



ROYAL HOST REAL ESTATE INVESTMENT TRUST

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL CONDITION**

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

The following Management's Discussion and Analysis of Operations and Financial Condition ("MD&A") dated August 2, 2006 is the responsibility of Management. The Board of Trustees carries out its responsibility for review of this MD&A principally through its Audit Committee.

This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and notes of Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") for the three and six months ended June 30, 2006 and the annual consolidated financial statements and accompanying MD&A for the year ended December 31, 2005. The unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Trust's audited consolidated financial statements for the year ended December 31, 2005.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, including those in the Outlook section, relate to periods commencing after June 30, 2006 and contain estimates or assumptions about the outcome of future events. These 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 below. Royal Host does not undertake to update such forward-looking statements should its estimates or assumptions change, except as required by law. Additional information relating to Royal Host, including its Annual Information Form, is available at www.sedar.com.

HIGHLIGHTS

The Trust continued to deliver strong results in the second quarter of 2006. Increases in RevPAR translated into improved revenue and gross margin.

- Average Daily Rate for the three months increased 4.7% and for the six months increased 4.4%.
- Revenue per Available Room for the three months increased 2.6% to \$66.81 (2005 - \$65.12) and for the six months increased 5.0% to \$61.45 (2005 - \$58.51).
- Strong revenue translated into a 2.3% increase in gross margin for the three months to 31.5% (2005 - 30.8%), and a 4.5% increase in gross margin for the six months to 27.7% (2005 - 26.5%).
- Basic per unit cash available for distribution for the three months increased by 11.1% to \$0.20 (2005 - \$0.18) and for the six months increased by 46.7% to \$0.22 (2005 - \$0.15).
- Distributions to Unitholders for the three months increased by 33.3% to \$0.12 per unit (2005 - \$0.09 per unit) and for the six months increased by 27.8% to \$0.23 (2005 - \$0.18).

SELECTED FINANCIAL INFORMATION

(\$000's, except as otherwise noted)	Three months ended June 30			Six months ended June 30		
	2006	2005	Change (%)	2006	2005	Change (%)
Hospitality Revenue (continuing operations)						
Rooms	26,966	26,403	2.1	49,523	47,161	5.0
Food and Beverage	7,207	7,324	(1.6)	12,976	12,827	1.2
Other	4,666	4,271	9.2	8,507	8,085	5.2
	<u>38,839</u>	<u>37,998</u>	2.2	<u>71,006</u>	<u>68,073</u>	4.3
Gross Margin	<u>12,247</u>	<u>11,718</u>	4.5	<u>19,682</u>	<u>18,028</u>	9.1
Gross Margin %	<u>31.5</u>	<u>30.8</u>	2.3	<u>27.7</u>	<u>26.5</u>	4.5
Net Earnings (Loss)						
From Continuing Operations	2,673	2,528		719	(610)	
From Discontinued Operations	(83)	(214)		(155)	(323)	
	<u>2,590</u>	<u>2,314</u>		<u>564</u>	<u>(933)</u>	
Basic and Diluted Per Unit Net Earnings (Loss) (\$)						
From Continuing Operations	0.10	0.09		0.03	(0.04)	
From Discontinued Operations	-	(0.01)		(0.01)	(0.01)	
	<u>0.10</u>	<u>0.08</u>		<u>0.02</u>	<u>(0.05)</u>	
Cash Available From Operations	<u>6,533</u>	<u>5,938</u>	10.0	<u>8,209</u>	<u>6,220</u>	32.0
Cash Available For Distribution	<u>5,166</u>	<u>4,589</u>	12.6	<u>5,709</u>	<u>3,820</u>	49.5
Basic Per Unit Cash Available For Distribution (\$)	<u>0.20</u>	<u>0.18</u>	11.1	<u>0.22</u>	<u>0.15</u>	46.7
Diluted Per Unit Cash Available For Distribution (\$)	<u>0.17</u>	<u>0.16</u>	6.3	<u>0.22</u>	<u>0.15</u>	46.7
Distributions Declared on Trust Units	<u>3,079</u>	<u>2,353</u>	30.9	<u>5,921</u>	<u>4,575</u>	29.4
Per Unit Distributions Declared (\$)	<u>0.12</u>	<u>0.09</u>	33.3	<u>0.23</u>	<u>0.18</u>	27.8
Weighted Average Number of Trust Units (000's)	<u>25,890</u>	<u>25,894</u>		<u>26,062</u>	<u>25,257</u>	

OVERVIEW

Royal Host's core businesses are hotel ownership, management and franchising. As at June 30, 2006, Royal Host owned 37 hotels (comprising 4,500 rooms), managed an additional 89 properties (8 in Canada, 79 in the United States and 2 in Mexico) for third-parties, and franchised 111 locations (including 16 owned by the Trust) under the Travelodge and Thriftlodge banners, for a total of 18,000 guestrooms in the mid-market and upscale hospitality segments.

Royal Host's vision is to be considered by all stakeholders as one of the leading mid-market hotel companies in North America. This vision will be achieved by focusing on a commitment to building a strong foundation and managing for results.

NON-GAAP FINANCIAL MEASURES

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

This MD&A incorporates the following non-GAAP financial measures: Average Daily Rate (“ADR”), Occupancy, Revenue per Available Room (“RevPAR”), Cash Available from Operations, Cash Available for Distribution, Basic and Diluted Per Unit Cash Available from Operations and Basic and Diluted Per Unit Cash Available for Distribution. The Trust’s definition of these financial measures and, where applicable, a reconciliation to earnings (loss) is set out below.

Key Performance Drivers and Measures

The hospitality industry and hotel real estate investment trusts commonly use three non-GAAP financial measures as key indicators of financial performance:

- Occupancy, which measures the level of hotel room utilization and is calculated by dividing the number of rooms available in a given time period into the number of rooms actually rented in the same period;
- 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; and
- 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 time period into the room revenue in the same period.

