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

As at May 7, 2015

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, 2015, and should be read in conjunction with the unaudited interim consolidated condensed financial statements of the Company and the notes thereto as at and for the three months ended March 31, 2015, as well as the audited consolidated financial statements and MD&A thereon for the year ended December 31, 2014. The financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in thousands of Canadian dollars, except for share and per share amounts, unless otherwise noted. This MD&A is dated as at May 7, 2015.

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

Business Overview

Holloway owns and operates hotels across Canada and the United States.

Hotels: At March 31, 2015, Holloway's portfolio consists of 35 hotels with 3,967 rooms of which 25 hotels are limited service properties and 10 hotels are full service properties. Of the Company's 35 hotels, 31 are operated under internationally recognized hotel brands. Effective January 30, 2015, the Company internalized all of its hotel management.

Franchise Business: Holloway previously owned the master franchise rights for the Travelodge® and Thriftlodge® hotel brands in Canada which had 89 Travelodge® and Thriftlodge® branded hotels in its franchise network. On March 31, 2015, the Company sold the franchise business for gross proceeds of $21.0 million.

Other Assets: Holloway currently owns three freestanding single tenant properties leased to nationally recognized restaurant chains and seven land parcels that are being held for future development. Holloway sold one parcel of land subsequent to March 31, 2015.

Key Events

- Holloway generated gains of $8.1 million (or 21%) on the sale of three assets in the first quarter:
    - Ramada® hotel in Trenton, ON was sold for $4.0 million
    - Travelodge® hotel in Toronto, ON was sold for $13.0 million representing a 2.6% cap rate
    - Travelodge® and Thriftlodge® franchise business was sold for $21.0 million

- Holloway repaid $23.4 million of debt (or 9.3% of total debt) and currently has eight unencumbered properties.

- Holloway acquired the Days Inn® hotel in Whitehorse, YT for $8.2 million representing an 11.5% cap rate.

- Holloway internalized all management effective January 30, 2015.

- Holloway commenced the renovation and rebranding of our Hilton® hotel in London, ON to a DoubleTree by Hilton®.

First Quarter Overview and Outlook

	Three Months Ended March 31		
	2015	2014	Variance
Revenue	$ 28,478	$ 15,351	85.5%
Operating income(1)	7,066	5,534	27.7%
Operating income margin	24.8%	36.0%	(11.2 ppt)
Net income	6,816	1,559	337.2%
per basic and diluted share	0.35	0.09	288.9%
Funds from operations	1,644	3,230	(49.1%)
per basic and diluted share	0.08	0.18	(55.6%)
Adjusted funds from operations	1,329	2,903	(54.2%)
per basic and diluted share	0.07	0.16	(56.3%)
Dividends declared per share	0.035	0.035	-

(1) Before depreciation and amortization.

Hotel Performance

Holloway's first quarter results reflect the addition of the Royal Host hotels which were acquired on July 1, 2014 and as such, Holloway's 2014 comparative figures do not include these hotels. The base portfolio realized a 3.4% decrease in revenue, a 6.7% decrease in operating income and a 120 basis point decrease in operating income margin to 35.5%, in all cases largely due to lower occupancy in Western Canada. Results in Western Canada in January and February varied depending on hotel location with only select markets experiencing weakness due to unseasonably warm weather and the impact of lower oil and gas prices. By March, however, most of our Western Canada hotels were experiencing lower occupancies due to lower oil and gas prices and an early spring break up.

The Royal Host hotels contributed $12.3 million in revenue and $1.2 million in operating income in the first quarter and had operating margins of 10.1%. Results in the Royal Host portfolio were impacted by major renovations at the Hilton® hotel in London which resulted in our food and beverage operation and several floors of rooms being out of order for the quarter. Our food and beverage operations have since reopened in a beautiful new space and our licensed and operated Starbucks® has commenced operations. The impact of renovations will continue throughout much of 2015 as the Hilton® renovations are expected to continue until the summer while our Chimo hotel in Ottawa is expected to begin its major renovations in

the summer. These two major capital projects will lead to elevated capital spending throughout the remainder of 2015 but also improved results for years to come.

