



Management's Discussion and Analysis
for the Three Months Ended March 31, 2019

As at May 10, 2019

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 ended March 31, 2019, and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and the notes thereto as at and for the three months ended March 31, 2019, as well as the audited consolidated financial statements and MD&A thereon for the year ended December 31, 2018. 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 shares and earnings per share amounts, unless otherwise noted. This MD&A is dated as at May 10, 2019. In this MD&A, the Company includes the following non-IFRS financial measures which are defined in the "Non-IFRS Financial Measures" section: free cash flow, hotel operating income or operating income, management services operating income, funds from operations, adjusted funds from operations and book value per share.

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 dated March 8, 2019, 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 March 31, 2019, Holloway's portfolio consisted of 27 hotels with 3,055 rooms of which 26 are operated by Holloway and one has been leased to a third party on a triple net basis. Of the 26 hotels operated by Holloway, 21 hotels are limited service and five hotels are full service properties. In addition, 24 are operated under internationally recognized hotel brands, one is operated under a regional hotel brand and one is unbranded.

Other Assets: As of March 31, 2019, Holloway owns one freestanding single tenant property leased to a nationally recognized restaurant chain, two land parcels that are being held for potential future development and a commercial office building in Houston, TX. Holloway also has loans receivable of \$10,545 as a result of previous asset sales.

Management Services: As of March 31, 2019, the Company provided full or partial management services to 11 third party owned hotels. Additional information regarding this division is available at www.hlcorpmanagement.ca.

First Quarter Review and Outlook

Hotel Performance

The changes in hotel revenue, operating income and certain other financial metrics are shown in the tables below for the three months ended March 31, 2019.

	Three Months Ended March 31		
	2019	2018	Variance
Hotel revenue	\$ 20,088	\$ 23,436	(14.3%)
Operating income ⁽¹⁾	3,841	5,300	(27.5%)
Operating income margin	19.1%	22.6%	(3.5 ppt)
Net loss attributable to shareholders ⁽²⁾	(4,813)	(1,429)	
per basic share ⁽²⁾	(0.30)	(0.08)	
Funds from operations ⁽¹⁾	965	1,107	(12.8%)
per basic share	0.06	0.06	
Adjusted funds from operations ⁽¹⁾	762	902	(15.5%)
per basic share	0.05	0.05	
Dividends declared per share	0.035	0.035	

	Three Months Ended March 31			
	Hotel Revenue		Operating Income ⁽¹⁾	
2018	\$ 23,436	100%	\$ 5,300	100%
Hotels sold ⁽³⁾	(3,179)		(971)	
Ontario hotels	393		155	
Atlantic hotels	94		116	
Western hotels	(266)		(407)	
Northern hotels	(390)		(352)	
2019	\$ 20,088	86%	\$ 3,841	72%

(1) Refer to "Non-IFRS Financial Measures" section.

(2) Holloway adopted the fair value model for investment property effective January 1, 2019 with a restatement of 2018 amounts.

(3) Represents five hotels - Super 8 in High Level, AB and Holiday Inn in Ottawa, ON sold in Q4 2018; and Travelodge in Dartmouth, NS, Travelodge in Moncton, NB, and Days Inn in Moncton, NB sold in Q1 2019.

Our operating results were mixed in the first quarter, with the Ontario and Atlantic regions increasing revenue and operating income while the Western and Northern regions generated lower revenue and operating income.

The Ontario region increased revenue by 6.4% and operating income by 15.4%, led by the Travelodge® in Ottawa, ON, which benefitted from a significant long-term stay account. The DoubleTree® in London, ON, also had strong revenue in the quarter with the Juno Awards generating substantial demand in March.

The Atlantic region had a modest 4% growth in revenue for the quarter, but more significantly, a 60% increase in operating income. The Travelodge hotels in New Glasgow, NS, Saint John, NB and Sydney, NS saw increased revenue and with prudent expense management were able to convert most of that revenue into operating income. The gains in Sydney were driven by the city hosting the Scotties Tournament of Hearts® curling tournament. The St. John's, NL market continues to be weak with considerable new room supply negatively affecting the market.

The Western region struggled in the first quarter, with a 4% revenue decline compared to the first quarter of 2018. Operating income was 19% lower. We believe this was due in part to weather and in larger part due to uncertainty among participants

in the oil and gas industry about commodity prices and government policies, which generally led to a decline in oilfield services activity. We anticipate the volatility in our Western region results to continue.

The Northern region had a difficult first quarter, with revenue down 10% and operating income down 32% compared to the first quarter of 2018. The Super 8® in Yellowknife, NT, incurred water damage from a sprinkler break in early February. Due to this incident, a number of guestrooms were placed out of service, which reduced business levels but was offset in part by business interruption insurance proceeds. Repair work, which is covered through insurance, is ongoing and anticipated to be completed in the third quarter. The Yellowknife market also experienced lower revenue due to construction projects which were underway last year that have since been completed.

Funds from operations and adjusted funds from operations decreased by 12.8% and 15.5%, respectively. This decrease was due primarily to the sale of six hotel properties since the first quarter of last year.

Management Business Performance

We continued to expand our hotel management business, with five contracts commencing during the quarter. At March 31, 2019, Holloway was providing services to 11 third party owned hotels. Negotiations are ongoing for additional contracts.

Capital Allocation

Holloway was very active in the first quarter in reshaping its portfolio of assets and its balance sheet.

