

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Management's Discussion and Analysis



2007

FOR THE THREE AND NINE MONTHS
ENDED SEPTEMBER 30, 2007

Third QUARTER IN REVIEW

Royal Host's focus on building Unitholder value continued to deliver strong results in the three months ending September 30, 2007. Highlights include:

- Increased Revenue per Available Room by 2.9% on the strength of a diversified portfolio and effective yield management strategies.
- Increased Hospitality Gross Margin by 6.6% to \$16.0 million, representing 38.0% of hospitality revenue (2006 - \$15.0 million, or 36.3% of hospitality revenue).
- Growth in Basic per unit Cash Available for Distribution generated from hospitality operations.
- Distributed \$4.4 million, or \$0.165 per Unit, to Unitholders (2006 - \$3.1 million, or \$0.12 per Unit).
- Repurchased \$7.2 million of trust units and \$1.9 million of Royal Host convertible debentures through Normal Course Issuer Bids.
- Reinvested \$2.5 million in capital expenditures across its portfolio in its continued commitment to maintaining and improving the quality of its assets.
- Maintained a solid balance sheet, highlighted by \$102.0 million of cash and marketable securities* (December 31, 2006 - \$94.1 million), positioning Royal Host to capitalize on opportunities to build Unitholder value.

**The Trust does not own non bank asset-backed securities.*

Royal Host is a fully-integrated hotelier focused on hotel ownership, management and franchising and is Canada's second-largest hotel Real Estate Investment Trust.

Royal Host trust units and convertible debentures are traded on the Toronto Stock Exchange under the trading symbols "RYL.UN", "RYL.DB.A", "RYL.DB.B", "RYL.DB.C" and "RYL.DB.D", respectively. The market capitalization of Royal Host's trust units and convertible debentures totalled \$180.8 million and \$192.6 million, respectively, as of September 30, 2007.

Royal Host owns a diversified portfolio of 37 properties, comprising 4,500 guest rooms, which includes limited, focused and full-service hotels in the mid-market to upscale hospitality segments, and is well represented throughout Canada operating under such recognizable brands set forth in the table below, as well as a number of unbranded properties such as the Chimo Hotel in Ottawa and The Grand Okanagan Lakefront Resort & Conference Centre in Kelowna.

	ONTARIO			ATLANTIC			WESTERN			TOTAL		
	# of Hotels	# of Rooms	% of Guest Rooms	# of Hotels	# of Rooms	% of Guest Rooms	# of Hotels	# of Rooms	% of Guest Rooms	# of Hotels	# of Rooms	% of Guest Rooms
Travelodge/Thriflodge®	10	1,438	32.0%	-	-	0.0%	5	448	10.0%	15	1,886	41.9%
Independent®	2	331	7.4%	-	-	0.0%	3	489	10.9%	5	820	18.2%
Country Inns & Suites®	-	-	-	4	276	6.1%	3	228	5.1%	7	504	11.2%
Holiday Inn®	2	254	5.6%	-	-	-	1	137	3.0%	3	391	8.7%
Hilton®	1	323	7.2%	-	-	-	-	-	-	1	323	7.2%
Super 8®	2	159	3.5%	-	-	-	2	132	2.9%	4	291	6.5%
Best Western®	-	-	-	-	-	-	1	159	3.5%	1	159	3.5%
Ramada®	1	124	2.8%	-	-	-	-	-	-	1	124	2.8%
	18	2,629	58.4%	4	276	6.1%	15	1,593	35.4%	37	4,498	100.0%

In addition to providing management services to its own portfolio, Royal Host's team manages a number of properties on behalf of third parties using its proven training programs, operating procedures, revenue and yield management systems and sales programs.

Royal Host also owns the master franchise rights for Travelodge® and Thriflodge® in Canada. Through its subsidiary, Travelodge Canada, Royal Host currently franchises over 100 locations, 15 of which are owned by the Trust. Royal Host receives a stable stream of revenue through monthly royalty fees paid by licensed hotel owners and by selling franchise licenses, which enhances the overall diversity of Royal Host's income stream.

Royal Host's success over recent years is the embodiment of its strong focus on the fundamentals of its businesses, which provide the means to deliver value to its Unitholders. Royal Host has identified and capitalized on operational efficiencies, reinvested in its properties in order to ensure they attract their target markets, and identified opportunities for investment or acquisition that will allow the Trust to grow Unitholder value. The Trust's portfolio is diverse in terms of geography, types of business and the customer bases it services, mitigating the risks inherent in an industry that, while currently strong, is cyclical in nature.

As a result of prudent operational and investment strategies, Royal Host again delivered a strong quarterly performance to the benefit of its Unitholders. The Trust increased Gross Margin by 6.6% to \$16.0 million, repurchased \$7.2 million of trust units and \$1.9 million of convertible debentures through Normal Course Issuer Bids, and paid out \$4.4 million in distributions in the three months ending September 30, 2007. Each of these initiatives further increased the worth of its Unitholders' investment – delivering on Royal Host's overall goal to build Unitholder value.

The Trust continues to be very selective in choosing opportunities that it feels will allow provide growth. Royal Host's balance sheet is solid – perhaps the strongest of any hospitality REIT – highlighted by \$102 million in cash and marketable securities, which places it in an favourable position to capitalize on its opportunity-driven approach to maximizing Unitholder value.

This MD&A dated November 7, 2007 is the responsibility of Management. The Trustees carry out their responsibility for review of this MD&A principally through their Audit Committee. This MD&A should be read in conjunction with the unaudited interim Consolidated Financial Statements and notes of Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") for the three and nine months ended September 30, 2007 and the annual consolidated financial statements and accompanying Management's Discussion and Analysis for the year ended December 31, 2006. The unaudited interim Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Selected FINANCIAL INFORMATION

(\$000's, except as otherwise noted)	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change (%)	2007	2006	Change (%)
Hospitality Revenue (Continuing Operations)						
Rooms	31,465	31,131	1.1	81,243	80,654	0.7
Food and Beverage	6,249	6,290	(0.7)	19,404	19,266	0.7
Franchising and Management	823	751	9.6	2,160	1,724	25.3
Other	3,686	3,236	13.9	9,381	8,591	9.2
Total	42,223	41,408	2.0	112,188	110,235	1.8
Hospitality Expenses	26,178	26,360	(0.7)	76,284	76,366	(0.1)
Hospitality Gross Margin	16,045	15,048	6.6	35,904	33,869	6.0
Hospitality Gross Margin %	38.0%	36.3%		32.0%	30.7%	
Royal Private Residence Club	-	8,727	(100.0)	-	8,727	(100.0)
Other Expenses	9,511	10,479	(9.2)	24,865	29,346	(15.3)
Income From Continuing Operations*	6,534	13,296	(50.9)	11,039	13,250	(16.7)
Income From Discontinued Operations**	30	643	(95.3)	4,191	1,252	(234.7)
Net Income	6,564	13,939	(52.9)	15,230	14,502	5.0
Basic Per Unit Net Earnings (\$)						
From Continuing Operations	0.25	0.52	(51.9)	0.43	0.51	(15.7)
From Discontinued Operations	0.00	0.02	(100.0)	0.16	0.04	300.00
	0.25	0.54	(53.7)	0.59	0.55	7.3
Cash Available For Distribution	10,073	17,417	(42.2)	17,585	23,186	(24.2)
Distributions Declared on Trust Units	4,378	3,083	42.0	12,880	9,004	43.0
Basic Per Unit Cash Available For Distribution (\$)	0.39	0.68	(42.6)	0.69	0.89	(22.5)
Per Unit Distributions Declared (\$)	0.17	0.12	37.5	0.49	0.35	40.0
Weighted Average Number of Trust Units Outstanding (000's)	25,971	25,755	0.8	25,596	25,958	(1.4)
Number of Trust Units Outstanding, end of period (000's)	26,021	25,548	1.9	26,021	25,548	1.9
Closing Trust Unit Trading Price, end of period (\$)	6.95	6.10	13.9	6.95	6.10	13.9

As at November 7, 2007 Royal Host had 27,477,159 trust units outstanding

*The Trust's income from continuing operations for the three months ended September 30, 2007 was \$6.5 million (2006 - \$13.3 million, including gross margin of \$8.7 million on the Royal Private Residence Club). For the nine months then ended, income from continuing operations was \$11.0 million (2006 - \$13.3 million).

**Discontinued operations are comprised of the Trust's former timeshare and US hotel management businesses and the Sundial Inn, as described below in "Discontinued Operations and Property Held For Sale".

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 similar measures presented by other entities. These measures should not be used as an alternative to net earnings or cash flows from operations determined in accordance with GAAP when assessing Royal Host's financial performance. However, the 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, Adjusted Funds from Operations and Hospitality Gross Margin.

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 and operating 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 period by the number of rooms available in the same period; and
- **ADR**, which measures the average room price for all guest rooms and is calculated by dividing total room revenue by the number of rooms rented in a given period.

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 July 6, 2007 Interpretive Release 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 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

PORTFOLIO (CONTINUING OPERATIONS)

36 hotels / 4,423 rooms	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change %	2007	2006	Change (%)
RevPAR	\$78.91	\$76.69	2.9	\$67.83	\$66.53	2.0
Occupancy	72.8%	73.5%	(1.0)	66.0%	67.5%	(2.2)
ADR	\$108.39	\$104.27	4.0	\$102.54	\$98.52	4.1

The Trust's hotel portfolio is diversified geographically and derives its revenues from numerous market segments with differing economic drivers, mitigating the Trust's risk exposure to fluctuating market conditions. Royal Host proactively deploys resources to maintain and grow market share, including capital improvements, revenue management strategies, sales and marketing initiatives and management of brand reservation systems.