Room Statistics – Total

The following table sets Royal Host’s Occupancy, ADR and RevPAR for the periods indicated:

	Q2 2006	Q2 2005	Change (%)	YTD 2006	YTD 2005	Change (%)
CONTINUING OPERATIONS						
Occupancy	67.7%	69.1%	(2.0)	64.5%	64.1%	0.6
ADR	\$98.71	\$94.29	4.7	\$95.24	\$91.23	4.4
RevPAR	\$66.81	\$65.12	2.6	\$61.45	\$58.51	5.0
TOTAL OPERATIONS						
Occupancy	66.7%	68.1%	(2.1)	63.6%	62.4%	1.9
ADR	\$98.54	\$94.14	4.7	\$95.11	\$90.81	4.7
RevPAR	\$65.77	\$64.13	2.6	\$60.47	\$57.01	6.1

The second quarter of 2006 saw RevPAR from continuing operations increase by 2.6%, attributable to a \$4.42 or 4.7% increase in ADR offset by a 2.0% decrease in Occupancy. Year-to-date RevPAR from continuing operations grew by 5.0% in 2006, attributable to a \$4.01 or 4.4% increase in ADR and a 0.6% increase in Occupancy.

Room Statistics – By Region (Continuing Operations)

	Q2 2006	Q2 2005	Change (%)	YTD 2006	YTD 2005	Change (%)
ONTARIO (58% of Rooms Revenue)						
Occupancy	68.0%	68.0%	-	64.8%	63.3%	2.4
ADR	\$98.23	\$95.70	2.6	\$97.84	\$94.96	3.0
RevPAR	\$66.83	\$65.11	2.6	\$63.42	\$60.14	5.5
WESTERN (36% of Rooms Revenue)						
Occupancy	65.3%	68.5%	(4.7)	62.8%	63.9%	(1.7)
ADR	\$102.82	\$95.08	8.1	\$94.26	\$88.56	6.4
RevPAR	\$67.13	\$65.11	3.1	\$59.24	\$56.55	4.8
ATLANTIC (6% of Rooms Revenue)						
Occupancy	73.2%	76.8%	(4.7)	66.8%	67.6%	(1.2)
ADR	\$88.47	\$86.17	2.7	\$85.76	\$83.58	2.6
RevPAR	\$64.76	\$66.17	(2.1)	\$57.31	\$56.52	1.4

The Trust’s Ontario region produced generally healthy rooms revenue, including strong results from the London Hilton in London, Ontario. The Grand Okanagan Lakefront Resort and Conference Centre in Kelowna, British Columbia, the Best Western Village Park Inn in Calgary, Alberta and the Holiday Inn (The Palace) in Edmonton, Alberta produced strong results in the Trust’s Western region. Conversely, three of the Trust’s Southern Alberta

limited service hotels and the Yellowknife Inn in Yellowknife, Northwest Territories produced relatively weak rooms revenue.

Cash Available from Operations and Cash Available for Distribution

(\$000's, except as otherwise noted)	Three months ended June 30			Six months ended June 30		
	2006	2005	Change (%)	2006	2005	Change (%)
Earnings (Loss) From Continuing Operations	2,673	2,528		719	(610)	
Add (Deduct):						
Depreciation and Amortization	3,832	3,717		7,645	7,516	
Property Impairment Provision	-	-		-	390	
Future Income Taxes (Recovery)	67	(11)		-	(356)	
Cash Available From Continuing Operations	6,572	6,234	5.4	8,364	6,940	20.5
Cash Available From Discontinued Operations	(39)	(202)		(155)	(342)	
	<u>6,533</u>	<u>6,032</u>	8.3	<u>8,209</u>	<u>6,598</u>	24.4
Less: Distributions on Redeemable Partnership Units	-	(94)		-	(378)	
Cash Available From Operations	6,533	5,938	10.0	8,209	6,220	32.0
Less: Allowance for Maintenance Capital	(1,367)	(1,349)		(2,500)	(2,400)	
Cash Available For Distribution	5,166	4,589	12.6	5,709	3,820	49.5
Distributions Declared	3,079	2,353	30.9	5,921	4,575	29.4
Basic Per Unit Cash Available From Operations (\$)	0.25	0.23	8.7	0.32	0.25	28.0
Diluted Per Unit Cash Available From Operations (\$)	0.20	0.20	-	0.28	0.24	16.7
Basic Per Unit Cash Available For Distribution (\$)	0.20	0.18	11.1	0.22	0.15	46.7
Diluted Per Unit Cash Available For Distribution (\$)	0.17	0.16	6.3	0.22	0.15	46.7
Per Unit Distributions Declared (\$)	0.12	0.09	33.3	0.23	0.18	27.8

Cash available for distribution for the three months ended June 30, 2006 increased by 12.6% to \$5.2 million (2005 - \$4.6 million). Cash available for distribution is calculated as cash available from operations less an allowance for maintenance capital. The Trust identifies a certain amount of its capital expenditure budget as maintenance capital, which is to be funded from cash available from operations. Maintenance capital is calculated as 4.0% of rooms and food and beverage revenue. A \$1.4 million allowance for maintenance capital was made in the second quarter of 2006 (2005 - \$1.3 million). Cash available for distribution for the six months ended June 30, 2006 increased by 49.5% to \$5.7 million (2005 - \$3.8 million).

Royal Host's Board of Trustees approves distributions based on, among other things, projected cash flows, capital commitments and working capital requirements. Royal Host pays monthly cash distributions to Unitholders of record on or about the 15th day of each month. Distributions are payable on or about the last business day of the month. In April 2006, as a direct result of improved results, the Trust increased monthly distributions per unit to \$0.04 from \$0.035.

Monthly distributions are based on overall annual performance and, accordingly, cash distributions will not equal cash available for distribution in any one quarter. The Trust anticipates paying distributions on an annualized basis at 90% to 95% of Cash Available for Distribution. During the second quarter of 2006, the Trust declared distributions on trust units of \$3.1 million, an increase of 30.9% over the \$2.4 million declared in 2005. During the six months ended June 30, 2006, the Trust declared distributions on trust units of \$5.9 million, an increase of 29.4% (2005 - \$4.6 million).

During the second quarter of 2006, the Trust used cash on hand to make debt principal repayments of \$8.9 million, including the repayment of an \$8.0 million mezzanine loan related to the Royal Private Residence Club. The total amount of funds used for capital investment was \$2.1 million, funded from cash from operations and restricted cash. In total, during the six months ended June 30, 2006, the Trust made debt principal repayments of \$9.7 million and \$3.4 million for capital investment.

SEASONALITY

The hospitality industry business is seasonal in nature. The Trust's revenue and profitability are typically stronger in the second and third quarters, as compared to the first and fourth quarters.

