Holloway
LODGING

Management's Discussion and Analysis
for the Three and Six Months Ended June 30, 2015

As at August 12, 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 and six months ended June 30, 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 and six months ended June 30, 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 August 12, 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 June 30, 2015, Holloway's portfolio consisted of 35 hotels with 3,967 rooms of which 26 hotels are limited service properties and 9 hotels are full service properties, as Travelodge® Ottawa food and beverage operations were closed near the end of the second quarter. 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.

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. During the second quarter, the Company sold a parcel of land in Orillia, ON for gross proceeds of $1.1 million.

Second Quarter Overview and Outlook

	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	Variance	2015	2014	Variance
Revenue	$ 28,563	$ 14,385	98.6%	$ 57,041	$ 29,737	91.8%
Operating income(1)	8,793	5,179	69.8%	15,859	10,714	48.0%
Operating income margin	30.8%	36.0%	(5.2 ppt)	27.8%	36.0%	(8.2 ppt)
Net income (loss) attributable to shareholders	(907)	606	(249.7%)	5,919	2,176	172.0%
per basic share	(0.05)	0.03	(266.7%)	0.31	0.12	158.3%
per diluted share	(0.05)	0.03	(266.7%)	0.30	0.12	150.0%
Funds from operations	4,254	2,353	80.8%	5,744	5,594	2.7%
per basic and diluted share	0.22	0.13	69.2%	0.30	0.31	(3.2%)
Adjusted funds from operations	3,764	2,060	82.7%	5,101	4,973	2.6%
per basic and diluted share	0.19	0.11	72.7%	0.26	0.28	(7.1%)
Dividends declared per share	0.035	0.035	-	0.07	0.07	-

(1) Before depreciation and amortization.

Our second quarter was uneventful relative to recent quarters. We did not buy or sell any hotel properties during the quarter. On an operational level, we focused considerable attention on reducing operating costs further in order to preserve margins in our Western Canadian hotels and grow margins in our other hotels. On a development level, we focused on the renovation of the Hilton® hotel in London, ON and prepared for the closure and rebranding of the Chimo hotel in Ottawa, ON which commenced in July 2015.

Hotel Performance

Holloway's second quarter results include the Royal Host hotels which were acquired on July 1, 2014, whereas Holloway's 2014 comparative figures do not include these hotels. The base portfolio recorded a 7.0% decrease in revenue, a 6.1% decrease in operating income and a 400 basis point increase in operating income margin to 36.2%, in all cases largely due to lower occupancy in Western Canada, partially offset by growth in Atlantic Canada. Results in Western Canada varied depending on the hotel's location with several smaller markets experiencing weakness as a result of the decline in oil and gas activity, whereas larger markets such as Grande Prairie and Fort St. John were either not affected or were less affected as they benefit from a more diversified client base. While occupancy declined at most of our Western Canadian hotels, half of our Western Canadian hotels achieved rate increases during the quarter.

The Royal Host hotels contributed $13.6 million in revenue and $3.4 million in operating income in the second quarter and had operating margins of 24.7%. Results in the Royal Host portfolio were negatively impacted by the major renovation at the Hilton® hotel in London, ON which resulted in several floors of rooms being out of order during the quarter to facilitate construction. The impact of rooms being out of order will continue throughout much of 2015.

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 $230.0 million at June 30, 2015.

Outlook

There is considerable uncertainty regarding oil and gas activity in Western Canada. While we expect this uncertainty to have an impact on our Western Canadian hotels, we continue to focus on generating increased occupancy through sales initiatives and reducing operating costs where possible. Our Atlantic Canadian hotels are performing well and we anticipate this performance to continue in the second half of the year. Our Ontario hotels are performing in line with our expectations; we intend to devote additional attention to improving our Ontario hotels further, including through labour productivity improvements, the closure of unprofitable or marginally profitable food and beverage operations and targeted property improvements among other things.

