Holloway LODGING

Real Estate Investment Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2011

As at March 14, 2012

Introduction

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Real Estate Investment Trust ("Holloway" or the "REIT") for the three months and year ended December 31, 2011 and should be read in conjunction with the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2011.

The financial statements of the REIT are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars and are the first annual consolidated financial statements prepared on this basis. On January 1, 2011, all public reporting entities in Canada were required to adopt IFRS with comparative periods restated.

This MD&A includes forward-looking information. Forward-looking information is subject to certain risks and uncertainties, which could result in actual results differing materially from the forward-looking information. See "FORWARD-LOOKING INFORMATION".

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

Key Events – Q4, 2011

- Results improved for the fourth quarter of 2011 compared to the fourth quarter of 2010 as follows (in millions where indicated except percentages):

	2011	2010	$ Increase (Decrease)	% Change
Hotel revenues – same store	$18.7 M	$16.8 M	$1.9 M	11.3%
Revenue per available room – same store	$78.88	$70.24	$8.64	12.3%
Hotel operating income before depreciation	$5.8 M	$4.4 M	$1.4 M	31.8%
Hotel operating income margin	30.7%	23.7%	-	7.0 pts
Funds from operations	$3.2 M	($0.8 M)	$4.0 M	500.0%
Distributable income	$1.2 M	($0.5 M)	$1.7 M	340.0%

- The REIT repurchased $3.2 million face value of the 2012 Debentures for $2.2 million resulting in a gain on repurchase of $1.0 million;
- The REIT settled $3.3 million face value of its promissory notes for $1.9 million resulting in a gain on repurchase of $1.4 million; and
- On December 22, 2011, the REIT announced that it would convert all outstanding 2012 Debentures into trust units on January 23, 2012.

Debt Reduction Actions

Beginning in the third quarter of 2011, the REIT focused on reducing its indebtedness and improving its balance sheet. The REIT made significant progress in this endeavor by taking the following actions:

- Sold the Radisson® Suite hotel and Holiday Inn Express® hotel, both in Halifax, Nova Scotia and used the net proceeds from such sales to partially repay its 8.0% convertible debentures maturing on August 1, 2011 (the "2011 Debentures"), to repay amounts outstanding under its secured credit facility maturing March 31, 2013 (the "Bridge Loan") and to repurchase at a discount to their face value its 6.5% convertible debentures maturing on June 30, 2012 (the "2012 Debentures").
- Repurchased additional 2012 Debentures at a discount to their face value. During the third and fourth quarters, the REIT repurchased $5.2 million of 2012 Debentures for a purchase price of $3.6 million.
- Settled all of its outstanding promissory notes at a discount to their face value. The REIT repurchased $2.8 million of interest-bearing promissory notes for $1.8 million and added that balance to the amount outstanding under the Bridge Loan rather than paying cash. The REIT also repurchased $0.5 million of non-interest-bearing promissory notes for $0.1 million in cash.
- Announced the conversion into trust units of $46.7 million of 2012 Debentures. This occurred on January 23, 2012 resulting in 714,224,023 trust units being issued to holders of the 2012 Debentures.

As a result of these actions along with the sale of the 5 Calgary Downtown Suites hotel in Calgary, Alberta and the Radisson® Hotel and Suites in Fort McMurray, Alberta which were sold in January and February 2012, respectively, the REIT reduced its indebtedness by $109 million between June 30, 2011 and February 29, 2012. This also resulted in the REIT achieving an improved debt service coverage ratio.

From an operational perspective, the fourth quarter was also positive for the REIT as hotel demand from oil and gas related crews was strong. While the first half of 2011 saw occupancy increase at many of our hotels, the second half of 2011 achieved both occupancy and rate increases. This created improved hotel operating margins as reflected in the REIT's financial results.

Summary of Selected Financial Information

The following table provides key financial information for the past three years with 2011 and 2010 reported under IFRS and 2009 reported under the previous Canadian GAAP.

(in $000's except per unit results, number of rooms, ADR and RevPAR)	2011 IFRS	2010 IFRS	2009 GAAP
Hotel revenues	78,398	73,448	74,427
Total revenues (hotel and REIT investment income)	78,556	73,664	75,166
Net loss	(8,403)	(10,539)	(20,337)
Basic and diluted income (loss) per unit	(0.21)	(0.27)	(0.52)
Basic and diluted FFO per unit	0.13	(0.06)	0.01
Basic and diluted distributable income (loss) per unit	0.08	(0.04)	0.01
Distributions declared per unit	-	-	0.105
Total assets	235,229	264,757	358,211
Total indebtedness (line of credit, mortgages and loans payable, obligations under finance leases, convertible debentures, Bridge Loan, promissory notes, Class B LP units and derivative liabilities)	204,886	227,340	223,582
Equity	20,282	28,147	38,197
Occupancy	67.81%	60.39%	55.45%
ADR	$119.51	$121.51	$131.69
RevPAR	$81.04	$73.38	$ 73.02

Overview of Holloway Lodging REIT

Holloway is an open-ended real estate investment trust formed under the laws of the Province of Ontario pursuant to its Declaration of Trust dated March 28, 2006. The REIT's principal business is to own and operate hotels. As at December 31, 2011, the REIT owned 20 hotel properties with 2,183 guest rooms and suites and equity ownership interests, ranging from 6.0% to 19.1% in five other hotels. The hotels in which the REIT has an equity ownership interest represent an additional 390 rooms.

Hotel Portfolio

The REIT's portfolio consists primarily of limited service hotels with a small number of full service hotels. The table below provides details on the twenty hotels wholly-owned by the REIT on December 31, 2011.

PROPERTY	LOCATION	NO. OF ROOMS
Alberta		
5 Calgary Downtown Suites & Spa Hotel	Calgary	302
Best Western®	Grande Prairie	100
Holiday Inn®	Grande Prairie	145
Northwest Inn	Slave Lake	99
Pomeroy Inn and Suites®	Grande Prairie	152
Radisson® Hotel and Suites	Fort McMurray	134
Super 8®	Drayton Valley	60
Super 8®	Grande Prairie	149
Super 8®	High Level	81
Super 8®	Slave Lake	58
Super 8®	Three Hills	82
Super 8®	Whitecourt	59
		1,421
British Columbia		
Holiday Inn Express®	Kamloops	80
Super 8®	Fort Nelson	142
Super 8®	Fort St. John	93
		315
New Brunswick		
Holiday Inn Express® and Suites	Moncton	**151**
Northwest Territories		
Super 8®	Yellowknife	**66**
Nova Scotia		
Super 8®	Truro	50
Super 8®	Windsor	66
		116
South Carolina - USA		
Holiday Inn Express®	Myrtle Beach	**114**
	Total Rooms	**2,183**

Subsequent to the year ended December 31, 2011 the REIT sold the Radisson® Hotel and Suites in Fort McMurray, AB and the 5 Calgary Downtown Suites and Spa Hotel in Calgary, AB.

The table below details the five hotels in which the REIT has minority equity ownership interests.

PROPERTY	LOCATION	PERCENT OWNERSHIP	NO. OF ROOMS
British Columbia			
Super 8®	Langley	8.41%	**81**
New Brunswick			
Super 8®	Dieppe	6.00%	**85**
Newfoundland and Labrador			
Super 8®	St. John's	17.63%	**82**
Nova Scotia			
Super 8®	Amherst	15.72%	**50**
Ontario			
Super 8®*	Toronto	19.06%	**92**
		Total Rooms	**390**

*Investment in this hotel has diluted to a nominal interest due to non-participation in capital calls.

