hotel	Calgary	302
Radisson Hotel and Suites	Fort McMurray	134
Super 8	Three Hills	82
Super 8	Slave Lake	58
Super 8	Whitecourt	59
Super 8	High Level	81
Super 8	Grande Prairie	149
Holiday Inn	Grande Prairie	146
Best Western	Grande Prairie	100
Pomeroy Inn and Suites	Grande Prairie	152
Northwest Inn	Slave Lake	99
	Total Rooms	**1,422**
British Columbia		
Super 8	Fort St. John	93
Super 8	Fort Nelson	142
Holiday Inn Express	Kamloops	80
	Total Rooms	**315**
New Brunswick		
Holiday Inn Express and Suites	Moncton	151
	Total Rooms	**151**
Northwest Territories		
Super 8	Yellowknife	66
	Total Rooms	**66**
Nova Scotia		
Super 8	Truro	50
Radisson Suite Hotel	Halifax	104
Holiday Inn Express	Halifax	98
	Total Rooms	**252**
South Carolina - USA		
Holiday Inn Express	Myrtle Beach	114
	Total Rooms	**114**
	Total	**2,320**

The table below provides details on the eight hotels in which the REIT has minority equity ownership interests.

PROPERTY	LOCATION	PERCENT OWNERSHIP	NO. OF ROOMS
British Columbia			
Super 8	Langley	8.41%	81
New Brunswick			
Super 8	Dieppe	6.00%	85
Newfoundland and Labrador			
Super 8	St. John's	17.63%	82
Nova Scotia			
Super 8	Amherst	15.72%	50
Ontario			
Super 8	Barrie	2.52%	82
Super 8	Toronto	19.06%	92
Quebec			
Super 8	Ste-Foy	15.00%	79
Super 8	Trois-Rivieres	15.00%	78
		Total	**629**

Operating Results

The following table provides a summary of the operating results for the three months and years ended December 31, 2009 and 2008.

(in $000's except number of units and per unit results)	Three months ended December 31, 2009	Three months ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2008
Hotel revenues	15,939	20,489	71,985	89,332
Hotel expenses	12,508	14,707	52,673	59,701
Hotel operating income	3,431	5,782	19,312	29,631
Other expenses	15,637	11,422	44,300	35,123
Provision for (recovery of) future income taxes	(413)	(712)	(3,056)	65
Net income (loss) from continuing operations for the period – basic and diluted	(11,793)	(4,928)	(21,932)	(5,557)
Income from discontinued operations	1,361	25	1,595	477
Net income (loss) and comprehensive loss for the period	(10,432)	(4,903)	(20,337)	(5,080)
Weighted average basic units outstanding	39,135,216	39,136,183	39,135,216	39,132,025
Weighted average diluted units outstanding	39,135,216	39,136,183	39,135,216	39,132,025
Basic income (loss) per unit	(0.27)	(0.13)	(0.52)	(0.13)
Diluted income (loss) per unit	(0.27)	(0.13)	(0.52)	(0.13)
Reconciliation to funds from operations (FFO)				
Add/(deduct):				
Depreciation and amortization on real property	3,190	3,302	13,045	13,032
Gain on sale of hotel property	(1,474)	-	(1,474)	-
Provision for impairment of mezzanine loans and advances	6,359	3,000	11,059	3,000
Write-off and provision for impairment of investments in hotel properties	1,011	-	1,011	-
Provision for (recovery of) future income taxes, continuing operations	(413)	(482)	(3,056)	65
Provision for future income taxes, discontinued operations	89	(211)	254	226
Funds from operations – basic and diluted	**(1,670)**	**706**	**502**	**11,243**
Basic FFO per unit	(0.04)	0.02	0.01	0.29
Diluted FFO per unit	(0.04)	0.02	0.01	0.29
Reconciliation to distributable income				
Add/(deduct):				
Depreciation and amortization – trust and other assets	52	58	244	241
Accretion of mortgages, convertible debentures and deferred financing fees	669	569	2,528	2,170
Unit-based compensation	15	9	64	471
Unrealized foreign exchange loss (gain)	(86)	691	(737)	1,020
FF&E reserve	(480)	(641)	(2,233)	(2,805)
Distributable income – basic and diluted	**(1,500)**	**1,392**	**368**	**12,340**
Basic distributable income per unit	(0.04)	0.04	0.01	0.32
Diluted distributable income per unit	(0.04)	0.04	0.01	0.32
Distributions declared	-	0.08	0.105	0.485
Reconciliation of cash flow from operating activities to distributable income				
Cash flow from operating activities	(2,857)	2,708	357	16,332
Changes in non-cash working capital balances	1,837	(675)	2,244	(1,187)
FF&E reserve	(480)	(641)	(2,233)	(2,805)
Distributable income	**(1,500)**	**1,392**	**368**	**12,340**

Q4 Operating Results

The results of operations for the three months ended December 31, 2009 and 2008 represent the continuing operations of twenty-one hotels for the full quarter.

REVENUES

(in $000's)	Three months ended December 31, 2009	Three months ended December 31, 2008	Variance
Room revenue	13,247	17,222	(3,975)
Other revenue	2,692	3,267	(575)
Total	**15,939**	**20,489**	**(4,550)**

Room Revenue - Key Performance Measures

	Three months ended December 31, 2009			Three months ended December 31, 2008			RevPAR
Region	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Change
Atlantic Canada ($Cdn)	57.48%	$108.47	$62.35	58.80%	$115.17	$67.72	(7.9%)
Western Canada ($Cdn)	48.39%	$133.10	$64.41	59.86%	$144.45	$86.47	(25.5%)
United States ($US)	35.29%	$63.83	$22.52	36.89%	$78.09	$28.81	(21.8%)
Weighted Average Total ($Cdn)	**49.32%**	**$125.83**	**$62.06**	**58.55%**	**$137.81**	**$80.69**	**(23.1%)**

The Atlantic Canada RevPAR has decreased 7.9% for the three months ended December 31, 2009 compared to the three months ended December 31, 2008.

In Moncton, there has been an erosion of business due to the increased market penetration from a relatively new market entrant.

In Truro, one competitor representing half of the available rooms in the market had a significant ramp up in the fourth quarter compared to last year when they were undergoing renovations.

In downtown Halifax, the trend continued among the competitive set of attempting to sustain occupancy via rate discounts. The result was that occupancy and rate were down across the market in equal measure compared to the prior year. The Radisson Halifax, however, achieved healthy RevPAR and market share growth despite these market challenges.

In suburban Halifax, the Holiday Inn Express performed relatively well in a down market and increased its market share.

Three of the four REIT hotels in Atlantic Canada exceeded their fair market share in the fourth quarter.

The Western Canada RevPAR decreased 25.5%. The downturn in the oil and gas sector continued and the associated industry service and supply companies scaled back their accommodation requirements proportionately. According to statistics compiled by the Canadian Association of Oilwell Drilling Contractors, the average number of active oil rigs in the fourth quarter was down by 30% compared to the prior year.

The largest hotel occupancy declines were in Whitecourt, Three Hills, Slave Lake, Fort McMurray and Drayton Valley. Compression on rates followed across these markets but to a lesser extent in Fort McMurray than in the other locations. In Whitecourt, a new competitor entered the market in the quarter. Despite this difficult environment, the REIT's hotels in the Western region largely maintained levels of

market share and most achieved well in excess of fair market share.

In Grande Prairie, the occupancy decline in the quarter also translated into lower rates as clients negotiated rate discounts in a market with constricted demand. However, three of the REIT's four hotels in Grande Prairie achieved growth in market share in the fourth quarter versus the prior year.

The RevPAR for the Holiday Inn Express in Myrtle Beach, South Carolina decreased 21.8% due to the drop in average rate as clientele are exceedingly price conscious due to the prevailing economic conditions, the availability of online discounts and the willingness of the competitive set to negotiate rate concessions.

Other Revenue

Lower food and beverage revenue in Grande Prairie and Calgary accounted for the majority of the decline in other revenue. There were lower ancillary revenues at several hotels, due to lower occupancy levels as well as a decline in parking revenue in Calgary.

Expenses

(in $000's)	Three months ended December 31, 2009	Three months ended December 31, 2008	Variance
Operating expenses	11,076	12,894	(1,818)
Property taxes and insurance	1,103	1,241	(138)
Management fees	329	572	(243)
Total	**12,508**	**14,707**	**(2,199)**

Operating Expenses

Operating expenses include wages, supplies and overhead expenses such as repairs and maintenance, sales and marketing and administrative expenses related to the operations of the hotel. These expenses have decreased $1.8 million when comparing the three months ended December 31, 2009 to the same period in 2008. Substantial savings were achieved as a result of lower wage costs due to the lower occupancy along with cost containment in operating expenses such as guest consumables as well as from efficiencies realized in maintenance, administrative and marketing departments. Utility costs were also lower as a function of the lower occupancy.

Property Taxes and Insurance

Property taxes and insurance expenses have declined $0.1 million for the three months ended December 31, 2009 compared to the fourth quarter of 2008. Insurance rates were negotiated down and several properties experienced lower property tax assessments.