The renovation and rebranding of the Hilton® hotel in London, ON is ongoing with completion expected by year-end. The renovation of the Chimo hotel in Ottawa, ON started in July 2015 with completion also expected by year-end. While the Hilton® hotel has remained open during its renovation, the Chimo hotel will be closed throughout the renovation period. As a result, we will experience reduced revenue and NOI at our Ontario hotels in the second half of the year. Our expectation is that each of these hotels, once fully upgraded and reopened, will drive significantly higher results in coming years and a commensurate increase in value.

We continue to seek acquisition opportunities, however, our pricing criteria have not yet been met.

Dividend Declaration

On August 12, 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 September 15, 2015 to shareholders of record on August 31, 2015.

Operating Results

The following discussion summarizes Holloway's performance for the three and six months ended June 30, 2015.

Hotel Performance

The following tables summarize the performance of Holloway's base portfolio of hotels for the three and six months ended June 30, 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 the acquired/sold hotels include the 17 Royal Host hotels acquired in July 2014; the Holiday Inn Express® in Kamloops, BC (sold), the Days Inn® in Whitecourt, AB (acquired), the Super 8® in St. John's, NL (controlling interest acquired), and Days Inn® in Whitehorse, YT (acquired). 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 first quarter.

Three Months Ended June 30

	Base Portfolio			Acquired/Sold Hotels			Total		
	2015	2014	Variance	2015	2014[2]	Variance	2015	2014	Variance
Hotel revenue	$ 13,259	$ 14,263	(7.0%)	$ 15,304	$ 122	$ 15,182	$ 28,563	$ 14,385	98.6%
Hotel operating income[1]	4,797	5,111	(6.1%)	4,004	68	3,936	8,801	5,179	69.9%
Hotel operating income margin	36.2%	35.8%	0.4 ppt	26.2%	55.7%	(29.5 ppt)	30.8%	36.0%	(5.2 ppt)

(1) Before depreciation and amortization.
(2) Represents two hotels (Holiday Inn Express® in Kamloops, BC and Days Inn® in Whitecourt, AB).

Six Months Ended June 30

	Base Portfolio			Acquired/Sold Hotels			Total		
	2015	2014	Variance	2015	2014[2]	Variance	2015	2014	Variance
Hotel revenue	$ 27,702	$ 29,221	(5.2%)	$ 28,927	$ 516	$ 28,411	$ 56,629	$ 29,737	90.4%
Hotel operating income[1]	9,927	10,604	(6.4%)	5,595	110	5,485	15,522	10,714	44.9%
Hotel operating income margin	35.8%	36.3%	(0.5 ppt)	19.3%	21.3%	(2.0 ppt)	27.4%	36.0%	(8.6 ppt)

(1) Before depreciation and amortization.
(2) Represents two hotels (Holiday Inn Express® in Kamloops, BC and Days Inn® in Whitecourt, AB).

The increases in hotel revenue and hotel operating income are primarily due to the acquisition of Royal Host, which accounted for 96% of the hotel revenue change and 93% of the operating income change.

Royal Host hotels include a number of full service hotels which generally have lower operating margins than limited service hotels due to food and beverage operations resulting in a lower operating income margin for the total portfolio.

Three Months Ended June 30	Base Portfolio			Acquired/Sold Hotels			Total		
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Occupancy									
Atlantic Canada	60.5%	58.0%	2.5 ppt	66.3%	-	66.3 ppt	63.3%	58.0%	5.3 ppt
Western Canada	57.4%	67.3%	(9.9 ppt)	46.8%	49.7%	(2.9 ppt)	57.4%	67.3%	(9.9 ppt)
Ontario	-	-	-	61.3%	-	61.3 ppt	61.3%	-	61.3 ppt
United States	76.2%	79.3%	(3.1 ppt)	-	-	-	76.2%	79.3%	(3.1 ppt)
Total	61.2%	66.2%	(5.0 ppt)	60.2%	49.7%	10.5 ppt	60.6%	66.0%	(5.4 ppt)
ADR									
Atlantic Canada	$ 110.96	$ 106.56	$ 4.40	$ 94.26	$ -	$ 94.26	$ 102.67	$ 106.56	$ (3.89)
Western Canada	134.86	137.34	(2.48)	126.40	124.79	1.61	134.86	137.34	(2.48)
Ontario	-	-	-	101.74	-	101.74	101.74	-	101.74
United States (in USD)	98.56	96.69	1.87	-	-	-	98.56	96.69	1.87
Total	$ 129.46	$ 128.75	$ 0.71	$ 103.00	$ 124.79	$ (21.79)	$ 114.59	$ 128.72	$ (14.13)
RevPAR									
Atlantic Canada	$ 67.13	$ 61.80	$ 5.33	$ 62.49	$ -	$ 62.49	$ 64.99	$ 61.81	$ 3.18
Western Canada	77.41	92.43	(15.02)	59.16	62.02	(2.86)	77.41	92.40	(14.99)
Ontario	-	-	-	62.37	-	62.37	62.37	-	62.37
United States (in USD)	75.10	76.68	(1.58)	-	-	-	75.10	76.65	(1.55)
Total	$ 79.23	$ 85.23	$ (6.00)	$ 62.01	$ 62.02	$ (0.01)	$ 69.44	$ 84.92	$ (15.48)