Operating Results

The following table provides a summary of the operating results for the three months and years ended December 31, 2011 and 2010.

(in $000's except number of units and per unit results)	Three months ended December 31, 2011	Three months ended December 31, 2010	Years ended December 31, 2011	Years ended December 31, 2010
Hotel revenues	18,765	18,406	78,398	73,448
Hotel expenses	13,007	14,048	55,219	54,171
Hotel depreciation and amortization	2,420	2,575	9,903	10,188
Hotel operating income	3,338	1,783	13,276	9,089
Other expenses	4,190	5,210	21,679	22,144
(Recovery of) deferred income taxes	-	-	-	(2,516)
Net loss for the periods	(852)	(3,427)	(8,403)	(10,539)
Weighted average basic and diluted units outstanding	39,380,422	39,135,216	39,166,443	39,135,216
Basic and diluted loss per unit	(0.02)	(0.09)	(0.21)	(0.27)
Reconciliation to funds from operations (FFO)				
Add/(deduct):				
Depreciation and amortization on real property	2,376	2,529	9,725	10,007
(Recovery of) deferred income taxes	-	-	-	(2,516)
Provision for impairment of loan receivable	1,235	-	1,235	-
Provision for impairment of minority interest investments in hotel properties	-	-	-	423
Loss on disposal of minority interest investments in hotel properties	187	-	187	49
Provision for impairment of hotel properties	3,265	-	3,265	-
Reversal of impairment of assets held-for-sale	(2,567)	-	(2,567)	-
(Gain) or loss on acquisition or disposal of hotel properties	(421)	84	1,528	144
Funds from operations	**3,223**	**(814)**	**4,970**	**(2,432)**
Basic and diluted FFO per unit	0.08	(0.02)	0.13	(0.06)
Reconciliation to distributable income				
Add/(deduct):				
Depreciation and amortization – trust and other assets	45	49	182	190
Accretion of mortgages, Bridge Loan, convertible debentures and deferred financing fees	672	800	3,274	3,093
Fair value adjustment on Class B LP units and derivative liabilities	(148)	3	(252)	(53)
Gain on repurchase of convertible debentures and settlement of promissory notes	(2,192)	-	(2,698)	-
Unit-based compensation	126	-	188	15
FF&E reserve	(563)	(552)	(2,352)	(2,204)
Distributable income	**1,163**	**(514)**	**3,312**	**(1,391)**
Basic and diluted distributable income per unit	0.03	(0.01)	0.08	(0.04)
Reconciliation of cash generated from operating activities to distributable income				
Net cash generated from operating activities	3,877	510	6,261	2,850
Changes in items of working capital	(1,730)	(472)	(597)	(2,037)
FF&E reserve	(563)	(552)	(2,352)	(2,204)
Mortgage penalty refund	(421)	-	-	-
Distributable income	**1,163**	**(514)**	**3,312**	**(1,391)**

Q4 Operating Results

The results of operations for the three months ended December 31, 2011 and 2010 represent the operations of twenty hotels for the full quarter of 2011. For the fourth quarter of the 2010, the REIT owned twenty-two hotels. The Holiday Inn Express® hotel in Halifax, NS was sold on August 15, 2011 and the Radisson® Suite hotel in Halifax, NS was sold on June 30, 2011.

Revenue

	Three months ended			
(in $000's)	December 31, 2011	December 31, 2010	Variance	% Variance
Rooms	15,835	15,515	320	2.1 %
Food and beverage	2,088	2,095	(7)	(0.3%)
Parking	353	356	(3)	(0.8%)
Other	489	440	49	11.1%
Total	**18,765**	**18,406**	**359**	**2.0%**

Revenue - Same Store

This table provides the revenue on a same store basis for the twenty hotels owned for the full quarter in 2011 and 2010.

	Three months ended			
(in $000's)	December 31, 2011	December 31, 2010	Variance	% Variance
Rooms	15,835	14,114	1,721	12.2%
Food and beverage	2,088	2,013	75	3.7%
Parking	353	305	48	15.7%
Other	460	404	56	13.9%
Total	**18,736**	**16,836**	**1,900**	**11.3%**

Room Revenue - Key Performance Measures

	Three months ended						
	December 31, 2011			December 31, 2010			RevPAR
Region	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	Change
Atlantic Canada ($Cdn)	42.64%	$106.42	$45.38	59.32%	$109.46	$64.93	(30.1%)
Western Canada ($Cdn)	69.35%	$125.26	$86.87	62.54%	$119.84	$74.95	15.9%
United States ($US)	46.13%	$66.13	$30.51	38.77%	$68.22	$26.45	15.3%
Weighted Average Total ($Cdn)	**64.87%**	**$121.60**	**$78.88**	**60.77%**	**$116.31**	**$70.68**	**11.6%**

Room Revenue - Key Performance Measures - Same Store

This table includes the operations of the twenty hotels for the full quarter and the prior year.

	Three months ended						
	December 31, 2011			December 31, 2010			RevPAR
Region	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	Change
Atlantic Canada ($Cdn)	42.64%	$106.42	$45.38	53.66%	$106.21	$56.99	(20.4%)
Western Canada ($Cdn)	69.35%	$125.26	$86.87	62.54%	$119.84	$74.95	15.9%
United States ($US)	46.13%	$66.13	$30.50	38.77%	$68.22	$26.45	15.3%
Weighted Average Total ($Cdn)	**64.87%**	**$121.60**	**$78.88**	**60.21%**	**$116.66**	**$70.24**	**12.3%**

Atlantic Canada same store RevPAR decreased 20.4% for the three months ended December 31, 2011, compared to the three months ended December 31, 2010. The decrease is attributed to lower occupancy in all three locations combined with a rate decline at the Super 8® in Truro, Nova Scotia.

Western Canada RevPAR increased 15.9% compared to the fourth quarter of 2010. There was strong occupancy growth in most markets with especially robust growth in Drayton Valley, Grande Prairie, Slave Lake and Whitecourt, all of which are located in Alberta. Significant rate growth occurred in Slave Lake and Drayton Valley as a result of this higher demand.

In Drayton Valley, there was increased activity related to oil exploration and servicing as well as construction projects and higher weekend demand from sports and community groups. The Grande Prairie market experienced higher demand across many sectors including corporate, group and weekend travellers. In Slave Lake, there was significant demand from reconstruction personnel following a major fire in the town in May. The Whitecourt market benefitted from oil crews working in the area.

RevPAR for the Holiday Inn Express® in Myrtle Beach, South Carolina increased 15.3% compared to the prior year due to higher occupancy. The average rate declined as the higher demand was from discounted leisure segments.

Food and Beverage, Parking and Other Revenue

The increase in food and beverage revenue on a same store basis was due to higher revenues at the Radisson® Hotel and Suites in Fort McMurray, Alberta and the Northwest Inn in Slave Lake, Alberta. There was an increase in parking revenue at the 5 Calgary Downtown Suites in Calgary, Alberta. Other income increased due to higher ancillary revenues arising from higher occupancy across much of the portfolio.

Expenses

(in $000's)	Three months ended December 31, 2011	December 31, 2010	Variance	% Variance
Operating expenses	11,692	12,420	(728)	(5.9%)
Property taxes and insurance	878	1,179	(301)	(25.5%)
Management fees	437	449	(12)	(2.7%)
Depreciation and amortization	2,420	2,575	(155)	(6.0%)
Total	**15,427**	**16,623**	**(1,196)**	**(7.2%)**

Expenses - Same Store

This table includes the operations of twenty hotels for the full quarter and the prior year.