Management Fees

Management fees are based on the hotel revenues which have declined from the prior year.

HOTEL OPERATING INCOME

The following table provides the REIT's hotel margins for its portfolio for the three months ended December 31, 2009 and 2008.

(in $000's except percentages, number of rooms available and HOI per available room)	Three months ended December 31, 2009	Three months ended December 31, 2008	Variance
Hotel revenues	15,939	20,489	(4,550)
Hotel operating expenses	11,076	12,894	(1,818)
Hotel gross margin	4,863	7,595	(2,732)
Percentage	30.5%	37.1%	(6.6%)
Hotel overhead expenses [(1)]	1,432	1,813	(381)
Hotel operating income (HOI)	3,431	5,782	(2,351)
Hotel operating income margin	21.5%	28.2%	(6.7%)
Number of rooms available	213,440	213,440	-
HOI per available room	**16.07**	**27.09**	(11.02)

(1) Hotel overhead expenses include property taxes, insurance and management fees.

Hotel operating income per available room decreased by $11.02 to $16.07 from $27.09 for the three months ended December 31, 2009 and 2008, respectively. The hotel operating income margin decreased to 21.5% from 28.2%. The decrease is attributable to the substantial revenue decline, much of which occurred in ADR, and as such has a greater impact on operating margins. While considerable cost savings have been achieved in wages and in all operating and overhead departments as outlined in the "Hotel Expenses" section above, the magnitude of these savings did not proportionally offset the revenue declines.

OTHER INCOME AND EXPENSES

(in $000's)	Three months ended December 31, 2009	Three months ended December 31, 2008	Variance
Interest on mortgages and other debt and accretion of deferred financing fees	2,725	2,823	(98)
Convertible debentures interest and accretion	1,920	1,827	93
Corporate and administrative	544	560	(16)
Interest income	(79)	(706)	627
Unrealized foreign exchange loss (gain)	(86)	690	(776)
Depreciation and amortization	3,243	3,228	15
Provision for impairment of mezzanine loans and advances	6,359	3,000	3,359
Write-off and provision for impairment of investments in hotel properties	1,011	-	1,011
Total	**15,637**	**11,422**	**4,215**

Interest on Mortgages and Other Debt and Accretion of Deferred Financing Fees

Interest on mortgages and other debt and accretion of deferred financing fees has decreased $0.1 million to $2.7 million for the three months ended December 31, 2009 compared to the three months ended December 31, 2008 due to the decline in the mortgage principal outstanding.

Convertible Debentures Interest and Accretion

The total debenture interest expense and the non-cash accretion of the discount on the debentures has increased $0.1 million to $1.9 million for the fourth quarter of 2009 compared to $1.8 million for the fourth quarter of 2008 as the non-cash accretion on the convertible debentures has increased. The accretion increases over the term to the maturity dates of the debentures.

Corporate and Administrative

Corporate administrative expenses were $0.5 million for the three months ended December 31, 2009 and $0.6 million for the three months ended December 31, 2008 as a result of declines in wages, legal fees and expenses related to non-acquired properties. The REIT has ongoing cost-control measures in place across all of areas of corporate expenses.

Interest Income

During the three months ended December 31, 2009 and 2008, the REIT generated interest income of $0.1 million and $0.7 million respectively from loans receivable and the investment of cash balances. There was lower interest revenue from the loan to Pacrim Hospitality Services Inc. as the interest rate on that loan declined. The interest rate charged is described in the "RELATED PARTY AGREEMENTS" section of this report. In addition, the REIT is recording an allowance against all of the interest income from the mezzanine loans as the loans are considered impaired and collectability is uncertain.

Unrealized Foreign Exchange Gain/Loss

The unrealized foreign exchange gain/loss represents the conversion of the US-denominated mortgage on the Holiday Inn Express in Myrtle Beach into Canadian dollar.

Depreciation and Amortization

Depreciation and amortization has increased marginally for the three months ended December 31, 2009 compared to the fourth quarter of 2008. The increase in depreciation represents depreciation on capital additions made to the properties.

Provision for Impairment of Mezzanine Loans and Advances

The REIT believes that the loans to Winport Developments Limited Partnership and Pacrim North York Limited Partnership are impaired. The loans are in default and the REIT issued a demand notice for payment earlier in the year. On August 6, 2009, a court-appointed receiver on behalf of the first mortgagor for the property was named, with a mandate to sell the property and maximize the return to the debt-holders. The REIT's loans and advances have been written down to zero as the REIT does not expect to realize on its security. The REIT believes that the mezzanine loan and advances to Windsor 8 Motel Limited are impaired. The loan is currently in default. The REIT is progressing with a quit claim to obtain title of the property in 2010. As the appraised value of the property is approximately equal to the first mortgage debt on the property, the REIT's mezzanine loan and advances have been written down to zero. Holloway recorded a total provision for impairment of $6.4 million on its mezzanine loans and advances during the three months ended December 31, 2009.

Write-off and Provision for Impairment of Investments in Hotel Properties

The REIT recorded a provision for impairment of $0.5 million during the three months ended December 31, 2009 against its investment in the Super 8 in Langley, BC which represents the total cost of this investment. This provision was taken as the performance of this hotel no longer supports the carrying value of the investment.

In addition, the REIT wrote off its investment of $0.5 million in the Super 8 in Midland, ON, as it has relinquished its ownership interest in this hotel.

Income from Discontinued Operations

The REIT's income from discontinued operations during the fourth quarter of 2009 was $1.5 million, which represents the gain on the sale of the Wingate by Wyndham hotel in Calgary, AB.

On October 5, 2009, the REIT sold this property to an arm's length purchaser for $16.5 million. After repayment of the mortgage and closing costs on the property, net cash proceeds were $8.5 million.

Funds from Operations ("FFO")

FFO for the three months ended December 31, 2009 was ($1.7) million [($0.04) basic and diluted FFO per unit] compared to $0.7 million ($0.02 basic and diluted FFO per unit) for the same period in 2008, primarily due to the decline in hotel revenues.

Distributable Income

Distributable income was ($1.5) million [($0.04) basic and diluted distributable income per unit] for the three months ended December 31, 2009 compared to $1.4 million ($0.04 basic and diluted distributable income per unit) for the same period in 2008. Distributable income will fluctuate due to market conditions, the seasonality in the hospitality industry and the timing of acquisitions and disposals.

The following table shows the reconciliation between standardized distributable cash and distributable income for the three months ended December 31, 2009 and 2008, respectively.

(in $000's)	Three months ended December 31, 2009	Three months ended December 31, 2008
Net Cash Provided by Operating Activities	(2,857)	2,708
Capital expenditures including acquisitions and other assets	(486)	(423)
Standardized Distributable Cash	(3,343)	2,285
Reconciliation to Distributable Income:		
Standardized Distributable Cash	(3,343)	2,285
Capital expenditures in excess of (less than) FF&E reserve	6	(218)
Changes in non-cash working capital balances	1,837	(675)
Distributable Income	**(1,500)**	**1,392**

CASH FLOW FOR THE THREE MONTHS ENDED DECEMBER 31, 2009 AND 2008

During the three months ended December 31, 2009, the REIT's cash and cash equivalents increased by $3.3 million from $0.5 million to $3.8 million primarily as a result of the sale of the Wingate by Wyndham in Calgary. For the comparative period in 2008, cash and cash equivalents decreased by $2.9 million from $7.9 million to $5.0 million primarily due to distributions to unitholders exceeding distributable income by $2.8 million for that period.

(in $000's)	Three months ended December 31, 2009	Three months ended December 31, 2008
Cash provided by (used in)		
Operating activities		
Net income (loss) and comprehensive income (loss) from continuing operations for the periods	(11,793)	(4,946)
Charges (credits) to income not involving cash		
Unit-based compensation	15	9
Depreciation and amortization	3,243	3,231
Accretion of mortgages and convertible debentures	669	567
Unrealized foreign exchange loss (gain)	(86)	690
Provision for (recovery of) future income taxes	(413)	(693)
Provision for impairment of mezzanine loans and advances	6,359	3,000
Write-off and provision for impairment of investments in hotel properties	1,011	-
	(995)	1,858
Net change in non-cash working capital balances related to operations	(1,977)	677
Cash flow from discontinued operations	115	173
Cash flow from (used in) operating activities	(2,857)	2,708
Investing activities		
Decrease (increase) in restricted cash	10	(77)
Increase in capital reserves, continuing operations	(169)	(515)
Decrease (increase) in capital reserve, discontinued operations	(585)	18
Proceeds from sale of property, discontinued operations	15,636	-
Increase in mezzanine loans and advances receivable	(30)	-
Additions to property and equipment, continuing operations	(486)	(393)
Additions to property and equipment, discontinued operations	-	(30)
Investment in hotel properties	-	680
Cash flow from (used in) investing activities	14,376	(317)
Financing activities		
Repayment of capital lease obligations	(96)	(93)
Increase in deferred financing fees, continuing operations	(29)	-
Repayment of mortgages and loans payable, continuing operations	(1,175)	(966)
Repayment of mortgage payable, discontinued operations	(6,912)	(73)
Units repurchased and cancelled	-	(1)
Distributions paid to unitholders	-	(4,207)
Cash flow used in financing activities	(8,212)	(5,340)
Net change in cash and cash equivalents during the periods	3,307	(2,949)
Cash and cash equivalents, continuing operations – beginning of periods	151	7,746
Cash and cash equivalents, discontinued operations – beginning of periods	328	195
	479	7,941
Cash and cash equivalents, continuing operations – end of periods	3,756	4,860
Cash and cash equivalents, discontinued operations – end of periods	30	132
	3,786	4,992

Operating Activities

Operations utilized $2.9 million in cash for the three months ended December 31, 2009. The cash flow before changes in working capital items used $1.0 million in cash. Changes in working capital items utilized $2.0 million in cash as prepaid expenses increased $2.0 million, accounts payable and accrued liabilities decreased $0.6 million, accrued interest on convertible debentures decreased $0.4 million (all uses of cash) which were offset by the reduction in accounts receivable of $1.0 million (source of cash).

