Management's Discussion and Analysis
for the Three Months and Year Ended December 31, 2016

As at March 9, 2017

Introduction and Forward-Looking Statements

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Corporation ("Holloway" or the "Company") for the three months and year ended December 31, 2016, 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, 2016. The financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in thousands of Canadian dollars, except for shares and per share amounts, unless otherwise noted. This MD&A is dated as at March 9, 2017.

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

Business Overview

Holloway owns and operates hotels across Canada and provides hotel management services to third parties.

Hotels: At December 31, 2016, Holloway's portfolio consisted of 35 hotels with 4,025 rooms of which 27 hotels are limited service properties and 8 hotels are full service properties. Of the Company's 35 hotels, 33 are operated under internationally recognized hotel brands, one is operated under a regional hotel brand and one is unbranded.

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

Management Services: During the second quarter, Holloway launched its management services division. The Company is currently providing management and accounting services for two hotels in Newfoundland and Labrador and one hotel in Alberta. Additional information regarding this division is available at www.hlcorpmanagement.ca.

Fourth Quarter Overview and Outlook

Hotel Performance

In the fourth quarter of 2016, Holloway realized a 5.4% increase in revenue, a 20.6% increase in operating income and a 2.9 percentage point increase in operating income margin compared to the fourth quarter of 2015. The changes are shown in the tables below for the three months and year ended December 31, 2016.

	Three Months Ended December 31			Years Ended December 31		
	2016	2015	Variance	2016	2015	Variance
Revenue	$ 24,595	$ 23,332	5.4%	$ 106,412	$ 110,683	(3.9%)
Operating income[(1)]	5,598	4,641	20.6%	29,338	31,288	(6.2%)
Operating income margin	22.8%	19.9%	2.9 ppt	27.6%	28.3%	(0.7 ppt)
Net income attributable to shareholders	(2,302)	(12,083)		(1,045)	(3,811)	
per basic and diluted share	(0.12)	(0.63)		(0.06)	(0.20)	
Funds from operations	1,374	(252)		10,726	11,968	
per basic share	0.07	(0.01)		0.57	0.62	
Adjusted funds from operations	1,153	(474)		9,256	10,244	
per basic share	0.06	(0.02)		0.49	0.53	
Dividends declared per share	0.035	0.035		0.14	0.14	

(1) Before depreciation and amortization.

	Three Months Ended December 31				Years Ended December 31			
	Revenue		Operating Income[(1)]		Revenue		Operating Income[(1)]	
2015	$ 23,332	100%	$ 4,641	100%	$110,683	100%	$ 31,288	100%
Hotels acquired	1,218		166		7,174		2,290	
Hotels sold	(908)		(108)		(4,478)		(872)	
Franchise business sold	-		-		(412)		(326)	
London DoubleTree® / Ottawa Holiday Inn®	2,655		1,494		6,860		4,454	
Other Ontario hotels	(185)		114		(1,215)		67	
Atlantic Canada hotels	299		359		(583)		(15)	
Western Canada hotels	(1,874)		(1,111)		(11,791)		(7,599)	
Northern Canada hotels	58		43		174		51	
2016	$ 24,595	105%	$ 5,598	121%	$106,412	96%	$ 29,338	94%

(1) Before depreciation and amortization.

For the three months ended December 31, 2016, the Company's revenue and operating income were higher than in the fourth quarter of 2015. The results from our newly acquired Westmark Hotel and Conference Center® in Whitehorse, YT and our renovated and reopened hotels in Sydney, NS, London and Ottawa, ON more than offset the decline in revenue and operating income from our hotels in Western Canada.

Our Western Canada hotels were the largest detractors from our performance in 2016. The lack of oil and gas activity in many of our markets was the primary reason for this decline. This performance was driven more by lower occupancy (which declined by 15.7ppt from 57.8% to 42.1%) than lower rate (which only declined 5% from $137 to $130). Maintaining our rates and managing our hotels to the utmost efficiency during this market downturn has helped reduce the effects of this downturn and will serve us well when the market improves.

Our renovated Ontario hotels, the DoubleTree in London, ON and the Holiday Inn® in Ottawa, ON, contributed an additional $6.9 million in revenue and $4.5 million in operating income in 2016 compared to 2015. This year was a year of ramp up for these hotels and we expect increased revenue and operating income in 2017. We are particularly pleased with the higher average daily rates we are seeing at these two hotels following their renovations.

Our other Ontario hotels increased operating income by $67 thousand despite revenue that was $1.2 million lower than the prior year. Our focus on managing our costs and flow through and the closure of unprofitable food and beverage operations show in these results. The Travelodge hotel in Ottawa and our two hotels in Thunder Bay had higher revenues and operating income in 2016; these increases were offset by weaker performance from our hotel in Belleville and our two hotels in Timmins which were impacted by increased competition and lower demand from mining companies, respectively.

Our two hotels in Whitehorse, YT and the Travelodge in Sydney, NS are considered "hotels acquired" for 2016. These hotels are performing well. The performance of the Westmark Hotel and Conference Center has exceeded our expectations and we believe there is opportunity for higher revenues and additional cost improvements in 2017. Our remaining hotels in Northern Canada and Atlantic Canada continued to record stable results.

Balance Sheet and Capital Allocation

Holloway's financial position remains strong. At year-end, we had $234.7 million of debt of which $89.8 million or 38% is in the form of convertible debentures with no financial covenants. In 2016, we took advantage of the lower interest rate environment by obtaining four new mortgages at 4.25%.

During the year, we sold the Travelodge hotel in Barrie, ON for gross proceeds of $8.7 million, resulting in a gain on sale of $2.9 million and representing a cap rate of 7.3%. We also acquired the Westmark Hotel and Conference Center in Whitehorse for $9.8 million, which implies a cap rate of 15% (based on our nine months of operations in 2016 only).

During the year, we repurchased $651 thousand of our common shares (142,000 shares at an average price of $4.58 per share). We also repurchased $101 thousand face value of our 6.25% Series B convertible debentures at a cost of $90 thousand (average cost of $89.30 per $100 face value) and $3 thousand face value of our 7.50% Series C convertible debentures at a cost of $3 thousand (average cost of $92.83 per $100 face value).