(in $000's)	Three months ended December 31, 2011	December 31, 2010	Variance	% Variance
Operating expenses	11,683	11,244	439	3.9%
Property taxes and insurance	878	1,010	(132)	(13.1%)
Management fees	437	401	36	9.0%
Depreciation and amortization	2,420	2,339	81	3.5%
Total	**15,418**	**14,994**	**424**	**2.8%**

Operating Expenses

Operating expenses include wages, supplies and overhead expenses such as repairs and maintenance, sales and marketing, administrative expenses related to the operations of the hotels and costs related to the hotel brand. These expenses on a same store basis have increased $0.4 million or 3.9% when comparing the three months ended December 31, 2011 to the same period in 2010. Much of the increase is due to variable expenses that increase as revenues increase. There was an 11.3% increase in hotel revenues on a same store basis and the associated increase in brand fees which are tied to revenue, a 7.7% increase in rooms sold compared to the prior year, increases in maintenance expenses and utility costs, as well as an increase in the land lease expense due the higher revenues at the 5 Calgary Downtown Suites hotel.

HOTEL OPERATING INCOME BEFORE DEPRECIATION

The following table provides the REIT's hotel operating margins for its portfolio for the three months ended December 31, 2011 and 2010.

(in $000's except percentages, # of rooms available and HOI per available room)	Three months ended December 31, 2011	December 31, 2010	Variance
Hotel revenues	18,765	18,406	359
Hotel operating expenses excluding depreciation	11,692	12,420	(728)
Hotel gross margin	7,073	5,986	1,087
Percentage	37.7%	32.5%	5.2 pts
Hotel overhead expenses [(1)]	1,315	1,628	(313)
Hotel operating income before depreciation (HOI)	5,758	4,358	1,400
Hotel operating income margin	30.7%	23.7%	7.0 pts
Number of rooms available	200,744	219,512	18,768
HOI per available room	**$28.68**	**$19.85**	$8.83

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

Hotel operating income per available room increased by $8.83 to $28.68 from $19.85 for the three months ended December 31, 2011 and 2010, respectively. The hotel operating income margin increased to 30.7% from 23.7%. The increase is attributed to the revenue increase as a consequence of increased occupancy and the resultant economies of scale along with growth in room rates.

Other Income and Expenses

(in $000's)	Three months ended December 31, 2011	December 31, 2010	Variance
Interest on line of credit, Bridge Loan, mortgages and loans payable	2,858	2,729	129
Interest on convertible debentures	769	1,248	(479)
Accretion on convertible debentures, Bridge Loan, mortgages and deferred financing fees	672	800	(128)
Corporate and administrative	602	455	147
Investment income	(71)	(110)	39
Provision for impairment of loan receivable	1,235	-	1,235
Loss on sale of minority investments in hotel properties	187	-	187
(Gain) loss on acquisition or disposal of hotel properties	(421)	84	(505)
Provision for impairment of hotel properties	3,265	-	3,265
Reversal of impairment of assets held-for-sale	(2,567)	-	(2,567)
Gain on repurchase of convertible debentures and settlement of promissory notes	(2,192)	-	(2,192)
Fair value adjustment on Class B LP units and derivative liabilities	(148)	3	(151)
Depreciation and amortization - trust assets	1	1	-
Total	**4,190**	**5,210**	**(1,020)**

Interest on Line of Credit, Bridge Loan, Mortgages and Loans Payable

Interest on the line of credit, Bridge Loan, mortgages and loans payable has increased $0.1 million for the three months ended December 31, 2011 compared to the three months ended December 31, 2010. This is due primarily to increased balances on the REIT's line of credit and the interest expense associated with the Bridge Loan. These increases are offset by decreased interest expense on the outstanding mortgage principal balances and the repayment of the mortgages on the Holiday Inn Express® and Radisson® Suite hotels in Halifax, NS during the third quarter of 2011.

Interest on Convertible Debentures

Interest on the REIT's convertible debentures was $0.8 million for the fourth quarter of 2011 and $1.2 million for the same period in 2010 as the REIT repaid all of the 2011 Debentures on July 29, 2011. In addition, the REIT repurchased $5.2 million of the 2012 Debentures during 2011 at a discount to their face value, thereby reducing the interest expense associated with the 2012 Debentures.

Corporate and Administrative

Corporate and administrative expenses increased marginally by $0.1 million for the three months ended December 31, 2011 compared to the three months ended December 31, 2010.

Provision for Impairment of Loan Receivable

During and subsequent to the year-end, the REIT sold properties that were previously managed by PHSI. This has and will reduce the revenue stream PHSI receives from the REIT resulting in, management believes, an increased risk associated with the full repayment of the loan receivable from PHSI on February 1, 2018. The terms of the loan do not provide the REIT with access to PHSI's financial information and therefore the above is the only objective factor the REIT had to consider in evaluating the collectability of the loan. Because of this increased credit risk the REIT has provided an allowance of $1.2 million against the loan. There is significant uncertainty associated both with the amount of the allowance recorded and the remaining carrying value of the loan.

Loss on Disposal of Minority Interest Investments in Hotel Properties

During the fourth quarter of 2011, the REIT sold its minority interest in the Super 8® in Barrie, ON and incurred a loss on disposal of $0.2 million.

Gain/Loss on Acquisition or Disposal of Hotel Properties

For the three months ended December 31, 2011, the gain on disposal of hotel properties represents the refund of a significant portion of the mortgage penalties previously paid to the mortgage lender related to the sale of the Holiday Inn Express® and Radisson® Suite hotels in Halifax, NS which were sold during the third quarter. For the three months ended December 31, 2011, the gain is $0.4 million.

Provision for Impairment of Hotel Properties

During the fourth quarter of 2011, the REIT recorded a net provision for impairment of hotel properties of $3.3 million. The REIT decreased the carrying value of three hotel properties by $8.3 million and reversed the previously recorded impairment of four hotel properties by $5.0 million. No adjustments to the carrying value of the hotel properties were recorded during the fourth quarter of 2010.

Reversal of Impairment of Assets Held-for-Sale

During the fourth quarter of 2011, the REIT reversed $2.6 million of the previously recorded impairment on the 5 Calgary Downtown Suites hotel in Calgary, AB. This hotel and the Radisson® Hotel and Suites in Fort McMurray, AB were reclassified to assets held-for-sale in November, 2011 and were sold in January and February 2012, respectively.

Gain on Repurchase of Convertible Debentures and Settlement of Promissory Notes

During the fourth quarter of 2011, the REIT repurchased $3.2 million of its 2012 Debentures for $2.2 million. Also during the quarter, the REIT settled its interest-bearing promissory notes with a face value of $2.8 million for $1.8 million which amount was added to the Bridge Loan. The REIT recorded a gain of $1.0 million on this transaction. The REIT also settled its non-interest bearing promissory notes with a face value of $0.5 million for a cash payment of $0.1 million. The REIT recorded a gain of $0.4 million on this transaction.

Distributable Income

The following table shows the reconciliation between standardized distributable cash and distributable income for the three months ended December 31, 2011 and 2010, respectively.

