Management's Discussion and Analysis for the Three and Six Months Ended June 30, 2019

As at August 9, 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 and six months ended June 30, 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 and six months ended June 30, 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 August 9, 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, provides hotel management services to third parties and owns three commercial office buildings in Houston, TX.

Hotels: As of June 30, 2019, Holloway's portfolio consisted of 25 hotels with 2,890 rooms of which 24 are operated by Holloway and one has been leased to a third party on a triple net basis. Of the 24 hotels operated by Holloway, 19 hotels are limited service and five hotels are full service properties. In addition, 22 are operated under internationally recognized hotel brands, one is operated under a regional hotel brand and one is unbranded.

Other Assets: As of June 30, 2019, Holloway owned three commercial office buildings in Houston, TX, one freestanding single tenant property leased to a nationally recognized restaurant chain and two land parcels that are being held for potential future development. Holloway also owns six subordinated loans with an aggregate principal amount of $6,920 related to previous asset sales.

Management Services: As of June 30, 2019, the Company provided full or partial management services to 15 third party owned hotels. Additional information regarding this division is available at www.hollowaymanagementservices.ca.

Second 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 and six months ended June 30, 2019.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Variance	2019	2018	Variance
Hotel revenue	$ 20,830	$ 26,635	(21.8%)	$ 40,918	$ 50,071	(18.3%)
Operating income[1]	5,674	8,272	(31.4%)	9,515	13,572	(29.9%)
Operating income margin	27.2%	31.1%	(3.9 ppt)	23.3%	27.1%	(3.8 ppt)
Net income (loss) attributable to shareholders[2]	3,993	429	830.8%	(820)	(1,004)	(18.3%)
per basic share[2]	0.26	0.02		(0.05)	(0.05)	
Funds from operations[1]	5,173	4,824	7.2%	5,766	5,907	(2.4%)
per basic share	0.33	0.26		0.37	0.32	
Adjusted funds from operations[1]	3,222	4,199	(23.3%)	3,974	5,079	(21.8%)
per basic share	0.21	0.23		0.25	0.28	
Dividends declared per share	0.035	0.035		0.07	0.07	

	Three Months Ended June 30				Six Months Ended June 30			
	Hotel Revenue		Operating Income[1]		Hotel Revenue		Operating Income[1]	
2018	$ 26,635	100%	$ 8,272	100%	$ 50,071	100%	$ 13,572	100%
Hotels sold[3]	(5,677)		(1,956)		(8,897)		(2,957)	
Ontario hotels	(344)		(396)		70		(221)	
Atlantic hotels	(133)		(143)		(20)		(12)	
Western hotels	336		(15)		70		(425)	
Northern hotels	13		(88)		(376)		(442)	
2019	$ 20,830	78%	$ 5,674	69%	$ 40,918	82%	$ 9,515	70%

(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 eight hotels - Super 8 in High Level, AB, and Holiday Inn in Ottawa, ON, sold in Q4 2018; Travelodge in Dartmouth, NS, Travelodge in Moncton, NB, Days Inn in Moncton, NB, and Super 8 in Windsor, NS, sold in Q1 2019; and Super 8 in Timmins, ON, and Travelodge in Timmins, ON, sold in Q2 2019.

Revenue, operating income and operating margins declined in the second quarter of 2019 due to the sale of hotels and several weak markets. Our overhead costs have not fallen commensurately with the sale of hotels due in part to certain corporate costs which are less sensitive to the number of hotels we own and in part due to the start-up of our third party management business. Our net income benefitted from lower interest expense and an increase in the valuation of certain hotels.

Second quarter revenue in the Ontario region declined by 5% while operating income declined by 21%. These declines were driven by weaker performance from the DoubleTree® hotel in London, ON, which eclipsed otherwise positive performance in our Ottawa and Thunder Bay hotels.

The Atlantic region generally experienced sluggish performance. The St. John's, NL market continues to struggle as it has not yet absorbed the significant hotel room supply that entered the market in recent years.

The Western region saw a 5.2% increase in revenue over the second quarter of 2018, but higher costs resulted in a marginal decline in operating income. Higher costs were primarily driven by an increase in the minimum wage in Alberta and British Columbia.

The Northern region saw steady revenue and slightly lower operating income. This was driven by a decline in crew business at one of our hotels as several infrastructure projects in the area were completed. Work to repair damage caused by a sprinkler break at the Super 8® hotel in Yellowknife is wrapping up this month. During the quarter, we recorded $107 in business interruption insurance proceeds.