THREE MONTHS ENDED JUNE 30, 2006 (Continuing Operations)

Hospitality Revenue

Hospitality revenue from continuing operations in the second quarter of 2006 increased by \$0.8 million to \$38.8 million (2005 - \$38.0 million).

Three months ended June 30 (\$000's, except as otherwise noted)	2006	2005	Change	Change (%)
Hospitality Revenue (continuing operations)				
Rooms	26,966	26,403	563	2.1
Food and Beverage	7,207	7,324	(117)	(1.6)
Other	4,666	4,271	395	9.2
	<u>38,839</u>	<u>37,998</u>	<u>841</u>	<u>2.2</u>

Rooms revenue increased \$0.6 million, or 2.1%, to \$27.0 million (2005 - \$26.4 million), a product of the 4.7% increase in ADR to \$98.71 (2005 - \$94.29), and the 2.0% decrease in Occupancy to 67.7% (2005 - 69.1%). The increase in ADR is a result of Management's continued focus on managing room rate yield and improving overall industry rates. The Trust's Ontario region produced generally healthy rooms revenue, including strong results from the London Hilton. The Grand Okanagan Lakefront Resort and Conference Centre, the Best Western Village Park Inn and the Holiday Inn (The Palace) produced strong results in the Trust's Western region, whereas rooms revenue decreased in 2006 at three of the Trust's Southern Alberta limited service hotels and the Yellowknife Inn.

Food and beverage revenue was steady at \$7.2 million (2005 - \$7.3 million).

Other hospitality revenue increased \$0.4 million, or 9.2%, to \$4.7 million (2005 - \$4.3 million), attributable in part to the increase in third-party management fees. Travelodge franchise fees were relatively unchanged from 2005.

Hospitality Expenses

Three months ended June 30 (\$000's, except as otherwise noted)	2006	2005	Change	Change (%)
Hospitality Expenses	26,592	26,280	312	1.2

Total hospitality expenses increased \$0.3 million, or 1.2%, to \$26.6 million (2005 - \$26.3 million). Hospitality expenses decreased as a percentage of hospitality revenue to 68.5% (2005 - 69.2%), reflecting Management's continuing focus on operations and the success of the operations managers in managing costs. Utility costs for the quarter decreased modestly from 2005.

Gross Margin

Three months ended June 30 (\$000's, except as otherwise noted)	2006	2005	Change	Change (%)
Gross Margin	12,247	11,718	529	4.5

Gross margin increased \$0.5 million, or 4.5%, to \$12.2 million in 2006, which compares to \$11.7 million in 2005, as a result of the higher overall revenue and lower incremental hospitality expenses. Gross margin as a percentage of hospitality revenue improved by 2.3% to 31.5% (2005 - 30.8%).

Other Expenses

Other expenses increased \$0.4 million to \$9.6 million (2005 - \$9.2 million). Mortgage repayments in 2005 resulted in a \$0.7 million decrease in interest on mortgages and capital leases. This was offset by an increase in convertible debenture interest of \$0.8 million, a result of the \$60 million debenture issued in the fourth quarter of 2005. Trust administration decreased to \$0.5 million (2005 - \$0.6 million). The Trust recorded a future income tax expense of \$0.1 million (2005 - \$Nil) and a \$0.1 million loss on foreign currency translation (2005 - \$0.1 million gain).

Net Earnings

An improved gross margin generated by strong revenue growth was offset modestly by an unfavourable change in foreign currency translation, resulting in a \$0.1 million increase in earnings from continuing operations to \$2.7 million (2005 - \$2.5 million). Net earnings from total operations in 2006 increased to \$2.6 million, compared to net earnings from total operations of \$2.3 million in 2005.

SIX MONTHS ENDED JUNE 30, 2006 (Continuing Operations)

Hospitality Revenue

Hospitality revenue from continuing operations for the six months of 2006 increased by \$2.9 million to \$71.0 million (2005 - \$68.1 million).

Six months ended June 30 (\$000's, except as otherwise noted)	2006	2005	Change	Change (%)
Hospitality Revenue (continuing operations)				
Rooms	49,523	47,161	2,362	5.0
Food and Beverage	12,976	12,827	149	1.2
Other	8,507	8,085	422	5.2
	<u>71,006</u>	<u>68,073</u>	<u>2,933</u>	<u>4.3</u>

Rooms revenue increased \$2.4 million, or 5.0%, to \$49.5 million (2005 - \$47.2 million), a result of the 4.4% increase in ADR to \$95.24 (2005 - \$91.23), and the 0.6% increase in Occupancy to 64.5% (2005 - 64.1%). The increase in ADR is a result of Management's continued focus on managing room rate yield and improving overall industry rates. The Grand Okanagan Resort and Conference Centre, the London Hilton, the Best Western Village Park Inn and the Holiday Inn (The Palace) produced particularly strong results, while the Yellowknife Inn and the Trust's Southern Alberta limited service hotels generated lower rooms revenue in 2006.

Food and beverage revenue increased \$0.1 million, or 1.2%, to \$13.0 million (2005 - \$12.8 million).

Other hospitality revenue increased \$0.4 million, or 5.2%, to \$8.5 million (2005 - \$8.1 million), attributable in part to an increase in third-party management fees. Travelodge franchise fees were relatively unchanged from 2005.

Hospitality Expenses

Six months ended June 30 (\$000's, except as otherwise noted)	2006	2005	Change	Change (%)
Hospitality Expenses	51,324	50,045	1,279	2.6

Total hospitality expenses increased \$1.3 million, or 2.6%, to \$51.3 million (2005 - \$50.0 million). Hospitality expenses decreased as a percentage of hospitality revenue to 72.3% (2005 - 73.5%). Utility costs for the period decreased modestly from 2005.

Gross Margin

Six months ended June 30 (\$000's, except as otherwise noted)	2006	2005	Change	Change (%)
Gross Margin	19,682	18,028	1,654	9.2

Gross margin increased \$1.7 million, or 9.2%, to \$19.7 million in 2006, which compares to \$18.0 million in 2005, as a result of the higher overall revenue and lower incremental hospitality expenses. Gross margin as a percentage of hospitality revenue, improved by 4.5% to 27.7% (2005 - 26.5%).

Other Expenses

Other expenses increased \$0.3 million. Interest on mortgages and capital leases decreased \$1.5 million and convertible debenture interest increased \$1.7 million. Trust administration decreased to \$1.0 million (2005 - \$1.2 million). The Trust recorded a future income tax expense of \$Nil in 2006, whereas 2005 included a \$0.4 million future income tax recovery. 2006 also excluded a property impairment provision, whereas 2005 included a \$0.4 million provision for the Lethbridge, Alberta property.