Six Months Ended June 30	Base Portfolio			Acquired/Sold Hotels			Total		
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Occupancy									
Atlantic Canada	57.8%	54.1%	3.7 ppt	57.6%	-	57.6 ppt	57.7%	54.1%	3.6 ppt
Western Canada	63.5%	72.7%	(9.2 ppt)	49.8%	48.1%	1.7 ppt	60.9%	71.7%	(10.8 ppt)
Ontario	-	-	-	56.1%	-	56.1 ppt	56.1%	-	56.1 ppt
United States	65.2%	64.2%	1.0 ppt	-	-	-	65.2%	64.2%	1.0 ppt
Total	62.3%	67.9%	(5.6 ppt)	55.5%	48.1%	7.4 ppt	58.4%	67.3%	(8.9 ppt)
ADR									
Atlantic Canada	$ 109.37	$ 107.58	$ 1.79	$ 92.46	$ -	$ 92.46	$ 101.39	$ 107.58	$ (6.19)
Western Canada	140.76	136.23	4.53	130.22	117.43	12.79	139.14	135.73	3.41
Ontario			-	100.85	-	100.85	100.85	-	100.85
United States (in USD)	90.15	89.12	1.03	-	-	-	90.15	89.12	1.03
Total	$ 132.08	$ 128.59	$ 3.49	$ 102.75	$ 117.43	$ (14.68)	$ 116.15	$ 128.36	$ (12.21)
RevPAR									
Atlantic Canada	$ 63.22	$ 58.23	$ 4.99	$ 53.26	$ -	$ 53.26	$ 58.50	$ 58.23	$ 0.27
Western Canada	89.38	99.04	(9.66)	64.85	56.48	8.37	84.74	97.34	(12.60)
Ontario	-	-	-	56.58	-	56.58	56.58	-	56.58
United States (in USD)	58.78	57.22	1.56	-	-	-	58.78	57.19	1.59
Total	$ 82.29	$ 87.31	$ (5.02)	$ 57.03	$ 56.48	$ 0.55	$ 67.83	$ 86.43	$ (18.60)

The Ontario region accounted for the greatest variances compared to the prior year as the largest portion of the Royal Host portfolio is located in this region. In Western Canada, the hotels continued to experience reduced occupancy due to decreased demand from oil and gas crews arising out of lower oil prices compared to the prior year, however room rates in Western Canada were only marginally affected as oil crew business is often at a lower rate. In Ontario, the results were impacted by the ongoing renovation of the Hilton® hotel in London, ON, which is expected to conclude in the fourth quarter. The results in Atlantic Canada were strong with the RevPAR for the base portfolio increasing by 8.6%, with balanced growth in both occupancy and rate.

In Myrtle Beach, the results were down marginally from the prior year as there was a slight decline in leisure demand, partially offset by an increased room rate.

Franchise Business Performance

	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	Variance	2015	2014	Variance
Franchise revenue	-	-	-	$ 412	-	$ 412
Franchise operating income (loss) (1)	(8)	-	(8)	337	-	337
Franchise operating income margin	-	-	-	81.8%	-	81.8 ppt

(1) Before depreciation and amortization.