For the three months ended December 31, 2008, cash flow from operations was $2.7 million. The cash flow before changes in working capital items provided $1.9 million in cash. The changes in working capital items provided an additional $0.7 million as accounts receivable declined $1.1 million (source of cash) and the accrued interest on the convertible debentures decreased $0.4 million (use of cash).

Investing Activities

Investing activities provided $14.4 million during the three months ended December 31, 2009 due to the net proceeds on the sale of the Wingate by Wyndham Calgary of $15.6 million. Additions to property and equipment of $0.5 million were made at a number of hotels. In addition, the REIT's capital reserves for replacement increased $0.7 million.

For the three months ended December 31, 2008, investing activities utilized $0.3 million. The REIT's capital reserves for replacement increased $0.5 million and additions to property and equipment totalled $0.4 million. As part of the acquisition of equity ownership interests in nine hotels, the REIT received $0.7 million in cash.

Financing Activities

Financing activities utilized $8.2 million during the three months ended December 31, 2009. The REIT made principal repayments on its continuing operations' mortgage debt and loans payable of $1.2 million and repaid the mortgage on the Wingate by Wyndham of $6.9 million during the three months ended December 31, 2009.

For the three months ended December 31, 2008, financing activities utilized $5.3 million. The REIT made principal repayments on its mortgage debt and loans payable of $1.0 million. Distributions to unitholders utilized $4.2 million in cash during the fourth quarter of 2008.

Full Year Operating Results

The following discussion for the years ended December 31, 2009 and 2008 represents the continuing operations of the twenty-one hotels owned by the REIT. It does not include the discontinued operations of the Wingate by Wyndham.

REVENUES

(in $000's)	Year ended December 31, 2009	Year ended December 31, 2008	Variance
Room revenue	61,837	77,063	(15,226)
Other revenue	10,148	12,269	(2,121)
Total	**71,985**	**89,332**	**(17,347)**

Room Revenue - Key Performance Measures

Region	Year ended December 31, 2009			Year ended December 31, 2008			RevPAR
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Change
Atlantic Canada ($Cdn)	67.32%	$119.12	$80.19	70.73%	$123.98	$87.69	(8.6%)
Western Canada ($Cdn)	52.93%	$137.78	$72.92	64.32%	$146.13	$93.99	(22.4%)
United States ($US)	53.48%	$81.26	$43.46	56.10%	$93.81	$52.63	(17.4%)
Weighted Average Total ($Cdn)	**55.45%**	**$131.69**	**$73.02**	**65.03%**	**$139.90**	**$90.98**	**(19.7%)**

The Atlantic Canada RevPAR has decreased by 8.6% for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to reduced occupancy at three of the four properties in the Atlantic region and a decline in rates primarily in the Halifax market. Two of the four REIT hotels in the Atlantic region increased their market share versus the competitive set from the previous year and three of the four rank first in market share.

Western Canada RevPAR decreased 22.4%. Within the Western region, the combination of sharply lower demand, room supply increases in many markets and the resulting downward pressure on rates produced substantial declines in RevPAR for the year. The largest occupancy declines were in Fort McMurray, Drayton Valley, Slave Lake, Fort St. John and Whitecourt. The decline in gas and oil activity has a major effect on many of our Alberta and northern British Columbia hotels as demand is largely reliant on this business. A substantial increase in available room supply has also been a major factor in Grande Prairie, Slave Lake, Drayton Valley and Fort St. John. However, many of the REIT's hotels in the Western region have posted solid growth in market share year over year.

RevPAR at the Holiday Inn Express in Myrtle Beach, South Carolina decreased 17.4% due to the drop in average rate due to lower leisure and group activity on account of the prevailing economic conditions in the United States. Despite this, the hotel has achieved healthy growth in market share and it well exceeds fair market share.

Other Revenue

Lower other revenue is primarily attributable to lower food and beverage revenue in Grande Prairie, Slave Lake and Calgary. Also, the prior year included $0.1 million in food and beverage revenue from a restaurant operation which was leased out in February, 2008. There were lower ancillary revenues at the Radisson in Fort McMurray and several other hotels due to lower occupancy levels along with lower parking revenue in Calgary.

Expenses

(in $000's)	Year ended December 31, 2009	Year ended December 31, 2008	Variance
Operating expenses	46,236	52,544	(6,308)
Property taxes and insurance	4,627	4,842	(215)
Management fees	1,810	2,315	(505)
Total	**52,673**	**59,701**	**(7,028)**

Operating Expenses

Operating expenses include wages, supplies and overhead expenses such as repairs and maintenance, sales and marketing and administrative expenses related to the operations of the hotel. The expenses have decreased $6.3 million when comparing the year ended December 31, 2009 to the same period in 2008. The hotels are economizing with staff scheduling and cutting operating expenses as a result of the lower business levels. Savings were achieved throughout all operating and overhead departments, with wages representing the largest savings area. Operating supplies expenses were down, as were fees calculated as a percent of revenue, maintenance expenses and utilities.

Property Taxes and Insurance

Property taxes and insurance expenses have decreased to $4.6 million from $4.8 million for the year ended December 31, 2009 and 2008, respectively due to lower assessments in several Western region hotels.

Management Fees

Management fees are based on a percent of hotel revenues which have declined from the prior year. In addition, the management fees for January, 2008 for 10 hotels in Alberta and British Columbia were subject to a higher fee under another management agreement which was terminated at the end of January, 2008.

Hotel Operating Income

The following table provides the REIT's hotel margins for its portfolio for the years ended December 31, 2009 and 2008.

(in $000's except percentages, number of rooms available and HOI per available room)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Variance**
Hotel revenues	71,985	89,332	(17,347)
Hotel operating expenses	46,236	52,544	(6,308)
Hotel gross margin	25,749	36,788	(11,039)
Percentage	35.8%	41.2%	(5.4%)
Hotel overhead expenses [1]	6,437	7,157	(720)
Hotel operating income (HOI)	19,312	29,631	(10,319)
Hotel operating income margin	26.8%	33.2%	(6.4%)
Number of rooms available	846,800	847,100	(300)
HOI per available room	**22.81**	**34.98**	(12.17)

[1] Hotel overhead expenses include property taxes, insurance and management fees.

Hotel operating income per available room decreased by $12.17 to $22.81 from $34.98 for the year ended December 31, 2009 and 2008, respectively. The hotel operating income margin decreased to 35.8% from 41.2%. The decrease is primarily attributable to the substantial revenue decline and in particular, the decrease in ADR. While cost savings have been achieved across all operating departments as outlined in the "Hotel Expenses" section above, the magnitude of these savings did not proportionally offset the revenue declines.

Other Income and Expenses

(in $000's)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Variance**
Interest on mortgages and other debt	10,997	11,107	(110)
Interest on convertible debentures	4,989	5,022	(33)
Accretion on convertible debentures, mortgages and deferred financing fees	2,578	2,162	416
Corporate and administrative	2,173	2,844	(671)
Interest income	(739)	(2,802)	2,063
Unrealized foreign exchange loss (gain)	(737)	1,020	(1.757)
Depreciation and amortization	12,969	12,770	199
Provision for impairment of mezzanine loans and advances	11,059	3,000	8,059
Write-off and provision for impairment of investments in hotel properties	1,011	-	1,011
Total	**44,300**	**35,123**	**9,177**

Interest on Mortgages and Other Debt

Interest on mortgages and other debt has decreased marginally when comparing the year ended December 31, 2009 to the year ended December 31, 2008. This is due to a decrease in mortgage interest expense as principal balances are paid down, offset by a $0.2 million increase in interest expense on the promissory notes issued in December, 2008.

Convertible Debentures Interest

The total debenture interest expense for the years ended December 31, 2009 and 2008 has remained constant at $5.0 million.

Accretion on Mortgages, Convertible Debentures and Deferred Financing Fees

The accretion on mortgages, convertible debentures and deferred financing fees has increased $0.4 million to $2.6 million from $2.2 million for the years ended December 31, 2009 and 2008, respectively. The increase relates primarily to the increase in the non-cash accretion on the convertible debentures which increases over the term to the maturity dates of the debentures.