Management Business Performance

We continued to expand our hotel management business, with four contracts commencing during the quarter. At June 30, 2019, Holloway was providing services to 15 third party owned hotels. Negotiations are ongoing for additional contracts.

Capital Allocation

Holloway remained active in the second quarter reshaping its portfolio of assets and its balance sheet.

In April, 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. We currently own six subordinated loans with an aggregate principal amount of $6,920 related to previous asset sales.

In May, we completed the purchase of two vacant office buildings in Houston, TX. One property consists of a 147,135 square foot, 6-story Class A office building formerly occupied by a large energy company and a 483-space multi-story parking garage. The second property consists of an 87,611 square foot, 3-story Class B office building with 257 surface parking spaces. We currently own three vacant office buildings in the Greenspoint area of Houston with a total of approximately 435,000 square feet. During the second quarter, we incurred $431 in expenses related to these properties.

We are currently evaluating options for our office properties, including converting one of the properties to a hotel or other use. While these acquisitions are not of a hotel nor in Canada, they are nonetheless consistent with our approach to business, namely buying assets at an attractive valuation where there is opportunity to add value.

In June, Holloway sold its two hotels in Timmins, ON for $11,400 and used the net sales proceeds of $10,013 to reduce amounts drawn under its credit line.

Subsequent to the end of the second quarter, Holloway sold its Travelodge hotel in Sydney, NS and its leasehold interest in the Super 8 hotel in Truro, NS for $8,050. Holloway applied the net sales proceeds of $7,720 to reduce amounts drawn under its term loan and credit line.

The net effect of all our transactions during the second quarter was a reduction in our net debt from $144,604 at March 31, 2019 to $141,037 at June 30, 2019. We further reduced our debt since the end of the quarter to $135,225 as of August 7, 2019.

Outlook

For the balance of the year, we anticipate the performance of our hotels to remain in line with recent periods. We anticipate continued expansion of our management services business. We also expect lower interest expense and debt service as a result of applying the proceeds of asset sales to reduce our debt. Offsetting these positive cash flow drivers will be continued investment in our Houston office buildings to secure tenants and potentially convert one property to an alternative use.

Agreement to Sell Company to Clarke Inc. and Ceases Dividend

On August 8, 2019, Holloway entered into an agreement pursuant to which Clarke Inc. (“Clarke”), its 51% shareholder, agreed to acquire all of the Holloway shares it does not already own on the basis of 0.65 of a Clarke share for every Holloway share acquired. Based on the closing market prices of each of Clarke and Holloway on August 8, 2019, the acquisition price is $8.46 per share, representing a premium to Holloway’s shareholders of 14%.

The acquisition is valued at approximately $132 million on an equity value basis and $265 million on an enterprise value basis. The implies a price per hotel room of approximately $88,200 (after excluding the value of Holloway's vendor takeback mortgages and office properties and a cap rate of 6.4% (after taking into account the interest income on the vendor takeback mortgages, the annualized negative cash flow on the office properties and our corporate overhead).

The acquisition, which is subject to the approval of both Holloway and Clarke shareholders and other customary conditions and approvals, is expected to close in the third quarter of 2019. Upon closing, Holloway will become a wholly-owned subsidiary of Clarke. Please refer to a joint Holloway and Clarke press release for further information on the acquisition.

In connection with Clarke's proposed acquisition, the Board of Directors has agreed to cease Holloway's regular quarterly dividend.

Operating Results

Hotel Performance

The following tables summarize the performance of Holloway's portfolio of hotels for the three and six months ended June 30, 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.

Three Months Ended June 30	Base Portfolio			Sold Hotels[1]			Total		
	2019	2018	Variance	2019	2018	Variance	2019	2018	Variance
Hotel revenue	$ 19,767	$ 19,895	$ (128)	$ 1,063	$ 6,740	$ (5,677)	$ 20,830	$ 26,635	$ (5,805)
Hotel operating income[2]	5,136	5,778	(642)	538	2,494	(1,956)	5,674	8,272	(2,598)
Hotel operating income margin	26.0%	29.0%	(3.0 ppt)	50.6%	37.0%	13.6 ppt	27.2%	31.1%	(3.9 ppt)