We are continuing to work on improving operating margins at the Royal Host hotels and we believe our work is beginning to pay off despite headwinds in Western Canada. In the second half of 2014, we focused on the "low hanging fruit" in terms of cost reductions and operational improvements. We are now pursuing additional changes, including labour productivity improvements, upgrading older properties and shutting down poorly performing parts of our acquired business. As examples, we recently decided to permanently close our food, beverage and banquet operation at the Travelodge® hotel in Ottawa and one of the food and beverage operations in Yellowknife; while these outlets generated in excess of $1.0 million of revenue, they generated nominal to negative cash flow. We would rather focus our time, attention and working capital in more profitable parts of our business.

Finally, on January 30, 2015 we achieved a milestone by severing our relationship with our last remaining third party hotel manager. This change is expected to result in cost savings of $3.0 million over the next three years and simplify our operating structure.

Acquisitions and Dispositions

During the quarter, we sold our Trenton and Toronto properties for gross proceeds of $17.0 million. These properties were acquired through our acquisition of Royal Host and we did not expect the properties to generate meaningful cash flow without significant investments of capital ($275 thousand of cash flow in 2014); even then, the cash flow potential of the properties was dubious. What was particularly compelling about these hotel sales is that we were able to use the cash received to acquire a hotel in Whitehorse that we expect to generate more than $1.0 million of annual cash flow in coming years and also to repay high cost debt. In the aggregate, we believe the sales proceeds from the $275 thousand-cash generating hotels were deployed in a manner that will result in annual cash flows of $1.5 million going forward.

We also sold our franchise business at the end of the first quarter, receiving total consideration of $21.0 million. While the franchise business was capital-light and a consistent cash flow generator, it was not core to Holloway, it was not a business with which management had expertise and it would have received less management attention than a hotel of equivalent value. We used the cash proceeds received on the sale to further reduce debt. In the aggregate, our three asset sales during the quarter generated proceeds of $38.0 million and gains on sale of $8.1 million. This is impressive considering the total equity value of Royal Host at the time of acquisition was $23.0 million.

It is worth noting that our acquisitions have been infrequent and we expect that to continue to be the case in the future. At the moment, we believe many investors are adjusting their return expectations down as interest rates decrease; we are not reducing our return expectations just because the cost of debt is cheaper and the result is that we are less competitive in acquiring assets in this interest rate environment. That is fine with us. We fully expect that we will make mistakes from time to time as acquisitions always entail risk, but we prefer not to "stretch" for value and rather focus on minimizing unforced errors.

At the end of the first quarter we acquired a non-performing mortgage loan; we have since commenced foreclosure proceedings with a view to having the mortgage repaid at face value or taking possession of the hotel property.

Balance Sheet

Holloway's debt level was $261.5 million immediately following the acquisition of Royal Host. This was reduced to $250.8 million at year end and has since been reduced further to $231.0 million at March 31, 2015. We anticipate more debt reduction as the year progresses.

Outlook

There is much uncertainty regarding oil and gas prices at the moment and this will negatively impact our Western Canada hotels. To date, occupancy at our Western Canada hotels has decreased however rates have held up well. We are managing our cost structure closely to minimize the impact revenue declines have on cash flow. Ultimately, we believe any performance declines will be temporary.

We expect the weaker Canadian dollar to positively impact our properties in the rest of Canada, particularly those in Northern Canada and Atlantic Canada. We also expect the performance of the Royal Host hotels to continue to improve as the year progresses, although we will see revenue declines, in the short term, at the Hilton® hotel in London and the Chimo hotel in Ottawa due to major renovations that will shut down parts of the hotel during the year.

Dividend Declaration

On May 7, 2015, 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 15, 2015 to shareholders of record on May 29, 2015.