Net Earnings

The Trust's earnings from continuing operations for the six months ended June 30, 2006 of \$0.7 million was a significant improvement over the \$0.6 million loss from continuing operations for the six months ended June 30, 2005. Net earnings from total operations was \$0.6 million, compared to a net loss from total operations of \$0.9 million in 2005.

DISCONTINUED OPERATIONS

Discontinued operations consist primarily of two properties. On February 23, 2005, Royal Host sold the Travelodge North York hotel, and Royal Host continues to actively seek a buyer for its 95-room Travelodge Orillia. Revenue from discontinued operations for the three months ended June 30, 2006 was \$0.2 million, attributable entirely to the Travelodge Orillia (2005 - \$0.2 million). The loss from discontinued operations for the three and six months ended June 30, 2006, respectively, was \$0.1 million (2005 - \$0.2 million) and \$0.2 million (2005 - \$0.3 million).

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2006, the Trust has cash and short-term investments of \$9.9 million and undrawn credit facilities of \$12.0 million. In addition, the Trust has restricted cash as at June 30, 2006 of \$5.3 million (December 31, 2005 - \$6.0 million). Restricted cash consists primarily of funds held by lenders pursuant to financing arrangements for future planned capital expenditures. The Trust has invested a total of \$27.9 million in the Royal Private Residence Club ("PRC"). It is expected that this investment will be realized in the third quarter of 2006. Royal Host's liquid resources, together with its future cash flows, are expected to be sufficient to fund anticipated cash requirements over the next year.

The 9.25% convertible debentures mature in March 2007 and, accordingly, have been classified as a current liability as at June 30, 2006. The Trust has the financial capacity to repay this obligation when it matures.

Financing Activities

As at June 30, 2006, the Trust's mortgages totalled \$135.8 million (December 31, 2005 - \$145.2 million). The current portion of mortgages consists of a \$7.4 million construction loan related to PRC and \$3.0 million related to other mortgages. The construction loan commitment was reduced from \$20.0 million to \$10.0 million in the second quarter of 2006. Subsequent to June 30, 2006, the \$7.4 million construction loan was repaid in full.

The following tables identify Royal Host's mortgages, obligations under capital leases and convertible debentures and the amounts due during the periods indicated:

Mortgages and Leases

As at June 30, 2006 (\$000's)	Total	2007	2008	2009	2010	2011	Thereafter
Mortgages	135,785	10,392	3,214	3,442	59,725	35,590	23,422
Obligations Under Capital Leases	815	404	375	36	-	-	-

Convertible Debentures

(\$000's)	June 30, 2006	December 31, 2005	Maturity Date	Conversion Price
9.25% Convertible Unsecured Subordinated	38,912	39,712	March 2007	\$7.00
7.90% Convertible Unsecured Subordinated, Series A	35,000	35,000	April 2009	\$6.00
6.00% Convertible Unsecured Subordinated, Series B	58,401	58,340	October 2015	\$6.85
	<u>132,313</u>	<u>133,052</u>		

As at June 30, 2006, the average maturity of mortgages was 4.3 years, the average maturity of convertible debentures was 5.1 years, and the average maturity of mortgages and convertible debentures was 4.7 years. As at June 30, 2006, Royal Host's overall debt had an average interest rate of 7.82% (December 31, 2005 - 7.83%).

Investing Activities

During the three and six months ended June 30, 2006, the Trust spent \$2.1 million and \$3.4 million, respectively, on capital expenditures (2005 - \$1.7 million and \$3.1 million, respectively). Significant capital expenditures in the second quarter of 2006 included improvements at several hotels including extensive guest room upgrades in the London Hilton and three of the Trust's limited service hotels, as well as exterior upgrades at several hotels.

The Trust's overall capital budget for 2006 is currently \$13.8 million. As at June 30, 2006, the Trust has spent \$3.4 million and made project commitments of an additional \$3.3 million. The remaining \$7.1 million has yet to be committed. Restricted cash, described above, is available for funding certain hotel capital expenditures. An estimated \$5.8 million of 2006 budgeted capital expenditures will be funded out of restricted cash. In addition to its allowance for maintenance capital of \$5.4 million, the Trust plans to invest funds in certain properties to improve their overall market position.

Property Under Development

Property under development relates to the PRC, a 70-unit luxury condominium development being developed adjacent to the Grand Okanagan Lakefront Resort and Conference Centre. The Trust invested \$4.4 million in the second quarter, bringing property under development as at June 30, 2006 to \$45.4 million. Construction of the residence units is expected to be completed in August 2006. As at June 30, 2006, 85% of the development's residence units have been sold. The Trust has commenced closing of sales of residence units and expects to close the sales of all sold units by the end of August 2006.

Equity

During the three months ended June 30, 2006, equity decreased \$0.5 million to \$88.3 million. The decrease is attributable to \$3.1 million of declared distributions, offset by net earnings of \$2.6 million.

During the six months ended June 30, 2006, equity decreased \$6.7 million to \$88.3 million. The decrease is attributable to \$5.9 million of declared distributions and \$1.3 million related to the repurchase of 225,700 Trust Units under the Trust's Normal Course Issuer Bid (described below), offset by net earnings of \$0.6 million.

As at June 30, 2006, a total of 25,878,444 trust units were issued and outstanding, and as at August 2, 2006, a total of 25,808,799 trust units were issued and outstanding.

Normal Course Issuer Bids

Commencing on December 29, 2005, Royal Host initiated a Normal Course Issuer Bid ("NCIB") to repurchase a maximum of 1.8 million of its issued and outstanding trust units. During the six months ended June 30, 2006, and cumulatively to June 30, 2006, 225,700 trust units have been repurchased at an aggregate cost of \$1.3 million (average cost of \$5.93 per unit). Subsequent to June 30, 2006, 156,700 trust units have been repurchased at an aggregate cost of \$0.9 million (average cost of \$5.98 per unit).

