Management's Discussion and Analysis
for the Three Months and Year Ended December 31, 2018

As at March 6, 2019

Introduction and Forward-Looking Statements

The following management's discussion and analysis ("MD&A") is a discussion of the results of operations and financial condition of Holloway Lodging Corporation ("Holloway" or the "Company") for the three months and year ended December 31, 2018, and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto as at and 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 March 6, 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 and adjusted funds from operations.

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 6, 2019, which is available on SEDAR at www.sedar.com.

Business Overview

Holloway owns and operates hotels across Canada and provides hotel management services to third parties.

Hotels: At December 31, 2018, Holloway's portfolio consisted of 31 hotels with 3,422 rooms of which 30 are operated by Holloway and one has been leased to a third party on a triple net basis. Of the 30 hotels operated by Holloway, 25 hotels are limited service and five hotels are full service properties. In addition, 28 are operated under internationally recognized hotel brands, one is operated under a regional hotel brand and one is unbranded.

Other Assets: As of December 31, 2018, Holloway owns two freestanding single tenant properties leased to nationally recognized restaurant chains and four land parcels that are being held for potential future development. Holloway also holds a US $4,000 senior secured loan receivable and a $3,000 vendor take-back loan receivable from the sale of the Holiday Inn® in Ottawa, ON.

Management Services: As of December 31, 2018, the Company provided full or partial management services to six external hotels. Additional information regarding this division is available at www.hlcorpmanagement.ca.

Fourth Quarter Review and Outlook

Hotel Performance

The changes in hotel revenue, operating income and certain other financial metrics are shown in the tables below for the three months and year ended December 31, 2018.

	Three Months Ended December 31			Years Ended December 31		
	2018	2017	Variance	2018	2017	Variance
Hotel revenue	$ 24,571	$ 24,765	(0.8%)	$ 107,621	$ 105,569	1.9%
Operating income[1]	6,538	6,910	(5.4%)	33,360	32,031	4.1%
Operating income margin	26.6%	27.9%	(1.3 ppt)	31.0%	30.3%	0.7 ppt
Net income attributable to shareholders	19,775	404		21,628	6,478	
per basic share	1.15	0.02		1.21	0.34	
per diluted share	0.95	0.02		1.18	0.34	
Funds from operations[1]	4,189	3,907	7.2%	19,437	17,359	12.0%
per basic share	0.24	0.21		1.09	0.92	
Adjusted funds from operations[1]	3,677	3,426	7.3%	17,313	15,448	12.1%
per basic share	0.21	0.18		0.97	0.82	
Dividends declared per share	0.035	0.035		0.14	0.14	

	Three Months Ended December 31				Years Ended December 31			
	Hotel Revenue		Operating Income[1]		Hotel Revenue		Operating Income[1]	
2017	$ 24,765	100%	$ 6,910	100%	$105,569	100%	$ 32,031	100%
Hotels sold or temporarily closed[2]	(265)		4		1,777		1,823	
Ontario hotels	256		(127)		969		(300)	
Atlantic hotels	(66)		(58)		(270)		(345)	
Western hotels	40		(99)		(566)		(316)	
Northern hotels	(159)		(92)		142		467	
2018	$ 24,571	99%	$ 6,538	95%	$107,621	102%	$ 33,360	104%

(1) Refer to "Non-IFRS Financial Measures" section.
(2) Three months ended December 31 represents two hotels (sold - Super 8 in High Level, AB; and leased - former Travelodge in Slave Lake, AB in Q1 2018)
Years ended December 31 represents five hotels (sold - Travelodge in Belleville, ON and Holiday Inn in Oakville, ON in Q1 2017 and Super 8 in High Level, AB in Q4 2018; leased - former Travelodge in Slave Lake, AB in Q1 2018; and closed - Super 8 in Grande Prairie, AB in Q2 2017).

In the fourth quarter of 2018, hotel revenue and operating income decreased 0.8% and 5.4%, respectively, compared to the fourth quarter of 2017. The operating income margin decreased 1.3 percentage points to 26.6%. On a same-hotel basis, hotel revenue increased 0.3% and operating income decreased 5.4%.

The reduction of operating income during the quarter is largely attributed to the sale of certain hotels during the quarter, the impact of higher minimum wages in Alberta and Ontario and general cost inflation, which could not be passed on through higher room rates. Most of our operating regions experienced results in line with the prior year with a few exceptions. In particular, the oversupply of rooms and AirBnB rentals in St. John’s, NL, resulted in reduced profitability. Our Grande Prairie, AB, hotels continue to perform significantly better than our other hotels in Western Canada. Our hotels in Northern Canada generated results slightly below the prior year due to large non-recurring projects in 2017 and a slower start to the winter tourism season in 2018.

For the full year 2018, hotel revenue and operating income increased 1.9% and 4.1%, respectively, compared to 2017. The operating income margin increased 0.7 percentage points to 31.0%. On a same-hotel basis, hotel revenue increased 0.3% and operating income decreased 1.5%.

Our Grande Prairie, AB, hotels were the largest contributor to the increase in our annual results as the Super 8® and Holiday Inn both reopened following their renovations. Revenue increases in Ontario were insufficient to fully offset the cost of higher minimum wages in the province. We are pleased with the new Ontario government's changes to provincial labour legislation which will reduce cost inflation and increase labour flexibility. Our Atlantic hotels generated slightly lower results due to a slower summer tourism season, particularly in Sydney, NS.

Management Business Performance

In 2018, we continued to expand our hotel management business. This is a capital light business that aligns with our core skill of managing hotels. At December 31, 2018, Holloway was providing services to six external hotels and, as of today, we are providing services to ten external hotels.

Capital Allocation

During the fourth quarter, we sold the Super 8 in High Level, AB, for $4,750 and incurred a nominal loss on the sale. While this hotel was a stable performer, it was located in a remote location with limited liquidity. Selling this property allowed us to deploy capital to higher return assets.

We also sold the Holiday Inn in Ottawa, ON, for $50,000. This was the culmination of several years of work acquiring, renovating, rebranding and improving the performance of the property. We generated a gain on sale of $26,309 or $1.69 per current share outstanding.

We used the proceeds from our two hotel sales to redeem our Series C Convertible Debentures ("Series C debentures") and to commence a substantial issuer bid ("SIB") for our shares. The Series C debentures were our highest cost debt at 7.50% and we are quite happy to have repaid this debt in full in January 2019. Our SIB was oversubscribed and we used the opportunity to purchase all of the shares tendered to the SIB.