	Three months ended	
(in $000's)	**December 31, 2011**	**December 31, 2010**
Net Cash Generated from Operating Activities	3,877	510
Capital expenditures including acquisitions and other assets	(903)	(553)
Standardized Distributable Cash	2,974	(43)
Reconciliation to Distributable Income:		
Standardized Distributable Cash	2,974	(43)
Capital expenditures in excess of (less than) FF&E reserve	340	1
Changes in items of working capital	(1,730)	(472)
Mortgage penalty refund	(421)	-
Distributable Income	**1,163**	**(514)**

CASH FLOW FOR THE THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010

During the three months ended December 31, 2011, the REIT's unrestricted cash and cash equivalents increased by $0.5 million from $2.0 million to $2.5 million primarily as a result of increased revenues and operating income and improvements in working capital items.

For the comparative period in 2010, cash and cash equivalents increased by $0.5 million from $0.3 million to $0.8 million primarily as a result of improvements in working capital balances.

	Three months ended	
(in $000's)	**December 31, 2011**	**December 31, 2010**
Cash provided by (used in)		
Operating activities		
Net loss for the periods	(852)	(3,427)
Adjustments for non-cash items:		
Unit-based compensation	126	-
Depreciation and amortization	2,421	2,578
Accretion of mortgages, bridge loan, convertible debentures and deferred financing fees	672	800
Loss on disposal of hotel properties	-	84
Provision of impairment of loan receivable	1,235	-
Gain on repurchase of convertible debentures and settlement of promissory notes	(2,192)	-
Loss on disposal of minority interest investments in hotel properties	187	-
Provision for impairment of hotel properties	3,265	-
Reversal of impairment of assets held-for-sale	(2,567)	
Fair value adjustment on Class B LP units and derivative liabilities	(148)	3
Subtotal	2,147	38
Changes in items of working capital	1,730	472
Net cash generated from operating activities	**3,877**	**510**
Investing activities		
Decrease in restricted cash	313	17
Decrease in capital reserves	646	442
Proceeds from sale of minority interest investments in hotel properties	60	-
Additions to property and equipment and other assets	(903)	(553)
Net cash generated from (used in) investing activities	**116**	**(94)**
Financing activities		
Increase in (repayment of) line of credit	(73)	1,519
Repayment of promissory notes	(129)	(17)
Repayment of finance lease obligations	(24)	(64)
Repayment of mortgages and loans payable	(1,440)	(1,371)
Repurchase of convertible debentures	(1,831)	-
Net cash generated from (used in) financing activities	**(3,497)**	**67**
Increase in cash and cash equivalents during the periods	**496**	**483**
Cash and cash equivalents– beginning of periods	**1,959**	**347**
Cash and cash equivalents– end of periods	**2,455**	**830**

Operating Activities

Operations provided $3.9 million in cash for the three months ended December 31, 2011. Cash flow before changes in working capital items provided $2.1 million in cash. Changes in working capital items relate primarily to the impact of lower accounts receivable balances and higher accrued interest on the 2012 Debentures as well as lower cash on deposit balances compared to the end of September 30, 2011.

Operations provided $0.5 million in cash for the three months ended December 31, 2010. Changes in working capital items provided $0.5 million in cash primarily as a result of a decrease in accounts receivable.

Investing Activities

Investing activities provided $0.1 million during the three months ended December 31, 2011 due to decreases in the REIT's capital reserves and restricted cash offset by additions to property and equipment of $0.9 million.

Investing activities utilized $0.1 million during the three months ended December 31, 2010 due to additions to property and equipment of $0.5 million. The REIT`s capital reserves for replacement decreased $0.4 million and were the source of funds for a majority of the additions.

Financing Activities

Financing activities utilized $3.5 million during the three months ended December 31, 2011. The REIT made principal repayments on its mortgage debt and loans payable of $1.4 million and used $1.8 million to repurchase the 2012 Debentures pursuant to the REIT's normal course issuer bid and used $0.1 million to settle its non-interest bearing promissory notes.

Financing activities provided $0.1 million during the three months ended December 31, 2010. The REIT made principal repayments on its mortgage debt and loans payable of $1.4 million which was offset by $1.5 million in funds drawn from one of its line of credit.

2011 Operating Results

The results of operations for the years ended December 31, 2011 and 2010 represent the operations of twenty hotels for twelve months of 2011 and two hotels for part of the year. The Radisson® Suite hotel in Halifax, NS was sold on June 30, 2011 and the Holiday Inn Express® hotel in Halifax, NS was sold on August 15, 2011. For the prior year, the results included twenty-one hotels for the entire year and seven months of operations for the Super 8® in Windsor, NS which was acquired on June 1, 2010.

Revenue

	Years ended			
(in $000's)	December 31, 2011	December 31, 2010	Variance	% Variance
Rooms	67,899	63,173	4,726	7.5%
Food and beverage	7,138	6,958	180	2.6%
Parking	1,348	1,434	(86)	(6.0%)
Other	2,013	1,883	130	6.9%
Total	**78,398**	**73,448**	**4,950**	**6.7%**

Revenue - Same Store

This table includes the operations of nineteen hotels for the years of 2011 and 2010.

	Years ended			
(in $000's)	December 31, 2011	December 31, 2010	Variance	% Variance
Rooms	63,474	55,673	7,801	14.0%
Food and beverage	6,980	6,640	340	5.1%
Parking	1,247	1,228	19	1.5%
Other	1,876	1,662	214	12.9%
Total	**73,577**	**65,203**	**8,374**	**12.8%**

Room Revenue – Key Performance Measures

	Years ended						
	December 31, 2011			December 31, 2010			RevPAR
Region	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	Change
Atlantic Canada ($Cdn)	59.84%	$113.65	$68.01	69.36%	$115.90	$80.39	(15.4%)
Western Canada ($Cdn)	70.21%	$122.38	$85.92	58.60%	$125.27	$73.41	17.0%
United States ($US)	56.39%	$84.91	$47.88	53.91%	$81.93	$44.17	8.4%
Weighted Average Total ($Cdn)	**67.81%**	**$119.51**	**$81.04**	**60.39%**	**$121.51**	**$73.38**	**10.4%**

Room Revenue - Key Performance Measures - Same Store

This table includes the operations of nineteen hotels for the year ended December 31, 2011 and 2010.

	Years ended						
	December 31, 2011			December 31, 2010			RevPAR
Region	Occ.	ADR	RevPAR	Occ.	ADR	RevPAR	Change
Atlantic Canada ($Cdn)	60.56%	$112.27	$67.99	66.75%	$111.49	$74.42	(8.6%)
Western Canada ($Cdn)	70.21%	$122.38	$85.92	58.60%	$125.27	$73.41	17.0%
United States ($US)	56.39%	$84.91	$47.88	53.91%	$81.93	$44.17	8.4%
Weighted Average Total ($Cdn)	**68.54%**	**$119.82**	**$82.12**	**59.12%**	**$121.81**	**$72.02**	**14.0%**

Atlantic Canada same store RevPAR decreased 8.6% for the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease is attributed to lower occupancy at the Holiday Inn Express® Hotel and Suites in Moncton, New Brunswick due to increases in room supply and the prior year having non-recurring group business.

Western Canada RevPAR increased 17.0% compared to the year ended December 31, 2010. There was occupancy growth in virtually all markets, with particular strength in Drayton Valley, Grande Prairie, Slave Lake and Whitecourt, all located in Alberta, and in Fort St. John, British Columbia.

