

# **ROYAL HOST**

**Halifax, Nova Scotia, Canada**

**Annual Report 2010**

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# Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2010

(\$000's unless otherwise noted)

## 2010 In Review

Effective January 1, 2011, Royal Host Real Estate Investment Trust ("the REIT" or "the Trust") was converted from a real estate investment trust into a corporation. Royal Host Inc. ("Royal Host" or "the Company") has prepared its management's discussion and analysis as a continuation of the business of Royal Host Real Estate Investment Trust.

After a very challenging 2009, the accommodation sector in Canada began to recover in 2010, with certain provinces and geographic regions experiencing a stronger recovery than others.

In 2010, Royal Host completed the outsourcing of the hotel management function for all hotels and reduced its operational and corporate overhead with the transition to third party management of Royal Host's full service hotels. Also during the year, Royal Host used proceeds of the sales of marketable securities to repay two mortgage pools, providing Royal Host with an additional 19 unencumbered properties. These initiatives will provide future benefits in operational performance from hotel properties and provide greater operational and financial flexibility going forward.

Royal Host had a net loss from continuing operations of \$1,651 in 2010 compared to a net loss from continuing operations of \$1,426 in 2009. The main drivers of 2010 financial results were as follows:

- A \$1,328 (1.4%) decline in hospitality revenues in 2010 versus 2009. Occupancy increased in 2010 from 2009 by 1.2 points, a relative increase of 2.3%. Management revenues declined in 2010 as Royal Host ceased providing management services for external parties;
- Hospitality expenses increased in 2010 by \$2,231 (3.1%) over 2009, attributable to the costs associated with transitioning the operation of Royal Host managed hotels to third party management companies;
- Realized gains on sale of investments of \$12,378, an increase of \$8,341 from \$4,037 in 2009 coupled with an other comprehensive loss of \$10,143 in 2010 versus other comprehensive income of \$10,143 in 2009;
- Royal Host continued investing in its properties with \$5,458 of capital expenditures in 2010 including upgraded hotel property management software at 18 hotels and the renovation of the Oakville Holiday Inn which was in progress at year-end;
- Repayment of two mortgage pools in full, with principal repayments totaling \$33,684, in addition to scheduled mortgage payments;
- Increased the capacity on a credit facility from \$20 million to \$25 million secured by six properties and subject to earnings tests to determine borrowing limits within the capacity;
- Distributed \$5,420, or \$0.30 per unit to Unitholders during the year;
- Deploying \$1,671 towards the repurchase and subsequent cancellation of 647,802 trust units and \$3,211 towards the repurchase of \$4,061 of convertible debentures;

*This Management's Discussion & Analysis ("MD&A") dated March 23, 2011 is the responsibility of Management. The Directors carry out their responsibility for review of this MD&A principally through their Audit Committee. This MD&A should be read in conjunction with the audited Consolidated Financial Statements of Royal Host Real Estate Investment Trust for the year ended December 31, 2010. The Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").*

## SELECTED FINANCIAL INFORMATION

(\$000's, except as otherwise noted)	2010	2009	Change (%)
Hospitality Revenue (Continuing Operations)	92,270	93,598	(1.4%)
Hospitality Expenses	75,305	73,074	3.1%
Hospitality Gross Margin <sup>(1)</sup>	16,965	20,524	(17.3%)
Hospitality Gross Margin % <sup>(1)</sup>	18.4%	21.9%	(16.0%)
Investment Income	12,214	8,102	50.8%
Other Expenses	(33,565)	(31,883)	5.3%
Income Tax Recovery	2,735	1,831	49.4%
Loss from Continuing Operations	(1,651)	(1,426)	(15.8%)
Loss from Discontinued Operations	(1,078)	(23)	(4,587.0%)
Net Loss	(2,729)	(1,449)	(88.3%)
Other Comprehensive Income (Loss)	(10,143)	10,143	(200.0%)
Comprehensive Income (Loss)	(12,872)	8,694	(248.1%)
Basic Per Unit Net Earnings (Loss) (\$)			
From Continuing Operations	(0.09)	(0.07)	(28.6%)
From Discontinued Operations	(0.06)	-	-
	(0.15)	(0.07)	(114.3%)
Distributable Income (Loss) <sup>(1)</sup>	(7,408)	5,228	(241.7%)
Distributions Declared on Trust Units			
Monthly	5,420	10,042	(46.0%)
Special <sup>(2)</sup>	-	2,074	(100.0%)
Total	5,420	12,116	(55.3%)
Basic Per Unit Distributable Income (Loss) (\$) <sup>(1)</sup>	(0.41)	0.26	(257.5%)
Per Unit Distributions Declared (\$)			
Monthly	0.30	0.51	(41.2%)
Special <sup>(2)</sup>	0.00	0.10	(100.0%)
Total	0.30	0.61	(50.8%)
Weighted Average Number of Trust Units Outstanding (000's)	18,093	19,748	(8.4%)
Number of Trust Units Outstanding, End of Year (000's)	17,650	18,305	(3.6%)
Closing Trust Unit Trading Price, End of Year (\$)	2.10	2.46	(14.6%)

As at March 28, 2011, Royal Host had 17,447,878 common shares outstanding.

<sup>(1)</sup> Items represent non-GAAP financial measures.

<sup>(2)</sup> 2009 distributions include the additional \$2.1 million special distribution (\$0.10 per trust unit) declared in February 2009, payable to Unitholders of record on December 29, 2008.

**At a Glance**

Royal Host is a diversified hospitality Company that delivers Shareholder value through hotel ownership, investment, and franchising. Royal Host’s portfolio of Canadian hotels operate under a variety of recognizable brands as set forth in the table below, as well as a number of unbranded properties. The hotel portfolio is further enhanced by a stable franchising business.

**Royal Host Businesses**

<p><b>HOTEL OWNERSHIP</b> Portfolio of 31 properties</p> <p>Generated \$16.97 million of hospitality gross margin in 2010</p>	<p><b>INVESTMENT PORTFOLIO</b> \$1.87 million portfolio of marketable securities</p> <p>Net sales proceeds of \$39,381, realizing gains of \$12,378 and an other comprehensive loss of \$10,143</p>	<p><b>FRANCHISE</b> 91 franchised Travelodge® and Thriftlodge® hotels</p> <p>Generated \$2.14 million of franchise and management revenue in 2010</p>
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	ONTARIO			ATLANTIC			WESTERN			TOTAL		
	# of Hotels	# of Rooms	% of Guest Rooms	# of Hotels	# of Rooms	% of Guest Rooms	# of Hotels	# of Rooms	% of Guest Rooms	# of Hotels	# of Rooms	% of Guest Rooms
Travelodge® Thriftlodge®	9	1,253	33.8	-	-	-	4	415	11.2	13	1,668	45.0
Country Inns & Suites®	-	-	-	4	273	7.4	3	228	6.3	7	501	13.5
Independent	1	256	6.9	-	-	-	1	129	3.5	2	385	10.4
Hilton®	1	323	8.7	-	-	-	-	-	-	1	323	8.7
Super 8®	2	159	4.3	-	-	-	2	132	3.7	4	291	7.9
Holiday Inn®	2	254	6.9	-	-	-	-	-	-	2	254	6.9
Best Western®	-	-	-	-	-	-	1	159	4.4	1	159	4.3
Ramada®	1	124	3.3	-	-	-	-	-	-	1	124	3.3
	16	2,369	63.9	4	273	7.4	11	1,063	28.7	31	3,705	100.0
<b>Full Service</b>	8	1,590	67.1	-	-	-	2	288	27.1	10	1,878	50.7
<b>Select Service</b>	8	779	32.9	4	273	100.0	9	775	72.9	21	1,827	49.3

## Non-GAAP Measures

This MD&A includes certain non-GAAP measures (measures that are not calculated or presented in accordance with GAAP). Because these measures are not defined under GAAP, Royal Host's method of calculation may not be comparable to similar measures presented by other entities. These measures should not be used as an alternative to net earnings or cash flows from operations determined in accordance with GAAP when assessing Royal Host's financial performance. However, the Company believes these measures are useful in supplementing the reader's understanding of the Company's performance.

This MD&A includes the following non-GAAP measures: Revenue per Available Room ("RevPAR"), Average Daily Rate ("ADR"), Occupancy, Hospitality Gross Margin, Distributable Income (and Basic and Diluted per Unit Distributable Income), Standardized Distributable Cash, Funds from Operations and Adjusted Funds from Operations.

## Key Performance Drivers and Measures

The hospitality industry commonly use three lodging statistics as key performance indicators:

- **RevPAR**, which combines information about both pricing levels and occupancy. This measure of efficiency is based on all available rooms regardless of whether they are occupied or not. RevPAR is calculated by dividing the number of rooms available in a given period into the room revenue in the same period;
- **Occupancy**, which measures the level of hotel room utilization and is calculated by dividing the number of rooms rented in a given period by the number of rooms available in the same period; and
- **ADR**, which measures the average room price for all guest rooms and is calculated by dividing total room revenue by the number of rooms rented in a given period.

Management and the Board of Directors use these measurements, among other purposes, to assess each property's market position among its competitive set and to assess Management's effectiveness in optimizing each property's transitory room inventory.

### RevPAR, Occupancy and ADR

Royal Host is showing signs of emerging from the economic downturn that hit the lodging industry in Canada in late 2008 and 2009. Occupancy increased 1.2 points to 55.3% in 2010 from 54.1% in 2009, a relative increase of 2.2%. This was offset by a slight decrease in ADR in 2010 to \$97.13, down \$1.66, or 1.68% from \$98.79 in 2009. Overall, RevPAR rose to \$53.70 in 2010 from \$53.42 in 2009, an increase of \$0.28 or 0.5%.

### CONTINUING OPERATIONS (2006 – 2010)

31 hotels / 3,705 rooms*	2006	2007	2008	2009	2010
RevPAR	\$59.99	\$60.67	\$59.41	\$53.42	\$53.70
Occupancy	65.2%	63.7%	60.3%	54.1%	55.3%
ADR	\$92.02	\$95.29	\$98.52	\$98.79	\$97.13

The Company's hotel portfolio of mostly mid-scale hotel properties is diversified geographically among seven provinces and territories and derives its revenues from numerous customer segments with differing economic drivers, reducing the Company's risk exposure to fluctuating economic conditions in any one market. Approximately 75-80% of room revenue is derived from transient room nights while 20-25% is derived from group business. The majority of Royal Host's hotels are not situated in locations generally considered to be primarily leisure markets; they depend more heavily on corporate business and less on leisure business.

Revenue generation remained a key priority throughout 2010. Royal Host proactively deploys resources to maintain and grow market share, including revenue management strategies, sales and marketing initiatives and management of brand reservation systems. Through the effective positioning of room rates, Royal Host continued to be successful in generating higher ADR and containing the declines in market share.

**CONTINUING OPERATIONS**

31 hotels / 3,705 rooms*	Three months ended December 31			Years ended December 31		
	2010	2009	Change (%)	2010	2009	Change (%)
RevPAR	\$49.69	\$50.51	(1.6%)	\$53.70	\$53.42	0.5%
Occupancy	51.1%	52.2%	(2.2%)	55.3%	54.1%	2.2%
ADR	\$97.27	\$96.72	0.6%	\$97.13	\$98.79	(1.7%)

\* Occupancy has been calculated including all available room nights at the hotels; available room nights has not been adjusted to exclude rooms/room nights unavailable during the renovation of the Oakville Holiday Inn or other hotels renovated.

**ONTARIO**

16 hotels / 1,590 rooms*	Three months ended December 31			Years ended December 31		
	2010	2009	Change (%)	2010	2009	Change (%)
RevPAR	\$49.35	\$50.29	(1.9%)	\$53.14	\$52.76	0.7%
Occupancy	51.3%	52.7%	(2.7%)	55.6%	54.0%	2.9%
ADR	\$96.28	\$95.41	0.9%	\$95.58	\$97.66	(2.1%)

In Ontario, RevPAR increased by \$0.37 to \$53.14 in 2010 from \$52.77 in 2009, a relative increase of 0.7%. Occupancy had a 1.6 point increase from 54.0% to 55.6% in 2010, a relative increase of 2.9%. This increase was partially offset by a \$2.08 decrease in ADR from \$97.66 in 2009 to \$95.58, a decrease of 2.1%.

Royal Host owns 16 hotels in 12 municipalities throughout Ontario, each with very different marketplaces. Toronto, London (2 properties), Thunder Bay (2 properties), Trenton, Belleville, Oakville and Chatham all had increases in occupancy rates from 2009 to 2010. These increases ranged from a relative increase of 1.7% to 25.4%. Conversely, Barrie, Ottawa (2 properties), Timmins (2 properties), North Bay and Sudbury all had decreases in occupancy rates from 2009 to 2010. These decreases ranged from a relative decrease of 1.2% to 19.3%.

Four hotels in Ontario had an increase in ADR from 2009 to 2010, all with increases less than 2%. Seven hotels experienced a decrease in ADR between 0.5% and 3.0% from 2009 to 2010. Five hotels registered a decrease in ADR of 3.4% to 5.1% from 2009 to 2010.

On the whole, 8 of 16 properties owned by Royal Host in Ontario experienced an increase in RevPAR in 2010 compared to 2009. Particularly strong markets in 2010 compared to 2009 were the Greater Toronto Area, London, Thunder Bay and Chatham. These markets coincide with the larger RevPAR gains in Ontario per "Trends in the Canadian Hotel Industry – Report of Rooms Operations By Location Twelve Months Ending December 2010" – published by PKF Consulting Inc. The softer markets for Royal Host hotels in 2010 compared to 2009, translating into a decrease in RevPAR, were in Timmins, Ottawa, North Bay and Sudbury. Again, these coincided with the weaker performing regions of Eastern Ontario, North Eastern Ontario and Ottawa per PKF Consulting.

**WESTERN**

11 hotels / 1,063 rooms*	Three months ended December 31			Years ended December 31		
	2010	2009	Change (%)	2010	2009	Change (%)
RevPAR	\$52.06	\$52.65	(1.1%)	\$55.10	\$55.31	(0.4%)
Occupancy	50.9%	52.2%	(2.4%)	53.8%	54.2%	0.3%
ADR	\$102.21	\$100.89	1.3%	\$102.46	\$102.12	(0.7%)

In Western Canada, RevPAR decreased by \$0.21 to \$55.10 in 2010 from \$55.31 in 2009, a relative decrease of 0.4%. Occupancy had a 0.4 point decrease from 54.2% to 53.8% in 2010, a relative decrease of 0.7%. This decrease was partially offset by a \$0.34 increase in ADR from \$102.12 in 2009 to \$102.46, an increase of 0.3%.

Royal Host owns 11 hotels in 9 different municipalities in Western Canada; one in Manitoba, three in Saskatchewan, six in Alberta and one in the Northwest Territories. Four hotels had an increase in occupancy from 2009 to 2010 ranging from a relative increase of 7.0% at the Super 8 Regina to 23.3% at the Yellowknife Inn. Seven hotels had relative decreases in occupancy ranging from 1.2% at the Country Inn Saskatoon to 21.0% at the Thriftlodge Lethbridge.

Four hotels in Western Canada had an ADR increase from 2009 to 2010 ranging from 0.2% to 7.3% while four hotels in Western Canada had a decrease in ADR from 2009 to 2010 of less than 3.0%. The remaining three hotels in Western Canada had a decrease in ADR from 2009 to 2010 ranging from 3.9% to 8.1%.

Collectively, the 6 of the 11 hotels in Western Canada had an increase in RevPAR from 2009 to 2010. The strongest markets were in Yellowknife, Saskatchewan and Manitoba and the weaker markets were in Alberta, both in Calgary and in smaller Alberta municipalities.

The RevPAR increase in Yellowknife of 29.7% from 2009 to 2010 far exceeded the increase reported by PKF Consulting Inc. This is largely attributable to the extensive renovations completed in 2008 on the Yellowknife property by Royal Host that has translated into both increased ADR and increased occupancy. Occupancy had a relative increase of 23.3% while ADR increased by 5.2% from 2009 to 2010.

Both Saskatoon (2 properties combined) and Regina had increases in RevPAR from 2009 to 2010. The increase in RevPAR, in both of these cities, exceeded that reported by PKF in the twelve months ended 2010. Saskatchewan's economy has been strong for the past couple of years, largely due to the abundance of natural resources. The three Saskatchewan properties had very strong results in 2009 that got even stronger in 2010.

Royal Host owns one hotel in Manitoba, the Winnipeg Country Inn. This hotel experienced an increase in RevPAR of 1.0% from 2009 to 2010.

Four of the six hotels owned by Royal Host in Alberta experienced a decrease in RevPAR from 2009 to 2010. The decreases ranged from 10.5% in Medicine Hat to 21.9% in Lethbridge. The two properties with an increase in RevPAR were the Brooks Travelodge, with an increase of 7.7%, and the Red Deer Super 8, with an increase of 16.4%. On the whole, Alberta did not have a very good year in the accommodations industry. According to PKF, there was a decrease in RevPAR of 3.7% from 2009 to 2010. Furthermore, PKF reported a decrease in Calgary Northwest of 10.8% from 2009 to 2010, which is the quadrant that Royal Host's Best Western Village Park Inn is located. The weakness in the Alberta accommodations industry was reflected in the results from operations of the Royal Host hotels located in Alberta.

