



ROYAL HOST REAL ESTATE INVESTMENT TRUST

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

FOR THE THREE MONTHS ENDED MARCH 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE MONTHS ENDED MARCH 31, 2007

The following Management's Discussion and Analysis of Operations and Financial Condition ("MD&A") dated May 7, 2007 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 months ended March 31, 2007, and the annual consolidated financial statements and accompanying MD&A for the year ended December 31, 2006. The unaudited interim Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, including those in the Outlook section, relate to periods commencing after March 31, 2007 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 and the risks to which its business is subject is contained in its Annual Information Form, which is available at www.sedar.com.

OVERVIEW

Royal Host's core businesses are hotel ownership, management and franchising. As at March 31, 2007, Royal Host owned 37 hotels (comprising approximately 4,500 rooms), managed additional properties for third parties, and franchised over 100 locations (including 15 owned by the Trust) under the Travelodge and Thriftlodge banners.

HIGHLIGHTS

Royal Host delivered consistent results from continuing operations in the first quarter of 2007, comparable to the outstanding results realized in the first quarter of 2006. Overall results were improved over 2006, and with the inclusion of income from discontinued operations, basic per unit net income of \$0.10 (2006 - \$0.08 loss) was achieved. During the three months ended March 31, 2007, Royal Host continued to improve its strong financial position and increase unitholder value. Other highlights include:

- Increased monthly distributions in February 2007 to \$0.055 per unit (\$0.66 per annum), representing the fifth increase since 2005.
- Repaid the 9.25% Convertible Debenture of \$38.0 million which matured on March 1, 2007, further reducing its overall cost of capital.
- Continued to be active under its Normal Course Issuer Bids, repurchasing 0.3 million Trust Units with an aggregate cost of \$2.0 million (\$7.00 per unit) and \$0.3 million of 7.90% Convertible Debentures
- Sold its ancillary US hotel management business for a gain of approximately \$4.2 million.
- Increased Cash Available for Distribution by 100% to \$0.04 per unit (2006 - \$0.02 per unit).
- Maintained a strong balance sheet, with cash and marketable securities of \$59.7 million at March 31, 2007
- Generated a total unitholder return in the quarter of 9.4%.

SELECTED FINANCIAL INFORMATION

(\$000's, except as otherwise noted)	Three months ended		
	2007	March 31 2006	Change (%)
Hospitality Revenue (continuing operations)			
Rooms	22,437	22,557	(0.1)
Food and Beverage	5,835	5,769	1.1
Franchising and Management	787	417	88.7
Other	2,658	2,427	9.5
Total	<u>31,717</u>	<u>31,170</u>	1.8
Hospitality Expenses	<u>24,530</u>	<u>24,063</u>	1.9
Hospitality Gross Margin	<u>7,187</u>	<u>7,107</u>	1.1
Hospitality Gross Margin %	<u>22.7</u>	<u>22.8</u>	
Loss From Continuing Operations	(1,782)	(2,220)	
Income From Discontinued Operations	<u>4,125</u>	<u>194</u>	
Net Income (Loss)	<u>2,343</u>	<u>(2,026)</u>	
Basic Per Unit Net Earnings (\$)			
From Continuing Operations	(0.07)	(0.09)	
From Discontinued Operations	0.17	0.01	
	<u>0.10</u>	<u>(0.08)</u>	
Cash Available For Distribution	<u>963</u>	<u>574</u>	67.8
Distributions Declared on Trust Units	<u>4,141</u>	<u>2,842</u>	45.7
Basic Per Unit Cash Available For Distribution (\$)	<u>0.04</u>	<u>0.02</u>	100.0
Per Unit Distributions Declared (\$)	<u>0.165</u>	<u>0.11</u>	50.0
Weighted Average Number of Trust Units Outstanding (000's)	<u>24,858</u>	<u>25,949</u>	(4.2)
Number of Trust Units Outstanding (as at March 31) (000's)	<u>25,521</u>	<u>24,501</u>	4.2
Closing Trust Unit Trading Price as at March 31 (\$)	<u>7.00</u>	<u>6.40</u>	9.4

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 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 includes the following non-GAAP financial measures: Revenue per Available Room ("RevPAR"), Average Daily Rate ("ADR"), Occupancy, Cash Available for Distribution (and Basic and Diluted Per Unit Cash Available for Distribution), Funds From Operations and Adjusted Funds From Operations.

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:

- 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 time 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.

Cash Available for Distribution, Funds from Operations and Adjusted Funds from Operations

Cash Available for Distribution, Funds from Operations and Adjusted Funds from Operations are non-GAAP financial measures commonly used by hotel real estate investment trusts. As a “non-GAAP” measure, no standards exist for the calculation of Cash Available for Distribution and reporting practices vary widely.

The policies of the Canadian Securities Administrators and the draft guidance issued by the Canadian Institute of Chartered Accountants consider distributable cash (Cash Available for Distribution) a cash flow measure and, as such, require that it be reconciled to Cash Flows from Operating Activities. The Trust has conformed to this guidance and presented this calculation in this manner.

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

Room Statistics – Total

	Three months ended March 31		
	2007	2006	Change (%)
CONTINUING OPERATIONS (4,422 rooms)			
RevPAR	\$56.15	\$56.08	0.1
Occupancy	58.5%	61.3%	(4.6)
ADR	\$95.99	\$91.41	5.0

The first quarter of 2007 saw RevPAR from continuing operations improve modestly to \$56.15, compared to a very strong \$56.08 realized for the first quarter of 2006. The increase resulted from a \$4.58, or 5.0%, increase in ADR. This was offset by a 4.6% decrease in Occupancy, which was attributable to a number of properties in the Ontario and Western regions, as detailed below.

Room Statistics – By Region (Continuing Operations)

	Three months ended March 31		
	2007	2006	Change (%)
ONTARIO (59.6% of rooms revenue / 2,489 rooms)			
RevPAR	\$59.01	\$60.01	(1.7)
Occupancy	59.1%	61.6%	(4.1)
ADR	\$99.83	\$97.42	2.5

In Ontario the modest increase in ADR was more than offset by a decrease in Occupancy, resulting in lower RevPAR compared to the first quarter of 2006. While the region benefited from increased ADR, Occupancy decreases occurred at the Holiday Inn Oakville, Holiday Inn Trenton and the Travelodge Toronto Airport, due in part to a downturn in the automotive industry and reduced travel resulting from new passport legislation. The Travelodge Ottawa West and the Chimo Hotel in Ottawa produced very strong results, as did the Travelodge Timmins and Super 8 Timmins.

	Three months ended March 31		
	2007	2006	Change (%)
WESTERN (34.4% of rooms revenue / 1,657 rooms)			
RevPAR	\$52.47	\$51.34	2.2
Occupancy	56.3%	60.4%	(6.8)
ADR	\$93.25	\$85.01	9.7

The Grand Okanagan Lakefront Resort and Conference Centre in Kelowna, the Holiday Inn (The Palace) in Edmonton and the Best Western Village Park Inn in Calgary produced record results, and the Trust’s Country Inns & Suites in Winnipeg and Regina each had very strong performance. However, the Travelodge Fort Nelson,

the Yellowknife Inn and the Travelodge Medicine Hat produced weaker rooms revenue as a direct result of lower Occupancy.