RevPAR from continuing operations improved by 2.9% to \$78.91 in the third quarter of 2007 (2006 - \$76.69). The increase resulted from a \$4.12, or 4.0%, increase in ADR, offset by a 1.0% decrease in Occupancy. RevPAR from continuing operations improved by 2.0% to \$67.83 for the nine months ending September 30, 2007 (2006 - \$66.53). ADR increased by \$4.02, or 4.1%, offset by a 2.2% decrease in Occupancy. Consistent with the first half of 2007, the Trust continued to benefit from increased ADR. The improvement in ADR illustrates the Trust's success in generating incremental revenue through proactive yield management strategies.

BY REGION (CONTINUING OPERATIONS)

ONTARIO <i>55.5% of rooms revenue</i> <i>17 hotels / 2,554 rooms</i>	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change (%)	2007	2006	Change (%)
RevPAR	\$72.05	\$71.90	0.2	\$65.70	\$66.25	(0.8)
Occupancy	72.4%	72.6%	(0.3)	65.9%	67.4%	(2.2)
ADR	\$99.54	\$99.01	0.5	\$99.74	\$98.26	1.5

Royal Host increased RevPAR by 0.2% to \$72.05 in the third quarter of 2007 (2006 - \$71.90). ADR improved by 0.5% to \$99.54 from \$99.01 in 2006. Occupancy decreased by 0.3% to 72.4% from 72.6% in 2006. A number of properties, including the Trust's properties in London, Ottawa and Timmins, produced particularly strong results.

RevPAR decreased by 0.8% to \$65.70 for the nine months ending September 30, 2007 (2006 - \$66.25). ADR increased by \$1.48, or 1.5%, offset by a 2.2% decrease in Occupancy.

WESTERN <i>38.2% of rooms revenue</i> <i>15 hotels / 1,593 rooms</i>	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change (%)	2007	2006	Change (%)
RevPAR	\$87.99	\$82.67	6.4	\$70.96	\$67.05	5.8
Occupancy	70.4%	72.3%	(2.6)	64.1%	66.0%	(2.9)
ADR	\$125.05	\$114.34	9.4	\$110.68	\$101.59	8.9

RevPAR increased by 6.4% to \$87.99 in the third quarter of 2007 (2006 - \$82.67). ADR increased by 9.4% to \$125.05 from \$114.34 in 2006. Occupancy decreased by 2.6% to 70.4% from 72.3% in 2006. The Holiday Inn (The Palace) in Edmonton and the Best Western Village Park Inn in Calgary continued to produce record results. The Grand Okanagan Resort and Conference Centre, the Yellowknife Inn and the Trust's properties in Regina and Saskatoon each delivered very strong performances.

RevPAR increased by 5.8% to \$70.96 for the nine months ending September 30, 2007 (2006 - \$67.05). ADR increased by \$9.09, or 8.9%, offset by a 2.9% decrease in Occupancy, which is predominantly a result of lower Occupancy at the Trust's Southern Alberta limited service hotels and the Travelodge Fort Nelson.

ATLANTIC <i>6.3% of rooms revenue</i> <i>4 hotels / 276 rooms</i>	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change (%)	2007	2006	Change (%)
RevPAR	\$86.30	\$83.00	4.0	\$68.26	\$65.87	3.6
Occupancy	86.2%	83.4%	3.4	73.3%	72.3%	1.4
ADR	\$100.15	\$99.54	0.6	\$93.14	\$91.05	2.3

The Trust's Atlantic region has generated positive results throughout 2007 reflecting the quality of the Trust's hotels and the region's increasing demand for hotel accommodation.

Distributions TO UNITHOLDERS

During the third quarter of 2007, the Trust declared distributions to Unitholders of \$4.4 million, an increase of 42.0% over 2006 (2006 - \$3.1 million). During the nine months ended September 30, 2007, the Trust declared distributions of \$12.9 million, an increase of 43.0% (2006 - \$9.0 million). Royal Host's Trustees determine monthly distributions to Unitholders based on, among other considerations, annual performance, projected cash flows, capital requirements and working capital requirements. The objective is to set the distributions at a level that will be sustainable. Accordingly, cash distributions will not necessarily equal cash available for distribution in any given period. Royal Host pays monthly cash distributions to Unitholders of record on or about the 15th day of each month, which are payable on or about the last business day of the month.

The Trust has consistently raised distributions since January 2005, and most recently, increased monthly distributions from \$0.05 per unit to \$0.055 per unit, or \$0.66 per unit annually, effective as of the February 2007 distribution.

CASH AVAILABLE FOR DISTRIBUTION

(\$000's, except as otherwise noted)	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change (%)	2007	2006	Change (%)
Cash Flows from Operating Activities	11,415	42,568		18,182	40,002	
Changes in Non-Cash Working Capital	167	328		4,980	3,640	
Changes in Investment in PRC	-	(32,581)		(1,551)	(25,050)	
Changes in Minority Interest	-	8,599		-	8,591	
Cash Flows from Total Operations	11,582	18,914	(38.8)	21,611	27,183	(20.5)
Provision for Capital Replacement*	(1,509)	(1,497)		(4,026)	(3,997)	
Cash Available for Distribution	10,073	17,417	(42.2)	17,585	23,186	(24.2)
Distributions Declared	4,378	3,083	42.0	12,880	9,004	43.0
Basic Per Unit Cash Available For Distribution (\$)	0.39	0.68	(42.6)	0.69	0.89	(22.5)
Diluted Per Unit Cash Available For Distribution (\$)	0.26	0.38	(31.6)	0.55	0.61	(9.8)
Per Unit Distributions Declared (\$)	0.17	0.12	37.5	0.49	0.35	40.0

*This provision is calculated as 4.0% of rooms and food and beverage revenue

Due to the recognition of \$8.7 million of gross margin on the Royal Private Residence Club in the third quarter of 2006, Cash Available for Distribution decreased comparatively for the three months ended September 30, 2007 to \$10.0 million, or \$0.39 per unit (2006 - \$17.4 million, or \$0.68 per unit). Cash Available for Distribution for the nine months ended September 30, 2007 decreased to \$17.6 million, or \$0.69 per unit (2006 - \$23.2 million, or \$0.89 per unit).

Because management believes that, from time to time, the market price of the Trust's securities may not fully reflect the underlying value of the securities and that at such times the repurchase of securities would be in the best interest of Royal Host and its Unitholders, in the third quarter of 2007, Royal Host strategically deployed cash by taking advantage of market conditions to repurchase trust units and convertible debentures, reducing the Trust's cost of capital and dilution. During the three months ended September 30, 2007, the Trust spent \$7.2 million repurchasing trust units and \$2.2 million repurchasing convertible debentures pursuant to its Normal Course Issuer Bids, spent \$2.5 million on capital reinvestment and made total debt principal repayments of \$1.0 million.

In addition to deploying \$32.5 million in cash in connection with the maturity of its 9.25% convertible debentures during the nine months ended September 30, 2007, the Trust spent \$15.5 million repurchasing trust units, \$5.3 million repurchasing convertible debentures, and \$7.4 million on capital investment and made total debt principal repayments of \$2.7 million.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

(\$000's, except as otherwise noted)	Three months ended September 30			Nine months ended September 30		
	2007	2006	Change (%)	2007	2006	Change (%)
Cash Flows provided by Total Operations	11,582	18,913	(38.8)	21,611	27,183	(20.5)
Premium on Repurchases of Convertible Debentures	(63)	-		(411)	-	
Accretion on Mortgages and Convertible Debentures	(728)	(31)		(1,755)	(92)	
Funds From Operations	10,791	18,882*	(42.9)	19,445	27,091*	(28.2)
Provision for Capital Replacement	(1,509)	(1,498)		(4,026)	(3,997)	
Adjusted Funds From Operations	9,282	17,384	(46.6)	15,419	23,094	(33.2)
Per Unit Funds From Operations (\$)						
Basic	0.42	0.73	(42.5)	0.76	1.04	(26.9)
Diluted	0.28	0.41	(31.7)	0.59	0.68	(13.2)
Per Unit Adjusted Funds From Operations (\$)						
Basic	0.36	0.68	(47.1)	0.60	0.89	(32.6)
Diluted	0.25	0.38	(34.2)	0.51	0.61	(16.4)

*Includes recognition of \$8.7 million profit on Royal Private Residence Club in the third quarter of 2006.

During the three and nine months ended September 30, 2007, the Trust generated Funds from Operations of \$10.8 million (2006 - \$18.9 million) and \$19.4 million (2006 - \$27.1 million), respectively. Funds from Operations reflects the deduction of accretion on mortgages and convertible debentures of \$0.7 million (2006 - \$nil), and \$1.8 million (2006 - \$0.1 million) for the three and nine months ended September 30, 2007. Debt issuance costs and conversion options 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. Adjusted Funds from Operations was \$9.3 million (2006 - \$17.4 million) and \$15.4 million (2006 - \$23.1 million) for the three and nine months ended September 30, 2007, respectively.

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 SEPTEMBER 30, 2007

During the three months ended September 30, 2007, the Trust generated a \$0.8 million increase in hospitality revenue and a \$1.0 million improvement in hospitality gross margin. Income from continuing operations was \$6.5 million (2006 - \$13.3 million, including gross margin of \$8.7 million on the Royal Private Residence Club).

