



FOR IMMEDIATE RELEASE

SYMBOL: "RYL.UN"

ROYAL HOST REIT DELIVERS RECORD RESULTS

Calgary, Alberta, March 7, 2008 - Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") today announced record results for the year ended December 31, 2007.

Royal Host continued to generate strong financial performance in 2007 in each of its businesses and undertook several initiatives directed at increasing Unitholder value. The Trust generated Distributable Income of \$21.0 million, or \$0.81 per trust unit and net income increased to a record \$14.4 million.

Hospitality revenue increased 1.9% to a record \$147.0 million in 2007. Revenue Per Available Room ("RevPAR") from continuing operations increased by 2.4% to \$65.80 for 2007, owing to the strength of the Trust's diversified portfolio and effective revenue management strategies.

Hospitality gross margin increased by 4.1% to a record \$44.9 million in 2007, reflecting RevPAR growth and strict discipline on costs. Gross margin as a percentage of hospitality revenue increased to 30.5% from 29.9% in 2006.

In 2007, Royal Host further enhanced its diversification by assembling a \$50 million portfolio of publicly-traded securities with a focus on the hospitality and service sectors and yielded positive investment income.

The Trust also increased Unitholder value by reinvesting \$10.2 million in its properties, closing an offering of \$60 million of 5.90%, 7-year convertible debentures, and repurchasing approximately 8% of its issued and outstanding trust units and \$5.1 million of convertible debentures.

"The year ended December 31, 2007 was marked by numerous accomplishments. As a result of the diligence of our team and the disciplined and innovative allocation of capital, we achieved strong broad-based financial performance," said Brad Cann, Executive Vice President and Chief Financial Officer. "As we enter 2008, the outlook for the Canadian hospitality sector remains favourable. Royal Host has maintained a strong balance sheet, developed an innovative investment strategy and is poised to seize the great number of opportunities that still exist in our sector," he added.

The Trust distributed \$0.66 per trust unit in 2007, representing a 32% increase over 2006 (\$0.50 per trust unit). In aggregate, the Trust declared distributions to Unitholders of \$17.4 million (2006 - \$12.7 million), representing 82.7% of Distributable Income.

The following table summarizes room statistics for the Trust's continuing operations.

36 hotels / 4,423 rooms	Three months ended December 31			Years ended December 31		
	2007	2006	Change %	2007	2006	Change (%)
RevPAR	\$59.72	\$57.45	4.0	\$65.80	\$64.26	2.4
Occupancy	59.9%	60.5%	(1.0)	64.5%	65.8%	(2.0)
ADR	\$99.75	\$95.03	5.0	\$102.08	\$97.71	4.5

The following table highlights the Trust's financial results for the year ended December 31, 2007.

(\$000's, except as otherwise noted)	2007	2006	Change (%)
Hospitality Revenue (Continuing Operations)	147,002	144,281	1.9
Hospitality Expenses	102,123	101,162	1.0
Hospitality Gross Margin	44,879	43,119	4.1
Hospitality Gross Margin %	30.5%	29.9%	2.0
Royal Private Residence Club	-	8,790	(100.0)
Other Expenses	34,119	38,433	(11.2)
Income From Continuing Operations	10,760	13,476	(20.2)
Income From Discontinued Operations	3,616	782	362.4
Net Income	14,376	14,258	0.8
Basic Per Unit Net Earnings (\$)			
From Continuing Operations	0.41	0.53	(22.6)
From Discontinued Operations	0.14	0.03	366.7
	0.55	0.56	(1.8)
Distributable Income	21,045	26,753	(21.3)
Distributions Declared on Trust Units	17,414	12,714	37.0
Basic Per Unit Distributable Income (\$)	0.81	1.05	(22.9)
Per Unit Distributions Declared (\$)	0.66	0.50	32.0

Management of Royal Host will hold a conference call to discuss its year-end results at 9:00 a.m. Eastern Time on Friday, March 7, 2008. The call may be accessed at 1-877-677-0837 or 1-416-641-6120. A replay of the call will be available shortly after the call until March 14, 2008, and may be accessed at 1-800-408-3053 or 1-416-695-5800 with the password 3251597. The replay will also be available on the Trust's website after March 14, 2008.