In 2016, we paid a quarterly dividend of $0.035 for a total annual dividend of $0.14 per share. The Company believes our capital is better spent investing in our hotels or repurchasing our shares and debentures than increasing our dividend.

Outlook

We noted in our third quarter report that we suspected the second half of 2016 would represent the bottom in the performance of our Western Canada hotels. Results at the end of the fourth quarter of 2016 and the beginning of 2017 have provided more support for this. Through the first two months of 2017, seven of our 11 Western Canada hotels have recorded revenue increases over the prior year with four of these properties experiencing revenue increases of more than 30%. Accordingly, assuming oil and gas prices remain stable or increase from current levels, we believe we will experience gradual improvement in our results in Western Canada as the year progresses.

Results in our other regions should remain stable or improve in 2017. We continue to expect positive performance from our renovated Ontario hotels and our newly acquired hotels in Whitehorse, YT and Sydney, NS. We are hopeful that the recent strength in metals pricing will result in improved business performance in Timmins, ON.

Our business plan for 2017 includes an active capital program that will focus on several growth initiatives as well as property improvements. We are nearing completion of an 11-room expansion of the Super 8® hotel in Fort St. John, BC in an area previously occupied by a restaurant. We expect to commence in the second quarter of 2017 renovations of our Holiday Inn and Super 8 hotels in Grande Prairie, AB. We have also commenced demolition of the non-operated structures located on the Travelodge hotel site in Ottawa, ON in anticipation of redevelopment activities; these demolition activities will not impact the existing hotel structure.

Subsequent to year-end, we sold the Holiday Inn in Oakville, ON for $19.4 million, representing a cap rate of approximately 7.4% and a price per room of $132 thousand. We recorded a gain on the sale of $7.8 million. We used the proceeds from

this sale to fully repay our revolving credit facility. We anticipate at least one and possibly additional one hotel sales during the year.

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

Dividend Declaration

On March 9, 2017, the Board of Directors declared a quarterly dividend of $0.035 per share, representing an annual dividend of $0.14 per share. The dividend is payable on April 13, 2017 to shareholders of record on March 31, 2017.

Operating Results

Hotel Performance

The following tables summarize the performance of Holloway's portfolio of hotels for the three months and year ended December 31, 2016 compared to the same periods in the prior year. The tables segregate the performance of Holloway's base portfolio, meaning hotels that were owned in both the current and prior periods, and the performance of acquired and sold hotels.

Three Months Ended December 31

	Base Portfolio			Acquired/Sold Hotels (2)			Total		
	2016	2015	Variance	2016	2015	Variance	2016	2015	Variance
Hotel revenue	$ 23,379	$ 22,426	4.2%	$ 1,216	$ 906	34.2%	$ 24,595	$ 23,332	5.4%
Hotel operating income (1)	5,437	4,542	19.7%	161	106	51.9%	5,598	4,648	20.4%
Hotel operating income margin	23.3%	20.3%	3.0 ppt	13.2%	11.7%	1.5 ppt	22.8%	19.9%	2.9 ppt

(1) Before depreciation and amortization.

(2) Represents three hotels (acquired - Westmark in Whitehorse, YT; sold - Holiday Inn Express in Myrtle Beach, SC and Travelodge in Barrie, ON).

Years Ended December 31

	Base Portfolio			Acquired/Sold Hotels (2)			Total		
	2016	2015	Variance	2016	2015	Variance	2016	2015	Variance
Hotel revenue	$ 94,710	$101,265	(6.5%)	$ 11,702	$ 9,006	29.9%	$ 106,412	$110,271	(3.5%)
Hotel operating income (1)	25,567	28,612	(10.6%)	3,771	2,351	60.4%	29,338	30,963	(5.2%)
Hotel operating income margin	27.0%	28.3%	(1.3 ppt)	32.2%	26.1%	6.1 ppt	27.6%	28.1%	(0.5 ppt)

(1) Before depreciation and amortization.

(2) Represents seven hotels (acquired - Travelodge in Sydney, NS, Days Inn in Whitehorse, YT and Westmark in Whitehorse, YT; sold - Ramada in Trenton, ON, Travelodge in Toronto, ON, Holiday Inn Express in Myrtle Beach, SC and Travelodge in Barrie, ON).

Three Months Ended December 31, 2016

Total revenue increased $1.3 million or 5.4% during the fourth quarter. Revenue from our base portfolio of hotels increased $1.0 million or 4.2%. Our two renovated hotels had increased revenue of $2.7 million which more than offset the revenue decline in our Western Canada hotels of $1.9 million. Our base hotel operating income increased 20% which is significant given the revenue increase of 4.2%. Our base hotel operating margin increased to 23.3% from 20.3%. We are focused on managing our hotels as efficiently as possible as is evident in our income and margin improvements.

Our acquired/sold hotels also contributed to higher revenues and operating income. In 2016, the Westmark Hotel in Whitehorse is the sole hotel included in this category whereas the 2015 comparative figures include the Travelodge in Barrie, ON and the Holiday Inn Express® in Myrtle Beach, SC which have been sold. The Westmark hotel generated 34.2% higher revenue and 51.9% higher operating income compared to the two sold hotels.

Year Ended December 31, 2016

For 2016, revenue decreased $3.9 million or 3.5% compared to 2015. We realized revenue declines of $11.8 million from our Western Canada hotels and $4.5 million from our sold hotels, which were offset by increased revenues of $14.0 million from hotels we acquired and/or renovated in 2016. Our hotel operating income margin declined marginally in 2016 to 27.6% from 28.1%.