Over the course of 2018, we repaid a $22,629 of debt (11.0%) and repurchased 1,225,413 shares (6.7%). Looking back a little farther, between our acquisition of Royal Host in July 2014 and end of February 2019, we invested $56,600 in our properties, repaid $104,100 of debt (39.0%) and repurchased 3,989,447 shares (20.4%). At December 31, 2018, we had $151,157 of net debt and today we have $162,461 of net debt.

In connection with the sale of certain assets, we occasionally provide the buyers of such assets with financing in the form of a "vendor take-back mortgage", which is secured by the asset purchased. As of March 6, 2019, we currently have four loans receivable with a total principal balance of $9,958. While these loans pay regular interest, our goal is to collect the principal amount of such loans as quickly as possible following the asset sales and to redeploy the collected amounts to higher-yielding uses, such as debt repayment, acquisitions or additional share repurchases.

Outlook

For 2019, we expect our hotel results to be generally in line with our results in 2018. We anticipate our hotels in Atlantic Canada and Ontario will remain stable. While we also expect similar results in Western and Northern Canada, we have less visibility into these two markets. In particular, our Western Canada hotels depend on oil and gas industry activity, which has been volatile recently.

We are continuing to expand our hotel management business and we expect to sign additional management contracts as the year progresses.

We are focusing intensely on unlocking shareholder value, as evidenced by recent hotel sales, our Series C debenture redemption and our SIB. We believe many of our hotels have market values substantially higher than their respective book values; to the extent we sell any of these hotels, that embedded value will become visible.

Dividend Declaration

On March 6, 2019, the Board of Directors declared a quarterly dividend of $0.035 per share, representing an annual dividend of $0.14 per share. The dividend is payable on April 15, 2019 to shareholders of record on March 29, 2019.

Operating Results

Hotel Performance

The following tables summarize the performance of Holloway's portfolio of hotels for the three months and year ended December 31, 2018 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 acquired, sold and temporarily closed hotels.

Three Months Ended December 31

	Base Portfolio[(1)]			Acquired/Sold/Closed Hotels[(2)]			Total		
	2018	2017	Variance	2018	2017	Variance	2018	2017	Variance
Hotel revenue	$ 24,498	$ 24,427	$ 71	$ 73	$ 338	$ (265)	$ 24,571	$ 24,765	$ (194)
Hotel operating income[(3)]	6,516	6,891	(375)	22	19	3	6,538	6,910	(372)
Hotel operating income margin	26.6%	28.2%	(1.6 ppt)	30.1%	5.6%	24.5 ppt	26.6%	27.9%	(1.3 ppt)

Years Ended December 31

	Base Portfolio[(1)]			Acquired/Sold/Closed Hotels[(4)]			Total		
	2018	2017	Variance	2018	2017	Variance	2018	2017	Variance
Hotel revenue	$101,634	$101,360	$ 274	$ 5,987	$ 4,209	$ 1,778	$107,621	$105,569	$ 2,052
Hotel operating income[(3)]	30,885	31,379	(494)	2,475	652	1,823	33,360	32,031	1,329
Hotel operating income margin	30.4%	31.0%	(0.6 ppt)	41.3%	15.5%	25.8 ppt	31.0%	30.3%	0.7 ppt

(1) Includes the Holiday Inn in Ottawa, ON which was sold at the end of 2018.
(2) Represents two hotels (leased - former Travelodge in Slave Lake, AB, in Q1 2018; sold - Super 8 in High Level, AB, in Q4 2018).
(3) Refer to "Non-IFRS Financial Measures" section.
(4) Represents five hotels (sold - Travelodge in Belleville, ON and Holiday Inn in Oakville, ON in Q1 2017 and Super 8 in High Level, AB in Q4 2018; leased - former Travelodge in Slave Lake, AB in Q1 2018; and closed - Super 8 in Grande Prairie, AB in Q2 2017).

Three Months Ended December 31, 2018

Revenue from our base portfolio was largely consistent with the prior year. The hotel operating income margin for the total portfolio decreased to 26.6%. See our "Review and Outlook" for further commentary. The Super 8 in High Level, AB, sold early in the fourth quarter accounts for the majority of the revenue and operating income decrease in the "Acquired/Sold/Closed Hotels" category.

Year Ended December 31, 2018

Revenue from our base portfolio increased $274 or 0.3% while hotel operating income decreased $495 or 1.6%. Minimum wage increases in our two largest markets – Ontario and Alberta – have not been fully offset by increased revenue. The impact was greater in the fourth quarter than other quarters as Alberta's increase occurred in October.

The Super 8 in Grande Prairie, AB, which was closed from late March 2017 until the end of September 2017, represents the majority of the revenue and operating income increase in the "Acquired/Sold/Closed Hotels" category in the full year table above. Total portfolio revenue and hotel operating income increased by $2,052 and $1,329, respectively. The margin increased by 0.7 percentage points to 31.0%.

Key Performance Measures

Three Months Ended December 31	Base Portfolio			Acquired/Sold/Closed Hotels			Total		
	2018	2017	Variance	2018	2017	Variance	2018	2017	Variance
Occupancy									
Atlantic Canada	49.3%	49.7%	(0.4 ppt)	-	-	-	49.3%	49.7%	(0.4 ppt)
Ontario	58.8%	55.9%	2.9 ppt	-	-	-	58.8%	56.2%	2.6 ppt
Western Canada	47.5%	45.7%	1.8 ppt	51.5%	17.2%	34.3 ppt	47.5%	41.6%	5.9 ppt
Northern Canada	47.0%	51.7%	(4.7 ppt)	-	-	-	47.0%	51.7%	(4.7 ppt)
Total	51.6%	50.9%	0.7 ppt	51.5%	17.2%	34.3 ppt	51.6%	49.3%	2.3 ppt
ADR									
Atlantic Canada	$ 104.26	$ 105.56	$ (1.30)	$ -	$ -	$ -	$ 104.26	$ 105.56	$ (1.30)
Ontario	122.83	119.63	3.20	-	-	-	122.83	119.63	3.20
Western Canada	132.83	133.34	(0.51)	121.87	113.76	8.11	132.73	132.15	0.58
Northern Canada	142.11	130.93	11.18	-	-	-	142.11	130.93	11.18
Total	$ 123.56	$ 121.64	$ 1.92	$121.87	$113.76	$ 8.11	$ 123.56	$ 121.32	$ 2.24
RevPAR									
Atlantic Canada	$ 51.40	$ 52.46	$ (1.06)	$ -	$ -	$ -	$ 51.40	$ 52.46	$ (1.06)
Ontario	72.22	66.87	5.35	-	-	-	72.22	67.23	4.99
Western Canada	63.09	60.94	2.15	62.76	19.57	43.19	63.05	54.97	8.08
Northern Canada	66.79	67.69	(0.90)	-	-	-	66.79	67.69	(0.90)
Total	$ 63.76	$ 61.91	$ 1.85	$ 62.76	$ 19.57	$ 43.19	$ 63.76	$ 59.81	$ 3.95