Six Months Ended June 30	Base Portfolio			Sold Hotels[1]			Total		
	2019	2018	Variance	2019	2018	Variance	2019	2018	Variance
Hotel revenue	$ 38,052	$ 38,308	$ (255)	$ 2,866	$ 11,764	$ (8,897)	$ 40,918	$ 50,071	$ (9,153)
Hotel operating income[2]	8,775	9,875	(1,100)	740	3,697	(2,957)	9,515	13,572	(4,057)
Hotel operating income margin	23.1%	25.8%	(2.7 ppt)	25.8%	31.4%	(5.6 ppt)	23.3%	27.1%	(3.8 ppt)

(1) Represents eight hotels - Super 8 in High Level, AB, and Holiday Inn in Ottawa, ON, sold in Q4 2018; Travelodge in Dartmouth, NS, Super 8 in Windsor, NS, Travelodge in Moncton, NB, Days Inn in Moncton, NB, sold in Q1 2019; and Super 8 in Timmins, ON, and Travelodge in Timmins, ON, sold in Q2 2019.
(2) Refer to "Non-IFRS Financial Measures" section.

Three Months Ended June 30, 2019

Revenue from our base portfolio decreased $128 or 0.6% while operating income decreased $642 or 11.1%. The hotel operating income margin decreased to 26.0%. See our "Second Quarter Review and Outlook" for further commentary.

Six Months Ended June 30, 2019

Revenue from our base portfolio decreased $255 or 0.7% while operating income decreased $1,100 or 11.1%. The hotel operating income margin decreased to 23.1%. In addition to the increased operational overhead allocation, other items contributing to the margin decline were the increases in minimum wage, higher energy costs and insurance deductible expenses.

Key Performance Measures

Three Months Ended June 30

	Base Portfolio			Sold Hotels			Total		
	2019	2018	Variance	2019	2018	Variance	2019	2018	Variance
Occupancy									
Atlantic Canada	55.5%	57.5%	(2.0 ppt)	-	60.5%	(60.5 ppt)	55.5%	58.8%	(3.3 ppt)
Ontario	63.5%	63.7%	(0.2 ppt)	64.4%	67.5%	(3.1 ppt)	63.6%	65.0%	(1.4 ppt)
Western Canada	47.3%	45.2%	2.1 ppt	-	50.5%	(50.5 ppt)	47.3%	45.6%	1.7 ppt
Northern Canada	45.4%	50.7%	(5.3 ppt)	-	-	-	45.4%	50.7%	(5.3 ppt)
Total	52.9%	53.4%	(0.5 ppt)	64.4%	63.0%	1.4 ppt	53.4%	55.7%	(2.3 ppt)
ADR									
Atlantic Canada	$ 107.24	$ 109.18	$ (1.94)	$ -	$ 108.93	$ (108.93)	$ 107.24	$ 109.07	$ (1.83)
Ontario	113.55	116.57	(3.02)	123.88	134.14	(10.26)	115.17	123.08	(7.91)
Western Canada	134.51	133.57	0.94	-	115.87	(115.87)	134.51	132.17	2.34
Northern Canada	155.15	143.96	11.19	-	-	-	155.15	143.96	11.19
Total	$ 125.49	$ 124.97	$ 0.52	$ 123.88	$ 122.60	$ 1.28	$ 125.39	$ 124.33	$ 1.06
RevPAR									
Atlantic Canada	$ 59.52	$ 62.78	$ (3.26)	$ -	$ 65.90	$ (65.90)	$ 59.52	$ 64.13	$ (4.61)
Ontario	72.10	74.26	(2.16)	79.78	90.54	(10.76)	73.25	80.00	(6.75)
Western Canada	63.62	60.37	3.25	-	58.51	(58.51)	63.62	60.27	3.35
Northern Canada	70.44	72.99	(2.55)	-	-	-	70.44	72.99	(2.55)
Total	$ 66.38	$ 66.73	$ (0.35)	$ 79.78	$ 77.24	$ 2.54	$ 66.96	$ 69.25	$ (2.29)