Commencing on July 15, 2005, Royal Host initiated a Normal Course Issuer Bid to repurchase up to \$2.0 million principal amount of its issued and outstanding 9.25% Convertible Debentures. During the three months ended June 30, 2006, no Convertible Debentures were repurchased. During the six months ended June 30, 2006, Royal Host repurchased \$0.8 million of Convertible Debentures at an average cost of \$104.00 per debenture. Cumulative repurchases to June 30, 2006 total \$1.1 million. This Normal Course Issuer Bid expired on July 15, 2006.

Commencing on July 17, 2006, Royal Host initiated a Normal Course Issuer Bid to repurchase up to \$3.9 million principal amount of its issued and outstanding 9.25% Convertible Debentures. Subsequent to June 30, 2006, Royal Host repurchased \$0.1 million of Convertible Debentures at an average cost of \$101.83 per debenture.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

(\$000's, except as otherwise noted)	2006			2005			2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	38,839	32,168	34,988	41,238	37,998	30,075	33,330	40,087
Net Earnings (Loss)								
From Continuing Operations	2,673	(1,953)	(336)	3,528	2,528	(3,138)	(6,246)	2,774
From Discontinued Operations	(83)	(73)	6	81	(214)	(109)	205	532
	2,590	(2,026)	(330)	3,609	2,314	(3,247)	(6,041)	3,306
Cash Available from Operations								
From (Used In) Continuing Operations	6,572	1,794	2,597	9,535	6,140	422	(1,685)	8,164
From (Used In) Discontinued Operations	(39)	(114)	(82)	27	(202)	(140)	37	394
	6,533	1,680	2,515	9,562	5,938	282	(1,648)	8,558
Per Unit Results (\$)								
Earnings (Loss) from Continuing Operations								
Basic	0.10	(0.08)	(0.01)	0.13	0.09	(0.14)	(0.26)	0.11
Diluted	0.10	(0.08)	(0.01)	0.13	0.09	(0.14)	(0.26)	0.10
Earnings (Loss) from Total Operations								
Basic	0.10	(0.08)	(0.01)	0.13	0.08	(0.14)	(0.25)	0.13
Diluted	0.10	(0.08)	(0.01)	0.13	0.08	(0.14)	(0.25)	0.12

Cash Available from (Used In) Continuing Operations								
Basic	0.25	0.07	0.10	0.35	0.24	0.02	(0.07)	0.33
Diluted	0.20	0.07	0.10	0.29	0.20	0.01	(0.07)	0.25
Cash Available from (Used In) Total Operations								
Basic	0.25	0.06	0.10	0.35	0.23	0.01	(0.07)	0.35
Diluted	0.20	0.06	0.10	0.29	0.20	0.01	(0.07)	0.26

KEY ACCOUNTING POLICIES AND ESTIMATES

Note 2 to the audited consolidated financial statements for the year ended December 31, 2005 includes a summary of the Trust's significant accounting policies.

The application of some of these policies requires the Trust to make estimates of future events that may have a material effect on current or future financial results. These estimates require experience and judgement 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.

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 distributions to Unitholders. These risks include general economic risks, operating risks, competitive risks, environmental risks, and development risks amongst others.

The risks and uncertainties facing the Trust's operations are described in the Trust's MD&A and Annual Information Form for the year ended December 31, 2005, which may be viewed on SEDAR at www.sedar.com.

BUSINESS ENVIRONMENT AND OUTLOOK

The hospitality industry experienced a steady recovery in 2005 and the first six months of 2006, and it is anticipated that growth will continue through the remainder of 2006. Growth in demand is anticipated to exceed that of supply, resulting in anticipated improvements in Occupancy and ADR. Pannell Kerr Forster ("PKF"), a recognized industry consultant, has projected national RevPAR growth of 3.9% and growth in industry-wide profitability of 5.3% in 2006.

In the first six months of 2006, Royal Host has delivered strong results. Canada's general economic environment is strong and the hospitality industry's fundamentals remain sound. Royal Host views the remainder of 2006 with optimism, and with its solid foundation, is well positioned to continue to deliver value to its Unitholders.



ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements

(unaudited)

For the six months ended June 30, 2006

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

(unaudited)

	As at	
	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and short-term investments	9,922	31,483
Accounts and notes receivable	12,907	12,291
Prepaid expenses	4,765	3,484
Inventories	3,190	3,150
Assets of discontinued operations (Note 3)	248	188
Property held for sale (Note 3)	2,704	2,704
Property under development (Note 4)	45,440	37,908
Future income taxes	2,759	3,100
	<u>81,935</u>	<u>94,308</u>
Restricted cash	5,261	6,033
Long-term notes receivable	89	190
Capital assets (Note 5)	310,039	314,102
Deferred debt issuance costs	5,635	6,371
	<u>402,959</u>	<u>421,004</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	22,905	22,905
Equity distributions payable	1,036	924
Interest accrued on convertible debentures	2,221	2,429
Mortgages (Note 6)	10,392	18,304
Convertible debentures (Note 7 and 10)	38,912	-
Obligations under capital leases (Note 8)	404	443
Other liabilities	1,853	2,086
Liabilities of discontinued operations (Note 3)	55	58
	<u>77,778</u>	<u>47,149</u>
Mortgages (Note 6)	125,393	126,922
Convertible debentures (Note 7 and 10)	93,401	133,052
Obligations under capital leases (Note 8)	411	660
Deferred revenue	579	639
Future income taxes	8,529	9,041
	<u>306,091</u>	<u>317,463</u>
Minority interest (Note 4)	8,599	8,591
Unitholders' equity (Note 9 and 10)	88,269	94,950
	<u>402,959</u>	<u>421,004</u>