In Slave Lake, there was higher demand from reconstruction efforts associated with a major fire in the town in May. There was also demand growth from pipeline construction. In Drayton Valley, Fort St. John and Whitecourt, the markets experienced increases from resource exploration and oil and gas well servicing along with construction of infrastructure projects. In Grande Prairie, there has been increased demand across sectors and, in particular, from the oil and gas companies as well as from construction projects. Many markets also experienced increased weekend demand from sports teams and community events.

There were lower rates in several hotels. The rate declines were most pronounced at two hotels in Grande Prairie and in High Level and Moncton. In Grande Prairie, occupancy increases in both of these hotels resulted in significant year over year RevPAR gains despite the rate decline. In High Level, there was a RevPAR decline as flat demand combined with a rebranding of previously independent competitors resulting in these competitors now having broader access to discounted distribution channels. In Moncton, there has been significant new room supply over the last two years and the prior year had group business which did not repeat in that market in 2011.

RevPAR for the Holiday Inn Express® in Myrtle Beach, South Carolina increased 8.4% compared to the prior year due to both occupancy and rate growth, as leisure travel volume gradually recovers in that market.

Food and Beverage, Parking and Other Revenue

The increase in food and beverage revenue was due to higher revenues at several of the Alberta hotels including the Radisson® Hotel and Suites in Fort McMurray, the Best Western in Grande Prairie and the Northwest Inn in Slave Lake.

Other income has increased due to higher ancillary revenues arising from higher occupancy.

Expenses

(in $000's)	Years ended December 31, 2011	December 31, 2010	Variance	% Variance
Operating expenses	49,254	47,696	1,558	3.3%
Property taxes and insurance	4,076	4,657	(581)	(12.5%)
Management fees	1,889	1,818	71	3.9%
Depreciation and amortization	9,903	10,188	(285)	(2.8%)
Total	**65,122**	**64,359**	**763**	**1.2%**

Expenses - Same Store

This table includes the operations of nineteen hotels for the years ended 2011 and 2010.

(in $000's)	Years ended December 31, 2011	December 31, 2010	Variance	% Variance
Operating expenses	45,768	42,220	3,548	8.4%
Property taxes and insurance	3,625	3,949	(324)	(8.2%)
Management fees	1,744	1,570	174	11.1%
Depreciation and amortization	9,279	9,210	69	0.8%
Total	**60,416**	**56,949**	**3,467**	**6.1%**

Operating Expenses

Operating expenses include wages, supplies and overhead expenses such as repairs and maintenance, sales and marketing, administrative expenses related to the operations of the hotels and costs related to the hotel brand. On a same store basis, these expenses have increased $3.5 million or 6.1% when comparing the year ended December 31, 2011 to the same period in 2010. The increase is due to a 12.8% increase in hotel revenues on a same store basis and the associated increases in brand fees which are tied to revenue, a 16% increase in rooms sold compared to the prior year, increases in maintenance expenses and utility costs, as well as an increase in the land lease expense due the higher revenues at the 5 Calgary Downtown Suites hotel.

Hotel Operating Income Before Depreciation

The following table provides the REIT's hotel operating margins for its portfolio for the years ended December 31, 2011 and 2010.

(in $000's except percentages, # of rooms available and HOI per available room)	Years ended December 31, 2011	December 31, 2010	Variance
Hotel revenues	78,398	73,448	4,950
Hotel operating expenses excluding depreciation	49,254	47,696	1,558
Hotel gross margin	29,144	25,752	3,392
Percentage	37.2%	35.1%	2.1 pts
Hotel overhead expenses [1]	5,965	6,475	(510)
Hotel operating income before depreciation (HOI)	23,179	19,277	3,902
Hotel operating income margin	29.6%	26.2%	3.4 pts
Number of rooms available	837,901	860,924	(23,023)
HOI per available room	**$27.66**	**$22.39**	$5.27

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

Hotel operating income per available room increased by $5.27 to $27.66 from $22.39 for the year ended December 31, 2011 and 2010, respectively. The hotel operating income margin increased to 29.6% from 26.2%. The increase is attributed to the revenue increase as a consequence of increased occupancy, the resultant economies of scale and higher room rates.

Other Income and Expenses

(in $000's)	Years ended December 31, 2011	December 31, 2010	Variance
Interest on line of credit, Bridge Loan, mortgages and loans payable	11,074	10,826	248
Interest on convertible debentures	4,234	4,989	(755)
Accretion on convertible debentures, Bridge Loan, mortgages and deferred financing fees	3,274	3,093	181
Corporate and administrative	2,553	2,880	(327)
Investment income	(158)	(216)	58
Provision for impairment of loan receivable	1,235	-	1,235
Provision for impairment of minority interest investments in hotel properties	-	423	(423)
Provision for impairment of hotel properties	3,265	-	3,265
Reversal of impairment of assets held-for-sale	(2,567)	-	(2,567)
Loss on disposal of minority interest investments in hotel properties	187	49	138
Loss on acquisition or disposal of hotel properties	1,528	144	1,384
Fair value adjustment of Class B LP units and derivative liabilities	(252)	(53)	(199)
Gain on repurchase of convertible debentures and settlement of promissory notes	(2,698)	-	(2,698)
Depreciation and amortization - trust assets	4	9	(5)
Total	**21,679**	**22,144**	**(465)**

Interest on Line of Credit, Bridge Loan, Mortgages and Loans Payable

Interest on the line of credit, Bridge Loan, mortgages and loans payable increased $0.2 million for the year ended December 31, 2011 compared to the year ended December 31, 2010. Increased interest expense is due to the increased balance outstanding on the REIT's line of credit throughout 2011 and interest incurred on the Bridge Loan. Increased interest expense was offset by the repayment of the mortgages on the two properties sold during year and the decline in the principal balance on the remaining mortgages from regular principal repayments.

Interest on Convertible Debentures

The total interest on the convertible debentures was $4.2 million for 2011 and $5.0 million for 2010. The decrease is primarily due to the repayment of the 2011 Debentures and the repurchase of $5.2 million of the 2012 Debentures pursuant to the REIT's normal course issuer bid.

Corporate and Administrative

Corporate and administrative expenses decreased $0.3 million to $2.6 million for the year ended December 31, 2011 compared to $2.9 million for the year ended December 31, 2010. The 2010 year included $0.7 million in severance expense related to the departure of the REIT's President and Chief Operating Officer. This non-recurring expense was partially offset by increased legal fees in 2011.

Provision for Impairment of Loan Receivable

See our previous commentary for the fourth quarter of 2011.

Provision for Impairment of Minority Interest Investments in Hotel Properties

During 2010, the REIT recorded a provision for impairment on its minority interest investment in the Super 8® hotel in Toronto, ON.

Provision for Impairment of Hotel Properties

See our previous commentary for the fourth quarter of 2011.

Reversal of Impairment of Assets Held-for-Sale

See our previous commentary for the fourth quarter of 2011.

Loss on Disposal of Minority Interest Investments in Hotel Properties

See our previous commentary for the fourth quarter of 2011. During 2010, the REIT sold its minority interest investments in the Super 8® hotels in Ste-Foy and Trois Rivieres, QC and incurred a loss on disposal of $0.1 million.

Loss on Acquisition or Disposal of Hotel Properties

During the year ended December 31, 2011, the REIT sold the Radisson® Suite hotel in Halifax, NS for gross proceeds of $12.3 million. The REIT recorded a loss on disposal of $0.2 million. In addition, the REIT sold the Holiday Inn Express® in Halifax, NS for gross proceeds of $6.5 million and recorded a loss on disposal of $1.3 million.