Six Months Ended June 30

	Base Portfolio			Sold Hotels			Total		
	2019	2018	Variance	2019	2018	Variance	2019	2018	Variance
Occupancy									
Atlantic Canada	51.0%	50.2%	0.8 ppt	37.4%	50.7%	(13.3 ppt)	48.4%	50.4%	(2.0 ppt)
Ontario	58.1%	57.3%	0.8 ppt	54.7%	61.0%	(6.3 ppt)	57.6%	58.6%	(1.0 ppt)
Western Canada	47.8%	47.2%	0.6 ppt	-	51.4%	(51.4 ppt)	47.8%	47.5%	0.3 ppt
Northern Canada	46.0%	52.7%	(6.7 ppt)	-	-	-	46.0%	52.7%	(6.7 ppt)
Total	50.9%	51.4%	(0.5 ppt)	47.2%	55.8%	(8.6 ppt)	50.6%	52.5%	(1.9 ppt)
ADR									
Atlantic Canada	$ 105.92	$ 108.99	$ (3.07)	$ 109.86	$ 108.15	$ 1.71	$ 106.50	$ 108.63	$ (2.13)
Ontario	115.55	115.46	0.09	116.84	129.25	(12.41)	115.76	120.58	(4.82)
Western Canada	133.02	134.73	(1.71)	-	113.61	(113.61)	133.02	133.10	(0.08)
Northern Canada	149.52	142.51	7.01	-	-	-	149.52	142.51	7.01
Total	$ 125.22	$ 125.68	$ (0.46)	$ 114.44	$ 119.84	$ (5.40)	$ 124.33	$ 124.20	$ 0.13
RevPAR									
Atlantic Canada	$ 54.02	$ 54.71	$ (0.69)	$ 41.09	$ 54.83	$ (13.74)	$ 51.55	$ 54.75	$ (3.20)
Ontario	67.13	66.16	0.97	63.91	78.84	(14.93)	66.68	70.66	(3.98)
Western Canada	63.58	63.59	(0.01)	-	58.40	(58.40)	63.58	63.22	0.36
Northern Canada	68.78	75.10	(6.32)	-	-	-	68.78	75.10	(6.32)
Total	$ 63.74	$ 64.60	$ (0.86)	$ 54.02	$ 66.87	$ (12.85)	$ 62.86	$ 65.18	$ (2.32)

Three Months Ended June 30, 2019

For the three months ended June 30, 2019, RevPAR for the base portfolio decreased $0.35 or 0.5%. Stronger occupancy at our Alberta hotels partially offset declines in the Atlantic and Northern regions, with a marginal overall decline of 0.5 percentage points for the portfolio. We experienced mixed results in ADR, with the Northern region increasing rates significantly, while the Atlantic and Ontario regions had moderate reductions, resulting in a $0.52 or 0.4% overall increase.

Occupancy in Atlantic Canada declined in most markets, with the exception of Travelodge in New Glasgow, NS, which benefitted from the renovation that we completed last year. ADR was mixed with overall results hampered by a significant reduction at the Super 8 in St. John's, NL, where competition continues to put downward pressure on rates. RevPAR for the region decreased $3.26 or 5.2%.

In Ontario, there was little change in overall occupancy, which remained steady at 63%, but lower ADR caused RevPAR in the region to decline by 2.9% compared to the prior year.

We had positive results in Western Canada with occupancy improving at most of our hotels. Our rural hotels in Alberta and British Columbia saw marked increases in demand. The base portfolio increased occupancy by 2.1 percentage points, to 47%. ADR increased by $0.94 or 0.7%, led by higher rates at all four of our Grande Prairie, AB properties. RevPAR improved at most hotels.

Performance at our Northern Canada hotels was mixed. All properties increased their room rates. However, occupancy in the region declined by 5.3 percentage points to 45%, resulting in a decrease in RevPAR for the region of $2.55 or 3.5%. Occupancy declined substantially at the Super 8 Yellowknife due to rooms being out of order as a result of a sprinkler break in the first quarter. While much of the lost operating income was recouped through business interruption insurance, the occupancy and ADR statistics do not reflect the insurance proceeds.

Six Months Ended June 30, 2019

For the six months ended June 30, 2019, RevPAR for the base portfolio decreased $0.86 or 1.3%. The modest increases in occupancy in the Atlantic, Ontario, and Western regions were overshadowed by a significant decline in the Northern region, resulting in an overall decline of 0.5 percentage points. We experienced mixed results in ADR in the various regions which remained almost flat at $125.

Management Services

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Variance	2019	2018	Variance
Management services revenue	$ 264	$ 27	$ 237	$ 463	$ 90	$ 373
Management services expenses included in operating expenses	17	14	3	41	24	17
Management services operating income [1]	247	13	234	422	66	356

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

Our hotel management services business continues to grow, with four new contracts signed during the quarter. Three of our 15 agreements are for hotels in receivership and as such, have an uncertain duration. We are in active negotiations with prospective clients and we expect continued expansion of this business line in the coming quarters.