On January 3, 2019, the Company fully redeemed its Series C convertible debentures using the proceeds from the sale of its Holiday Inn® in Ottawa, ON at the end of the fourth quarter. The Series C debentures were our highest cost debt at 7.50%.

On January 23, 2019, the company completed a substantial issuer bid ("SIB") for its shares by repurchasing 1,553,755 shares or 9.1% of its outstanding shares. The company acquired an additional 8,500 shares throughout the rest of the quarter. We believe that these share repurchases were (and that share repurchases at the current share price remain) highly accretive to shareholders and that our share price is not reflective of the intrinsic value of the Company's assets and business.

Throughout the first quarter, Holloway sold five properties - the Travelodge in Dartmouth, NS for \$6,900, the Travelodge in Moncton, NB for \$5,000, the Days Inn® in Moncton, NB for \$9,000, the Super 8 in Windsor, NS for \$5,300, and a single tenant property located in Timmins, ON for \$1,725. These transactions resulted in aggregate gains on sale of \$9,113 and net cash proceeds of \$13,145 after deducting selling costs, repayment of mortgages and the provision of vendor take-back loans. The gains on sale are not fully reflected on our income statement as they are presented in other comprehensive income due to the change in accounting policy to adopt the revaluation model discussed below.

The net proceeds from these asset sales were used to reduce amounts drawn on the Company's credit line (which was used to fund the debenture redemption and SIB) and to purchase a vacant office property in Houston, TX.

On January 30, 2019, Holloway acquired a non-performing loan on a vacant office property located in Houston, TX and subsequently foreclosed on the property. The property is a Class A office building formerly occupied by a large energy company. We are currently evaluating options for this property including continuing operations as an office or converting the property to a hotel or another use. While this acquisition is not of a hotel nor in Canada, it is nonetheless consistent with our approach to business, namely buying an asset at an attractive valuation where there is opportunity to add value to the asset.

In connection with the sale of certain assets, we occasionally provide the buyers of such assets with financing in the form of a vendor take-back mortgage, which is secured by the asset purchased. At March 31, 2019, we had five loans receivable with a total principal balance of \$10,545. On April 30, we sold US\$3,450 principal amount of the loan retained as part of the sale of the Travelodge franchise business in 2015. We received net proceeds of US\$3,364. While these loans pay regular interest, our goal is to collect the principal amount of such loans as quickly as possible following the asset sales and to redeploy the collected amounts to higher-yielding uses, such as debt repayment, acquisitions or additional share repurchases.

Change in Accounting Policy and Increase in Book Value per Share

During the first quarter Holloway changed how it values its hotels on its balance sheet, which resulted in a material increase in the Company's book value per share. A brief summary of the impact of the accounting policy changes is set out below.

Historically, Holloway valued its hotels on the basis of their historic cost less accumulated depreciation and accumulated impairments. This means that when Holloway acquired a hotel, it would set the value of the hotel as its purchase price and it would increase the value of that property over time by the amount of capital invested in the property and it would decrease the value of that property each reporting period during the asset's useful life reflecting the "depreciation" of the property and any impairment in the value of the property. This valuation method is standard but does not necessarily result in the value of a property being accurately reflected on the Company's balance sheet. The main reason for this is that under the historical cost accounting principle, a hotel's value is considered to depreciate with the passage of time whereas we believe the true value of a hotel will fluctuate based on many factors, including income, interest rates, investor sentiment and others.

As a result of the SIB, Clarke Inc.'s ownership of Holloway increased to 51%. This change of control allowed Holloway to change its accounting policy in the first quarter and we have elected to do so to align the accounting policies and hotel values of Holloway and Clarke Inc. as they relate to Holloway's hotels. The new method of accounting for our hotels is known as the "revaluation model".

The first consequence of this change is that Holloway revalued its hotels on its balance sheet to their fair market value at the time of the acquisition of control. This resulted in an increase in the value of 20 hotels by a total of \$53,000, a decrease in the value of eight hotels by a total of \$6,600 and no change in the value of one hotel. Under the revaluation model, increases and decreases in fair value are not presented consistently within the financial statements. The increases in value are shown on the statement of comprehensive income, which filters into the Company's equity, while decreases in value are charged to income immediately and are shown on the income statement.

The second consequence of this change is how our hotels will be valued on our financial statements in the future. We will continue to "depreciate" the value of our hotels with the passage of time, but we will on a regular basis, such as annually or bi-annually, revalue the hotels to their fair market value. Accordingly, we are likely to record higher ongoing depreciation expense which is expected to be offset with fair value increases to our hotels upon revaluation.

The third consequence of this is on the sale of assets. Historically, if Holloway sold a hotel for more than its book value, Holloway recorded a gain on sale that was reflected on the Company's income statement. In the future, if Holloway sells a hotel for more than its book value, a reclassification from "revaluation surplus" to "retained earnings" or "deficit" within shareholders' equity will occur.

As is evident from the consequences outlined above, the revaluation model generally results in higher asset and equity balances and lower earnings over time.

Finally, the financial effect of valuing our hotels at their fair market value is that our book value per share increased from \$6.79 at December 31, 2018 to \$9.00 at March 31, 2019. We believe this book value per share is closer to the true value of our hotels than under our prior accounting policy. If we are correct in this view, then our shares remain substantially undervalued.

Outlook

For the balance of the year, we anticipate the performance of our base portfolio of hotels to remain in line with the prior year. The use of recent sale proceeds for debt reduction should result in lower interest expense and debt service costs more generally. As well, we have a more limited capital program required this year than in prior years. Assuming our current hotel portfolio remains the same, the combination of the above should result in attractive cash flow generation.