Key Performance Measures

	Three Months Ended December 31								
	Base Portfolio			Acquired/Sold Hotels (1)			Total		
	2016	2015	Variance	2016	2015	Variance	2016	2015	Variance
Occupancy									
Atlantic Canada	50.5%	51.7%	(1.2 ppt)	0.0%	-	-	50.5%	51.7%	(1.2 ppt)
Ontario	52.1%	51.9%	0.2 ppt	0.0%	47.0%	(47.0 ppt)	52.1%	51.4%	0.7 ppt
Western Canada	40.4%	48.9%	(8.5 ppt)	0.0%	-	-	40.4%	48.9%	(8.5 ppt)
Northern Canada	52.0%	53.1%	(1.1 ppt)	40.4%	-	40.4 ppt	47.5%	53.1%	(5.6 ppt)
United States	-	-	-	-	49.2%	(49.2 ppt)	-	49.2%	(49.2 ppt)
Total	48.0%	50.9%	(2.9 ppt)	40.4%	47.9%	(7.5 ppt)	47.7%	50.7%	(3.0 ppt)
ADR									
Atlantic Canada	$ 101.24	$ 103.15	$ (1.91)	$ -	$ -	$ -	$ 101.24	$ 103.15	$ (1.91)
Ontario	111.69	99.69	12.00	-	91.57	(91.57)	111.65	98.97	12.68
Western Canada	127.24	135.35	(8.11)	-	-	-	127.24	135.35	(8.11)
Northern Canada	141.42	133.91	7.51	112.17	-	112.17	131.75	133.91	(2.16)
United States (in USD)	-	-	-	-	71.10	(71.10)	-	71.10	(71.10)
Total	$ 115.79	$ 115.55	$ 0.24	$ 112.17	$ 92.64	$ 19.53	$ 115.64	$ 114.28	$ 1.36
RevPAR									
Atlantic Canada	$ 51.13	$ 53.33	$ (2.20)	$ -	$ -	$ -	$ 51.13	$ 53.33	$ (2.20)
Ontario	58.19	51.74	6.45	-	43.04	(43.04)	58.17	50.87	7.30
Western Canada	51.40	66.19	(14.79)	-	-	-	51.40	66.19	(14.79)
Northern Canada	73.54	71.11	2.43	45.32	-	45.32	62.58	71.11	(8.53)
United States (in USD)	-	-	-	-	34.98	(34.98)	-	34.98	(34.98)
Total	$ 55.58	$ 58.81	$ (3.23)	$ 45.32	$ 44.37	$ 0.95	$ 55.16	$ 57.94	$ (2.78)

(1) Hotels include the following:
Ontario - Travelodge in Barrie, ON (sold)
Northern Canada - Westmark in Whitehorse, YT (acquired)
United States - Holiday Inn Express in Myrtle Beach, SC (sold)

	Years Ended December 31								
	Base Portfolio			Acquired/Sold Hotels [1]			Total		
	2016	2015	Variance	2016	2015	Variance	2016	2015	Variance
Occupancy									
Atlantic Canada	58.8%	62.1%	(3.3 ppt)	49.2%	37.5%	11.7 ppt	57.8%	61.6%	(3.8 ppt)
Ontario	55.7%	58.3%	(2.6 ppt)	52.2%	51.7%	0.5 ppt	55.5%	57.6%	(2.1 ppt)
Western Canada	42.1%	57.8%	(15.7 ppt)	0.0%	-	-	42.1%	57.8%	(15.7 ppt)
Northern Canada	61.5%	61.9%	(0.4 ppt)	61.7%	58.5%	3.2 ppt	61.6%	60.8%	0.8 ppt
United States	-	-	-	-	65.9%	(65.9 ppt)	-	65.9%	(65.9 ppt)
Total	52.1%	59.1%	(7.0 ppt)	56.8%	56.9%	(0.1 ppt)	52.5%	58.9%	(6.4 ppt)
ADR									
Atlantic Canada	$ 108.50	$ 106.69	$ 1.81	$ 107.60	$ 118.09	$ (10.49)	$ 108.42	$ 106.48	$ 1.94
Ontario	111.34	101.19	10.15	98.54	90.21	8.33	110.60	100.11	10.49
Western Canada	130.32	137.16	(6.84)	-	-	-	130.32	137.16	(6.84)
Northern Canada	152.46	146.81	5.65	120.00	117.66	2.34	134.44	137.60	(3.16)
United States (in USD)	-	-	-	-	94.46	(94.46)	-	94.46	(94.46)
Total	$ 118.37	$ 117.30	$ 1.07	$ 113.18	$ 106.92	$ 6.26	$ 117.79	$ 116.33	$ 1.46
RevPAR									
Atlantic Canada	$ 63.80	$ 66.25	$ (2.45)	$ 52.94	$ 44.28	$ 8.66	$ 62.67	$ 65.59	$ (2.92)
Ontario	62.02	59.01	3.01	51.44	46.64	4.80	61.38	57.66	3.72
Western Canada	54.86	79.28	(24.42)	-	-	-	54.86	79.28	(24.42)
Northern Canada	93.76	90.88	2.88	74.04	68.83	5.21	82.82	83.66	(0.84)
United States (in USD)	-	-	-	-	62.25	(62.25)	-	62.25	(62.25)
Total	$ 61.67	$ 69.32	$ (7.65)	$ 64.29	$ 60.84	$ 3.45	$ 61.84	$ 68.52	$ (6.68)

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

For the year ended December 31, 2016, the RevPAR at our Atlantic Canada hotels decreased by $2.92 as a result of ADR increasing $1.94 which did not fully offset the decline in occupancy of 3.8 percentage points. The Super 8 in St. John's, NL experienced a 9% decrease in occupancy primarily as a result of new hotel supply as well as the impact of lower oil and gas prices. After reopening in the spring and a ramp up period, the Travelodge in Sydney, NS performed well in the summer and fall.

RevPar at our Ontario hotels increased by $3.72 which is being driven by the increase in ADR of $10.49. Our rates have increased at our two renovated hotels and particularly at the Holiday Inn in Ottawa which was an unbranded hotel prior to the renovation.

The RevPAR at our Western Canada hotels declined $24.42 in 2016. Occupancy at these hotels declined 15.7 percentage points while our ADR dropped only $6.84 or 5% to $130.32.