Other Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Variance	2019	2018	Variance
Interest and accretion on debt	$ 2,306	$ 3,260	$ (954)	$ 4,734	$ 6,506	$ (1,772)
Corporate and administrative	592	444	148	1,192	1,497	(305)
Share-based expense	-	18	(18)	202	317	(115)
Interest income	(135)	(163)	28	(343)	(315)	(28)
Insurance proceeds, net of clean-up and other costs	(949)	-	(949)	(949)	-	(949)
(Gain) loss on disposals of assets	523	71	452	(2,956)	75	(3,031)
Gain on debenture extension	(1,600)	-	(1,600)	(1,600)	-	(1,600)
Selling costs on property and equipment sales	337	-	337	1,217	-	1,217
Revaluation of hotel properties	(200)	-	(200)	6,400	-	6,400
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)	(5)	(113)	108	108	(258)	366
Provision for (recovery of) income taxes[1]	(2,714)	410	(3,124)	(4,895)	(80)	(4,815)

(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 and six months ended June 30, 2019, decreased due to the redemption of our Series C debentures on January 3, 2019, which bore interest at 7.50% and decreased mortgage balances due to repayments on sold hotels.

Corporate and administrative expenses increased in the three months ended June 30, 2019 due to a $90 accrual for the settlement of a legal proceeding. Corporate and administrative expenses decreased in the six months ended June 30, 2019 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. Share-based expense was nil in the quarter as all options were exercised in 2019.

During the three and six months ended June 30, 2019, the Company recorded interest income of $135 and $343, respectively, from its loans receivable.

During the three months ended June 30, 2019, the Company recorded net insurance proceeds of $949 related to the replacement of property and equipment at the Super 8 in Yellowknife, NT and the Travelodge in Sydney, NS.

The loss on disposal of assets in the three months ended June 30, 2019 is due principally to the write-off of water-damaged assets at the Super 8 in Yellowknife, NT and the loss of $116 incurred on the sale of a portion of its US dollar loan receivable. The gain on disposals of assets in the six months ended June 30, 2019 is primarily 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 in the income statement.

A gain of $1,600 was recognized in the three months ended June 30, 2019 based on the present value of the modified contractual cashflows as a result of extending the maturity date of the Series B convertible debentures.

Selling costs on property and equipment sales include commissions, legal and other transaction costs related to the property sales excluding the Travelodge in Dartmouth discussed above.

The positive revaluation of hotel properties for the three months ended June 30, 2019, relates to one hotel that reversed a $200 revaluation decrease previously charged to profit and loss. The revaluation of hotel properties for the six months ended June 30, 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.

The fair value adjustment on investment property for the six months ended June 30, 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 classified as an investment property as it is leased to a third party.

The Company wrote off the remaining unamortized discount and deferred financing fees of $362 related to the Series C convertible debentures on their redemption.

The unrealized foreign exchange gain/loss for the periods primarily represents the change in the value of the US dollar loan receivable.

During the six months ended June 30, 2019, the Company recognized an income tax recovery of $4,895 due to the Company generating an operating loss for the period and from newly available capital losses as a result of the acquisition of control.

Quarterly Results

	Q2 2019	Q2 2018	Q1 2019	Q1 2018	Q4 2018	Q4 2017	Q3 2018	Q3 2017
Total revenue	**$21,229**	$26,825	$20,495	$23,651	$ 24,883	$24,948	$33,217	$32,168
Hotel operating income	**5,674**	8,272	3,841	5,300	6,538	6,910	13,243	12,687
Net income (loss) attributable to shareholders [(1)]	**3,993**	429	(4,813)	(1,429)	19,775	404	3,557	3,658
Funds from operations	**5,173**	4,824	965	1,107	4,189	3,907	9,342	9,879
Adjusted funds from operations	**3,222**	4,199	762	902	3,677	3,426	8,525	9,106
Dividends declared	**546**	639	545	640	600	646	626	657
Per basic share:								
Net income (loss) [(1)]	**$ 0.26**	$ 0.02	$ (0.30)	$ (0.08)	$ 1.15	$ 0.02	$ 0.20	$ 0.19
Funds from operations	**0.33**	0.26	0.06	0.06	0.24	0.21	0.52	0.52
Adjusted funds from operations	**0.21**	0.23	0.05	0.05	0.21	0.18	0.48	0.48
Dividends declared	**0.035**	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	**53%**	56%	48%	49%	52%	49%	67%	65%
ADR	**$125.39**	$124.33	$123.23	$124.05	$123.56	$121.32	$130.36	$125.74
RevPAR	**$66.96**	$69.25	$59.03	$61.03	$63.76	$59.81	$87.86	$81.61

(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, overhead allocation, insurance and interest are fixed and are incurred evenly throughout the year.