During the year ended December 31, 2010, pursuant to a quit claim, the owners relinquished ownership of the Super 8® hotel in Windsor, NS to the REIT. The REIT had previously provided a mezzanine loan on this hotel property. The net liabilities exceeded the net assets acquired resulting in a loss on acquisition.

Gain on Repurchase of Convertible Debentures and Settlement of Promissory Notes

During 2011, the REIT repurchased at a discount 2012 Debentures with a face amount of $5.2 million. See our previous commentary for the fourth quarter for a discussion related to the settlement of the promissory notes.

Distributable Income

The following table shows the reconciliation between standardized distributable cash and distributable income for the years ended December 31, 2011 and 2010, respectively.

	Years ended	
(in $000's)	**December 31, 2011**	**December 31, 2010**
Net Cash Generated from Operating Activities	6,261	2,850
Capital expenditures including acquisitions and other assets	(2,627)	(3,594)
Standardized Distributable Cash	3,634	(744)
Reconciliation to Distributable Income:		
Standardized Distributable Cash	3,634	(744)
Capital expenditures in excess of (less than) FF&E reserve	275	1,390
Changes in items of working capital	(597)	(2,037)
Distributable Income	3,312	(1,391)

CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

During the year ended December 31, 2011, the REIT's unrestricted cash and cash equivalents increased by $1.6 million from $0.8 million to $2.4 million primarily as a result of increased revenues and operating income and the sale of two hotels offset by capital expenditures at various hotel properties and the repayment of the 2011 Debentures.

For the comparative period in 2010, cash and cash equivalents decreased by $3.0 million from $3.8 million to $0.8 million primarily as a result of significant capital expenditures at several hotels, severance expense and mortgage repayments.

	Years ended	
(in $000's)	December 31, 2011	December 31, 2010
Cash provided by (used in)		
Operating activities		
Net loss for the periods	(8,403)	(10,539)
Adjustments for non-cash items:		
Unit-based compensation	188	15
Depreciation and amortization	9,907	10,197
Accretion on mortgages, Bridge Loan, convertible debentures and deferred financing fees	3,274	3,093
Provision of impairment of loan receivable	1,235	-
Loss on disposal of minority interest investments in hotel properties	187	49
Loss on disposal or acquisition of hotel properties	1,528	144
Gain on repurchase of convertible debentures and settlement of promissory notes	(2,698)	-
Fair value adjustment on Class B LP units and derivative liabilities	(252)	(53)
Reversal of impairment of properties held-for-sale	(2,567)	-
Provision for impairment of hotel properties	3,265	-
Provision for impairment of minority interest investments in hotel properties	-	423
Recovery of deferred income taxes	-	(2,516)
Subtotal	5,664	813
Changes in items of working capital	597	2,037
Net cash generated from operating activities	**6,261**	**2,850**
Investing activities		
Decrease in restricted cash	302	9
Decrease (increase) in capital reserves	2,570	(758)
Proceeds from sale of minority interest investments in hotel properties	60	271
Proceeds from sale of hotel properties	18,103	-
Increase in minority interest investment in hotel properties	(18)	-
Additions to property and equipment and other assets	(2,627)	(3,594)
Net cash generated from (used in) investing activities	**18,390**	**(4,072)**
Financing activities		
Increase in line of credit	2,304	2,519
Repayment of promissory notes payable	(129)	(239)
Repayment of finance lease obligations	(132)	(285)
Proceeds from mortgages and loans payable, net of deferred financing fees	717	10,120
Repayment of mortgages and loans payable	(14,941)	(13,849)
Proceeds from Bridge Loan	14,000	-
Repayment of Bridge Loan	(1,000)	-
Repayment of convertible debentures	(20,238)	-
Repurchase of convertible debentures	(3,607)	-
Net cash used in financing activities	**(23,026)**	**(1,734)**
Increase (decrease) in cash and cash equivalents during the periods	**1,625**	**(2,956)**
Cash and cash equivalents– beginning of periods	**830**	**3,786**
Cash and cash equivalents– end of periods	**2,455**	**830**

Operating Activities

Operations provided $6.3 million in cash for the year ended December 31, 2011. Cash flow before changes in working capital items provided $5.7 million in cash due to the improvement in revenues and operating results. Changes in working capital items relate primarily to increased accrued interest and lower prepaid expenses offset by increased accounts receivable and decreased accounts payable and accrued liabilities.

Operations provided $2.9 million in cash for the year ended December 31, 2010. Cash flow before changes in working capital items provided $0.8 million in cash. Changes in working capital items resulted from decreased prepaid expenses and increased accounts payable and accrued liabilities. These sources of cash were offset by an increase in accounts receivable.

Investing Activities

Investing activities provided $18.4 million for the year ended December 31, 2011 due primarily to the receipt of proceeds related to the REIT's sale of the Radisson® Suite hotel and the Holiday Inn Express® hotel, both in Halifax, NS, as well as the release of capital reserves. These cash inflows were offset by additions to property and equipment of $2.6 million.

Investing activities utilized $4.1 million for the year ended December 31, 2010 due to additions to property and equipment of $3.6 million made at a number of hotels. In addition, the REIT's capital reserves for replacement increased $0.8 million.

Financing Activities

Financing activities utilized $23.0 million for the year ended December 31, 2011. The REIT made principal repayments on its mortgage debt of $14.9 million including mortgage repayments of $10.0 million on the Holiday Inn Express® and Radisson® Suite hotels in Halifax, NS which were sold during the year. As well, the REIT repaid the 2011 Debentures of $20.2 million. In addition, the REIT spent $3.6 million to repurchase $5.2 million of the 2012 Debentures. These cash outflows were offset by the REIT drawing $2.3 million from one of its lines of credit and proceeds of $14.0 million from the Bridge Loan.

Financing activities utilized $1.7 million for the year ended December 31, 2010. The REIT made principal repayments on its mortgage debt of $13.8 million. The REIT received $10.1 million, net of financing fees, from new mortgages placed on two properties – the Holiday Inn Express® and Radisson® Suite hotels in Halifax, NS. The REIT drew $2.5 million on one of its available lines of credit during year. Pursuant to the sale of its minority interest investments in two hotel properties, the REIT paid $0.2 million on the promissory notes.

Balance Sheet

The following table outlines the significant balances or changes in the consolidated balance sheet from December 31, 2010 to December 31, 2011.