Dividend Declaration

On May 10, 2019, 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 June 14, 2019 to shareholders of record on May 31, 2019.

Operating Results

Hotel Performance

The following tables summarize the performance of Holloway's portfolio of hotels for the three months ended March 31, 2019 compared to the same period 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 sold hotels.

	Base Portfolio ⁽¹⁾			Three Months Ended March 31 Sold Hotels ⁽²⁾			Total		
	2019	2018	Variance	2019	2018	Variance	2019	2018	Variance
Hotel revenue	\$ 19,406	\$ 19,575	\$ (169)	\$ 682	\$ 3,861	\$ (3,179)	\$ 20,088	\$ 23,436	\$ (3,348)
Hotel operating income ⁽³⁾	3,946	4,434	(488)	(105)	866	(971)	3,841	5,300	(1,459)
Hotel operating income margin	20.3%	22.7%	(2.4 ppt)	(15.4%)	22.4%	(37.8 ppt)	19.1%	22.6%	(3.5 ppt)

(1) Includes the Super 8 in Windsor, NS which was sold at the end of Q1 2019.

(2) Represents five hotels - Super 8 in High Level, AB and Holiday Inn in Ottawa, ON sold in Q4 2018 and Travelodge in Dartmouth, NS, Travelodge in Moncton, NB and Days Inn in Moncton, NB, sold in Q1 2019.

(3) Refer to "Non-IFRS Financial Measures" section.

Revenue and operating income from our base portfolio decreased compared to the prior period. The hotel operating income margin decreased to 20.3%. See our "First Quarter Review and Outlook" for further commentary.

Key Performance Measures

	Base Portfolio			Three Months Ended March 31 Sold Hotels			Total		
	2019	2018	Variance	2019	2018	Variance	2019	2018	Variance
Occupancy									
Atlantic Canada	45.7%	42.9%	2.8 ppt	36.5%	40.2%	(3.7 ppt)	43.5%	42.0%	1.5 ppt
Ontario	51.6%	50.9%	0.7 ppt	-	56.6%	(56.6 ppt)	51.6%	52.1%	(0.5 ppt)
Western Canada	48.3%	49.2%	(0.9 ppt)	-	52.3%	(52.3 ppt)	48.3%	49.4%	(1.1 ppt)
Northern Canada	46.6%	54.7%	(8.1 ppt)	-	-	-	46.6%	54.7%	(8.1 ppt)
Total	48.6%	49.4%	(0.8 ppt)	36.5%	48.4%	(11.9 ppt)	47.9%	49.2%	(1.3 ppt)
ADR									
Atlantic Canada	\$ 106.26	\$ 109.50	\$ (3.24)	\$ 104.25	\$ 105.03	\$ (0.78)	\$ 105.86	\$ 108.00	\$ (2.14)
Ontario	116.66	112.05	4.61	-	134.80	(134.80)	116.66	117.44	(0.78)
Western Canada	131.55	135.82	(4.27)	-	111.40	(111.40)	131.55	133.98	(2.43)
Northern Canada	143.97	141.14	2.83	-	-	-	143.97	141.14	2.83
Total	\$ 124.11	\$ 124.90	\$ (0.79)	\$ 104.25	\$ 120.01	\$ (15.76)	\$ 123.23	\$ 124.05	\$ (0.82)
RevPAR									
Atlantic Canada	\$ 48.56	\$ 46.98	\$ 1.58	\$ 38.05	\$ 42.22	\$ (4.17)	\$ 46.05	\$ 45.36	\$ 0.69
Ontario	60.20	57.03	3.17	-	76.30	(76.30)	60.20	61.19	(0.99)
Western Canada	63.54	66.82	(3.28)	-	58.26	(58.26)	63.54	66.19	(2.65)
Northern Canada	67.09	77.20	(10.11)	-	-	-	67.09	77.20	(10.11)
Total	\$ 60.32	\$ 61.70	\$ (1.38)	\$ 38.05	\$ 58.08	\$ (20.03)	\$ 59.03	\$ 61.03	\$ (2.00)

For the three months ended March 31, 2019, RevPAR for the base portfolio decreased \$1.38 or 2.2%. There was a slight decline in base hotels' occupancy, almost entirely due to the Northern region. We experienced mixed results in ADR in the various regions which overall remained almost flat at \$124.

The increase in occupancy in Atlantic Canada came mainly from improvements at the Travelodge hotels in New Glasgow, NS, Sydney, NS and Saint John, NB. This was offset by a reduction of \$3.24 or 3.0% in ADR, led primarily by the Super 8 in St. John's, NL. Overall, an increase in long-term stay business compared to 2018 contributed to higher occupancy but reduced ADR. RevPAR for the region increased \$1.58 or 3.4%.

In Ontario, there was little change in occupancy, which remained steady at 51%. Significant ADR increases at our Thunder Bay and Timmins hotels resulted in an ADR improvement of \$4.61 or 4.1% and drove RevPAR up \$3.17 or 5.6%.

The Western Canada region's occupancy was also relatively unchanged although ADR declined \$4.27 resulting in a RevPAR drop of \$3.28. The Whitecourt market experienced the most prominent reductions. While demand has stabilized in the region, clients have become more price-conscious and many competitors are reducing rates in an effort to capture market share.

Northern Canada performance was affected most significantly by a decrease in the number of tourists from China as well as declines in corporate and crew demand in Yellowknife, NT. Occupancy declined substantially at the Super 8 Yellowknife due to rooms being placed out of order as a result of a sprinkler break. While much of the lost operating income was recouped through the business interruption insurance claim, the occupancy and ADR statistics do not reflect the insurance payment.