**ATLANTIC**

4 hotels / 273 rooms*	Three months ended December 31			Years ended December 31		
	2010	2009	Change (%)	2010	2009	Change (%)
RevPAR	\$43.48	\$44.25	(1.7%)	\$53.18	\$51.89	2.5%
Occupancy	50.1%	48.2%	3.9%	58.4%	54.2%	2.5%
ADR	\$86.77	\$91.73	(5.4%)	\$91.02	\$95.74	(4.9%)

In Atlantic Canada, RevPAR increased by \$1.29 from \$51.89 in 2009 to \$53.18 in 2010, an increase of 2.5%. Occupancy had an increase of 4.2 points from 54.2% in 2009 to 58.4% in 2010, a relative increase of 7.8%. ADR had a decrease of \$4.72 from \$95.74 in 2009 to \$91.02 in 2010, a decrease of 4.9%.

All four hotels in Atlantic Canada had an increase in occupancy, ranging from a relative increase from 0.7% to 21.3%, which compared favorably to the increases reported by PKF in 2010 for the markets in which Royal Host owns hotels.

All four hotels in Atlantic Canada experienced a decline in ADR ranging from 2.1% to 7.3% from 2009 to 2010. This is a function of both the competitive nature of the markets in which Royal Host operates and a significant amount of high volume, lower rate customers in certain markets.

**Hospitality Gross Margin**

(\$000's, except as otherwise noted)	Three months ended December 31			Years ended December 31		
	2010	2009	Change (%)	2010	2009	Change (%)
Hospitality Gross Margin	3,572	4,298	(16.9%)	16,965	20,524	(17.3%)
Hospitality Gross Margin %	15.9%	18.9%	(16.1%)	18.4%	21.9%	(16.2%)

Hospitality gross margin was down in 2010 to \$16,965 from \$20,524 in 2009 (18.4% of sales in 2010 from 21.9% of sales in 2009). As discussed in the preceding section, room revenues were relatively flat from 2009 to 2010. Total hospitality revenues were down from \$93,598 to \$92,270 in 2010, a decrease of 1.4%.

However, Royal Host made a major operating change in 2010 that involved contracting out the operation of its 10 full service hotels (which account for roughly 60% of hospitality revenue) to a third party management company. While there were short-term costs associated with the transition that caused increased hospitality expenses which decreased hospitality gross margin this year, this decision is expected to yield benefits in the long-term, beginning in 2011.

**Standardized Distributable Cash, Distributable Income, Funds From Operations and Adjusted Funds From Operations**

Standardized Distributable Cash, Distributable Income, Funds from Operations and Adjusted Funds from Operations are non-GAAP measures commonly used by hotel real estate investment trusts. As a "non-GAAP" measure the calculation of each of these measures and reporting practices varies widely.

The policies of the Canadian Securities Administrators and the July 6, 2007 Interpretive Release issued by the Canadian Institute of Chartered Accountants (“CICA”) consider distributable cash a cash flow measure and as such require that it be reconciled to Cash Flows from Operating Activities. The Trust has presented this calculation as directed.

The Trust calculates Funds from Operations and Adjusted Funds from Operations as defined by the Real Property Association of Canada.

## Distributable Income

Distributable Income is commonly used to measure the performance of real estate investment trusts. The Trust believes that Distributable Income provides useful supplemental information. Distributable Income is not a measure defined by GAAP, nor does it have a standard definition, and as such may not be comparable to measures by other trusts that use similar terms. Royal Host calculates Distributable Income by deducting a provision for capital replacement (calculated as 4.0% of rooms and food and beverage revenue) from cash flows from total operations (after backing out the net changes in non-cash working capital), as presented in the Trust’s Consolidated Financial Statements.

(\$000’s, except as otherwise noted)	2010	2009	Change (%)
Cash Flows from (used in) Operating Activities	(1,288)	5,985	(121.5%)
Changes in Non-Cash Working Capital	(2,655)	2,730	(197.3%)
Cash Flows (Deficit) from Total Operations	(3,943)	8,715	(145.2%)
Provision for Capital Replacement <sup>(1)</sup>	(3,465)	(3,487)	(0.6%)
Distributable Income (Loss)	(7,408)	5,228	(241.7%)
Distributions Declared			
Monthly <sup>(2)</sup>	5,420	10,042	(46.0%)
Special <sup>(3)</sup>	-	2,074	(100.0%)
	5,420	12,116	(55.3%)
Payout Ratio			
Monthly	n/a	192.1%	n/a
Special	n/a	39.7%	n/a
	n/a	231.8%	n/a
Basic Per Unit Distributable Income (\$)	(0.41)	0.26	(257.5%)
Diluted Per Unit Distributable Income (\$) <sup>(4)</sup>	(0.41)	0.26	(257.5%)
Per Unit Distributions Declared (\$)	0.30	0.61	(50.8%)

<sup>(1)</sup> This provision is calculated as 4.0% of rooms and food and beverage revenue (as originally reported).

<sup>(2)</sup> Includes 12 months distributions declared in 2010 at 0.025 per unit. Cash distributions paid in 2010 include 0.025 per unit declared in December, 2009.

<sup>(3)</sup> 2009 includes the \$2.1 million special distribution declared in February 2009, payable to Unitholders of record on December 29, 2008.

<sup>(4)</sup> Based on a weighted-average number of trust units of 18,093,224 for the year ended December 31, 2010 (2009 – 19,747,674).

Distributable Income decreased comparatively for the year ended December 31, 2010 to negative \$7,408, or (\$0.41) per unit (2009 - \$5,228, or \$0.26 per unit), due primarily to decreases in cash flow from total operations as outlined in the next section.

The table below illustrates the component of cash flows from total operations.

### CASH FLOWS FROM (USED IN) TOTAL OPERATIONS

(\$000's, except as otherwise noted)	2010	2009	Change
<b>CONTINUING OPERATIONS</b>			
Hospitality Gross Margin	16,965	20,524	(3,559)
Distributions and Interest	297	7,879	(7,582)
Other Expenses:			
Trust Administration	(2,851)	(2,471)	(380)
Interest on Mortgages and Capital Leases	(5,087)	(7,395)	2,308
Interest on Convertible Debentures	(9,178)	(9,641)	463
Restructuring Costs	(2,543)	-	(2,543)
Other	(925)	-	(925)
Cash Flows from (Used In) Continuing Operations	(3,322)	8,896	(12,218)
<b>DISCONTINUED OPERATIONS</b>			
Other Expenses	(621)	(181)	(440)
<b>CASH FLOWS FROM (USED IN) TOTAL OPERATIONS</b>	<b>(3,943)</b>	<b>8,715</b>	<b>(12,658)</b>
Net changes in non-cash working capital – continuing	2,316	(2,431)	4,747
Net changes in non-cash working capital - discontinued	339	(299)	638
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>(1,288)</b>	<b>5,985</b>	<b>(7,273)</b>

There were four major reasons driving the \$12,218 decrease in cash flows from operations from \$8,896 in 2009 to an outflow of \$3,322 in 2010.

The decrease in gross margin in 2010 of \$3,559 as previously discussed.

Distributions and interest decreased \$7,582 in 2010 compared to 2009 as Royal Host sold investments in the first half of 2010 that previously provided distribution income. The proceeds on the sales of these investments were used to pay out two mortgage pools that matured in June 2010 and August 2010, with total principal repaid at maturity of \$33,684.

Mortgage interest expense decreased \$2,302 from 2009 to 2010 as a result of the aforementioned repayment of mortgages at maturity in mid-2010.

Restructuring costs in 2010 of \$2,543 associated with the conversion of Royal Host from a Trust to a Corporation (effective January 1, 2011) and severance and office closure costs related to the outsourcing of all of our hotel management.

### Standardized Distributable Cash

The July 6, 2007 Interpretive Release issued by the Canadian Institute of Chartered Accountants (the “Interpretive Release”) recommends disclosure of Standardized Distributable Cash. This is provided in the table below.

Standardized Distributable Cash is defined as the periodic cash flows from operating activities determined in accordance with GAAP, including the effect of changes in non-cash working capital and any operating cash flows provided for or used in discontinued operations, less adjustments for:

- a) total capital expenditures; and
- b) restrictions on distributions arising from compliance with financial covenants and limitations arising from the existence of a minority interest in a subsidiary.

The Interpretive Release recommends the analysis of the relationship between Standardized Distributable Cash, distributions (including unit repurchases through normal course and substantial issuer bids or any other unit transactions executed in exchange for cash in the normal course of business), and investing and financing activities.

(\$000's, except as otherwise noted)	2010	2009	Change (%)
Net Cash Provided by (used in) Operating Activities	(1,288)	5,985	(121.5%)
Capital Expenditures	(5,458)	(3,654)	49.4%
Standardized Distributable Cash	(6,746)	2,331	(389.4%)
Distributions Declared	5,420	12,116	(55.3%)
Repurchases of Trust Units	1,671	7,194	(76.8%)
Total Cash Distributions and Unit Repurchases	7,091	19,310	(63.3%)

The table below reconciles Standardized Distributable Cash and Distributable Income (loss).

(\$000's, except as otherwise noted)	Years ended December 31		Change (%)
	2010	2009	
Standardized Distributable Cash	(6,746)	2,331	(409.0%)
Capital Expenditures in Excess of Provision for Capital Replacement	1,993	167	1,321.0%
Increase (Decrease) in Non-cash Working Capital	(2,655)	2,730	(194.5%)
Distributable Income (loss)	(7,408)	5,228	(241.7%)

The calculation of Standardized Distributable Cash includes the effect of changes in non-cash working capital, whereas the calculation of Distributable Income excludes the effect of changes in non-cash working capital. Furthermore, the calculation of Standardized Distributable Cash includes the deduction of total capital expenditures, whereas the calculation of Distributable Income includes the deduction of the Trust's provision for capital replacement (calculated as 4.0% of total rooms and food and beverage revenue).

Standardized Distributable Cash decreased by \$9,077 from \$2,331 to negative \$6,746 in 2010. As seen in the charts above (calculating Standardized Distributable Cash and reconciling Standardized Distributable Cash to Distributable Income), capital expenditures in 2010 of \$5,458 exceeded capital expenditures in 2009 by \$1,804, which decreased Distributable Income. However, this is more than offset by changes in non-cash working capital that increase Standardized Distributable Cash compared to Distributable Income in 2010 by \$5,385. As a result, the decline in Standardized Distributable Cash (\$9,077) is less than the decline in Distributable Income (\$12,636).

## Funds From Operations and Adjusted Funds From Operations

(\$000's, except as otherwise noted)	2010	2009
Cash Flows from (used in) Total Operations	(3,943)	8,715
Realized Gains on Available-For-Sale Securities	12,378	4,037
Realized Gains on Held-For-Trading Securities	-	195
Impairment on Available-For-Sale Securities	(461)	(4,009)
Accretion on Mortgages and Capital Leases	(346)	(260)
Accretion on Convertible Debentures	(1,160)	(1,150)
Gain on Repurchases of Convertible Debentures	793	1,933
Funds From Operations	<u>7,261</u>	<u>9,461</u>
Provision for Capital Replacement <sup>(1)</sup>	(3,465)	(3,487)
Adjusted Funds From Operations	<u>3,796</u>	<u>5,974</u>
Per Unit Funds From Operations (\$)		
Basic	<u>0.40</u>	<u>0.48</u>
Diluted <sup>(2)</sup>	<u>0.36</u>	<u>0.36</u>
Per Unit Adjusted Funds From Operations (\$)		
Basic	<u>0.21</u>	<u>0.30</u>
Diluted <sup>(3)</sup>	<u>0.21</u>	<u>0.29</u>

<sup>(1)</sup> Calculated as 4% of total rooms and food and beverage revenue.

<sup>(2)</sup> Based on a weighted-average number of trust units of 47,102,568 (2009 – 49,601,793).

<sup>(3)</sup> Based on a weighted-average number of trust units of 18,093,224 (2009 – 39,708,939).

For the year ended December 31, 2010, the Trust had an inflow of Funds From Operations of \$7,261 (2009 – \$9,461). Funds from operations reflect: the addition (deduction) of realized and unrealized gains and losses on marketable securities included in net income, and the deduction of accretion on mortgages and convertible debentures of \$1,506 (2009 - \$1,410). Debt issuance costs and conversion options are accreted over the term of the related debt. Unrealized gains and losses on marketable securities included in other comprehensive income are not taken into account in the calculation of Funds From Operations or Adjusted Funds From Operations.

Adjusted Funds from Operations is calculated by deducting the Trust's provision for capital replacement from Funds from Operations. Adjusted Funds from Operations for the year ended December 31, 2010 was a \$3,796 inflow (2009 – \$5,974).

The decrease in both Funds From Operations and Adjusted Funds From Operations from 2009 is primarily due to a decrease in the gross margin.

## Distributions to Unitholders

During 2010, the Trust declared distributions of \$0.30 per trust unit (2009 - \$0.51 per trust unit). Distributions declared for the year ended December 31, 2010 decreased to \$5,420 from \$10,042 in 2009. Distribution payments were lower in 2010 as the Trust kept the monthly distribution at \$0.025 per unit throughout 2010 after lowering the monthly distribution in August 2009 from \$0.055 per unit to \$0.025 per unit. In 2010, as in 2009, 100% of unitholder distributions will not be taxable to unitholders.

	Return of Capital	Capital Gains	Investment Income	Total
Distributions (per trust unit)	\$0.30	\$0.00	\$0.00	\$0.30

The last monthly distribution paid by the Trust was declared and paid in the month of December 2010. From inception to December 31, 2010, the Trust has declared distributions of \$10.00 per unit, or \$227.8 million in total. Royal Host's monthly distribution represented a pre-tax yield of 14.3%, based on the market price as of December 31, 2010.

Effective January 1, 2011, Royal Host converted from a Trust to a Corporation. The Board of Directors (formerly the Board of Trustees) will determine the level of dividends to be paid out on a quarterly basis. The quarterly dividend paid by Royal Host will be based on, among other considerations, annual performance, projected cash flows, capital requirements and working capital requirements. For the quarter ended March 31, 2011, the Board of Directors have decided to not declare a dividend. The Director's feel it is in the best interest of the Company and its shareholders to reinvest capital into the hotel properties and provide flexibility in the refinancing of debt coming due in 2011.

## Performance of Trust Units and Convertible Debentures

In 2010, Royal Host's trust units' loss of 1.4% (including distributions) underperformed the S&P/TSX Capped REIT Index's 22.6% gain. Many hospitality REITs, which are not represented in the S&P TSX REIT Index, did not experience the market price recovery to the same extent as other sectors of the REIT Index.

### OVERALL RETURN (INCLUDES DISTRIBUTIONS)

	2010	2009	Q4 2010
Royal Host Real Estate Investment Trust – Trust Units	(1.4%)	(6.4%)	(6.4%)
S&P/TSX Capped REIT Index	22.6%	55.3%	(2.0%)

As at December 31, 2010, Royal Host's trust units had a market capitalization of \$37.1 million (December 31, 2009 - \$45.0 million).

The trading values of Royal Host's convertible debentures were below face value in 2010 but increased significantly in value during the year. As at December 31, 2010, the Trust's convertible debentures had an aggregate market value of \$124.2 million (December 31, 2009 - \$101.6 million).

## Seasonality

The hospitality industry business is seasonal in nature and the periods during which individual properties experience higher demand vary depending primarily on location. While Royal Host's revenue is typically higher in the second and third quarters, as compared to the first and fourth quarters, several of the Company's costs, including property taxes and interest are fixed, and other costs such as utilities are largely fixed. Consequently, profitability varies significantly from quarter to quarter.

# Results of Operations

## Fourth Quarter

### SELECTED FOURTH QUARTER DATA

(\$000's, except as otherwise noted, unaudited)	2010	2009	Change
Hospitality Revenue (continuing operations)	22,523	22,746	(224)
Hospitality Expenses	18,950	18,448	502
Hospitality Gross Margin <sup>(1)</sup>	3,573	4,298	(725)
Hospitality Gross Margin % <sup>(1)</sup>	15.9%	18.9%	
Investment Income (Loss)	(829)	4,144	(4,973)
Other Expenses	9,220	7,291	1,921
Income (Loss) from Continuing Operations	(6,476)	1,151	(7,627)
Income (Loss) from Discontinued Operations	(583)	17	(600)
Net Income (Loss)	(7,059)	1,168	(8,227)
Other Comprehensive Income	813	4,075	(3,262)
Comprehensive Income (Loss)	(6,246)	5,243	(11,489)
Basic Per Unit Net Income (Loss)			
From Continuing Operations	(0.36)	0.06	(0.42)
From Discontinued Operations	(0.03)	-	(0.03)
	(0.39)	0.06	(0.45)

<sup>(1)</sup> Items represent non-GAAP financial measures.