	Three months ended March 31		
	2007	2006	Change (%)
ATLANTIC (5.9% of rooms revenue / 276 rooms)			
RevPAR	\$52.51	\$49.86	5.3
Occupancy	61.3%	60.5%	1.3
ADR	\$85.72	\$82.46	4.0

The Atlantic region had a very solid quarter and, in particular, the Country Inns & Suites in New Glasgow and Dartmouth produced notable increases in both Occupancy and ADR.

Cash Available for Distribution

(\$000's, except as otherwise noted)	Three months ended March 31		
	2007	2006	Change (%)
Cash Flows from Operating Activities	1,811	(3,049)	
Changes in Non-Cash Working Capital	1,783	1,636	
Changes in Investment in PRC	(1,500)	3,140	
Changes in Minority Interest	-	(20)	
Cash Flows from Total Operations	2,094	1,707	22.7
Provision for Capital Replacement	(1,131)	(1,133)	
Cash Available for Distribution	963	574	67.8
Distributions Declared	4,141	2,842	45.7
Basic Per Unit Cash Available For Distribution (\$)	0.04	0.02	100.0
Diluted Per Unit Cash Available For Distribution (\$)	0.04	0.02	100.0
Per Unit Distributions Declared (\$)	0.165	0.11	50.0

Cash Available for Distribution is calculated by deducting a provision for capital replacement from cash flows from total operations. The Trust designates a portion of its capital expenditure budget for capital replacement to be funded from cash flows from operating activities. This provision is calculated as 4.0% of rooms and food and beverage revenue, or \$1.1 million (2006 - \$1.1 million). Cash Available for Distribution for the three months ended March 31, 2007 increased to \$1.0 million, or \$0.04 per unit (2006 - \$0.6 million, or \$0.02 per unit).

The Trust'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. Royal Host's 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 distributions at a level that will be sustainable over a longer period. Accordingly, cash distributions will not equal cash available for distribution in any one quarter.

During the three months ended March 31, 2007, the Trust declared distributions on Trust Units of \$4.1 million, an increase of 45.7% (2006 - \$2.8 million). 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.

The Trust increased monthly distributions to \$0.055 per unit, or \$0.66 per unit annually, effective for the February 2007 distribution.

Royal Host made various cash outlays in addition to distributions. The Trust deployed \$32.5 million in cash in connection with the maturity of its 9.25% convertible debenture in March 2007, and made total debt principal repayments of \$0.8 million. In addition, the Trust spent \$3.1 million on capital investment, which it funded from cash from operations and restricted cash. It also spent \$3.0 million repurchasing Trust Units and \$0.3 million repurchasing Convertible Debentures pursuant to its Normal Course Issuer Bids ("NCIBs"), which it funded from cash on hand.

Funds From Operations and Adjusted Funds From Operations

(\$000's, except as otherwise noted)	Three months ended March 31		
	2007	2006	Change (%)
Cash Flows provided by Total Operations	2,094	1,707	22.7
Debt issuance costs	(582)	(399)	
Funds From Operations	1,512	1,308	15.6
Provision for Capital Replacement	(1,131)	(1,133)	
Adjusted Funds From Operations	381	175	117.7

During the three months ended March 31, 2007, the Trust generated Funds from Operations of \$1.5 million, or \$0.06 per unit (2006 - \$1.3 million, or \$0.05 per unit). Funds from Operations reflects the adjustment for the deduction of accretion of convertible debentures and mortgages, which was \$0.6 million in 2007 (2006 - \$0.4 million). Debt issuance costs are accreted over the term of the related debt. Adjusted Funds from Operations is calculated by deducting the Trust's provision for capital replacement from Funds from Operations. In 2007, Adjusted Funds from Operations was \$0.4 million, or \$0.02 per unit (2006 - \$0.2 million, or \$0.01 per unit).

SEASONALITY

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

THREE MONTHS ENDED MARCH 31, 2007 (Continuing Operations)

For the three months ended March 31 (\$000's, except as otherwise noted)	2007	2006	Change	Change (%)
Hospitality Revenue	31,717	31,170	547	1.8
Hospitality Expenses	24,530	24,063	467	1.9
Hospitality Gross Margin	7,187	7,107	80	1.1
Royal Private Residence Club	-	-	-	
Gross Margin	7,187	7,107	80	1.1
Other Expenses	8,969	9,327	(358)	(3.8)
Loss from Continuing Operations	(1,782)	(2,220)	438	

Hospitality Revenue

Hospitality revenue from continuing operations for the three months ended March 31, 2007 increased by \$0.5 million to \$31.7 million (2006 - \$31.2 million).

Three months ended March 31 (\$000's, except as otherwise noted)	2007	2006	Change	Change (%)
Revenue (continuing operations)				
Rooms	22,437	22,557	(120)	(0.5)
Food and Beverage	5,835	5,769	66	1.1
Franchising and Management	787	417	370	88.7
Other	2,658	2,427	231	9.5
	<u>31,717</u>	<u>31,170</u>	<u>547</u>	<u>1.8</u>

Rooms revenue decreased marginally by \$0.1 million, or 0.5%, to \$22.4 million (2006 - \$22.5 million). The Grand Okanagan Resort and Conference Centre, the Travelodge Ottawa West, the Chimo Hotel, the Holiday Inn (The Palace) and the Best Western Village Park Inn produced particularly strong results, offset by lower rooms revenue at six of the Trust's hotels as described above.

Food and beverage revenue was consistent at \$5.8 million.

Franchising and management revenue increased \$0.4 million to \$0.8 million (2006 - \$0.4 million). Travelodge franchise fees increased relative to 2006 due primarily to the receipt of termination fees.

Other revenue increased \$0.3 million to \$2.7 million (2006 - \$2.4 million), and includes revenue from telephone, retail sales, tenant lease, parking, and other minor operated departments.

Hospitality Expenses

Three months ended March 31 (\$000's, except as otherwise noted)	2007	2006	Change	Change (%)
Hospitality Expenses	24,530	24,063	467	1.9

Total hospitality expenses increased \$0.5 million, or 1.9%, to \$24.5 million (2006 - \$24.1 million). Operating expenses were steady as a percentage of revenue at 77.3% (2006 - 77.2%). The largest component of hospitality expenses is wages, which decreased overall as a percentage of hospitality revenue. In the first quarter of 2007, the Trust incurred a \$0.2 million personnel restructuring cost. Utility costs were unchanged from 2006, despite the receipt of a utility credit of \$0.1 million in the first quarter of 2006.