See accompanying Notes to the Interim Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Earnings (Loss)

in \$000's (except per unit amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Hospitality revenue				
Rooms	26,966	26,403	49,523	47,161
Food and beverage	7,207	7,324	12,976	12,827
Other	4,666	4,271	8,507	8,085
	<u>38,839</u>	<u>37,998</u>	<u>71,006</u>	<u>68,073</u>
Hospitality expenses	<u>26,592</u>	<u>26,280</u>	<u>51,324</u>	<u>50,045</u>
Gross margin	<u>12,247</u>	<u>11,718</u>	<u>19,682</u>	<u>18,028</u>
Other expenses				
Trust administration	502	638	1,020	1,182
Interest on mortgages and capital leases	2,567	3,240	5,072	6,569
Interest on convertible debentures	2,479	1,658	4,958	3,248
Depreciation and amortization	3,832	3,717	7,645	7,516
Property impairment provision (Note 11)	-	-	-	390
Future income taxes (recovery)	67	(11)	-	(356)
Capital and other taxes	49	52	188	106
(Gain) loss on foreign currency translation	78	(104)	80	(17)
	<u>9,574</u>	<u>9,190</u>	<u>18,963</u>	<u>18,638</u>
Earnings (loss) from continuing operations	<u>2,673</u>	<u>2,528</u>	<u>719</u>	<u>(610)</u>
Loss from discontinued operations (Note 3)	<u>(83)</u>	<u>(214)</u>	<u>(155)</u>	<u>(323)</u>
Net earnings (loss)	<u>2,590</u>	<u>2,314</u>	<u>564</u>	<u>(933)</u>
Basic and diluted per unit net earnings (loss) (Note 12)				
- from continuing operations	0.10	0.09	0.03	(0.04)
- from discontinued operations	-	(0.01)	(0.01)	(0.01)
	<u>0.10</u>	<u>0.08</u>	<u>0.02</u>	<u>(0.05)</u>

See accompanying Notes to the Interim Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity

in \$000's

(unaudited)

	Trust Units	Convertible Equity	Contributed Surplus	Accumulated Earnings	Distributions	Total
Balance, December 31, 2004	202,037	27,500	89	8,072	(127,091)	110,607
Net loss	-	-	-	(933)	-	(933)
Equity distributions						
Trust units	-	-	-	-	(4,575)	(4,575)
Redeemable partnership units	-	-	-	-	(378)	(378)
Issuance of trust units pursuant to redemption of redeemable partnership units	25,085	(27,500)	-	-	-	(2,415)
Issuance of trust units pursuant to distribution reinvestment plan	198	-	-	-	-	198
Employee loans pursuant to employee unit purchase program	-	-	1	-	-	1
Trust units cancelled pursuant to normal course issuer bid	(901)	-	360	-	-	(541)
Balance, June 30, 2005	226,419	-	450	7,139	(132,044)	101,964
Net earnings	-	-	-	3,279	-	3,279
Equity distributions						
Trust units	-	-	-	-	(5,469)	(5,469)
Issuance of trust units pursuant to distribution reinvestment plan	59	-	-	-	-	59
Trust units cancelled pursuant to normal course issuer bid	(8,922)	-	2,353	-	-	(6,569)
Employee loans pursuant to employee unit purchase program	-	-	21	-	-	21
Restatement of convertible debenture issuance costs	(15)	-	-	-	-	(15)
Conversion option related to issued convertible debentures	-	1,680	-	-	-	1,680
Balance, December 31, 2005	217,541	1,680	2,824	10,418	(137,513)	94,950
Net earnings	-	-	-	564	-	564
Equity distributions						
Trust units	-	-	-	-	(5,921)	(5,921)
Issuance of trust units pursuant to distribution reinvestment plan	6	-	-	-	-	6
Trust units repurchased pursuant to normal course issuer bid (Note 10)	(2,559)	-	1,216	-	-	(1,343)
Employee loans pursuant to employee unit purchase program	10	-	3	-	-	13
Balance, June 30, 2006	214,998	1,680	4,043	10,982	(143,434)	88,269

See accompanying Notes to the Interim Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

in \$000's

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Operating activities				
Net earnings (loss) from continuing operations	2,673	2,528	719	(610)
Items not affecting cash:				
Depreciation and amortization	3,832	3,717	7,645	7,516
Future income taxes (recovery)	67	(11)	-	(356)
Property impairment provision (Note 11)	-	-	-	390
Accretion of convertible debentures	31	-	61	-
Funds from continuing operations	6,603	6,234	8,425	6,940
Funds from discontinued operations	(39)	(199)	(155)	(342)
Changes in non-cash working capital (Note 13)	(1,757)	(730)	(3,312)	(1,272)
	<u>4,807</u>	<u>5,305</u>	<u>4,958</u>	<u>5,326</u>
Financing activities				
Principal repayments on mortgages and capital leases	(8,870)	(3,193)	(9,729)	(10,898)
Equity distributions	(3,071)	(2,364)	(5,790)	(4,488)
Repurchase of trust units pursuant to normal course issuer bid (Note 10)	-	(541)	(1,343)	(541)
Repurchase of convertible debentures pursuant to normal course issuer bid (Note 10)	-	-	(800)	-
Deferred debt issuance costs	-	(84)	(2)	(428)
Proceeds from the acquisition of mortgages	-	12,403	-	22,403
Redemption of redeemable partnership units	-	(2,415)	-	(2,415)
	<u>(11,941)</u>	<u>3,806</u>	<u>(17,664)</u>	<u>3,633</u>
Investing activities				
Increase in property under development	(4,392)	(5,405)	(7,532)	(9,026)
Acquisition of capital assets	(1,403)	(1,760)	(2,761)	(3,575)
Decrease (increase) in restricted cash	1,223	382	772	(1,704)
Net cash from sale of properties	106	-	557	6,248
Decrease (increase) in long-term notes receivable	11	(685)	101	(1,873)
Increase (decrease) in minority interest	(12)	264	8	264
	<u>(4,467)</u>	<u>(7,204)</u>	<u>(8,855)</u>	<u>(9,666)</u>
Increase (decrease) in cash and short-term investments	(11,601)	1,907	(21,561)	(707)
Cash and short-term investments, beginning of period	21,523	6,093	31,483	8,707
Cash and short-term investments, end of period	9,922	8,000	9,922	8,000
Cash interest paid				
Mortgages and capital leases	2,862	3,126	5,451	6,517
Convertible debentures	3,276	1,383	5,073	3,233
	<u>6,138</u>	<u>4,509</u>	<u>10,524</u>	<u>9,750</u>

See accompanying Notes to the Interim Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

(unaudited)

1. GENERAL INFORMATION

Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") was created pursuant to the Declaration of Trust dated August 27, 1997. Royal Host is an unincorporated open-end 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.

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements and notes have been prepared using the accounting policies that are consistent with the policies used in preparing the Trust's 2005 Annual Consolidated Financial Statements. They do not include all disclosures required under Generally Accepted Accounting Principles for annual financial statements and should be read in conjunction with the annual consolidated financial statements.

3. PROPERTY HELD FOR SALE, DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

On February 23, 2005, Royal Host completed the sale of its 50% interest in a hotel property located in Toronto, Ontario, and as a result, this property's operations have been included in discontinued operations on the consolidated statements of net earnings (loss).