	For the three months ended September 30			
<i>(\$000's, except as otherwise noted)</i>	2007	2006	Change	Change (%)
Hospitality Revenue	42,223	41,408	815	2.0
Hospitality Expenses	26,178	26,360	(182)	(0.7)
Hospitality Gross Margin	16,045	15,048	997	6.6
Royal Private Residence Club	-	8,727	(8,727)	(100.0)
Gross Margin	16,045	23,775	(7,730)	(32.5)
Other Expenses	9,511	10,479	(968)	(9.2)
Income from Continuing Operations	6,534	13,296	(6,762)	(50.9)

Hospitality REVENUE

Hospitality revenue from continuing operations for the three months ended September 30, 2007 increased by \$0.8 million to \$42.2 million (2006 - \$41.4 million).

	For the three months ended September 30			
<i>(\$000's, except as otherwise noted)</i>	2007	2006	Change	Change (%)
Revenue (continuing operations)				
Rooms	31,465	31,131	334	1.1
Food and Beverage	6,249	6,290	(41)	(0.7)
Franchising and Management	823	751	72	9.6
Other	3,686	3,236	450	13.9
	42,223	41,408	815	2.0

Rooms revenue increased by \$0.4 million, or 1.1%, to \$31.5 million (2006 - \$31.1 million). The Grand Okanagan Resort and Conference Centre, the Holiday Inn (The Palace), the Best Western Village Park Inn, the Super 8 Regina, the Yellowknife Inn and the Trust's properties in Ottawa all produced particularly strong results. The Trust's yield management strategies contributed to producing a 4.0% increase in ADR during the quarter.

Food and beverage revenue decreased nominally to \$6.2 million (2006 - \$6.3 million).

Franchising and management revenue increased 9.6%, reflecting Travelodge Canada's focused strategy on revenue generating initiatives with its Travelodge® and Thriftlodge® franchisees and ensuring a quality product by addressing underperforming hotels.

Other revenue increased 13.9% to \$3.7 million (2006 - \$3.2 million), and includes revenue from telephone, retail sales, tenant lease and parking.

Hospitality EXPENSES

(\$000's, except as otherwise noted)	For the three months ended September 30			
	2007	2006	Change	Change (%)
Hospitality Expenses	26,178	26,360	(182)	(0.7)

Total hospitality expenses decreased by \$0.2 million, or 0.7%, to \$26.2 million (2006 - \$26.4 million). Operating expenses as a percentage of revenue decreased notably to 62.0% (2006 - 63.7%). As described above, revenue growth was attributable to ADR. Payroll, the largest variable component of hospitality expenses, is proportionate to Occupancy, and continued to be well controlled to mitigate the impact of Occupancy fluctuations. In addition, the Trust employs proactive energy cost management strategies, which resulted in utility costs being unchanged from 2006.

Hospitality GROSS MARGIN

(\$000's, except as otherwise noted)	For the three months ended September 30			
	2007	2006	Change	Change (%)
Hospitality Gross Margin	16,045	15,048	997	6.6

Hospitality gross margin is calculated by deducting gross margin generated by the Royal Private Residence Club development from gross margin. Hospitality gross margin increased by \$1.0 million, or 6.6%, to \$16.0 million in 2007 (2006 - \$15.0 million). Gross margin as a percentage of revenue improved significantly to 38.0% (2006 - 36.3%) due to the combination of growth in ADR and the realization of cost efficiencies.

Royal PRIVATE RESIDENCE CLUB

During the first half of 2007, sales of the final condominiums were closed, bringing cumulative sales to 100%. During the three months ended September, 2006, the Trust recognized revenue from the sale of condominiums of \$52.2 million, cost of sales of \$43.5 million, and gross margin of \$8.7 million.

Other EXPENSES

As described 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 September 30, 2007 remained consistent at \$2.7 million despite the recognition of \$0.1 million of accretion of debt issuance costs (2006 - \$nil) related to mortgages. Interest on convertible debentures for the three months ended September 30, 2007 increased by \$0.8 million as a result of: incremental indebtedness from the issuance of \$60.0 million of convertible debentures in June 2007; the recognition of \$0.7 million (2006 - \$nil) of accretion of convertible debentures conversion options and debt issuance costs; and the recognition of \$0.1 million (2006 - \$nil) of premiums on repurchases of convertible debentures; less a decrease due to the maturity of the 9.25% convertible debentures in March 2007.

Interest and investment income increased to \$1.4 million (2006 - \$0.3 million), as a result of higher levels of cash on hand and an increase in overall investment rates. The Trust also generated realized gains on the sales of marketable securities of \$0.5 million (2006 - \$nil), illustrating the Trust's successful investment strategies. The Trust experienced unrealized losses on marketable securities of \$0.7 million (2006 - \$nil) due to market conditions at the end of the quarter, and illustrating the variable nature of unrealized investment gains and losses.

Trust administration expenses decreased by \$0.1 million to \$0.4 million (2006 - \$0.5 million) as a result of continued focus on cost efficiencies.

Depreciation and amortization decreased by \$0.3 million to \$3.6 million (2006 - \$3.9 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.

***Net* INCOME, OTHER COMPREHENSIVE LOSS AND COMPREHENSIVE INCOME**

The Trust's income from continuing operations for the three months ended September 30, 2007 was \$6.5 million (2006 - \$13.3 million, including gross margin of \$8.7 million on the Royal Private Residence Club). Income from discontinued operations was \$nil (2006 - \$0.6 million) and comprised of the Trust's former timeshare and US hotel management businesses and the Sundial Inn, as described in "Discontinued Operations and Property Held For Sale".

Net income was \$6.6 million (2006 - \$13.9 million). The Trust's other comprehensive loss of \$0.4 million (2006 - \$nil) is attributable to unrealized losses on marketable securities classified as available-for-sale. Comprehensive income, the combination of net income and other comprehensive loss, was \$6.2 million (2006 - \$13.9 million) for the three months ended September 30, 2007.

***Nine* MONTHS ENDED SEPTEMBER 30, 2007**

During the nine months ended September 30, 2007, the Trust delivered a \$2.0 million increase in hospitality revenue and a \$2.0 million improvement in hospitality gross margin. Income from continuing operations was \$11.0 million (2006 - \$13.3 million, including gross margin of \$8.7 million on the Royal Private Residence Club).

<i>(\$000's, except as otherwise noted)</i>	For the nine months ended September 30			
	2007	2006	Change	Change (%)
Hospitality Revenue	112,188	110,235	1,953	1.8
Hospitality Expenses	76,284	76,366	(82)	(0.1)
Hospitality Gross Margin	35,904	33,869	2,035	6.0
Royal Private Residence Club	-	8,727	(8,727)	(100.0)
Gross Margin	35,904	42,596	(6,692)	(15.7)
Other Expenses	24,865	29,346	(4,481)	(15.3)
Income from Continuing Operations	11,039	13,250	(2,211)	(16.7)

***Hospitality* REVENUE**

Hospitality revenue from continuing operations for the nine months ended September 30, 2007 increased by \$2.0 million to \$112.2 million (2006 - \$110.2 million).

<i>(\$000's, except as otherwise noted)</i>	For the nine months ended September 30			
	2007	2006	Change	Change (%)
Revenue (continuing operations)				
Rooms	81,243	80,654	589	0.7
Food and Beverage	19,404	19,266	138	0.7
Franchising and Management	2,160	1,724	436	25.3
Other	9,381	8,591	790	9.2
	112,188	110,235	1,953	1.8

Rooms revenue increased by \$0.5 million, or 0.7%, to \$81.2 million (2006 - \$80.7 million). The Trust's properties in Ottawa, Regina and Saskatoon, as well as the Yellowknife Inn, the Holiday Inn (The Palace) and the Best Western Village Park Inn produced particularly strong results.

Food and beverage revenue increased by \$0.1 million to \$19.4 million (2006 - \$19.3 million).

Franchising and management revenue increased by \$0.5 million to \$2.2 million (2006 - \$1.7 million). Travelodge franchise fees increased relative to 2006 due largely to the receipt of termination fees in the first quarter of 2007.

Other revenue increased by \$0.8 million to \$9.4 million (2006 - \$8.6 million).

Hospitality EXPENSES

<i>(\$000's, except as otherwise noted)</i>	For the nine months ended September 30			
	2007	2006	Change	Change (%)
Hospitality Expenses	76,284	76,366	(80)	(0.1)

Total hospitality expenses decreased by \$0.1 million to \$76.3 million (2006 - \$76.4 million). Operating expenses as a percentage of revenue decreased notably to 68.0% (2006 - 69.3%) due, in part, to a decrease in payroll costs as a percentage of revenue.

Hospitality GROSS MARGIN

<i>(\$000's, except as otherwise noted)</i>	For the nine months ended September 30			
	2007	2006	Change	Change (%)
Hospitality Gross Margin	35,904	33,869	2,035	6.0

Hospitality gross margin increased by \$2.0 million, or 6.0%, to \$35.9 million in 2007 (2006 - \$33.9 million). Gross margin as a percentage of revenue improved to 32.0% (2006 - 30.7%).

Royal PRIVATE RESIDENCE CLUB

During the first half of 2007, the final condominium sales were closed, bringing cumulative sales to 100%. During the nine months ended September 30, 2007, the Trust recognized revenue from the sale of condominiums of \$1.7 million and cost of sales of \$1.7 million. During the third quarter of 2006, the Trust closed sales on 92% of the condominiums, and recognized revenue from the sale of condominiums of \$52.2 million, cost of sales of \$43.5 million and gross margin of \$8.7 million.

Other EXPENSES

As described 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 nine months ended September 30, 2007 increased by \$0.2 million to \$8.2 million due to the recognition of \$0.3 million of accretion of debt issuance costs (2006 - \$nil) related to mortgages. Interest on convertible debentures for the nine months ended September 30, 2007 increased by \$2.4 million as a result of incremental indebtedness from the issuance of \$60 million of convertible debentures in September 2006 and June 2007; the recognition of \$1.4 million (2006 - \$nil) in accretion of convertible debentures' conversion options and debt issuance costs; and the recognition of \$0.4 million (2006 - \$nil) of premiums on repurchases of convertible debenture; offset by a reduction of interest resulting from the maturity of the 9.25% convertible debentures in March 2007.