Hospitality revenue from continuing operations in the fourth quarter of 2010 declined by \$224 to \$22,522 (2009 - \$22,746), a relative decrease of 1.0%. Room revenue decreased \$27 (0.2%) to \$16,884 in 2010 from the fourth quarter of 2009. Overall RevPAR decreased by 1.6%, as a 0.6% increase in occupancy rate was offset by a decline in ADR of 2.2%. The decline in RevPAR in the fourth quarter was consistent across all three geographic areas of operation. In aggregate the full service portfolio performed better in the fourth quarter as compared to the select service properties.

Royal Host's 10 full service hotels had an increase in RevPAR of 0.9% from the fourth quarter of 2009 to 2010. There were significant improvements in the London, Toronto and Yellowknife operations, while there were some declines in Calgary and Ottawa and at the Oakville Holiday Inn which was in the midst of complete renovation in the fourth quarter.

RevPAR at the portfolio's 21 select service hotels decreased 4.8% in the fourth quarter of 2010 compared to 2009. The weakness in the Northern Ontario and certain Alberta markets outweighed the uptick in the combined business in select service hotels outside of these areas in the fourth quarter of 2010 compared to 2009.

Food and beverage revenue declined \$222 to \$4,320 in the fourth quarter of 2010 (2009 - \$4,542), a decrease of 4.9%. The largest decline was at the Best Western in Calgary, the result of a contract that did not repeat in 2010 and a soft market in Northwest Calgary in the fourth quarter of 2010 for hotel operators.

The Holiday Inn in Oakville had much lower food and beverage revenue which was attributable to low occupancy rates experienced during the extensive renovations during the fourth quarter.

(\$000's, except as otherwise noted, unaudited)	2010	2009	Change
Hospitality Revenue (continuing operations)			
Rooms	16,884	16,911	(27)
Food and Beverage	4,320	4,542	(222)
Franchising and Management	476	487	(11)
Other	842	806	36
	<u>22,522</u>	<u>22,746</u>	<u>(224)</u>

Hospitality expenses increased \$502 to \$18,950 in the fourth quarter of 2010 (2009 - \$18,448). Hospitality gross margin decreased \$726 to \$3,572 (2009 - \$4,298) or 15.9% of hospitality revenue (2009 - 18.9%). Significant factors driving the increase in hospitality expenses in the fourth quarter of 2010 compared to 2009 were significant training costs related to new operating systems installed at 14 hotels and professional fees associated with hotel appraisals required for various purposes.

Distributions and interest income decreased by \$1,006 during the fourth quarter of 2010 from 2009 due to the sale of a large portion of the portfolio of marketable securities in early 2010. The Trust recognized a loss of \$369 on the sale of certain securities in the fourth quarter of 2010. The Trust incurred an Other Than Temporary Impairment on Available-For-Sale Securities charge of \$461 in the fourth quarter of 2010.

(\$000's, except as otherwise noted, unaudited)	2010	2009	Change
Investment Income (Loss)			
Distributions and Interest	1	1,007	(1,006)
Realized Gains (Losses) on Available-For-Sale Securities	(369)	3,137	(3,506)
Other-Than-Temporary Impairment of Available-For-Sale Securities	(461)	-	(461)
	<u>(829)</u>	<u>4,144</u>	<u>(4,973)</u>

Other expenses increased \$1,921 to \$9,220 in the fourth quarter of 2010 (2009 - \$7,291). The main drivers of this increase are; The Trust incurred Restructuring Costs of \$2,166 in 2010 made up of costs associated with completing the conversion to a corporation effective January 1, 2011 as well as severance and office closure costs related to the outsourcing of the management of full service properties; the fourth quarter income tax recovery was reduced by approximately \$600 compared to 2009; these expenses were offset by savings in mortgage interest expense of \$830 due to reductions in mortgages outstanding earlier in 2010.

## Year Ended December 31, 2010

Royal Host's hospitality revenue for the year ended December 31, 2010 decreased \$1,328, or 1.4%, to \$92,270 in 2010 from \$93,598 in 2009. Hospitality gross margin decreased \$3,559 million, or 17.3%. The Trust recognized investment income of \$12,214 (2009 - \$8,102), and a loss from continuing operations of \$1,651 (2009 - \$1,426 loss from continuing operations).

(\$000's, except as otherwise noted)	2010	2009	Change	Change (%)
Hospitality Revenue	92,270	93,598	(1,328)	(1.4%)
Hospitality Expenses	75,305	73,074	2,231	3.1%
Hospitality Gross Margin	16,965	20,524	(3,559)	(17.3%)
Investment Income	12,214	8,102	4,112	50.8%
Gross Margin	29,179	28,626	553	1.9%
Other Expenses	30,830	30,052	778	2.6%
Loss from Continuing Operations	(1,651)	(1,426)	(225)	(15.8%)

### Hospitality Revenue

During 2010, 78.4% (2009 – 77.5%) of the Trust's hospitality revenue was attributable to rooms, 15.5% (2009 – 15.6%) was attributable to the food and beverage, and 2.3% (2009 – 2.7%) was attributable to franchising and management.

(\$000's, except as otherwise noted)	2010	2009	Change	Change (%)
Revenue (continuing operations)				
Rooms	72,368	72,539	(171)	(0.2%)
Food and Beverage	14,257	14,641	(384)	(2.6%)
Franchising and Management	2,142	2,518	(376)	(14.9%)
Other	3,503	3,900	(397)	(10.2%)
	92,270	93,598	(1,328)	(1.4%)

Rooms revenue decreased by 0.2% to \$72,368 (2009 - \$72,539). An increase in Occupancy of 1.2 points, or 2.2%, in 2010 over 2009 is one sign that the accommodation industry may have started to rebound from lows in late 2008 and 2009. The increase in occupancy was offset by a decrease in ADR of 1.7% from 2009 to 2010, due, in part, to increased competition in the marketplace. Part of the reason for the decline in ADR was a decline in 2010 in three larger hotels owned by Royal Host in the Ottawa and Calgary markets. This decline was consistent with the ADR decline in 2010 noted by PKF in Ottawa and Calgary. Overall, RevPAR was up 0.5% from 2009 to 2010.

Food and beverage revenue derived from restaurants, lounges, banquets and room service, decreased \$384, or 2.6%, to \$14,257 (2009 – \$14,641). The London Hilton and the Yellowknife Inn experienced increases in food and beverage revenue, primarily due to increases in occupancy in these hotels in 2010 over 2009. These increases were offset by some decreases, the most significant being at the Best Western in Calgary, due to a contract that did not repeat in 2010 and decreased occupancy.

Franchising and management revenue decreased \$376, or 14.9%, to \$2,142 in 2010 from \$2,518 in 2009. Management revenue declined in 2010 as Royal Host ceased its hotel management activity in mid 2010. There were two third party hotels managed by Royal Host at the end of 2009. The number of Travelodge franchisees decreased from December 31, 2009 to December 31, 2010 by five, from 96 to 91. Franchisee revenue was relatively stable, per hotel, from 2009 to 2010, however, the decline in the number of franchisees led to a decline in franchising revenue. Other revenue decreased by \$397, or 10.2%, to \$3,503 in 2010 from \$3,900 in 2009 with decreases in telephone revenue as well as accounting and payroll services previously earned from the management of third party hotels.

## Hospitality Expenses

(\$000's, except as otherwise noted)	2010	2009	Change	Change (%)
Hospitality Expenses	75,305	73,074	2,231	3.1%

Hospitality expenses are comprised mostly of fixed and variable hotel expenses.

### Hotel Expenses

Departmental (rooms and food and beverage) payroll and related costs increased in 2010 from 2009 by 3.4%. This increase compares to the increase in occupancy of 2.2% in 2010 over 2009.

Cost of sales such as the cost of food and beverage decreased 4.5% in 2010 over 2009. This savings was slightly larger than the decrease in food and beverage revenue of 2.6% in 2010 over 2009.

Other direct departmental costs (such as linen and cleaning supplies, continental breakfast and other amenities) increased approximately 1.8% in 2010 over 2009.

Undistributed payroll costs (administration, sales and marketing, and property operation and maintenance) increased 4.6% in 2010 over 2009. The primary reason for this increase was the increased focus on sales and marketing of the third party management company contracted to operate Royal Host's full service hotels.

Other undistributed operating costs such as franchise fees, marketing fees, repairs expenditures and utilities increased approximately 1.3% in 2010 over 2009.

Management fees for the hotel properties increased in 2010 as the entire portfolio was externally managed as of June 2010. These costs were partially offset by reductions in Royal Host staff.

## Hospitality Gross Margin

(\$000's, except as otherwise noted)	2010	2009	Change	Change (%)
Hospitality Gross Margin	16,965	20,524	(3,559)	(17.3%)

Hospitality gross margin decreased by \$3,559, or 17.3%, to \$16,965 in the year ended December 31, 2010 (2009 - \$20,524) as a result of higher hospitality expenses as previously discussed. Hospitality gross margin as a percentage of hospitality revenue decreased to 17.3% (2009- 21.9%).

## Investment Income (Loss)

Distributions and interest income on cash and cash equivalents and fixed maturity and equity investments decreased by \$7,582 to \$297 in 2010 (2009 - \$7,879), as Royal Host sold the distribution paying investments in the first quarter of 2010. In 2010, the Trust recognized realized gains on available-for-sale securities of \$12,378 (2009 - \$4,037) on net sales proceeds of \$39,381 as Royal Host sold a significant portion of its portfolio of marketable securities in 2010.

## Other Expenses and Income

Interest and accretion on mortgages and capital leases for the year ended December 31, 2010 decreased by \$2,222 to \$5,433 (2009 - \$7,655). This was due to principal repayments made during the year of \$36,329, including the repayment of two mortgage pools secured by 19 hotels.

Interest and accretion on convertible debentures for the year ended December 31, 2010 decreased \$454 to \$10,338 (2009 - \$10,791). This decrease was due to repurchases of convertible debentures in connection with normal course issuer bids in 2009 and 2010.

During the year ended December 31, 2010, the Trust recognized a gain on the repurchase of its convertible debentures of \$793 (2009 - \$1,933), representing the excess of the carrying value of the debentures retired over the cost of repurchasing the debentures.

Trust administration expense increased \$380 to \$2,851 in 2010 from \$2,471 in 2009. This was primarily due to the changes in the corporate structure following the outsourcing of hotel management that has resulted in more of the finance, taxation, legal and administrative costs of Royal Host to be charged to trust administration in 2010 rather than hospitality expenses as in prior years.

Restructuring costs of \$2,543 in 2010 include costs associated with the conversion to a corporation effective January 1, 2011, severance and office closure costs associated with the move to third party management of 10 full service hotels in 2010 and certain costs related to a reorganization of the Trust. There were no restructuring costs in 2009.

Depreciation and amortization decreased from \$12,899 in 2009 to \$12,592 in 2010. Depreciation of capital assets was relatively constant from 2010 to 2009, however, amortization of intangibles decreased due to the \$601 impairment recorded on the management contracts. The Trust recognized an income tax recovery of \$2,735 during 2010 as compared to \$1,831 in 2009. This represents an increase in the effective tax rate on continuing operations to 62.3% in 2010, as compared to 56.2% in 2009. This increase is primarily a result of changes in estimates.

## Net Loss, Other Comprehensive Income (Loss) and Comprehensive Income (Loss)

The Trust's loss from continuing operations for the year ended December 31, 2010 was \$1,651 (2009 - \$1,426). Loss from discontinued operations was \$1,078 (2009 - \$23), as described further in "Discontinued Operations and Property Held For Sale". Net loss was \$2,729 (2009 - \$1,449).

The Trust recognized other comprehensive loss of \$10,143 compared to other comprehensive income of \$10,143 in 2009. This was made up of realized gains on available for sale securities which were transferred out of other comprehensive income offset by unrealized losses that were judged to be other-than-temporary and also transferred out of other comprehensive income.

Comprehensive income (loss), the combination of net income (loss) and other comprehensive income (loss), was a loss of \$12,872 in 2010, compared to comprehensive income of \$8,694 in 2009.

## Discontinued Operations

The operations of properties and businesses that were sold prior to December 31, 2010 or that are held for sale as at December 31, 2010 have been included in discontinued operations on the consolidated statements of net income and

comprehensive income, and reflected as assets and liabilities of discontinued operations and property held for sale on the consolidated balance sheets beginning in the period they are determined to be discontinued.

## LOSS FROM DISCONTINUED OPERATIONS

(\$000's, except as otherwise noted)	2010	2009
Administration	621	213
Property Impairment Provision	457	-
	<b>(1,078)</b>	(213)
Gain from Insurance Recovery	-	167
Gain on Sales	-	23
Loss from Discontinued Operations	<b>(1,078)</b>	(23)

Hospitality revenue from discontinued operations for the year ended December 31, 2010 was \$nil (2009 - \$nil). Loss from discontinued operations for the year ended December 31, 2010 was \$1,078 (2009 - \$23) due to an impairment on the Orillia property held for resale of \$457, allowances taken against accounts receivable relating to properties sold in prior periods and property taxes and other miscellaneous expenditures on the Orillia and Fort Nelson properties held for resale.

## Income Taxes

As a mutual fund trust, Royal Host was not subject to income tax but instead was obligated to distribute all of its taxable income to unitholders. As a result of the conversion to corporate form on January 1, 2011, Royal Host became subject to Canadian federal and provincial corporate income tax on its taxable income beginning in 2011. As a result of the conversion, dividends may be declared to shareholders (versus distributions) and are subject to the tax rules applicable thereon.

Royal Host intends to utilize its tax attributes, to the extent possible, to reduce taxable income post conversion. As at December 31, 2010, tax pools were estimated to be \$168.8 million for tangibles, \$1.5 million for intangibles, and \$2.9 million in respect of loss carryforward balances. The loss carryforwards do not expire until 2030.

## Liquidity and Capital Resources

Royal Host's principal sources of funds to satisfy future cash requirements are cash flows from hospitality operations, future borrowings secured by the 19 hotels that are currently unencumbered and the sale of assets such as marketable securities, property held for sale and hotel properties owned by Royal Host.

### Liquidity

Cash and cash equivalents at December 31, 2010 were \$nil (December 31, 2009 - \$nil), and Royal Host has access to a credit facility with a maximum availability of \$18,410, upon which \$13,785 was drawn at December 31, 2010. Royal Host has additional borrowing capacity on its 19 unencumbered properties that have a net book value of \$97,554 at December 31, 2010. As at December 31, 2010, marketable securities were \$1,886 compared to \$39,409 at December 31, 2009.

Factors which most significantly affected the Trust's liquidity in 2010 were the sale of marketable securities that netted \$39,381 and the repayment of \$36,329 of mortgage principal. The substantial mortgage principal repayments in 2010 were important to Royal Host's future financial flexibility as it increased the number of unencumbered hotels to 19, as of December 31, 2010, while reducing the annual mortgage interest payments by approximately \$3 million. These hotels provide Royal Host with substantial assets to sell or to pledge as security for additional debt financing.

Royal Host has one mortgage maturing in November, 2011 with principal balance due at that date of \$11,396.

Royal Host's planned actions with respect to managing liquidity requirements in 2011 for working capital and the maturing mortgage include refinancing the maturing mortgage, debt financing on other unencumbered properties, the sale of certain properties or some combination thereof. With respect to the sale of properties, management has listed certain hotel assets for sale in 2011.

## Marketable Securities

At December 31, 2010, the Trust had a portfolio of marketable securities consisting entirely of units in a hospitality sector REIT with a carrying value totaling \$1,886 (December 31, 2009 - \$39,409). During 2010 Royal Host disposed of marketable securities for proceeds totaling \$39,381 (December 31, 2009 - \$27,354) recognizing a realized gain of \$12,378 (December 31, 2009 - \$4,037). In 2010 the Trust recorded an other-than-temporary impairment charge of \$461 (December 31, 2009 - \$4,009) and unrealized losses that are recorded in Other Comprehensive Income/Loss of \$10,143 (December 31, 2009 Other Comprehensive Income of \$10,143).

The Trust realized distribution and interest income of \$297 during the year ended December 31, 2010 (2009 - \$7,879) with the decrease due to the reduced size of the portfolio of marketable securities in 2010 versus 2009.

As of December 31, 2010, Royal Host had restricted cash of \$1,133 (December 31, 2009 - \$2,732) in the form of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

## Capital Assets

As at December 31, 2010, the Trust had 31 operating hotel properties representing 3,670 guest rooms (2009 - 31 hotel properties representing 3,670 guest rooms).

Ten of Royal Host's hotels are categorized as full service, while 21 are select service (2009 - 10 full service and 21 select service). Full Service hotels are properties which provide a wide variety of facilities and amenities, including food and beverage outlets, meeting rooms and recreational activities. Select Service hotels are properties which provide only some of the facilities of a full-service property.

The Trust made significant investments over the last five years to maintain or enhance the physical condition of its hotels and their respective market positions; 2010 capital improvements are described further under "Cash Flows from Investing Activities". Royal Host's 2011 capital plan calls for continued investment in its hotel portfolio. Management regularly reviews Royal Host's cash requirements and will expend cash on individual capital projects as deemed appropriate.

## Off Balance Sheet Arrangement

During 2010, Royal Host expanded its credit facility limit to \$25 million from \$20 million as of December 31, 2009. This line of credit is secured by six hotels, compared to three as of December 31, 2009. The line of credit is also subject to an earnings test for the hotels pledged by Royal Host as security. At December 31, 2010, the line of credit has a borrowing limit of \$18,410, per the limit determined by the earnings test. Royal Host has drawn \$13,786 on this line of credit as of December 31, 2010.