Years Ended December 31	Base Portfolio			Acquired/Sold/Closed Hotels			Total		
	2018	2017	Variance	2018	2017	Variance	2018	2017	Variance
Occupancy									
Atlantic Canada	56.8%	58.9%	(2.1 ppt)	-	-	-	56.8%	58.9%	(2.1 ppt)
Ontario	61.4%	60.7%	0.7 ppt	-	42.3%	(42.3 ppt)	61.4%	60.3%	1.1 ppt
Western Canada	47.0%	50.1%	(3.1 ppt)	59.1%	19.6%	39.5 ppt	49.3%	42.0%	7.3 ppt
Northern Canada	57.3%	60.0%	(2.7 ppt)	-	-	-	57.3%	60.0%	(2.7 ppt)
Total	55.8%	57.3%	(1.5 ppt)	59.1%	21.7%	37.4 ppt	56.0%	54.0%	2.0 ppt
ADR									
Atlantic Canada	$ 113.54	$ 111.71	$ 1.83	$ -	$ -	$ -	$ 113.54	$ 111.71	$ 1.83
Ontario	121.69	118.07	3.62	-	86.89	(86.89)	121.69	117.37	4.32
Western Canada	134.54	131.17	3.37	126.10	118.27	7.83	132.63	129.56	3.07
Northern Canada	146.34	135.38	10.96	-	-	-	146.34	135.38	10.96
Total	$ 125.92	$ 121.91	$ 4.01	$ 126.10	$112.78	$ 13.32	$ 125.93	$ 121.52	$ 4.41
RevPAR									
Atlantic Canada	$ 64.49	$ 65.80	$ (1.31)	$ -	$ -	$ -	$ 64.49	$ 65.80	$ (1.31)
Ontario	74.72	71.67	3.05	-	36.75	(36.75)	74.72	70.77	3.95
Western Canada	63.23	65.72	(2.49)	74.53	23.18	51.35	65.39	54.42	10.97
Northern Canada	83.85	81.23	2.62	-	-	-	83.85	81.23	2.62
Total	$ 70.26	$ 69.85	$ 0.41	$ 74.53	$ 24.47	$ 50.06	$ 70.52	$ 65.62	$ 4.90

Three Months Ended December 31, 2018

For the three months ended December 31, 2018, RevPAR for the base portfolio increased $1.88 or 3.0%. This was the result of a 0.7 percentage point increase in occupancy combined with a $1.92 or 1.6% increase in ADR.

Atlantic Canada experienced decreases in both occupancy and ADR, resulting in a $1.06 or 2.0% decrease in RevPAR. In particular, the St. John's, NL, market faces new hotel and AirBnB room supply.

RevPAR in our Ontario hotels increased by $5.06 or 7.5% driven by both ADR and occupancy growth. Most properties in the region experienced an increase in both occupancy and RevPAR.

Occupancy increased by 1.8 percentage points in Western Canada as the result of improvements in the Grande Prairie, AB, market offsetting reduced activity in our rural locations where demand is largely driven by oil and gas activity. The net result was a $2.15 or 3.5% increase in RevPAR. The most significant driver this quarter was the Super 8 in Grande Prairie, AB, which reopened in October 2017 and experienced a 27.2 percentage point increase in occupancy and a $36.89 or 83% increase in RevPAR. The total portfolio in Western Canada increased its occupancy by 2.3 percentage points and RevPAR by $3.32 or 5.6%.

The 4.7 percentage point decrease in occupancy in Northern Canada is largely due to a large construction project in 2017 not recurring in 2018. The increase in ADR of $11.18 or 8.5% is a function of the change in business mix to higher-rated segments.

Year Ended December 31, 2018

As the full year results indicate, our focus on increasing room rates in all markets was successful in improving ADR across all regions. The base portfolio realized a $4.01 or 3.3% increase in ADR compared to 2017. This increase in ADR was offset by declines in occupancy in Western and Atlantic Canada. Western Canada continued to experience the effects of uncertainty in the oil sector. Atlantic Canada was affected by an uncharacteristically weak summer tourism season. Northern Canada experienced a decline in occupancy, but this was more than offset by higher ADR, as discussed above. Our Ontario hotels increased both occupancy and ADR, resulting in a $3.05 or 4.3% increase in RevPAR for the base portfolio.

Overall, the base portfolio increased RevPAR by $0.41 or 0.6%, and the total portfolio increased RevPAR by $3.18 or 4.7%.

Management Services

	Three Months Ended December 31			Years Ended December 31		
	2018	2017	Variance	2018	2017	Variance
Management services revenue	$ 127	$ 28	$ 99	$ 297	$ 191	$ 106
Management services expenses included in operating expenses	41	18	23	78	25	53
Management services operating income [(1)]	86	10	76	219	166	53

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

We continue to expand our hotel management business. At the date of this MD&A, we are generating revenue from ten hotels. Two of these agreements are for hotels in receivership and as such have an uncertain duration. We expect additional contracts will be secured in the coming quarters, although the timing of these contacts is unpredictable.

Other Expenses

	Three Months Ended December 31			Years Ended December 31		
	2018	2017	Variance	2018	2017	Variance
Interest and accretion on debt	$ 3,237	$ 3,236	$ 1	$ 13,026	$ 14,278	$ (1,252)
Corporate and administrative	(379)	444	(823)	1,750	2,400	(650)
Share-based expense	17	45	(28)	403	314	89
Interest income	(188)	(156)	(32)	(658)	(640)	(18)
Insurance proceeds, net of clean-up and other costs	-	(502)	502	-	(1,978)	1,978
Gain on disposals of property and equipment and repurchase of convertible debentures	(26,303)	(19)	(26,284)	(25,813)	(6,581)	(19,232)
Impairment of hotel properties, net	1,000	-	1,000	1,000	-	1,000
Acquisition, disposition and redevelopment costs	73	-	73	73	10	63
Unrealized foreign exchange (gain) loss	(284)	(33)	(251)	(454)	362	(816)
Provision for income taxes	5,909	(356)	6,265	7,024	2,056	4,968

Interest expense decreased on a year-to-date basis in 2018 compared to the same period in 2017 primarily due to the refinancing of higher interest rate mortgages in 2017, which resulted in a reduced weighted average cost of debt.