Interest and investment income increased to \$3.2 million (2006 - \$0.6 million), attributable to higher levels of cash on hand and an increase in overall investment rates. The Trust also generated realized gains on marketable securities of \$1.2 million (2006 - \$nil) and unrealized gains on marketable securities of \$0.7 million (2006 - \$nil).

Trust administration expenses decreased by \$0.5 million, or 31.3%, to \$1.1 million (2006 - \$1.6 million).

Depreciation and amortization decreased by \$0.3 million to \$11.2 million (2006 - \$11.5 million). In 2006, depreciation and amortization included \$1.1 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.

Net INCOME, OTHER COMPREHENSIVE LOSS AND COMPREHENSIVE INCOME

The Trust's income from continuing operations for the nine months ended September 30, 2007 was \$11.0 million (2006 - \$13.3 million). Income from discontinued operations was \$4.2 million (2006 - \$1.3 million) and was comprised of the Trust's former timeshare and US hotel management businesses and the Sundial Inn, as described further below.

Net income was \$15.2 million (2006 - \$14.5 million). The Trust's other comprehensive loss of \$0.5 million is attributable to unrealized losses on marketable securities classified as available-for-sale. Comprehensive income for the nine months ended September 30, 2007 was \$14.8 million (2006 - \$14.5 million).

Discontinued OPERATIONS AND PROPERTY HELD FOR SALE

Royal Host regularly evaluates opportunities for strategic dispositions in the interest of maximizing Unitholder value. The operations of properties and businesses that were disposed of during or prior to the nine months ended September 30, 2007 or that are held for sale as at September 30, 2007 have been included in discontinued operations on the consolidated statements of net income and comprehensive income and reflected as assets and liabilities of discontinued operations and property held for sale on the consolidated balance sheets beginning in the period they are determined to be discontinued.

Discontinued operations are comprised of: Royal Host's former US hotel management business sold effective January 1, 2007; Royal Host's former timeshare business sold effective December 31, 2006; and the 75-room Sundial Inn in Orillia, for which Royal Host is seeking a buyer.

In June 2007, three properties were identified and a broker was engaged to conduct a competitive bidding process for each. After reviewing the results of this process, Royal Host has determined that retaining ownership of these properties will serve the best interests of Unitholders. The three properties are included in continuing operations on the consolidated statements of net income and comprehensive income and reflected as assets and liabilities of continuing operations on the consolidated balance sheets.

INCOME FROM DISCONTINUED OPERATIONS

(\$000's, except as otherwise noted)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Hospitality revenue	180	1,509	444	3,959
Hospitality expenses	146	820	502	2,461
Gross margin	34	689	(58)	1,498
Other expenses	4	46	(34)	246
Income (loss) before gain on disposition	30	643	(24)	1,252
Gain on disposition	-	-	4,215	-
Income from discontinued operations	30	643	4,191	1,252

Revenue from discontinued operations for the three and nine months ended September 30, 2007 decreased to \$0.2 million (2006 - \$1.5 million) and \$0.4 million (2006 - \$4.0 million), respectively. The decreases were due

primarily to the strategic sale of the Trust's former timeshare and US hotel management businesses in the first quarter of 2007. Income from discontinued operations decreased to \$nil (2006 - \$0.6 million) for the three months and increased to \$4.2 million (2006 - \$1.3 million) for the nine months due to the gain realized on the sale of the Trust's former timeshare and US hotel management businesses.

Liquidity AND CAPITAL RESOURCES

As at September 30, 2007, the Trust had cash and cash equivalents of \$83.5 million (December 31, 2006 - \$92.1 million) and liquid marketable securities of \$18.5 million (December 31, 2006 - \$2.0 million), comprised of publicly traded debt and equity instruments.

As Royal Host evaluates opportunities, it exercises diligence by investing excess cash not required for operations in liquid income-earning marketable securities. As a result of the higher levels of cash invested in 2007 and improved investment yields, the Trust realized interest and investment income of \$3.2 million and a net gain on marketable securities of \$1.4 million during the nine months ended September 30, 2007.

Subsequent to September 30, 2007, Royal Host deployed cash on hand in the form of an investment in Holloway Lodging REIT ("Holloway", TSX: HLR.UN) a hotel real estate investment trust. This investment further illustrates Royal Host's objective of increasing Unitholder value while remaining focused on its core business strengths in the hospitality industry. This investment is anticipated to generate superior yields to those otherwise available within the Trust's risk tolerance.

Royal Host may, in the future, take such actions in respect of its holdings as it may deem appropriate in light of the circumstances then existing, including the purchase of additional securities of Holloway through open market purchases or privately negotiated transactions, or the sale of all or a portion of its holdings in the open market or in privately negotiated transactions to one or more purchasers.

The Trust's 9.25% convertible debentures 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 million principal balance of the debentures upon maturity.

On June 26, 2007, the Trust closed an offering of \$60 million aggregate principal amount of 5.90% convertible unsecured subordinated debentures due June 30, 2014. The offering provided Royal Host with capital at attractive terms to reduce outstanding indebtedness including its convertible debentures, to improve and reposition its hotels, for future acquisitions, and general trust purposes.

Trust is currently undertaking repositionings of the Yellowknife Inn and Travelodge Ottawa West properties, which will represent expenditures totalling approximately \$5.0 million, and will add 81 rooms to the hotel in Ottawa. These projects are expected to be completed prior to March 31, 2008 in order to take advantage of the profitable summer season. The Trust regularly reviews its hotel portfolio for accretive capital reinvestment opportunities.

As at September 30, 2007, the Trust also had restricted cash of \$4.0 million (December 31, 2006 - \$5.3 million) and undrawn credit facilities of \$12.0 million (December 31, 2006 - \$12.0 million). Restricted cash consists primarily of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

As at September 30, 2007, Royal Host's debt (excluding convertible debentures) to gross book value was 21.7% (December 31, 2006 - 22.4%). Royal Host's debt (excluding convertible debentures) is limited by its Declaration of Trust to 45% of gross book value. As at September 30, 2007 Royal Host's debt (including convertible debentures) to gross book value was 55.2% (December 31, 2006 - 56.4%).

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.

Royal Host did not own any of the non-bank asset backed commercial paper that was negatively impacted by the subprime mortgage market fallout that occurred during the third quarter of 2007, nor has Royal Host experienced any indirect impact from this liquidity crisis.

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 CAPITAL LEASES

As at September 30, 2007, the carrying value of the Trust's mortgages was \$123.3 million (December 31, 2006 - \$126.9 million). The carrying value reflects total outstanding principal of \$124.6 million (December 31, 2006 - \$126.9 million) less \$1.3 million of debt issuance costs (December 31, 2006 - \$nil). The \$3.6 million decrease in carrying value is attributable to the reclassification of debt issuance costs effective January 1, 2007 and \$2.3 million of scheduled mortgage principal repayments made during the nine months ended September 30, 2007.

(\$000's)	As at September 30, 2007						
	Total	2008	2009	2010	2011	2012	Thereafter
Mortgages	124,606	3,269	3,502	59,599	24,847	13,003	20,386
Capital Leases	627	326	85	81	81	54	-

CONVERTIBLE DEBENTURES

(\$000's)	Maturity Date	September 30, 2007		December 31, 2006		Conversion Price
		Carrying Value	Outstanding Balance	Carrying Value	Outstanding Balance	
Current:						
9.25% Convertible Debentures	March 2007	-	-	38,021	38,021	\$7.00
Long-term:						
7.90% Convertible Debentures, Series A	April 2009	17,205	17,561	35,000	35,000	\$6.00
6.00% Convertible Debentures, Series B	October 2015	52,241	55,629	58,464	58,464	\$6.85
6.25% Convertible Debentures, Series C	September 2013	55,464	59,318	58,225	58,225	\$7.00
5.90% Convertible Debentures, Series D	June 2014	57,299	60,000	-	-	\$8.90
		<u>182,209</u>	<u>192,508</u>	<u>151,689</u>	<u>151,689</u>	

As described above, during the nine months ended September 30, 2007, the Trust closed an offering of \$60 million 5.90% convertible unsecured subordinated debentures due June 30, 2014.

Royal Host's convertible debentures have a total outstanding balance at June 30, 2007 of \$192.5 million (December 31, 2006 - \$189.7 million). The carrying value of the convertible debentures as at September 30, 2007 is \$182.2 million, reflecting \$10.3 million of debt issuance costs and conversion options.

As at September 30, 2007, the average maturity of mortgages was 3.0 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 September 30, 2007, Royal Host's mortgages had an average interest rate of 8.2% (December 31, 2006 - 8.2%). Royal Host's convertible debentures had an average interest rate of 6.2% (December 31, 2006 - 7.1%), and Royal Host's total debt had an average overall interest rate of 7.0% (December 31, 2006 - 7.5%), reflecting the Trust's focus on reducing its cost of capital.

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, and on March 1, 2007, the remaining \$32.5 million of the debentures were repaid and cancelled.

During the three months ended September 30, 2007, holders of the Trust's convertible debentures benefited from the strength in Royal Host's unit price performance and converted \$4.8 million of the 7.90% convertible debentures into 0.8 million trust units, \$0.5 million of the 6.00% convertible debentures were converted into 0.1 million trust units and \$0.1 million of the 6.25% convertible debentures were converted into trust units.