Corporate and Administrative

Corporate and administrative expenses were $2.2 million for the year ended December 31, 2009 and $2.8 million for the year ended December 31, 2008. This decrease is due in part to a $0.4 million decrease in unit-based compensation. In addition, there were two additional corporate employees during the first half of 2008 whose positions were eliminated during 2008, resulting in quarterly savings of $60,000. The REIT eliminated another corporate position and out-sourced another position during the third quarter of 2009 resulting in additional on-going savings. In addition, all other corporate expenses are strictly controlled.

Interest Income

During the years ended December 31, 2009 and 2008, the REIT generated interest income of $0.7 million and $2.8 million, respectively from loans receivable and the investment of cash balances. There was lower interest revenue from the loan to Pacrim Hospitality Services Inc. as the interest rate on that loan declined at the beginning of the fourth quarter of 2009. In addition, the REIT is recording an allowance against all of the interest income from the mezzanine loans as the loans are considered impaired and collectability is uncertain.

Unrealized Foreign Exchange Gain/Loss

The unrealized foreign exchange gain/loss represents the conversion of the US-denominated mortgage on the Holiday Inn Express in Myrtle Beach into Canadian dollars.

Depreciation and Amortization

Depreciation and amortization has increased by $0.2 million to $13.0 million from $12.8 million for the years ended December 31, 2009 and 2008, respectively. The increase in depreciation represents depreciation on capital additions made to the properties.

Provision for Impairment of Mezzanine Loans and Advances

The REIT believes the loans to Winport Developments Limited Partnership and Pacrim North York Limited Partnership are impaired. The loans are in default and the REIT issued a demand notice for payment earlier in the year. On August 6, 2009, a court-appointed receiver on behalf of the first mortgagor for the property was named, with a mandate to sell the property and maximize the return to the debt-holders. The REIT's loans and advances

have been written down to zero as the REIT does not expect to realize on its security.
The REIT believes that the mezzanine loan and advances to Windsor 8 Motel Limited are impaired. The loan is currently in default. The REIT is progressing with a quit claim to obtain title of the property in 2010. As the appraised value of the property is approximately equal to the first mortgage debt on the property, the REIT's mezzanine loan and advances have been written down to zero. Holloway recorded a total provision for impairment of $11.1 million on its mezzanine loans and advances for the year ended December 31, 2009.

Write-off and Provision for Impairment of Investments in Hotel Properties

The REIT recorded a provision for impairment of $0.5 million during the year ended December 31, 2009 against its investment in the Super 8 in Langley, BC which represents the total cost of this investment. This provision was taken as the performance of this hotel no longer supports the carrying value of the investment.

In addition, the REIT wrote off its investment of $0.5 million in the Super 8 in Midland, ON, as it has relinquished its ownership interest in this hotel.

Income from Discontinued Operations

The income from discontinued operations represents the income from the Wingate by Wyndham hotel in Calgary, AB which was sold during the year. The income from discontinued operations of $1.6 million for the year ended December 31, 2009 includes the seven months of operations up to July 31, 2009 plus the $1.5 million gain on the sale of the property. The operating income accrued to the purchaser after July 31, 2009. The income from discontinued operations for the year ended December 31, 2008 was $0.5 million.

FUNDS FROM OPERATIONS ("FFO")

FFO for the year ended December 31, 2009 was $0.5 million ($0.01 basic and diluted FFO per unit) compared to $11.2 million ($0.29 basic and diluted FFO per unit) for 2008. The savings in expenses cannot fully compensate for the decline in revenues in 2009 compared to 2008.

DISTRIBUTABLE INCOME

The REIT generated $0.4 million in distributable income ($0.01 basic and diluted distributable income per unit) for the year ended December 31, 2009 compared to $12.3 million ($0.32 basic and diluted distributable income per unit) for 2008. A distribution of $0.0175 per unit per month was declared for January to June, 2009. Distributions declared and paid totalled $4.1 million for the year ended December 31, 2009. Distributions were suspended on July 21, 2009. The REIT's 2009 distributions exceeded its distributable income. Excess, un-deployed cash was used to fund the distribution shortfall. Distributable income will fluctuate due to market conditions, the seasonality in the hospitality industry and the timing of acquisitions and disposals.

The following table shows the reconciliation between standardized distributable cash and distributable income for the years ended December 31, 2009 and 2008, respectively.

(in $000's)	Year ended December 31, 2009	Year ended December 31, 2008
Net Cash Provided by Operating Activities	357	16,332
Capital expenditures including acquisitions and other assets	(1,545)	(2,080)
Standardized Distributable Cash	(1,188)	14,252
Reconciliation to Distributable Income:		
Standardized Distributable Cash	(1,188)	14,252
Capital expenditures in excess of (less than) FF&E reserve	(688)	(725)
Changes in non-cash working capital balances	2,244	(1,187)
Distributable Income	**368**	**12,340**

Cash Flow for the Years Ended December 31, 2009 and 2008

During the year ended December 31, 2009 the REIT's cash and cash equivalents decreased by $1.2 million from $5.0 million to $3.8 million, primarily as a result of the sale of the Wingate by Wyndham in Calgary resulting in net cash proceeds of $8.5 million offset by the distributions to unitholders of $4.8 million and principal repayments of $4.6 million. For the comparative period in 2008, cash and cash equivalents decreased by $17.9 million from $22.9 million to $5.0 million.

Operating Activities

Cash flow from operations was $0.4 million for the year ended December 31, 2009 reflecting the cash generated by the hotels and the corporate operations of the REIT. The cash flow before changes in working capital items provided $2.0 million in cash. Changes in working capital items utilized $2.7 million as prepaid expenses and deposits increased $2.3 million and accounts payable and accrued liabilities decreased $1.3 million (uses of cash) while accounts receivable decreased $0.9 million (source of cash). The cash flow from discontinued operations provided $1.1 million in cash.

For the year ended December 31, 2008, cash flow from operations was $16.3 million. The cash flow before changes in working capital items provided $13.9 million in cash. Changes in working capital items provided $1.0 million as the decrease in inventories and prepaid expenses and deposits and the increase in accounts payable and accrued liabilities were higher than the increase in accounts receivable. The cash flow from discontinued operations provided $1.3 million in cash.

Investing Activities

Investing activities generated $14.3 million during the year ended December 31, 2009. The REIT received $3.0 million in February, 2009 as a result of the repayment of one of its mezzanine loans. These proceeds were offset by a $1.3 million increase in Holloway's capital reserves for replacement and $0.9 million in additional advances to The Yorkland Hotel in Toronto, ON and the Super 8 in Windsor, NS where the REIT has provided mezzanine loans. The REIT also provided $0.3 million to hotels in which it has minority ownership interests. Additions to property and equipment of $1.4 million were made at a number of the hotels.

The net proceeds from the sale of the Wingate by Wyndham in Calgary were $15.6 million.
For the year ended December 31, 2008, investing activities utilized $9.4 million primarily due to the $6.4 million loan to Pacrim Hospitality Services Inc. ("PHSI") as described in the "RELATED PARTY AGREEMENTS" section and a $1.25 million mezzanine loan to The Yorkland Hotel. In addition, capital reserves for replacement increased $2.1 million and additions to property and equipment of $2.0 million were made at the Radisson Hotel and Suites in Fort McMurray, AB, the Radisson Suite Hotel in Halifax, NS and a number of smaller additions at a number of hotels. The decrease in restricted cash of $1.7 million resulted from the release of cash held in escrow as renovations were completed at the Pomeroy Inn and Suites in Grande Prairie, AB.

FINANCING ACTIVITIES

Financing activities utilized $15.8 million during the year ended December 31, 2009. The REIT obtained an additional $1.2 million before financing fees in mortgage financing on the Radisson Hotel and Suites in Fort McMurray, AB. The REIT made principal repayments on its mortgage debt and loans payable of $4.6 million and paid distributions to unitholders of $4.8 million. Regular principal repayments on the mortgage on the Wingate by Wyndham before the sale and the repayment on closing utilized $7.1 million in cash.

Financing activities utilized $24.8 million during the year ended December 31, 2008. The REIT made principal payments on its mortgages and other loans of $3.8 million. Distributions paid to unitholders totalled $20.1 million during the year ended December 31, 2008.

Balance Sheet

The following table outlines the significant changes in the consolidated balance sheet from December 31, 2008 to December 31, 2009.