Hospitality Gross Margin

Three months ended March 31 (\$000's, except as otherwise noted)	2007	2006	Change	Change (%)
Hospitality Gross Margin	7,187	7,107	80	1.1

Hospitality gross margin increased \$0.1 million, or 1.1%, to \$7.2 million in 2007 (2006 - \$7.1 million). Gross margin as a percentage of revenue was steady at 22.7% (2006 - 22.8%).

Royal Private Residence Club

As at December 31, 2006, sales of 96.8% of the condominiums were closed. During the three months ended March 31, 2007, sales of 3.0% of the condominiums were closed, bringing cumulative sales to 99.8%. In 2007, the Trust recognized revenue from the sale of condominiums of \$1.5 million and cost of sales of \$1.5 million. The Trust does not anticipate recording any significant profits in 2007.

Other Expenses

As described herein under "Changes in Accounting Policies", commencing on January 1, 2007, interest on Convertible Debentures, mortgages and capital leases includes accretion of debt issuance costs. Interest on mortgages and capital leases for the three months ended March 31, 2007 increased \$0.2 million to \$2.9 million due to the recognition of \$0.2 million of accretion of debt issuance costs (2006 - \$nil) related to its mortgages. Interest on Convertible Debenture increased by \$0.7 million as a result of additional Convertible Debentures issued in September 2006 and the recognition of accretion of Convertible Debentures' conversion options of \$0.1 million (2006 - \$nil) and debt issuance costs of \$0.3 million (2006 - \$nil).

Interest and investment income increased to \$1.0 million (2006 - \$0.2 million), a result of higher levels of cash on hand, an increase in overall investment rates and the realization of gains on the sales of marketable securities. The Trust also generated unrealized gains on marketable securities of \$0.4 million (2006 - \$nil).

Depreciation and amortization was unchanged at \$3.8 million. In 2006, depreciation and amortization included \$0.4 million of amortization of deferred debt issuance costs related to mortgages and convertible debentures. In 2007, due to the aforementioned change in accounting policy, accretion of debt issuance costs is included in interest on convertible debentures, mortgages and capital leases.

Trust administration decreased by \$0.1 million to \$0.4 million (2006 - \$0.5 million), reflecting management's continued focus on costs.

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

The Trust's Loss from continuing operations for the three months ended March 31, 2007 was \$1.8 million (2006 - \$2.2 million). Income from discontinued operations was \$4.1 million (2006 - \$0.2 million) and included the Trust's timeshare and US hotel management businesses, in addition to the Sundial Inn, as described further below.

Net income was \$2.3 million (2006 - net loss of \$2.0 million). The Trust's other comprehensive loss is attributable to unrealized losses on marketable securities classified as available-for-sale. Comprehensive income (loss) for the three months ended March 31, 2007 was \$2.3 million (2006 - loss of \$2.0 million).

DISCONTINUED OPERATIONS AND PROPERTY HELD FOR SALE

The operations of properties and businesses that were disposed of during the three months ended March 31, 2007 or that are held for sale as at March 31, 2007, have been included in discontinued operations on the consolidated statements of net earnings and reflected as assets and liabilities of discontinued operations and property held for sale on the consolidated balance sheets beginning in the year they are determined to be discontinued.

Effective January 1, 2007, Royal Host sold its US hotel management business, resulting in a gain on disposition of approximately \$4.2 million.

Effective December 31, 2006, Royal Host sold its timeshare business for \$1.2 million, resulting in a loss on disposition of \$0.3 million.

Discontinued operations also include the 75-room Sundial Inn in Orillia, Ontario, for which Royal Host is seeking a buyer.

Income from Discontinued Operations

(\$000's, except as otherwise noted)	Three months ended March 31	
	2007	2006
Revenue	145	1,111
Operating expenses	180	888
Gross margin	(35)	223
Other expenses	77	29
Income (loss) before gain on disposition	(112)	194
Gain on disposition	4,237	-
Income from discontinued operations	4,125	194

Revenue from discontinued operations for the three months ended March 31, 2007 was \$0.1 million (2006 - \$1.1 million), down primarily due to the sale of the Trust's US hotel management business. Income from discontinued operations for the three months increased \$3.9 million to \$4.1 million (2006 - \$0.2 million), due to the gain realized on the sale of the Trust's US hotel management business.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2007, the Trust had cash and cash equivalents of \$44.0 million (December 31, 2006 - \$92.1 million) and liquid marketable securities of \$15.7 million (December 31, 2006 - \$2.0 million). In addition, the Trust had undrawn credit facilities of \$12.0 million.

The Trust also had restricted cash as at March 31, 2007 of \$3.5 million (December 31, 2006 - \$5.3 million). Restricted cash consists primarily of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

The 9.25% Convertible Debentures (RYL.DB) matured on March 1, 2007. Prior to maturity, \$5.6 million of Convertible Debentures were converted into 0.8 million Trust Units. The Trust repaid the remaining \$32.5 balance of this obligation upon maturity with funds on hand.

Royal Host's cash and marketable securities, together with its future cash flows, are expected to be sufficient to fund all anticipated cash requirements over the next year, including distributions, required debt repayments, planned capital investment and operating expenses.

As the Trust evaluates opportunities, it invests excess cash not required for daily operations in liquid income-earning instruments. As a result of the higher levels of cash available in 2007 and improved investment rates, the Trust realized interest and investment income of \$1.0 million (2006 - \$0.2 million).

Contractual Obligations

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 March 31, 2007, the carrying value of the Trust's mortgages was \$124.7 million, which is net of \$1.5 million of debt issuance costs, for total outstanding principal of \$126.2 million (December 31, 2006 - \$126.9 million). The \$2.2 million decrease is attributable to the classification of debt issuance costs effective January 1, 2007, and \$0.8 million of mortgage principal repayments made during the three months ended March 31, 2007.

As at March 31, 2007 (\$000's)	Total	2008	2009	2010	2011	2012	Thereafter
Mortgages	126,163	3,160	3,383	59,848	25,458	13,123	21,191
Capital Leases	972	481	235	81	81	81	13

Convertible Debentures

(\$000's)	March 31, 2007	December 31, 2006	Maturity Date	Conversion Price
Current:				
9.25% Convertible Unsecured Subordinated	-	38,021	March 2007	\$7.00
Long-term:				
9.25% Convertible Unsecured Subordinated	-	-		
7.90% Convertible Unsecured Subordinated, Series A	32,514	35,000	April 2009	\$6.00
6.00% Convertible Unsecured Subordinated, Series B	59,415	58,464	October 2015	\$6.85
6.25% Convertible Unsecured Subordinated, Series C	59,995	58,225	September 2013	\$7.00
	<u>151,924</u>	<u>151,689</u>		

Royal Host's Convertible Debentures have a total outstanding balance of \$151.9 million (December 31, 2006 - \$151.7 million). The carrying value of the Convertible Debentures as at March 31, 2007 is \$143.2 million, reflecting \$5.6 million of debt issuance costs and conversion options.

