Holloway
LODGING

Management's Discussion and Analysis for the Three Months and Year Ended December 31, 2015

As at March 9, 2016

Introduction and Forward-Looking Statements

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Corporation ("Holloway" or the "Company") for the three months and year ended December 31, 2015, and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto as at and for the year ended December 31, 2015. The financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in thousands of Canadian dollars, except for share and per share amounts, unless otherwise noted. This MD&A is dated as at March 9, 2016.

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

Business Overview

Holloway owns and operates hotels across Canada.

Hotels: At December 31, 2015, Holloway's portfolio consisted of 35 hotels with 3,973 rooms of which 26 hotels are limited service properties and 9 hotels are full service properties. Of the Company's 35 hotels, 32 were operated under internationally recognized hotel brands. Effective March 3, 2016, two of its previously unbranded hotels, the Holloway Inn and Suites and the Yellowknife Inn, became Quality Inns®. Effective January 30, 2015, the Company internalized all of its hotel management.

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

Fourth Quarter Overview and Outlook

	Three Months Ended December 31			Years Ended December 31		
	2015	2014	Variance	2015	2014	Variance
Revenue	$ 23,332	$ 31,715	(26.4%)	$ 110,683	$ 97,537	13.5%
Operating income(1)	4,641	9,269	(49.9%)	31,288	33,219	(5.8%)
Operating income margin	19.9%	29.2%	(9.3 ppt)	28.3%	34.1%	(5.8 ppt)
Net income (loss) attributable to shareholders	(12,083)	11,517	(204.9%)	(3,811)	27,256	(114.0%)
per basic and diluted share	(0.63)	0.59	(206.8%)	(0.20)	1.46	(113.7%)
Funds from operations	(252)	3,201	(107.9%)	11,968	16,385	(27.0%)
per basic share	(0.01)	0.16	(106.3%)	0.62	0.88	(29.5%)
Adjusted funds from operations	(474)	2,436	(119.5%)	10,244	14,239	(28.1%)
per basic share	(0.02)	0.12	(116.7%)	0.53	0.77	(31.2%)
Dividends declared per share	0.035	0.035	-	0.14	0.14	-

(1) Before depreciation and amortization.

Hotel Performance

Holloway's fourth quarter results were below last year for two primary reasons. First, our two largest hotels (representing 14.7% of total rooms) were either partially or fully closed for renovations during the quarter. These renovations are now behind us as the new DoubleTree by Hilton® in London, ON and the new Holiday Inn® in Ottawa, ON opened in early January 2016 and we expect very positive results from these properties. Second, many of our hotels in Western Canada have been impacted by lower oil and natural gas prices; the negative impact is considerably worse in tertiary markets (such as Whitecourt, AB) than secondary markets (such as Grande Prairie, AB). It is unlikely that the impact from lower oil and natural gas prices abates in 2016. We continue to pursue every practicable action to mitigate the revenue declines we are experiencing.

Outside of Alberta and British Columbia, our hotels continue to perform well.

Balance Sheet

Holloway's debt level was $261.5 million immediately following the acquisition of Royal Host on July 1, 2014. This was reduced to $250.8 million at December 31, 2014 and has been reduced further to $232.7 million at December 31, 2015.

Capital Allocation

Notwithstanding the weakness in Western Canada, we continue to generate meaningful cash flow, which has been used in part on the following initiatives:

The Company spent approximately $21.0 million on the renovation and rebranding of the DoubleTree by Hilton® in London, ON and the Holiday Inn® in Ottawa, ON. These renovations represent a significant capital outlay for Holloway, equivalent to acquiring multiple hotels and we believe the renovations will significantly improve the performance and value of the properties in the coming years.

In September, we completed foreclosure proceedings and obtained ownership of the Days Inn® in Sydney, NS. We closed the property in mid-October following the completion of the summer travel season and are in the process of renovating the property. The hotel will reopen early in the second quarter of 2016 as a Travelodge®. At present, we expect the total cost of the property (acquisition, foreclosure and renovation costs) to be approximately $3.4 million.

During the year, we repurchased 346,300 shares or 1.8% of our outstanding shares at an average cost of $4.95 per share. We also repurchased $327 thousand of our 6.25% convertible debentures at an average cost of $88.15 per $100 of face value and $10 thousand of our 7.50% convertible debentures at an average cost of $93.34 per $100 of face value.

We paid our fourth quarter dividend of $0.035 for a total annual dividend of $0.14 per share. While we are capable of increasing our dividend given our low payout ratio, we believe our capital is better deployed by reinvesting in our core business or in our own shares and debentures.

Outlook

We expect 2016 to be a mixed year for Holloway. Our results in Western Canada will be challenged by the ongoing oil and natural gas downturn. Our results in Northern Canada and Atlantic Canada should be better than 2015 due to the lower Canadian dollar, lower fuel prices, the larger contribution of tourism in such markets and the opening of our Sydney, NS hotel. Our results in Ontario should also be stronger than 2015 due to the reopening of the two hotels previously under renovation and the effect of the lower Canadian dollar.

As the majority of our NOI is generated outside of Alberta and British Columbia, we expect to continue to generate meaningful cash flow that can be deployed accretively. We currently do not anticipate any major renovation projects similar to those that have been completed in the last 18 months.

Dividend Declaration

On March 9, 2016, the Board of Directors declared a quarterly dividend of $0.035 per share, representing an annual dividend of $0.14 per share. The dividend is payable on April 15, 2016 to shareholders of record on March 31, 2016.

Operating Results

The following tables summarize the performance of Holloway's portfolio of hotels for the three months and year ended December 31, 2015 compared to the same periods in the prior year. The tables break out the performance of Holloway's base portfolio, meaning hotels that were owned in both the current and prior periods. The tables also break out the performance of acquired and sold hotels.

For the three months ended December 31, 2015 and 2014, the base portfolio includes 33 hotels, including the Royal Host hotels acquired on July 1, 2014. The acquired hotels consist of the Days Inn® in Whitehorse, YT and the Travelodge® in Sydney, NS (formerly a Days Inn®). The sold hotels consist of the Ramada® in Trenton, ON, the Travelodge® in Toronto, ON and the Holiday Inn Express® in Myrtle Beach, SC.

For the years ended December 31, 2015 and 2014, the base portfolio consists of 16 hotels and does not include the Royal Host hotels. The acquired hotels consist of 17 Royal Host hotels (including the Trenton and Toronto properties up to their sale dates in 2015), the Days Inn® in Whitecourt, AB, the Super 8® in St. John's, NL (controlling interest acquired), the Days Inn® in Whitehorse, YT and the Travelodge® in Sydney, NS. The sold hotels consist of the Holiday Inn Express® in Kamloops, BC, the Ramada® in Trenton, ON, the Travelodge® in Toronto, ON and the Holiday Inn Express® in Myrtle Beach, SC.

Hotel Performance

Three Months Ended December 31	Base Portfolio			Acquired/Sold Hotels[2]			Total		
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Hotel revenue	$ 22,537	$ 28,566	(21.1%)	$ 795	$ 2,640	(69.9%)	$ 23,332	$ 31,206	(25.2%)
Hotel operating income[1]	4,793	9,025	(46.9%)	(145)	(75)	93.3%	4,648	8,950	(48.1%)
Hotel operating income margin	21.3%	31.6%	(10.3 ppt)	(18.2%)	(2.8%)	(15.4 ppt)	19.9%	28.7%	(8.8 ppt)

(1) Before depreciation and amortization.