The Trust is actively pursuing a buyer for a hotel property in Ontario. Accordingly, this property has been reflected as "property held for sale" and "assets and liabilities of discontinued operations" on the consolidated balance sheets and the property's operations have been included in discontinued operations on the consolidated statements of net earnings (loss).

The following table sets forth the results of operations associated with the noted property held for sale and long-lived assets, separately reported as discontinued operations for the current and prior years.

ROYAL HOST REAL ESTATE INVESTMENT TRUSTNotes to the Consolidated Financial Statements
(unaudited)**3. PROPERTY HELD FOR SALE, DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS (Continued)**

	Three Months Ended (in \$000's)		Six Months Ended (in \$000's)	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Hospitality revenue				
Rooms	147	152	250	607
Food and beverage	-	1	-	169
Other	11	10	21	37
	<u>158</u>	<u>163</u>	<u>271</u>	<u>813</u>
Hospitality expenses	<u>195</u>	<u>369</u>	<u>415</u>	<u>1,152</u>
Gross margin	<u>(37)</u>	<u>(206)</u>	<u>(144)</u>	<u>(339)</u>
Other expenses				
(Gain) loss on foreign currency translation	2	(5)	11	(4)
Future income taxes (recovery)	44	(21)	-	(299)
Loss on disposition	-	30	-	221
Depreciation and amortization	-	7	-	80
Property impairment provision (recovery)	-	(4)	-	(21)
Capital and other taxes	-	-	-	5
Interest on capital leases	-	1	-	2
	<u>46</u>	<u>8</u>	<u>11</u>	<u>(16)</u>
Loss from discontinued operations	<u>(83)</u>	<u>(214)</u>	<u>(155)</u>	<u>(323)</u>

4. PROPERTY UNDER DEVELOPMENT

A subsidiary of Royal Host is participating in a joint venture to develop the Royal Private Residence Club on a portion of the property at the Grand Okanagan Lakefront Resort and Conference Centre in Kelowna, British Columbia for resale. As the project is still in the development phase, no revenue has been recognized. All costs incurred have been capitalized to "property under development". Royal Host proportionately consolidates its interest in the joint venture. Royal Host anticipates completing construction in August 2006 and commenced closings of sales of residence units subsequent to June 30, 2006.

Another subsidiary of Royal Host is the General Partner of the Limited Partnership which is the other party to the joint venture agreement. This Limited Partnership is a variable interest entity for which Royal Host is the primary beneficiary. As a result, Royal Host consolidates the Limited Partnership as required by the CICA issued Accounting Guideline 15 "Consolidation of Variable Interest Entities", effective for fiscal years beginning after November 1, 2004. The \$8.6 million (December 31, 2005 - \$8.6 million) minority interest on the consolidated balance sheet as at June 30, 2006 represents the proportion of net assets of the Limited Partnership not owned by Royal Host.

In April 2005, Royal Host, along with its joint venture partner, entered into a non-revolving \$28.0 million financing arrangement consisting of a \$20.0 million construction loan and an \$8.0 million mezzanine loan. The loan proceeds were to be used to complete the project. Royal Host has provided a completion, cost overrun and debt service deficiency guarantee on the construction loan and a specific guarantee of the payment of notes receivable from certain limited partners. During the six months ended June 30, 2006, the mezzanine loan was repaid in full and the construction loan commitment was reduced from \$20.0 million to \$10.0 million.

\$7.4 million was drawn on the construction loan as at June 30, 2006 (December 31, 2005 - \$7.4 million). Subsequent to June 30, 2006, the construction loan was repaid in full.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

*(unaudited)***4. PROPERTY UNDER DEVELOPMENT (Continued)**

Property under development includes \$1.7 million of capitalized interest as at June 30, 2006 (December 31, 2005 - \$1.3 million).

5. CAPITAL ASSETS

		<i>(in \$000's)</i>	
	Gross Book Value	Accumulated Amortization	Net Book Value
June 30, 2006			
Buildings	315,630	66,840	248,790
Land	38,372	-	38,372
Furniture, fixtures, and equipment	49,358	38,734	10,624
Other	1,152	366	786
	<u>404,512</u>	<u>105,940</u>	<u>298,572</u>
Capital assets under development	2,194	-	2,194
Intangible assets:			
Franchise rights and management contracts	27,414	18,141	9,273
	<u>434,120</u>	<u>124,081</u>	<u>310,039</u>
		<i>(in \$000's)</i>	
	Gross Book Value	Accumulated Amortization	Net Book Value
December 31, 2005			
Buildings	313,421	62,872	250,549
Land	38,815	-	38,815
Furniture, fixtures, and equipment	46,451	36,999	9,452
Other	1,152	343	809
	<u>399,839</u>	<u>100,214</u>	<u>299,625</u>
Capital assets under development	4,214	-	4,214
Intangible assets:			
Franchise rights and management contracts	27,414	17,151	10,263
	<u>431,467</u>	<u>117,365</u>	<u>314,102</u>

During the three and six months ending June 30, 2006, respectively, Royal Host spent \$2.1 million (2005 - \$1.7 million) and \$3.4 million (2005 - \$3.1 million) with regards to capital costs on its hotel properties.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

*(unaudited)***6. MORTGAGES**

	<i>(in \$000's)</i>	
	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Mortgages secured by hotel properties	128,359	129,800
Mortgages secured by property under development	7,426	15,426
	135,785	145,226
Less: current portion	10,392	18,304
	125,393	126,922

Principal repayments required for the years ending June 30:

	<u><i>(in \$000's)</i></u>
2007	10,392
2008	3,214
2009	3,442
2010	59,725
2011	35,590
Thereafter	23,422
	135,785

Debt issuance costs are deferred and amortized over the term of the related debt. During the three and six months ended June 30, 2006, respectively, \$0.4 million (2005 - \$0.8 million) and \$0.7 million (2005 - \$1.0 million) was included in depreciation and amortization expense.

During the six months ended June 30, 2006, an \$8.0 million mortgage secured by property under development was repaid. Subsequent to June 30, 2006, the construction loan secured by property under development was repaid in full.