In the six months ended June 30, 2015, the franchise business contributed $337 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 June 30			Six Months Ended June 30		
	2015	2014	Variance	2015	2014	Variance
Interest and accretion on debt	$ 4,004	$ 1,796	$ 2,208	$ 8,359	$ 3,574	$ 4,785
Corporate and administrative	575	400	175	1,433	892	541
Share-based compensation	67	75	(8)	141	151	(10)
Investment income	(149)	(100)	(49)	(149)	(161)	12
Gain on disposals of property and equipment, franchise business, minority interest investment in hotel property and repurchase of convertible debentures	(58)	(45)	(13)	(8,113)	(7)	(8,106)
Fair value adjustment and amounts reclassified to profit and loss on minority interest investments in hotel properties	-	(689)	689	-	(689)	689
Impairment (reversal of impairment) of hotel property	2,700	-	2,700	2,700	(1,217)	3,917
Acquisition costs	-	639	(639)	135	649	(514)
Provision for (recovery of) deferred income taxes	(930)	230	(1,160)	(1,730)	800	(2,530)

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 lower than the combined companies' total expenses due to the realization of synergies, including the elimination of duplicative public company and other costs.

During the first six months of 2015, the Company recorded gains on sale of $8.1 million related to the sales of the Travelodge® franchise business, the Ramada® in Trenton, ON and the Travelodge® in Toronto, ON. During the first six months 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. The Company increased its partnership interest in the Super 8® hotel in St. John's, NL by an additional 35% resulting in the recognition of a gain of $0.7 million on the increase to its fair value and the reclassification of previously recorded gains from other comprehensive income to the income statement.

During the three months ended June 30, 2015 the Company recorded an impairment on one hotel property of $2.7 million. During the six months ended June 30, 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 2015 consisted of legal fees and a franchise termination fee related to the acquisition of the Ramada® in Whitehorse, YT which was rebranded to a Days Inn® shortly thereafter. Acquisition costs in 2014 consisted of fees related primarily to the Royal Host acquisition.

During the first six months of 2015, the Company recognized a deferred income tax recovery of $1.7 million 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 $22.5 million.

Quarterly Results

	Q2 2015	Q2 2014	Q1 2015	Q1 2014	Q4 2014	Q4 2013	Q3 2014	Q3 2013
Total revenue	$28,712	$14,485	$28,478	$15,411	$31,748	$14,451	$36,201	$16,722
Operating income(1)	8,793	5,179	7,066	5,534	9,269	4,880	13,237	6,610
Net income (loss)	(880)	606	6,816	1,559	11,487	2,862	13,680	1,251
Funds from operations	4,254	2,353	1,644	3,230	3,171	2,729	7,508	4,007
Adjusted funds from operations	3,764	2,060	1,329	2,903	2,406	2,445	6,943	3,731
Dividends declared	679	627	677	628	678	628	678	628
Per basic share:								
Net income (loss)	$ (0.05)	$ 0.03	$ 0.35	$ 0.09	$ 0.59	$ 0.16	$ 0.70	$ 0.07
Funds from operations	0.22	0.13	0.08	0.18	0.16	0.15	0.39	0.22
Adjusted funds from operations	0.19	0.11	0.07	0.16	0.12	0.14	0.36	0.21
Dividends declared	0.035	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	61%	66%	56%	69%	57%	65%	72%	76%
ADR	$114.59	$128.72	$117.53	$127.99	$116.15	$122.91	$112.76	$125.39
RevPAR	$69.44	$84.92	$66.17	$87.93	$65.97	$79.28	$81.19	$95.05

(1) Before depreciation and amortization.