Operating Results

The following discussion summarizes Holloway's performance for the three months ended March 31, 2015.

Hotel Performance

The following tables summarize the performance of Holloway's base portfolio of hotels for the three months ended March 31, 2015 compared to the same period in the prior year, along with the performance of hotels acquired and/or sold during the same periods. The base portfolio includes the 17 hotels owned by Holloway throughout all periods and acquired/sold hotels include the 17 Royal Host hotels acquired in July 2014; the Holiday Inn Express® in Kamloops, BC, the Days Inn® in Whitecourt, AB, the Super 8® in St. John's, NL, and Days Inn® in Whitehorse, YT. Two of the Royal Host hotels acquired in July 2014, the Ramada® in Trenton, ON, and the Travelodge® in Toronto, ON, were sold during the quarter.

Three Months Ended March 31	Base Portfolio			Acquired/Sold Hotels			Total		
	2015	2014	Variance	2015	2014[2]	Variance	2015	2014	Variance
Hotel revenue	$ 14,442	$ 14,958	(3.4%)	$ 13,624	$ 393	3366.7%	$ 28,066	$ 15,351	82.8%
Hotel operating income[1]	5,125	5,493	(6.7%)	1,595	41	3790.2%	6,720	5,534	21.4%
Hotel operating income margin	35.5%	36.7%	(1.2 ppt)	11.7%	10.4%	1.3 ppt	23.9%	36.0%	(12.1 ppt)

(1) Before depreciation and amortization.
(2) Represents one hotel (Holiday Inn Express® in Kamloops, BC).

The increases in hotel revenue and hotel operating income are primarily due to the acquisition of Royal Host, which accounted for 97% of the hotel revenue change and nearly all of the operating income change.

Increases in food and beverage and other revenue are due to the acquisition of Royal Host as the expanded portfolio includes additional full service hotels and hotels with space leased to tenants. Full service hotels generally have lower operating margins than limited service hotels due to restaurant operations resulting in a lower operating income margin for the total portfolio.

Three Months Ended March 31	Base Portfolio			Acquired/Sold Hotels			Total		
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Occupancy									
Atlantic Canada	55.1%	50.3%	4.8 ppt	48.8%	-	48.8 ppt	52.1%	50.3%	1.8 ppt
Western Canada	67.2%	77.9%	(10.7 ppt)	53.1%	47.6%	5.5 ppt	64.6%	76.0%	(11.4 ppt)
Ontario	-	-	-	51.2%	-	51.2 ppt	51.2%	-	51.2 ppt
United States	54.0%	48.9%	5.1 ppt	-	-	-	54.0%	48.9%	5.1 ppt
Total	63.5%	69.7%	(6.2 ppt)	51.0%	47.6%	3.4 ppt	56.3%	68.7%	(12.4 ppt)
ADR									
Atlantic Canada	$ 107.62	$ 108.52	$ (0.90)	$ 89.97	$ -	$ 89.97	$ 99.81	$ 108.52	$ (8.71)
Western Canada	144.62	135.12	9.50	134.05	115.33	18.72	143.06	134.35	8.71
Ontario	-	-	-	99.87	-	99.87	99.87	-	99.87
United States (in USD)	78.14	76.71	1.43	-	-	-	78.14	76.71	1.43
Total	$ 134.04	$ 128.39	$ 5.65	$ 102.47	$ 115.33	$ (12.86)	$ 117.53	$ 127.99	$ (10.46)
RevPAR									
Atlantic Canada	$ 59.30	$ 54.59	$ 4.71	$ 43.91	$ -	$ 43.91	$ 52.00	$ 54.59	$ (2.59)
Western Canada	97.18	105.26	(8.08)	71.18	54.90	16.28	92.42	102.11	(9.69)
Ontario	-	-	-	51.13	-	51.13	51.13	-	51.13
United States (in USD)	42.20	37.51	4.69	-	-	-	42.20	37.51	4.69
Total	$ 85.12	$ 89.49	$ (4.37)	$ 52.26	$ 54.90	$ (2.64)	$ 66.17	$ 87.93	$ (21.76)