Included in corporate and administrative expenses for the fourth quarter of 2018 is an award of $563 relating to the settlement of a long-running legal proceeding inherited in our acquisition of Royal Host. The fourth quarter of 2017 includes a court award of $202 for legal fees we incurred for this same legal proceeding. Excluding these one-time items, corporate and administrative expenses decreased in the fourth quarter of 2018 compared to the prior period, due in large part to reduced legal and compensation expenses. On a year-to-date basis and excluding the legal items discussed above, corporate and administrative expenses decreased due to reduced compensation expense partially offset by increased legal costs as well as $174 incurred due to an adverse ruling in a legal proceeding which arose from the sale of the Radisson® hotel in Fort McMurray, AB, in 2012.

The increase in share-based expense for the year ended December 31, 2018 is a result of the vesting of options and an increase in Holloway's share price.

During the three months and year ended December 31, 2018, the Company recorded interest income of $188 and $658 respectively, primarily from its loans receivable.

During the three months and year ended December 31, 2017, the Company recorded $502 and $1,978 respectively, of net insurance proceeds largely related to the replacement of property and equipment at the Super 8 in Grande Prairie, AB.

The gain on disposals of property and equipment and repurchase of convertible debentures during the three months ended December 31, 2018 of $26,303 is comprised primarily of the gain on sale on the Holiday Inn in Ottawa, ON. The gain for the year is offset by the loss on sale of the Super 8 in High Level, AB, of $411 and replaced assets across the portfolio. For the year ended December 31, 2017, the gain of $6,581 relates to the gain on sale of the Holiday Inn in Oakville, ON, of $7,832 offset by the write-off of flood-damaged assets at the Super 8 in Grande Prairie, AB, of $1,045 and a small loss on the sale of the Travelodge in Belleville, ON.

The unrealized foreign exchange (gain) loss for the three months and year ended December 31, 2018 represents the change in the value of the US dollar loan receivable.

During the year ended December 31, 2018, the Company recorded a reversal of previously recorded impairments on two hotel properties of $2,800 and recorded impairments on two hotel properties of $3,800. The Company prepared internal models to determine the recoverable amount of these hotels and considered comparable hotel sales in the respective regions of these hotels. In total, the Company recorded a net impairment of $1,000. No impairments or reversals of impairment were recorded in 2017.

During the year ended December 31, 2018, the Company recognized an income tax provision of $7,024 due to the Company generating taxable income for the year. The income tax provision will not require an outlay of cash due to available non-capital loss carry forwards.

Quarterly Results

	Q4 2018	Q4 2017	Q3 2018	Q3 2017	Q2 2018	Q2 2017	Q1 2018	Q1 2017
Total revenue	**$24,883**	$24,948	$33,217	$32,168	$26,825	$25,604	$23,651	$23,679
Hotel operating income	**6,538**	6,910	13,243	12,687	8,272	7,576	5,300	4,916
Net income (loss) attributable to shareholders	**19,775**	404	3,557	3,658	429	(1,095)	(2,129)	3,511
Funds from operations	**4,189**	3,907	9,342	9,879	4,824	3,023	1,107	550
Adjusted funds from operations	**3,677**	3,426	8,525	9,106	4,199	2,775	918	170
Dividends declared	**600**	646	626	657	639	661	640	661
Per basic share:								
Net income (loss)	**$ 1.15**	$ 0.02	$ 0.20	$ 0.19	$ 0.02	$ (0.06)	$ (0.12)	$ 0.19
Funds from operations	**0.24**	0.21	0.52	0.52	0.26	0.16	0.06	0.03
Adjusted funds from operations	**0.21**	0.18	0.48	0.48	0.23	0.15	0.05	0.01
Dividends declared	**0.035**	0.035	0.035	0.035	0.035	0.035	0.035	0.035
Occupancy	**52%**	49%	67%	65%	56%	53%	49%	49%
ADR	**$123.56**	$121.32	$130.36	$125.74	$124.33	$119.35	$124.05	$118.45
RevPAR	**$63.76**	$59.81	$87.86	$81.61	$69.25	$63.14	$61.03	$57.69

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

Cash Flow

	Three Months Ended December 31			Years Ended December 31		
	2018	2017	Variance	2018	2017	Variance
Cash flow provided by (used in):						
Operating activities	$ 5,657	$ 5,884	$ (227)	$ 20,773	$ 19,491	$ 1,282
Investing activities	48,783	(1,992)	50,775	43,827	16,683	27,144
Financing activities	(22,368)	(4,588)	(17,780)	(32,681)	(36,666)	3,985

Operating Activities

For the three months and year ended December 31, 2018, operating activities generated $5,657 and $20,773 compared to $5,884 and $19,491 for the same periods in 2017. For the three months ended December 31, 2018, the decrease in cash flow from operating activities was primarily due to lower operating income from our hotels. For the year ended December 31, 2018, the increase in cash flow from operations is due to the increase in hotel operating income and favorable changes in working capital accounts.

Investing Activities

For the three months ended December 31, 2018, investing activities provided $48,783 compared to using $1,992 for the same period in 2017. The source of cash in the quarter is primarily due to $50,277 of net proceeds from the sale of the Super 8 in High Level, AB, and the Holiday Inn in Ottawa, ON, offset by additions to property and equipment of $1,481. The 2017 use of cash was primarily due to additions to property and equipment.

For the year ended December 31, 2018, investing activities provided $43,827 compared to $16,683 for the same period in 2017. In 2018, the source of cash was primarily due to the hotel sales in the quarter offset by $6,328 of additions to property and equipment. For the year ended December 31, 2017, the Company received $26,097 in net proceeds from the sale of the

Holiday Inn in Oakville, ON and the Travelodge in Belleville, ON and $3,353 from capital reserve accounts, which were offset by $12,767 spent on property and equipment at various properties.