During the nine months ended September 30, 2007, \$15.0 million of the 7.90% convertible debentures were converted into 2.5 million trust units, \$2.8 million of the 6.00% convertible debentures were converted into 0.4 million trust units and \$0.1 million of the 6.25% convertible debentures were converted into trust units.

Subsequent to September 30, 2007, \$8.7 million of the 7.90% convertible debentures were converted into 1.5 million trust units.

Distributions

As a direct reflection of the Trust's continued improvements in operating results, distributions to Unitholders for the three months ended September 30, 2007 increased by \$1.3 million, or 42.0%, to \$4.4 million, and for the nine months ended September 30, 2007 increased by \$3.3 million, or 36.4%, to \$12.9 million. Distributions were increased from \$0.035 to \$0.04 per unit effective April 2006 to \$0.05 per unit effective November 2006, and to \$0.055 per unit effective February 2007, reflecting strong operating results and a positive outlook.

Investing **ACTIVITIES**

Royal Host is committed to optimizing its portfolio through broad reinvestment across its properties, and during the three months ended September 30, 2007, the Trust's capital expenditures totalled \$2.8 million (2006 - \$3.9 million) and included improvements at the Holiday Inn Trenton, the Yellowknife Inn and several other hotels. Capital expenditures utilized cash of \$2.5 million (2006 - \$3.3 million) in the quarter.

During the nine months ended September 30, 2007, the Trust's capital expenditures totalled \$6.9 million (2006 - \$7.2 million) and utilized cash of \$7.4 million (2006 - \$6.0 million).

\$0.3 million and \$3.0 million were released from restricted cash during the three and nine months ended September 30, 2007, respectively, for reimbursement of previous capital investment. Restricted cash, described above, is available for funding certain hotel capital expenditures.

Unitholders' **EQUITY**

As at September 30, 2007, equity was \$98.1 million. The decrease during the third quarter is attributable to \$4.4 million of declared distributions and \$7.2 million related to the repurchase of trust units under the Trust's Normal Course Issuer Bid (described below), offset by comprehensive income of \$6.2 million, the conversion of \$5.3 million of convertible debentures into trust units.

During the nine months ended September 30, 2007, equity increased by \$10.9 million to \$98.1 million. The increase is attributable to comprehensive income of \$14.8 million, the conversion of \$23.1 million of convertible debentures into trust units, less \$12.9 million of declared distributions and \$14.4 million related to the repurchase of trust units under the Trust's Normal Course Issuer Bid.

As at September 30, 2007, 26,021,280 trust units were issued and outstanding, and as at November 7, 2007, 27,477,159 trust units were issued and outstanding.

Between December 31, 2006 and November 7, 2007, 5.2 million trust units were issued pursuant to conversions of \$32.2 million of convertible debentures and 2.0 million trust units were repurchased and cancelled pursuant to Normal Course Issuer Bids.

Normal COURSE ISSUER BIDS

In the interest of delivering value to its Unitholders, the Trust has undertaken a number of Normal Course Issuer Bids to repurchase units and convertible debentures. Management believes that the market price of the Trust's securities may, from time to time, not fully reflect the underlying value of the securities.

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 September 30, 2007, 1.0 million trust units with an aggregate cost of \$7.2 million (average cost of \$7.13 per unit) were repurchased pursuant to this NCIB. During the nine months ended September 30, 2007, the maximum 2.0 million trust units with an aggregate cost of \$14.4 million (average cost of \$7.21 per unit) were repurchased. Royal Host is precluded from initiating another Normal Course Issuer Bid until December 29, 2007. Cumulatively to November 7, 2007, Royal Host has repurchased 5.0 million trust units pursuant to its NCIBs.

Normal Course Issuer Bid - 7.90% Convertible Debentures

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 September 30, 2007, Royal Host repurchased \$1.4 million in principal balance with an aggregate cost of \$1.7 million (average cost of \$117.72) of 7.90% debentures pursuant to this NCIB. During the nine months ended September 30, 2007, Royal Host repurchased \$2.4 million in principal balance with an aggregate cost of \$2.9 million (average cost of \$119.11) of 7.9% debentures. Subsequent to September 30, 2007, \$0.1 million of debentures (average cost of \$116.75) were repurchased pursuant to this NCIB.

Normal Course Issuer Bid - 6.00% Convertible Debentures

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. During the three months ended September 30, 2007, Royal Host repurchased \$0.4 million in principal balance with an aggregate cost of \$0.4 million (average cost of \$105.56) of 6.00% debentures pursuant to this NCIB. During the nine months ended September 30, 2007, Royal Host repurchased \$1.6 million in principal balance with an aggregate cost of \$1.7 million (average cost of \$107.53) of 6.00% debentures.

Normal Course Issuer Bid - 6.25% Convertible Debentures

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 and nine months ended September 30, 2007, Royal Host repurchased \$0.1 million in principal balance with an aggregate cost of \$0.1 million (average cost of \$102.25) of 6.25% debenture pursuant to this NCIB. During the nine months ended September 30, 2007, Royal Host repurchased \$0.5 million in principal balance with an aggregate cost of \$0.5 million (average cost of \$105.86) of 6.00% debentures.

Summary OF QUARTERLY FINANCIAL RESULTS

	2007			2006				2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	42,223	38,420*	31,717*	37,468	93,653*	37,658	31,170	33,834
Net Income (Loss)								
From Continuing Operations	6,534	6,282	(1,782)	226	13,296	2,174	(2,220)	(14)
From Discontinued Operations	30	36	4,125	(470)	643	415	194	(316)
	6,564	6,318	2,343	(244)	13,939	2,589	(2,026)	(330)
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	0.25	0.24	(0.07)	0.01	0.52	0.08	(0.09)	-
Diluted	0.20	0.18	(0.07)	0.01	0.31	0.08	(0.09)	-
Income (Loss) from Total Operations								
Basic	0.25	0.24	0.10	(0.01)	0.54	0.10	(0.08)	(0.01)
Diluted	0.20	0.18	0.10	(0.01)	0.33	0.10	(0.08)	(0.01)

* Includes Royal Private Residence Club

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

Business ENVIRONMENT AND OUTLOOK

Royal Host is in a favourable position to capitalize on the opportunities that the Canadian hospitality industry is widely expected to offer through the remainder of 2007 and in 2008. Overall, Canada's general economic environment is strong, and its hospitality industry remains robust. In the months ahead, growth in demand is anticipated to exceed that of supply, resulting in higher revenues. With solid fundamentals and a diverse portfolio, Royal Host's position within the Canadian hospitality industry is strong.

The Trust's positive performance for the nine months ended September 30, 2007 reflects its focus on its core businesses, our commitment to improving the quality of our product, and the dedicated efforts of our highly-skilled team to continue delivering value to our Unitholders.

Royal Host has a solid Balance Sheet, highlighted by \$102.0 million of cash and marketable securities at the end of the quarter, and is therefore uniquely positioned to take advantage of opportunities that may arise. Royal Host will continue to deploy resources targeted at building Unitholder value and which allow us to grow our business. In addition to its continued efforts to refine operations and capitalize on investment opportunities going forward, the Trust will continue to employ strategies to return value to Unitholders, such as its Normal Course Issuer Bids, providing a good use of the Trust's resources for the benefit of Unitholders.

Royal Host's commitment to its proven strategies and core fundamentals has positioned the Trust to maximize opportunities in the current economic environment to improve upon and deliver Unitholder value.

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.

Taxation Changes to Income Trusts

On October 31, 2006, the Minister of Finance announced proposed changes to the manner in which certain flow-through entities and the distributions from such entities are taxed. On December 15, 2006, The Minister of Finance released guidelines on normal growth for income trusts and other flow-through entities (the "Guidelines"). On June 22, 2007, Bill C-52 *An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007* ("Bill C-52") which includes legislative provisions to implement the proposals originally announced on October 31, 2006, received Royal Assent. These provisions will apply a tax, which we refer to as the "SIFT tax", on certain income earned by a "specified investment flow-through" ("SIFT") trust as well as taxing the taxable distributions received by investors from such entities as dividends.

Royal Host constitutes a SIFT trust and, as a result, Royal Host and its Unitholders will be subject to the SIFT tax.

Subject to the normal growth limit discussed below for income trusts, the units of which were publicly-traded as of October 31, 2006, such as Royal Host, there will be a four year transition period and the SIFT tax will not apply until 2011. The Guidelines indicate that the 2011 date will continue to apply in respect of any SIFT whose equity capital grows as a result of issuances of new equity (which includes trust units, debt that is convertible into trust units, and potentially other substitutes for such equity), before 2011, by an amount that does not exceed the greater of \$50 million and an objective "safe harbour" amount. This amount is based on a percentage of the SIFT's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of a SIFT's issued and outstanding publicly-traded units, not including debt, options or other interests that were convertible into units of the SIFT). For the period from November 1, 2006 to the end of 2007, the Guidelines provide that a SIFT's safe harbour will be 40% of the October 31, 2006 benchmark. As at November 7, 2007, the Trust is within its "safe harbour" growth limits described herein, however, there can be no assurance that Royal Host will not undertake actions in the future that could cause the SIFT tax to apply to it before 2011.

***Disclosure* CONTROLS AND PROCEDURES**

The Chief Financial Officer (in the capacity of both Chief Financial Officer and Chief Executive Officer for this purpose) and the Treasurer (in the capacity of Chief Executive Officer for this purpose) both evaluated the effectiveness of Royal Host's disclosure controls and procedures as at September 30, 2007. Based on that evaluation, both the Chief Financial Officer and the Treasurer concluded that the design and operation of these disclosure controls and procedures were effective as at September 30, 2007 to provide reasonable assurance that material information relating to Royal Host, including its consolidated subsidiaries, would be made known to them.