As most of the Royal Host hotels are located in Ontario, this region accounted for the largest variances compared to the prior year. The Western Canada hotels experienced lower occupancy due to softening demand from oil and gas crews as a result of decreased exploration activity due to the decline in the price of oil. The Western Canada hotels also recorded a 6.5% increase in average room rates as a result of their changing business mix, which saw a greater proportion of business from higher rated segments and a lower volume from crew accommodation. However, the amount of the rate increase was not sufficient to offset the decrease in occupancy and prevent a RevPAR decline.

In Myrtle Beach, both occupancy and rate increased due to a strengthening leisure market.

Franchise Business Performance

	Three Months Ended March 31		
	2015	2014	Variance
Franchise revenue	$ 412	$ -	$ 412
Franchise operating income[1]	346	-	346
Franchise operating income margin	84.0%	-	84.0 ppt

(1) Before depreciation and amortization.

In the three months ended March 31, 2015, the franchise business contributed $346 thousand to operating income. On March 31, 2015, the Company sold the franchise business for gross proceeds of $21.0 million.

Other Expenses

	Three Months Ended March 31		
	2015	2014	Variance
Interest and accretion on debt	$ 4,354	$ 1,779	$ 2,575
Corporate and administrative	859	500	359
Share-based compensation	74	75	(1)
Investment income	-	(60)	60
Loss (gain) on disposals of property and equipment, franchise business, minority interest investment in hotel property and repurchase of convertible debentures	(8,055)	38	(8,093)
Reversal of impairment of hotel property	-	(1,217)	1,217
Acquisition costs	135	-	135
Provision for (recovery of) deferred income taxes	(800)	570	(1,370)

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

During the first quarter of 2015, the Company recorded gains on sale of $8.1 million related to the sales of the franchise business, Ramada® in Trenton, ON and the Travelodge® in Toronto, ON. During the first quarter of 2014, the Company recorded a reversal of a previously recorded impairment on the Holiday Inn Express® in Kamloops, BC of $1.2 million which was sold on April 1, 2014.

Acquisition costs in the first quarter of 2015 consisted of legal fees and a franchise termination fee related to the acquisition of the Ramada® in Whitehorse, YT which was rebranded as a Days Inn® shortly after the acquisition.

During the first quarter of 2015, the Company recognized a deferred income tax recovery of $800 thousand as it expects there will be sufficient taxable income in the foreseeable future to allow the Company to recognize the full amount of its deferred tax assets of $22.6 million.

Quarterly Results

	Q1 2015	Q1 2014	Q4 2014	Q4 2013	Q3 2014	Q3 2013	Q2 2014	Q2 2013
Total revenue	$28,478	$15,411	$31,748	$14,451	$36,201	$16,722	$14,485	$14,385
Operating income[(1)]	7,066	5,534	9,269	4,880	13,237	6,610	5,179	4,887
Net income	6,816	1,559	11,487	2,862	13,680	1,251	606	64
Funds from operations	1,644	3,230	3,171	2,729	7,508	4,007	2,353	2,223
Adjusted funds from operations	1,329	2,903	2,406	2,445	6,943	3,731	2,060	1,949
Dividends declared	677	628	678	628	678	628	627	628
Per basic share:								
Net income	$ 0.35	$ 0.09	$ 0.59	$ 0.16	$ 0.70	$ 0.07	$ 0.03	$ -
Funds from operations	0.08	0.18	0.16	0.15	0.39	0.15	0.13	0.12
Adjusted funds from operations	0.07	0.16	0.12	0.14	0.36	0.14	0.11	0.11
Dividends declared	0.035	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	56%	69%	57%	65%	72%	69%	66%	66%
ADR	$117.53	$127.99	$116.15	$122.91	$112.76	$127.99	$128.72	$122.73
RevPAR	$66.17	$87.93	$65.97	$79.28	$81.19	$95.05	$84.92	$81.16