Management Services

	Three Months Ended March 31		
	2019	2018	Variance
Management services revenue	\$ 199	\$ 63	\$ 136
Management services expenses included in operating expenses	25	10	15
Management services operating income⁽¹⁾	174	53	121

(1) Refer to "Non-IFRS Financial Measures" section.

Our hotel management services business continues to grow. Two of our agreements are for hotels in receivership and as such have an uncertain duration. We expect additional contracts will be secured in the coming quarters, although the timing of these contacts is unpredictable.

Other Expenses

	Three Months Ended March 31		
	2019	2018	Variance
Interest and accretion on debt	\$ 2,428	\$ 3,244	\$ (816)
Corporate and administrative	600	1,053	(453)
Share-based expense	202	298	(96)
Interest income	(208)	(152)	(56)
(Gain) loss on disposals of assets	(3,478)	3	(3,481)
Selling costs on property and equipment sales	879	-	879
Revaluation of hotel properties	6,600	-	6,600
Fair value adjustment on investment property ⁽¹⁾	-	(900)	900
Write-off of deferred financing fees and discount on debenture redemption	362	-	362
Unrealized foreign exchange loss (gain)	112	(145)	257
Recovery of income taxes⁽¹⁾	(2,181)	(490)	(1,691)

(1) Holloway adopted the fair value model for investment property effective January 1, 2019 with a restatement of 2018 amounts.

Interest expense for the three months ended March 31, 2019, decreased largely due to the redemption of our Series C debentures on January 3, 2019, which bore interest at 7.50% and was our most expensive debt.

Corporate and administrative expenses have decreased primarily due to reduced legal expenses as a long-running legal proceeding inherited in our acquisition of Royal Host was settled in the third quarter of 2018.

During the three months ended March 31, 2019, the Company recorded interest income of \$208 from its loans receivable.

The gain on disposals of assets during the three months ended March 31, 2019 is due to the sale of the Travelodge in Dartmouth, NS. The Company changed its accounting policy from the cost model to the revaluation model effective January 1, 2019 for certain asset classes. As the Travelodge in Dartmouth, NS was an asset held-for-sale at December 31, 2018, it did not qualify for this treatment and the gain on sale of this property was recorded on the income statement. See “First Quarter Review and Outlook” above for more information on this subject.

Selling costs include commissions, legal and other transaction costs related to the property sales.

The revaluation of hotel properties for the three months ended March 31, 2019, relates to the write-down of hotel properties as a result of the change in accounting policy from the cost model to the revaluation model. See “First Quarter Review and Outlook” above for more information on this subject.

The fair value adjustment on investment property for the three months ended March 31, 2018, relates to the change in accounting policy from the cost model to the fair value model. This change in accounting policy was applied retrospectively and as a result, 2018 was restated. The former Travelodge hotel in Slave Lake, AB is treated as an investment property as it is leased to a third party.

We wrote off the remaining unamortized discount and deferred financing fees related to the Series C convertible debentures on their redemption.

The unrealized foreign exchange loss for the three months ended March 31, 2019 represents the change in the value of the US dollar loan receivable.

During the three months ended March 31, 2019, the Company recognized an income tax recovery of \$2,181 due to the Company generating an operating loss for the period.

Quarterly Results

	Q1 2019	Q1 2018	Q4 2018	Q4 2017	Q3 2018	Q3 2017	Q2 2018	Q2 2017
Total revenue	\$20,495	\$23,651	\$24,883	\$24,948	\$33,217	\$32,168	\$26,825	\$25,604
Hotel operating income	3,841	5,300	6,538	6,910	13,243	12,687	8,272	7,576
Net income (loss) attributable to shareholders ⁽¹⁾	(4,813)	(1,429)	19,775	404	3,557	3,658	429	(1,095)
Funds from operations	965	1,107	4,189	3,907	9,342	9,879	4,824	3,023
Adjusted funds from operations	762	902	3,677	3,426	8,525	9,106	4,199	2,775
Dividends declared	545	640	600	646	626	657	639	661
Per basic share:								
Net income (loss) ⁽¹⁾	\$ (0.30)	\$ (0.08)	\$ 1.15	\$ 0.02	\$ 0.20	\$ 0.19	\$ 0.02	\$ (0.06)
Funds from operations	0.06	0.06	0.24	0.21	0.52	0.52	0.26	0.16
Adjusted funds from operations	0.05	0.05	0.21	0.18	0.48	0.48	0.23	0.15
Dividends declared	0.035	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	48%	49%	52%	49%	67%	65%	56%	53%
ADR	\$123.23	\$124.05	\$123.56	\$121.32	\$130.36	\$125.74	\$124.33	\$119.35
RevPAR	\$59.03	\$61.03	\$63.76	\$59.81	\$87.86	\$81.61	\$69.25	\$63.14

(1) Holloway adopted the fair value model for investment property effective January 1, 2019 with a restatement of Q1 2018 amounts.

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 March 31		
	2019	2018	Variance
Cash flow provided by (used in):			
Operating activities	\$ 1,019	\$ 1,832	\$ (813)
Investing activities	17,530	(1,598)	19,128
Financing activities	(50,504)	(480)	(50,024)

Operating Activities

For the three months ended March 31, 2019, operating activities generated \$1,019 compared to \$1,832 for the same period in 2018. The decrease in cash flow from operations is largely due to having fewer hotels in our portfolio as we sold six hotels in the last six months.