## Cash Flows

The following table details the Trust's cash flows:

Cash Flows (\$000's)	2010	2009
Cash Generated from (Utilized in) Operating Activities	(1,288)	5,985
Cash Utilized in Financing Activities	(34,150)	(33,017)
Cash Generated from Investing Activities	35,438	20,592
Decrease in Cash and Cash Equivalents	-	(6,440)

### Cash Flows From Operating Activities

Cash flows utilized in operations totaled \$1.3 million, a \$7.3 million decrease in cash flow compared to 2009.

#### CONTINUING OPERATIONS

During 2010, Royal Host's continuing operations utilized \$3,322 of cash flow before changes in working capital, representing a \$12,218 decrease from 2009 (cash generated \$8,898). The decrease was largely due to the decrease in gross margin in 2010 of \$3,559 and the decrease in distribution income of \$7,582. Additionally, restructuring costs accounted for a decrease of \$2,543 in 2010 cash from continuing operations. These were partially offset by a decrease in mortgage interest of \$2,222.

#### DISCONTINUED OPERATIONS

During 2010, Royal Host's discontinued operations utilized \$621 of cash flow before changes in working capital.

#### CHANGES IN NON-CASH WORKING CAPITAL

Changes in continuing non-cash working capital provided \$2,316 of cash flow (2009 – utilized \$2,431). Changes in discontinued non-cash working capital provided \$339 of cash flow (2009 – utilized \$299).

### Cash Flows From Financing Activities

In 2010 Royal Host drew \$12,905 on a credit facility (2009 - \$881) as a source of cash. At December 31, 2010, the facility has a total capacity of \$25,000 (2009 - \$20,000) with maximum availability dependant on a valuation test resulting in \$18,410 available (2009 - \$11,600). At December 31, 2010 a total of \$13,786 was drawn on the facility (2009 - \$881).

In 2010, Royal Host utilized \$36,329 of cash to repay mortgages and capital leases (2009 - \$3,737). The increase in 2010 is due to the full repayment of two mortgage pools secured by nineteen properties.

#### REPURCHASES OF SECURITIES

In the interest of delivering value to its Unitholders, the Trust has undertaken a number of Normal Course Issuer Bids ("NCIBs") and a Substantial Issuer Bid to repurchase trust units and convertible debentures. Management believes that the market price of the Trust's securities may, from time to time, not fully reflect the underlying value of the securities, and therefore believes that the repurchase of the Trust's securities may at times represent an appropriate use of available cash.

Pricing of Royal Host's units and convertible debentures during 2010 offered the Trust the opportunity to repurchase its securities at a discount to their underlying value. The following chart summarizes cash utilized in the repurchase of securities:

	NCIB/SIB Term (Maximum)	2010			2009		
		Cost to Repurchase (\$millions)	Average Cost/unit (\$)	Book Value (\$millions)	Cost to Repurchase (\$millions)	Average Cost/unit (\$)	Book Value (\$millions)
Trust Units	January 12, 2010 to January 11, 2011 (1,298,871)	<b>\$1.5</b> <b>(654,000</b> <b>units)</b>	<b>\$2.28</b>	<b>\$5.1</b>	\$nil	\$nil	\$nil
	November 4, 2009 to January 11, 2010 (5,000,000)	<b>\$0.2</b> <b>(99,102</b> <b>units)</b>	<b>\$2.45</b>	<b>\$0.8</b>	<b>\$3.0</b> (1,210,505 units)	\$2.45	\$9.5
	January 12, 2009 to January 11, 2010 (1,472,468)	<b>\$nil</b>	<b>n/a</b>		<b>\$3.9</b> (1,440,630 units)	\$2.77	\$11.3
		2010			2009		
	NCIB/SIB Term (Maximum)	Cost to Repurchase (\$millions)	Average Cost/\$100 (\$)	Face Value (\$millions)	Cost to Repurchase (\$millions)	Average Cost/\$100 (\$)	Face Value (\$millions)
6.0% Convertible Debentures	September 10, 2010 to September 9, 2011 (\$4.2 million)	<b>\$0.09</b>	<b>\$76.35</b>	<b>\$0.11</b>	\$nil	n/a	\$nil
	September 10, 2009 to September 9, 2010 (\$4.2 million)	<b>\$0.46</b>	<b>\$74.98</b>	<b>\$0.62</b>	\$0.03	\$61.18	\$0.05
6.25% Convertible Debentures	September 10, 2009 to September 9, 2010 (\$5.2 million)	<b>\$2.25</b>	<b>\$81.51</b>	<b>\$2.76</b>	\$nil	n/a	\$nil
	September 10, 2008 to September 9, 2009 (\$5.9 million)	<b>\$nil</b>	<b>n/a</b>	<b>\$nil</b>	\$1.90	\$68.42	\$2.77
5.9% Convertible Debentures	September 10, 2009 to September 9, 2010 (\$5.4 million)	<b>\$0.41</b>	<b>\$72.28</b>	<b>\$0.57</b>	\$0.06	\$58.62	\$0.10
	September 10, 2008 to September 9, 2009 (\$6.0 million)	<b>\$nil</b>	<b>n/a</b>	<b>\$nil</b>	\$1.60	\$58.03	\$2.76

Subsequent to December 31, 2010, Royal Host repurchased and cancelled 34,000 shares pursuant to the Normal Course Issuer Bid initiated on January 12, 2010 that expired on January 11, 2011. Additionally, Royal Host initiated a Normal Course Issuer Bid to repurchase up to 1.2 million shares in the period from January 12, 2011 to January 11, 2012. Royal Host has repurchased and cancelled 122,500 shares pursuant to this NCIB at a cost of \$257 in the timeframe from January 12, 2011 to the writing of this MD&A.

## DISTRIBUTIONS TO UNITHOLDERS

During 2010, the Trust distributed \$5,878 to Unitholders (2009 - \$12,116), comprised of 13 monthly distributions of \$0.025 per unit. One additional month of distribution was paid in 2010 as the final distribution declared in December was paid in the same month prior to conversion to a corporation. The decrease in total distributions from 2009 is due to a full year of lower monthly distributions following a reduction that took effect in September 2009.

## Cash Flows From Investing Activities

During 2010, Royal Host's sales of marketable securities provided cash of \$39,296 (2009-\$27,307), net of purchases.

Royal Host invested \$5,458 in its hotel properties in 2010, an increase of \$2,183 over the 2009 investment of \$3,654. Significant capital projects in 2010 included a comprehensive renovation of the Holiday Inn Oakville property and upgrades to the property management systems at eighteen properties. Smaller scale capital projects were completed at several properties in 2010 as Royal Host continued to invest in its portfolio of properties. Royal Host prioritizes capital expenditures based on the criteria of projected return on investment, compliance with brand standards and ensuring the health and safety of guests and employees.

Royal Host recorded a source of cash from the decrease in its restricted cash balance of \$1,599 in 2010 (2009 - \$2,014). In 2010 this decrease in restricted cash balances was due to the payout of the mortgage pools that required capital escrow balances.

## Capital Structure

As at December 31, 2010, total debt had an aggregate carrying value of \$202.6 million (2009 - \$228.4 million); principal outstanding at December 31, 2010 totaled \$208.0 million (2009 - \$234.2 million).

## Debt

Royal Host's debt (excluding convertible debentures) is limited by its Declaration of Trust to 45% of gross book value. As at December 31, 2010, Royal Host's debt (excluding convertible debentures) to gross book value was 19.4% (2009 - 23.3%). As at December 31, 2010, Royal Host's debt (including convertible debentures) to gross book value was 69.2% (2009 - 67.1%).

## Mortgages

As at December 31, 2010, the carrying value of the Trust's mortgages was \$44.3 million (2009 - \$80.2 million). The carrying value reflects total outstanding principal of \$44.6 million (2009 - \$80.4 million) less \$0.3 million of debt issuance costs (2009 - \$0.2 million). Outstanding mortgages declined in 2010 with the payout of two mortgage pools that matured in the year. During the year Royal Host extended a mortgage that was due to mature in 2010 for three years with options to extend for two additional one year periods. At year end 2010, Royal Host had nineteen unencumbered properties (2009 - three), the weighted average interest rate on mortgages outstanding is 7.52% per annum (2009 - 8.46%) with a weighted average years to maturity of 2.03 years (2009 - 1.21 years).

**MORTGAGE MATURITIES**

As at December 31, 2010	Principal Outstanding (\$000's)	Interest Rate	Security
November 2011	11,688	8.46%	1 hotel property
March 2013	4,792	8.50%	2 hotel properties
June 2013	20,557	6.82%	2 hotel properties
October 2013	<u>7,274</u>	7.37%	1 hotel property
Total	44,311		

Royal Host has entered into various capital leases. The present values of future minimum lease payments under capital leases as at December 31, 2010 are as follows:

**CAPITAL LEASES**

(\$000's)	Total	2011	2012	2013	2014	2015	Thereafter
Capital Leases	114	81	33	-	-	-	-

**Convertible Debentures**

Royal Host's convertible debentures have a total outstanding balance at December 31, 2010 of \$149.6 million (2009 - \$153.6 million). The carrying value of the convertible debentures as at December 31, 2010 is \$144.6 million, reflecting \$3.4 million of debt issuance costs and \$1.6 million of conversion options.

(\$000's)	Maturity Date	December 31, 2010		December 31, 2009		Conversion Price
		Carrying Value	Outstanding Balance	Carrying Value	Outstanding Balance	
Long Term:						
6.00% Convertible Debenture, Series B	October 2015	<b>44,077</b>	<b>45,984</b>	44,477	46,714	\$4.76
6.25% Convertible Debenture, Series C	September 2013	<b>48,544</b>	<b>50,239</b>	50,658	52,999	\$4.87
5.90% Convertible Debenture, Series D	June 2014	<b>51,931</b>	<b>53,327</b>	52,157	53,898	\$6.19
		<b>144,552</b>	<b>149,550</b>	147,292	153,611	

During the year ended December 31, 2010, Royal Host repurchased \$4.1 million of convertible debentures (2009 - \$5.7 million). There were no conversions of Royal Host convertible debentures into trust units in 2010 (2009 - \$0.9 million of convertible debentures converted into 0.2 million trust units).

**REPURCHASES OF CONVERTIBLE DEBENTURES**

(\$000's)	6.00% Series B	6.25% Series C	5.90% Series D	Total
Outstanding Balance, December 31, 2009	46,714	52,999	53,898	153,611
Repurchased Pursuant to Normal Course Issuer Bids	<u>(730)</u>	<u>(2,760)</u>	<u>(571)</u>	<u>(4,061)</u>
Outstanding Balance, December 31, 2010	<u>45,984</u>	<u>50,239</u>	<u>53,327</u>	<u>149,550</u>

**MATURITY DATES AND INTEREST RATES**

As at December 31			Weighted Average Maturity (Years)	
	2010	2009	2010	2009
Mortgages	7.52%	8.46%	2.0	<b>1.2</b>
Convertible Debentures	6.05%	6.05%	3.6	<b>4.6</b>
Mortgages and Convertible Debentures	6.39%	6.87%	3.3	<b>3.5</b>

**Unitholders' Equity**

During the year ended December 31, 2010, equity decreased by \$20.0 million from \$27.0 million to \$7.0 million as illustrated below:

(\$000's)	2010	2009
Unitholders' Equity, Beginning of Year	26,986	<b>36,761</b>
Comprehensive Income (Loss)	(12,872)	<b>8,694</b>
Issuance of Trust Units Pursuant to Conversions of Convertible Debentures	-	<b>902</b>
Repurchases of Trust Units	(1,671)	<b>(7,194)</b>
Distributions to Unitholders	(5,420)	<b>(12,116)</b>
Other	(71)	<b>(61)</b>
Unitholders' Equity, End of Year	<u>6,952</u>	<u><b>26,986</b></u>

As at December 31, 2010, 17,650,478 trust units were issued and outstanding (March 28, 2011 – 17,447,878 shares outstanding).

**Subsequent Events****Conversion to a Corporation**

On January 1, 2011, the plan of arrangement (the "Arrangement") providing for the reorganization of Royal Host Real Estate Investment Trust's trust structure into a public corporation was completed. The Arrangement was completed pursuant to a plan of arrangement under the Canada Business Corporations Act in accordance with the final order of the Supreme Court of Nova Scotia. Unitholders of Royal Host approved the Arrangement on December 15, 2010. The business of Royal Host will continue to be carried on by the Corporation. The trustees and senior management of Royal Host are now the directors and senior management of the Corporation. Under the plan of arrangement, unitholders of Royal Host received, for each unit of Royal Host held (a "Unit"), one common share (a "Common Share") of the Corporation. The Common Shares commenced trading on the Toronto Stock Exchange under the symbol "RYL" on January 4, 2011, at which time the Units were delisted from the Toronto Stock Exchange. As part of the Arrangement, the Trust was dissolved and the Corporation assumed all of the covenants and obligations of Royal Host in respect of the outstanding 6.00% Convertible Unsecured Subordinated Debentures due October 31, 2015, the 6.25% Convertible Unsecured Subordinated Debentures due September 30, 2013, and the 5.90% Convertible Unsecured Subordinated Debentures due June 30, 2014 (collectively, the "Debentures"). The Debentures are direct obligations of the Corporation, following the completion of the Arrangement, and will continue to have substantially the same terms and conditions, with the automatic adjustment that they will be convertible into Common Shares in accordance with their terms.

**Normal Course Issuer Bid**

Commencing on January 12, 2011, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.3 million of its issued and outstanding shares (see "Repurchases of Securities").

## Summary of Quarterly Financial Results

(\$000's, except as otherwise noted)	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	<b>22,522</b>	24,634	24,371	20,740	22,746	25,196	23,971	21,684
Income (Loss)								
From Continuing Operations	<b>(6,476)</b>	(976)	(926)	6,727	1,151	(2,223)	1,128	(1,482)
From Discontinued Operations	<b>(582)</b>	(17)	(30)	(449)	17	121	(92)	(69)
	<b>(7,058)</b>	(993)	(956)	6,278	1,168	(2,102)	1,036	(1,551)
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	<b>(0.36)</b>	(0.05)	(0.05)	0.37	0.06	(0.11)	0.06	(0.07)
Diluted	<b>(0.36)</b>	(0.05)	(0.05)	0.20	0.06	(0.11)	0.06	(0.07)
Income (Loss) from Total Operations								
Basic	<b>(0.39)</b>	(0.05)	(0.05)	0.35	0.06	(0.10)	0.06	(0.07)
Diluted	<b>(0.39)</b>	(0.05)	(0.05)	0.19	0.06	(0.10)	0.06	(0.07)

Note: the sum of quarterly per unit figures do not equal annual per unit figures

## Related Party Transactions

At December 31, 2010, Clarke Inc. owned approximately 5.3 million of Royal Host's issued and outstanding trust units and, as such, is a related party.

During the year ended December 31, 2010, the Trust incurred professional and management fees totaling \$1.4 million for services supplied by Clarke Inc.

## Business Environment and Outlook

### Canadian Economy

The Canadian economy enters 2011 having rebounded strongly from the recession of 2008/2009. Growth in the coming year is expected to continue at a slower but sustainable pace. Factors such as high levels of personal indebtedness and the ending of government fiscal stimulus are expected to keep growth moderate. Within Canada, the regional areas of strength are expected to be the Prairies and Newfoundland and Labrador driven by world commodity markets. Significant risks to the recovery include the strength of a U.S. recovery, the strong Canadian dollar, surging energy prices and the impact of a forecasted rise in interest rates. The Bank of Canada's Business Outlook Survey at January 2011 reports that businesses are positive on the outlook for 2011 with an expectation for moderate growth.

## Canadian Hotel Sector

The demand for hotel accommodations is significantly impacted by macroeconomic conditions and consumer and business confidence. The outlook for the Canadian hotel sector mirrors the overall Canadian economy in general in that the gradual recovery that began in 2010 is forecasted to continue in 2011 with growth over 2010, but is not projected to reach levels seen in 2008.

Pannell Kerr Forster, a recognized industry consultant, has projected the following 2011 lodging statistics:

	Occupancy (%)		ADR (\$)		RevPAR (\$)	
	2010 Forecast	2011 Projection	2010 Forecast	2011 Projection	2010 Forecast	2011 Projection
National	59	60	128	131	76	79
Central Canada	59	60	125	128	74	77
Western	60	60	133	135	79	81
Atlantic	58	59	117	119	68	71

{Source: PKF Consulting}

2011 is expected to improve upon 2010 results. Based on industry forecasts, demand for lodging, both corporate and leisure, is anticipated to increase modestly over 2010 although still fall well short of peaks experienced in 2008. Competition continued to intensify in 2010 and became more focused on price which is expected to continue into 2011.

The Canadian hotel sector is generally considered to be in a stronger position than in previous sector downturns, with a generally healthy supply and demand balance.

## Royal Host

Royal Host owns a portfolio of hotels with the added diversity of a franchise business and investment portfolio concentrated in the hospitality sector.