(2) Represents five hotels (Days Inn® in Whitehorse, YT, Travelodge® in Sydney, NS, Ramada® in Trenton, ON, Travelodge® in Toronto, ON, and Holiday Inn Express® in Myrtle Beach, SC).

Years Ended December 31	Base Portfolio			Acquired/Sold Hotels[2]			Total		
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Hotel revenue	$ 51,215	$ 58,385	(12.3%)	$ 59,056	$ 37,880	55.9%	$110,271	$ 96,265	14.5%
Hotel operating income[1]	19,196	23,081	(16.8%)	11,767	9,215	27.7%	30,963	32,296	(4.1%)
Hotel operating income margin	37.5%	39.5%	(2.0 ppt)	19.9%	24.3%	(4.4 ppt)	28.1%	33.5%	(5.4 ppt)

(1) Before depreciation and amortization.

(2) Represents twenty-three hotels (the Royal Host Portfolio with subsequent sales of Ramada® in Trenton, ON and Travelodge® in Toronto, ON, as well as the Days Inn® in Whitecourt, AB, Super 8® in St. John's, NL, Days Inn® in Whitehorse, YT, Travelodge® in Sydney, NS, Holiday Inn Express® in Kamloops, BC and Holiday Inn Express® in Myrtle Beach, SC).

Three Months Ended December 31, 2015

Total revenue decreased $7.9 million or 25.2% during the fourth quarter. Of this amount, $2.3 million or 29.0% was due to hotels being sold from last year to this year, $2.0 million or 24.8% was due to two hotels being fully or partially closed for renovations and $3.9 million or 50.1% was due to reduced revenue in Western Canada. Most of the revenue decline in Western Canada is attributed to reduced occupancy as room rates have declined less on a relative basis. Revenue from our hotels in Atlantic Canada as well as those in Ontario, excluding those under renovation, increased marginally and partially offset the declines described above.

From a margin perspective, the total portfolio's operating margin decreased $4.3 million or 8.8ppt. Of this amount, $1.6 million was due to two hotels being fully or partially closed for renovations. These two hotels generated $1.2 million in operating income for the fourth quarter of 2014 compared to losing $400 thousand in the fourth quarter of 2015. Although these hotels were fully or partially closed for part of the year, numerous expenses must still be incurred, including property taxes, insurance, security and key staff including the hotels' general managers and key departmental personnel. Hotel operating income from our Western Canada hotels was $2.8 million lower than the prior year.

Year Ended December 31, 2015

Total revenue increased $14.0 million or 14.5% during the year due to the acquisition of the Royal Host hotels which were not owned during the first half of 2014. The base portfolio hotel revenue declined $7.2 million or 12.3%. This was comprised of a $7.8 million revenue decline at our Western Canada hotels, offset by revenue increases in Atlantic Canada of $677 thousand.

Hotel operating income for the portfolio decreased $1.3 million or 4.1% due to the decline in operating income in Western Canada offset by the acquisition of the Royal Host hotels in 2014. The Company closed or reduced several food and beverage operations during the year; this had the effect of reducing revenue but increasing operating income. The closed food and beverage outlets were all located in former Royal Host hotels. Operating income from the base portfolio declined $3.9 million. The Western Canada hotels contributed $4.2 million of this decline while the hotels in Atlantic Canada increased operating income by $344 thousand.

From a margin perspective, total operating margins decreased compared to the prior year due to the lower margin profile of certain of the Royal Host hotels which have large food and beverage operations. However, the base portfolio of hotels performed very well, maintaining a stable margin despite lower revenues.

	Three Months Ended December 31								
	Base Portfolio			Acquired/Sold Hotels [1]			Total		
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Occupancy									
Atlantic Canada	52.1%	52.0%	0.1 ppt	40.0%	-	40.0 ppt	51.7%	52.0%	(0.3 ppt)
Western Canada	50.8%	68.6%	(17.8 ppt)	33.5%	-	33.5 ppt	49.7%	68.6%	(18.9 ppt)
Ontario	51.4%	51.8%	(0.4 ppt)	-	46.4%	(46.4 ppt)	51.4%	50.7%	0.7 ppt
United States	-	-	-	49.2%	47.4%	1.8 ppt	49.2%	47.4%	1.8 ppt
Total	51.3%	58.2%	(6.9 ppt)	35.0%	46.6%	(11.6 ppt)	50.7%	56.8%	(6.1 ppt)
ADR									
Atlantic Canada	$ 103.61	$ 102.05	$ 1.56	$ 87.67	$ -	$ 87.67	$ 103.15	$ 102.05	$ 1.10
Western Canada	136.71	142.23	(5.52)	99.54	-	99.54	135.06	142.23	(7.17)
Ontario	98.97	101.87	(2.90)	-	83.64	(83.64)	98.97	98.56	0.41
United States (in USD)	-	-	-	71.10	67.74	3.36	71.10	67.74	3.36
Total	$ 115.05	$ 119.84	$ (4.79)	$ 96.50	$ 82.09	$ 14.41	$ 114.60	$ 116.15	$ (1.55)
RevPAR									
Atlantic Canada	$ 53.98	$ 53.07	$ 0.91	$ 35.08	-	$ 35.08	$ 53.33	53.07	$ 0.26
Western Canada	69.45	97.57	(28.12)	33.35	-	33.35	67.12	97.57	(30.45)
Ontario	50.87	52.77	(1.90)	-	38.81	(38.81)	50.87	49.97	0.90
United States (in USD)	-	-	-	34.98	32.11	2.87	34.98	32.11	2.87
Total	$ 59.02	$ 69.75	$ (10.73)	$ 33.78	$ 38.25	$ (4.47)	$ 58.10	$ 65.97	$ (7.87)

(1) Hotels include the following:
Atlantic Canada - Travelodge® in Sydney, NS
Western Canada - Days Inn® in Whitehorse, YT
Ontario - Ramada® in Trenton, ON and Travelodge® in Toronto, ON
United States - Holiday Inn Express® in Myrtle Beach, SC