Investing Activities

For the three months ended March 31, 2019, investing activities provided \$17,530 compared to using \$1,598 for the same period in 2018. The source of funds consisted primarily of \$24,777 in net proceeds on the sale of five properties, offset by \$6,406 used to acquire an office building in Houston, TX and \$841 in capital additions at various properties.

For the three months ended March 31, 2018, the use of cash consisted of capital additions of \$1,567 at our hotels.

Financing Activities

For the three months ended March 31, 2019, financing activities used \$50,504 compared to \$480 for the same period in 2018. The Company repurchased common shares totaling \$10,260 and fully redeemed its Series C convertible debentures with a face value of \$40,565. The Company drew \$14,141 on its credit facilities, made \$12,760 in mortgage principal repayments and cash-settled options totaling \$1,079.

For the three months ended March 31, 2018, the Company drew \$1,159 on its credit facilities, made \$1,119 in regular principal repayments on its mortgages and repurchased common shares totaling \$520.

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, free cash flow generated throughout the year and its revolving credit facilities. The Company currently has two unencumbered properties which could provide additional financing.

	March 31, 2019
Cash on hand	\$ 655
Capital expenditure reserves ⁽¹⁾	71
Revolving credit facilities availability	36,859
Total current liquidity ⁽²⁾	\$ 37,585

(1) Contingent on capital expenditures being incurred.

(2) Excludes proceeds from financing unencumbered assets.

Revolving Credit Facilities and Mortgages Payable

	March 31, 2019	December 31, 2018
Revolving Credit Facilities		
Principal amount payable	\$ 29,141	\$ 15,000
Weighted average interest rate	5.25%	5.45%
Mortgages Payable		
Principal amount payable	\$ 66,623	\$ 79,383
Weighted average term to maturity	3.5 years	3.5 years
Weighted average interest rate	4.93%	4.83%

Chartered Bank Revolving Credit Facilities

The Company has revolving credit facilities with two Canadian chartered banks. The first credit facility has a maximum borrowing capacity of \$45,000 with an interest rate based on the bank's prime rate plus 1.25% or a spread over banker's acceptance rates (5.04% at March 31, 2019). This credit facility is secured by nine hotels, is subject to an annual review and has no set expiry date. At March 31, 2019, the Company had drawn \$14,141 (December 31, 2018 - \$nil) on this facility. The second credit facility has a maximum borrowing capacity of \$21,000 with an interest rate of the bank's prime rate plus 1.50% (5.45% at March 31, 2019). At March 31, 2019, \$15,000 (December 31, 2018 - \$15,000) was drawn on this facility. The second credit facility, together with a mortgage with an outstanding balance of \$32,694 at March 31, 2019, is secured by nine hotels.

The revolving credit facilities are used to manage working capital fluctuations and the seasonal effects of the hospitality industry as well as to provide short-term financing in the event of hotel acquisitions or renovations.

Mortgages Payable

The Company has incurred debt under various mortgages with a weighted average interest rate of 4.93%. These mortgages mature between December 2019 and September 2029 and are secured by individual first charges on 16 hotel properties. The Company is subject to financial covenants on certain of its mortgages and its revolving credit facilities, which include customary terms and conditions for borrowings of this nature. At March 31, 2019, the Company was in compliance with all covenants.

In the first quarter of 2019, the Company repaid four mortgages totaling \$11,632 upon the sale of the related hotels.

Convertible Debentures

On January 3, 2019, the Company fully redeemed its 7.5% Series C convertible debentures. The Company paid the holders of these debentures \$1,019.52 per \$1,000 principal amount (amounts not in thousands), representing the principal amount of \$1,000 and accrued and unpaid interest of \$19.52.

At March 31, 2019, the Series B convertible debentures (trading symbol "HLC.DB") have an aggregate principal amount outstanding of \$50,866, bear interest at 6.25%, have interest payment dates of April 30 and October 31 and were to mature on February 28, 2020.

On April 26, 2019, at a meeting of the holders of the Series B convertible debentures, the Company obtained approval to amend the terms of the debentures as follows: (1) extend the maturity date by three years to February 28, 2023; (2) amend the conversion price to \$12.50 per common share being a conversion rate of 80 common shares per \$1,000 principal amount of the debentures; and (3) amend the redemption provision to, among other things, prohibit the Company from redeeming the debentures until June 1, 2020, except in connection with a change in control of the Company resulting in the acquisition of 100% of the voting or equity interests in the Company and except, for the 60 days following the effective date of the debenture amendments, to allow the Company to redeem up to 10% of the aggregate principal amount, being approximately \$5,087 aggregate principal amount, of the debentures at a price equal to the principal amount thereof, plus accrued and unpaid interest.

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

The following table shows the Company's convertible debentures at March 31, 2019 but reflects the extension discussed above:

	Maturity	Interest Rate	March 31, 2019	December 31, 2018
Series B (HLC.DB)	2023	6.25%	\$ 50,866	\$ 50,866
Series C (HLC.DB.A)	Redeemed January 3, 2019	7.50%	-	40,565
			\$ 50,866	\$ 91,431
Weighted average term to maturity ⁽¹⁾			3.9 years	1.2 years
Weighted average interest rate			6.25%	6.80%

(1) Weighted average term to maturity at December 31, 2018 represents only the Series B debentures.