In the second quarter of 2010 Royal Host entered into a management agreement with Crescent Hotels and Resorts to manage Royal Host's 10 full service hotels. With this agreement all of Royal Host's 31 properties are now managed by third party management companies. Following the transition to external management, Royal Host has restructured operations by reducing its hotel operations management and support groups, and consolidating office space. As part of these changes Royal Host ceased its hotel management business during the year. Going forward into 2011 and beyond, Royal Host will work with its management companies to maximize the performance of its hotel assets and strategically allocate capital to its operating assets.

## Risks and Uncertainties

Royal Host's business is subject to various risks and uncertainties, which occur in the normal course of business that could adversely affect its earnings and cash flow, as well as its ability to make dividends to Shareholders. The following is a discussion of the key risks and uncertainties facing its business on a day-to-day basis and the strategies adopted to mitigate these risks. However, it should not be assumed that this discussion is exhaustive or that the strategies adopted to mitigate these risks will be effective.

These risks include general economic risks, operating risks, competitive risks, investment risks and environmental risks, among others.

Additional information with respect to the risks and uncertainties to which Royal Host is subject is contained in its Annual Information Form, which may be viewed on SEDAR at [www.sedar.com](http://www.sedar.com).

## General Economic Risks

Hotel performance is affected by a number of factors, listed below, many of which the Company cannot anticipate or control:

- general economic conditions and consumer confidence, which determine discretionary spending;
- the state of the airline and other transportation industries, and tourism;
- demographic shifts impacting the nature of travel;
- geopolitical events affecting consumer and business confidence;
- fiscal and taxation policies; and
- changes in legislation.

While these factors are mainly external and uncontrollable, the Company has adopted several strategies in an effort to minimize their impact:

- diversification of its hotel portfolio both geographically and across market segments in order to lower its exposure to regional economic fluctuations;
- ownership of properties in desirable locations with a history of stable cash flows;
- using debt securities with fixed interest rates and repayment terms where such financing can be obtained on favourable terms

## Operating Risks

Royal Host also faces normal operating risks associated with the hotel business. These risks include operating cost increases due to inflation and other factors, and dependence on business and leisure travel.

In order to mitigate these operating risks, the Company has developed strategies focusing on:

- ensuring customer satisfaction through proactive measures such as staff training;
- developing specific revenue management and sales and marketing programs targeting a wide variety of customer segments;
- employing sophisticated operating systems to manage and control costs; and
- providing incentive-based compensation programs to attract and maintain a high-quality management team.

The hotel industry is seasonal in nature. Generally, hospitality revenue is greater in the second and third quarters than in the first and fourth quarters. The Trust manages its cash flows throughout the year to ensure that sufficient cash is available to meet all obligations during periods of lower revenue.

A significant number of the Trust's properties are located in the province of Ontario and are affected by factors specifically affecting the Ontario hotel market.

## Workforce Availability

Royal Host's ability to provide services to its customers is dependant on the availability of employees to service its customers. Royal Host periodically reviews market factors to ensure that its compensation programs are competitive.

## Competitive Risks

Substantially all of Royal Host's hotels are located in developed areas and compete with other hotel properties. The number of competitive hotel properties in a particular area could have a material effect on occupancy and ADR of its hotels or hotel properties acquired in the future. Development of additional competing hotels in Royal Host's markets could adversely affect the profitability of the Company's hotel operations.

## Investment Risks

Royal Host operates solely in the hotel and hospitality sector and is subject to risks inherent in investing in a single industry.

Royal Host's investments are subject to varying degrees of risk generally associated with the ownership of real property. The underlying value of Royal Host's real estate investments and Royal Host's income and ability to make dividends to its Shareholders is dependent upon the ability of Royal Host to operate its hotels in a manner sufficient to maintain or increase revenue and to generate sufficient income in excess of operating expenses.

## Illiquidity of Real Estate

Royal Host currently operates 31 hotels. Significant adverse changes in operations of any hotel in the Company's portfolio could have a material adverse affect on revenues and the Company's ability to make dividends to its Shareholders.

Real estate investments are relatively illiquid. There can be no assurance that Royal Host will be able to dispose of an investment when it finds a disposition advantageous or necessary or that the sale price of any disposition will recover or exceed the amount of Royal Host's investment. Royal Host's ability to vary its hotel portfolio in response to changes in economic and other conditions is limited. Furthermore, Royal Host may be required to fund ongoing expenditures in periods of economic weaknesses.

## Securities Investment Risks

The Company has invested in publicly-traded securities which are subject to decrease in market value and can be expected to result in volatility of cash flows and financial results. Several factors, including economic developments, changes in interest rates, political changes, tax changes and catastrophic events can influence public markets. Royal Host's investments are subject to these general market risks.

## Financing Risks

There can be no assurances that Royal Host, upon the incurrence of debt, will be able to meet its debt service obligations and, to the extent that it cannot, Royal Host risks the loss of some or all of its assets to foreclosure. Adverse economic conditions could result in higher interest rates, which could increase debt service requirements and could reduce the amounts available for distribution to Shareholders. Royal Host may obtain one or more forms of interest rate protection (swap agreements, interest rate cap contracts, etc.) to hedge against the possible adverse effects of interest rate fluctuations. Adverse economic conditions could cause the terms on which borrowings become available to be unfavourable. In such circumstances, if Royal Host is in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments.

The ability of Royal Host to execute its business plan may in part depend on Royal Host being able to raise financing through equity and/or debt capital markets. Any failure of Royal Host to repay or refinance any or all of its credit facilities or other debt financing arrangements at their respective maturity dates on acceptable terms or to comply with applicable covenants thereunder could have a material adverse effect on Royal Host and its operations and financial results and, as a result, the amount of cash available to fund distribution to Shareholders and the market value of the Company's convertible debentures and/or common shares. There is no assurance that Royal Host will be able to refinance any or all of its credit facilities or other debt financing arrangements at their respective maturity dates on acceptable terms, or on any basis.

The Company has developed strategies focused on managing its capital structure with a prudent use of leverage.

## Dilution

The number of common shares Royal Host is authorized to issue is unlimited. The Directors have the discretion to issue additional share capital. Any issuance of share capital may have a dilutive effect on current Shareholders.

## Uninsured and Underinsured Losses

Royal Host maintains at all times insurance coverage in respect of potential liabilities of Royal Host and the accidental loss of value of the assets of Royal Host from risks, in amounts, with such insurers, and on such terms as the Directors consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. Management believes that the insurance coverage maintained by Royal Host is of the type and amount customarily obtained for or by an owner of real property assets. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods that may be uninsurable or not economically insurable. The Directors use their discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on Royal Host's investments at a reasonable cost and on suitable terms.

This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of Royal Host's lost investment. Certain factors, including inflation, changes in building codes and ordinances and environmental considerations, also might make it infeasible to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by Royal Host might not be adequate to restore its economic position with respect to such property.

## Risks of Operating Hotels Under Franchise Agreements

The majority of the Company's hotels in the Hotel Portfolio are subject to franchise agreements and hotels in which Royal Host invests subsequently may also be operated pursuant to franchise agreements. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a hotel or Royal Host to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement.

It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Directors determine are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Directors may elect to allow the franchise agreement to lapse. In any case, if a franchise is terminated, Royal Host may seek to obtain a suitable replacement franchise, or to operate the hotel independent of a franchise agreement.

The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. However, the risk of loss of a franchise agreement is mitigated by Royal Host holding the master franchise for Travelodge® in Canada.

## Reliance on Key Personnel

Royal Host depends on the services of key personnel. The loss of the services of any key personnel could have an adverse effect on Royal Host.

## Potential Conflicts of Interest

Royal Host may be subject to various conflicts of interest because of the fact that its officers as well as the Directors are engaged in a wide range of business activities. Royal Host may become involved in transactions that conflict with the interests of the foregoing.

The Directors and the officers of Royal Host may from time to time deal with persons, firms, institutions or corporations with which Royal Host may be dealing, or which may be seeking investments similar to those desired by Royal Host.

The interests of these persons could conflict with those of Royal Host. In addition, from time to time, these persons may be competing with Royal Host for available investment opportunities.

Any decisions regarding the approval or enforcement of the terms of any agreement entered into by Royal Host with a Director who is not an Independent Director, or with an associate of a non-Independent Director, may be made by a majority of two-thirds of the Independent Directors.

Directors and officers of Royal Host are required to disclose material interests in material contracts and transactions and refrain from voting thereon. See "Management of Royal Host – Conflicts of Interest Restrictions and Provisions".

As at the date hereof, Royal Host is not aware of any existing or potential material conflicts of interest between Royal Host and any Director or officer of Royal Host other than those disclosed.

## Accounting for Income Taxes

The calculation of the provision for income taxes requires judgment in interpreting tax rules and regulations, which are constantly subject to change. Changes in tax rates and regulations, or the findings from an audit by taxation authorities could materially change the amount of current and future income tax assets and liabilities.

## Environmental Risks

The Trust is subject to numerous federal, provincial and local laws and regulations concerning the environment. Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate such property properly, may adversely affect the owner's ability to borrow using such real property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at the disposal or treatment facility, whether or not such facility is or ever was owned or operated by such person. In connection with the ownership of the hotel portfolio, Royal Host may be potentially liable for any such costs.

Phase I environmental audits are obtained on all of the hotels acquired by Royal Host. The purpose of Phase I audit reports is to identify potential sources of contamination for which the hotels may be responsible and to assess the status of environmental regulatory compliance. Phase I audit reports received to date have not revealed any environmental liability that Royal Host believes would have a material adverse effect on Royal Host's business, assets or results of operations, nor is Royal Host aware of any such liability. Nevertheless, it is possible that these reports do not reveal all environmental liabilities or that there are material environmental liabilities of which Royal Host is unaware. Royal Host also maintains environmental impairment insurance on all properties.

## Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Trust is communicated to management, including the Chief Financial Officer, on a timely basis to allow timely and appropriate decisions regarding required public disclosure.

An evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures was conducted as of December 31, 2010, by Management under the supervision of the Executive Vice President (in the capacity of Chief Executive Officer for this purpose) and the Chief Financial Officer. These individuals evaluated the effectiveness of Royal Host's disclosure controls and procedures as at December 31, 2010. Based on that evaluation, the Executive Vice President and the Chief Financial officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2010.

## Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

Management, under the supervision of the Executive Vice President and the Chief Financial Officer, has evaluated the effectiveness of the Trust's ICFR using the COSO framework, published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the design and operating effectiveness of the trust's ICFR was effective as of December 31, 2010.

## **Changes In Controls Over Financial Reporting**

There have been no changes in Royal Host's internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, Royal Host's internal control over financial reporting.

## **Key Accounting Policies and Estimates**

Note 2 to the consolidated financial statements for the year ended December 31, 2010 includes a summary of the Trust's significant accounting policies.

The application of some of these policies requires the Company to make estimates of future events that may have a material effect on current or future financial results. These estimates require experience and judgment and are subject to the inherent risk of inaccuracy, particularly where they relate to events that are expected to take place well into the future.

## **Changes in Accounting Policies**

Royal Host monitors new accounting pronouncements issued by the Canadian Institute of Chartered Accountants (CICA) to assess the applicability and impact on the financial statements and note disclosure of the Trust. No new accounting standards have been adopted by Royal Host during 2010.

## **Future Changes in Accounting Policies**

### **International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board ("AcSB") has mandated the adoption of IFRS effective for interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP ("Canadian GAAP") for these enterprises. Comparative information for the 2010 fiscal year will also have to be reported, with an opening balance sheet on the "transition date" of January 1, 2010. Royal Host will present its first IFRS consolidated financial statements in the first quarter of 2011.

The impact on the consolidated financial statements of Royal Host caused by the transition from Canadian GAAP to IFRS effective January 1, 2011 will be significant. Management, with oversight of the Board of Trustees and the Audit Committee, has developed and is working toward the completion of its conversion plan to facilitate its IFRS financial statement reporting, presentation and disclosure requirements for the period ending March 31, 2011.

Significant components of Royal Host's IFRS conversion plan include:

<b>Component</b>	<b>Key Activities</b>	<b>Progress to Date</b>
Financial Statement Presentation and Disclosure	Identification of differences of IFRS versus Canadian GAAP	Complete
	Assess and select accounting policy choices	Complete
	Quantify the effects of differences on January 1, 2010 "transition date" balance sheet.	Substantially Complete
	Quantify the differences on 2010 comparative FS – periods up to and including December 31, 2010	In progress
	Prepare quarterly financial statements and related note disclosures	In progress
Business Impacts	Identify required resources – valuation and accounting – for technical analysis and implementation during the transition	Complete
	Develop a hotel (property, plant & equipment) valuation strategy	Complete
	Complete hotel valuation for the opening balance sheet as of the transition date (January 1, 2010)	Complete
	Identify impact on contractual agreements and financial covenants	Complete
	Where required, make amendments to agreements	In progress
Processes and Systems	Identify changes required to current financial reporting systems	Complete
	Identify data collection requirements and implement process to collect data	In progress
	Evaluate and select methods to address the need for dual record keeping during 2010	Complete
Internal Control over Financial Reporting and Disclosure	Ensure documentation of processes and systems are in place.	In progress
	Ensure appropriate changes to internal controls to address existing accounting policies and requirement for dual record keeping during 2010	In progress
	Assess effectiveness of controls	Ongoing
Training and Communication	Technical training of accounting staff.	Ongoing
	Educate Board of Trustees, Audit Committee and Senior Management of the Effects of IFRS	Senior management is continuously updated on the impacts of IFRS. The Board of Trustees and the Audit Committee are updated quarterly, at a minimum.
	Communication to all other internal and external stakeholders.	Ongoing quarterly external communication provided via MD&A. Creditors are advised as required.

**Impact of Adoption of IFRS:**

Adoption of IFRS initially requires retrospective application as of the transition date (January 1, 2010), on the basis that the entity has prepared its financial statements in accordance with IFRS since its inception.

IFRS 1, “First Time Adoption of International Financial Reporting Standards”, permits certain exemptions from the retrospective application of IFRS. IFRS 1 specifies that adjustments arising upon conversion from Canadian GAAP to IFRS should be recognized in opening retained earnings at the transition date.

**IFRS 1: First-time Adoption of International Financial Reporting Standards (“IFRS 1”)**

The adoption of IFRS requires the application of IFRS 1, which provides guidance for the entity’s initial adoption of IFRS. IFRS 1 generally requires an entity to apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively to the beginning of its first comparative reporting period, the transition date of January 1, 2010.

IFRS 1 requires an entity, in its opening statement of financial position (balance sheet), to:

- (a) recognize all assets and liabilities whose recognition is required by IFRS standards
- (b) not recognize items as assets or liabilities if IFRS standards do not permit such recognition
- (c) reclassify items that were recognized in accordance with previous Canadian GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRS standards
- (d) apply IFRS standards in measuring all recognized assets and liabilities

However, IFRS 1 provides certain mandatory and elective exemptions in specified areas from this general requirement. Relevant first time adoption options are discussed in the following sections:

**Business Combinations**

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, “Business Combinations”, retrospectively to business combinations that occurred before the date of transition to IFRS. Royal Host will make this election in order to limit the application of IFRS 3 to prospective business combinations; i.e. those that occur on or after January 1, 2010.

**Property and Equipment - Valuation**

IFRS 1 permits an entity to elect the “deemed cost”, or carrying value, of property and equipment to be determined by using either (a) fair value or (b) historical cost or depreciated cost in accordance with IFRSs (specifically IFRS 16, discussed later).

Royal Host has elected to measure all property and equipment (hotel properties) at January 1, 2010 using fair value as its deemed cost. This election will result in an adjustment to the carrying value of property and equipment as at January 1, 2010 recorded through equity. The adjustment amount is being finalized now.

Certain hotel properties were valued by external qualified appraisal firms to determine the fair value of the hotel properties as of January 1, 2010. The rest of the hotel properties were valued using (a) management application of the discounted cash flow valuation techniques utilized by external appraisal firms or (b) market comparable information for recent transactions in the industry for similar types of assets, as no two hotel properties are identical.

**IAS 16 – Property, and Equipment**

Royal Host considers its hotel properties as being held for use in the production of goods and services for sale in the ordinary course of business. Under IFRS, hotel properties are defined as property and equipment (“PP&E”) and are subject to IAS 16.

Subsequent to assigning a deemed cost using fair values on the transition date, IAS 16 permits the utilization of one of two methods of measuring cost going forward – (1) the cost model or (2) the revaluation model.

(1) The cost model prescribes that property and equipment is measured at its cost less any accumulated depreciation and/or impairment losses. This is consistent with current Canadian GAAP methodology.

(2) The revaluation model prescribes that property and equipment whose fair value can be measured reliably can be carried on the balance sheet at a revalued amount. The revalued amount represents the fair value of a class of PP&E less any subsequent depreciation and subsequent impairment loss. Under this alternative, revaluations must be made for each class of PP&E with sufficient regularity to ensure the carrying amount does not differ materially from its fair value at the end of each reporting period.

Royal Host has chosen the cost model of measuring PP&E as prescribed by IAS 16. Management had to determine significant components of PP&E, their relative portion of total carrying value for each hotel property and the depreciation period of each component. Royal Host is still in the process of fine-tuning the adjustments on depreciation expense for each period during 2010.