	Base Portfolio			Acquired/Sold Hotels			Total		
	Years Ended December 31								
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Occupancy									
Atlantic Canada	61.8%	60.4%	1.4 ppt	61.5%	64.8%	(3.3 ppt)	61.6%	61.8%	(0.2 ppt)
Western Canada	60.4%	73.3%	(12.9 ppt)	49.4%	54.7%	(5.3 ppt)	58.3%	71.5%	(13.2 ppt)
Ontario	-	-	-	57.6%	58.9%	(1.3 ppt)	57.6%	58.9%	(1.3 ppt)
United States	-	-	-	65.9%	64.4%	1.5 ppt	65.9%	64.4%	1.5 ppt
Total	60.1%	70.1%	(10.0 ppt)	57.8%	59.8%	(2.0 ppt)	58.7%	65.2%	(6.5 ppt)
ADR									
Atlantic Canada	$ 113.90	$ 109.68	$ 4.22	$ 98.49	$ 103.39	$ (4.90)	$ 106.48	$ 107.62	$ (1.14)
Western Canada	138.99	137.72	1.27	128.33	138.79	(10.46)	137.24	137.80	(0.56)
Ontario	-	-	-	100.11	97.31	2.80	100.11	97.31	2.80
United States (in USD)	-	-	-	94.46	88.81	5.65	94.46	88.81	5.65
Total	$ 134.42	$ 131.81	$ 2.61	$ 103.91	$ 101.49	$ 2.42	$ 116.20	$ 118.81	$ (2.61)
RevPAR									
Atlantic Canada	$ 70.39	$ 66.25	$ 4.14	$ 60.57	$ 67.00	$ (6.43)	$ 65.59	$ 66.51	$ (0.92)
Western Canada	83.95	100.95	(17.00)	63.40	75.92	(12.52)	80.01	98.53	(18.52)
Ontario	-	-	-	57.66	57.32	0.34	57.66	57.32	0.34
United States (in USD)	-	-	-	62.25	57.19	5.06	62.25	57.19	5.06
Total	$ 80.79	$ 92.40	$ (11.61)	$ 60.06	$ 60.69	$ (0.63)	$ 68.21	$ 77.46	$ (9.25)

During the fourth quarter, the base portfolio RevPAR declined approximately 15.4%, due almost entirely to lower RevPAR at our Western Canada hotels. Nonetheless, we are pleased with the relatively stable rates in this region. While the performance of the Ontario hotels may appear weak on the surface, this performance is skewed by the hotels fully or partially closed for renovation. Excluding hotels under renovation, the results of the Ontario portfolio is much better:

	Ontario Base Portfolio			Ontario Base Portfolio		
	Three Months Ended December 31			Years Ended December 31		
	2015	2014	Variance	2015	2014	Variance
Occupancy	55.3%	49.2%	6.1 ppt	62.2%	58.0%	4.2 ppt
ADR	$ 92.88	$ 97.87	$ (4.99)	$ 95.66	$ 92.92	$ 2.74
RevPAR	$ 51.36	$ 48.19	$ 3.17	$ 59.50	$ 53.92	$ 5.58

Also seen in the three month table above is the poor performance of the acquired Travelodge® (previously a Days Inn®) in Sydney, NS compared to our base portfolio in Atlantic Canada. We believe that there are many reasons for the poor performance and that our renovation of the property and our management capabilities will remedy all, or most, of the performance issues this property previously experienced.

Franchise Business Performance

	Years Ended December 31		
	2015	2014	Variance
Franchise revenue	$ 412	1,272	$ (860)
Franchise operating income [(1)]	325	923	(598)
Franchise operating income margin	78.9%	72.6%	(6.3 ppt)

(1) Before depreciation and amortization.

The franchise business was acquired on July 1, 2014 as part of the Royal Host acquisition and sold on March 31, 2015 for gross proceeds of $21.0 million, representing a gain on sale of $6.2 million.

Other Expenses

	Three Months Ended December 31			Years Ended December 31		
	2015	2014	Variance	2015	2014	Variance
Interest and accretion on debt	$ 4,134	$ 4,215	$ (81)	$ 16,394	$ 12,174	$ 4,220
Corporate and administrative	419	852	(433)	2,433	2,657	(224)
Share-based expense (recovery), net of share based payments	22	193	(171)	(64)	418	(482)
Investment income	(162)	(33)	(129)	(471)	(308)	(163)
Gain on disposals of property and equipment, franchise business, minority interest investments in hotel properties and repurchase of convertible debentures	(249)	-	(249)	(8,365)	(114)	(8,251)
Amounts reclassified to profit and loss on minority interest investments in hotel properties	141		141	141	(689)	830
Impairment (reversal of impairment) of hotel properties, net	12,880	(9,040)	21,920	15,580	(10,258)	25,838
Acquisition, integration and redevelopment costs	260	(129)	389	813	816	(3)
Provision for settlement of hotel management agreements and loan receivable	-	5,828	(5,828)	-	5,828	(5,828)
Unrealized foreign exchange gain	208	-	208	(55)	-	(55)
Recovery of income taxes	(4,205)	(8,164)	3,959	(5,129)	(17,288)	12,159

In general, other expenses have increased as a result of the acquisition of Royal Host, which doubled the size of the Company. Corporate and administrative expenses are lower for the fourth quarter than the combined companies' total expenses due to the realization of synergies, including the elimination of duplicative public company and other costs.

Of note, interest expense declined in the fourth quarter of 2015 compared to the fourth quarter of 2014 due to repayment of higher cost debt using the proceeds of asset sales and internally generated cash flow. Interest expense increased year over year as Royal Host debt, including debentures, was only included in the third and fourth quarters of 2014.

During the year ended December 31, 2015, the Company recorded a recovery of $64 thousand related to share-based expense, which consisted of an expense of $119 thousand representing the share-based compensation expense prior to the change in accounting treatment and a recovery of $183 thousand. This recovery is due to a change in accounting treatment as the Company settled some option exercises through the payment of cash. Therefore, the aggregate in-the-money option value is now recorded as a balance sheet liability on the assumption that the Company may settle future option exercises in cash. Under this accounting treatment, the Company must increase or decrease the balance sheet liability at the end of each financial period based on fair value calculations. The change in the liability is recorded on the statement of income (loss). It is important to note that this liability is entirely at the discretion of the Company as it is not required by the terms of the Company's stock option plan to settle any options in cash. For the year ended December 31, 2014, the Company recognized share-based expense of $418 thousand on the options granted under the previous accounting treatment.

During the year ended December 31, 2015, the Company recorded investment income of $471 thousand in relation to interest income on the senior secured loan receivable dominated in US dollars, resulting from the sale of the Travelodge® franchise business. During the year ended December 31, 2014, the Company recorded investment income in relation to interest income on the loan receivable due from Pacrim Hospitality Services Inc.

During the year ended December 31, 2015, the Company recorded gains on sale of $8.4 million related to the sales of the Travelodge® franchise business, the Ramada® in Trenton, ON, the Travelodge® in Toronto, ON, the Holiday Inn Express® in Myrtle Beach, SC (in the fourth quarter) and a parcel of land in Orillia, ON.

During the three months ended December 31, 2015, the Company recorded a loss of $141 thousand on a minority interest investment, representing the reclassification from other comprehensive income to the statement of income (loss). During the year ended December 31, 2014, the Company increased its partnership interest in the Super 8® hotel in St. John's, NL resulting in the recognition of a gain of $689 thousand on the increase to its fair value and the reclassification of previously recorded gains from other comprehensive income to the statement on income (loss).

During the three months ended December 31, 2015, the Company recorded impairment on eight hotel properties of $13.3 million and a reversal of a previously recorded impairment on one hotel property of $420 thousand. During the second quarter of 2015, the Company recorded an impairment on one hotel property of $2.7 million. For the year ended December 31, 2015, the Company recorded impairment on nine hotel properties of $16.0 million and a reversal of a previously recorded impairment on one hotel property of $420 thousand, for a net impairment of $15.6 million. During the three months ended December 31, 2014, the Company recorded a reversal of previously recorded impairments on three hotel properties of $9.0 million. During the first quarter of 2014, the Company reversed a previously recorded impairment of a hotel property of $1.2 million. For the year ended December 31, 2014, the Company recorded a reversal of previously recorded impairments on four hotels properties of $10.2 million.