The hospitality industry is seasonal in nature and, therefore, the Company's results fluctuate throughout the year. The Company's revenues are generally highest in the third quarter due to increased leisure travel 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 June 30			Six Months Ended June 30		
	2015	2014	Variance	2015	2014	Variance
Cash flow provided by / (used in):						
Operating activities	$ 3,257	$ 2,582	$ 675	$ 3,973	$ 5,913	$ (1,940)
Investing activities	(2,227)	(1,951)	(276)	17,363	(2,916)	20,279
Financing activities	(2,615)	2,286	(4,901)	(23,434)	1,184	(24,618)

Operating Activities

For the three and six months ended June 30, 2015, operating activities generated $3.3 million and $4.0 million compared to the same periods in the prior year of $2.6 million and $5.9 million. This change was driven by the acquisition of the Royal Host hotels, offset by lower occupancy in Western Canada, higher interest costs, and the payment of $1.0 million to the Company's prior external manager, which is of a non-recurring nature.

Investing Activities

For the three months ended June 30, 2015, investing activities used $2.2 million compared to $1.9 million in the same period of 2014. For the three months ended June 30, 2015, the use of cash consisted of additions and capital improvements to its properties of approximately $3.2 million offset by the sale of land in Orillia, ON for $1.1 million. For the three months ended June 30, 2014, the use of cash consisted of the purchase of the Days Inn® in Whitecourt, AB for $8.9 million, the acquisition of a controlling interest in the Super 8® in St. John's, NL for $1.8 million, and additions and capital improvements to its properties of approximately $0.7 million, offset by the sale of the Holiday Inn Express® in Kamloops, BC for $8.9 million.

For the six months ended June 30, 2015, investing activities generated $17.4 million compared to a use of $2.9 million in the same period of 2014. For the six months ended June 30, 2015, the generation of cash consisted of the sale of 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, land in Orillia, ON for $1.1 million and additions and capital improvements at its properties of approximately $5.5 million. This was offset by the purchase of Days Inn® in Whitehorse, YT for $8.2 million. For the six months ended June 30, 2014, the use of cash consisted of the acquisition of the Days Inn® in Whitecourt, AB for $8.9 million, the acquisition of a controlling interest in the Super 8® in St. John's, NL for $1.8 million, and additions and capital improvements of $1.7 million at its properties, offset by the sale of the Holiday Inn Express® in Kamloops, BC for $8.9 million.

Financing Activities

For the three and six months ended June 30, 2015, financing activities used $2.6 million and $23.4 million compared to the same periods in the prior year which generated $2.3 million and $1.2 million. For the six months ended June 30, 2015, the net repayment of secured credit facilities consumed $17.4 million, which was funded principally from the proceeds received on sales of hotels and the franchise business. Mortgage principal payments consumed $4.4 million of which $3.4 million was regular principal payments and $1.0 million was additional payments made using sale proceeds. The payment of dividends to shareholders consumed $1.4 million. For the six months ended June 30, 2014, financing activities generated $1.2 million due to the receipt of proceeds of $16.0 million drawn from Holloway's secured credit facility and $5.8 million from the mortgage and promissory note on the Days Inn® in Whitecourt, AB. These sources of funds were offset by an increase in funds held in trust of $16.4 million for the purchase of Royal Host, regular mortgage principal payments and the payment of dividends to shareholders.

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.

		June 30, 2015
Cash on hand	$	1,375
Capital expenditure reserves (1)		2,674
Secured credit facility availability		15,424
Total current liquidity (2)	$	19,473

(1) Contingent on capital expenditures being incurred.
(2) 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.

Secured Credit Facilities and Mortgages and Loan Payable

	June 30, 2015	December 31, 2014
Secured Credit Facilities		
Principal amount payable	$ 9,576	$ 27,007
Weighted average term to maturity	0.5 years	1.2 years
Weighted average interest rate	4.35%	6.11%
Mortgages and Loan Payable		
Principal amount payable	$ 132,223	$ 136,211
Weighted average term to maturity	2.9 years	3.2 years
Weighted average interest rate	6.08%	6.21%

Chartered Bank Credit Facility

At June 30, 2015, Holloway has 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 renovations. 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 June 30, 2015, Holloway had $9.6 million drawn under its credit facility with an interest rate of 4.35%. 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 6.08%. 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 of 2015, 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%. During the second quarter, the Company repaid $0.4 million representing one-half of the promissory note. 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 June 30, 2015, the Company was in compliance with all but one of its covenants. The debt service coverage ratio was below the requirement by 0.01. Subsequent to June 30, 2015, the Company obtained a waiver from the lender. As the Company had not received a waiver related to this breach by June 30, 2015, this mortgage has been reclassified as a current liability.