RevPAR at our Northern hotels remained stable as occupancy increased 0.8 percentage points and ADR declined $3.16. The Westmark hotel gains significant occupancy from tour company guests which have slightly lower rates than our other Northern Canada hotels.

Other Expenses

	Three Months Ended December 31			Years Ended December 31		
	2016	2015	Variance	2016	2015	Variance
Interest and accretion on debt	$ 4,136	$ 4,134	$ 2	$ 16,190	$ 16,394	$ (204)
Corporate and administrative	548	419	129	1,784	2,433	(649)
Share-based expense (recovery)	53	22	31	233	(64)	297
Investment income	(162)	(162)	-	(640)	(471)	(169)
Management services income	(63)	-	(63)	(112)	-	(112)
(Gain) loss on disposals of property and equipment, franchise business, minority interest investment in hotel properties and repurchase of convertible debentures	20	(249)	269	(2,665)	(8,365)	5,700
Amounts reclassified to profit and loss on minority interest investments in hotel properties	-	141	(141)	-	141	(141)
Impairment of hotel properties	1,400	12,880	(11,480)	300	15,580	(15,280)
Acquisition and redevelopment costs	31	260	(229)	665	813	(148)
Realized foreign exchange loss	-	-	-	926	-	926
Unrealized foreign exchange gain (loss)	(131)	208	(339)	(224)	(55)	(169)
Recovery of deferred income taxes	(1,634)	(4,205)	2,571	(1,243)	(5,129)	3,886

For the year ended December 31, 2016, the decline in interest expense compared to 2015 was primarily as a result of the expense for the change in value of the embedded derivative of $330 thousand which was recorded in 2015. During 2016, the Company obtained three new mortgages on previously unencumbered properties and reduced the interest rates on certain mortgages.

Corporate and administrative expenses increased in the three months ended December 31, 2016 as a result of increased legal fees. Corporate and administrative expenses are lower for the 2016 year compared to 2015 due to cost management and the reversal of accrued liabilities that will not be paid. The $233 thousand share-based expense related to our outstanding options is due to an increase in Holloway's share price; changes in the option value (due to changes in Holloway's share price) are required by accounting rules to be flowed through our income statement.

During the three months ended December 31, 2016, the Company recorded investment income of $162 thousand, from the loan receivable denominated in US dollars. Investment income increased to $640 thousand for the year ended December 31, 2016 from $471 thousand in the same period in 2015 as the loan receivable was acquired on March 31, 2015.

The hotel management services division commenced generating income in the second quarter of 2016. The negative values shown in the table above reflect the positive revenues from this division. This revenue was generated from three hotel management contracts. We anticipate that one of these management contracts will terminate mid-2017 as the receivership over the property comes to an end. We expect the signing of new management agreements will be lumpy.

The gain on disposal of property and equipment recorded during the year ended December 31, 2016 of $2.7 million is due to the gain on sale recorded on the Travelodge in Barrie, ON of $2.9 million in the third quarter offset by the write-off of the unamortized balance of franchise fees and signage as a result of rebranding multiple hotels earlier in the year. In 2015, the Company recorded gains 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 and a parcel of land in Orillia, ON.

During the year ended December 31, 2016, the Company recorded a reversal of previously recorded impairments on five hotel properties, of $6.3 million based on recent external appraisals and recorded impairments on four hotel properties of $6.6 million, for a net impairment of $0.3 million. During the year ended December 31, 2015, the Company recorded impairments 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.

Acquisition and redevelopment cost include costs that are not related to the day-to-day operations of our hotels (and are not included in calculating hotel net operating income) and are incurred by management at its discretion when pursuing particular strategic transactions. The Company 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. For the three months ended December 31, 2016, this amount consisted primarily of costs associated with the potential redevelopment of the Travelodge Ottawa West site. For the year ended December 31, 2016, the Company incurred costs associated with the acquisition of the Westmark hotel, the potential redevelopment of the Travelodge Ottawa West site, and costs associated with the renovations of the Holiday Inn in Ottawa, ON, the DoubleTree in London, ON and the Travelodge in Sydney, NS that cannot be capitalized. For the year ended December 31, 2015, the Company incurred legal fees, a franchise termination fee related to the acquisition of a Ramada in Whitehorse, YT, which was rebranded as a Days Inn® shortly thereafter, and costs related to the renovation of the Holiday Inn in Ottawa, ON and the DoubleTree in London, ON.

In July 2015, the Company entered into two forward contracts that expired on February 8, 2016 and February 16, 2016 for US $2.0 million each and were settled on their respective expiry dates at a realized foreign exchange loss of $424 thousand, representing the difference between the settlement rates and the spot rates. These contracts were intended to hedge the Company's US dollar exposure on the US dollar loan receivable. On April 4, 2016, the Company settled a foreign exchange contract at a loss of $502 thousand. This contract was entered into to hedge the purchase price for the Westmark hotel which was denominated in US dollars.

During the year ended December 31, 2016, the Company recognized a deferred income tax recovery of $1.2 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 $28.2 million. The deferred tax asset results from the difference between the tax and book basis of the Company's assets and liabilities. The 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 2016	Q4 2015	Q3 2016	Q3 2015	Q2 2016	Q2 2015	Q1 2016	Q1 2015
Total revenue	**$24,820**	$23,493	$32,420	$30,471	$ 27,786	$28,712	$22,138	$28,478
Operating income[(1)]	**5,598**	4,641	12,047	10,788	8,534	8,793	3,156	7,066
Net income (loss) attributable to shareholders	**(2,302)**	(12,083)	4,834	2,354	(139)	(907)	(3,438)	6,825
Funds from operations	**1,374**	(252)	7,584	6,434	3,804	4,254	(2,007)	1,503
Adjusted funds from operations	**1,153**	(474)	7,185	5,615	3,442	3,764	(2,524)	1,338
Dividends declared	**661**	666	661	671	661	679	661	677
Per basic share:								
Net income (loss)	**$ (0.12)**	$ (0.63)	$ 0.26	$ 0.12	$ (0.01)	$ (0.05)	$ (0.18)	$ 0.35
Funds from operations	**0.07**	(0.01)	0.40	0.33	0.20	0.22	(0.11)	0.08
Adjusted funds from operations	**0.06**	(0.02)	0.38	0.29	0.18	0.19	(0.13)	0.07
Dividends declared	**0.035**	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	**48%**	51%	63%	68%	53%	61%	46%	56%
ADR	**$115.64**	$114.60	$120.91	$118.29	$116.98	$114.56	$116.55	$117.53
RevPAR	**$55.16**	$58.10	$75.57	$80.44	$62.35	$69.42	$53.61	$66.17

(1) Before depreciation and amortization.