In 2015, we have included a new line item in the statement of income (loss) titled "acquisition, integration and redevelopment costs" which is not included when calculating our hotel operating income. These costs are not related to the day-to-day operations of our properties and are incurred by management at its discretion when pursuing particular strategic transactions. The Company is currently investigating the potential redevelopment of certain properties within its portfolio; costs associated with these investigations as well as any planning and other similar costs will be shown in this line item. During the year ended December 31, 2015, acquisition, integration and redevelopment costs consisted primarily of legal fees, a franchise termination fee related to the acquisition of the Ramada® in Whitehorse, YT which was rebranded to a Days Inn® shortly thereafter and costs related to the renovations of the Holiday Inn® in Ottawa, ON and the DoubleTree by Hilton® in London, ON that cannot be capitalized. Acquisition costs in 2014 consisted of fees related primarily to the Royal Host acquisition.

The Company recorded an unrealized foreign exchange gain of $55 thousand on the loan receivable denominated in US dollars resulting from the sale of the Travelodge® franchise business. This represents the foreign exchange gain between March 2015 and July 2015. In July, the Company entered into two forward contracts that expired on February 8, 2016 and February 16, 2016 for US $2.0 million each and as a result the foreign exchange impact was fixed at year-end. The two forward contracts were settled on their respective expiry dates subsequent to year-end at a loss of $424 thousand, representing the difference between the settlement rates and the spot rates.

During the year ended December 31, 2015, the Company recognized a deferred income tax recovery of $5.1 million as it expects there will be sufficient taxable income in the foreseeable future to allow the Company to use the full amount of its deferred tax assets of $26.9 million. The deferred tax asset results from the difference between the tax and book basis of the Company's assets and liabilities. This difference is impacted by any impairment recorded as well as the Company's decision to not take a deduction for depreciation for tax purposes, both of which increase the deferred tax asset. This increase is partially offset by the higher use of loss carry forwards related to not claiming depreciation for tax purposes.

Quarterly Results

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Total revenue	$23,493	$30,471	$28,712	$28,478	$31,748	$36,201	$14,485	$15,411
Operating income[(1)]	4,641	10,788	8,793	7,066	9,269	13,237	5,179	5,534
Net income (loss) attributable to shareholders	(12,083)	2,353	(897)	6,816	11,517	13,563	606	1,570
Funds from operations	(252)	6,448	4,269	1,503	3,201	7,390	2,353	3,241
Adjusted funds from operations	(474)	5,616	3,764	1,338	2,436	6,825	2,060	2,914
Dividends declared	666	671	679	677	678	678	627	628
Per basic share:								
Net income (loss)	$ (0.63)	$ 0.12	$ (0.05)	$ 0.35	$ 0.59	$ 0.70	$ 0.03	$ 0.09
Funds from operations	(0.01)	0.33	0.22	0.08	0.16	0.38	0.13	0.18
Adjusted funds from operations	(0.02)	0.29	0.19	0.07	0.12	0.35	0.11	0.16
Dividends declared	0.035	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	51%	68%	61%	56%	57%	72%	66%	69%
ADR	$114.60	$118.29	$114.59	$117.53	$116.15	$112.76	$128.72	$127.99
RevPAR	$58.10	$80.44	$69.44	$66.17	$65.97	$81.19	$84.92	$87.93

(1) Before depreciation and amortization.

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

Cash Flow

	Three Months Ended December 31			Years Ended December 31		
	2015	2014	Variance	2015	2014	Variance
Cash flow provided by / (used in):						
Operating activities	$ 1,600	$ 5,954	$ (4,354)	$ 12,298	$ 19,884	$ (7,586)
Investing activities	(1,251)	(1,984)	733	11,140	(22,463)	33,603
Financing activities	325	(2,946)	3,271	(24,889)	5,200	(30,089)

Operating Activities

For the three months and year ended December 31, 2015, operating activities generated $1.6 million and $12.3 million compared to the same periods in the prior year of $6.0 million and $19.9 million. This change was driven by lower revenue in Western Canada, two of the Company's largest hotels being fully or partially closed for renovations and the payment of $1.0 million in the first quarter of 2015 to the Company's prior external manager, which was a one-time expense.

Investing Activities

For the three months ended December 31, 2015, investing activities used $1.3 million compared to $2.0 million in the same period of 2014. For the three months ended December 31, 2015, capital additions to the properties were approximately $8.8 million, offset by the sale of the Holiday Inn Express® in Myrtle Beach, SC for $7.6 million. For the three months ended December 31, 2014, the Company spent $2.0 million on capital additions.

For the year ended December 31, 2015, investing activities generated $11.1 million compared to a use of $22.5 million in the same period of 2014. For the year ended December 31, 2015, the generation of cash consisted of proceeds from the sale of the Travelodge® franchise business ($16.0 million), the Ramada® in Trenton, ON ($4.0 million), the Travelodge® in Toronto, ON ($13.0 million), the Holiday Inn Express® in Myrtle Beach, SC ($7.6 million) and land in Orillia, ON ($1.1 million). These sources of cash were offset by capital additions at our properties of approximately $19.2 million, the acquisition of the Days Inn® in Whitehorse, YT for $8.2 million and the Days Inn® in Sydney, NS for $1.9 million (subsequently rebranded to a Travelodge®). For the year ended December 31, 2014, the use of cash consisted of the acquisition of Royal Host ($16.0 million), the Days Inn® in Whitecourt, AB ($8.9 million), the acquisition of a controlling interest in the Super 8® in St. John's, NL ($1.8 million) and additions and capital improvements of $3.7 million at its properties, offset by the sale of the Holiday Inn Express® in Kamloops, BC for $8.9 million.

Financing Activities

For the three months ended December 31, 2015, financing activities generated $325 thousand compared to the same period in the prior year which used $2.9 million. For the three months ended December 31, 2015, the Company drew $8.5 million on its secured credit facility, which was offset by the repayment of mortgages of $6.7 million, the repurchase of common shares of $604 thousand, the repurchase of convertible debentures of $198 thousand and the payment of dividends of $666 thousand. For the three months ending December 31, 2014, the Company repaid $1.1 million on its secured credit facilities and $6.0 million on its mortgages, which was offset by obtaining an additional mortgage of $6.0 million. Additionally, the Company paid dividends of $678 thousand and made a distribution to non-controlling interests of $255 thousand.

For the year ended December 31, 2015, financing activities used $24.9 million compared to the same period in the prior year which generated $5.2 million. For the year ended December 31, 2015, the repayment of secured credit facilities consumed $21.0 million, which was funded principally from the proceeds received on sales of hotels and the franchise business and was offset by $13.5 million drawn on the secured credit facility. Mortgage principal payments consumed $12.4 million, of which $6.4 million were regular principal payments, a $5.0 million mortgage was repaid on a sold hotel and $1.0 million were voluntary payments. The payment of dividends to shareholders consumed $2.7 million. For the year ended December 31, 2014, the Company drew $16.0 million from one of its secured credit facilities and obtained a mortgage and promissory note on the Days Inn® in Whitecourt, AB of $5.8 million and a mortgage of $5.2 million on the Super 8® in St. John's, NL. These sources of funds were offset by the repayment of $9.9 million on the chartered bank secured credit facility, mortgage principal payments of $9.3 million, including the repayment of the mortgage on one property of $4.0 million, and the payment of dividends to shareholders of $2.6 million.