Financing Activities

For the three months ended December 31, 2018, financing activities used $22,368 compared to $4,588 for the same period in 2017. During the quarter, the Company repurchased common shares totaling $1,515. The Company also repaid $6,100 on its revolving credit facilities, made $15,303 in mortgage principal repayments ($14,250 of a supplemental repayment), received $1,176 of mortgage proceeds, net of financing fees and paid dividends of $600. In 2017, the Company repurchased $1,838 of its common shares and $1,058 of convertible debentures, made $1,072 in mortgage principal repayments and paid dividends of $646.

For the year ended December 31, 2018, financing activities used $32,681 compared to $36,666 for the same period in 2017. In 2018, the Company repaid $10,339 on its revolving credit facilities, received $6,156 of mortgage proceeds, net of financing fees, made $18,510 in mortgage principal repayments, repurchased common shares totaling $7,457 and paid dividends of $2,505. For the same period in 2017, the Company repaid mortgages totaling $98,676, obtained two new mortgages, net of financing fees, of $61,780, drew $7,709 on its revolving credit facilities, spent $4,158 on common share and convertible debenture repurchases and paid dividends of $2,625.

Liquidity and Capital Structure

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

The Company's principal sources of liquidity are cash on hand, free cash flow generated throughout the year and its revolving credit facilities. The Company currently has two unencumbered properties which could provide additional financing.

		December 31, 2018
Cash on hand	$	32,610
Capital expenditure reserves[1]		89
Revolving credit facilities availability		51,000
Total current liquidity[2]	$	83,699

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

Revolving Credit Facilities and Mortgages Payable

		December 31, 2018		December 31, 2017
Revolving Credit Facilities				
Principal amount payable	$	15,000	$	25,339
Weighted average interest rate		5.45%		4.49%
Mortgages Payable				
Principal amount payable	$	79,383	$	91,672
Weighted average term to maturity		3.5 years		4.5 years
Weighted average interest rate		4.83%		4.57%

Chartered Bank Revolving Credit Facilities

The Company has revolving credit facilities with two Canadian chartered banks. The first credit facility has a maximum borrowing capacity of $45,000 with an interest rate based on a spread over banker's acceptance rates or the bank's prime rate plus 1.25%. This credit facility is secured by nine hotels, is subject to an annual review and has no set expiry date. At

December 31, 2018, the Company had drawn $nil (December 31, 2017 - $20,839) on this facility. The second credit facility has a maximum borrowing capacity of $21,000 (December 31, 2017 - $30,000) with an interest rate of the bank's prime rate plus 1.50% (5.45% at December 31, 2018). At December 31, 2018, $15,000 (December 31, 2017 - $4,500) was drawn on this facility. The second credit facility, together with a mortgage with an outstanding balance of $33,121 at December 31, 2018, is secured by nine hotels (December 31, 2017 - ten 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 4.83%. These mortgages mature between October 2019 and September 2029 and are secured by individual first charges on 20 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 December 31, 2018, all covenants measured on an annual basis were in compliance except one mortgage for which a waiver was obtained from the lender. This mortgage matures in October 2019 and is presented as current on the statements of financial position as at December 31, 2018. At December 31, 2017, all covenants measured on an annual basis were in compliance.

In June 2018, the Company drew the remaining $5,000 available on an existing mortgage with a total principal amount of $17,500, secured by two hotels. The mortgage bears interest at 4.55%, has an amortization period of fifteen years and matures in July 2022.

In November 2018, the Company refinanced a maturing mortgage, increasing the principal balance to $3,700 from $2,480. The interest rate was reduced to 4.15% from 5.54%. The mortgage has an amortization period of ten years and matures in November 2021.

In December 2018, the Company repaid $14,250 on its $47,371 mortgage payable as the Holiday Inn in Ottawa, ON, was one of the hotels securing this mortgage.

Convertible Debentures

At December 31, 2018, the Company had two series of convertible debentures outstanding. The Series B Convertible Debentures ("Series B 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, 2020.

The Series C debentures (trading symbol "HLC.DB.A") have an aggregate principal amount outstanding of $40,565, bear interest at 7.50%, have interest payment dates of March 31 and September 30 and were to mature on September 30, 2021. On January 3, 2019, the Company fully redeemed the Series C debentures. The Company paid the holders of these debentures $1,019.52 per $1,000 (amounts not in thousands) principal amount, representing the principal amount of $1,000 and accrued and unpaid interest of $19.52.

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 December 31, 2018:

	Maturity	Interest Rate	December 31, 2018	December 31, 2017
Series B (HLC.DB)	2020	6.25%	$ 50,866	$ 50,866
Series C (HLC.DB.A)	Redeemed January 3, 2019	7.50%	40,565	40,565
			$ 91,431	$ 91,431
Weighted average term to maturity[(1)]			1.2 years	2.9 years
Weighted average interest rate			6.80%	6.80%

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

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

On January 15, 2018, the Company initiated Normal Course Issuer Bids ("NCIBs") to repurchase a maximum of $4,962 principal amount of its Series B debentures and $3,411 principal amount of its Series C debentures. No purchases under the NCIBs were made. The Series B debentures NCIB expired on January 14, 2019. The Series C debentures NCIB was terminated on January 3, 2019 when the debentures were redeemed in full.

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 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.

Contractual Obligations

The following table shows the Company's contractual obligations as at December 31, 2018:

	2019	2020	2021	2022	2023	Thereafter
Mortgages payable						
Interest[(1)]	$ 3,531	$ 3,128	$ 2,771	$ 1,409	$ 125	$ 295
Principal[(2)]	11,416	6,358	11,261	46,888	560	2,900
Revolving credit facilities						
Interest[(1)]	1,022	-	-	-	-	-
Principal	15,000	-	-	-	-	-
Convertible debentures						
Interest	3,971	1,060	-	-	-	-
Principal[(3)]	40,565	50,866	-	-	-	-
Operating leases	126	111	106	102	99	389
Total	$ 75,631	$ 61,523	$ 14,138	$ 48,399	$ 784	$ 3,584

(1) Interest on floating rate debt is based on interest rates prevailing at December 31, 2018.

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

(3) Principal represents face value of debentures at maturity. The Series C Debentures were repaid in full on January 3, 2019.

Commitments to Capital Spending

Holloway completes capital improvements and upgrades to its properties on an ongoing basis. Recurring capital expenditures reflect the regular cost of replacing furniture, fixtures and equipment, as well as other capital expenditures that are required in order to maintain the existing productive capacity of the properties. Holloway continually assesses the highest and best use of each of its properties and, subject to certain financial and other conditions being satisfied, pursuing the development or redevelopment of such properties. Development activities will generally occur over long periods of time.