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

Cash Flow

	Three Months Ended December 31			Years Ended December 31		
	2016	2015	Variance	2016	2015	Variance
Cash flow provided by (used in):						
Operating activities	$ 3,244	$ 1,600	$ 1,644	$ 12,313	$ 12,298	$ 15
Investing activities	(1,093)	(1,251)	158	(10,644)	11,140	(21,784)
Financing activities	(2,168)	325	(2,493)	(2,545)	(24,889)	22,344

Operating Activities

For the three months ended December 31, 2016, operating activities generated $3.2 million compared to $1.6 million for the same period in 2015. This increase is primarily a result of higher operating income from our hotels.

Investing Activities

For the three months ended December 31, 2016, investing activities used $1.1 million compared to using $1.3 million for the same period in 2015. For the three months ended December 31, 2016, the Company spent $1.3 million on capital additions at various properties. For the three months ended December 31, 2015, capital additions to the properties were approximately $8.8 million which was offset by the sale of the Holiday Inn Express in Myrtle Beach, SC for $7.6 million.

For the year ended December 31, 2016, investing activities used $10.6 million compared to providing $11.1 million for the same period of 2015. The use of cash consisted of the purchase of the Westmark Hotel in Whitehorse, YT for $8.8 million and capital additions to various properties of approximately $9.9 million offset by the sale of the Travelodge in Barrie, ON for $8.7 million. For the year ended December 31, 2015, the generation of cash consisted of the sale of the Travelodge franchise business for $16.0 million, the Ramada in Trenton, ON for $4.0 million, the Travelodge in Toronto, ON for $13.0 million, the Holiday Inn Express in Myrtle Beach, SC for $7.6 million and vacant land in Orillia, ON for $1.1 million. These sources of cash were offset by capital additions at its properties of approximately $19.2 million, the acquisition of the Days Inn in Whitehorse, YT for $8.2 million and the purchase of the mortgage secured by the Days Inn in Sydney, NS for $1.9 million (renovated and rebranded as a Travelodge).

Financing Activities

For the three months ended December 31, 2016, financing activities used $2.2 million compared to generating $325 thousand for the same period of 2015. For the three months ended December 31, 2016, the Company made $1.6 million in principal repayments on its mortgages and paid dividends of $661 thousand. For the three months ended December 31, 2015, the Company drew $8.5 million on its secured credit facility, which was offset by mortgage repayments of $6.7 million, the repurchase of common shares totaling $604 thousand, the repurchase of convertible debentures of $198 thousand and the payment of dividends of $666 thousand.

For the year ended December 31, 2016, financing activities used $2.5 million compared to $24.9 million for 2015. In 2016, the Company repaid $1.9 million on its secured credit facility and made $9.1 million in principal payments of which $6.3 million were regular principal payments and $2.8 million were repayments. The payment of dividends to shareholders used $2.6 million and financing fees for the four new mortgages and our secured credit facility increase used $500 thousand. These uses of cash were offset by obtaining new mortgages of $12.4 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 from the sales of two hotels and the franchise business and was offset by $13.5 million drawn on the credit facility. Mortgage principal payments used $12.4 million of which $6.4 million were regular principal repayments, a $5.0 million mortgage was repaid on a sold hotel and $1.0 million were supplemental repayments. The payment of dividends to shareholders used $2.7 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.

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.

		December 31, 2016
Cash on hand	$	1,183
Capital expenditure reserves (1)		3,436
Secured credit facility availability		27,370
Total current liquidity (2)	$	31,989

(1) Contingent on capital expenditures being incurred and/or being released at maturity.
(2) Excludes proceeds from financing unencumbered assets.

The Company currently has four unencumbered properties which can be mortgaged should circumstances warrant.

Secured Credit Facility and Mortgages and Loan Payable

	December 31, 2016		December 31, 2015
Secured Credit Facility			
Principal amount payable	$17,630	$	19,529
Weighted average term to maturity	1.0 years		1.0 years
Weighted average interest rate	4.20%		3.97%
Mortgages and Loan Payable			
Principal amount payable	$127,845	$	124,601
Weighted average term to maturity	1.7 years		2.4 years
Weighted average interest rate	5.85%		5.94%

Chartered Bank Credit Facility

Holloway has a revolving credit facility with a Canadian chartered bank with a maximum borrowing capacity of $45.0 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 nine hotels. The interest rate under the credit facility is based on a spread over banker's acceptance rates or the bank's prime rate plus 1.50%, currently 4.20%.

At December 31, 2016, Holloway had $17.6 million drawn under its credit facility. The facility has no set expiry and is subject to an annual review. Subsequent to December 31, 2016, the Company fully repaid the secured credit facility.

Mortgages Payable

The Company has incurred debt under various mortgages with a weighted average interest rate of 5.85%. These mortgages mature between May 2017 and September 2029 and are secured with individual first charges on twenty-two hotel properties.

During 2016, the Company obtained three new mortgages on previously unencumbered properties, bearing interest at 4.25% with a five-year term. Individual first charges on the 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. The Company repaid the promissory note/loan payable of $425 thousand. In addition, the Company fixed the interest rate on two of its floating rate mortgages at 3.95% with a four-year term. Refinancing is part of the Company's strategy to extend its maturity profile and take advantage of the current low interest rate environment.

During 2016, the Company reclassified $89.8 million to current liabilities, representing the principal amount of mortgages that mature in May and July, 2017. The Company expects to refinance these mortgages on or before their maturity dates.