As at March 31, 2007, the average maturity of mortgages was 3.5 years, the average maturity of Convertible Debentures was 6.4 years, and the average maturity of mortgages and Convertible Debentures combined was 5.1 years. As at March 31, 2007, Royal Host's debt had an average overall interest rate of 7.28% (December 31, 2006 - 7.52%).

During the two months prior to maturity on March 1, 2007, \$5.6 million of the 9.25% Convertible Debentures were converted into 0.8 million Trust Units. On March 1, 2007, \$32.5 million of the 9.25% Convertible Debentures were repaid and cancelled.

During the three months ended March 31, 2007, \$2.2 million of the 7.90% Convertible Debentures were converted into 0.4 million Trust Units, and \$0.6 million of the 6.00% Convertible Debentures were converted into 0.1 million Trust Units.

Subsequent to March 31, 2007, \$0.2 million of the 7.90% Convertible Debentures were converted into 39,833 Trust Units and \$30,000 of the 6.25% Convertible Debentures were converted into 4,285 Trust Units.

Investing Activities

During the three months ended March 31, 2007, the Trust's capital additions totalled \$2.2 million (2006 - \$1.3 million) and included the renovation of the waterpark at the Travelodge Medicine Hat and guest room renovations at the Travelodge Barrie on Bayfield. The total cash expended in the quarter related to capital was \$3.1 million (2006 - \$1.3 million).

A total of \$2.5 million was drawn from restricted cash in the quarter for reimbursement of previous capital investment. Restricted cash, described above, is available for funding certain hotel capital expenditures.

Equity

During the three months ended March 31, 2007, equity increased \$4.8 million to \$92.0 million. The overall increase is attributable to net earnings of \$2.3 million, the conversion of \$8.3 million of convertible debentures into Trust Units, less \$4.1 million of declared distributions and \$2.0 million related to the repurchase of Trust Units under the Trust's Normal Course Issuer Bid (described below).

As at March 31, 2007, 25,521,091 Trust Units were issued and outstanding, and as at May 7, 2007, 25,314,629 Trust Units were issued and outstanding.

Normal Course Issuer Bid – Trust Units

Commencing on December 29, 2006, Royal Host initiated a Normal Course Issuer Bid ("NCIB") to repurchase a maximum of 2.0 million of its issued and outstanding Trust Units. During the three months ended March 31, 2007, 0.3 million Trust Units with an aggregate cost of \$2.0 million (average cost of \$7.00 per unit) were repurchased pursuant to this NCIB. Subsequent to March 31, 2007, 4,400 Trust Units with an aggregate cost of \$31,155 (average cost of \$7.08 per unit) were repurchased pursuant to this NCIB.

Cumulatively to May 7, 2007, Royal Host has repurchased 3.3 million Trust Units pursuant to its NCIBs at an average price of \$6.15 per Unit.

Normal Course Issuer Bid – 9.25% Convertible Debentures

Commencing on July 17, 2006, Royal Host initiated an NCIB to repurchase up to \$3.9 million principal amount of its issued and outstanding 9.25% Convertible Debentures. From January 1, 2007 through March 1, 2007, the maturity date, no debentures were repurchased pursuant to this NCIB. From commencement of the NCIB, Royal Host repurchased a total of \$2.0 million of Convertible Debentures.

Normal Course Issuer Bid – 7.90% Convertible Debenture

Commencing on November 23, 2006, Royal Host initiated an NCIB to repurchase up to \$3.5 million principal amount of its issued and outstanding 7.90% Convertible Debentures. During the three months ended March 31, 2007, Royal Host repurchased \$0.3 million in principal balance with an aggregate cost of \$0.4 million (average cost of \$116.92) of 7.90% debentures pursuant to this NCIB. From commencement of the NCIB, Royal Host has repurchased \$0.3 million in principal balance of the Convertible Debentures.

Normal Course Issuer Bid – 6.00% Convertible Debenture

Commencing on March 30, 2007, Royal Host initiated an NCIB to repurchase up to \$5.9 million principal amount of its issued and outstanding 6.00% Convertible Debentures. No debentures have been repurchased pursuant to this NCIB.

Normal Course Issuer Bid – 6.25% Convertible Debenture

Commencing on March 30, 2007, Royal Host initiated an NCIB to repurchase up to \$6.0 million principal amount of its issued and outstanding 6.25% Convertible Debentures. During the three months ended March 31, 2007, no debentures were repurchased. Subsequent to March 31, 2007, \$0.1 million of debentures (average cost of \$107.12) were repurchased pursuant to this NCIB.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

(\$000's, except as otherwise noted)	2007 Q1	2006 Q4	Q3	Q2	Q1	2005 Q4	Q3	Q2
Revenue	31,717	37,468	93,653	37,658	31,170	33,834	40,049	36,916
Net Income (Loss)								
From Continuing Operations	(1,782)	226	13,296	2,174	(2,220)	(14)	3,032	2,112
From Discontinued Operations	4,125	(470)	643	415	194	(316)	577	202
	<u>2,343</u>	<u>(244)</u>	<u>13,939</u>	<u>2,589</u>	<u>(2,026)</u>	<u>(330)</u>	<u>3,609</u>	<u>2,314</u>
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	(0.07)	0.01	0.52	0.08	(0.09)	-	0.11	0.08
Diluted	(0.07)	0.01	0.31	0.08	(0.09)	-	0.11	0.08
Income (Loss) from Total Operations								
Basic	0.10	(0.01)	0.54	0.10	(0.08)	(0.01)	0.13	0.08
Diluted	0.10	(0.01)	0.32	0.10	(0.08)	(0.01)	0.13	0.08

Quarterly financial results as presented reflect the changes to discontinued operations.

DISCLOSURE CONTROLS AND PROCEDURES

The President & Chief Operating Officer (acting as Chief Executive Officer for this purpose) and Chief Financial Officer evaluated the effectiveness of the Trust's disclosure controls and procedures as at March 31, 2007. Based on that evaluation, the President & Chief Operating Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at March 31, 2007 to provide reasonable assurance that material information relating to the Trust, including its consolidated subsidiaries, would be made known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Trust's internal control over financial reporting that occurred during the most recent interim period ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Upon the adoption of new accounting standards described in "Changes in Accounting Policies", Royal Host is required to record certain financial instruments at fair market value, instead of the previously used amortized cost basis. Controls and procedures have been implemented by Royal Host to ensure the accuracy of recording these financial instruments using the fair market value basis of accounting.

KEY ACCOUNTING POLICIES AND ESTIMATES

Note 2 to the audited consolidated financial statements for the year ended December 31, 2006 includes a summary of the Trust's significant accounting policies. Effective January 1, 2007, Royal Host adopted new accounting policies related to financial instruments, as described further herein under "Changes in 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.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments and Comprehensive Income

The Canadian Institute of Chartered Accountants ("CICA") issued new guidance related to financial instruments that are effective for the Trust commencing January 1, 2007.

CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" provides guidance on when a financial instrument must be recognized on the balance sheet and how it is to be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The Trust has elected to apply the following treatment to each of its significant categories of financial instruments:

Cash equivalents	Held-to-maturity
Marketable securities	Held for trading or available-for-sale
Mortgages	Amortized cost
Convertible debentures	Amortized cost

CICA Handbook Section 1530, "Comprehensive Income" requires an entity to recognize certain unrealized gains and losses on financial instruments that are classified as available-for-sale in "other comprehensive income", an account included in unitholders' equity. When such gains and losses are realized, they are recognized in net income. During the three months ended March 31, 2007, Royal Host had unrealized losses on marketable securities classified as available-for-sale of \$0.1 million.

Unrealized gains and losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair market value of the financial instruments in the period.

For periods prior to January 1, 2007 Royal Host deferred and amortized debt issuance costs on a straight-line basis over the term of the loan. Commencing on January 1, 2007, debt issuance costs are no longer classified as assets on the balance sheet or amortized over the term of the debt. CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" prescribes that under the effective interest method, debt issuance costs must be applied against the debt to which they relate. Over the term of the debt the long-term liability will increase to the face value of the debt, with the accretion being included in interest on mortgages or interest on convertible debentures on the Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss).

The adoption of these new accounting standards on January 1, 2007 has resulted in an adjustment to certain opening financial statement accounts. Prior periods' statements have not been restated for adoption of these new accounting standards. The adoption of the new accounting policies is done on a prospective basis. As a result of adopting these standards as at January 1, 2007 deferred debt issuance costs decreased from \$7.4 million to \$nil. Mortgages decreased from \$126.9 million to \$125.3 million, convertible debentures decreased from \$189.7 million to \$183.9 million and accumulated income increased by \$0.1 million. The balances of cash and cash equivalents, and marketable securities were not impacted by the adoption of these new accounting policies.

RESTATEMENT

Royal Host's financial statements for the periods ended December 31, 2002 through June 30, 2006 included changes in property under development and minority interest in cash from investing activities on its Consolidated Statements of Cash Flows. Changes in property under development and minority interest have been retroactively restated to be reclassified and included in cash from operating activities. The effects of the reclassification are as follows: cash provided by (used in) operating activities for the three months ended March 31, 2006 decreased by \$3.1 million to (\$3.0 million) and cash used in investing activities for the three months ended March 31, 2006 increased by \$3.1 million to (\$1.2 million).

OFF BALANCE SHEET ARRANGEMENT

Royal Host had no undisclosed off balance sheet arrangements as at March 31, 2007.

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 and environmental risks amongst others.

Additional information with respect to the risks and uncertainties to which Royal Host is subject is contained in its MD&A and Annual Information Form for the year ended December 31, 2006, which may be viewed on SEDAR at www.sedar.com.

On December 21, 2006, the Minister of Finance released for comment draft legislation concerning the taxation of certain publicly-traded trusts and partnerships. The legislation reflects proposals originally announced by the Minister on October 31, 2006. Under the proposed legislation, certain distributions will not be deductible by publicly-traded income trusts and partnerships, with the exception of certain real estate investment trusts and, as a result, these entities will, in effect, be taxed as corporations on the amount of the non-deductible distributions. For entities in existence on October 31, 2006, such as Royal Host, the proposed rules, if passed into law, would apply in four years in 2011. If the proposed legislation is passed into law in its current form, Royal Host will not qualify as a Real Estate Investment Trust.

BUSINESS ENVIRONMENT AND OUTLOOK

The hospitality industry experienced steady growth in 2006, and it is anticipated that growth will continue in 2007. Growth in demand is anticipated to exceed that of supply, resulting in anticipated improvements in RevPAR. Overall, Canada's general economic environment is strong and the hospitality industry's fundamentals remain sound.

Royal Host is in the fortunate position of having a strong balance sheet, a growing underlying business and a dedicated management team. The Trust is focused on owning, managing and franchising hotels in Canada and realizing value for its Unitholders.



ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

(unaudited)

For the three months ended March 31, 2007

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

(unaudited)

	As at	
	<u>March 31, 2007</u>	<u>December 31, 2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	43,990	92,144
Marketable securities	15,660	2,000
Accounts and notes receivable	8,577	9,529
Prepaid expenses	3,856	3,237
Inventories	3,145	3,174
Property under development	51	1,551
Assets of discontinued operations (Note 4)	181	4,285
Future income taxes (Note 12)	917	931
	<u>76,377</u>	<u>116,851</u>
Long-term notes receivable	44	47
Capital assets (Note 5)	306,808	308,396
Property held for sale (Note 4)	2,020	2,056
Restricted cash	3,518	5,261
Deferred debt issuance costs (Note 2)	-	7,422
	<u>388,767</u>	<u>440,033</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	14,249	16,421
Equity distributions payable	1,405	1,232
Interest accrued on convertible debentures	2,556	3,390
Mortgages (Note 6)	3,160	3,108
Convertible debentures (Notes 7 and 9)	-	38,021
Obligations under capital leases (Note 8)	429	375
Other liabilities	2,264	2,288
Liabilities of discontinued operations (Note 4)	83	4,351
	<u>24,146</u>	<u>69,186</u>
Mortgages (Note 6)	121,519	123,820
Convertible debentures (Notes 7 and 9)	143,151	151,689
Obligations under capital leases (Note 8)	432	242
Deferred revenue	182	417
Future income taxes (Note 12)	7,366	7,479
	<u>296,796</u>	<u>352,833</u>
Unitholders' equity (Note 10)	91,971	87,200
	<u>388,767</u>	<u>440,033</u>

See accompanying Notes to the Interim Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

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

(unaudited)