Liquidity and Capital Structure

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

		December 31, 2015
Cash on hand	$	2,022
Capital expenditure reserves (1)		2,829
Secured credit facility availability		5,471
Total current liquidity (2)	$	10,322

(1) Contingent on capital expenditures being incurred.

(2) Excludes proceeds from financing unencumbered assets.

The Company's principal sources of liquidity are cash on hand, cash deposited in capital expenditure reserve accounts, free cash flow generated throughout the year and its secured credit facility. In addition, subsequent to the financing transactions described below, the Company currently has four unencumbered properties which can be mortgaged should circumstances warrant.

Subsequent to year-end, the Company obtained three new mortgages on previously unencumbered properties with individual first charges on these properties pledged as security for the individual mortgages. The Company also pledged two previously unencumbered properties against its secured credit facility and increased the availability under such facility.

Secured Credit Facilities and Mortgages and Loan Payable

	December 31, 2015	December 31, 2014
Secured Credit Facilities		
Principal amount payable	$ 19,529	$ 27,007
Weighted average term to maturity	1.0 years	1.2 years
Weighted average interest rate	3.97%	6.11%
Mortgages and Loan Payable		
Principal amount payable	$ 124,601	$ 136,211
Weighted average term to maturity	2.4 years	3.2 years
Weighted average interest rate	5.94%	6.21%

Chartered Bank Credit Facility

Holloway has a revolving credit facility with a Canadian chartered bank with a maximum borrowing capacity of $25.0 million. The credit facility is used to manage working capital fluctuations and the seasonal effects of the hospitality industry as well as provide short-term financing in the event of a hotel acquisition or hotel renovations. The credit facility is secured by a registered charge on seven hotels and is currently over-collateralized based on the terms of the credit facility. The interest rate under the credit facility is based on a spread over banker's acceptance rates or the bank's prime rate plus 1.50%.

At December 31, 2015, Holloway had $19.5 million drawn under its credit facility, with $17.8 million of the balance included in a banker's acceptance with an effective interest rate of 3.95% to reduce interest expense on the credit facility. The weighted average interest rate at December 31, 2015 was 3.97% and was due to mature on December 31, 2015. Subsequent to year-end, the maximum capacity has increased to $45.0 million which will be available as security over additional properties is registered. The facility matures on December 31, 2016 and is expected to be renewed on substantially similar terms.

Clarke Inc. and Clarke Inc. Master Trust Credit Facilities

During the three months ended March 31, 2015, Holloway fully repaid the following secured credit facilities with Clarke Inc. ("Clarke") and Clarke Inc. Master Trust ("Clarke Pension Plan"):

- $16.0 million which bore interest at 6.50% and was to mature in March 2016;
- $3.0 million which bore interest at 7.00% and was to mature in December 2015; and
- $2.0 million which bore interest at 6.50% and was to mature in June 2016.

Mortgages and Loan Payable

The Company has incurred debt under eighteen mortgages and one promissory note with a weighted average interest rate of 5.94%. These various debt instruments mature between June 2016 and September 2029. The mortgages are secured with individual first charges on nineteen hotel properties.

During 2015, the Company repaid two mortgages in full of $800 thousand on the Super 8® in Truro, NS and $5.1 million on the sale of Holiday Inn Express® in Myrtle Beach, SC and repaid $445 thousand representing one-half of the promissory note. The Company also refinanced a mortgage with the same lender, extending the maturity date from July 2016 to February 2020 and reducing the interest rate from 6.00% to 4.25%. Refinancings are part of the Company's strategy to extend its maturity profile and take advantage of the current low interest rate environment.

The Company is subject to financial covenants on certain of its mortgages payable and its secured credit facility, which include customary terms and conditions for borrowings of this nature. At December 31, 2015, all covenants measured on an annual basis were in compliance except two mortgages for which waivers were obtained from the lenders prior to December 31, 2015.

Subsequent to year-end, the Company obtained three new mortgages on previously unencumbered properties, bearing interest at 4.25% with a five-year term. Individual first charges on three hotel properties have been pledged as security for the individual mortgages. The Company also refinanced one hotel mortgage with a new lender, resulting in a $1.0 million increase in the principal amount and a reduction in the interest rate from 6.50% to 4.25%. The new mortgage has a five-year term and no penalty was paid on the refinancing.

Convertible Debentures

At December 31, 2015, the Company had two series of convertible debentures outstanding. Effective October 31, 2014, the Company consolidated its Series B and Series D convertible debentures into a single series of convertible debentures (known as the Series B convertible debentures and trading under the symbol “HLC.DB”). The combined series of convertible debentures have an aggregate principal amount outstanding of $52.3 million, bear interest at 6.25%, have interest payment dates of April 30 and October 31 and mature on February 28, 2020. The Series C convertible debentures (trading under the symbol “HLC.DB.A”) have an aggregate principal amount outstanding of $40.6 million, bear interest at 7.50%, have interest payment dates of March 31 and September 30 and mature on September 30, 2018.

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

The following table shows the Company’s convertible debentures at December 31, 2015:

	Maturity	Interest Rate	December 31, 2015	December 31, 2014
Series B (HLC.DB)	2020	6.25%	$ 52,294	$ 52,621
Series C (HLC.DB.A)	2018	7.50%	40,583	40,601
			$ 92,877	$ 93,222
Weighted average term to maturity			3.5 years	4.6 years
Weighted average interest rate			6.80%	6.79%

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

On January 13, 2015, the Company initiated normal course issuer bids (each, a “NCIB”) to repurchase a maximum of $4.1 million principal amount of its Series B convertible debentures and $3.4 million principal amount of its Series C convertible debentures. These NCIBs were in effect until January 12, 2016. Under this NCIB, Holloway repurchased $333 thousand face value of its Series B debentures at a cost of $294 thousand (average cost of $88.11 per $100 face value) and $18 thousand face value of its Series C debentures at a cost of $17 thousand (average cost of $93.85 per $100 face value).

On January 13, 2016, the Company initiated NCIBs to repurchase a maximum of $4.1 million principal amount of its Series B convertible debentures and $3.3 million principal amounts of its Series C convertible debentures. These NCIBs are in effect until January 12, 2017 unless the bid is completed or terminated earlier by the Company. Subsequent to year-end, under this NCIB, Holloway repurchased $13 thousand face value of its Series B debentures at a cost of $11 thousand (average cost of $86.99 per $100 face value) and $3 thousand face value of its Series C debentures at a cost of $3 thousand (average cost of $92.83 per $100 face value).

Leverage

The Company assesses its leverage in the context of its ability to generate net operating income to service its debt. The Company's leverage increased after the acquisition of Royal Host but has since been reduced through recent sales of non-core assets and select hotels and the application of cash from operations to debt repayment.