The Company is subject to financial covenants on certain of its mortgages and its secured credit facility, which include customary terms and conditions for borrowings of this nature. At December 31, 2016, all covenants were in compliance.

Convertible Debentures

At December 31, 2016, the Company had two series of convertible debentures outstanding. The Series B convertible debentures (trading under the symbol "HLC.DB") have an aggregate principal amount outstanding of $52.2 million, bear interest at 6.25%, have interest payment dates of April 30 and October 31 and mature on February 28, 2020. The Series C convertible debentures (trading under the symbol "HLC.DB.A") have an aggregate principal amount outstanding of $40.6 million, bear interest at 7.50%, have interest payment dates of March 31 and September 30 and mature on September 30, 2018.

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

The following table shows the Company's convertible debentures at December 31, 2016:

	Maturity	Interest Rate	December 31, 2016	December 31, 2015
Series B (HLC.DB)	2020	6.25%	$ 52,187	$ 52,294
Series C (HLC.DB.A)	2018	7.50%	40,572	40,583
			$ 92,759	$ 92,877
Weighted average term to maturity			2.5 years	3.5 years
Weighted average interest rate			6.80%	6.80%

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

On January 13, 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 amount of its Series C convertible debentures. These NCIBs were in effect until January 12, 2017. During the year ended December 31, 2016, under this NCIB and the previous one, Holloway repurchased $107 thousand face value of its Series B debentures at a cost of $95 thousand (average cost of $89.11 per $100 face value) and $11 thousand of its Series C debentures at a cost of $10 thousand (average cost of $94.04 per $100 face value).

On January 13, 2017, the Company initiated NCIBs to repurchase a maximum of $4.5 million principal amount of its Series B convertible debentures and $3.4 million principal amount of its Series C convertible debentures. These NCIBs are in effect until January 12, 2018 unless the bid is completed or terminated earlier by the Company. No purchases under this NCIB have been made to date.

Contractual Obligations

The following table shows the Company's contractual obligations as at December 31, 2016:

	2017	2018	2019	2020	2021	Thereafter
Mortgages payable						
Interest[1]	$ 4,701	$ 1,286	$ 993	$ 656	$ 268	$ 566
Principal[2]	94,307	9,130	5,894	3,619	10,878	4,020
Secured credit facility						
Interest[1]	244	-	-	-	-	-
Principal	17,630	-	-	-	-	-
Convertible debentures						
Interest	6,305	5,544	3,262	544	-	-
Principal[3]	-	40,572	-	52,187	-	-
Operating leases	312	169	39	15	9	106
Total	$ 123,499	$ 56,701	$ 10,188	$ 57,021	$ 11,155	$ 4,692

(1) Interest on floating rate debt is based on interest rates prevailing at December 31, 2016.
(2) Principal includes regular amortization and repayments at maturity.
(3) Principal represents face value of debentures at maturity.

Commitments to Capital Spending

Holloway completes capital improvements and upgrades to its properties on an ongoing basis. Recurring capital expenditures reflect the regular cost of replacing furniture, fixtures and equipment, as well as other capital expenditures that are required in order to maintain the existing productive capacity of the properties. Holloway continually assesses the highest and best use of each of its properties and, subject to certain financial and other conditions being satisfied, pursuing the development or redevelopment of such properties. Development activities will generally occur over long periods of time.

Common Shares

At December 31, 2016, the Company had 18,889,066 shares outstanding.

On August 17, 2016, the Company initiated an NCIB to repurchase up to 944,453 of its outstanding common shares. For the year ended December 31, 2016, the Company repurchased and cancelled a total of 142,000 shares at a cost of $651 thousand (average price of $4.58 per share) under this NCIB and the previous one that expired on August 16, 2016.

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 believe in paying a modest dividend to shareholders while allocating the majority of the Company's free cash flow to other uses that offer higher returns to shareholders and result in the compounding of shareholder capital over time. These alternative uses include acquisitions, upgrades and/or expansions of existing hotels, share repurchases and discounted convertible debenture repurchases and/or regular or supplemental debt repayments.

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

	Years Ended December 31	
	2016	2015
Dividends declared	$ 2,644	$ 2,693
Net income attributable to shareholders	(1,045)	(3,811)
Payout ratio	(253.0%)	(70.7%)
Funds from operations	10,726	11,968
Payout ratio	24.7%	22.5%
Adjusted funds from operations	9,256	10,244
Payout ratio	28.6%	26.3%

Other Information

Selected Financial Information

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

	2016	2015	2014
Total revenues	$ 107,164	$ 111,154	$ 97,845
Net income (loss) attributable to shareholders	(1,045)	(3,811)	27,256
Per basic and diluted share	(0.06)	(0.20)	1.46
Dividends paid per share	0.14	0.14	0.14
Total assets	351,399	356,363	382,456
Total long-term financial liabilities	122,945	213,214	241,986

Balance Sheet

The following table outlines significant balances or changes in the consolidated balance sheet from December 31, 2015 to December 31, 2016:

	December 31, 2016	December 31, 2015	Increase (Decrease)	Explanation
Assets				
Trade and other receivables	3,580	3,244	336	Trade and credit card receivables have increased primarily due to the Holiday Inn in Ottawa which was closed for renovations and the DoubleTree in London which was open but undergoing renovations at the end of 2015. At the end of 2016, these hotels were fully operational.
Prepaid expenses and deposits	2,819	2,207	612	Increase in prepaids is a result of an increase in property tax reserves as well as deposits to lenders related to refinancing the maturing mortgages.
Property and equipment	305,624	312,471	(6,847)	Change is due to the following: - purchase of Westmark Whitehorse Hotel and Conference Center in Whitehorse, YT ($8.4m); - sale of Travelodge hotel in Barrie, ON ($5.8m); - renovations and other capital additions ($6.6m); - net impairment of properties ($0.3m); and - depreciation for the year ($15.4m)
Loan receivable	5,371	5,536	(165)	Loan receivable has decreased due to the change in foreign exchange, as the loan is demoninated in USD.
Deferred income tax assets	28,172	26,929	1,243	Deferred tax assets increased primarily as the result of not claiming CCA.
Liabilities				
Secured credit facility	17,630	19,529	(1,899)	Secured credit facility was used to fund major renovations on three properties and purchase the Westmark hotel, which was offset by the cash generated from our operations, funds received from three new mortgages and the sale of the Travelodge hotel in Barrie, ON.
Trade payables and accrued liabilities	9,640	12,250	(2,610)	Trade payables and accrued liabilities have decreased primarily due to the holdbacks and other invoices related to the hotel renovations which were in accounts payable at the end of 2015 and paid in 2016.
Current portion of mortgages and loan payable	94,166	6,375	87,791	The principal balance at maturity of $89.8m has been reclassified to current liabilities as the mortgages mature in the next 12 months.
Mortgages and loan payable	33,130	117,871	(84,741)	See line above.
Equity				
Equity attributable to shareholders of the Company	103,118	107,437	(4,319)	Decrease primarily represents comprehensive loss for the year along with dividends declared.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at December 31, 2016. The Company owns 34 hotels and held a 62% interest in another hotel in Canada, with a total of 4,025 guest rooms.

Property	Location	No. of Rooms
Alberta		
Best Western®	Grande Prairie	100
Days Inn®	Whitecourt	79
Holiday Inn®	Grande Prairie	145
Quality Inn® and Suites (1)	Grande Prairie	152
Super 8®	Drayton Valley	60
Super 8®	Grande Prairie	148
Super 8®	High Level	81
Super 8®	Slave Lake	58
Super 8®	Whitecourt	59
Travelodge®	Slave Lake	99
		981
British Columbia		
Super 8®	Fort Nelson	142
Super 8®	Fort St. John	101
		243
New Brunswick		
Days Inn® (1)	Moncton	151
Travelodge®	Moncton	75
Travelodge®	Saint John	58
		284
Newfoundland and Labrador		
Super 8® (2)	St. John's	**81**
Northwest Territories		
Quality Inn® and Suites (1)	Yellowknife	129
Super 8®	Yellowknife	66
		195
Nova Scotia		
Holiday Inn Express®	Stellarton	125
Super 8®	Truro	50
Super 8®	Windsor	66
Travelodge®	Dartmouth	75
Travelodge®	New Glasgow	63
Travelodge®	Sydney	117
		496
Ontario		
Airlane	Thunder Bay	155
DoubleTree by Hilton®	London	323
Holiday Inn®	Oakville	147
Holiday Inn®	Ottawa	261
Super 8®	Timmins	74
Travelodge®	Belleville	124
Travelodge®	Ottawa	196
Travelodge®	Thunder Bay	93
Travelodge®	Timmins	92
		1,465
Yukon		
Days Inn®	Whitehorse	99
Westmark® Hotel and Conference Center	Whitehorse	181
		280
Total Rooms		**4,025**

(1) Properties were rebranded during the first quarter of 2016.

(2) Holloway holds a 62% ownership interest in this property.

Related Party Transactions

At December 31, 2016, Clarke owned 7,952,715 common shares of Holloway, representing approximately 42% 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, 2016, the Company incurred IT fees of $35 thousand and $122 thousand, respectively and tax fees of $3 thousand and $12 thousand, for services provided by Clarke. As of December 31, 2016, there was $22 thousand payable related to these fees.

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 of $2.4 million which was repaid in full during the first quarter of 2016. In 2016, the Company incurred interest expense related to this mortgage of $30 thousand.

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	
	2016	2015	**2016**	2015
Net income attributable to shareholders	**$ (2,302)**	$ (12,083)	**$ (1,045)**	$ (3,811)
Add / (deduct):				
Depreciation and amortization of real estate assets	**3,890**	3,264	**15,379**	13,552
Impairment of hotel properties	**1,400**	12,880	**300**	15,580
(Gain) loss on disposals of property and equipment, franchise business, minority interest investment in hotel properties and repurchase of convertible debentures	**20**	(249)	**(2,665)**	(8,365)
Amounts reclassified to profit and loss on minority interest investments in hotel properties	**-**	141	**-**	141
Recovery of deferred income taxes	**(1,634)**	(4,205)	**(1,243)**	(5,129)
FFO	**$ 1,374**	$ (252)	**$ 10,726**	$ 11,968
per basic share	**0.07**	(0.01)	**0.57**	0.62

Adjusted Funds from Operations ("AFFO")

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

	Three Months Ended December 31		Years Ended December 31	
	2016	2015	**2016**	2015
FFO	**$ 1,374**	$ (252)	**$ 10,726**	$ 11,968
Add / (deduct):				
Share-based expense (recovery)	**52**	22	**233**	(64)
Depreciation and amortization of corporate assets	**22**	19	**109**	268
Change in fair value of embedded derivative	**-**	175	**-**	330
Accretion on debt	**455**	274	**1,429**	1,099
FF&E reserve	**(750)**	(712)	**(3,241)**	(3,357)
AFFO	**$ 1,153**	$ (474)	**$ 9,256**	$ 10,244
per basic share	**0.06**	(0.02)	**0.49**	0.53

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

Changes in Accounting Policies

New Standards and Interpretations Not Yet Adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2017, and have not been applied in preparing the December 31, 2016 consolidated financial statements. None of the new standards are expected to have a significant effect on the consolidated financial statements of the Company, except for the following:

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 ("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 OCI; (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

IFRS 15, *"Revenue from Contacts and Customers"* ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. 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 new standard and does not expect there to be a material impact on its consolidated financial statements.

IFRS 16, Leases

IFRS 16, *"Leases"* ("IFRS 16") was issued on January 13, 2016 and replaces the current guidance in IAS 17, *"Leases"*. 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.

IAS 7, Statements of Cash Flows

Amendments to IAS 7, "*Statements of Cash Flows"* ("IAS 7") require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect that the amendments will have a material impact on its consolidated financial statements.