(in $000's)	As at December 31, 2011	As at December 31, 2010	Increase (Decrease)	Explanation
Assets				
Cash and cash equivalents	2,455	830	1,625	Refer to the "cash flow for the years ended December 31, 2011 and 2010" in the previous section.
Capital reserve – internally restricted	128	921	(793)	The decrease in the capital reserve is primarily a result of the sale of the Radisson® Suite and Holiday Inn Express® hotels in Halifax, NS.
Trade and other receivables	3,974	2,962	1,012	The increase is due to an increase in the balances on billing accounts for hotel customers of $0.7 million due to increased sales volumes, the number of guests in-house at the hotels at December 31 of $0.1 million and other receivables of $0.2 million
Prepaid expenses and deposits	1,841	2,617	(776)	The decrease in prepaid expenses is primarily due to a decrease in the property tax reserve balances held by the mortgage companies and a decrease in prepaid property taxes held by municipalities.
Assets held-for-sale	42,091	-	42,091	The 5 Calgary Downtown Suites hotel and the Radisson® Hotel and Suites in Fort McMurray were classified as assets held-for-sale as the REIT was in the process of selling these hotels at the end of 2011.
Property and equipment	167,177	236,200	(69,023)	The decrease is primarily a result of the sale of the Radisson® Suite and Holiday Inn Express® hotels in Halifax, NS, the reclassification of two hotels to assets held-for-sale and depreciation for the year.
Loans receivable	4,938	6,398	(1,460)	The loan receivable from Winport Developments Inc. of $0.1 million was settled during 2011. The loan receivable from Pacrim Hospitality Services Inc. was reduced by $1.3 million as a result of an allowance of $1.2 million against the loan and an additional reduction of $0.1 million as a result of the fee arrangement related to the Super 8® in Windsor, NS.
Capital reserve - restricted	3,662	5,440	(1,778)	The decrease in the capital reserve is primarily a result of the $1.0 million reserve related to the Radisson® Suite Hotel in Halifax which was held by the lender at December 31, 2010. This hotel was sold in June 2011. The balance of the decrease in the restricted capital reserves relates to withdrawals from the reserves for capital improvements made to a number of hotels.
Deferred income tax assets	7,082	7,082	-	The deferred income tax asset represents temporary differences between income or losses for accounting purposes and income or losses for tax purposes which are expected to reverse in the future.
Liabilities and Equity				
Line of credit	4,822	2,519	2,303	The REIT drew $2.3 million on one of its available lines of credit during 2011.
Accrued interest on convertible debentures	1,516	675	841	Represents accrued interest on the 2012 Debentures at December 31, 2011 which was paid on January 13, 2012 rather than December 31, as in the prior year.
Current portion of mortgages and loans payable	14,328	49,047	(34,719)	The REIT has three mortgages maturing in the next twelve months versus five in the prior year. At December 31, 2010, the REIT had not received waivers related to certain covenant breaches by December 31, 2010 and these mortgages were reclassified to current liabilities.
Current portion of convertible debentures	46,134	19,138	(26,996)	The balance at December 31, 2011 represents the 2012 Debentures that were redeemed for trust units on January 23, 2012. The balance at December 31, 2010 represented the 2011 Debentures that were repaid in full on July 29, 2011.
Mortgages on assets held-for-sale	23,156	-	23,156	The balance comprises the mortgages on the assets held-for-sale (the 5 Calgary Downtown Suites and the Radisson® Hotel and Suites in Fort McMurray, Alberta).

Mortgages and loans payable - long-term	101,569	103,546	(1,977)	The balance of long-term mortgages and loans payable decreased due to the sale of two hotels during 2011 and the re-classification to current of mortgages that mature within the next twelve months.
Convertible debentures - long-term	-	49,597	(49,597)	The 2012 Debentures are included in current liabilities at December 31, 2011 whereas at December 31, 2010, they were long-term liabilities.
Bridge Loan	14,768	-		The REIT borrowed $14.0 million on July 29, 2011 to finance a portion of the repayment at maturity of the 2011 Debentures. In August, 2011, $1.0 million was repaid on the loan as a result of the sale of the Holiday Inn Express® in Halifax, NS. In December, 2011, the loan was increased by $1.8 million pursuant to the settlement of certain of the promissory notes. The carrying amount of the loan is net of the value of the warrants issued at inception of the loan.
Promissory notes payable	-	3,203	(3,203)	During December, 2011, the promissory notes were settled in cash or by increasing the Bridge Loan by $1.8 million, at a gain.
Equity	20,282	28,147	(7,865)	The decrease primarily represents the comprehensive loss for the year ended December 31, 2011.

Quarterly Results

The following table provides a summary of the quarterly operating results for the last eight quarters:

(in $000's except per unit results)	Q4 2011	Q4 2010	Q3 2011	Q3 2010	Q2 2011	Q2 2010	Q1 2011	Q1 2010
Total revenues	18,836	18,516	21,187	21,211	19,727	17,314	18,806	16,622
Hotel revenues	18,765	18,406	21,162	21,170	19,691	17,291	18,780	16,581
Hotel expenses	13,007	14,048	13,887	14,486	14,218	13,050	14,107	12,587
Hotel operating income before depreciation	5,758	4,358	7,275	6,684	5,473	4,241	4,673	3,994
Depreciation and amortization - hotel	2,420	2,575	2,355	2,553	2,564	2,531	2,567	2,536
Other (income) expenses	4,190	5,210	6,287	5,412	5,852	5,405	5,346	6,111
(Recovery of) deferred income taxes	-	-	-	-	-	(1,176)	-	(1,340)
Net loss for the period	(852)	(3,427)	(1,367)	(1,281)	(2,943)	(2,519)	(3,240)	(3,313)
Per Unit Results:								
Basic and diluted loss per unit	(0.02)	(0.09)	(0.03)	(0.03)	(0.07)	(0.07)	(0.08)	(0.08)
Basic and diluted FFO per unit	0.08	(0.02)	0.06	0.04	(0.00)	(0.04)	(0.02)	(0.02)
Basic and diluted distributable income per unit	0.03	(0.01)	0.05	0.04	(0.01)	(0.02)	(0.01)	(0.01)
Occupancy	64.87%	60.77%	75.19%	69.94%	66.19%	56.60%	65.15%	53.81%
ADR	$121.60	$116.31	$122.01	$122.53	$118.33	$122.01	$116.01	$125.75
RevPAR	$78.88	$70.68	$91.74	$85.70	$78.32	$69.06	$75.58	$67.67

CAPITAL STRUCTURE

The REIT currently has 753,570,405 trust units outstanding as at February 29, 2012.

As a result of the debt reduction actions discussed previously, the REIT has the following indebtedness owing at December 31, 2011 and February 29, 2012.

(in $000's)	As at February 29, 2012	December 31, 2011
Line of credit	2,972	4,822
Obligations under finance leases	57	90
Derivative liabilities	10	10
Class B LP units	3	9
Mortgages and loans payable	115,183	115,897
Mortgages on assets held-for-sale	-	23,156
Bridge Loan	-	14,768
Convertible debentures	-	46,134
Total	**118,225**	**204,886**

FINANCIAL COMMITMENTS

The following chart summarizes the REIT's future financial commitments as at December 31, 2011.

(in $000s)	2012	2013	2014	2015	2016	Thereafter
Mortgages payable – principal	14,344	3,288	3,511	8,662	11,128	75,527
Mortgages payable – interest	7,158	6,660	6,436	5,965	5,412	3,221
Obligations under finance leases	84	10		-	-	-
Convertible debentures – principal (2)	46,660	-	-	-	-	-
Convertible debentures – interest (2)	1,707	-	-	-	-	-
Other long-term debt – principal (2)	14,800	-	-	-	-	-
Other long-term debt – interest (2)	127	-	-	-	-	-
Land lease (1) (2)	2,008	-	-	-	-	-
Operating leases	108	49	38	26	18	-
Assets held for sale						
Mortgages payable – principal (2)	23,156	-	-	-	-	-
Mortgages payable – interest (2)	209	-	-	-	-	-
Total	**110,361**	**10,007**	**9,985**	**14,653**	**16,558**	**78,748**

(1) The 5 Calgary Downtown Suites hotel in Calgary, AB was sold in January 2012.
(2) These amounts have been repaid subsequent to December 31, 2011.