Debt to gross book value is a financial metric historically used by real estate investment trusts. The Company's debt to gross book value is shown below:

	December 31, 2015	December 31, 2014
Net debt to net operating income	7.2x	7.4x
Debt to gross book value excluding convertible debentures	28.5%	32.0%
Debt to gross book value including convertible debentures	46.1%	49.3%

Contractual Obligations

The following table shows the Company's contractual obligations as at December 31, 2015:

	2016	2017	2018	2019	2020	Thereafter
Mortgages and loan payable						
Interest[(1)]	$ 7,343	$ 4,415	$ 822	$ 510	$ 219	$ 768
Principal[(2)]	6,375	94,121	10,936	5,441	3,148	4,580
Secured credit facilities						
Interest[(1)]	775	-	-	-	-	-
Principal	19,529	-	-	-	-	-
Convertible debentures						
Interest	6,312	6,312	5,551	3,268	545	-
Principal[(3)]	-	-	40,583	-	52,294	-
Operating leases	327	310	167	45	24	88
Total	$ 40,661	$ 105,158	$ 58,059	$ 9,264	$ 56,230	$ 5,436

(1) Interest on floating rate debt is based on interest rates prevailing at December 31, 2015.
(2) Principal includes regular amortization and repayments at maturity.
(3) Principal represents face value of debentures at maturity.

Commitments to Capital Spending

As at the date of this MD&A, the Company had entered into franchise agreements for the rebranding of three properties. On March 3, 2016, the Yellowknife Inn in Yellowknife, NT and the Holloway Inn and Suites in Grande Prairie, AB were each branded as a Quality Inn®. On March 8, 2016, the Holiday Inn Express® in Moncton, NB was rebranded as a Days Inn®.

Common Shares

At December 31, 2015, the Company had 19,031,066 shares outstanding.

On August 17, 2015, the Company initiated an NCIB to repurchase up to 967,683 of its outstanding common shares. For the year ended December 31, 2015, the Company repurchased and cancelled 346,300 shares at a cost of $1.7 million (average price of $4.95 per share) under this NCIB and the one that expired on August 12, 2015. Subsequent to year-end, the Company repurchased and cancelled 140,700 shares at a cost of $644 thousand (average cost of $4.58 per share).

Dividends

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

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

	Years Ended December 31	
	2015	2014
Dividends declared	$ 2,693	$ 2,611
Net income (loss) attributable to shareholders	(3,811)	27,256
Payout ratio	(70.7%)	9.6%
Funds from operations	11,968	16,385
Payout ratio	22.5%	15.9%
Adjusted funds from operations	10,244	14,239
Payout ratio	26.3%	18.3%

Other Information

Selected Financial Information

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

	2015	2014	2013
Total revenues	$ 111,154	$ 97,845	$ 60,317
Net income (loss) attributable to shareholders	(3,811)	27,256	4,489
per basic and diluted share	(0.20)	1.46	0.25
Dividends paid per share	0.14	0.14	0.14
Total assets	356,363	382,456	199,408
Total long-term financial liabilities	213,214	241,986	107,906

	Three Months Ended December 31			Years Ended December 31		
	2015	2014	Variance	2015	2014	Variance
Net income (loss) attributable to shareholders	(12,083)	11,517	(23,600)	(3,811)	27,256	(31,067)
Impairment (reversal of impairment) of hotel properties, net	12,880	(9,040)	21,920	15,580	(10,258)	25,838
Recovery of income taxes	(4,205)	(8,164)	3,959	(5,129)	(17,288)	12,159
Gain on disposals of property and equipment, franchise business, minority interest investments in hotel properties and repurchase of convertible debentures	(249)	-	(249)	(8,365)	(114)	(8,251)
	(3,657)	(5,687)	2,030	(1,725)	(404)	(1,321)

As shown in the table above, net income has decreased significantly compared to last year. Net income is impacted by various accounting items unrelated to operations, including impairments and reversals of previously taken impairments, gains on the sale of properties and tax asset balances. In particular, in 2014 Holloway reversed impairments previously taken on several properties whereas in 2015 Holloway recorded impairments on several other properties.

Balance Sheet

The following table outlines significant balances or changes in the consolidated balance sheet from December 31, 2014 to December 31, 2015:

	December 31, 2015	December 31, 2014	Increase (Decrease)	Explanation
Assets				
Cash	$ 2,022	$ 3,473	(1,451)	Refer to the "Cash Flow" section.
Trade and other receivables	3,244	5,697	(2,453)	Trade receivables has decreased due to increased collection efforts, lower revenue from customers with credit, and the decrease in receivables in relation to the Travelodge® franchise sale.
Property and equipment	312,471	330,307	(17,836)	Change is due to the following: sale of Travelodge® in Toronto, ON, Ramada® in Trenton, ON, Holiday Inn Express® in Myrtle Beach, SC and a parcel of land in Orillia, ON, the purchase of Days Inn® hotels in Whitehorse, YT and Sydney, NS, major renovations and other capital additions and impairments recorded on assets.
Loan receivable	5,536	-	5,536	Loan receivable resulting from the sale of the Travelodge® and Thriftlodge® franchise business during the first quarter of 2015.
Franchise business	-	14,700	(14,700)	The Travelodge® and Thriftlodge® franchise business was sold during the first quarter of 2015.
Deferred Income tax assets	26,929	21,800	5,129	Deferred tax assets increased primarily as the result of impairments recorded during the year.
Liabilities				
Current portion of secured credit facilities	19,529	9,007	10,522	Secured credit facily was used to fund the major renovations on two properties.
Share-based liability	476	-	476	Liability recorded for outstanding options which can be cash-settled under the new option plan.
Secured credit facilities	-	18,000	(18,000)	Refer to secured credit facilities in the "Liquidity and Capital Structure" section.
Mortgages and loan payable	117,871	129,510	(11,639)	Refer to mortgages and loan payable in the "Liquidity and Capital Structure" section.
Equity				
Equity attributable to shareholders of the Company	107,437	115,913	(8,476)	Decrease primarily represents comprehensive loss for the year, dividends declared, the reclassification of the share-based liability from contributed surplus and repurchases of common shares.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at December 31, 2015. The Company owned 34 hotels and a 62% interest in another hotel, all in Canada, with a total of 3,973 guest rooms.