**IAS 36 – Impairment of Assets**

IAS 36 applies to land, buildings, machinery and equipment, intangible assets, investment properties and investment in subsidiaries. Specifically to Royal Host, IAS 36 applies to PP&E and intangible assets. Other assets on Royal Host’s balance sheet are outside the scope of IAS 36.

Each hotel owned by Royal Host, is considered a “cash generating unit”, as defined by IAS 36. Each cash-generating unit is “the smallest identifiable group of assets that generates cash inflows that are largely independent from other assets or groups of assets”. Therefore, cash generating unit, for the purposes of IAS 36, is comprised of the land, building, equipment and computer hardware and software required to run the hotel operation; i.e. PP&E.

Testing for impairment of PP&E involves comparing the “recoverable amount” of each hotel to the “carrying value” of each hotel on the balance sheet. The “recoverable amount” is the higher of (a) its fair value less costs to sell and (b) its value in use. Value in use is defined as the present value of the future cash flows expected to be generated by the hotel; i.e. the discounted cash flows. This is a significant difference between IFRS and Canadian GAAP as Canadian GAAP uses non-discounted cash flows to estimate value in use. As a result of this difference, impairment write-downs are more likely under IFRS than Canadian GAAP. Carrying values of assets supported by Canadian GAAP may not be supported by IFRS.

IFRS permits the reversal of an impairment loss in a subsequent period if the recoverable amount is higher than the carrying value (to no higher than the carrying value less accumulated depreciation would have been at the assessment date had the original impairment loss not occurred).

**IAS 32 – Financial Instruments - Presentation; IAS 39 – Financial Instruments – Recognition and Measurement and IFRS 7 – Financial Instruments**

**Trust Units**

Under Canadian GAAP, Royal Host's trust units are classified as equity on the balance sheet. As defined by IAS 32 – Financial Instruments – Presentation, Royal Host trust units may be classified as a liability as the instrument (trust unit) may be interpreted to “includes a contractual obligation to deliver cash to another entity”.

If Royal Host trust units are presented as a liability under IFRS, distributions made by Royal Host to unitholders would be recorded as a finance charge on the income statement, in accordance with IAS 32. Consequently, Accumulated Income in Unitholders' Equity would be reduced by \$222,425 as of January 1, 2010, with a corresponding elimination of the \$222,425 deficit in Distributions section of Unitholders' Equity. The net impact of distributions classified as finance charges on Unitholder's Equity would be nil, however, components of Unitholder's equity will change by the aforementioned amounts.

**Conversion feature of Convertible Debentures**

Royal Host is required, under IAS 32, to present the conversion feature of the convertible debentures as a liability measured at fair value upon the transition date to IFRS. The conversion feature was previously included as a component of Unitholders' Equity under Canadian GAAP, with a carrying amount of \$3,167. Royal Host estimates the fair value of this conversion feature will be close to nil as the conversion prices were well in excess of market value of trust units on January 1, 2010.

**IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations**

Under IFRS 5, the definition of discontinued operations is much more restrictive than under Canadian GAAP. Only components that represent a major line of business or geographic area of operations can be classified as discontinued operations. Currently under Canadian GAAP, Royal Host classifies individual properties held for sale and individual properties sold as discontinued operations. At the transition date, the application of IFRS 5 will result in current assets of \$427 being transferred from discontinued operations to accounts receivable and \$76 of current liabilities being transferred from discontinued operations to accounts payable.

## Cautionary Statement Regarding Forward-looking Information and Statements

This MD&A sets out Management's assessment of the Trust's future plans and operations and contains forward-looking statements as defined under applicable Canadian securities legislation. These forward-looking statements typically contain the words "anticipate", "believe", "estimate", "expect", "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 the Trust. 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. Forward-looking statements 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 include, but are not limited to: general economic conditions, levels of travel in Royal Host's key market areas, political conditions and events, competitive pressures, changes in government policy or regulations and other risk factors including risks and uncertainties described above. The Trust's actual results could 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. Royal Host does not undertake to update forward-looking statements should its estimates or assumptions change, except as required by law. Additional information relating to Royal Host and the risks to which its business is subject is contained in its Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com).

**Royal Host Inc.**  
**(Formerly Royal Host Real Estate Investment Trust)**  
December 31, 2010 and 2009

March 23, 2011

**Independent Auditor's Report**

**To the Shareholders of Royal Host Inc.**

We have audited the accompanying consolidated financial statements of Royal Host Inc., formerly known as Royal Host Real Estate Investment Trust, and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of net loss and comprehensive income (loss), unitholders' equity, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Royal Host Inc. and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

**CONSOLIDATED BALANCE SHEETS***(in thousands of dollars)*

As at December 31

	2010	2009
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Marketable securities	1,886	39,409
Accounts, notes and distributions receivable	4,446	4,710
Prepaid expenses	1,421	2,726
Inventories (note 4)	2,366	2,140
Assets of discontinued operations (note 5)	19	427
	<b>10,138</b>	<b>49,412</b>
Property and equipment (note 6)	212,661	217,752
Intangible assets (note 7)	93	2,358
Property held for sale and development (note 5)	1,828	2,285
Restricted cash	1,133	2,732
	<b>225,853</b>	<b>274,539</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness (note 8)	13,786	881
Accounts payable and accrued liabilities	11,627	10,379
Equity distributions payable (note 18)	-	458
Interest accrued on convertible debentures	1,245	1,295
Mortgages (note 9)	12,477	56,761
Obligations under capital leases (note 11)	75	70
Liabilities of discontinued operations (note 5)	7	76
	<b>39,217</b>	<b>69,920</b>
Mortgages (note 9)	31,834	23,463
Convertible debentures (note 10)	144,552	147,292
Obligations under capital leases (note 11)	33	108
Deferred revenue	615	461
Future income taxes (note 12)	2,650	6,309
<b>Total liabilities</b>	<b>218,901</b>	<b>247,553</b>
Commitments, contingencies and guarantees (note 23)		
<b>Unitholders' equity</b> (note 13)	<b>6,952</b>	<b>26,986</b>
	<b>225,853</b>	<b>274,539</b>

*See accompanying Notes to the Consolidated Financial Statements*

Approved on behalf of the Board of Directors:

As signed by

**George Armoyan**

Chairman of the Board

As signed by

**Blair Cook**

Chairman of the Audit Committee

**CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE INCOME (LOSS)***(in thousands of dollars, except per unit amounts)*

Years ended December 31

	2010	2009
	\$	\$
<b>Hospitality revenue</b>		
Rooms	72,368	72,539
Food and beverage	14,257	14,641
Franchising and management	2,142	2,518
Other	3,503	3,900
	<b>92,270</b>	<b>93,598</b>
<b>Hospitality expenses</b>	<b>75,305</b>	<b>73,074</b>
	<b>16,965</b>	<b>20,524</b>
<b>Investment income (loss)</b>		
Distributions and interest	297	7,879
Realized gains on held-for-trading securities	-	195
Other than temporary impairment on marketable securities	(461)	(4,009)
Realized gains on available-for-sale securities	12,378	4,037
	<b>12,214</b>	<b>8,102</b>
<b>Other expenses</b>		
Trust administration (note 19)	2,851	2,471
Restructuring costs (note 20)	2,543	-
Interest and accretion on mortgages and capital leases	5,433	7,655
Interest and accretion on convertible debentures	10,338	10,791
Gain on convertible debenture repurchases	(793)	(1,933)
Depreciation and amortization	12,592	12,899
Impairment of intangible assets	601	-
	<b>33,565</b>	<b>31,883</b>
Loss from continuing operations before income taxes	(4,386)	(3,257)
Income tax recovery (note 12)	2,735	1,831
Loss from continuing operations	(1,651)	(1,426)
Loss from discontinued operations, net of income tax (note 5)	(1,078)	(23)
Net loss	(2,729)	(1,449)
Other comprehensive income (loss) (note 15)	(10,143)	10,143
Comprehensive income (loss)	(12,872)	8,694
<b>Basic and diluted earnings (loss) per unit: (in dollars) (note 16)</b>		
Loss from continuing operations	(0.09)	(0.07)
Loss from discontinued operations	(0.06)	-
Net loss	(0.15)	(0.07)

*See accompanying Notes to the Consolidated Financial Statements*

**CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY***(in thousands of dollars)*

Years ended December 31

	2010	2009
	\$	\$
<b>Trust units</b>		
Balance at beginning of year	143,343	163,213
Trust units issued pursuant to debenture conversion option (note 10)	-	929
Trust units repurchased pursuant to normal course issuer bid (note 14)	(4,437)	(11,329)
Trust units repurchased pursuant to substantial issuer bid (note 14)	(776)	(9,484)
Employee loans pursuant to employee unit purchase program (note 13)	34	14
Balance at end of year	138,164	143,343
<b>Equity component of convertible debentures</b>		
Balance at beginning of year	3,167	3,293
Trust units issued pursuant to debenture conversion option (note 10)	-	(27)
Convertible debentures repurchased pursuant to normal course issuer bid (note 10)	(106)	(99)
Balance at end of year	3,061	3,167
<b>Contributed surplus</b>		
Balance at beginning of year	34,667	21,024
Trust units repurchased pursuant to normal course issuer bid (note 14)	3,013	7,303
Trust units repurchased pursuant to substantial issuer bid (note 14)	530	6,316
Employee loans pursuant to employee unit purchase program (note 13)	-	24
Balance at end of year	38,210	34,667
<b>Accumulated income</b>		
Balance at beginning of year	58,091	59,540
Net loss	(2,729)	(1,449)
Balance at end of year	55,362	58,091
<b>Accumulated distributions</b>		
Balance at beginning of year	(222,425)	(210,309)
Distributions on trust units	(5,420)	(12,116)
Balance at end of year	(227,845)	(222,425)
<b>Accumulated other comprehensive income (loss)</b>		
Balance at beginning of year	10,143	-
Other comprehensive income (loss) (note 15)	(10,143)	10,143
Balance at end of year	-	10,143
<b>Total unitholders' equity</b>	<b>6,952</b>	<b>26,986</b>

*See accompanying Notes to the Consolidated Financial Statements*

**CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands of dollars)*

Years ended December 31

	2010	2009
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Loss from continuing operations	(1,651)	(1,426)
Adjustments for items not involving cash (note 17)	(1,671)	10,322
	(3,322)	8,896
Cash flows used in discontinued operations (note 5)	(621)	(181)
Net changes in non-cash working capital – continuing operations (note 17)	2,316	(2,431)
Net changes in non-cash working capital – discontinued operations (note 5)	339	(299)
	(1,288)	5,985
<b>FINANCING ACTIVITIES</b>		
Increase in bank indebtedness	12,905	881
Repurchases of convertible debentures pursuant to normal course issuer bids	(3,211)	(3,601)
Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bid	(1,671)	(7,194)
Convertible debenture repayment at maturity	-	(7,288)
Distributions on trust units	(5,878)	(12,116)
Principal repayments on mortgages and capital leases	(36,329)	(3,737)
Proceeds from repayment of employee unit purchase loans	34	38
	(34,150)	(33,017)
<b>INVESTING ACTIVITIES</b>		
Proceeds on dispositions of marketable securities	39,381	27,354
Purchases of marketable securities	(84)	(47)
Acquisitions of property and equipment	(5,458)	(3,654)
Net acquisitions on expansion of property – discontinued operations (note 5)	-	(6,050)
Decrease in restricted cash	1,599	2,014
Net cash on insurance recovery	-	975
	35,438	20,592
<b>Decrease in cash</b>	-	(6,440)
<b>Cash, beginning of year</b>	-	6,440
<b>Cash, end of year</b>	-	-
Cash interest received	46	166
Cash interest paid		
Mortgages and capital leases	5,370	7,615
Convertible debentures	9,238	9,790
Total cash interest paid	14,608	17,405

*See accompanying Notes to the Consolidated Financial Statements*

## 1. GENERAL INFORMATION

Royal Host Inc. (“Royal Host”) was originally created as Royal Host Real Estate Investment Trust pursuant to the declaration of Trust dated August 27, 1997. Royal Host was an unincorporated open-ended mutual fund trust established for the purpose of investing in hotel properties and hospitality businesses, under specified guidelines as defined under the Declaration of Trust.

On December 15, 2010 Unitholders of Royal Host voted, and approved, the conversion of Royal Host into a corporation pursuant to a plan of arrangement (the “Arrangement”) under the Canada Business Corporations Act. The Arrangement became effective on January 1, 2011. Further details of the Arrangement are contained in note 24. The conversion was treated as a change in business form and was accounted for as a continuity of interest. All references to “Royal Host” within these financial statements refer to Royal Host Inc. as of January 1, 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

Royal Host’s accounting policies and standards of financial disclosure are in accordance with Canadian generally accepted accounting principles (“GAAP”) as prescribed by the Canadian Institute of Chartered Accountants (“CICA”).

### (b) Principles of Consolidation

These consolidated financial statements include the accounts of Royal Host, its wholly-owned subsidiaries and partnerships. All intercompany transactions and balances have been eliminated.

### (c) Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the reported periods. Significant areas requiring the use of management estimates include assessing the recoverability of hotel properties and other long-term assets, the determination of useful lives for depreciation and amortization purposes, determination of the allowance for uncollectible receivables, assumptions used in the calculation of carrying value of convertible debenture components and the determination of future income tax assets and liabilities. Actual results could differ materially from those estimates.

### (d) Revenue Recognition

Revenue, consisting of rooms, food and beverage, franchising and management and other revenue is recognized when services are provided, collection is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Amounts received for future services are deferred until the service is provided. Other revenue includes telephone and retail sales, tenant leases, parking, and health clubs. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable which is estimated to be uncollectible.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (e) Property and Equipment

Hotel properties are recorded at cost less accumulated amortization less any recognized impairments. Buildings are amortized using the straight-line method over their estimated useful lives ranging between 25 and 40 years. The useful life of each individual property is evaluated annually based on certain factors including construction materials used, location, condition of the property and the particular capital maintenance program and requirements of the property.

Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations are capitalized to hotel properties. Furniture, fixtures and equipment and certain building improvements are amortized on a straight-line basis over periods of up to ten years. Property and equipment under development consists of renovations of properties and are recorded at the lower of cost and their net recoverable value. Amortization of these assets begins once they are available for use.

Assets under capital leases are depreciated over the estimated useful lives of the assets or lease term if shorter.

### (f) Intangible Assets

Intangible assets consist primarily of franchise rights and management contracts and are amortized using the straight-line method based on their estimated useful lives.

### (g) Impairment of Long-Lived Assets

Long-lived assets, including property and equipment and intangible assets subject to amortization, are tested for recoverability when events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying value of the asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

### (h) Inventories

Inventories consist of food, beverages, china, silverware, glassware and linen. These items are recorded at the lower of cost or net replacement value and are determined on a first-in, first-out basis. When circumstances that previously caused inventory to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of any previous write downs are reversed. Royal Host's financial statements do not reflect any reversals of previous write-downs.

### (i) Financial Instruments and Comprehensive Income

Royal Host has elected to apply the following treatment to each of its significant categories of financial instruments:

Accounts, notes and distributions receivable	Loans and receivables
Restricted cash	Held-to-maturity
Marketable securities	Held-for-trading or available-for-sale
Mortgages, Bank indebtedness, Accounts payable and accrued liabilities, Equity distribution payable, Interest accrued on convertible debentures, and Capital leases	Other financial liabilities

Unrealized gains and losses on financial instruments that are classified as available-for-sale are recognized in "other comprehensive income (loss)" in unitholders' equity. When such gains and losses are realized or when the asset is

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

other than temporarily impaired, the amount is recognized in net loss. Unrealized gains or losses on financial instruments classified as held-for-trading are recognized in net loss based on the change in the fair market value of the financial instrument in the period.

Financial instruments classified as other financial liabilities are measured at amortized cost. Debt issuance costs are initially recorded as a reduction of the average carrying value of the debt to which they relate. Over the term of the debt the liability will increase to the face value of the debt through the use of the effective interest method, with the accretion being included in interest on mortgages or interest on convertible debentures on the consolidated statement of net loss and comprehensive income (loss).

### (j) Income Taxes

Royal Host follows the liability method of accounting for income taxes. This method requires recording a future income tax amount based on differences between the carrying amounts of balance sheet items and their corresponding tax bases. The future tax benefits of income tax assets, including unused tax losses, are recognized to the extent that it is more likely than not that such losses will be ultimately utilized by Royal Host. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are expected to be either recovered or settled.

Effective January 1, 2011, Royal Host converted to a corporation through the Arrangement whereby each unitholder received common shares of the new corporation "Royal Host Inc." in exchange for their units. The exchange was completed on a tax-deferred basis. As a result, Royal Host will be subject to tax beginning January 1, 2011. Refer to note 24 for additional detail regarding the Arrangement.

### (k) Restricted Cash

Restricted cash represents funds on deposit with lenders pursuant to financing arrangements for future planned capital expenditures.

### (l) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect on the balance sheet date with any gains or losses recognized in net loss.