***Internal* CONTROL OVER FINANCIAL REPORTING**

During the three months ended September 30, 2007, certain management changes occurred and certain management responsibilities were reassigned.

There have been no changes in Royal Host's internal control over financial reporting that occurred during the most recent interim period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, Royal Host's internal control over financial reporting.

Upon the adoption of new accounting standards described in "Changes in Accounting Policies", Royal Host was 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.

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 and Comprehensive Income.

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.

Inventories

In June 2007, the CICA issued Handbook Section 3031, "*Inventories*" for periods beginning on or after January 1, 2008. This new primary source of GAAP states that when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

Royal Host will adopt CICA Handbook Section 3031, "*Inventories*" commencing on January 1, 2008. Royal Host does not anticipate that this change in accounting policy will have a significant impact on the financial statements.

Restatement

Royal Host's financial statements for the periods ended September 30, 2006 included changes in minority interest in cash from investing activities on its Consolidated Statements of Cash Flows. Changes in minority interest have been retroactively restated to be reclassified and included in cash from operating activities. The effects of the reclassification are as follows: for the three months ended September 30, 2006, cash provided by (used in) operating activities decreased by \$8.6 million to \$42.6 million; cash used in investing activities for the three months ended September 30, 2006 increased by \$8.6 million to (\$4.0 million); for the nine months ended September 30, 2006, cash provided by (used in) operating activities decreased by \$8.6 million to (\$40.0 million); and cash used in investing activities increased by \$8.6 million to (\$5.3 million).

Off **BALANCE SHEET ARRANGEMENT**

Royal Host had no undisclosed off balance sheet arrangements as at September 30, 2007.

Forward-looking **STATEMENTS**

Certain statements in this Management's Discussion and Analysis ("MD&A"), including those in the "Business Environment and Outlook" section, relate to periods commencing after September 30, 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 above. 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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

(unaudited)

2007

FOR THE THREE AND NINE MONTHS
ENDED SEPTEMBER 30, 2007

ROYAL HOST[®]
HOTELS & RESORTS^{REIT}

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

(unaudited)

	As at	
	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	83,483	92,144
Marketable securities	18,536	2,000
Accounts and notes receivable	10,695	9,529
Prepaid expenses	4,431	3,237
Inventories	3,176	3,174
Property under development	-	1,551
Assets of discontinued operations (Note 4)	219	4,285
Future income taxes (Note 12)	1,517	931
	<u>122,057</u>	<u>116,851</u>
Long-term notes receivable	-	47
Capital assets (Note 5)	304,134	308,396
Property held for sale (Note 4)	2,025	2,056
Restricted cash	3,996	5,261
Deferred debt issuance costs (Note 2)	-	7,422
	<u>432,212</u>	<u>440,033</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	14,326	16,421
Equity distributions payable	1,511	1,232
Interest accrued on convertible debentures	2,873	3,390
Mortgages (Note 6)	3,269	3,108
Convertible debentures (Notes 7 and 9)	-	38,021
Obligations under capital leases (Note 8)	396	375
Other liabilities	1,816	2,288
Liabilities of discontinued operations (Note 4)	43	4,351
	<u>24,234</u>	<u>69,186</u>
Mortgages (Note 6)	120,040	123,820
Convertible debentures (Notes 7 and 9)	182,209	151,689
Obligations under capital leases (Note 8)	162	242
Deferred revenue	308	417
Future income taxes (Note 12)	7,161	7,479
	<u>334,114</u>	<u>352,833</u>
Unitholders' equity (Note 10)	98,098	87,200
	<u>432,212</u>	<u>440,033</u>

See accompanying Notes to the Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Income and Comprehensive Income

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

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Hospitality revenue				
Rooms	31,465	31,131	81,243	80,654
Food and beverage	6,249	6,290	19,404	19,266
Franchising and management	823	751	2,160	1,724
Other	3,686	3,236	9,381	8,591
	<u>42,223</u>	<u>41,408</u>	<u>112,188</u>	<u>110,235</u>
Hospitality expenses				
	<u>26,178</u>	<u>26,360</u>	<u>76,284</u>	<u>76,366</u>
	<u>16,045</u>	<u>15,048</u>	<u>35,904</u>	<u>33,869</u>
Royal Private Residence Club (Note 3)				
Revenue	-	52,245	1,675	52,245
Cost of sales	-	43,518	1,675	43,518
	<u>-</u>	<u>8,727</u>	<u>-</u>	<u>8,727</u>
Gross margin	<u>16,045</u>	<u>23,775</u>	<u>35,904</u>	<u>42,596</u>
Other expenses				
Trust administration	385	451	1,146	1,563
Interest on mortgages and capital leases	2,649	2,650	8,152	8,039
Interest on convertible debentures	3,544	2,672	10,009	7,630
Interest and investment income	(1,391)	(275)	(3,190)	(588)
Unrealized (gains)/losses on marketable securities (Note 2)	722	-	(711)	-
Realized gains on marketable securities (Note 2)	(478)	-	(1,200)	-
Depreciation and amortization	3,615	3,876	11,187	11,498
Future income taxes (recovery) expense (Note 12)	352	1,055	(737)	1,055
Capital and other taxes	40	38	101	126
Loss on foreign currency translation	73	12	108	23
	<u>9,511</u>	<u>10,479</u>	<u>24,865</u>	<u>29,346</u>
Income from continuing operations	<u>6,534</u>	<u>13,296</u>	<u>11,039</u>	<u>13,250</u>
Income from discontinued operations (Note 4)	<u>30</u>	<u>643</u>	<u>4,191</u>	<u>1,252</u>
Net income	<u>6,564</u>	<u>13,939</u>	<u>15,230</u>	<u>14,502</u>
Other comprehensive loss (Notes 2 and 13)	<u>409</u>	<u>-</u>	<u>471</u>	<u>-</u>
Comprehensive income	<u>6,155</u>	<u>13,939</u>	<u>14,759</u>	<u>14,502</u>
Basic per unit net earnings (Note 10)				
- from continuing operations	0.25	0.52	0.43	0.51
- from discontinued operations	-	0.02	0.16	0.04
	<u>0.25</u>	<u>0.54</u>	<u>0.59</u>	<u>0.55</u>
Diluted per unit net earnings (Note 10)				
- from continuing operations	0.20	0.31	0.41	0.43
- from discontinued operations	-	0.01	0.09	0.03
	<u>0.20</u>	<u>0.32</u>	<u>0.50</u>	<u>0.46</u>

See accompanying Notes to the Consolidated Interim 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 income	-	-	-	14,502	-	-	14,502
Equity distributions							
Trust units	-	-	-	-	-	(9,004)	(9,004)
Issuance of trust units pursuant to distribution reinvestment plan	9	-	-	-	-	-	9
Trust units repurchased pursuant to normal course issuer bid (Note 9)	(5,441)	-	2,076	-	-	-	(3,365)
Employee loans pursuant to employee unit purchase program	22	-	3	-	-	-	25
Conversion option related to issued convertible debentures	-	1,800	-	-	-	-	1,800
Balance, September 30, 2006	212,131	3,480	4,903	24,920	-	(146,517)	98,917
Net loss	-	-	-	(244)	-	-	(244)
Equity distributions							
Trust units	-	-	-	-	-	(3,711)	(3,711)
Issuance of trust units pursuant to distribution reinvestment plan	3	-	-	-	-	-	3
Issuance of trust units pursuant to debenture conversion option	5	-	-	-	-	-	5
Trust units cancelled pursuant to normal course issuer bid (Note 9)	(10,375)	-	2,594	-	-	-	(7,781)
Employee loans pursuant to employee unit purchase program	11	-	-	-	-	-	11
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) (Note 13)	-	-	-	15,230	(471)	-	14,759
Equity distributions							
Trust units	-	-	-	-	-	(12,880)	(12,880)
Issuance of trust units pursuant to distribution reinvestment plan	9	-	-	-	-	-	9
Issuance of trust units pursuant to debenture conversion option (Note 7)	23,061	(80)	-	-	-	-	22,981
Trust units cancelled pursuant to normal course issuer bid (Note 9)	(16,603)	-	2,132	-	-	-	(14,471)
Employee loans pursuant to employee unit purchase program	152	-	-	-	-	-	152
Convertible debentures cancelled pursuant to normal course issuer bid (Note 9)	-	(63)	-	-	-	-	(63)
Conversion option related to issued convertible debentures	-	300	-	-	-	-	300
Balance, September 30, 2007	208,394	3,637	9,629	40,017	(471)	(163,108)	98,098

Accumulated income and accumulated other comprehensive loss at September 30, 2007 was \$ 39,546