	Three Months Ended	
	March 31, 2007	March 31, 2006
Hospitality revenue		
Rooms	22,437	22,557
Food and beverage	5,835	5,769
Franchising and management	787	417
Other	2,658	2,427
	<u>31,717</u>	<u>31,170</u>
Hospitality expenses	<u>24,530</u>	<u>24,063</u>
	<u>7,187</u>	<u>7,107</u>
Royal Private Residence Club (Note 3)		
Revenue	1,498	-
Cost of sales	1,498	-
	<u>-</u>	<u>-</u>
Gross margin	<u>7,187</u>	<u>7,107</u>
Other expenses		
Trust administration	411	517
Interest on mortgages and capital leases	2,920	2,711
Interest on convertible debentures	3,210	2,479
Interest and investment income	(1,041)	(204)
Unrealized gain on marketable securities (Note 2)	(362)	-
Depreciation and amortization	3,816	3,802
Future income taxes recovery (Note 12)	(19)	(66)
Capital and other taxes	30	89
Loss (gain) on foreign currency translation	4	(1)
	<u>8,969</u>	<u>9,327</u>
Loss from continuing operations	<u>(1,782)</u>	<u>(2,220)</u>
Income from discontinued operations (Note 4)	<u>4,125</u>	<u>194</u>
Net income (loss)	<u>2,343</u>	<u>(2,026)</u>
Other comprehensive loss (Note 2)	<u>32</u>	<u>-</u>
Comprehensive income (loss)	<u>2,311</u>	<u>(2,026)</u>
Basic per unit net earnings (loss) (Note 10)		
- from continuing operations	(0.07)	(0.09)
- from discontinued operations	0.17	0.01
	<u>0.10</u>	<u>(0.08)</u>
Diluted per unit net earnings (loss) (Note 10)		
- from continuing operations	(0.07)	(0.09)
- from discontinued operations	0.17	0.01
	<u>0.10</u>	<u>(0.08)</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 Income	Accumulated Other Comprehensive Loss	Distributions	Total
Balance, December 31, 2005	217,541	1,680	2,824	10,418	-	(137,513)	94,950
Net loss	-	-	-	(2,026)	-	-	(2,026)
Equity distributions							
Trust units	-	-	-	-	-	(2,842)	(2,842)
Issuance of trust units pursuant to distribution reinvestment plan	3	-	-	-	-	-	3
Trust units repurchased pursuant to normal course issuer bid (Note 9)	(2,559)	-	1,216	-	-	-	(1,343)
Employee loans pursuant to employee unit purchase program	(5)	-	3	-	-	-	(2)
Balance, March 31, 2006	214,980	1,680	4,043	8,392	-	(140,355)	88,740
Net income	-	-	-	16,284	-	-	16,284
Equity distributions							
Trust units	-	-	-	-	-	(9,873)	(9,873)
Issuance of trust units pursuant to distribution reinvestment plan	9	-	-	-	-	-	9
Issuance of trust units pursuant to debenture conversion option	5	-	-	-	-	-	5
Trust units cancelled pursuant to normal course issuer bid (Note 9)	(13,257)	-	3,454	-	-	-	(9,803)
Employee loans pursuant to employee unit purchase program	38	-	-	-	-	-	38
Conversion option related to issued convertible debentures	-	1,800	-	-	-	-	1,800
Balance, December 31, 2006	201,775	3,480	7,497	24,676	-	(150,228)	87,200
Transitional adjustment on adoption of new accounting policy (Note 2)	-	-	-	111	-	-	111
Comprehensive income (loss)	-	-	-	2,343	(32)	-	2,311
Equity distributions							
Trust units	-	-	-	-	-	(4,141)	(4,141)
Issuance of trust units pursuant to distribution reinvestment plan	3	-	-	-	-	-	3
Issuance of trust units pursuant to debenture conversion option (Note 7)	8,323	-	-	-	-	-	8,323
Trust units cancelled pursuant to normal course issuer bid (Note 9)	(2,447)	-	487	-	-	-	(1,960)
Employee loans pursuant to employee unit purchase program	124	-	-	-	-	-	124
Balance, March 31, 2007	207,778	3,480	7,984	27,130	(32)	(154,369)	91,971

Accumulated income and accumulated other comprehensive loss, March 31, 2007 - \$27,098

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	
	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
		(Restated - See Note 13)
Operating activities		
Loss from continuing operations	(1,782)	(2,220)
Items not affecting cash:		
Depreciation and amortization	3,816	3,802
Future income taxes	(19)	(66)
Unrealized gain on marketable securities (Note 2)	(362)	-
Accretion of mortgages and convertible debentures (Note 7 and 8)	582	30
Cash flows provided by continuing operations	<u>2,235</u>	<u>1,546</u>
Cash flows provided by (used in) discontinued operations (Note 4)	(141)	161
Changes in non-cash working capital - continuing operations (Note 11)	(1,701)	(1,246)
Changes in non-cash working capital - discontinued operations (Note 4)	(82)	(390)
Decrease (increase) in property under development	1,500	(3,140)
Decrease in minority interest	-	20
	<u>1,811</u>	<u>(3,049)</u>
Financing activities		
Redemption upon maturity of convertible debentures	(32,469)	-
Repurchase of convertible debentures pursuant to normal course issuer bid	(300)	(800)
Principal repayments on mortgages and capital leases	(882)	(859)
Repurchase of trust units pursuant to normal course issuer bid	(3,001)	(1,343)
Equity distributions	(3,968)	(2,721)
Proceeds from repayment of employee unit purchase program loan	124	-
	<u>(40,496)</u>	<u>(5,723)</u>
Investing activities		
Purchase of marketable securities	(14,267)	-
Dispositions of marketable securities	937	-
Net cash on dispositions (Note 4)	5,251	451
Acquisition of capital assets	(3,136)	(1,278)
Decrease in restricted cash	1,743	(451)
Decrease in long-term notes receivable	3	90
	<u>(9,469)</u>	<u>(1,188)</u>
Decrease in cash and cash equivalents	(48,154)	(9,960)
Cash and cash equivalents, beginning of period	<u>92,144</u>	<u>31,483</u>
Cash and cash equivalents, end of period	<u>43,990</u>	<u>21,523</u>
Cash interest paid		
Mortgages and capital leases	2,569	2,721
Convertible debentures	3,620	1,829
	<u>6,189</u>	<u>4,550</u>

See accompanying Notes to the Interim Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim 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. CHANGE IN ACCOUNTING POLICY

These unaudited consolidated interim financial statements and notes have been prepared using the accounting policies that are consistent with the policies used in preparing the Trust's 2006 annual consolidated financial statements with the exception of the policies noted below. These financial statements do not include all disclosures required under Canadian generally accepted accounting principles for annual financial statement and should be read in conjunction with the annual consolidated financial statements.

(a) Financial Instruments and Comprehensive Income

The Canadian Institute of Chartered Accountants (CICA) has issued new guidance related to financial instruments that are effective for the Trust commencing January 1, 2007.

CICA Handbook Section 3855, "*Financial Instruments - Recognition and Measurement*" provides guidance on when a financial instrument must be recognized on the balance sheet and how it is to be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The Trust has elected to apply the following treatment to each of its significant categories of financial instruments:

Cash equivalents	Held-to-maturity
Marketable securities	Held for trading or available-for-sale
Mortgages	Amortized cost
Convertible debentures	Amortized cost

CICA Handbook Section 1530, "*Comprehensive Income*" requires an entity to recognize unrealized gains and losses on financial instruments that are classified as available-for-sale in "other comprehensive income", an account included in unitholders' equity. When such gains and losses are realized they are recognized in net income. During the three months ended March 31, 2007, Royal Host had unrealized losses on marketable securities classified as available-for-sale of \$0.1 million.

Unrealized gains or losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair market value of the financial instrument in the period.

For periods prior to January 1, 2007 Royal Host deferred and amortized debt issuance costs on a straight-line basis over the term of the debt. Commencing January 1, 2007, debt issuance costs are no longer classified as assets on the balance sheet or amortized over the term of the debt. CICA Handbook Section 3855, "*Financial Instruments - Recognition and Measurement*" prescribes that under the effective interest method, debt issuance costs must be applied against the debt to which they relate. Over the term of the debt the long term liability will increase to the face value of the debt, with the accretion being included in interest on mortgages or interest on convertible debentures on the consolidated statement of net income (loss) and comprehensive income (loss).