Convertible Debentures

At June 30, 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 these debt instruments, particularly as the current convertible debentures have no financial covenants and minimal other covenants. In addition, because the convertible debentures are exchange-traded, from time to time, the Company has the opportunity to repurchase its debentures at a discount to their face value.

The following table shows the Company's convertible debentures at June 30, 2015:

	Maturity	Interest Rate	June 30, 2015	December 31, 2014
Series B (HLC.DB)	2020	6.25%	$ 52,588	$ 52,621
Series C (HLC.DB.A)	2018	7.50%	40,593	40,601
			$ 93,181	$ 93,222
Weighted average term to maturity			4.0 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. As of June 30, 2015, Holloway had repurchased $33 thousand face value of Series B Debentures at a cost of $30 thousand (average cost of $92.07 per $100 face value) and had 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:

	June 30, 2015	December 31, 2014
Debt to gross book value excluding convertible debentures	28.0%	32.0%
Debt to gross book value including convertible debentures	45.6%	49.3%

Contractual Obligations

The following table shows the Company's contractual obligations as at June 30, 2015:

	Remainder of 2015	2016	2017	2018	2019	Thereafter
Mortgages and loan payable						
Interest[(1)]	$ 3,953	$ 7,265	$ 4,272	$ 795	$ 518	$ 1,005
Principal[(2)]	5,362	10,869	94,132	8,691	5,441	7,729
Secured credit facilities						
Interest[(1)]	208	-	-	-	-	-
Principal	9,576	-	-	-	-	-
Convertible debentures						
Interest	3,166	6,331	6,331	5,570	3,287	1,096
Principal[(3)]	-	-	-	40,593	-	52,588
Operating leases	279	280	268	154	35	43
Total	$ 22,544	$ 24,745	$ 105,003	$ 55,803	$ 9,281	$ 62,460

(1) Interest on floating rate debt is based on interest rates prevailing at June 30, 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 commenced the required renovations. Both of these rebrandings are expected to be completed in 2015.

Common Shares

At June 30, 2015, the Company had 19,353,666 shares outstanding.

On August 13, 2014, the Company initiated an NCIB to repurchase up to 978,628 of its outstanding common shares. As of June 30, 2015, Holloway has repurchased and cancelled 23,700 shares at a cost of $124 thousand (average price of $5.25 per share) under the NCIB, all of which were repurchased during 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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Dividends declared	$ 679	$ 627	$ 1,356	$ 1,255
Net income (loss) attributable to shareholders	(907)	606	5,919	2,176
Payout ratio	N/A	103.5%	22.9%	57.7%
Funds from operations	4,254	2,353	5,744	5,594
Payout ratio	16.0%	26.6%	23.6%	22.4%
Adjusted funds from operations	3,764	2,060	5,101	4,973
Payout ratio	18.0%	30.4%	26.6%	25.2%

Other Information

Balance Sheet

The following table outlines significant balances or changes in the consolidated balance sheet from December 31, 2014 to June 30, 2015.