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

Cash Flow

	Three Months Ended March 31		
	2015	2014	Variance
Cash flow provided by / (used in):			
Operating activities	$ 716	$ 3,331	$ (2,615)
Investing activities	19,590	(965)	20,555
Financing activities	(20,819)	(1,102)	(19,717)

Operating Activities

For the three months ended March 31, 2015, operating activities generated $0.7 million compared to the same period in the prior year of $3.3 million. This decrease was driven by lower occupancy in Western Canada, higher interest costs, as well as the payment of the $1.0 million to the Company's prior external manager, which reduced cash flow from operating activities.

Investing Activities

For the three months ended March 31, 2015, investing activities generated $19.6 million compared to a use of $965 thousand in the same period of 2014. Among other activities in 2015, the Company sold the franchise business for $21.0 million, the Ramada® in Trenton, ON for $4.0 million and the Travelodge® in Toronto, ON for $13.0 million and made

additions and capital improvements at its properties of approximately $2.6 million. For the three months ended March 31, 2014, the use of cash consisted primarily of additions and capital improvements of $912 thousand at its properties.

Financing Activities

For the three months ended March 31, 2015, financing activities used $20.8 million compared to the same period in the prior year of $1.1 million. The repayment of secured credit facilities consumed $21.0 million, which was funded principally from the proceeds received on sales of hotels and the franchise business. Mortgage principal payments consumed $2.4 million of which $1.4 million was regular principal payments and $1.0 million was additional payments made using sale proceeds. For the three months ended March 31, 2014, the use of cash consisted of regular mortgage principal payments of $1.0 million.

Liquidity and Capital Structure

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

		March 31, 2015
Cash on hand	$	2,960
Capital expenditure reserves[1]		2,675
Secured credit facility availability[2]		15,837
Total current liquidity [3]	$	21,472

(1) Contingent on capital expenditures being incurred.
(2) Includes outstanding letter of credit.
(3) Excludes proceeds from financing unencumbered assets.

The Company's principal sources of liquidity are cash on hand, cash deposited in capital expenditure reserve accounts, free cash flow generated throughout the year and its secured credit facility. In addition, the Company currently has eight unencumbered properties which can be mortgaged should circumstances warrant, and the terms of the Company's convertible debentures permit the payment of interest and the repayment of principal through the issuance of common shares in lieu of cash.

Secured Credit Facilities and Mortgages and Loan Payable

		March 31, 2015		December 31, 2014
Secured Credit Facilities				
Principal amount payable	$	8,765	$	27,007
Weighted average term to maturity		0.8 years		1.2 years
Weighted average interest rate		4.50%		6.11%
Mortgages and Loan Payable				
Principal amount payable	$	134,208	$	136,211
Weighted average term to maturity		3.2 years		3.2 years
Weighted average interest rate		6.15%		6.21%

Chartered Bank Credit Facility

At March 31, 2015, Holloway had a revolving credit facility with a Canadian chartered bank with a maximum borrowing capacity of $25.0 million. The credit facility is used to manage working capital fluctuations and the seasonal effects of the hospitality industry as well as provide short-term financing in the event of a hotel acquisition or hotel renovation. The credit facility is secured by a registered charge on seven hotels and is currently over-collateralized based on the terms of the credit facility. The interest rate under the credit facility is based on the bank's prime rate plus 1.50%.

At March 31, 2015, Holloway had $8.8 million drawn under its credit facility with an interest rate of 4.50%. The revolving facility matures on December 31, 2015.

Clarke Inc. and Clarke Inc. Master Trust Credit Facilities

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

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

Mortgages and Loan Payable

The Company has incurred debt under nineteen mortgages and one promissory note with a weighted average interest rate of 6.15%. These various debt instruments mature between April 2016 and July 2029. The mortgages are secured with individual first charges on twenty hotel properties.