Common Shares

At December 31, 2018, the Company had 17,145,553 shares outstanding. As of the date of this MD&A, the Company has 15,587,988 shares outstanding.

On August 17, 2018, the Company initiated an NCIB to repurchase up to 893,682 of its outstanding common shares. During the year ended December 31, 2018, the Company repurchased and cancelled 1,225,413 shares at a cost of $7,457 (average price of $6.09 per share) under the current and previous NCIBs.

On December 18, 2018, the Company announced the commencement of a SIB pursuant to which it would offer to purchase up to 1,200,000 of its outstanding common shares (or such greater number of common shares that the Company may determine it will take up and pay for) at a purchase price of $6.50 per share. On January 23, 2019, the Company announced that a total of 1,553,755 common shares were deposited pursuant to the SIB which the Company agreed to repurchase, resulting in a cash outlay of $10,099.

The Company believes that, on occasion, its shares become available at prices that do not give full effect to their underlying value. Accordingly, management believes that the purchase of shares pursuant to an NCIB and a SIB represents an investment opportunity for Holloway and an appropriate use of funds.

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, convertible debenture redemptions and repurchases and/or regular or supplemental debt repayments.

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

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	2018	2017
Dividends declared	$ 600	$ 646	$ 2,505	$ 2,625
Net income attributable to shareholders	19,775	404	21,628	6,478
Payout ratio	3.0%	159.9%	11.6%	40.5%
Funds from operations[1]	4,189	3,907	19,437	17,359
Payout ratio	14.3%	16.5%	12.9%	15.1%
Adjusted funds from operations[1]	3,677	3,426	17,313	15,448
Payout ratio	16.3%	18.9%	14.5%	17.0%

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

Other Information

Selected Financial Information

The following table provides certain financial information for the past three years:

	2018	2017	2016
Total revenues	$ 108,576	$ 106,400	$ 107,164
Net income attributable to shareholders	21,628	6,478	(1,045)
Per basic share	1.21	0.34	(0.06)
Per diluted share	1.18	0.34	(0.06)
Dividends paid per share	0.14	0.14	0.14
Total assets	311,761	322,409	351,399
Total long-term financial liabilities	117,185	173,183	122,945

Statement of Financial Position

The following table outlines significant balances or changes in the consolidated statement of financial position from December 31, 2017 to December 31, 2018:

	December 31, 2018	December 31, 2017	Increase (Decrease)	Explanation
Assets				
Cash	$ 32,610	$ 691	31,919	The increase in cash relates to the timing of the sale of the Holiday Inn in Ottawa, ON, which sold on December 17, 2018. The majority of this cash was used to redeem the Series C debentures on January 3, 2019.
Trade, other and insurance proceeds receivable	3,628	4,385	(757)	The decrease in receivables is primarily a result of the insurance proceeds outstanding at December 31, 2017 being received in full.
Asset held-for-sale	3,206	-	3,206	Represents the Travelodge in Dartmouth, NS, which was sold on January 15, 2019.
Property and equipment	242,775	284,047	(41,272)	Change is primarily due to the sales of the Super 8 in High Level, AB, and the Holiday Inn in Ottawa, ON, depreciation, net impairment of hotel properties and the reclassification of a hotel as an asset held-for-sale, offset by capital additions for the year.
Loans receivable, including current portion	8,457	5,018	3,439	Increase represents the $3,000 vendor take-back loan receivable on the sale of the Holiday Inn in Ottawa, ON and the change in the US dollar.
Deferred income tax assets	19,092	26,116	(7,024)	Deferred income tax assets decreased as a result of taxable income generated during the year.
Liabilities				
Revolving credit facilities	15,000	25,339	(10,339)	The revolving credit facilities decreased primarly from the sale of two hotel properties, additional funds received on existing mortgages and cash generated from operating activities offset by capital additions at our properties, dividends and common share repurchases.
Trade payables and accrued liabilities	8,369	9,389	(1,020)	Trade payables and accrued liabilities have decreased primarily due to reduced capital invoices at the end of the year.
Current portion of convertible debentures	40,205	-	40,205	Balance represents the Series C debentures redeemed in full on January 3, 2019.
Mortgages payable, including current portion	78,542	90,587	(12,045)	The decrease is related to regular payments along with a supplemental payment of $14,250 related to the sale of the Holiday Inn in Ottawa, ON offset by additional draws on mortgages of $5,000 and $1,220, respectively.
Equity				
Equity attributable to shareholders of the Company	115,750	104,084	11,666	Increase represents the comprehensive income for the year offset by dividends paid and the repurchase of common shares.

Portfolio of Hotels

The following table details the hotels in which the Company had an interest at December 31, 2018. The Company owned 31 hotels including a 62% interest in a hotel in Canada, with a total of 3,422 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		
Days Inn® (2)	Moncton	151
Travelodge® (2)	Moncton	75
Travelodge®	Saint John	58
		284
Newfoundland and Labrador		
Super 8® (3)	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
Super 8®	Windsor	66
Travelodge® (4)	Dartmouth	75
Travelodge®	New Glasgow	63
Travelodge®	Sydney	117
		496
Ontario		
Airlane	Thunder Bay	155
DoubleTree®	London	323
Super 8®	Timmins	73
Travelodge®	Ottawa	196
Travelodge®	Thunder Bay	93
Travelodge®	Timmins	92
		932
Yukon		
Days Inn®	Whitehorse	99
Westmark® Hotel and Conference Center	Whitehorse	181
		280
Total Rooms		**3,422**

(1) Leased to a third party effective January 2018.
(2) Properties were sold on March 6, 2019.
(3) Holloway holds a 62% ownership interest in this property.
(4) Property was sold on January 15, 2019.