## 3. FUTURE CHANGES IN ACCOUNTING POLICIES

Royal Host will cease to prepare its consolidated financial statements in accordance with GAAP as set out in Part V of the CICA Handbook – Accounting ("Canadian GAAP") for the year beginning on January 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board as set out in Part I of the CICA Handbook – Accounting as its primary basis of accounting. Consequently, future accounting changes to Canadian GAAP that are effective for periods beginning on or after January 1, 2011 are not discussed in these financial statements as they will not be applied by Royal Host.

#### 4. INVENTORIES

Inventories are comprised of the following items:

	2010	2009
	\$	\$
Linens	1,615	1,340
Food and beverage	388	401
China, glassware and other	363	399
	<b>2,366</b>	<b>2,140</b>

During the year ended December 31, 2010, hospitality expenses included \$3,710 (December 31, 2009 - \$3,810) of costs related to usage of the inventory items listed above.

#### 5. PROPERTY HELD FOR SALE AND DEVELOPMENT AND DISCONTINUED OPERATIONS

The operations of properties that were disposed of prior to December 31, 2010 and those meeting held for sale classification criteria of CICA Handbook Section 3475.08 as at December 31, 2010 have been included in discontinued operations on the consolidated statements of net loss and comprehensive income (loss), and reflected as assets and liabilities of discontinued operations and property held for sale and development on the consolidated balance sheets.

On January 11, 2008, the Thriftlodge Fort Nelson was destroyed by fire. During the year ended December 31, 2010, Royal Host received insurance proceeds of \$nil (December 31, 2009 - \$975) and recognized a gain on insurance of \$nil (December 31, 2009 - \$167). The carrying amount of this property is recorded as property held for sale.

Effective January 31, 2008, Royal Host decommissioned the Sundial Inn in Orillia, Ontario. Royal Host continues to pursue opportunities to dispose of this property as well as potential redevelopment. The carrying amount of this property is recorded as property held for development. In 2010, an impairment provision of \$457 was recorded to adjust the carrying value of this property to the estimated recoverable value.

On August 15, 2008, Royal Host sold the Grand Okanagan Lakefront Resort and Conference Centre. The sale agreement included the completion of a casino expansion project. In the year ended December 31, 2009, the casino expansion project was completed and \$12,400 of revenue deferred at the time of sale has been recognized along with \$12,371 of expenses related to the casino expansion project.

The following table sets forth the results of operations associated with the above noted properties held for sale and separately reported as discontinued operations for the current and prior year:

	2010	2009
	\$	\$
<b>Other expenses</b>		
Trust administration	621	181
Depreciation and amortization	-	32
Property impairment provision	457	-
	<b>1,078</b>	<b>213</b>
Gain from insurance recovery	-	167
Gains from sales of property	-	23
Loss from discontinued operations	<b>(1,078)</b>	<b>(23)</b>

## 5. PROPERTY HELD FOR SALE AND DEVELOPMENT AND DISCONTINUED OPERATIONS (CONT'D)

Cash flows used in discontinued operations, reported on the statements of cash flows, are reconciled to loss from discontinued operations as follows:

	2010	2009
	\$	\$
<b>Operating activities</b>		
Loss from discontinued operations	(1,078)	(23)
Items not affecting cash:		
Depreciation and amortization	-	32
Gain from insurance recovery	-	(167)
Gains from sales of property	-	(23)
Property impairment provision	457	-
Cash flows used in discontinued operations	(621)	(181)
<b>Investing activities</b>		
Net acquisitions on expansion of property	-	(6,050)
<b>Net changes in non-cash working capital</b>		
Assets of discontinued operations	408	(68)
Liabilities of discontinued operations	(69)	(231)
	<b>339</b>	<b>(299)</b>

## 6. PROPERTY AND EQUIPMENT

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Buildings	260,323	84,335	175,988
Land	28,419	-	28,419
Furniture, fixtures and equipment	45,438	40,546	4,892
Other	1,029	269	760
	335,209	125,150	210,059
Property under development	2,602	-	2,602
	337,811	125,150	212,661
<b>December 31, 2009</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Buildings	258,605	75,838	182,767
Land	28,419	-	28,419
Furniture, fixtures and equipment	43,826	38,179	5,647
Other	1,028	228	800
	331,878	114,245	217,633
Property under development	119	-	119
	331,997	114,245	217,752

## 7. INTANGIBLE ASSETS

During the year ended December 31, 2010, an impairment charge of \$601 was recorded against management contracts classified as intangible assets when Royal Host ceased providing management services to third parties.

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>December 31, 2010</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Franchise rights and management contracts	173	80	93

  

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>December 31, 2009</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Franchise rights and management contracts	18,542	16,184	2,358

## 8. BANK INDEBTEDNESS

Royal Host has a credit facility with a maximum availability dependant on a valuation test. At December 31, 2010, the maximum availability of the facility is \$18,410. The facility bears interest at the Canadian bank prime rate plus a spread of 0.25% to 1.25% depending on a leverage test, is payable on demand and secured by first charges over six properties owned by Royal Host with a net book value of \$53,428 at December 31, 2010. At December 31, 2010, Royal Host is in compliance with all covenant requirements of the credit facility.

## 9. MORTGAGES

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Mortgages secured by hotel properties	<b>44,311</b>	80,224
Less: current portion	<b>(12,477)</b>	(56,761)
	<b>31,834</b>	23,463

Principal repayments required for the twelve months ending December 31:

	<b>\$</b>
2011	12,615
2012	950
2013	31,071
Total principal outstanding	44,636
Debt issuance costs	(325)
	44,311

Mortgages bear interest at rates ranging from 6.82% to 8.50% per annum (2009 – 7.35% to 9.38%) with a weighted average year-end rate of 7.52% per annum (2009 – 8.46%) and mature between 2011 and 2013. The mortgages are secured by fixed charges over six hotel properties owned by Royal Host with a total net book value of \$85,834 at December 31, 2010 (December 31, 2009 – twenty-five properties with a total net book value of \$154,078).

During 2010, Royal Host repaid two mortgage pools in the amounts of \$23,499 and \$10,218 utilizing its cash and cash equivalents, marketable securities and bank indebtedness. The eighteen properties that previously secured the mortgage pool are now unencumbered.

## 10. CONVERTIBLE DEBENTURES

	2010	2009
	\$	\$
6.00% Convertible Unsecured Subordinated Debentures, Series B	44,077	44,477
6.25% Convertible Unsecured Subordinated Debentures, Series C	48,544	50,658
5.90% Convertible Unsecured Subordinated Debentures, Series D	51,931	52,157
	<b>144,552</b>	<b>147,292</b>

Principal repayments required for the year ending December 31:

	\$
2011	-
2012	-
2013	50,239
2014	53,327
2015	45,984
Total principal outstanding	149,550
Debt issuance costs	(3,421)
Equity conversion option	(1,577)
	<b>144,552</b>

Convertible debentures may be convertible into Trust units at any time at the conversion rate established in effect on that date. The conversion rate shall be subject to adjustment from time to time based on a number of factors.

### (a) 6.00% Convertible Unsecured Subordinated Debentures, Series B

In October 2005, \$60,000 of convertible unsecured subordinated debentures were issued with a term of ten years. These debentures bear interest at 6.00% per annum which is payable semi-annually in arrears on April 30 and October 31 in each year commencing April 30, 2006.

After October 31, 2009, the Series B debentures are redeemable, in whole at any time or in part from time to time prior to October 31, 2011, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$4.76 per unit. After October 31, 2011, but prior to the maturity date of October 31, 2015, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5th) trading day preceding the date of redemption or maturity.

On redemption or at maturity on October 31, 2015, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units.

The principal amount of the debentures has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$58,320 was recorded as a long-term liability with the balance of \$1,680 recorded as Equity Component of Convertible Debentures in unitholders' equity. The long-term liability will increase to the December 31, 2010 \$45,984 face value (the original \$60,000 face value less Royal Host buy backs and conversions to December 31, 2010) over the remainder of the term to maturity, with the accretion being included in interest on convertible debentures on the consolidated statements of net loss and comprehensive income (loss).

During the year ended December 31, 2010, \$nil (December 31, 2009 - \$952) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into nil trust units (December 31, 2009 – 0.2 million trust units).

Commencing on September 10, 2010, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$4,163 in principal of its issued and outstanding 6.00% convertible debentures. During the year ended December 31, 2010, Royal Host repurchased \$111 6.00% convertible debentures at an aggregate cost of \$85 (average cost \$76.35) pursuant to this bid.

## 10. CONVERTIBLE DEBENTURES (CONT'D)

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$4,225 in principal of its issued and outstanding 6.00% convertible debentures. During the year ended December 31, 2009, Royal Host repurchased \$52 6.00% convertible debentures at an aggregate cost of \$32 (average cost \$61.18) pursuant to this bid. During the year ended December 31, 2010, Royal Host repurchased \$619 6.00% convertible debentures at an aggregate cost of \$464 (average cost \$74.98) pursuant to this bid.

### (b) 6.25% Convertible Unsecured Subordinated Debentures, Series C

In September 2006, \$60,000 of convertible unsecured subordinated debentures were issued with a term of seven years. These debentures bear interest at 6.25% per annum which is payable semi-annually in arrears on March 31 and September 30 in each year commencing March 31, 2007.

After September 30, 2009, the Series C debentures are redeemable, in whole at any time or in part from time to time prior to September 30, 2011, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$4.87 per unit. After September 30, 2011, but prior to the maturity date of September 30, 2013, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity.

On redemption or at maturity on September 30, 2013, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$4.87 per trust unit at any time from the date of issue to close of business on the day prior to the maturity date, September 30, 2013.

The principal amount of the debenture has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$58,200 was recorded as a long-term liability with the balance of \$1,800 recorded as Equity Component of Convertible Debentures in unitholders' equity. The long-term liability will increase to the December 31, 2010 \$50,239 face value (the original \$60,000 face value less Royal Host buy backs and conversions to December 31, 2010) over the remainder of the term to maturity, with the accretion being included in interest on convertible debentures on the consolidated statements of net loss and comprehensive income (loss).

Commencing on September 10, 2010, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,010 in principal of its issued and outstanding 6.25% convertible debentures. During the year ended December 31, 2010, Royal Host repurchased nil 6.25% convertible debentures pursuant to this bid.

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,243 in principal of its issued and outstanding 6.25% convertible debentures. During the year ended December 31, 2009, Royal Host repurchased no 6.25% convertible debentures pursuant to this bid. During the year ended December 31, 2010, Royal Host repurchased \$2,760 in principal of the 6.25% convertible debentures at an aggregate cost of \$2,250 (average cost \$81.51).

Commencing on September 10, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,888 in principal of its issued and outstanding 6.25% convertible debentures. During the year ended December 31, 2009, Royal Host repurchased \$2,772 in principal of the 6.25% convertible debentures with an aggregate cost of \$1,897 (average cost \$68.42) pursuant to this bid.

## 10. CONVERTIBLE DEBENTURES (CONT'D)

### (c) 5.90% Convertible Unsecured Subordinated Debentures, Series D

In June 2007, \$60,000 of convertible unsecured subordinated debentures were issued with a term of seven years. These debentures bear interest at 5.90% per annum which is payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2007.

The Series D debentures may not be redeemed by Royal Host prior to June 30, 2010. On or after June 30, 2010, but prior to June 30, 2011, the debentures are redeemable, in whole at any time or in part from time to time, at the option of Royal Host on at least thirty (30) days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$6.19 per unit. After June 30, 2011, but prior to the maturity date of June 30, 2014, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity.

On redemption or at maturity on June 30, 2014, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units.

At December 31, 2009, based on certain conditions, the debentures are convertible, at the holders' discretion, at \$6.19 per trust unit at any time until the close of business on the day prior to the maturity date, June 30, 2014.

The principal amount of the debenture has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$59,700 was recorded as a long-term liability with the balance of \$300 recorded as Equity Component of Convertible Debentures in unitholders equity. The long-term liability will increase to the December 31, 2010 \$53,327 face value (the original \$60,000 face value less Royal Host buy backs and conversions to December 31, 2010) over the remainder of the term to maturity, with the accretion being included in interest on convertible debentures on the consolidated statements of net loss and comprehensive income (loss).

Commencing on September 10, 2010, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,332 in principal of its issued and outstanding 5.90% convertible debentures. During the year-ended December 31, 2010, Royal Host repurchased no 5.90% convertible debentures pursuant to this bid.

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,400 in principal of its issued and outstanding 5.90% convertible debentures. During the year ended December 31, 2009, Royal Host repurchased \$102 in principal of the 5.90% convertible debentures with an aggregate cost of \$60 (average price of \$58.62) pursuant to this bid. During the year ended December 31, 2010, Royal Host repurchased \$571 in principal of the 5.90% convertible debentures at an aggregate cost of \$413 (average price of \$72.28) pursuant to this bid.

Commencing on September 10, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$6,000 in principal of its issued and outstanding 5.90% convertible debentures. During the year ended December 31, 2009, Royal Host repurchased \$2,758 in principal of the 5.90% convertible debentures with an aggregate cost of \$1,601 (average price of \$58.03) pursuant to this bid.

## 11. OBLIGATIONS UNDER CAPITAL LEASES

Royal Host has entered into various capital lease obligations to acquire furniture, fixtures and equipment. The present values of future minimum payments under capital leases are as follows:

	2010	2009
	\$	\$
Present value of future minimum lease payments	108	178
Less: current portion of principal payments	(75)	(70)
	<b>33</b>	<b>108</b>

Total repayments required for the twelve months ending December 31:

	\$
2011	81
2012	33
Future minimum lease payments	114
Less: amounts representing interest	(6)
Present value of future minimum lease payments	<b>108</b>

The leases outstanding at December 31, 2010 bear interest at a weighted average annual rate of 7.64% per annum (December 31, 2009 – 7.64%). During the years ended December 31, 2010 and 2009, Royal Host did not acquire any new assets under capital lease. The net book value of assets under capital lease as at December 31, 2010 was \$177 (December 31, 2009 - \$390).

## 12. INCOME TAXES

The income tax recovery is comprised of:

	2010	2009
	\$	\$
Current	925	-
Future	(3,660)	(1,831)
Income tax recovery	<b>(2,735)</b>	<b>(1,831)</b>

The income tax provision differs from that computed using statutory rates as shown in the following table:

	2010		2009	
	\$	%	\$	%
Loss from continuing operations before income taxes	(4,386)		(3,257)	
Recovery of income taxes at statutory rate	-	-	-	-
Increase (decrease) from statutory rate:				
Change in estimates	(2,679)	61.08	(1,178)	36.17
Change in tax rates	9	(0.20)	(679)	20.85
Other items	(65)	1.48	26	(0.80)
Income tax recovery	<b>(2,735)</b>	<b>62.36</b>	<b>(1,831)</b>	<b>56.22</b>

## 12. INCOME TAXES (CONT'D)

Royal Host has estimated its temporary differences and the periods in which these differences will reverse. A future tax liability has been recognized in respect of those differences expected to reverse after January 1, 2011. Royal Host's net future income tax liability is comprised of the following:

	2010	2009
	\$	\$
Hotel properties	2,602	5,483
Property held for sale	(547)	-
Debt issuance costs	769	846
Intangible assets	(174)	(20)
	<b>2,650</b>	<b>6,309</b>

As at December 31, 2010, Royal Host had income tax losses carried forward of \$2,920 for which no future tax asset has been recognized. These losses are available to reduce taxable income of Royal Host in future years. If unused, these losses will expire in 2030. Royal Host also has deductible temporary differences in the amount of \$13,929 for which no future tax asset has been recognized.

## 13. UNITHOLDERS' EQUITY

### (a) Trust Units

As at December 31, 2010, a total of 17,650,478 trust units (December 31, 2009 – 18,304,670) were issued and outstanding.

### (b) Employee Unit Purchase Program

As at December 31, 2010, nil units (December 31, 2009 – 52,500 units) were allotted pursuant to Royal Host's Employee Unit Purchase Program. During the year ended December 31, 2010, 6,390 units were cancelled pursuant to Royal Host's Employee Unit Purchase Program (2009 – 10,154).

The Employee Unit Purchase Program was terminated in 2010. Royal Host collected outstanding loans in 2010 made to employees who purchased units through this plan in the amount of \$34. Royal Host has net outstanding loans receivable of \$nil at December 31, 2010 (December 31, 2009 - \$72) with respect to the program.

## 14. NORMAL COURSE ISSUER BIDS AND SUBSTANTIAL ISSUER BID

### Normal Course Issuer Bid

Commencing on January 12, 2010, Royal Host initiated a normal course issuer bid ("NCIB") to repurchase a maximum of 1.3 million of its issued and outstanding trust units. During the year ended December 31, 2010, Royal Host repurchased 620,000 units with an aggregate cost of \$1,411 (average price of \$2.28 per unit) pursuant to this bid. Of the units repurchased, 71,300 were cancelled subsequent to year end. Subsequent to December 31, 2010, Royal Host repurchased 34,000 units pursuant to this bid.

Subsequent to December 31, 2010, Royal Host initiated a NCIB commencing January 12, 2011 to repurchase a maximum of 1.3 million of its issued and outstanding trust units. There have been 122,500 units repurchased to date.