(in $000's)	As at December 31, 2009	As at December 31, 2008	Increase (Decrease)	Explanation
Assets				
Cash and cash equivalents	3,756	4,992	(1,236)	See the "Cash flow for the Years Ended December 31, 2009 and 2008" in the previous section.
Capital reserve	912	1,553	(641)	The decrease in the internally-controlled capital reserves relates to capital improvements made at the 5 in Calgary, the Super 8 in Yellowknife and the Radisson Hotel in Fort McMurray. In addition, the capital reserve of $0.1 million for the Wingate by Wyndham has been excluded in the balance at December 31, 2009 but included in the December 31, 2008 balance.
Accounts receivable	2,438	3,376	(938)	The decrease is primarily due to a decrease in the charge accounts for hotel customers.
Prepaid expenses and deposits	4,479	2,239	2,240	The increase is primarily due to a $1.9 million deposit at the end of the year paid to the receiver for the potential acquisition for The Yorkland Hotel. Subsequent to December 31, 2009, the acquisition was terminated and the deposit refunded.
Current portion of mezzanine loans receivable	-	3,000	(3,000)	The $3.0 million mezzanine loan to RegWin Hotel Ltd. was repaid on February 5, 2009.
Assets of discontinued operations	717	-	717	The assets of discontinued operations represent the remaining cash and funds held in escrow for improvements to be made at the property.
Capital reserve - restricted	4,691	2,975	1,716	The increase is related to the capital reserve contributions being held by the mortgage lenders.
Mezzanine loans and advances receivable	-	10,174	(10,174)	The decrease is a result of the provisions for impairment recorded during 2009.
Investments in hotel properties	1,961	2,688	(727)	The decrease is related to additional funds for the hotels in which the REIT owns equity ownership interests, net of the write-off and provision for impairment of $1.0 million.
Property and equipment	326,465	352,035	(25,570)	The decrease is the net of additions of $1.4 million and the depreciation for the year of $12.7 million and the sale of the Wingate by Wyndham property and equipment which had a net book value of $14.4 million.
Future income taxes	4,566	1,764	2,802	The future income tax asset represents temporary differences between income or losses for accounting purposes and income or losses for tax purposes which are expected to reverse in the future.
Liabilities and Unitholders' Equity				
Accounts payable and accrued liabilities	7,856	9,419	(1,563)	The decrease is a result of lower accounts payable and accruals due to lower business levels.
Current portion of mortgages and loans payable	4,695	5,155	(460)	The balance at December 31, 2008 included the current portion of the mortgage on the Wingate by Wyndham.
Liabilities of discontinued operations	638	-	638	The liabilities of discontinued operations represent a small amount of remaining payables and the $0.6 million relating to the improvements to be made at the property.
Mortgages and loans payable	148,788	159,666	(10,878)	The balance of mortgages and loans payable has decreased due to the ongoing principal payments. In addition, the mortgage on the Wingate by Wyndham was included in the December 31, 2008 balance.
Convertible debentures	65,935	63,458	2,477	The increase is due to the accretion on the convertible debentures which increases the liability so that they will reflect their face value at the maturity date.
Unitholders' equity	125,712	150,094	(24,382)	The decrease is comprised of the distributions of $4.1 million and the loss of $20.3 million for the year ended December 31, 2009.

Quarterly Results

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

(in $000's except per unit results)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Total revenues	16,018	19,977	18,007	18,722	21,195	25,202	23,123	22,614
Hotel revenues	15,939	19,800	17,782	18,464	20,489	24,509	22,427	21,905
Hotel expenses	12,508	13,588	12,897	13,680	14,707	15,382	14,963	14,649
Hotel operating income	3,431	6,212	4,885	4,784	5,782	9,127	7,464	7,256
Other (income) expenses	15,637	7,842	12,434	8,387	11,422	7,918	7,763	8,019
Future income tax expense (recovery)	(413)	(412)	(1,131)	(1,100)	(711)	641	99	32
Net income (loss) for the period from continuing operations	(11,793)	(1,218)	(6,418)	(2,503)	(4,929)	568	(398)	(795)
Income from discontinued operations	1,361	79	132	23	25	213	220	14
Net income (loss) for the period	(10,432)	(1,139)	(6,286)	(2,480)	(4,904)	781	(178)	(781)
Per Unit Results:								
Basic and diluted earnings per unit	–	–	–	–	–	0.02	–	–
Basic and diluted loss per unit	(0.27)	(0.03)	(0.16)	(0.06)	(0.13)	–	(0.01)	(0.02)
Basic and diluted FFO per unit	(0.04)	0.04	0.02	(0.01)	0.02	0.12	0.08	0.07
Basic and diluted distributable income per unit	(0.04)	0.04	0.01	0.00	0.04	0.13	0.08	0.07
Occupancy	49.32%	61.95%	54.82%	55.72%	58.55%	71.98%	65.22%	64.35%
ADR	$125.83	$131.87	$132.49	$135.98	$137.81	$140.76	$140.58	$140.14
RevPAR	$62.06	$81.69	$72.63	$75.77	$80.69	$101.32	$91.69	$90.18

Capital Structure

The REIT defines capital as the aggregate of unitholders' equity and interest-bearing debt. The objectives of the REIT's capital management program are to maintain a level of capital that complies with the investment and debt restrictions according to the REIT's Declaration of Trust, optimizing the cost of capital, funds its business and growth strategies and builds long-term unitholder value.

In managing its capital structure, the REIT monitors performance throughout the year to ensure working capital requirements and capital expenditures are funded from operations, available cash on deposit and where applicable, bank borrowings. The REIT will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the REIT may issue debt and/or issue or redeem units.

The REIT monitors capital using the following financial metrics, including (but not limited to):

- a Debt Service Coverage ratio defined as earnings before interest, income taxes, depreciation, amortization, non-cash accretion of deferred financing fees and unit-based compensation (earnings base) to the sum of the annual principal and interest payments of mortgages, loans, promissory notes and capital leases (debt service); and

- a Debt to Gross Book Value (Debt to GBV) ratio defined as mortgages and loans payable, obligations under capital leases, promissory notes and the face value of the convertible debentures (Debt) divided by total assets plus accumulated depreciation and amortization (GBV). The REIT's Declaration of Trust states that Holloway's debt to GBV should not exceed 60%. The REIT is in compliance with or has obtained waivers for all of its financial covenants.

Capital Management (in $000's except ratios)	As at December 31, 2009	As at December 31, 2008
Capital structure		
Obligations under capital leases	507	866
Mortgages and loans payable	153,483	164,821
Convertible debentures	65,935	63,458
Promissory notes	3,405	3,368
Total debt	223,330	232,513
Unitholders' equity	125,712	150,094
Total capital	**349,042**	**382,607**
Ratios		
Total debt	223,330	232,513
Adjustment of convertible debentures to face value	6,147	8,624
Adjustment of promissory notes to face value	146	183
Debt	229,623	241,320
Gross book value	393,025	416,447
Debt to GBV ratio	**58.4%**	**57.9%**

	Twelve months trailing from December 31, 2009	Twelve months trailing from December 31, 2008
Earnings base	18,909	32,020
Debt service	21,520	21,093
Debt service coverage ratio	**0.88**	**1.52**

The total debt (including obligations under capital leases, mortgages and loans payable and promissory notes) to gross book value ("GBV") was 40.1% at December 31, 2009 (December 31, 2008 – 40.6%) and the total debt plus the face value of convertible debentures to GBV was 58.4% at December 31, 2009 (December 31, 2008 – 57.9%).

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

MORTGAGES PAYABLE

As at December 31, 2009, the REIT had total mortgage debt outstanding of $153.4 million, excluding deferred financing fees of $1.0 million which have been netted against mortgages payable in the financial statements compared to $164.7 million outstanding at December 31, 2008. The interest rates on the mortgages payable range from 5.88% to 9.06% per annum, with a weighted average interest rate of 6.82% per annum. There is no mortgage debt at floating rates. A first charge on the majority of the properties is pledged as security for the mortgages. The mortgages mature on various dates from April, 2010 to July, 2017. The weighted average maturity is 5.4 years. The principal amount of mortgage debt maturing on April 1, 2010 is $8.9 million. Subsequent to December 31, 2009, the REIT refinanced these two mortgages at an interest rate of 6.6% for a five year term.

CONVERTIBLE DEBENTURES PAYABLE

As at December 31, 2009 and 2008, Holloway had two series of debentures outstanding totaling $72.1 million. The $20.238 million, 8.0% debentures mature on August 1, 2011 and are convertible to REIT units at $5.40 per unit. The $51.844 million, 6.5% debentures mature on June 30, 2012 and are convertible to REIT units at $6.15 per unit. The weighted average interest rate is 6.9% and the weighted average maturity is 2.2 years.

PROMISSORY NOTES PAYABLE

Pursuant to the purchase of equity ownership interests in nine hotel properties on December 22, 2008, the REIT issued two promissory notes for $3.0 million and $551,613, respectively to Winport Developments Limited Partnership. The $3.0 million promissory note bears interest at 6.0% per annum until December 22, 2011 and 12.0% per annum, thereafter. The $551,613 promissory note does not bear interest and was discounted by $183,279 at the date of issuance, representing the net present value of the implicit interest. The discount is being accreted to interest expense over five years, the expected term of the promissory notes. The principal of the promissory notes is repayable on the sale of Holloway's ownership interests or the sale of the underlying hotel properties.

FINANCIAL COMMITMENTS

The following chart summarizes the REIT's future financial commitments as at December 31, 2009.