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 December 31		Years Ended December 31	
	2018	2017	**2018**	2017
Net cash generated from operating activities	**$ 5,657**	$ 5,884	**$ 20,773**	$ 19,491
Add / (deduct):				
Changes in items of working capital	**(1,523)**	(1,818)	**(268)**	(120)
FF&E reserve	**(831)**	(827)	**(3,738)**	(3,621)
Free cash flow	**3,303**	3,239	**16,767**	15,750

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 December 31		Years Ended December 31	
	2018	2017	**2018**	2017
Hotel: Rooms	**$ 20,311**	$ 20,247	**$ 91,619**	$ 88,924
Food and beverage	**2,859**	3,064	**9,961**	10,541
Rental	**333**	281	**1,328**	1,232
Other	**1,068**	1,173	**4,713**	4,872
Hotel Revenue	**24,571**	24,765	**107,621**	105,569
Deduct:				
Operating expenses	**16,596**	16,329	**68,471**	67,318
Property taxes and insurance	**1,478**	1,544	**5,868**	6,245
Add:				
Management services expenses included in operating expenses	**41**	18	**78**	25
Hotel operating income	**$ 6,538**	$ 6,910	**$ 33,360**	$ 32,031

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 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 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 December 31		Years Ended December 31	
	2018	2017	**2018**	2017
Net income attributable to shareholders	**$ 19,775**	$ 404	**$ 21,628**	$ 6,478
Add / (deduct):				
Depreciation and amortization on real estate assets	**3,808**	3,878	**15,598**	15,406
Impairment of hotel properties, net	**1,000**	-	**1,000**	-
Gain on disposals of property and equipment and repurchase of convertible debentures	**(26,303)**	(19)	**(25,813)**	(6,581)
Provision for income taxes	**5,909**	(356)	**7,024**	2,056
FFO	**$ 4,189**	$ 3,907	**$ 19,437**	$ 17,359
per basic share	**0.24**	0.21	**1.09**	0.92

Adjusted Funds from Operations ("AFFO")

AFFO is another common measure of performance for publicly traded real estate companies. AFFO is generally considered reflective of the Company's ability to earn income and pay cash dividends to shareholders. The Company calculates AFFO as FFO adjusted for: share-based expense, depreciation and amortization of corporate assets, accretion on debt and reserve for replacement of FF&E which is calculated as 4% of rooms revenue. In prior periods, this reserve was calculated based on 3% of rooms revenue. The Company has retroactively restated the reserve for replacement of FF&E for 2017 in the table below. 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 December 31		Years Ended December 31	
	2018	2017	**2018**	2017
FFO	**$ 4,189**	$ 3,907	**$ 19,437**	$ 17,359
Add / (deduct):				
Share-based expense	**17**	45	**403**	314
Depreciation and amortization of corporate assets	**23**	20	**97**	75
Accretion on debt	**279**	281	**1,114**	1,321
FF&E reserve	**(831)**	(827)	**(3,738)**	(3,621)
AFFO	**$ 3,677**	$ 3,426	**$ 17,313**	$ 15,448
per basic share	**0.21**	0.18	**0.97**	0.82

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.

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 and New Standards

The significant accounting policies of Holloway are described in note 3 of the Company's December 31, 2018 audited consolidated financial statements. The following changes to the Company's accounting policies which became effective on January 1, 2018 are as follows:

The Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") and IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). The impact of the adoption of these standards on the Company's financial statements and an explanation of how the new accounting policies are different than those applied in prior periods is described below.

IFRS 9, *Financial Instruments*

IFRS 9 replaces the provisions of IAS 39*, Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company applied this new standard retrospectively, which means this standard was applied to transactions, events and conditions as if it had always been effective.

(a) Classification

The Company classifies its financial instruments in the following categories: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or amortized cost. The Company determines the classification of financial assets at their initial recognition. The classification is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL (such as derivatives) or the Company has elected to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018 and noted that there were no changes in classification as a result of the transition to IFRS 9. The embedded derivative on the Company's convertible debentures and the share-based liability are classified as FVTPL. The remainder of the Company's financial assets and liabilities are classified as amortized cost.

(b) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities carried at amortized cost are initially recorded at fair value and subsequently carried at amortized cost less any impairment.

Financial liabilities at FVTPL

Financial liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of income. Financial liabilities that are considered modified during the year are to be accounted for by discounting

the revised cash flows at the original effective interest rate. Realized and unrealized gains and losses arising from changes in the fair value of the financial liabilities carried at FVTPL are included in the consolidated statements of income in the period in which they arise. Where management has classified a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income.

The Company identified two financial liabilities that had been modified in prior years. The related gains on modification were considered immaterial and consequently, no adjustment was made.

(c) Impairment of financial assets at amortized cost

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as was the case under IAS 39. Impairment provisions on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the provision decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

The Company's loans receivable and trade, other and insurance proceeds receivable are included in this category. The Company has elected to use the simplified approach to measuring ECL which uses a lifetime expected impairment. To measure the ECL, impairment provisions on trade receivables are based on credit risk characteristics and days past due, while impairment provisions on loans receivable are based on credit risk characteristics and speculative and non-speculative historical default rates. Trade and loans receivable are written off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Company. The impact of the change in the impairment provision was immaterial and consequently, no adjustment was made.

(d) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of income.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes a new control-based revenue recognition model which replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts*. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods and services. The Company applied this new standard using the modified retrospective approach, which means this standard was applied to transactions, events and conditions as if it had always been effective. The impact on transition was immaterial and consequently, no adjustment was made. This change results in earlier recognition of revenue for external management services contracts that include variable consideration.

Hotel revenue

Hotel revenue is generated primarily from room occupancy, food and beverage services, rental and ancillary services. The Company recognizes revenue when the services are provided to the customer and payment of the transaction price is due, as there are no further performance obligations to be satisfied at this point.

Management services revenue

Management services revenue is generated from providing hotel management and bookkeeping services to third parties. The Company recognizes revenue when the services are rendered to the customer, typically on a monthly basis and payment of the transaction price is due. The total transaction price of certain contracts includes variable consideration based on certain financial measures being achieved.

The Company determines the total transaction price, including an estimate of any variable consideration, at contract inception and reassesses this estimate at each reporting date using the most likely amount method.

New Standard and Interpretation Not Yet Adopted

IFRS 16, *Leases*

IFRS 16*, Leases* ("IFRS 16"), will replace IAS 17, *Leases*. The new standard results in substantially all leases being recorded on the consolidated statement of financial position of the lessee. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company will apply the new standard using the modified retrospective approach from January 1, 2019. The modified retrospective approach measures the lease obligation at the present value of the remaining lease payments, with a practical expedient available to measure the right-of-use asset to equal the value of the lease obligation at January 1, 2019. The Company has evaluated the impact of this new standard and at the application date will record a right-of-use asset and corresponding lease obligation of approximately $700 on its consolidated statement of financial position related to the Company's head office space lease. The standard is not expected to have a cumulative 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 consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of 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.

The following discusses the most significant accounting estimates and judgements that the Company has made in the preparation of its consolidated financial statements.