Cash Flow

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Variance	2019	2018	Variance
Cash flow provided by (used in):						
Operating activities	$ 1,582	$ 3,432	$ (1,850)	$ 2,601	$ 5,264	$ (2,663)
Investing activities	1,926	(1,584)	3,510	19,456	(3,182)	22,638
Financing activities	(2,918)	(951)	(1,967)	(53,422)	(1,431)	(51,991)

Operating Activities

For the three and six months ended June 30, 2019, operating activities generated $1,582 and $2,601 compared to $3,432 and $5,264 for the same periods in 2018. The decrease in cash flow from operations is due to having fewer hotels in our portfolio as we have sold eight hotels and one single tenant property since October 2018 and timing of changes in items of working capital.

Investing Activities

For the three months ended June 30, 2019, investing activities provided $1,926 compared to using $1,584 for the same period in 2018. The source of funds consisted primarily of $10,013 in net proceeds on the sale of two hotels and $4,513 of net proceeds on the partial sale of a loan receivable, offset by $11,052 used to acquire two office buildings in Houston, TX and $1,548 in capital additions at various properties. For the three months ended June 30, 2018, the use of cash consisted of capital additions of $1,603 at our hotels.

For the six months ended June 30, 2019, investing activities provided $19,456 compared to using $3,182 for the same period in 2018. The source of funds consisted primarily of the partial sale of a loan receivable in the quarter and $34,790 in net proceeds on the sale of seven properties, offset by $17,458 used to acquire three office buildings in Houston, TX and $2,389 in capital additions at various properties. For the six months ended June 30, 2018, the use of cash consisted of capital additions of $3,182 at our hotels.

Financing Activities

For the three months ended June 30, 2019, financing activities used $2,918 compared to $951 for the same period in 2018. The Company paid dividends of $1,091, repurchased $238 of common shares, repaid $664 on its revolving credit facilities and made $904 in mortgage principal repayments. For the three months ended June 30, 2018, the Company drew an additional $4,980 on an existing mortgage, net of financing fees. The Company also repaid $2,955 on its revolving credit facilities, made $1,060 in regular principal repayments on mortgages, repurchased common shares for $637 and paid dividends of $1,279.

For the six months ended June 30, 2019, financing activities used $53,422 compared to $1,431 for the same period in 2018. The Company repurchased common shares totaling $10,498, paid dividends of $1,091, fully redeemed its Series C convertible debentures with a face value of $40,565, made $13,664 in mortgage principal repayments and cash-settled options totaling $1,080. Offsetting these cash outflows, the Company drew $13,477 on its revolving credit facilities. For the six months ended June 30, 2018, in the addition to the events noted above, the Company repaid $1,796 on its revolving credit facilities, made $2,179 in regular principal repayments and repurchased common shares for $1,157.

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 hotel properties and three unencumbered commercial buildings which could provide additional financing.

		June 30, 2019
Cash on hand	$	1,245
Capital expenditure reserves [1]		59
Revolving credit facilities availability		33,173
Total current liquidity [2]	$	34,477

(1) Contingent on capital expenditures being incurred.
(2) Excludes proceeds from financing unencumbered assets.

Revolving Credit Facilities and Mortgages Payable

	June 30, 2019	December 31, 2018
Revolving Credit Facilities		
Principal amount payable	$ 28,477	$ 15,000
Weighted average interest rate	5.27%	5.45%
Mortgages Payable		
Principal amount payable	$ 65,719	$ 79,383
Weighted average term to maturity	3.2 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, determined by a borrowing base calculation and has an interest rate based on the bank's prime rate plus 1.25% or a spread over banker's acceptance rates (4.98% at June 30, 2019). This credit facility is secured by seven hotels (nine hotels at December 31, 2018), is subject to an annual review and has no set expiry date. In the three months ended June 30, 2019, the Company sold two hotels that were security for this facility. At June 30, 2019, the Company had drawn $13,476 (December 31, 2018 - $nil) on this facility. Based on the borrowing base calculation after the sale of the two hotels, the maximum that can be drawn is $40,650. 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 June 30, 2019). At June 30, 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 $32,349 at June 30, 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 June 30, 2019, the Company was in compliance with all covenants.