(in $000s)	2010	2011	2012	2013	2014	Thereafter
Mortgages payable - principal	4,953	30,360	19,187	3,315	3,543	93,127
Mortgages payable - interest	10,426	9,976	7,204	6,686	6,457	17,661
Obligations under capital leases	285	132	80	10	-	-
Vehicle loans - principal	35	4	-	-	-	-
Vehicle loans - interest	1	-	-	-	-	-
Convertible debentures - principal	-	20,238	51,844	-	-	-
Convertible debentures - interest	4,989	4,989	1,685	-	-	-
Land lease	123	123	123	123	123	6,091
Operating leases	77	32	21	9	4	-
Promissory notes - principal	-	-	-	3,551	-	-
Promissory notes - interest	180	184	360	351	-	-
Total	**21,069**	**66,038**	**80,504**	**14,045**	**10,127**	**116,879**

Liquidity and Working Capital

Liquidity refers to the REIT's having or generating sufficient cash to meet the ongoing operational commitments, as well as to maintain compliance with liquidity covenants on financing contracts and its capital management requirements and objectives. At December 31, 2009, the REIT had a working capital deficit of approximately $1.0 million. Cash from operations will fluctuate due to the seasonality in the hospitality industry. At December 31, 2009, the REIT had not drawn on its available operating lines of credit which totalled $5.5 million. With the Debt to GBV ratio at 58.4% at December 31, 2009, the REIT could incur additional indebtedness of approximately $15 million and not exceed the 60% Debt to GBV ratio limit. This calculation assumes the additional indebtedness results in a corresponding increase in the assets of the REIT.

The REIT suspended distributions to unitholders on July 21, 2009 which was effective for the July distributions which would have been payable to unitholders on August 14, 2009. The REIT has refinanced the two mortgages that were to mature in April, 2010 and has no other debt maturing in 2010. Based on the overall cash and resources, generation capacity and overall financial position, while there can be no assurance, management believes the REIT will be able to continue to meet its financial obligations as they come due.

Unit Information

The following table provides the total units outstanding (including the Class B limited partnership units of Holloway Lodging Limited Partnership, a subsidiary of the REIT which are convertible into units of the REIT) as well as the impact of outstanding options, if exercised and the conversion of convertible debentures to REIT units.

	As at December 31, 2009	As at December 31, 2008
Units outstanding	39,135,216	39,135,216
Options outstanding (exercisable)	1,139,837	967,418
Conversion of convertible debentures (conversion price $5.40)	3,747,778	3,747,778
Conversion of convertible debentures (conversion price $6.15)	8,429,919	8,429,919
Total units reflecting exercise and conversion	**52,452,750**	**52,280,331**

Normal Course Issuer Bid

On December 22, 2008, Holloway initiated a Normal Course Issuer Bid ("NCIB") to repurchase over the next 12 months which commenced on December 24, 2008 and expired on December 23, 2009, up to 1,880,233 of its issued and outstanding trust units, such amount representing 10% of the REIT's public float as of December 18, 2008. During the three months and year ended December 31, 2009, the REIT did not purchase units under this NCIB.

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

Unitholder Rights Plan

In November, 2008, Holloway's Board of Trustees adopted a Unitholder Rights Plan. The purpose of the rights plan is to provide the Board sufficient time to develop and implement alternatives intended to maximize value for all unitholders in the event of an unsolicited bid for Holloway and to enhance Holloway's ability to prevent unfair acquisition tactics. The Board's actions were not related to any specific acquisition proposal. Holloway is unaware of any take-over bid activity underway at this time. The rights plan is also not intended to, and would not hinder full and fair offers for Holloway that are made to all unitholders. In particular, the rights plan contains a standard "permitted bid" exclusion that makes it inapplicable to a take-over bid made to all unitholders that is open for acceptance for at least 60 days and otherwise complies with customary "permitted bid" requirements. The Unitholder Rights Plan was approved by unitholders at the 2008 Annual General Meeting of the REIT held on May 12, 2009.

Non-GAAP Lodging Industry Performance Indicators

The following describes the key performance measures and financial indicators commonly used by lodging REITs.

Occupancy, Average Daily Rate and Revenue per Available Room

The key performance measures used to measure performance in the lodging industry are occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR"). These are non-GAAP measures.

Occupancy represents the number of rooms sold compared to the total number of rooms in the hotel. Average daily rate is defined as room revenue divided by the number of rooms occupied/sold. RevPAR for any given period is defined as total room revenue divided by the total number of rooms in the hotel multiplied by the number of days in the period. RevPAR is relevant as it is the most commonly used indicator of market performance for hotels and represents the combination of the ADR and the average occupancy rate achieved during a period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel.

Funds from Operations ("FFO")

Funds from operations ("FFO") is a non-GAAP financial measure commonly used in the lodging industry. The calculations presented may differ from similar calculations reported by other entities and accordingly, may not be comparable. The Real Property Association of Canada ("REALpac") defines FFO as net income excluding depreciation and amortization on real property, extraordinary items, gains or losses on the sale of assets, provisions for impairment and future income taxes. Holloway calculates FFO in accordance with this definition. FFO provides another useful measure of the REIT's performance as net income incorporates depreciation and amortization on real estate assets, which may not necessarily occur and is based on historical cost accounting. FFO should not be construed as an alternative to net income or cash flow from operating activities.

DISTRIBUTABLE INCOME

Distributable income is another non-GAAP financial measure commonly used by real estate investment trusts as an indication of financial performance. The definition of distributable income is defined in the REIT's Declaration of Trust and is summarized below. Distributable income reflects the ability of the REIT to earn income and make cash distributions to unitholders. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable income may differ from similar calculations reported by other entities and accordingly, may not be comparable.

Distributable income is defined as the consolidated net income of the REIT and its subsidiaries for the period computed in accordance with GAAP adjusted for the following items:

- add backs:
  - depreciation and amortization;
  - future income tax expense;
  - losses on dispositions of assets;
  - amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; and
  - amortization of deferred financing fees;
- deductions:
  - reserve for replacement of FF&E;
  - future income tax credits;
  - interest on convertible debentures to the extent not already deducted in computing net income;
  - gains on dispositions of assets; and
  - amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value;
- other adjustments as determined by the Trustees of the REIT in their discretion:
  - non-cash unit-based compensation; and
  - unrealized gains or losses on foreign exchange.

Readers should refer to the table "OPERATING RESULTS" for the three months and years ended December 31, 2009 and 2008 for the reconciliation of net income to FFO and to distributable income.

CSA DISTRIBUTABLE CASH

This MD&A is in all material respects in accordance with the recommendations provided in the CICA's publication *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.*

Standardized distributable cash is defined as the periodic cash flows from operating activities as reported in the financial statements in accordance with GAAP, including the effects of changes in non-cash working capital and any operating cash flows provided from or used in discontinued operations, less adjustments for:

- total capital expenditures as reported in the GAAP financial statements; and
- restrictions on distributions arising from compliance with financial covenants restrictive at the date of the calculation of standardized distributable cash and limitations arising from the existence of a minority interest in a subsidiary.

HOTEL OPERATING INCOME

Hotel operating income, 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 and depreciation and amortization.

Related Party Agreements

HOTEL MANAGEMENT AGREEMENT

On June 7, 2006, the REIT entered into a long-term management agreement with Pacrim Hospitality Services Inc. (“PHSI”), a related party, to manage certain hotels purchased by the REIT, with an initial term of ten years and an automatic renewal for successive five-year terms commencing on the last day of the initial term. PHSI is entitled to a base management fee of 3% of gross hotel revenues, an incentive fee, a purchasing fee of 4% of the cost of exceptional operating supplies and furniture, fixtures and equipment, a construction fee of 3% of the cost of construction materials, labour and equipment in connection with any construction or capital expenditures and an accounting fee per hotel which currently ranges from $23,000 to $33,500 per year depending on the size of the hotel when accounting services are provided by PHSI. In addition, Intergy, a division of PHSI provides central reservation services and website development and maintenance for the hotels purchased by the REIT. A commission of 10% is paid on reservations made through Intergy.

On November 24, 2006, the parties entered into an amending agreement such that the initial term with respect to each hotel shall commence on the date on which the REIT acquires the hotel for a term of ten years and automatic renewals for successive five-year terms.

On June 22, 2007, the REIT entered into a management agreement with Pomeroy Hospitality Ltd. (“Pomeroy”) to manage ten hotels purchased by the REIT, with a term of five years. On February 1, 2008, PHSI acquired management of ten of the REIT's hotel properties located in northern Alberta and British Columbia from Pomeroy. The REIT acquired the hotels (the "Pomeroy Hotels") from affiliates of Pomeroy in June, 2007. Under the terms of an agreement among the REIT, PHSI and Pomeroy, Pomeroy assigned its interest in the hotel management agreement between Pomeroy and the REIT to PHSI on February 1, 2008 in return for a $6.35 million one-time payment from PHSI. At the same time, the existing hotel management agreement between the REIT and PHSI was amended to include the Pomeroy Hotels. Among other things, the amended hotel management agreement between the REIT and PHSI provides that PHSI receive a base management fee for the Pomeroy Hotels that is significantly lower than the base management fee payable under the previous hotel management agreement with Pomeroy until the REIT generates distributable income that exceeds certain targets.