During the first quarter, the Company repaid one mortgage of $0.8 million in full. The Company also refinanced a mortgage with the same lender, extending the maturity date from July 2016 to February 2020 and reducing the interest rate from 6.00% to 4.25%. Refinancings are part of the Company's strategy to extend its maturity profile and take advantage of the current low interest rate environment.

The Company is subject to financial covenants on certain of its mortgages payable and secured credit facilities, which include customary terms and conditions for borrowings of this nature. At March 31, 2015, all covenants were in compliance.

Convertible Debentures

At March 31, 2015, the Company had two series of convertible debentures outstanding. Effective October 31, 2014, the Company consolidated its Series B and Series D convertible debentures into a single series of convertible debentures (known as the Series B convertible debentures and trading under the symbol "HLC.DB"). The combined series of convertible debentures have an aggregate principal amount outstanding of $52.6 million, bear interest at 6.25%, have interest payment dates of April 30 and October 31 and mature on February 28, 2020. The Series C convertible debentures (trading under the symbol "HLC.DB.A") have an aggregate principal amount outstanding of $40.6 million, bear interest at 7.50%, have interest payment dates of March 31 and September 30 and mature on September 30, 2018.

Subject to availability, the Company intends to continue using convertible debentures as a financing source due to the flexible nature of such 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, 2015:

	Maturity	Interest Rate	March 31, 2015	December 31, 2014
Series B (HLC.DB)	2020	6.25%	$ 52,612	$ 52,621
Series C (HLC.DB.A)	2018	7.50%	40,593	40,601
			$ 93,205	$ 93,222
Weighted average term to maturity			4.3 years	4.6 years
Weighted average interest rate			6.79%	6.79%

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

On January 13, 2015, the Company initiated normal course issuer bids (each, a "NCIB") to repurchase a maximum of $4.1 million principal amount of its Series B convertible debentures and $3.4 million principal amount of its Series C convertible debentures. These NCIBs will be in effect until January 12, 2016 unless terminated earlier by the Company. At the date hereof, Holloway had repurchased $9 thousand face value of Series B Debentures at a cost of $8 thousand (average cost of $89.82 per $100 face value) and has not repurchased any Series C Debentures.

Leverage

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

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

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Debt to gross book value excluding convertible debentures	**28.4%**	32.0%
Debt to gross book value including convertible debentures	**46.1%**	49.3%

Contractual Obligations

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

	Remainder of 2015	2016	2017	2018	2019	Thereafter
Mortgages and loan payable						
Interest[1]	$ 5,986	$ 7,432	$ 4,455	$ 835	$ 518	$ 1,005
Principal[2]	4,731	10,978	94,365	10,964	5,441	7,729
Secured credit facilities						
Interest[1]	296	-	-	-	-	-
Principal	8,765	-	-	-	-	-
Convertible debentures						
Interest	4,810	6,333	6,333	5,572	3,288	1,096
Principal[3]	-	-	-	40,593	-	52,612
Operating leases	517	335	291	95	45	30
Total	$ 25,105	$ 25,078	$ 105,444	$ 58,059	$ 9,292	$ 62,472

(1) Interest on floating rate debt is based on interest rates prevailing at March 31, 2015.

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

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

Commitments to Capital Spending

At the date of this MD&A, the Company has entered into franchise agreements for the rebranding of two of its properties and has committed to certain renovations in connection with such rebrandings. One of these rebrandings is expected to be completed in 2015 while the other rebranding is expected to be completed in late 2015 or early 2016.

Common Shares

At March 31, 2015, the Company had 19,350,289 shares outstanding.

On August 13, 2014, the Company initiated an NCIB to repurchase up to 978,628 of its outstanding common shares. At the date hereof, Holloway had repurchased and cancelled 23,700 shares at a cost of $123 thousand (average price of $5.25 per share), all of which were repurchased in the first quarter of 2015.