In the six months ended June 30, 2019, the Company repaid four mortgages totaling $11,632 upon the sale of the related hotels. Subsequent to June 30, 2019, the Company paid down $4,830 on a mortgage as a result of the sale of two 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 June 30, 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 mature on February 28, 2023.

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. The Company did not redeem any of its Series B debentures in the 60 days following the effective date of the debenture amendments.

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 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 June 30, 2019:

	Remainder of 2019	2020	2021	2022	2023	Thereafter
Mortgages payable						
Interest[1]	$ 1,623	$ 2,786	$ 2,601	$ 1,409	$ 125	$ 295
Principal[2]	6,175	5,820	3,376	46,888	560	2,900
Revolving credit facilities						
Interest[1]	1,102	-	-	-	-	-
Principal	28,477	-	-	-	-	-
Convertible debentures						
Interest	1,590	3,179	3,179	3,179	1,060	-
Principal[3]	-	-	-	-	50,866	-
Operating leases	59	111	107	106	100	471
Total	$ 39,026	$ 11,896	$ 9,263	$ 51,582	$ 52,711	$ 3,666

(1) Interest on floating rate debt is based on interest rates prevailing at June 30, 2019.
(2) Principal includes regular amortization and repayments at maturity.
(3) Principal represents face value of debentures at maturity.

Common Shares

At June 30, 2019, the Company had 15,559,112 common shares outstanding. At August 9, 2019, the Company had 15,553,012 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 six months ended June 30, 2019, the Company repurchased and cancelled 36,200 shares at a cost of $258 (average price of $7.13 per common share).

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 June 30, 2019:

	June 30, 2019	December 31, 2018	Increase (Decrease)	Explanation
Assets				
Cash	$ 1,245	$ 32,610	(31,365)	The decrease in cash is primarily a result of the redemption of the Series C debentures.
Trade and other receivables	5,224	3,628	1,596	Increase is largely due to the timing of credit card receivables and $496 of insurance proceeds receivable.
Asset held-for-sale	-	3,206	(3,206)	Represents the Travelodge in Dartmouth, NS, which was sold on January 15, 2019.
Property and equipment	251,438	241,150	10,288	Change is due to the net revalution surplus resulting from the accounting policy change and additions, offset by depreciation and disposals, due to property sales.
Investment property[1]	19,545	2,525	17,020	Investment property increased as a result of the acquisition of three office buildings in Houston, TX.
Loans receivable, including current portion	6,920	8,457	(1,537)	The Company sold US$3,450 principal amount of its US$4,000 loan receivable and granted $3,200 in vendor take-back loans receivable on the sale of six hotels.
Deferred income tax assets[1]	10,533	18,892	(8,359)	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	28,477	15,000	13,477	The revolving credit facilities increased primarily due to the redemption of the Series C debentures, the acquisition of three office buildings and the common share repurchases which were offset by the sale of 7 properties.
Trade payables and accrued liabilities	9,835	8,369	1,466	Trade payables and accrued liabilities have increased primarily due to increased capital activity in the period.
Share-based liability	-	902	(902)	All options have been exercised since December 31, 2018.
Convertible debentures, including current portion	48,710	90,225	(41,515)	The Series C debentures were fully redeemed in January 2019. A gain on the Series B debentures of $1,600 was recognized, based on the present value of the modified cashflows as a result of the extension of the maturity date.
Mortgages payable, including current portion	65,095	78,542	(13,447)	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]	142,532	116,450	26,082	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 June 30, 2019. The Company owned 25 hotels including a 62% interest in a hotel in Canada, with a total of 2,890 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		
Airlane	Thunder Bay	155
DoubleTree®	London	323
Travelodge®	Ottawa	196
Travelodge®	Thunder Bay	93
		767
Yukon		
Days Inn®	Whitehorse	99
Westmark® Hotel and Conference Center	Whitehorse	181
		280
Total Rooms		**2,890**