Commencing on January 12, 2009, Royal Host initiated a NCIB to repurchase a maximum of 1.5 million of its issued and outstanding trust units. During the year ended December 31, 2009, Royal Host repurchased 1.4 million units with an aggregate cost of \$3,931 (average price of \$2.77 per unit) pursuant to this bid.

## 14. NORMAL COURSE ISSUER BIDS AND SUBSTANTIAL ISSUER BID (CONT'D)

### Substantial Issuer Bid

On November 4, 2009, Royal Host initiated a substantial issuer bid ("SIB"), pursuant to which Royal Host offered to purchase for cancellation up to 5 million of its issued and outstanding trust units at a price of \$2.45 per trust unit. The offer remained open for acceptance until December 14, 2009 and unitholders tendered 1.2 million units which Royal Host purchased and cancelled. At December 14, 2009, Royal Host extended the offer to remain open for acceptance until January 11, 2010. Unitholders tendered a further 0.1 million units during the extension period which Royal Host purchased and cancelled.

## 15. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes the following:

	2010	2009
	\$	\$
Unrealized losses on available-for-sale securities	1,774	10,171
Other than temporary impairment on available-for-sale securities transferred to net loss	461	4,009
Realized gains on available-for-sale securities transferred to net loss	(12,378)	(4,037)
Other comprehensive income (loss)	(10,143)	10,143

## 16. PER UNIT CALCULATIONS

As at December 31, 2010, a total of 17,650,478 trust units (December 31, 2009 – 18,304,670) were issued and outstanding.

	2010			2009		
	Loss	Weighted Average Units (in thousands)	Per unit amount	Loss	Weighted Average Units (in thousands)	Per unit amount
	\$	#	\$	\$	#	\$
Basic and diluted earnings (loss) per unit						
Loss from continuing operations	(1,651)	18,093	(0.09)	(1,426)	19,748	(0.07)
Loss from discontinued operations	(1,078)	18,093	(0.06)	(23)	19,748	-
Basic and diluted earnings (loss) per unit	(2,729)	18,093	(0.15)	(1,449)	19,748	(0.07)

The diluted earnings per unit for the year ended December 31, 2010 and December 31, 2009 include no trust units issuable on the conversion of any convertible unsecured subordinated debentures because all of the conversions are anti-dilutive.

## 17. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
	\$	\$
<b>Adjustments for items not involving cash</b>		
Depreciation and amortization	12,592	12,899
Impairment of intangible assets	601	-
Future income tax recovery (note 12)	(3,660)	(1,831)
Unrealized gains on held-for-trading securities	-	(195)
Other than temporary impairment on marketable securities	461	4,009
Realized gains on available-for-sale securities	(12,378)	(4,037)
Gain on convertible debenture repurchases	(793)	(1,933)
Accretion on mortgages and capital leases	346	260
Accretion on convertible debentures	1,160	1,150
<b>Adjustments for items not involving cash</b>	<b>(1,671)</b>	<b>10,322</b>
	2010	2009
	\$	\$
<b>Net changes in non-cash working capital balances</b>		
<b>Decrease (increase) in:</b>		
Accounts, notes, and distributions receivable	264	166
Prepaid expenses	1,305	(138)
Inventories	(226)	80
	<b>1,343</b>	<b>108</b>
<b>Increase (decrease) in:</b>		
Accounts payable and accrued liabilities	869	(1,759)
Equity distributions payable	-	(683)
Interest accrued on convertible debentures	(50)	(150)
Deferred revenue	154	53
	<b>973</b>	<b>(2,539)</b>
<b>Net change in non-cash working capital balances</b>	<b>2,316</b>	<b>(2,431)</b>

## 18. DISTRIBUTIONS

During the year ended December 31, 2010, Royal Host declared monthly distributions on or about the 15<sup>th</sup> of the month to Unitholders of record on or about the last business day of the month. Monthly distributions for January through November 2010 were paid on or about the 15<sup>th</sup> day of the following month. The December 2010 distribution was paid out on December 30, 2010 to ensure all 2010 distributions were fully paid out prior to the reorganization of Royal Host into a corporation, effective January 1, 2011.

Royal Host's revenue and profitability are typically higher in the second and third quarters, as compared to the first and fourth quarters. Therefore, cash flows from operating activities are not generated evenly throughout the year. The board of Trustees determines monthly distributions to Unitholders based on, among other considerations, annual performance, projected cash flows, capital commitments and working capital requirements. The objective is to set the distribution at a level that will be sustainable over a longer period. The terms of the distribution are set by the declaration of trust. In each year, the aggregate amount payable by royal host for distribution to Unitholders shall not be less than royal host's income for the year, as calculated in accordance with the income tax act (Canada).

## 19. RELATED PARTY TRANSACTIONS

At December 31, 2010, Clarke Inc. owned approximately 5.294 million (30%) of Royal Host's issued and outstanding trust units and, as such, is a related party (December 31, 2009 – 5.294 million (29%)).

During 2010, Royal Host incurred professional and management fees of \$1,396 for services supplied by Clarke Inc. (2009 - \$848). As at December 31, 2010, \$57 was owing in respect of these fees (December 31, 2009 - \$458).

During 2010, Royal Host incurred leasing costs for office space provided by a Company controlled by a Trustee of Royal Host of \$55 (2009 - \$nil). As at December 31, 2010, \$nil was owing in respect of these fees (December 31, 2009 - \$nil).

## 20. RESTRUCTURING COSTS

During the year ended December 31, 2010 Royal Host incurred costs to outsource the management of certain hotel properties, consolidate office space and complete the conversion to a corporation, collectively referred to as restructuring costs. Costs for these purposes have been expensed as incurred. At December 31, 2010 approximately \$1,600 (2009 - nil) is included in accounts payable and accrued liabilities with respect to these costs.

## 21. CAPITAL MANAGEMENT

Royal Host's capital structure consists of:

	2010	2009
	\$	\$
Bank indebtedness	13,786	881
Mortgages	44,311	80,224
Convertible debentures	144,553	147,292
Total debt	202,650	228,397
Unitholders' equity	6,952	26,986
Total capitalization	209,602	255,383

Royal Host's primary objective for managing capital is to maximize long-term Unitholder value by:

- (i) providing sufficient capital to provide sustainable cash distributions to Unitholders and fund operations and capital expenditures;
- (ii) maintain adequate financial flexibility to fund attractive investment opportunities that may arise;
- (iii) maintain a strong financial position; and
- (iv) maintain a low cost of debt.

Royal Host relies on its cash flow from operations to fund distributions to Unitholders, capital expenditures and the extinguishment of principal and interest obligations associated with debt. This cash flow is supplemented, when necessary, by the issuance of its securities, drawing on available credit facilities and/or the selling of assets. Royal Host sets distributions at a sustainable level as determined by the Trustees based on, among other considerations, annual performance, projected cash flows, capital requirements and working capital requirements.

Royal Host monitors key short-term and long-term capital ratios including interest coverage (cash flow from operations to interest), net debt to cash flow from operations, and net debt to total capitalization. Royal Host's long-term debt obligations have certain covenants concerning debt service coverage, compliance with the Trust's Declaration of Trust, and replacement reserves. The covenants remain unchanged from December 31, 2009 and Royal Host is in compliance with those covenants. Royal Host's credit facility has certain debt covenants concerning debt service coverage and total debt to earnings ratios. Royal Host is in compliance with these covenants as of December 31, 2010. Royal Host has complied with all externally imposed capital restrictions.

## 21. CAPITAL MANAGEMENT (CONT'D)

The Declaration of Trust under which Royal Host was formed provides that indebtedness (defined to exclude convertible debentures) is not permitted to exceed 45% of gross book value (defined as the book value of Royal Host's assets plus certain accumulated depreciation balances). As at December 31, 2010, Royal Host's indebtedness excluding convertible debentures was 19.6% of gross book value (December 31, 2009 – 23.3%).

The Declaration of Trust under which Royal Host was formed, provides that no more than 49% of the Units of Royal Host can be held by non-Canadian residents. The potential impact of exceeding this maximum foreign ownership may be the loss of mutual fund trust status, which may adversely impact the valuation of the Units. At December 31, 2010 and 2009, Royal Host's estimate of foreign ownership was less than 2.0%.

## 22. FINANCIAL INSTRUMENTS

Royal Host's financial instruments consist of marketable securities, accounts, notes, and distributions receivable, restricted cash, bank indebtedness, accounts payable and accrued liabilities, equity distributions payable, interest accrued on convertible debentures, mortgages, convertible debentures and capital leases.

### (a) Fair Values

The carrying value of marketable securities, accounts, notes and distributions receivable, restricted cash, bank indebtedness, accounts payable and accrued liabilities, equity distributions payable, interest accrued on convertible debentures, current portion of mortgages, and current portion of capital leases approximates their fair market value.

The fair value of the non-current portion of mortgages and capital leases is set out below and is estimated using discounted cash flow analyses based on discount rates that reflect current market conditions for instruments with similar terms and risks. The fair value of convertible debentures is based on the quoted market price for these securities, as the value of the equity component is considered to be insignificant. The fair market value of marketable securities are based on the quoted market prices at the balance sheet date.

	2010		2009	
	\$		\$	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgages	31,834	31,999	23,463	26,868
Convertible debentures	144,553	124,237	147,292	101,570
Capital leases	33	33	108	108
Marketable securities available-for-sale	1,886	1,886	39,409	39,409

Fair value estimates are made at a specific point in time based on relevant market information. These are estimates and involve uncertainties and matters of significant judgement and cannot be determined with precision. Changes in assumptions and estimates could significantly affect fair values.

### Fair Value Hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets and liabilities.

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – valuation techniques with significant unobservable market inputs.

## 22. FINANCIAL INSTRUMENTS (CONT'D)

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheets as at December 31, 2010, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3
	\$	\$	\$
Marketable securities	1,886	-	-

### (b) Credit Risk

As at December 31, 2010, Royal Host had accounts, notes, and distributions receivable of \$4,446 (December 31, 2009 - \$4,710), net of allowances for doubtful accounts of \$292 (December 31, 2009 - \$105), estimated by management based on prior collectability and assessment of overall credit risk. Management does not believe Royal Host is subject to any significant credit risk. Credit risk arising from trade receivables are minimized, as amounts due from any one debtor are not significant and routine credit assessments are carried out prior to credit being granted.

As at December 31, 2010, the accounts and notes receivable include \$2,014 of accounts receivables over 30 days (December 31, 2009 - \$1,570). The average days outstanding for accounts receivable past due are 111 days (December 31, 2009 - 94 days).

### (c) Interest Rate and Liquidity Risk

Interest rate risk is continually monitored and managed through limiting the amount of variable rate debt as well as the total amount of debt. As at December 31, 2010, Royal Host had variable interest rate debt of \$13,786 outstanding (December 31, 2009 - \$881). Based on Royal Host's December 31, 2010 level of variable interest rate debt, a 1% change in interest rates would change the net loss by \$138 (December 31, 2009 - \$9).

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to fund operations, working capital and to refinance debts as they mature. Royal Host has one mortgage scheduled to mature on November 1, 2011 with \$11,396 due at maturity. Royal Host's planned actions with respect to liquidity requirements include refinancing maturing debt in whole or part, debt financing on other unencumbered properties and the sale of certain properties.

As at December 31, 2010, Royal Host's mortgages had a weighted average maturity of 2.0 years (December 31, 2009 - 1.2 years) and convertible debentures had a weighted average maturity of 3.7 years (December 31, 2009 - 4.6 years).

### (d) Market Risk

Marketable securities include both available-for-sale and assets held-for-trading. Royal Host has certain exposures to fluctuations in market prices of its financial instruments. Historical movements and volatilities in these market variables may significantly increase or decrease the value of Royal Host's financial instruments. Based on Royal Host's knowledge and experience of the financial markets, Royal Host believes the following movements are "reasonably possible" over a 12 month period. Fluctuations in market prices over the amounts presented below are possible. The information provided below is for presentation purposes only and does not represent an estimate of expected volatility in its financial instruments.

Other price risk represents the risk of an increase or decrease in the trading price of marketable securities listed on the TSX.

If these movements were to occur, the impact on the consolidated statements of net loss and comprehensive income would be as follows:

## 22. FINANCIAL INSTRUMENTS (CONT'D)

	Carrying Amount	Other Price Risk (+10%) Other Comprehensive Income	(-10%) Other Comprehensive Income*
Marketable securities			
Available-for-sale	1,886	189	(189)
Total marketable securities	1,886	189	(189)

\* - assuming no other than temporary impairments

## 23. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Operating lease commitments

Royal Host has lease commitments related to property and equipment. At December 31, 2010 future minimum annual lease payments are as follows:

	\$
2011	513
2012	474
2013	406
2014	388
2015	312
Thereafter	-
	2,093

Under the terms of the hotel franchise agreements expiring at various dates through July 12, 2022, annual payments for franchise expenses (including fees, reservation and advertising services) are due to franchise brands for 29 of the 31 hotels owned by Royal Host (2009 - 29 of the 31 hotels). The franchise royalties and membership fees paid to external parties are calculated based upon percentages of defined revenue.

### Contingencies

In the normal course of business, Royal Host may provide indemnification to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements may require Royal Host to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by counterparties as a consequence of the transaction. The terms of these indemnification agreements may vary based on the contract and may not provide any limit on the maximum potential liability. To date, Royal Host has not made any significant payments under such indemnifications and no amount has been accrued in the financial statements with respect to these indemnification agreements.

### Guarantees

In the normal course of business, Royal Host may enter into various agreements that may meet the definition of a guarantee pursuant to CICA Accounting Guideline 14 "Disclosure of Guarantees" ("AcG-14"). AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires Royal Host to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or, (iii) failure of a third party to pay its indebtedness when due. To date, Royal Host has not made any significant payments under agreements that may meet the definition of a guarantee and no amounts have been accrued in the financial statements with respect to such agreements.

## 24. SUBSEQUENT EVENT

On January 1, 2011, the plan of arrangement (the "Arrangement") providing for the reorganization of Royal Host Real Estate Investment Trust's (the "Trust") trust structure into a public corporation named "Royal Host Inc." was completed. The Arrangement was completed under the Canada Business Corporations Act in accordance with the final order of the Supreme Court of Nova Scotia. Unitholders of Royal Host approved the Arrangement on December 15, 2010. The business of Royal Host will continue to be carried on by the Corporation. The trustees and senior management of Royal Host are now the directors and senior management of the Corporation. Under the Arrangement, unitholders of Royal Host received, for each unit of Royal Host held (a "Unit"), one common share (a "Common Share") of the Corporation. The Common Shares commenced trading on the Toronto Stock Exchange under the symbol "RYL" on January 4, 2011, at which time the Units were delisted from the Toronto Stock Exchange. As part of the Arrangement, Royal Host was dissolved and the Corporation assumed all of the covenants and obligations of Royal Host in respect of the outstanding 6.00% Convertible Unsecured Subordinated Debentures due October 31, 2015, the 6.25% Convertible Unsecured Subordinated Debentures due September 30, 2013, and the 5.90% Convertible Unsecured Subordinated Debentures due June 30, 2014 (collectively, the "Debentures"). The Debentures are direct obligations of the Corporation, following the completion of the Arrangement, and will continue to have substantially the same terms and conditions, with the automatic adjustment that they will be convertible into Common Shares in accordance with their terms.

## **Investor Information**

Royal Host is a diversified hospitality company that delivers Shareholder value through hotel ownership, investment and franchising. Royal Host's hotel portfolio is further enhanced by a stable franchising business and a portfolio of publicly-traded securities from within the hospitality and service sectors.

### **Annual General Meeting**

The annual meeting of shareholders will be held in Halifax on June 3<sup>rd</sup>, 2011 at 2:00pm.

### **Registrar and Transfer Agent**

Computershare Trust Company of Canada  
1969 Upper Water Street  
Purdy's Wharf Tower 2  
Suite 2008  
Halifax, Nova Scotia B3J 3R7  
Web: [www.computershare.com](http://www.computershare.com)

### **Bankers**

HSBC Bank Canada  
70 York Street, 2<sup>nd</sup> Floor  
Toronto, ON M5J 1S9

### **Legal Counsel**

McInnes Cooper  
1300-1969 Upper Water Street  
Halifax, Nova Scotia  
Canada, B3J 3R7

### **Auditors**

PriceWaterhouseCoopers LLP  
1601 Lower Water Street Suite 400  
Halifax, NS B3J 3P6

### **Investor Contact**

EMAIL: [INVESTORINFO@ROYALHOST.COM](mailto:INVESTORINFO@ROYALHOST.COM)

### **Financial Calendar**

The Company's year end is December 31<sup>st</sup>. Quarterly reports are available in June, August and November.

### **Stock Exchange**

Royal Host securities trade on The Toronto Stock Exchange under the symbols RYL, RYL.DB.B, RYL.DB.C and RYL.DB.D.

### **Corporate Office**

6009 Quinpool Road, 10<sup>th</sup> Floor  
Halifax, NS B3K 5J7  
Telephone: 902 442 0327  
Fax: 902 423 4001

# ROYAL HOST

**Royal Host Inc.**

**10th Floor**

**6009 Quinpool Road**

**Halifax, Nova Scotia**

**B3K 5J7**

**[www.royalhost.com](http://www.royalhost.com)**