See accompanying Notes to the Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

in \$000's
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006 (Restated - See Note 15)	September 30, 2007	September 30, 2006 (Restated - See Note 15)
Operating activities				
Income from continuing operations	6,534	13,296	11,039	13,250
Items not affecting cash:				
Depreciation and amortization	3,615	3,876	11,187	11,498
Future income taxes	352	1,055	(737)	1,055
Unrealized (gains)/losses on marketable securities (Note 2)	722	-	(711)	-
Realized gains on marketable securities (Note 2)	(478)	-	(1,200)	-
Premium on repurchase of convertible debentures	63	-	411	-
Accretion on mortgages and convertible debentures (Note 6 and 7)	728	31	1,755	92
Cash flows provided by continuing operations	11,536	18,258	21,744	25,895
Cash flows provided by (used in) discontinued operations (Note 4)	46	655	(133)	1,288
Changes in non-cash working capital - continuing operations (Note 11)	(85)	(398)	(4,758)	(3,894)
Changes in non-cash working capital - discontinued operations (Note 4)	(82)	70	(222)	254
Decrease in property under development	-	40,779	1,551	33,247
Decrease in minority interest	-	(8,599)	-	(8,591)
Increase in cash held in escrow	-	(8,197)	-	(8,197)
	11,415	42,568	18,182	40,002
Financing activities				
Issuance of convertible debentures	-	60,000	60,000	60,000
Debt issuance costs	(114)	(2,544)	(2,476)	(2,544)
Redemption upon maturity of convertible debentures	-	-	(32,469)	-
Repurchase of convertible debentures pursuant to normal course issuer bids	(2,208)	(419)	(5,272)	(1,219)
Principal repayments on mortgages and capital leases	(986)	(8,245)	(2,739)	(17,976)
Repurchase of trust units pursuant to normal course issuer bids	(7,229)	(2,022)	(15,516)	(3,365)
Equity distributions	(4,303)	(3,074)	(12,592)	(8,864)
Proceeds from repayment of employee unit purchase program loan	18	-	152	-
	(14,822)	43,696	(10,912)	26,032
Investing activities				
Purchase of marketable securities	(33,361)	-	(70,562)	-
Dispositions of marketable securities	36,543	-	55,466	-
Net cash on dispositions (Note 4)	-	(106)	5,251	451
Acquisition of capital assets	(2,472)	(3,264)	(7,398)	(6,025)
Decrease (increase) in restricted cash	(209)	(674)	1,265	98
Decrease in long-term notes receivable	36	27	47	128
	537	(4,017)	(15,931)	(5,348)
Increase (decrease) in cash and cash equivalents	(2,870)	82,247	(8,661)	60,686
Cash and cash equivalents, beginning of period	86,353	9,922	92,144	31,483
Cash and cash equivalents, end of period	83,483	92,169	83,483	92,169
Cash interest paid				
Mortgages and capital leases	2,549	2,318	7,646	7,769
Convertible debentures	2,016	1,791	9,113	6,864
	4,565	4,109	16,759	14,633

See accompanying Notes to the Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim 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. CHANGES IN ACCOUNTING POLICIES

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 statements 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.

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 using the straight line method. 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 and comprehensive income.

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 Consolidated Interim Financial Statements
(unaudited)

2. CHANGES IN ACCOUNTING POLICIES (continued)

(b) Inventories

In June 2007 the CICA issued Handbook Section 3031, "*Inventories*" for periods beginning on or after January 1, 2008. This new primary source of GAAP states that when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

Royal Host will adopt CICA Handbook Section 3031, "*Inventories*" commencing on January 1, 2008. Royal Host does not anticipate that this change in accounting policy will have a significant impact on the financial statements.

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 September 30, 2007 or subsequent thereto, or that are held for sale as at September 30, 2007, have been included in discontinued operations on the consolidated statements of net income and comprehensive income, and reflected as assets and liabilities of discontinued operations and property held for sale on the consolidated balance sheets.

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.

Effective January 1, 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 and notes receivable).

The Trust is reviewing an offer to purchase its hotel property in Orillia. 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 Consolidated Interim 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.

	Three Months Ended (in \$000's)		Nine Months Ended (in \$000's)	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Hospitality revenue				
Rooms	178	257	377	507
Management	-	1,244	60	3,423
Other	2	8	7	29
	180	1,509	444	3,959
Hospitality expenses	146	820	502	2,461
Gross margin	34	689	(58)	1,498
Other expenses				
Depreciation and amortization	3	12	10	36
Future income taxes (recovery)	13	-	(119)	-
Capital and other taxes	(2)	43	64	139
Loss (gain) on foreign currency translation	(10)	(9)	11	71
	4	46	(34)	246
Income (loss) before gain on disposition	30	643	(24)	1,252
Gain on disposition	-	-	4,215	-
Income from discontinued operations	30	643	4,191	1,252

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

	Three Months Ended (in \$000's)		Nine Months Ended (in \$000's)	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Income from discontinued operations	30	643	4,191	1,252
Items not affecting cash:				
Future income taxes recovery	13	-	(119)	-
Depreciation and amortization	3	12	10	36
Gain on disposition	-	-	(4,215)	-
Cash flows provided by (used in) discontinued operations	46	655	(133)	1,288
Changes in non-cash working capital				
Assets of discontinued operations	(80)	(915)	4,066	(531)
Liabilities of discontinued operations	(2)	985	(4,288)	785
	(82)	70	(222)	254

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

5. CAPITAL ASSETS

	<i>(in \$000's)</i>		
	Gross Book Value	Accumulated Amortization	Net Book Value
September 30, 2007			
Buildings	326,433	77,754	248,679
Land	37,192	-	37,192
Furniture, fixtures and equipment	50,038	41,562	8,476
Other	1,409	420	989
	<u>415,072</u>	<u>119,736</u>	<u>295,336</u>
Capital assets under development	2,001	-	2,001
Intangible assets:			
Franchise rights and management contracts	27,414	20,617	6,797
	<u>444,487</u>	<u>140,353</u>	<u>304,134</u>
		<i>(in \$000's)</i>	
	Gross Book Value	Accumulated Amortization	Net Book Value
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 and nine months ended September 30, 2007, respectively, capital additions to Royal Host's hotel properties totalled \$2.8 million (September 30, 2006 - \$3.9 million) and \$6.9 million (September 30, 2006 - \$7.2 million).

6. MORTGAGES

	<i>(in \$000's)</i>	
	September 30, 2007	December 31, 2006
Mortgages secured by hotel properties	123,309	126,928
Less: current portion	3,269	3,108
	<u>120,040</u>	<u>123,820</u>

Principal repayments required for the twelve months ending September 30:

	<i>(in \$000's)</i>
2008	3,269
2009	3,502
2010	59,599
2011	24,847
2012	13,003
Subsequent	20,386
Total principal outstanding	124,606
Debt issuance costs	(1,297)
	<u>123,309</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

7. CONVERTIBLE DEBENTURES

	<i>(in \$000's)</i>	
	<u>September 30,</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	17,205	35,000
6.00% Convertible Unsecured Subordinated Debentures, Series B	52,241	58,464
6.25% Convertible Unsecured Subordinated Debentures, Series C	55,464	58,225
5.90% Convertible Unsecured Subordinated Debentures, Series D	57,299	-
	<u>182,209</u>	<u>189,710</u>
Less: current portion	-	38,021
	<u>182,209</u>	<u>151,689</u>

Principal repayments required for the twelve months ending September 30,:

	<i>(in \$000's)</i>
2008	-
2009	17,561
2010	-
2011	-
2012	-
Subsequent	174,947
Total principal outstanding	<u>192,508</u>
Debt issuance costs	(7,101)
Equity conversion option	(3,198)
	<u>182,209</u>

(a) 9.25% Convertible Unsecured Subordinated Debentures

During the nine months ended September 30, 2007, \$5.6 million of Royal Host's 9.25% convertible unsecured subordinated debentures were converted into 0.8 million trust units. The remaining \$32.5 million of the 9.25% convertible unsecured subordinated debentures were redeemed upon maturity on March 1, 2007.

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

During the three months ended September 30, 2007, \$4.8 million (2006 - \$nil) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 0.8 million trust units. During the nine months ended September 30, 2007, \$15.0 million (2006 - \$nil) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 2.5 million trust units. Subsequent to September 30, 2007, \$8.7 million of the debentures were converted into 1.5 million trust units.

(c) 6.00% Convertible Unsecured Subordinated Debentures, Series B

During the three months ended September 30, 2007, \$0.5 million (2006 - \$nil) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into 0.1 million trust units. During the nine months ended September 30, 2007, \$2.8 million (2006 - \$nil) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into 0.4 million trust units.

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

During the three months ended September 30, 2007, \$0.1 million (2006 - \$nil) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 7,428 trust units. During the nine months ended September 30, 2007, \$0.1 million (2006 - \$nil) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 11,998 trust units.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

7. CONVERTIBLE DEBENTURES (continued)

(e) 5.90% Convertible Unsecured Subordinated Debentures, Series D

In June 2007, \$60.0 million of convertible unsecured subordinated debentures were issued with a term of seven years. These debentures bear interest at 5.90% per annum and are payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2007.

The Series D debentures may not be redeemed by Royal Host prior to June 30, 2010. On or after June 30, 2010, but prior to June 30, 2011, the debentures are redeemable, in whole at any time or in part from time to time, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$8.90 per unit. After June 30, 2011, but prior to the maturity date of June 30, 2014, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity.

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

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$8.90 per trust unit at any time from the date of issue to close of business on the day prior to the maturity date, June 30, 2014.

In accordance with EIC ("Emerging Issues Committee") 158, "Accounting for Convertible Debt Instruments", the principal amount of the debenture has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$57.2 million was recorded as a long-term liability with the balance of \$0.3 million recorded as conversion option in equity. The long-term liability will increase to the \$60.0 million face value of the debenture over its seven year term, with the accretion being included in interest on convertible debentures on the consolidated statement of income and comprehensive income.