IAS 12, Income Taxes

Amendments to IAS 12, *"Income Taxes"* ("IAS 12") apply for annual periods beginning on or after January 1, 2017 with retrospective application. Early adoption is permitted. The amendments clarify that the existence of a deductible temporary difference is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset and also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The Company is currently evaluating the impact the amendment is expected to have 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. Actual results may differ from management's estimates and expectations.

The following discusses the most significant accounting estimates and judgments that the Company has made in the preparation of its consolidated financial statements.

Valuation of Property and Equipment

The Company has established a methodology for identifying indicators of impairment which includes looking at changes in operating performance, occupancy levels and other factors for each CGU. Additional factors including oil and gas or other business and economic market activity, regional development opportunities and new competition in the markets in which each CGU operates are also considered. These indicators determine whether the Company tests for impairment or reversal of previously recorded impairments at each balance sheet date.

For the year ended December 31, 2016, the Company assessed 26 of its hotels or cash generating units ("CGUs"). The Company obtained 21 independent third party appraisals and prepared internal models for 5 hotels to determine the recoverable amount of these 26 hotels.

(in millions)	Number of Hotels	Recoverable Amount or Range			Carrying Value	Provision for (Reversal of) Impairment
			$		$	$
External Third Party Appraisals:						
Hotels with values higher than carrying value	12		164.4		108.0	-
Hotels with values higher than carrying value with previously recorded impairments	5		57.6		47.4	(6.3)
Hotels with values lower than carrying value	4		63.2		69.8	6.6
Internal Valuation Model	5	25.3	-	27.3	25.9	-

For the hotels where the Company obtained appraisals:

- 12 CGUs - the appraised value was higher than the carrying value and there were no previously recorded impairments to reverse so the carrying value was unchanged;
- 5 CGUs – the appraised value was higher than the carrying value and there were previously recorded impairments; a reversal of $6.3m was recorded; and
- 4 CGUs – the appraised value was lower than the carrying value; a provision for impairment of $6.6m was recorded.

On a net basis, the Company recorded a provision for impairment of $0.3 million.

Where independent third party appraisals were completed, the valuation techniques included both the income capitalization and sales comparison approaches. For internal models, the recoverable amount is defined as the higher of the value in use and fair value less costs to sell.

The Company used internal models to value 5 CGUs. In our internal models, the recoverable amount is determined based on the fair value less costs to sell which uses stabilized cash flow projections and a terminal value 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 it operates. The information and assumptions from the appraisals of comparable properties were used in the internal models (e.g., growth rates, cap and discount rates, etc.).

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.

Based on this information, management estimated that the range of reasonably possible values for the CGUs valued using internal models would be between $25.3 million and $27.3 million. The carrying value of these CGUs was $25.9 million and no provision for impairment was recorded.

Under the fair value hierarchy, the values determined using internal models are level 3 fair value measurements. Key factors of estimation uncertainty included in the internal models for the CGUs tested for impairment or reversal of impairment were:

Pre-tax discount rates	11.8% to 12.0%
Capitalization rate	10.0% to 11.0%
Growth rates	Consistent with industry and market/hotel outlook

For both the appraised values and those determined using internal models, 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

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

Income Taxes

Deferred income tax assets and liabilities require management's judgement 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 loss could be material.

Financial Instruments and Risk Management

Financial Instruments

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

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

	December 31, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages and loan payable	$127,848	$126,725	$124,246	$117,584
Convertible debentures	89,815	88,207	88,968	82,906

Mortgages and loan payable: The fair values are determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions.

Convertible debentures: The convertible debentures have two components of value: the conventional debentures and the redemption option. The fair value of the convertible debentures is based on the quoted market price for the debentures.

The redemption option has been accounted for as an embedded derivative that is required to be bifurcated from the underlying debentures, valued using the option pricing model and accounted for as a financial asset with the amount of any redemption option being added to the carrying value of the debentures. Any change in the fair value of the redemption option is recorded in interest and accretion on debt in the consolidated statement of loss.

Risk Management

The Company's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

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 5.85% with a weighted average maturity of 1.7 years.

During 2016, the Company obtained three new fixed rate mortgages on previously unencumbered properties, bearing interest at 4.25% with a five-year term. 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. In addition, the Company fixed the interest rate on two of its floating rate mortgages at 3.95% with a four-year term.

At December 31, 2016, the Company has one mortgage and its secured credit facility at floating rates. For the year ended December 31, 2016, if interest rates on the Company's floating rate debt had been 1% higher/lower, net income would change by $363 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 $3.6 million is net of an allowance for doubtful accounts, estimated by management based on past 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 are 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 managed 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 matched the revenue and expenses, the Company's management considered there to be little currency risk.

The Company is exposed to some currency risk as it pays certain franchise and royalty payments and receives interest income on its loan receivable in US dollars. For the year ended December 31, 2016, a $0.01 change in the US dollar exchange rate will change the foreign exchange gain or loss recognized in the statement of 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 has a secured credit facility with a maximum availability of $45.0 million of which $17.6 million was drawn at December 31, 2016. Subsequent to the year-end, the proceeds from the sale the Holiday Inn in Oakville (which was one of the hotels securing the credit facility) fully repaid the amount drawn. The maximum availability is now $37.7 million. The facility has no set expiry and is subject to an annual review.

The Company has eleven mortgages that mature in May and July, 2017. The principal amount at maturity is $89.8 million. The Company expects to fully refinance these mortgages on or before their maturity.

The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. 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 2016, 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, 2016, 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 2016, 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 Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations for the Treadway Commission (COSO 2013), under the supervision of, and with the participation of the those acting as CEO and CFO. As at December 31, 2016, 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 has transitioned to the Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations for the Treadway Commission (COSO 2013).

Risks

There are a number of risk factors associated with the Company. These include risks related to real property ownership, risks related to the business of the Company, including the hotel industry, competition, customer concentration, franchised hotels, potential labour disruptions, potential conflict of interest, availability of additional capital, debt financing, acquisitions and risks relating to the structure of the Company. Information on these risks and uncertainties are described under "Risk Factors" in the Company's Annual Information Form dated March 9, 2017 which is available on Holloway's profile on the SEDAR website at www.sedar.com.