Property	Location	No. of Rooms	Interest
Alberta			
Best Western®	Grande Prairie	100	100%
Days Inn®	Whitecourt	79	100%
Holiday Inn®	Grande Prairie	145	100%
Holloway Inn and Suites (Note 1)	Grande Prairie	152	100%
Super 8®	Drayton Valley	60	100%
Super 8®	Grande Prairie	148	100%
Super 8®	High Level	81	100%
Super 8®	Slave Lake	58	100%
Super 8®	Whitecourt	59	100%
Travelodge®	Slave Lake	99	100%
		981	
British Columbia			
Super 8®	Fort Nelson	142	100%
Super 8®	Fort St. John	101	100%
		243	
New Brunswick			
Holiday Inn Express® and Suites (Note 2)	Moncton	151	100%
Travelodge®	Moncton	75	100%
Travelodge®	Saint John	58	100%
		284	
Newfoundland and Labrador			
Super 8®	St. John's	**81**	62%
Northwest Territories			
Super 8®	Yellowknife	66	100%
Yellowknife Inn (Note 1)	Yellowknife	129	100%
		195	
Nova Scotia			
Holiday Inn Express®	Stellarton	125	100%
Super 8®	Truro	50	100%
Super 8®	Windsor	66	100%
Travelodge®	Dartmouth	75	100%
Travelodge®	New Glasgow	64	100%
Travelodge®	Sydney	117	100%
		497	
Ontario			
Airlane	Thunder Bay	153	100%
DoubleTree® by Hilton	London	323	100%
Holiday Inn®	Oakville	147	100%
Holiday Inn®	Ottawa	261	100%
Super 8®	Timmins	74	100%
Travelodge®	Barrie	130	100%
Travelodge®	Belleville	124	100%
Travelodge®	Ottawa	196	100%
Travelodge®	Thunder Bay	93	100%
Travelodge®	Timmins	92	100%
		1,593	
Yukon			
Days Inn®	Whitehorse	**99**	100%
Total Rooms		**3,973**	

Note 1 - property was rebranded to a Quality Inn® on March 3, 2016.

Note 2 - property was rebranded to a Days Inn® on March 8, 2016.

Related Party Transactions

At December 31, 2015, Clarke owned 7,874,815 common shares of Holloway, representing approximately 41% of the Company's issued and outstanding shares; accordingly, Clarke is considered a related party of Holloway. During the three months and year ended December 31, 2015, the Company incurred IT fees of $33 thousand and $138 thousand, respectively, and tax fees of $3 thousand and $8 thousand, respectively, for services provided by Clarke. As of December 31, 2015, $11 thousand was payable related to these fees. The Company had borrowed money from Clarke pursuant to two secured credit facilities which were repaid during the first quarter of 2015. During the three months and year ended December 31, 2015, the Company incurred interest expense under these facilities of $nil and $271 thousand which has been fully paid.

The Clarke Pension Plan is considered a related party of Holloway due to its affiliation with Clarke. The Company borrowed money from the Clarke Pension Plan pursuant to a mortgage and a secured credit facility. The mortgage of $2.4 million was outstanding at year-end and the secured credit facility was repaid in full during the first quarter of 2015. During the three months and year ended December 31, 2015, the Company incurred interest related to these loans of $40 thousand and $163 thousand. At December 31, 2015, $13 thousand in interest was payable. Subsequent to year end, the mortgage was repaid in full.

Non-IFRS Financial Measures

Funds from Operations ("FFO")

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

	Three Months Ended December 31		Years Ended December 31	
	2015	2014	**2015**	2014
Net income (loss) attributable to shareholders	**$ (12,083)**	$ 11,517	**$ (3,811)**	$ 27,256
Add / (deduct):				
Depreciation and amortization of real estate assets	**3,264**	4,060	**13,552**	12,650
Provision for settlement of management agreements and loan receivable (non-cash portion)	**-**	4,828	**-**	4,828
Impairment (reversal of impairment) of hotel properties, net	**12,880**	(9,040)	**15,580**	(10,258)
Gain on disposals of property and equipment, franchise business, minority interest investments in hotel properties and repurchase of convertible debentures	**(249)**	-	**(8,365)**	(114)
Amounts reclassified to profit and loss on minority interest investments in hotel properties	**141**	-	**141**	(689)
Recovery of income taxes	**(4,205)**	(8,164)	**(5,129)**	(17,288)
FFO	**$ (252)**	$ 3,201	**$ 11,968**	$ 16,385
per basic share	**(0.01)**	0.16	**0.62**	0.88

Adjusted Funds from Operations ("AFFO")

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

	Three Months Ended December 31		Years Ended December 31	
	2015	2014	**2015**	2014
FFO	**$ (252)**	$ 3,201	**$ 11,968**	$ 16,385
Add / (deduct):				
Share-based expense (recovery), net of share based payments	**22**	193	**(64)**	418
Depreciation and amortization of corporate assets	**19**	21	**268**	82
Change in fair value of embedded derivative	**175**	(265)	**330**	(265)
Accretion on debt	**274**	242	**1,099**	552
FF&E reserve	**(712)**	(956)	**(3,357)**	(2,933)
AFFO	**$ (474)**	$ 2,436	**$ 10,244**	$ 14,239
per basic share	**(0.02)**	0.12	**0.53**	0.77

Other Non-IFRS Metrics

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

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

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

Revenue per available room or "RevPAR": RevPAR is defined as total room revenue divided by the total number of rooms in the hotel multiplied by the number of days in the period. RevPAR is the most commonly used indicator of market performance for hotels and represents the combination of the ADR and the average occupancy rate achieved during a period. RevPAR does not include food and beverage or other ancillary revenues generated by a hotel.

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

Legal Proceedings

In the course of the Company's ordinary activities, the Company is involved in administrative proceedings, litigations and claims. In September 2015, the Company was served with a personal injury claim in the Alberta Court of Queen's Bench seeking over $10.0 million in damages. The Company believes the claims are without merit, there are valid defences to any actions or the outcomes will not have a material impact on the Company's consolidated financial position or results of operations. The Company intends to fully defend its interests and take all other action available to it. The outcome of the claims is subject to future court proceedings, and it is not practicable to determine an estimate of the possible financial effect, if any, at this time with sufficient reliability. Accordingly, no amounts have been recorded in the accounts of the Company in 2015 related to these claims.

Changes in Accounting Policies

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016, and have not been applied in preparing the December 31, 2015 consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, Financial Instruments

IFRS 9, "Financial Instruments" (“IFRS 9”) introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”) to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss) (“OCI”).

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity’s own credit risk, from financial liabilities designated under the fair value option, in OCI, without having to adopt the remainder of IFRS 9.

The final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets – fair value through other comprehensive income (loss); (ii) a single, forward-looking expected loss impairment model; and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts and Customers

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

IAS 1, Presentation of Financial Statements

IAS 1, “Presentation of Financial Statements” (“IAS 1”) amendments outline disclosure initiatives relating to materiality, ordering of the notes, subtotals, accounting policies and disaggregation with an aim of clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company has evaluated the impact of this amendment and there will be no impact to the consolidated financial statements when adopted.

IFRS 16, Leases

IFRS 16, “Leases”, a new standard on lease accounting, was issued on January 13, 2016 and replaces the current guidance in IAS 17, “Leases” (“IFRS 16”). The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Critical Accounting Estimates and Judgments

The discussion and analysis of Holloway's financial position and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and make estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of its consolidated financial statements.

Valuation of Property and Equipment

For the year ended December 31, 2015, the Company assessed 21 cash generating units ("CGUs") which had indicators of potential impairment or reversal of previously recorded impairments for which the recoverable amount was calculated. The recoverable amount of eleven CGUs exceeded their carrying value and no impairment was recorded on these CGUs. These eleven CGUs did not have previously recorded impairments, so there were no impairment reversals. During 2015, the Company decreased the carrying value of nine CGUs by $16.0 million and increased the carrying value of one CGU by reversing a previously recorded impairment by $420 thousand. The recoverable amount of the CGUs was determined by internal models or recent independent third party appraisals. The recoverable amount has been determined using fair value less costs to sell which uses stabilized cash flow projections and a terminal growth rate based on long-term average growth rates for the industry. For periods beyond the initial budget period, cash flows were extrapolated using growth rates determined to be reasonable for the specific CGU and the market in which they operate and do not exceed the anticipated long-term average growth rates for the Company's portfolio.