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 September 30, 2007 are as follows:

	<i>(in \$000's)</i>	
	September 30, 2007	December 31, 2006
Present value of future minimum lease payments	558	617
Less: current portion of principal payments	396	375
	162	242

Total repayments required for the twelve months ending September 30:

	<i>(in \$000's)</i>
	326
2008	85
2009	81
2010	81
2011	54
2012	-
Subsequent	-
Future minimum lease payments	627
Less: amounts representing interest	69
Present value of future minimum lease payments	558

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

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 September 30, 2007, 1.0 million trust units with an aggregate cost of \$7.2 million (average cost of \$7.13 per unit) were repurchased pursuant to this bid. During the nine months ended September 30, 2007, 2.0 million trust units with an aggregate cost of \$14.4 million (average cost of \$7.21 per unit) were repurchased and cancelled 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 September 30, 2006 0.3 million trust units were repurchased with an aggregate cost of \$2.0 million (average cost of \$6.07 per unit) were repurchased pursuant to this bid. During the nine months ended September 30, 2006, 0.6 million trust units with an aggregate cost of \$3.3 million (average cost of \$6.10 per unit) were repurchased and cancelled 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 and nine months ended September 30, 2007, no debentures were repurchased pursuant to this bid. During the three months ending September 30, 2006, \$0.4 million in principal of the 9.25% convertible debentures were repurchased with an aggregate cost of \$0.4 million (average cost of \$101.95).

(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 September 30, 2007, \$1.4 million in principal of the 7.90% convertible debentures were repurchased with an aggregate cost of \$1.7 million (average cost of \$117.72) pursuant to this bid. During the nine months ended September 30, 2007, \$2.4 million in principal of the 7.90% convertible debentures were repurchased with an aggregate cost of \$2.9 million (average cost of \$119.11) pursuant to this bid. Subsequent to September 30, 2007 Royal Host repurchased and cancelled \$0.1 million of debentures (average cost of \$116.75).

(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. During the three months ended September 30, 2007, \$0.4 million in principal of the 6.00% convertible debentures were repurchased with an aggregate cost of \$0.4 million (average cost of \$105.56) pursuant to this bid. During the nine months ended September 30, 2007, \$1.6 million in principal of the 6.00% convertible debentures were repurchased with an aggregate cost of \$1.7 million (average cost of \$107.53) pursuant to this bid. As at September 30, 2007 \$0.2 million in principal of the 6.00% convertible debenture repurchases were not yet cancelled.

(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 September 30, 2007, \$0.1 million in principal of the 6.25% convertible debentures were repurchased with an aggregate cost of \$0.1 million (average cost of \$102.25) pursuant to this bid. During the nine months ended September 30, 2007, \$0.6 million in principal of the 6.25% convertible debentures were repurchased with an aggregate cost of \$0.6 million (average cost of \$105.86) pursuant to this bid.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

10. PER UNIT CALCULATIONS

As at September 30, 2007, a total of 26,021,280 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 September 30, 2007:		
<i>(in \$000's)</i>	Weighted Average Units <i>(in 000's)</i>	Per Unit (\$)
Basic earnings - continuing operations	6,534	0.25
Basic earnings - discontinued operations	30	-
Basic earnings - total operations	6,564	0.25
Basic earnings - continuing operations	6,534	
Add: notional conversion of convertible debentures	3,768	26,882
Diluted earnings - continuing operations	10,302	0.20
Diluted earnings - discontinued operations	30	-
Diluted earnings - total operations	10,332	0.20
For the three months ended September 30, 2006:		
<i>(in \$000's)</i>	Weighted Average Units <i>(in 000's)</i>	Per Unit (\$)
Basic earnings - continuing operations	13,296	0.52
Basic earnings - discontinued operations	643	0.02
Basic earnings - total operations	13,939	0.54
Basic earnings - continuing operations	13,296	
Add: notional conversion of convertible debentures	3,447	28,663
Diluted earnings - continuing operations	16,743	0.31
Diluted earnings - discontinued operations	643	0.01
Diluted earnings - total operations	17,386	0.32
For the nine months ended September 30, 2007:		
<i>(in \$000's)</i>	Weighted Average Units <i>(in 000's)</i>	Per Unit (\$)
Basic earnings - continuing operations	11,039	0.43
Basic earnings - discontinued operations	4,191	0.16
Basic earnings - total operations	15,230	0.59
Basic earnings - continuing operations	11,039	
Add: notional conversion of convertible debentures	7,592	19,480
Diluted earnings - continuing operations	18,631	0.41
Diluted earnings - discontinued operations	4,191	0.09
Diluted earnings - total operations	22,822	0.50

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

10. PER UNIT CALCULATIONS (continued)

For the nine months ended September 30, 2006:

	(in \$000's)	Weighted Average Units (in 000's)	Per Unit (\$)
Basic earnings - continuing operations	13,250		0.51
Basic earnings - discontinued operations	1,252		0.04
Basic earnings - total operations	14,502	25,958	0.55
Basic earnings - continuing operations	13,250		
Add: notional conversion of convertible debentures	10,229	28,663	
Diluted earnings - continuing operations	23,479		0.43
Diluted earnings - discontinued operations	1,252		0.03
Diluted earnings - total operations	24,731	54,621	0.46

The diluted earnings per unit for the three months ended September 30, 2007 include trust units issuable on the conversion of the Series A, B, C and D convertible unsecured subordinated debentures because all of the conversions are dilutive.

The diluted earnings per unit for the nine months ended September 30, 2007 include trust units issuable on the conversion of the 9.25% convertible unsecured subordinated debenture as well as the Series B and C convertible unsecured subordinated debentures because those conversions are dilutive.

The diluted earnings per unit for the three and nine months ended September 30, 2006 include trust units issuable on the conversion of the 9.25% convertible unsecured subordinated debenture as well as the Series A, B and C convertible unsecured subordinated debentures because all of the conversions are dilutive.

11. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended (in \$000's)		Nine Months Ended (in \$000's)	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
(Increase) decrease in:				
Accounts and notes receivable	(1,520)	(159)	(2,166)	(886)
Prepaid expenses	469	507	(1,194)	(1,107)
Inventories	37	34	(2)	(6)
	(1,014)	382	(3,362)	(1,999)
Increase (decrease) in:				
Accounts payable and accrued liabilities	437	(1,242)	(250)	(1,685)
Interest accrued on convertible debentures	913	842	(517)	634
Other liabilities	(515)	(176)	(472)	(409)
Deferred revenue	94	(261)	(109)	(321)
Future income taxes	-	57	(48)	(114)
	929	(780)	(1,396)	(1,895)
	(85)	(398)	(4,758)	(3,894)

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

12. FUTURE INCOME TAXES

The net future income tax liability is made up of the following:

	<i>(in \$000's)</i>	
	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Tax assets relating to subsidiary operating losses and temporary differences on current items	1,517	931
Tax liabilities relating to temporary differences in long-term items	<u>(7,161)</u>	<u>(7,479)</u>
	<u>(5,644)</u>	<u>(6,548)</u>

On June 12, 2007, Bill C-52 *An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007* ("Bill C-52") received Third Reading in the Canadian House of Commons. Bill C-52 includes legislative provisions to implement proposal originally announced on October 31, 2006 and amended on March 27, 2007 relating to the taxation of certain income trust and partnerships under the Income Tax Act. Pursuant to the October 31, 2006 proposals, commencing on January 1, 2011 (provided Royal Host does not exceed "normal growth" as defined in guidelines issued by the Department of Finance) certain distributions from Royal Host which would have otherwise been taxed as ordinary income generally will be characterized as dividends, in addition to Royal Host generally being subject to tax on certain income at tax rates that approximate those applicable to corporations. Returns of capital generally are (and under the October 31, 2006 proposals will continue to be) tax-deferred for Unitholders who are resident in Canada for purposes of the Tax Act (and reduce such Unitholder's adjusted cost base in Unit for purposes of the Tax Act). Distributions, whether of income or capital, to a Unitholder who is not resident in Canada for purposes of the Tax Act, or that is a partnership that is not a "Canadian partnership" for purposes of the Tax Act, generally will be subject to Canadian withholding tax.

On June 12, 2007 the taxation changes in Bill C-52 became substantively enacted. The future income tax recovery of \$0.2 million recorded during the nine months ended September 30, 2007 includes \$0.3 million related to the legislation passed in Bill C-52.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<i>Three Months Ended (in \$000's)</i>		<i>Nine Months Ended (in \$000's)</i>	
	<u>September 30, 2007</u>	<u>September 30, 2006</u>	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Accumulated other comprehensive loss, beginning of period	(62)	-	-	-
Other comprehensive income	(409)	-	(471)	-
Accumulated other comprehensive loss, end of period	<u>(471)</u>	<u>-</u>	<u>(471)</u>	<u>-</u>

Other comprehensive income above, and on the consolidated statements of net income and comprehensive loss, includes the following:

	<i>Three Months Ended (in \$000's)</i>		<i>Nine Months Ended (in \$000's)</i>	
	<u>September 30, 2007</u>	<u>September 30, 2006</u>	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Unrealized gains generated on available for sale assets	69	-	729	-
Realized gains on available for sale assets transferred to net income	(478)	-	(1,200)	-
Other comprehensive loss	<u>(409)</u>	<u>-</u>	<u>(471)</u>	<u>-</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Interim Financial Statements
(unaudited)

14. STATEMENT OF CASH FLOWS

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'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.

The terms of the distribution policy for Royal Host are set in the Declaration of Trust. Cash distributions to Unitholders shall not be less than the Trust's income for the year, as calculated in accordance with the Income Tax Act.

15. 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 period ended September 30, 2006 included changes in minority interest in cash from investing activities on Royal Host's Consolidated Statements of Cash Flows. Changes in minority interest have been retroactively restated to be included in cash from operating activities.

The effects of the restatement for the three months ended September 30, 2006 are as follows: cash provided by operating activities decreased by \$8.6 million to \$42.6 million, and cash (used in) investing activities increased by \$8.6 million to (\$4.0 million).

The effects of the restatement for the nine months ended September 30, 2006 are as follows: cash provided by operating activities decreased by \$8.6 million to \$40.0 million, and cash used in investing activities increased by \$8.6 million to (\$5.3 million).