The adoption of these new accounting standards on January 1, 2007 has resulted in an adjustment to certain opening financial statement accounts. Prior periods' statements have not been restated for the adoption of these new accounting policies. The adoption of the new accounting policies is done on a prospective basis. As a result of adopting these standards as at January 1, 2007 deferred debt issuance costs decreased from \$7.4 million to \$nil. Mortgages decreased from \$126.9 million to \$125.3 million, convertible debentures decreased from \$189.7 million to \$183.9 million and accumulated income increased by \$0.1 million. These changes are the result of the implementation of the new accounting guidance described in the paragraph above. The balances of cash and cash equivalents, and marketable securities were not impacted by the adoption of these new policies.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim Consolidated Financial Statements

(unaudited)

3. ROYAL PRIVATE RESIDENCE CLUB

A subsidiary of Royal Host developed, for resale, the Royal Private Residence Club, a residential condominium on a property adjacent to the Grand Okanagan Lakefront Resort and Conference Centre in Kelowna, British Columbia. Revenue and cost of sales (including commissions and other selling costs) are recorded at the time each condominium sale is closed, and title and possession have been transferred to the buyer.

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

The operations of properties and businesses that were disposed of during the period ended March 31, 2007 or subsequent thereto, or that are held for sale as at March 31, 2007, have been included in discontinued operations on the consolidated statements of net income (loss) and comprehensive income (loss), and reflected as assets and liabilities of discontinued operations and property held for sale on the consolidated balance sheets.

Effective December 31, 2006, Royal Host sold its timeshare business unit for \$1.2 million, resulting in a loss on disposition of \$0.3 million.

During the period ending March 31, 2007, Royal Host sold its US management business, resulting in a gain on disposition of approximately \$4.2 million.

On February 23, 2005, Royal Host completed the sale of its 50% interest in a hotel property located in Toronto, Ontario to a condominium developer. The net cost of winding up the business, to a maximum of \$2.0 million, is to be reimbursed by the purchaser to Royal Host in the form of a non-interest bearing VTB mortgage (included in accounts receivable).

The Trust is actively seeking a buyer for a hotel property in Ontario. During the fourth quarter of 2006, the Trust recorded a property impairment provision in discontinued operations of \$0.7 million relating to this property.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim Consolidated Financial Statements

*(unaudited)***4. PROPERTY HELD FOR SALE, DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS** (continued)

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 year.

	<i>(in \$000's)</i>	
	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
Revenue		
Rooms	80	104
Management	60	998
Other	5	9
	<u>145</u>	<u>1,111</u>
Operating expenses	<u>180</u>	<u>888</u>
Gross margin	<u>(35)</u>	<u>223</u>
Other expenses		
Depreciation and amortization	3	11
Future income taxes recovery	(32)	(44)
Capital and other taxes	75	49
Loss on foreign currency translation	31	13
	<u>77</u>	<u>29</u>
Income (loss) before gain on disposition	<u>(112)</u>	<u>194</u>
Gain on disposition	<u>4,237</u>	<u>-</u>
Income from discontinued operations	<u>4,125</u>	<u>194</u>

Cash flows from discontinued operations, reported on the statement of cash flows, are reconciled to the earnings from discontinued operations as follows:

	<i>(in \$000's)</i>	
	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
Income from discontinued operations	<u>4,125</u>	<u>194</u>
Items not affecting cash:		
Future income taxes recovery	(32)	(44)
Depreciation and amortization	3	11
Gain on disposition	(4,237)	-
Cash flows provided by (used in) discontinued operations	<u>(141)</u>	<u>161</u>
Changes in non-cash working capital		
Assets of discontinued operations	4,104	(294)
Liabilities of discontinued operations	(4,186)	(96)
	<u>(82)</u>	<u>(390)</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim Consolidated Financial Statements

(unaudited)

5. CAPITAL ASSETS

	<i>(in \$000's)</i>		
	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
March 31, 2007			
Buildings	321,993	73,307	248,686
Land	37,192	-	37,192
Furniture, fixtures, and equipment	49,191	40,093	9,098
Other	1,248	397	851
	<u>409,624</u>	<u>113,797</u>	<u>295,827</u>
Capital assets under development	3,193	-	3,193
Intangible assets:			
Franchise rights and management contracts	27,414	19,626	7,788
	<u>440,231</u>	<u>133,423</u>	<u>306,808</u>
	<i>(in \$000's)</i>		
	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
December 31, 2006			
Buildings	321,413	71,018	250,395
Land	37,192	-	37,192
Furniture, fixtures, and equipment	48,532	39,029	9,503
Other	1,247	381	866
	<u>408,384</u>	<u>110,428</u>	<u>297,956</u>
Capital assets under development	2,157	-	2,157
Intangible assets:			
Franchise rights and management contracts	27,414	19,131	8,283
	<u>437,955</u>	<u>129,559</u>	<u>308,396</u>

During the three months ended March 31, 2007, capital additions to Royal Host's hotel properties totalled \$2.2 million (March 31, 2006 - \$1.3 million).

6. MORTGAGES

	<i>(in \$000's)</i>	
	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Mortgages secured by hotel properties	124,679	126,928
Less: current portion	3,160	3,108
	<u>121,519</u>	<u>123,820</u>

Principal repayments required for the twelve months ending March 31:

	<u><i>(in \$000's)</i></u>
2008	3,160
2009	3,383
2010	59,848
2011	25,458
2012	13,123
Subsequent	21,191
Total principal outstanding	<u>126,163</u>
Debt issuance costs	(1,484)
	<u>124,679</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim Consolidated Financial Statements

*(unaudited)***7. CONVERTIBLE DEBENTURES**

	<i>(in \$000's)</i>	
	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
9.25% Convertible Unsecured Subordinated Debentures	-	38,021
7.90% Convertible Unsecured Subordinated Debentures, Series A	31,708	35,000
6.00% Convertible Unsecured Subordinated Debentures, Series B	55,601	58,464
6.25% Convertible Unsecured Subordinated Debentures, Series C	55,842	58,225
	143,151	189,710
Less: current portion	-	38,021
	143,151	151,689

Principal repayments required for the twelve months ending March 31:

	<u><i>(in \$000's)</i></u>
2008	-
2009	-
2010	32,514
2011	-
2012	-
Subsequent	<u>119,410</u>
Total principal outstanding	<u>151,924</u>
Debt issuance costs	(5,571)
Equity conversion option	<u>(3,202)</u>
	<u><u>143,151</u></u>

During the three months ended March 31, 2007, \$5.6 million of Royal Host's 9.25% convertible unsecured subordinated debentures were converted into 793,140 trust units. The remaining \$32.5 million of the 9.25% convertible unsecured subordinated debentures were redeemed upon maturity on March 1, 2007.

During the three months ended March 31, 2007, \$2.2 million of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 364,330 trust units. Subsequent to March 31, 2007, \$0.2 million of the debentures were converted into 39,833 trust units.