	June 30, 2015	December 31, 2014	Increase (Decrease)	Explanation
Assets				
Cash	$ 1,375	$ 3,473	(2,098)	Refer to the "Cash Flow" section.
Prepaid expenses and deposits	3,828	2,258	1,570	Property tax reserve balances held by lenders decreased and the increase was due to higher prepaid property taxes and a deposit which was subsequently returned.
Current portion of loans receivable	1,925	-	1,925	Loan receivable acquired by Holloway during the first quarter of 2015.
Property and equipment	320,864	330,307	(9,443)	Due to the sales of Travelodge® in Toronto, ON, Ramada® in Trenton, ON and parcel of land, an impairment on one property and depreciation, offset by the acquisition of the Days Inn® in Whitehorse, YT and capital improvements.
Franchise business	-	14,700	(14,700)	The sale of the Travelodge® and Thriftlodge® franchise business was sold during the first quarter of 2015.
Loans receivable	4,996	-	4,996	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	11,711	12,210	(499)	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 lower property tax accruals at June 30, 2015.
Current portion of mortgages and loan payable	13,204	6,248	6,956	A mortgage on a property has moved to current as it is due in the next 12 months. The Company reclassified another mortgage to current due to a minor covenant breach. Refer to the "Liquidity" section.
Share-based payment liability	689	-	689	Liability recorded for outstanding options which can be cash-settled under the new option plan.
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	119,831	115,913	3,918	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 June 30, 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®	Whitehorse	**99**	100%
South Carolina – USA			
Holiday Inn Express®	Myrtle Beach	**114**	100%
Total Rooms		**3,967**	

Related Party Transactions

At June 30, 2015, Clarke owned 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 and six months ended June 30, 2015, the Company incurred IT fees of $60 and $131 thousand, respectfully, for IT services supplied by Clarke. As of June 30, 2015, $16 thousand was owed in respect of these fees. The Company had borrowed money from Clarke pursuant to two secured credit facilities which were repaid during the first quarter. During the three and six months ended June 30, 2015, the Company incurred interest expense under these facilities of $nil and $270 thousand which has been fully paid.

The Clarke Pension Plan is considered a related party of Holloway due to its affiliation with Clarke. The Company borrowed money from the Clarke Pension Plan pursuant to a mortgage and a secured credit facility. The secured credit facility was repaid in full during the first quarter. During the three and six months ended June 30, 2015, the Company incurred interest under these facilities of $40 and $83 thousand which has been fully paid.

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 June 30		Six Months Ended June 30	
	2015	2014	**2015**	2014
Net income (loss) attributable to shareholders	**$ (907)**	$ 606	**$ 5,919**	$ 2,176
Add / (deduct):				
Depreciation and amortization of real estate assets	**3,449**	2,251	**6,968**	4,531
Impairment (reversal of impairment) of hotel property	**2,700**	-	**2,700**	(1,217)
Gain on disposals of property and equipment, franchise business, minority interest investment in hotel property and repurchase of convertible debentures	**(58)**	(45)	**(8,113)**	(7)
Fair value adjustment and amounts reclassified to profit and loss on minority interest investments in hotel properties	**-**	(689)	**-**	(689)
Provision for (recovery of) deferred income taxes	**(930)**	230	**(1,730)**	800
FFO	**$ 4,254**	$ 2,353	**$ 5,744**	$ 5,594
per basic and diluted share	**0.22**	0.13	**0.30**	0.31

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 June 30		Six Months Ended June 30	
	2015	2014	**2015**	2014
FFO	**$ 4,254**	$ 2,353	**$ 5,744**	$ 5,594
Add / (deduct):				
Share-based compensation	**67**	75	**141**	151
Depreciation and amortization of corporate assets	**43**	31	**232**	55
Change in fair value of embedded derivative	**-**	-	**155**	-
Accretion on debt	**269**	41	**552**	81
FF&E reserve	**(869)**	(440)	**(1,723)**	(908)
AFFO	**$ 3,764**	$ 2,060	**$ 5,101**	$ 4,973
per basic and diluted share	**0.19**	0.11	**0.26**	0.28

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 and note 3 of the Company's June 30, 2015 consolidated financial statements. There have been no material changes to the Company's accounting policies except as noted in the June 30, 2015 consolidated financial statements.

Critical Accounting Estimates and Judgments

The discussion and analysis of Holloway's financial position and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of 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, in the June 30, 2015 consolidated financial statements in note 3 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, 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:

	June 30, 2015	
	Carrying value	Fair value
Mortgages and loan payable	$ 131,838	$ 137,918
Convertible debentures	88,627	88,929

Loans receivable, secured credit facilities and 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 June 30, 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. Holloway intends to transition to the updated 2013 internal control Integrated Framework published by the Committee of Sponsoring Organizations for the Treadway Commission (COSO 2013) for the 2015 year-end.

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, 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.