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

These are level 3 fair value measurements under the fair value hierarchy. Key factors of estimation uncertainty included in models for the CGUs tested for impairment or reversal of impairment were:

Pre-tax discount rates	11.5% to 14.5%
Capitalization rate	9.0% to 12.0%
Growth rates	Consistent with industry and market/hotel outlook

Based on this information, management estimated that the range of reasonably possible values for the assets would be between $55.3 million and $62.9 million for the nine CGUs that were decreased in value. The final value for the nine CGUs decreased in value was $59.0 million. Management estimated that the range of reasonably possible values for the asset would be between $3.6 million and $4.3 million for the one CGU that was increased in value. The final value for the CGU increased in value was $2.6 million as the full amount of the previously recorded impairment was reversed. Management estimated that the range of reasonably possible values for the assets that are not impaired would be between $155.9 million and $177.3 million. The carrying values for those CGUs was $129.7 million as there is no previously recorded impairment available for reversal.

The fair value may not reflect the realizable value in the event a particular CGU is sold by the Company.

Depreciation of Property and Equipment and Franchise Business

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

Income Taxes

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of income (loss), other comprehensive income (loss), or directly in equity, as applicable, in the year that includes the date of enactment or substantive enactment. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and increased or decreased based on the estimated taxable earnings that will be available to allow the asset to be recovered.

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

Share-Based Liability

The Company calculates the fair value of the share-based liability at each reporting period using the Black-Scholes option pricing model, using company specific and industry indexes to calculate volatility. If different methods were used to calculate volatility, the impact on the Company’s net income (loss) could be material.

Business Combinations

The purchase price allocation process requires management to use significant estimates and assumptions, and fair value estimates including, but not limited to:

- estimated fair values of tangible assets;
- estimated fair values of intangible assets;
- estimated fair values of liabilities;
- estimated deferred income tax assets and liabilities; and
- estimated fair value of pre-acquisition contingencies.

While management uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value the assets acquired and liabilities assumed at the business combination date, estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the purchase price allocation period, which is generally one year from the business combination date, any adjustments are recorded to the assets acquired and liabilities assumed.

Although management believes the assumptions and estimates made in the past have been reasonable and appropriate, they are based in part on past experience and information obtained from the management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of the assets acquired and liabilities assumed include but are not limited to:

- future expected cash flows from the hotel properties;
- future expected cash flows from the franchise business;
- discount rates applied to future expected cash flows;
- capitalization rates applied to future expected cash flows;
- the fair value of convertible debentures, including future obligations to debentureholders; and
- uncertain tax positions and the fair value of both current and deferred income tax related assets and liabilities assumed in connection with a business combination which are initially estimated as of the acquisition date and are re-evaluated quarterly as management continues to collect information in order to determine their estimated value, with any adjustments to preliminary estimates recorded during the measurement period.

Changes in any of the assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the initial amounts assigned to assets and liabilities in the purchase price allocation. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

Financial Instruments and Risk Management

Financial Instruments

The Company's financial instruments consist of cash, restricted cash, trade and other receivables, loan receivable, capital reserve – restricted, funds held on behalf of franchisees, minority interest investments in hotel properties, trade payables and accrued liabilities, accrued interest on convertible debentures, secured credit facilities, mortgages and loan payable, convertible debentures, funds to be spent on behalf of franchisees and share-based liability.

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

- Mortgages and loan payable: At December 31, 2015, the mortgages and loan payable had a fair value of $117.6 million compared to a carrying value of $124.2 million. The fair value is determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for debt instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions.
- Convertible debentures: At December 31, 2015, the convertible debentures had a fair value of $82.9 million compared to a carrying value of $89.0 million and face value of $92.9 million. The fair value is based on the quoted market prices for the convertible debentures.

Risk Management

The Company's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

Interest Rate Risk

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by primarily using fixed rate debt so cash flow is not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable is 5.94% with a weighted average maturity of 2.4 years.

The Company has three mortgages and a secured credit facility at floating rates. For the year ended December 31, 2015, if interest rates on the Company's floating rate debt had been 1% higher/lower, net income would change by $390 thousand.

Credit Risk

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

The amount of trade and other receivables disclosed on the consolidated statement of financial position of $3.2 million is net of an allowance for doubtful accounts, estimated by management based on prior experience and their assessment of the current economic environment.

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

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

Currency Risk

Prior to the sale of its hotel in Myrtle Beach, SC on December 10, 2015, the Company earned revenue and incurred expenses in US currency, and as such, was subject to risk as a result of foreign exchange rate fluctuations. The Company manages its exposure to currency risk by billing for its services in the US in the underlying currency related to the expenditure. As this natural hedging effectively matches the revenue and expenses, the Company's management considers there to be little currency risk. However, a $0.01 change in the US dollar exchange rate would change the cumulative translation adjustments recognized in other comprehensive income (loss) by $16 thousand.

In addition, the Company is exposed to some currency risk as it pays certain franchise and royalty payments and receives interest income as it holds a loan receivable in US dollars. A $0.01 change in the US dollar exchange rate will change the foreign exchange gain or loss recognized in the statement of income (loss) by $25 thousand.

Liquidity Risk

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

The Company had one credit facility which matured on December 31, 2015 and is presented as a current liability. The Company renewed the facility on February 8, 2016 and expects to renew the facility with similar terms at its maturity of December 31, 2016.

In 2015, the Company extended a mortgage on one hotel property which was to mature in July 2016 to February 2020 with an interest rate of 4.25%, reduced from 6.00%.

The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. At December 31, 2015, the Company had drawn $19.5 million from its available secured credit facility of $25.0 million.

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

Controls and Procedures

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

During 2015, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), under the supervision of, and with the participation of those acting as CEO and CFO. As at December 31, 2015, based on the evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were appropriately designed and were operating effectively.

During 2015, the Company's management also evaluated the design and operating effectiveness of the internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), using the 1992 Committee of Sponsoring Organizations Internal Control – Integrated Framework, under the supervision of, and with the participation of the those acting as CEO and CFO. As at December 31, 2015, based on the evaluation, those acting as CEO and CFO have concluded that the Company's internal controls over financial reporting were appropriately designed and were operating effectively.

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

The Company continually reviews its controls and updates its documentation of its disclosure controls and procedures, including its internal controls over financial reporting so as to enhance the effectiveness of its systems of controls and procedures. Holloway intends to transition to the updated Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations for the Treadway Commission (COSO 2013) over the next year.

Risks

There are a number of risk factors associated with the Company. These include risks related to real property ownership, risks related to the business of the Company, including the hotel industry, competition, customer concentration, franchised hotels, availability of additional capital, and debt financing and risks relating to the structure of the Company. Information on these risks and uncertainties are described under "Risk Factors" in the Company's Annual Information Form dated March 9, 2016 which is available on Holloway's profile on the SEDAR website at www.sedar.com.