Valuation of Property and Equipment

The Company has established a methodology for identifying indicators of impairment or reversal of previously recorded impairments which includes looking at changes in operating performance, occupancy levels and other factors for each hotel or cash generating unit ("CGU"). Additional factors including oil and gas or other business and economic activity, regional development opportunities and new competition in the markets in which each CGU operates are also considered. These indicators determine whether the Company tests for impairment or reversal of previously recorded impairments at each reporting date.

For the year ended December 31, 2018, the Company assessed 4 of its hotels or CGUs. The Company prepared internal models to determine the recoverable amount of these hotels and considered comparable hotel sales in the respective regions of these CGUs. In total, the Company recorded a net impairment of $1,000.

For internal models, the recoverable amount is defined as the higher of the value in use and fair value less costs to sell. In our internal models, the recoverable amount is determined based on the fair value less costs to sell which uses stabilized cash flow projections and a terminal value based on long-term average growth rates for the industry. For periods beyond the initial budget period, cash flows were extrapolated using growth rates determined to be reasonable for the specific CGU and the market in which it operates.

The future cash flows expected from the use and eventual disposition involves assumptions of occupancy rates, room rates, revenues, expenses, the residual or terminal value of the CGU and discount rates. In addition to these estimates, management assesses the effect of new competition in the individual markets and the industry predictions of hotel supply and demand. These estimates and assumptions are subject to change.

Based on this information, management recorded an impairment of $3,800 on 2 CGUs where the recoverable amount declined and reversed previously recorded impairments of $2,800 on 2 CGUs where the recoverable amount increased.

The fair value may not reflect the realizable value in the event a particular CGU is sold by the Company.

Key factors of estimation uncertainty included in the internal models for the CGUs tested for impairment or reversal of impairment were:

Pre-tax discount rate	12%
Capitalization rate	10%
Growth rates	Consistent with industry and market/hotel outlook

If the pre-tax discount rate or the capitalization rate had been 1% higher/lower, net income would have changed by approximately $450 and $600, respectively. If the value of the comparable hotel sales considered had been 5% higher/lower, net income would have changed by approximately $475.

Depreciation of Property and Equipment

The Company records depreciation on its property and equipment using the straight-line method over the estimated useful life of each category. If different estimated useful lives of the assets or depreciation methods were used, the impact on the Company's net income could be material.

Income Taxes

Deferred income tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets recorded in the consolidated statements of financial position. Significant estimates and judgments are used in determining the future taxable income, which includes consideration of the history of profitability. Actual results will differ from the amounts estimated for future taxable income. Management considers both favourable and unfavourable evidence in determining whether or not it is probable that the future economic benefits will flow to the Company and the amount of deferred income tax assets that should be recognized. In making its assessment, management considers past operating results, forecasted future operating results and economic conditions in the locations in which it operates.

Financial Instruments and Risk Management

Financial Instruments

The Company's financial instruments consist of cash, trade, other and insurance proceeds receivable, 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:

	December 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	$78,542	$79,900	$90,587	$91,107
Convertible debentures	90,225	90,627	89,460	89,651

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 consolidated statements of income.

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.

<u>Interest Rate Risk</u>

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by using fixed rate debt or debt with a fixed-rate option so cash flow is not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable is 4.83% with a weighted average maturity of 3.5 years.

The Company has one mortgage and its revolving credit facilities at floating rates. For the year ended December 31, 2018, if interest rates on the Company's floating rate debt had been 1% higher/lower, net income would have changed by approximately $700.

<u>Credit Risk</u>

The amount of trade, other and insurance proceeds receivable presented on the consolidated statements of financial position of $3,628 is net of an allowance for doubtful accounts. The company also has two loans receivable in the amount of $8,457 obtained through the respective sales of previously owned assets. There is no impairment provision recorded on the loans receivable.

Historically, there have been no significant trade receivable collection issues and the Company does not believe it is subject to any significant concentration of credit risk. The Company assesses the creditworthiness of customers requesting credit, prior to approval. Listings of trade receivables are reviewed by and discussed with hotel operations personnel on a monthly basis.

Currency Risk

The Company is exposed to currency risk as it pays certain franchise and royalty payments and receives interest income on its $4,000 loan receivable denominated in US dollars. A $0.01 change in the US dollar exchange rate would change net income by approximately $15.

Liquidity Risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due, as well as to maintain compliance with the various covenants in its financing agreements and its capital management requirements and objectives. The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. Cash flow forecasting is performed at the hotel level and aggregated in head office.

The Company has two revolving credit facilities with a total available to be drawn of $51,000.

Based on the Company's overall cash generation capability and current financial position, while there can be no assurance, management believes the Company will be able to meet all financial obligations as they become due.

Cyber Risk

The Company relies on its information technology systems, including its network, equipment, hardware, software, telecommunications, and other information technology (collectively, "IT systems"), and the IT systems of its third-party service providers such as the hotel brands, to operate its business. IT systems are subject to an increasing threat of continually evolving cybersecurity risks including computer viruses, security breaches, and cyberattacks. In addition, the Company is subject to the risk of unauthorized access to its IT systems or its information through fraud or other means. The Company's operations also depend on the timely maintenance, upgrade and replacement of its IT systems, as well as pre-emptive expenses to mitigate cybersecurity risks and other IT systems disruptions.

Any cybersecurity incidents or other IT systems disruption could result in a detriment to operations, destruction or corruption of data, security breaches, financial losses from remedial actions, the theft or other compromise of confidential or otherwise protected information, fines and lawsuits, or damage to the Company's reputation. Any such occurrence could have an adverse impact on our financial condition and results of operations.

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.

During 2018, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), under the supervision of, and with the participation of those acting as CEO and CFO. As at December 31, 2018, based on the

evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were appropriately designed and were operating effectively.

During 2018, the Company's management also evaluated the design and operating effectiveness of the internal controls over financial reporting [as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), using the Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations for the Treadway Commission (COSO 2013)], under the supervision of, and with the participation of the those acting as CEO and CFO. As at December 31, 2018, based on the evaluation, those acting as CEO and CFO have concluded that the Company's internal controls over financial reporting were appropriately designed and were operating effectively.

It is important to note that all systems of internal controls and procedures can only provide reasonable, rather than absolute assurance that all control issues will be detected. Misstatement and errors may not be detected and controls can be circumvented by collusion among individuals or management override. In addition, the design of any system of 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.

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 7, 2018 which is available on Holloway's profile on the SEDAR website at www.sedar.com.