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 25, 2019, the Company initiated an NCIB to repurchase a maximum of \$4,920 principal amount of its issued and outstanding Series B convertible debentures. The NCIB will be in effect until January 24, 2020 or such earlier time as the bid is completed or terminated at the option of the Company. No purchases under this NCIB have been made in 2019.

Contractual Obligations

The following table shows the Company's contractual obligations as at March 31, 2019 and reflects the extension of the maturity date of the convertible debentures to 2023:

	Remainder of 2019	2020	2021	2022	2023	Thereafter
Mortgages payable						
Interest ⁽¹⁾	\$ 2,333	\$ 2,668	\$ 2,497	\$ 1,317	\$ 47	\$ 96
Principal ⁽²⁾	7,078	5,820	3,376	46,888	560	2,900
Revolving credit facilities						
Interest ⁽¹⁾	1,240	-	-	-	-	-
Principal	29,141	-	-	-	-	-
Convertible debentures						
Interest	3,179	3,179	3,179	3,179	1,060	-
Principal ⁽³⁾	-	-	-	-	50,866	-
Operating leases	86	112	106	106	101	471
Total	\$ 43,057	\$ 11,779	\$ 9,158	\$ 51,490	\$ 52,634	\$ 3,467

(1) Interest on floating rate debt is based on interest rates prevailing at March 31, 2019.

(2) Principal includes regular amortization and repayments at maturity.

(3) Principal represents face value of debentures at maturity.

Common Shares

At March 31, 2019, the Company had 15,583,298 common shares outstanding.

On January 24, 2019, the Company repurchased and cancelled 1,553,755 common shares at \$6.50 per common share pursuant to the SIB which was commenced late in the fourth quarter of 2018, resulting in a cash outlay of \$10,099.

On August 17, 2018, the Company initiated an NCIB to repurchase up to 893,682 of its outstanding common shares. During the three months ended March 31, 2019, the Company repurchased and cancelled 8,500 shares at a cost of \$57 (average price of \$6.74 per share).

Dividends

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

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

	Three Months Ended March 31	
	2019	2018
Dividends declared	\$ 545	\$ 640
Net loss attributable to shareholders ⁽¹⁾	(4,813)	(1,429)
Payout ratio ⁽¹⁾	(11.3%)	(44.8%)
Funds from operations ⁽²⁾	965	1,107
Payout ratio	56.5%	57.8%
Adjusted funds from operations ⁽²⁾	762	902
Payout ratio	71.5%	71.0%

(1) Holloway adopted the fair value model for investment property effective January 1, 2019 with a restatement of 2018 amounts.

(2) Refer to "Non-IFRS Financial Measures" section.

Other Information

Statement of Financial Position

The following table outlines significant balances or changes in the condensed consolidated statement of financial position from December 31, 2018 to March 31, 2019:

	March 31, 2019	December 31, 2018	Increase (Decrease)	Explanation
Assets				
Cash	\$ 655	\$ 32,610	(31,955)	The decrease in cash is primarily a result of the redemption of the Series C debentures.
Trade and other receivables	4,708	3,628	1,080	Increase is largely due to the timing of credit card receivables.
Asset held-for-sale	-	3,206	(3,206)	Represents the Travelodge in Dartmouth, NS, which was sold on January 15, 2019.
Property and equipment	264,401	241,150	23,251	Change is primarily due to the net revaluation surplus resulting from the accounting policy change, offset by depreciation and property sales.
Investment property ⁽¹⁾	8,931	2,525	6,406	Investment property increased as a result of the acquisition of an office building in Houston, TX.
Loans receivable, including current portion	10,545	8,457	2,088	Increase represents \$2,200 in vendor take-back loans receivable on the sale of three hotels and the change in the US dollar.
Deferred income tax assets ⁽¹⁾	7,482	18,892	(11,410)	Deferred income tax assets decreased due to the accounting policy change for property and equipment which resulted in an increase to the carrying value of the hotel properties.
Liabilities				
Revolving credit facilities	29,141	15,000	14,141	The revolving credit facilities increased primarily due to the redemption of the Series C debentures, the acquisition of an investment property and the common share repurchases which were offset by the sale of 5 properties.
Trade payables and accrued liabilities	8,938	8,369	569	Trade payables and accrued liabilities have increased primarily due to increased capital activity in the period.
Dividends payable	545	-	545	The quarterly dividend declared on March 6, 2019 was paid on April 15, 2019.
Share-based liability	25	902	(877)	Decrease primarily represents the settlement of exercised options.
Convertible debentures, including current portion	50,176	90,225	(40,049)	Change primarily represents the Series C debentures which were fully redeemed in the quarter.
Mortgages payable, including current portion	65,942	78,542	(12,600)	The decrease is related to regular payments along with supplemental payments of \$11,632 related to the sale of four hotels.
Equity				
Equity attributable to shareholders of the Company ⁽¹⁾	140,241	116,450	23,791	Increase represents the comprehensive income for the period offset by dividends declared and the repurchase of common shares.

(1) Holloway adopted the fair value model for investment property effective January 1, 2019 with a restatement of 2018 amounts.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at March 31, 2019. The Company owned 27 hotels including a 62% interest in a hotel in Canada, with a total of 3,055 guest rooms.