In order to facilitate the assignment, the REIT loaned PHSI the funds that were paid to Pomeroy in consideration of the assignment. This loan has a ten year term, is pre-payable at any time without penalty and bears interest at 13% per annum during the first six months of the term and at the lesser of 13% and the trailing three-month yield plus 1% on Holloway's units thereafter. As the yield on Holloway’s units has declined to 0% with the suspension of distributions, the interest rate on the loan became 1% effective October 1, 2009.

Upon certain change of control events, as set out in the Hotel Management Agreement, PHSI is entitled to terminate the entire Hotel Management Agreement upon 60 days prior written notice to Holloway Lodging LP and the REIT and to receive a lump sum payment of $1.5 million in connection with such termination, without detracting from any other remedies available to it under the terms of the Hotel Management Agreement. In addition, PHSI shall be entitled to receive a one-time fee in the amount of the aggregate outstanding principal and accrued and unpaid interest on the loan as of the termination date of the Hotel Management Agreement. Such fee shall be withheld by Holloway Lodging LP and used directly to repay the loan in full.

DEVELOPMENT AGREEMENT

On June 7, 2006, the REIT entered into a long-term development agreement with Winport Developments Inc. (“Winport”), a related party, to provide mezzanine financing to Winport and to have the option to purchase properties developed by Winport. The agreement has an initial term of ten

years with an automatic renewal for five-year terms thereafter. On October 6, 2006, the development agreement was assigned to Winport Developments Limited Partnership, a related party. On May 15, 2007, Winport Developments Inc. was re-instated as an approved developer and recipient of mezzanine loans. The development agreements were terminated effective March 9, 2010.

Legal Proceedings

On February 20, 2009, the solicitors of the REIT issued a demand letter, on behalf of the REIT, to Winport Developments Limited Partnership, Pacrim North York Limited Partnership and 2113047 Ontario Inc. for payment of approximately $11.5 million, representing the principal and interest owed on the mezzanine loans receivable and legal fees at that time. The mezzanine loans are in default and the borrower had until March 2, 2009 to make payment to the REIT. Payment was not received. On August 6, 2009, a court-appointed receiver, on behalf of the first mortgagor, for the property was named, with a mandate to sell the property and maximize the return to the debt-holders. The REIT's loans have been written down to zero as the REIT does not expect to realize on its security.

Significant Accounting Policies

2009 Changes to Canadian GAAP

Management of the REIT monitors new accounting pronouncements issued by the Canadian Institute of Chartered Accountants ("CICA") to assess the applicability and impact on the financial statements and note disclosures of the REIT.

Commencing with the first quarter of 2009, the REIT adopted two new accounting standards issued by the Accounting Standards Board of the CICA as follows: (i) Section 3064 Goodwill and Intangible Assets; and (ii) Section 1000 Financial Statement Concepts was also amended to provide consistency with Section 3064. The new standards on goodwill and intangible assets establish new standards for the recognition, measurement, presentation and disclosure of these items. The REIT does not have any recorded goodwill. There has been no impact on how the REIT accounts for its intangible assets.

Note 2 to the audited consolidated financial statements for the year ended December 31, 2009 explain the impact of these changes in accounting policies.

Future Changes to Canadian GAAP

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA has issued new accounting standards, Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements and Section 1602 Non-controlling Interests which establish new standards for consolidated financial statements and business combinations. The definition of a business is expanded and described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. Net assets, non-controlling interests and goodwill acquired in a business combination will be recorded at fair value. Non-controlling interests will be reported as a component of equity. In

addition, acquisition costs will be expensed when incurred. The new and amended standards will be effective for the REIT's 2011 fiscal year. The objective of these new Sections is to harmonize Canadian GAAP with International Financial Reporting Standards. When these standards are adopted by the REIT, acquisition costs will be expensed through the income statement. Other impacts of these standards are still being assessed.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for all Canadian profit-oriented publicly accountable entities. This means that the REIT will be required to prepare IFRS financial statements for interim periods and fiscal years beginning in 2011. The REIT has a preliminary assessment of the key differences between Canadian GAAP as currently applied by Holloway and IFRS. The assessment also includes a summary of the key decisions that will need to be made and a summary of the key IFRS disclosure requirements. Work is progressing on the detailed analysis of the individual standards, the impact on the REIT's financial statements and the decisions to be made where alternatives exist.

The REIT has identified the significant differences between IFRS and Canadian GAAP in relation to the REIT's primary financial statement items. The key differences are described below.

Property, Plant and Equipment

The REIT's property and equipment are accounted for under IAS-16 Property, Plant and Equipment. Under IFRS, the REIT may choose the cost model or the revaluation model. Under the cost model, each component of property, plant and equipment is carried at cost less accumulated depreciation and any impairment. Under the revaluation model, the hotel properties will be revalued periodically. Gains are recorded as a separate component of unitholders equity. Losses are netted against any previously recorded gains. If the loss exceeds the previously recognized gains the excess is recorded in income.

IFRS 1 – First-time adoption of IFRS

In general, the conversion to IFRS requires an entity to present its financial statements as if it had always reported under IFRS. IFRS 1 provides guidance on the initial adoption of IFRS and provides certain exceptions and exemptions which an entity may elect. Under IFRS 1, an entity may record its property, plant and equipment at fair value on transition to IFRS. The fair value will be the new cost or deemed cost.

Impairment

Under IFRS, an entity is required to recognize an impairment loss if the recoverable amount is less than the carrying amount (net book value). The recoverable amount is defined as the higher of a) the estimated fair value less costs to sell, or b) value in use. Value in use is defined as the present value of the estimated future cash flows from the use of the asset and from its disposal at the end of the useful life. When the recoverable amount is higher than the carrying amount, previously recognized impairment losses are reversed. Impairment losses can not be reversed under GAAP.

Under GAAP, the undiscounted cash flows from the use of the asset and its eventual disposition are used to measure impairment. As discounted cash flows are used under IFRS, entities may have more impairments.

Business Combinations

The CICA has issued a new accounting standard, Section 1582 Business Combinations which will be effective for the REIT's 2011 fiscal year, the year of transition to IFRS. The objective of the new standard is to harmonize GAAP with IFRS. The definition of a business is expanded.

Under IFRS costs related to an acquisition must be expensed whereas under GAAP, these costs were

capitalized as part of the asset. IFRS 1 allows entities to elect to implement the Business Combinations standard either a) prospectively from the date of transition to IFRS; or b) retrospectively from a previous date onwards.

Trust Units

Under GAAP, the REIT'S units are presented as equity. IAS 32 – Financial Instruments defines a financial instrument as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Under IFRS, REIT units would likely be considered a liability as the Declaration of Trust requires the REIT to distribute its taxable income to unitholders. The REIT changed its Declaration of Trust at its Annual Meeting held May 12, 2009 to eliminate the mandatory distribution. Thus, the REIT's units will be presented as equity under IFRS.

The REIT is continuing to assess the alternatives and implications of the transition to IFRS and has not made conclusions on the selection of accounting policies and the exceptions and exemptions available under IFRS 1.

Critical Accounting Estimates

Note 3 to the audited consolidated financial statements for the year ended December 31, 2009 provide a summary of the REIT's significant accounting policies. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Management believes the estimates described below are the ones most subject to estimation and judgment in the REIT's financial statements.

Valuation of Hotel Properties

GAAP requires that long-lived assets, consisting of property and equipment (hotel properties), be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset might not be recoverable. Long-lived assets are reviewed at the individual hotel level, the lowest level for which identifiable cash flows are largely independent when testing and measuring for impairment. A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. Impairment losses are recognized when the net book value of the long-lived asset exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. The amount of the impairment loss is the amount by which the long-lived asset's carrying value exceeds its fair value.

The future cash flows expected from the use and eventual disposition involve assumptions of occupancy, room rates, revenues, expenses and the residual or terminal value for the property. In addition to these estimates, management assessed the effect of new competition in the individual markets and the hotel industry predictions for recovery from the recession. These estimates and assumptions are subject to change.

No impairments on hotel properties were recorded in the REIT's financial statements for the year ended December 31, 2009.

Valuation of Loans Receivable

GAAP requires that loans receivable be classified as impaired when, in the opinion of management, there is a reasonable doubt as to the timely collection of principal, interest and the underlying security of the loan. The carrying value of a loan receivable classified as impaired is reduced to its estimated fair value.

As previously described in this MD&A, the REIT believes its mezzanine loans and advances are impaired and the carrying values have been written down to zero. The REIT recorded a provision for impairment of $11.1 million during the year ended December 31, 2009.

Valuation of Investments in Hotel Properties

GAAP requires the carrying value of investments to be reduced when there has been a significant adverse change in the expected timing or amount of future cash flows. The REIT has equity ownership interests in eight hotel partnerships or co-tenancies ranging from 2.52% to 19.06%. The investments are accounted for using the cost method. The REIT has recorded a provision for impairment of $0.5 million against its investment in the Super 8 in Langley, BC, which represents the total cost of this investment.