7. CONVERTIBLE DEBENTURES

	<i>(in \$000's)</i>	
	<u>June 30, 2006</u>	<u>December 31, 2005</u>
9.25% Convertible Unsecured Subordinated Debentures	38,912	39,712
7.90% Convertible Unsecured Subordinated Debentures, Series A	35,000	35,000
6.00% Convertible Unsecured Subordinated Debentures, Series B	58,401	58,340
	132,313	133,052
Less: current portion	38,912	-
	93,401	133,052

The convertible debentures' maturity dates are as follows: the 9.25% debentures - March 1, 2007; the 7.90% debentures - April 30, 2009; and the 6.00% debentures - October 31, 2015.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

(unaudited)

8. OBLIGATIONS UNDER CAPITAL LEASES

Royal Host has entered into various capital lease obligations to acquire computers and furniture, fixtures, and equipment. The present values of future minimum lease payments under capital leases as at June 30, 2006 are as follows:

	<i>(in \$000's)</i>	
	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Present value of future minimum lease payments	815	1,103
Less: current portion of principal payments	404	443
	<u>411</u>	<u>660</u>

Total repayments required for the years ending June 30:

	<i>(in \$000's)</i>	
	2007	444
	2008	394
	2009	51
Future minimum lease payments		<u>889</u>
Less: amounts representing interest		<u>74</u>
Present value of future minimum lease payments		<u>815</u>

9. UNITHOLDERS' EQUITY

Trust Units

As at June 30, 2006, a total of 25,878,444 (December 31, 2005 - 26,595,545) trust units were issued and outstanding.

10. NORMAL COURSE ISSUER BIDS

(a) 9.25% Convertible Unsecured Subordinated Debentures

Commencing on July 15, 2005, Royal Host initiated a normal course issuer bid to repurchase up to \$2.0 million in principal of its issued and outstanding 9.25% convertible debentures. During the three months ended June 30, 2006, no debentures were repurchased. During the six months ended June 30, 2006, Royal Host repurchased \$0.8 million of debentures (average cost of \$104.00 per debenture). As of June 30, 2006, Royal Host repurchased and cancelled \$1.1 million of debentures. The normal course issuer bid expired on July 15, 2006.

Commencing on July 17, 2006, Royal Host initiated a normal course issuer bid to repurchase up to \$3.9 million in principal of its issued and outstanding 9.25% convertible debentures. Subsequent to June 30, 2006, Royal Host repurchased \$0.1 million of debentures (average cost of \$101.83).

(b) Trust Units

Commencing on December 29, 2005, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1,800,000 of its issued and outstanding trust units. During the three months ended June 30, 2006, no trust units were repurchased. During the six months ended June 30, 2006, 225,700 of these units with an aggregate cost of \$1.3 million (average cost of \$5.93 per unit) were repurchased and cancelled. Subsequent to June 30, 2006, Royal Host repurchased 156,700 trust units with an aggregate cost of \$0.9 million (average cost of \$5.98 per unit).

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

*(unaudited)***11. PROPERTY IMPAIRMENT PROVISION**

During the first quarter of 2005, the Trust recorded a property impairment provision of \$0.4 million relating to a hotel property in Lethbridge, Alberta.

12. PER UNIT CALCULATIONS

As at June 30, 2006, a total of 25,878,444 trust units (December 31, 2005 - 26,595,545) were issued and outstanding. Per unit computations are based on the weighted average number of trust units outstanding for the period, after adjusting the net loss for distributions on the redeemable partnership units of \$Nil (June 30, 2005 - \$378,000).

For the three months ended June 30, 2006:	<i>(in \$000's)</i>	Weighted Average Units <i>(in 000's)</i>	Per Unit (\$)
Net earnings - continuing operations	2,673		
Less: distributions on redeemable partnership units	-		
Basic earnings - continuing operations	2,673		0.10
Basic loss - discontinued operations	(83)		-
Basic earnings - total operations	2,590	25,890	0.10

For the three months ending June 30, 2005:	<i>(in \$000's)</i>	Weighted Average Units <i>(in 000's)</i>	Per Unit (\$)
Net earnings - continuing operations	2,528		
Less: distributions on redeemable partnership units	(94)		
Basic earnings - continuing operations	2,434		0.09
Basic loss - discontinued operations	(214)		(0.01)
Basic earnings - total operations	2,220	25,894	0.08

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

(unaudited)

12. PER UNIT CALCULATIONS (Continued)

For the six months ended June 30, 2006:

	<i>(in \$000's)</i>	Weighted Average Units <i>(in 000's)</i>	Per Unit (\$)
Net earnings - continuing operations	719		
Less: distributions on redeemable partnership units	-		
Basic earnings - continuing operations	<u>719</u>		0.03
Basic loss - discontinued operations	<u>(155)</u>		(0.01)
Basic earnings - total operations	<u>564</u>	26,062	<u>0.02</u>

For the six months ending June 30, 2005:

	<i>(in \$000's)</i>	Weighted Average Units <i>(in 000's)</i>	Per Unit (\$)
Net loss - continuing operations	(610)		
Less: distributions on redeemable partnership units	<u>(378)</u>		
Basic loss - continuing operations	(988)		(0.04)
Basic loss - discontinued operations	<u>(323)</u>		<u>(0.01)</u>
Basic loss - total operations	<u>(1,311)</u>	25,257	<u>(0.05)</u>

13. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended <i>(in \$000's)</i>		Six Months Ended <i>(in \$000's)</i>	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
(Increase) decrease in:				
Accounts and notes receivable	(217)	(742)	(616)	(3,031)
Prepaid expenses	(864)	(1,067)	(1,281)	(1,080)
Inventories	(56)	(68)	(40)	(66)
Assets of discontinued operations	<u>(64)</u>	<u>(225)</u>	<u>(60)</u>	<u>(140)</u>
	<u>(1,201)</u>	<u>(2,102)</u>	<u>(1,997)</u>	<u>(4,317)</u>
Increase (decrease) in:				
Accounts payable and accrued liabilities	421	2,802	(640)	3,794
Interest accrued on convertible debentures	(828)	277	(208)	16
Other liabilities	(131)	49	(233)	(438)
Deferred revenue	32	(89)	(60)	18
Future income taxes	(53)	-	(171)	-
Liabilities of discontinued operations	<u>3</u>	<u>(1,667)</u>	<u>(3)</u>	<u>(345)</u>
	<u>(556)</u>	<u>1,372</u>	<u>(1,315)</u>	<u>3,045</u>
	<u>(1,757)</u>	<u>(730)</u>	<u>(3,312)</u>	<u>(1,272)</u>

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted for 2006.