Property	Location	No. of Rooms
Alberta		
Best Western®	Grande Prairie	99
Days Inn®	Whitecourt	79
Holiday Inn®	Grande Prairie	146
Quality Inn® and Suites	Grande Prairie	152
Super 8®	Drayton Valley	60
Super 8®	Grande Prairie	148
Super 8®	Slave Lake	58
Super 8®	Whitecourt	59
Leased hotel property ⁽¹⁾	Slave Lake	99
		900
British Columbia		
Super 8®	Fort Nelson	142
Super 8®	Fort St. John	112
		254
New Brunswick		
Travelodge®	Saint John	58
Newfoundland and Labrador		
Super 8® ⁽²⁾	St. John's	81
Northwest Territories		
Quality Inn® and Suites	Yellowknife	129
Super 8®	Yellowknife	66
		195
Nova Scotia		
Holiday Inn Express®	Stellarton	125
Super 8®	Truro	50
Travelodge®	New Glasgow	63
Travelodge®	Sydney	117
		355
Ontario		
Airline	Thunder Bay	155
DoubleTree®	London	323
Super 8®	Timmins	73
Travelodge®	Ottawa	196
Travelodge®	Thunder Bay	93
Travelodge®	Timmins	92
		932
Yukon		
Days Inn®	Whitehorse	99
Westmark® Hotel and Conference Center	Whitehorse	181
		280
Total Rooms		3,055

(1) Leased to a third party effective January 2018.

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

Non-IFRS Financial Measures

This document includes certain non-IFRS financial measures, which the Company uses as supplemental indicators of our operating performance and financial position, for internal planning purposes and for industry comparison purposes. These non-IFRS financial measures do not have any standardized meaning as prescribed by IFRS, and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Non-IFRS financial measures are defined and reconciled to the most directly comparable IFRS measures below.

Free Cash Flow

The Company believes the best metric of its performance is free cash flow. Free cash flow is defined as cash flow from operating activities before changes in working capital and net of the reserve for replacement of furniture, fixtures and equipment (“FF&E”), which is calculated as 4% of rooms revenue. Other entities may calculate free cash flow differently. Free cash flow should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS.

	Three Months Ended March 31	
	2019	2018
Net cash generated from operating activities	\$ 1,019	\$ 1,832
Add / (deduct):		
Changes in items of working capital	441	(319)
FF&E reserve	(677)	(804)
Free cash flow	783	709

Hotel Operating Income

Hotel operating income (or “operating income”) is defined as hotel revenue less hotel expenses. Hotel operating income measures hotel results before interest, depreciation and amortization.

	Three Months Ended March 31	
	2019	2018
Hotel: Rooms	\$ 16,618	\$ 19,706
Food and beverage	2,164	2,364
Rental	250	319
Other	1,056	1,047
Hotel Revenue	20,088	23,436
Deduct:		
Operating expenses	14,969	16,625
Property taxes and insurance	1,271	1,521
Add:		
Management services expenses included in operating expenses	25	10
Investment property expenses included in operating expenses	(32)	-
Hotel operating income	\$ 3,841	\$ 5,300

Management Services Operating Income

Management services operating income is defined as management services revenue less management services expenses.

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 on revaluation, fair value

adjustments on investment property 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, unrealized changes in the fair value of investment property 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.

	Three Months Ended March 31	
	2019	2018
Net loss attributable to shareholders ⁽¹⁾	\$ (4,813)	\$ (1,429)
Add / (deduct):		
Depreciation and amortization on real estate assets	3,596	3,923
(Gain) loss on disposals of assets	(3,478)	3
Selling costs on property and equipment sales	879	-
Revaluation impairment	6,600	-
Fair value adjustment on investment property ⁽¹⁾	-	(900)
Write-off of deferred financing fees and discount on debenture redemption	362	-
Recovery of income taxes ⁽¹⁾	(2,181)	(490)
FFO	\$ 965	\$ 1,107
per basic share	0.06	0.06

(1) Holloway adopted the fair value model for investment property effective January 1, 2019 with a restatement of 2018 amounts.

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, depreciation and amortization of corporate assets, accretion on debt and reserve for replacement of FF&E which is calculated as 4% of rooms revenue. 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.

	Three Months Ended March 31	
	2019	2018
FFO	\$ 965	\$ 1,107
Add / (deduct):		
Share-based expense	202	298
Depreciation and amortization of corporate assets	31	9
Accretion on debt	241	292
FF&E reserve	(677)	(804)
AFFO	\$ 762	\$ 902
per basic share	0.05	0.05

Other Performance Measures

Throughout this MD&A, the Company refers to the following performance measures that do not have a standardized meaning under IFRS but that are commonly used by hospitality companies and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial metrics determined in accordance with IFRS.

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.

Base portfolio: Hotels that have been owned and operating during the current and prior reporting periods.

Book value per share: Book value per share is defined as equity attributable to shareholders of the Company divided by the total number of common shares outstanding.

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 \$10,000 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.

Significant Accounting Policies, Change in Accounting Policies and New Standard

The significant accounting policies of Holloway are described in note 3 of the Company's December 31, 2018 audited consolidated financial statements.

On January 1, 2019, the Company adopted the revaluation model for measurement after recognition for certain asset classes under IAS 16, *Property, Plant and Equipment* ("IAS 16"), adopted the fair value model for measurement after recognition under IAS 40, *Investment Property* ("IAS 40") and adopted IFRS 16, *Leases* ("IFRS 16"). The discussion below is a highlight of the impact these three accounting policy changes have on the Company's financial statements. Full disclosure is included in the Company's financial statements.

Change in accounting policies

IAS 16, *Property, Plant and Equipment*

Effective January 1, 2019, the Company changed its accounting policy for measurement after recognition of certain asset classes of its property and equipment from the cost model to the revaluation model. The change in accounting policy is accounted for prospectively as required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The policy choice is by asset class and, as such, the Company has elected to change its land and buildings and components asset classes to the revaluation model. All other asset classes will continue to be accounted for under the cost model. Under the revaluation model, land and buildings and components are carried at fair value at the date of revaluation and subsequently depreciated until the next revaluation.