(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 June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Net cash generated from operating activities	**$ 1,582**	$ 3,432	**$ 2,601**	$ 5,264
Add / (deduct):				
Changes in items of working capital	**2,371**	1,574	**2,812**	1,255
FF&E reserve	**(714)**	(922)	**(1,391)**	(1,726)
Free cash flow	**3,239**	4,084	**4,022**	4,793

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 June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Hotel: Rooms	**$ 17,520**	$ 22,613	**$ 34,138**	$ 42,319
Food and beverage	**2,091**	2,536	**4,255**	4,900
Rental	**219**	328	**470**	647
Other	**1,000**	1,158	**2,055**	2,205
Hotel Revenue	**20,830**	26,635	**40,918**	50,071
Deduct:				
Operating expenses	**14,378**	16,982	**29,346**	33,608
Property taxes and insurance	**1,226**	1,395	**2,497**	2,915
Add:				
Management services expenses included in operating expenses	**17**	14	**41**	24
Investment property expenses included in operating expenses	**431**	-	**399**	-
Hotel operating income	**$ 5,674**	$ 8,272	**$ 9,515**	$ 13,572

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 June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Net loss attributable to shareholders [(1)]	**$ 3,993**	$ 429	**$ (820)**	$ (1,004)
Add / (deduct):				
Depreciation and amortization on real estate assets	**3,350**	3,914	**6,936**	7,816
Loss (gain) on disposals of real estate assets	**407**	71	**(3,072)**	75
Selling costs on property and equipment sales	**337**	-	**1,217**	-
Revaluation of hotel properties	**(200)**	-	**6,400**	-
Fair value adjustment on investment property [(1)]	**-**	-	**-**	(900)
Provision for (recovery of) income taxes [(1)]	**(2,714)**	410	**(4,895)**	(80)
FFO	**$ 5,173**	$ 4,824	**$ 5,766**	$ 5,907
per basic share	**0.33**	0.26	**0.37**	0.32

(1) Holloway adopted the fair value model for investment property effective January 1, 2019 resulting in the restatement of certain June 30, 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, gains and losses on non-real estate assets and liabilities 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 June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
FFO	**$ 5,173**	$ 4,824	**$ 5,766**	$ 5,907
Add / (deduct):				
Share-based expense	**-**	18	**202**	317
Depreciation and amortization of corporate assets	**28**	10	**59**	19
Gain on debenture extension	**(1,600)**	-	**(1,600)**	-
Write-off of deferred financing fees and discount on debenture redemption	**-**	-	**362**	-
Loss on non-real estate assets	**116**	-	**116**	-
Accretion on debt	**219**	269	**460**	562
FF&E reserve	**(714)**	(922)	**(1,391)**	(1,726)
AFFO	**$ 3,222**	$ 4,199	**$ 3,974**	$ 5,079
per basic share	**0.21**	0.23	**0.25**	0.28

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 synopsis of the impact these three accounting policy changes have on the Company's financial statements. The Company's policy for foreign currency translation for the newly acquired US investment property operations has been added. Full disclosure is included in the Company's financial statements.

Foreign currency translation

The Company's operations in the United States are conducted in US dollars (their functional currency), which is different than Holloway's currency (Canadian dollars). The foreign operations are translated into Canadian dollars as follows: assets and liabilities - at the closing rate at the date of the consolidated statement of financial position and income and expenses - at the average rate for the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income (loss) as cumulative translation adjustments

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 third party offers, 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 hotel operates.

On transition to the revaluation model, initial increases in fair value were recorded in other comprehensive income and accumulated within equity in revaluation surplus. Initial decreases in fair value were 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 market 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 have changed the value of property and equipment by $4,500. If the value of the comparable hotel sales had been 5% higher/lower, the estimated fair value would have changed the value of property and equipment by $2,800.

During the three months ended June 30, 2019, the Company revalued 4 hotels based on third party offers. The value of 2 hotels increased by a total of $2,130 and the value of 2 hotels decreased by a total of $2,870. The increases in fair value were recorded in other comprehensive income and accumulated in revaluation surplus except for 1 hotel property where the increase was partially recorded in the statement of income (loss) as it reversed a $200 revaluation decrease previously charged to profit and loss. The decreases in fair value were charged against other comprehensive income.

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 its acquisition of 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 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, accrued interest on convertible debentures, mortgages payable and convertible debentures.

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

	June 30, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	$65,095	$65,012	$78,542	$79,900
Convertible debentures	48,710	51,375	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 June 30, 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.