Amortization of Property and Equipment

The REIT records amortization on its property and equipment using the straight-line method over the estimated useful life of each category. The two largest categories are buildings which are amortized up to 40 years and furniture, fixtures and equipment, which are amortized up to 7 years. If the estimated useful life of the assets or different amortization methods were used, the impact on the REIT's net income could be material.

Fair Value of Mortgages and Debentures Payable

Management determines and discloses the fair value of the REIT's mortgages and debentures payable in the notes to the financial statements. Management uses an internally developed model to estimate fair value based on discounting the future payments based on current market rates. The estimated current market rate is based on management's experience in obtaining similar financings and the current market conditions. Changes in the current market for credit, interest rates and credit spreads will impact the estimates used and the fair values reported.

Income Taxes

Under the provisions of Bill C-52, Budget Implementation Act, 2007, the REIT became a specified investment flow-through ("SIFT") and became subject to tax in 2007 due to exceeding the growth guidelines as outlined in Act. The REIT uses the asset and liability method for accounting for income taxes. Under this method, future 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). Future 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 future tax assets and liabilities of a change in tax rates is recognized in income 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 of the future income tax asset recorded on the balance sheet.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Holloway maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities legislation is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required public disclosure. During 2009, Holloway's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings)*, under the supervision of, and with the participation of the CEO and CFO. As at December 31, 2009, based on the evaluation, the CEO and CFO have concluded that the REIT's disclosure controls and procedures were appropriately designed and were operating effectively.

Management is also responsible for establishing and maintaining internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. During 2009, Holloway's management also evaluated the design and operating effectiveness of the internal controls over financial reporting (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings)*, using the Committee of Sponsoring Organizations Internal Control – Integrated Framework, under the supervision of, and with the participation of the CEO and CFO. As at December 31, 2009, based on the evaluation, the CEO and CFO have concluded that the REIT's internal controls over financial reporting were appropriately designed and were operating effectively.

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

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

Tax Rules for Income Trusts

On October 31, 2006, The Minister of Finance (Canada) announced proposals (the "SIFT Proposals") to amend the Tax Act to change the taxation regime applicable to certain "specified investment flow-through" entities ("SIFTs"), including certain income trusts and their investors. Under the provisions of Bill C-52, Budget Implementation Act, 2007, which was substantively enacted on June 12, 2007, the REIT, as a publicly traded income trust, is considered a SIFT. Under Bill C-52, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital generally will not be subject to the tax.

As the REIT has exceeded the "normal growth" rates as defined in the guidelines issued by the Department of Finance, the REIT became subject to the tax

commencing in 2007. Accordingly, the REIT has recorded future income tax based on temporary differences that are expected to reverse in the future at the substantively enacted tax rates, which will be in effect at the time the temporary differences are expected to reverse. Distributions from the REIT will be subject to the tax unless they qualify as returns of capital. The REIT's 2009 distributions were 100% return of capital.

Risks and Uncertainties

RISKS RELATED TO THE BUSINESS OF THE REIT

Hotel Industry

The REIT directly or indirectly owns and operates hotels. As a result, the REIT is subject to the operating risks inherent in the hotel industry. In addition to the specific conditions discussed in more detail below, these risks include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, product costs, energy costs, property taxes and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating and/or capital requirements;
- seasonal fluctuations in hotel operating income produced throughout the year;
- increases in operating costs due to inflation which may not necessarily be offset by increased room rates; and
- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Competition

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

Customer Concentration

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

Changes to the Alberta Oil and Gas Royalties

A majority of the REIT's properties are located in the province of Alberta. In October 2007, the Government of Alberta released a new royalty framework which increased the royalties charged to oil and gas producers by the Government of Alberta. The increases are on a sliding scale basis based on the price of the related commodity. In November 2008, the Government of Alberta offered

companies drilling certain new wells a one-time option of selecting new transitional royalty rates for the period 2009 to 2013. All current wells moved to the new royalty framework on January 1, 2009. Companies that adopt the transitional rates will be required to shift to the new royalty framework on January 1, 2014.

On March 11, 2010, the Government of Alberta announced recommendations for royalty adjustments. Among the changes are reduced maximum royalty rates at higher price levels to become effective January 1, 2011. The transitional royalty framework for oil and gas introduced in November 2008 will continue until its original announced expiration on December 31, 2013. Effective January 1, 2011, no new wells will be allowed to select the transitional royalty rates. Wells that have already selected the transitional royalty rates will have the option to stay with those rates or switch to the new rates effective January 1, 2011.

As the REIT's properties in Alberta derive a substantial portion of their revenue from customers in the oil and gas sector, any decline in activity in the sector could result in a decline in revenue for the REIT.

Availability of Additional Capital

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

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

Debt Financing

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

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

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

PHSI will continue to own, acquire and manage hotels independently of the REIT. These properties may in some circumstances compete with properties owned by the REIT. PHSI is not required to provide services exclusively to the REIT and may in some circumstances, manage hotels on behalf of competitors to the REIT.

RISKS RELATED TO REAL PROPERTY OWNERSHIP

General

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

Liquidity

Real estate investments are relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were to need to liquidate a property, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property. In addition, by concentrating on hotel properties, the REIT is exposed to the adverse effects on that segment of the real estate market.

Environmental Matters

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

Risks Related to the General Economic Environment

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

Risks Related to the Structure of the REIT

The REIT's units trade on the TSX. The market price of the units may be affected by changes in the economy, changes in general market conditions, fluctuations in the market demand for equity securities and numerous other factors beyond the control of the REIT.

A holder of a unit does not hold a share of a body corporate. As holders of units, the unitholders do not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The rights of unitholders are based primarily on the Declaration of Trust. There is no statue governing the affairs of the REIT equivalent to the Business Corporations Act (Ontario) or the Canada Business Corporations Act which sets out the rights and entitlements of shareholders of corporations in various circumstances.

Additional information on these and other risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 30, 2009 which is available at www.sedar.com.

Outlook

According to the Bank of Canada, the global economic recovery is underway. Although excess supply still remains in Canada, the Canadian economy is expected to return to full capacity and inflation is expected to return to the 2% target in the third quarter of 2011.

After contracting by a forecast 2.5% in 2009, the Canadian economy is projected to grow by 2.9 % in 2010 and 3.5% in 2011.

Unemployment is expected to remain high in 2010. The Bank of Canada policy rate is expected to hold at very low levels until mid-2010, which should help with the confidence level of business and consumers that the recovery that is forecast is a durable one. A key to the improvements forecast for 2010 will be for demand to shift and build back again from households and businesses, as opposed to public stimulus. As policy stimulus begins to fade, a key factor determining the pace and sustainability of Canada's recovery will be how investment and hiring decisions of businesses in all sectors evolve.

The hospitality industry is heavily influenced by local economic market conditions, the segment orientation of specific properties and demand generators that are tied largely to employment. There is a tendency to track movement in GDP, and a positive turn in this key metric is important to prospects for improvement in hospitality industry results.

According to the Conference Board of Canada, all provinces are expected to post positive growth in 2010, lead by British Columbia due to the Olympic Games impact and Ontario. Ontario has not outpaced the national average for GDP growth in nearly a decade.

Alberta's energy sector is set to bounce back and gather strength, fuelling Alberta to 2010 GDP growth of 2.5%. The Conference Board further expects Alberta to gain momentum moving forward, achieving GDP growth in 2011 of over 4%.
Nova Scotia and New Brunswick are expected to post economic growth of slightly less than 2% in 2010, in part a result of being among areas of the county least impacted by the recession.

As we move forward into this stage, Holloway Lodging hotels remain focused on extending and expanding their distribution channel reach and efficiency through both direct and electronic means, inclusive of relationship marketing, social marketing, value added rate programs and package initiatives.

Market and segment specific initiatives continue to be developed and promoted to extend the reach and appeal of each hotel as broadly as possible, to ensure greater capture of demand across business segments which demonstrate strength of demand.

Aggressive direct sales efforts and leveraging of hotel brand relationships will continue to be fundamental to building on our success in an improving economic environment. Multi-property initiatives and guest benefits for volume use of multiple hotels are offered to increase market share and build loyalty from regular guests in each market.
Strengthening of the Holloway Lodging overall balance sheet is a clear focus using all appropriate means available to the REIT to do so.

Forward-Looking Information

This MD&A contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the future financial position, property acquisition strategies and opportunities, business strategy, financial results and plans and objectives of the REIT. Particularly, statements regarding the REIT's future operating results, property acquisition strategies and opportunities and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or similar expressions concerning matters that are not historical facts. Forward-looking information is subject to certain facts, including risks and uncertainties, that could cause actual results to differ materially from what the REIT currently expects and there can be no assurance that such statements will prove to be accurate. Some of these risks and uncertainties are described under "Risk Factors" in Holloway's Annual Information Form ("AIF"), dated March 30, 2009 which is available at www.sedar.com. The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.