The Company has elected the net method for adjustment upon revaluation. The net method eliminates accumulated depreciation and accumulated impairment against the carrying amount of the asset and then revalues the net carrying amount. Depreciation on the carrying amount is charged to profit and loss.

Land and buildings and components are revalued on a sufficiently regular basis using internal models or external appraisals, when available, so that the carrying value of an asset does not materially differ from its fair value at each reporting date. The Company has established a methodology to evaluate when circumstances indicate that the carrying amount may differ materially from its fair value, which includes significant changes in operating performance, economic activity, regional development opportunities and new competition in the markets in which each property operates.

On transition to the revaluation model, initial increases in fair value are recorded in other comprehensive income and accumulated within equity in revaluation surplus. Initial decreases in fair value are recorded in profit and loss. Subsequently, increases in fair value are recorded in other comprehensive income and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously charged to profit and loss, in which case the reversal is recorded in profit and loss. Decreases in fair value are charged against other comprehensive income and the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset, and thereafter are recorded in profit and loss.

To determine the fair value at January 1, 2019, the Company used a capitalized income internal model and considered hotel sales in comparable markets. The fair value models were prepared internally. Capitalization rates used were obtained from an independent third party. In the Company's internal models, each hotel's recent historical operating income was normalized for any unusual and non-recurring events and reduced by a capital expenditure reserve of 4% of revenues. A 4% capital expenditure reserve may not reflect actual capital expenditures for a particular hotel. A capitalization rate specific to the market in which each hotel operates was applied to the operating income. In situations where the capitalized income value resulted in a fair value which differed significantly from the price per room metrics in recent transactions, the Company used comparable hotel sales prices, professional judgement and management expertise to determine the fair value. The fair value may not reflect the realizable value in the event a particular hotel is sold by the Company.

On January 1, 2019, the Company recorded a revaluation surplus of \$53,000 on 20 hotels where the fair value exceeded the carrying value and a revaluation expense of \$6,600 on 8 hotels where the carrying value exceeded the fair value. One hotel's fair value equaled its carrying value.

These are level 3 fair value measurements under the fair value hierarchy. A key factor of estimation uncertainty used in the internal models was the capitalization rate, which ranged from 9.0% - 11.0%.

If the capitalization rate had been 0.25% higher/lower, the estimated fair value under the capitalized income approach would result in a change of \$4,500 to property and equipment. If the value of the comparable hotel sales had been 5% higher/lower, the estimated fair value would result in a change of \$2,800 to property and equipment.

IAS 40, Investment Property

Effective January 1, 2019, the Company changed its accounting policy for measurement after recognition of its investment property from the cost model to the fair value model. The change in policy was applied retrospectively, which means the policy was applied to transactions, events and conditions as if it had always been in effect. This accounting policy change will provide consistent carrying values of our investment property with our controlling shareholder's purchase price allocation upon their acquisition on control.

Investment property is held either to earn rental income, for capital appreciation (including future re-development) or both, but not for sale in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs, and subsequently measured at fair value at each reporting date. The difference between the fair value at the reporting date and the carrying value is recognized in profit and loss. Under the fair value model, investment property is not depreciated.

New accounting standard

IFRS 16, *Leases*

IFRS 16, *Leases* replaces IAS 17, *Leases*. The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. The Company has selected the modified retrospective approach without the use of practical expedients as its transition method for this standard. The Company elected to apply exemptions for short-term and low value assets under lease upon transition. The Company evaluated the impact of this new standard and at January 1, 2019, recorded a right-of-use asset and corresponding lease obligation of \$738 on its interim condensed consolidated statement of financial position related to the Company's head office space lease. The right-of-use asset is presented in property and equipment. The current portion of the lease obligation is presented in trade payables and accrued liabilities. The standard did not have an impact on the Company's opening deficit.

Critical Accounting Estimates and Judgments

The discussion and analysis of Holloway's financial position and results of operations are based on its condensed consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of the condensed 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. Information regarding the Company's critical accounting estimates is disclosed in note 4 of the Company's December 31, 2018 audited financial statements and its MD&A dated March 6, 2019. Other than the changes in accounting policy to the revaluation model under IAS 16 and fair value model under IAS 40 discussed previously, there have been no other material changes to the Company's critical accounting estimates and judgments.

Financial Instruments and Risk Management

Financial Instruments

The Company's financial instruments consist of cash, trade and other receivables, loans receivable, revolving credit facilities, trade payables and accrued liabilities, dividends payable, accrued interest on convertible debentures, mortgages payable and convertible debentures.

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

	March 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	\$65,942	\$66,924	\$78,542	\$79,900
Convertible debentures	50,176	51,092	90,225	90,627

Mortgages 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 debt instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions.

Convertible debentures: 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 an 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 convertible debentures. Any change in the fair value of the redemption option is recorded in interest and accretion on debt in the interim condensed 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, liquidity risk and cyber 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. Please refer to the Company's annual MD&A dated March 6, 2019 for further discussion of these risks.

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 for timely decisions regarding required public disclosure.

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 internal 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.

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent interim period ended March 31, 2019 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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 conflicts of interest, availability of additional capital, debt financing, external hotels under management, 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 8, 2019 which is available on Holloway's profile on the SEDAR website at www.sedar.com.