Dividends

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

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

	Three Months Ended March 31, 2015
Dividends declared	$ 677
Net income	6,816
Payout ratio	9.9%
Funds from operations	1,644
Payout ratio	41.2%
Adjusted funds from operations	1,329
Payout ratio	50.9%

Other Information

Balance Sheet

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

	March 31, 2015	December 31, 2014	Increase (Decrease)	Explanation
Assets				
Cash	$ 2,960	$ 3,473	(513)	Refer to the "Cash Flow" section.
Prepaid expenses and deposits	3,256	2,258	998	Property tax reserve balances held by lenders increased.
Current portion of loans receivable	1,858	-	1,858	Loan receivable on loan acquired by Holloway during the first quarter of 2015.
Property and equipment	323,455	330,307	(6,852)	Due to the sale of the Travelodge® in Toronto, ON and Ramada® in Trenton, ON and depreciation, offset by the acquisition of the Days Inn® in Whitehorse, YT.
Franchise business	-	14,700	(14,700)	Due to the sale of the Travelodge® and Thriftlodge® franchise business during the first quarter of 2015.
Loans receivable	5,079	-	5,079	Loan receivable resulting from the sale of the Travelodge® and Thriftlodge® franchise business during the first quarter of 2015.
Liabilities				
Trade payables and accrued liabilities	11,423	12,210	(787)	The balance at year end included an accrual of $1,000 for the termination payment of the management contract with the Company's prior external manager and a deposit of $750. These decreases are offset by higher property tax accruals at March 31, 2015.
Secured credit facilities	-	18,000	(18,000)	Refer to secured credit facilities in the "Liquidity and Capital Structure" section.
Equity				
Equity attributable to shareholders of the Company	122,197	115,913	6,284	Increase primarily represents comprehensive income, net of dividends declared, as well as the repurchase of common shares.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at March 31, 2015. The Company owned 33 hotels in Canada, 1 hotel in the United States and a 62% interest in another hotel in Canada, with a total of 3,967 guest rooms.

Property	Location	No. of Rooms	Interest
Alberta			
Best Western®	Grande Prairie	100	100%
Days Inn®	Whitecourt	79	100%
Holiday Inn®	Grande Prairie	145	100%
Holloway Inn and Suites	Grande Prairie	152	100%
Super 8®	Drayton Valley	60	100%
Super 8®	Grande Prairie	149	100%
Super 8®	High Level	81	100%
Super 8®	Slave Lake	58	100%
Super 8®	Whitecourt	59	100%
Travelodge®	Slave Lake	99	100%
		982	
British Columbia			
Super 8®	Fort Nelson	142	100%
Super 8®	Fort St. John	101	100%
		243	
New Brunswick			
Holiday Inn Express® and Suites	Moncton	151	100%
Travelodge®	Moncton	75	100%
Travelodge®	Saint John	59	100%
		285	
Newfoundland and Labrador			
Super 8®	St. John's	**81**	62%
Northwest Territories			
Super 8®	Yellowknife	66	100%
Yellowknife Inn	Yellowknife	129	100%
		195	
Nova Scotia			
Holiday Inn Express®	Stellarton	125	100%
Super 8®	Truro	50	100%
Super 8®	Windsor	66	100%
Travelodge®	Dartmouth	75	100%
Travelodge®	New Glasgow	64	100%
		380	
Ontario			
Airlane	Thunder Bay	153	100%
Chimo	Ottawa	256	100%
Hilton®	London	323	100%
Holiday Inn®	Oakville	147	100%
Super 8®	Timmins	74	100%
Travelodge®	Barrie	130	100%
Travelodge®	Belleville	124	100%
Travelodge®	Ottawa	196	100%
Travelodge®	Thunder Bay	93	100%
Travelodge®	Timmins	92	100%
		1,588	
Yukon			
Days Inn® (Note 1)	Whitehorse	**99**	100%
South Carolina – USA			
Holiday Inn Express®	Myrtle Beach	**114**	100%
Total Rooms		**3,967**	

Note 1: This hotel was acquired during the quarter.