During the three months ended March 31, 2007, \$0.6 million of Royal Host's 6.0% convertible unsecured subordinated debentures were converted into 85,399 trust units.

Subsequent to March 31, 2007, \$30,000 of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 4,285 trust units.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim 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 December 31, 2006 are as follows:

	<i>(in \$000's)</i>	
	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Present value of future minimum lease payments	861	617
Less: current portion of principal payments	429	375
	<u>432</u>	<u>242</u>

Total repayments required for the twelve months ending March 31:

	<u><i>(in \$000's)</i></u>
2008	481
2009	235
2010	81
2011	81
2012	81
Subsequent	13
Future minimum lease payments	<u>972</u>
Less: amounts representing interest	<u>111</u>
Present value of future minimum lease payment:	<u>861</u>

9. NORMAL COURSE ISSUER BIDS**(a) Trust Units**

Commencing on December 29, 2006, Royal Host initiated a normal course issuer bid to repurchase a maximum of 2.0 million of its issued and outstanding trust units. During the three months ended March 31, 2007, 279,100 trust units with an aggregate cost of \$2.0 million (average cost of \$7.00 per unit) were repurchased pursuant to this bid. As at March 31, 2007, 28,100 of these units were cancelled with the remaining 251,000 units being cancelled subsequent thereto. Subsequent to March 31, 2007, 4,400 trust units with an aggregate cost of \$31,155 (average cost of \$7.08) were repurchased pursuant to this bid.

Commencing on December 29, 2005, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.8 million of its issued and outstanding trust units. During the three months ended March 31, 2006, Royal Host repurchased 225,700 trust units with an aggregate cost of \$1.3 million (average cost of \$5.93 per unit) pursuant to this bid.

(b) 9.25% Convertible Unsecured Subordinated Debentures

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. During the three months ended March 31, 2007, no debentures were repurchased pursuant to this bid.

(c) 7.90% Convertible Unsecured Subordinated Debentures, Series A

Commencing on November 23, 2006, Royal Host initiated a normal course issuer bid to repurchase up to \$3.5 million in principal of its issued and outstanding 7.90% convertible debentures. During the three months ended March 31, 2007, \$0.3 million in principal of the 7.9% convertible debentures were repurchased with an aggregate cost of \$0.4 million (average cost of \$116.92) were repurchased pursuant to this bid. As at March 31, 2007 \$0.3 million in principal of the 7.9% convertible debenture repurchases were not yet cancelled.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim Consolidated Financial Statements

*(unaudited)***9. NORMAL COURSE ISSUER BIDS** (continued)**(d) 6.00% Convertible Unsecured Subordinated Debentures, Series B**

Commencing on March 30, 2007, Royal Host initiated a normal course issuer bid to repurchase up to \$5.9 million in principal of its issued and outstanding 6.00% convertible debentures. No debentures have been repurchased pursuant to this bid.

(e) 6.25% Convertible Unsecured Subordinated Debentures, Series C

Commencing on March 30, 2007, Royal Host initiated a normal course issuer bid to repurchase up to \$6.0 million in principal of its issued and outstanding 6.25% convertible debentures. During the three months ended March 31, 2007, no debentures were repurchased pursuant to this bid. Subsequent to March 31, 2007 Royal Host repurchased and cancelled \$0.1 million of debentures (average cost of \$107.12).

10. PER UNIT CALCULATIONS

As at March 31, 2007, a total of 25,521,091 trust units (December 31, 2006 - 24,500,976) were issued and outstanding. Per unit computations are based on the weighted average number of trust units outstanding for the period.

For the three months ended March 31, 2007:	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Basic loss - continuing operations	(1,782)	(0.07)
Basic earnings - discontinued operations	4,125	0.17
Basic earnings - total operations	<u>2,343</u>	<u>0.10</u>
Diluted loss - continuing operations	(1,782)	(0.07)
Diluted earnings - discontinued operations	4,125	0.17
Diluted earnings - total operations	<u>2,343</u>	<u>0.10</u>
For the three months ended March 31, 2006:	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Basic loss - continuing operations	(2,220)	(0.09)
Basic earnings - discontinued operations	194	0.01
Basic loss - total operations	<u>(2,026)</u>	<u>(0.08)</u>
Diluted loss - continuing operations	(2,220)	(0.09)
Diluted earnings - discontinued operations	194	0.01
Diluted loss - total operations	<u>(2,026)</u>	<u>(0.08)</u>

The diluted earnings per unit for the three months ended March 31, 2007 and 2006 exclude trust units related to the conversion options of the convertible debentures into trust units because all of the conversions are anti-dilutive.

ROYAL HOST REAL ESTATE INVESTMENT TRUSTNotes to the Interim Consolidated Financial Statements
(*unaudited*)**11. CHANGES IN NON-CASH WORKING CAPITAL**

	<i>(in \$000's)</i>	
	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2006</u>
(Increase) decrease in:		
Accounts and notes receivable	(88)	(101)
Prepaid expenses	(619)	(417)
Inventories	29	16
	<u>(678)</u>	<u>(502)</u>
Increase (decrease) in:		
Accounts payable and accrued liabilities	118	(1,051)
Interest accrued on convertible debentures	(834)	620
Other liabilities	(24)	(102)
Deferred revenue	(235)	(92)
Future income taxes	(48)	(119)
	<u>(1,023)</u>	<u>(744)</u>
	<u>(1,701)</u>	<u>(1,246)</u>

12. FUTURE INCOME TAXES

The net future income tax liability is calculated as follows:

	<i>(in \$000's)</i>	
	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Tax assets relating to subsidiary operating losses and temporary differences on current items	917	931
Tax liabilities relating to temporary differences in long-term items	(7,366)	(7,479)
	<u>(6,449)</u>	<u>(6,548)</u>

On December 21, 2006, the Minister of Finance released for comment draft legislation concerning the taxation of certain publicly traded trusts and partnerships. The legislation reflects proposals originally announced by the Minister on October 31, 2006. Under the proposed legislation, certain distributions will not be deductible to publicly traded income trusts and partnerships with the exception of real estate investment trusts and, as a result, these entities will in effect be taxed as corporations on the amount of non-deductible distributions. For entities in existence on October 31, 2006, such as the Trust, the proposed rules, if passed into law, would not apply until 2011.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Interim Consolidated Financial Statements

(unaudited)

13. COMPARATIVE FIGURES AND RESTATEMENT

Certain comparative figures have been reclassified to conform to the presentation adopted for 2007.

Royal Host's financial statements for the periods ended December 31, 2002 through June 30, 2006 included changes in property under development and minority interest in cash from investing activities on Royal Host's Consolidated Statements of Cash Flows. Changes in property under development and minority interest have been retroactively restated to be included in cash from operating activities. The effects of the restatement are as follows: cash provided by (used in) operating activities for the three months ended March 31, 2006 decreased by \$3.1 million to (\$3.0 million), and cash used in investing activities for the three months ended March 31, 2006 increased by \$3.1 million to (\$1.2 million).