Non-GAAP Lodging Industry Performance Indicators

The following describes the key performance measures and financial indicators commonly used by lodging REITs that do not have a standardized meaning under International Financial Reporting Standards ("IFRS"), now generally accepted accounting principles ("GAAP").

Occupancy, Average Daily Rate and Revenue per Available Room

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

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

Funds from Operations ("FFO")

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

Distributable Income

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

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

- add backs:
  - depreciation and amortization;
  - impairment of hotel properties;
  - deferred income tax expense;
  - losses on dispositions of assets;
  - amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; and
  - amortization of deferred financing fees;
- deductions:

    - reserve for replacement of FF&E;
    - deferred income tax credits;
    - interest on convertible debentures to the extent not already deducted in computing net income;
    - gains on dispositions of assets; and
    - amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value;
- other adjustments as determined by the Trustees of the REIT in their discretion:
    - reversals of impairment on hotel properties;
    - non-cash unit-based compensation; and
    - fair value adjustments on Class B LP units and derivative liabilities.

Readers should refer to the table "OPERATING RESULTS" for the three months and years ended December 31, 2011 and 2010 for the reconciliation of net income to FFO and to distributable income.

CSA Distributable Cash

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

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

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

Hotel Operating Income Before Depreciation

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

Legal Proceedings

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

Transition to International Financial Reporting Standards

Adoption of IFRS

The REIT adopted IFRS effective January 1, 2010 (the transition date) and has prepared its opening balance sheet as at that date. Prior to the adoption of IFRS, the REIT prepared its financial statements in accordance with previous Canadian GAAP. The REIT's consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS. Subject to certain transitional elections, the REIT has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods as if these policies had always been in effect (i.e., retroactive restatement).

For a full discussion of the transition to IFRS and the related adjustments to the financial results, please refer to the REITs financial statements for the year ended December 31, 2011.

Critical Accounting Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Management believes the estimates described below are the ones most subject to estimation and judgment in the REIT's financial statements.

Valuation of Property and Equipment

GAAP requires that items of property and equipment (hotel properties), be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset might not be recoverable. Property and equipment is reviewed at the individual hotel level, the lowest level for which identifiable cash flows are largely independent when testing and measuring for impairment. The fair value is determined based on the discounted future cash flows expected to be received from the property. The amount of the impairment loss is the amount by which the long-lived asset's carrying value exceeds its fair value.

The future cash flows expected from the use of the assets involves assumptions of occupancy, room rates, revenues, expenses, the residual or terminal value for the property and discount rates. In addition to these estimates, management assesses the effect of new competition in the individual markets and other factors that may impact the individual hotel's results. These estimates and assumptions are subject to change.

In accordance with IFRS accounting standards, the REIT values its properties using a discounted cash flow analysis, starting with a base year's financial results and applying certain growth or decline assumptions for a certain term and a terminal capitalization rate at the end of such term. The value of the properties derived from this analysis can fluctuate frequently and significantly due to changes in the base year's financial results or changes in the REIT's assumptions. At times, the value of one or more properties as determined in accordance with IFRS accounting standards may not reflect the realizable value of such property if sold.

Valuation of Loans Receivable

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

Valuation of Minority Interest Investments in Hotel Properties

The minority interest investments in hotel properties are accounted for as available for sale investments and are measured at fair value at each reporting period with changes in value recognized in other comprehensive income. Significant or prolonged declines in fair value are removed from other comprehensive income and recognized in the statement of loss.

Valuations of these investments use inputs and capitalization rates that are based on internal models and management estimates of appropriate amounts.

Depreciation of Property and Equipment

The REIT records depreciation on its property and equipment using the straight-line method over the estimated useful life of each category. The two largest categories are buildings and its related components which are amortized up to 60 years and furniture, fixtures and equipment, which are amortized up to 7 years. If different estimated useful lives of the assets or amortization methods were used, the impact on the REIT's net loss could be material.

Fair Value of Mortgages Payable

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

Bridge Loan

The Bridge Loan was initially recorded at its fair value net of the liability portion associated with the warrants issued upon drawing the loan. The difference between the recorded value of the loan and the face value is being accreted to interest expense, using the effective interest method over the term of the loan.

Income Taxes

Under the provisions of Bill C-52, Budget Implementation Act, 2007, the REIT became a specified investment flow-through ("SIFT") and became subject to tax in 2007 due to exceeding the growth guidelines as outlined in Act. Deferred tax is provided using the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact of the deferred income tax asset recorded on the balance sheet.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In addition, the REIT maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities legislation is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required public disclosure. During 2011, the CFO resigned effective July 7, 2011 and the CEO resigned effective December 31, 2011. The REIT's Chairman acted as Interim CFO from July 7, 2011 until February 29, 2012 when a new CFO was appointed. The Board of Trustees have assumed most of the CEO's responsibilities since December 31, 2011.

During 2011, the REIT'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, 2011, based on the evaluation, those acting as CEO and CFO have concluded that the REIT's disclosure controls and procedures 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. During 2011, the REIT's management also evaluated the design and operating effectiveness of the internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), using the Committee of Sponsoring Organizations Internal Control – Integrated Framework, under the supervision of, and with the participation of those acting as CEO and CFO. As at December 31, 2011, based on the evaluation, those acting as CEO and CFO have concluded that the REIT's internal controls over financial reporting were appropriately designed and were operating effectively.

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

The REIT 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.

RISKS FACTORS

There are a number of risk factors associated with the REIT. These include risks related to real property ownership, risks related to the business of the REIT, including the hotel industry, competition, customer concentration, investment concentration in the oil and gas industry, franchised hotels, availability of additional capital, and debt financing and risks relating to the structure of the REIT. Information on these risks and uncertainties are described under "Risk Factors" in the REIT's Annual Information Form, dated March 14, 2012 which is available at www.sedar.com.

OUTLOOK

The REIT continues to be cautiously optimistic about the performance of its hotels in the coming quarters. While we do not expect material improvement at our Atlantic Canada hotels, we are seeing continued positive developments at our Western Canada hotels. The performance of the Western Canada hotels fluctuates based on oil and gas exploration and development and infrastructure projects in the surrounding areas. According to the Canadian Association of Oilwell Drilling Contractors, the number of active oil rigs in 2011 increased by 27% compared to 2010, and the number of wells to be drilled in Alberta is expected to increase by 9% in 2012 versus 2011. This trend bodes well for the REIT's Western Canada hotels. There are also several infrastructure and pipeline projects underway or anticipated in Alberta and, to a lesser extent, in British Columbia that will provide ongoing demand for several of the REIT's hotels.

In recent quarters, the REIT's priority was to improve its balance sheet and create a capital structure that is better suited to the cyclical nature of the hotel industry. The REIT expects to continue reducing its indebtedness. In coming quarters, the REIT will focus on operational improvements and executing select capital projects at its hotels.

Forward-Looking Information

This MD&A contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the future financial position, property acquisition or divestiture strategies and opportunities, business strategy, financial results and plans and objectives of the REIT. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or similar expressions concerning matters that are not historical facts.

Forward-looking information is subject to certain facts, including risks and uncertainties, that could cause actual results to differ materially from what the REIT currently expects and there can be no assurance that such statements will prove to be accurate. Some of these risks and uncertainties are described under "Risk Factors" in the REIT's Annual Information Form, dated March 14, 2012 which is available at www.sedar.com. The REIT does not intend to update or revise any such forward-looking information should its assumptions and estimates change.