Related Party Transactions

At March 31, 2015, Clarke owned or exercised control or direction over 7,874,815 common shares of Holloway, representing approximately 41% of the Company's issued and outstanding shares; accordingly, Clarke is considered a related party of Holloway. During the three months ended March 31, 2015, the Company incurred IT fees of $71 thousand for IT services supplied by Clarke. As of March 31, 2015, $46 thousand was owing in respect of these fees. The Company had borrowed money from Clarke pursuant to two secured credit facilities. During the three months ended March 31, 2015, the Company incurred interest under these facilities of $270 thousand. As of March 31, 2015, accrued interest of $81 thousand was owing. These facilities were repaid in full during the three months ended March 31, 2015.

The Clarke Pension Plan is considered a related party of Holloway due to its affiliation with Clarke. The Company had borrowed money from the Clarke Pension Plan pursuant to a mortgage and a secured credit facility. During the three months ended March 31, 2015, the Company incurred interest under these facilities of $53 thousand. As of March 31, 2015, accrued interest of $13 thousand was owing. The secured credit facility was repaid in full during the three months ended March 31, 2015.

Non-IFRS Financial Measures

Funds from Operations ("FFO")

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

	Three Months Ended March 31	
	2015	2014
Net income	**$ 6,816**	$ 1,559
Add / (deduct):		
Depreciation and amortization of real estate assets	**3,683**	2,280
Reversal of impairment of hotel property	**-**	(1,217)
Loss (gain) on disposals of property and equipment, franchise business, minority interest investment in hotel property and repurchase of convertible debentures	**(8,055)**	38
Provision for (recovery of) income taxes	**(800)**	570
FFO	**$ 1,644**	$ 3,230
per basic share	**0.08**	0.18

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 compensation, depreciation and amortization of corporate assets, change in fair value of embedded derivative, accretion on debt and reserve for replacement of FF&E. Other entities may calculate AFFO differently. AFFO should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS. The Company believes the best metric of its performance is free cash flow.

	Three Months Ended March 31	
	2015	2014
FFO	**$ 1,644**	$ 3,230
Add / (deduct):		
Share-based compensation	**74**	75
Depreciation and amortization of corporate assets	**26**	25
Change in fair value of embedded derivative	**155**	-
Accretion on debt	**283**	41
FF&E reserve	**(853)**	(468)
AFFO	**$ 1,329**	$ 2,903
per basic share	**0.07**	0.16

Other Non-IFRS Metrics

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

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

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

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

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

Legal Proceedings

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

Significant Accounting Policies

The significant accounting policies of Holloway are described in note 3 of the Company's December 31, 2014 consolidated financial statements. There have been no material changes to the Company's accounting policies.

Critical Accounting Estimates and Judgments

The discussion and analysis of Holloway's financial position and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of 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 the Company's annual financial statements in note 4 and its MD&A dated March 11, 2015. There have been no 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, restricted cash, trade and other receivables, capital reserve – restricted, loans receivable, trade payables and accrued liabilities, dividends payable, accrued interest on convertible debentures, secured credit facilities, mortgages and loan payable and convertible debentures.

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

	March 31, 2015	
	Carrying value	Fair value
Mortgages and loan payable	$ 133,772	$ 124,243
Convertible debentures	88,430	91,020

Mortgages and loan payable: The fair values are determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for 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 fair value is based on the quoted market price for the convertible debentures at March 31, 2015.

Risk Management

The Company's activities expose it to a variety of financial risks: interest rate risk, credit risk, currency risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance. Please refer the Company's annual MD&A dated March 11, 2015 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 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 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, 2015 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, availability of additional capital and debt financing and risks relating to the structure of the Company. Information on these risks and uncertainties are described under "Risk Factors" in the Company's Annual Information Form dated March 11, 2015 which is available on Holloway's profile on the SEDAR website at www.sedar.com.