Royal Host is a diversified hospitality trust that delivers Unitholder value through hotel ownership, investment, management and franchising. It is Canada's second-largest hotel Real Estate Investment Trust.

Royal Host owns a diversified portfolio of 34 operating hotels, comprising approximately 4,200 guest rooms. The portfolio 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 as Best Western®, Country Inns & Suites®, Hilton®, Holiday Inn®, Ramada®, Super 8®, Thriftlodge® and Travelodge®, as well as a number of unbranded properties such as the Chimo Hotel in Ottawa and the Grand Okanagan Resort and Conference Centre in Kelowna.

The Trust also maintains an investment portfolio of publicly-traded securities focused on the hospitality and service sectors. A uniquely diversified portfolio permits the Trust to readjust the balance of resources dedicated to direct hotel ownership and indirect investments in response to changing market dynamics.

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 Thriftlodge® in Canada. Through its subsidiary, Travelodge Canada, Royal Host currently franchises over 100 locations, 13 of which are owned by the Trust, and 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 portfolio.

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 above statements in regard to the financial results should be read in conjunction with Royal Host's audited consolidated financial statements for the year ended December 31, 2007 and its management's discussion and analysis, which are available on Royal Host's website at www.royalhost.com as well as the SEDAR website at www.sedar.com.

This press release contains certain forward-looking statements relating, but not limited to, Royal Host's operations, anticipated financial performance, business prospects, and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", or similar words suggesting future outcomes. Such forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results expressed, projected, or implied by such forward-looking statements. Such factors include, but are not limited to economic, competitive, and lodging industry conditions. Royal Host disclaims any responsibility to update any such forward-looking statements except as required by law.

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ROYAL HOST REAL ESTATE INVESTMENT TRUST
Management's Discussion and Analysis

2007

FOR THE YEAR ENDED DECEMBER 31, 2007

Year In Review

In 2007, Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") delivered record results, demonstrating the effectiveness of its opportunity-driven strategy to generate sustainable Unitholder value. Royal Host accomplished this by:

- Focusing on operations which produced improvements in each measurable area, including record Hospitality Revenue, Hospitality Gross Margin⁽¹⁾ and Net Income;
- Increasing Basic per unit Distributable Income⁽¹⁾⁽²⁾ by 15.7% to \$0.81 per unit (2006 - \$0.70 per unit);
- Distributing \$17.4 million, or \$0.66 per unit, to Unitholders, representing 82.7% of Distributable Income;
- Effectively deploying cash by repurchasing approximately 8% of the total outstanding trust units of the Trust and \$5.1 million of Convertible Debentures;
- Reinvesting \$10.2 million in properties, reflecting our ongoing commitment to maintain and improve the quality of our directly-owned hotels;
- Strategically deploying cash through creation of a \$49.9 million investment portfolio, focused on the hospitality and service sectors, which yielded strong returns;
- Reducing the Trust's overall cost of capital by repaying its 9.25% Convertible Debenture and completing a \$60 million offering of a 5.9%, 7-year Convertible Debenture; and
- Maintaining a strong balance sheet, highlighted by \$96.7 million of cash and marketable securities at December 31, 2007.

⁽¹⁾Hospitality Gross Margin and Distributable Income are non-GAAP measures.

⁽²⁾Excluding Gross Margin from the Royal Private Residence Club.

Royal Host is a diversified hospitality trust that delivers Unitholder value through hotel ownership, investment, management and franchising. It 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 \$178.7 million and \$168.7 million, respectively, as of December 31, 2007.

As at March 6, 2008, Royal Host owns a diversified portfolio of 34 operating hotels, comprising 4,200 guest rooms. The portfolio 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 / Thriftlodge®	9	1,316	31.1%	-	-	-	4	378	8.9%	13	1,694	40.0%
Independent	1	256	6.1%	-	-	-	3	489	11.6%	4	745	17.6%
Country Inns & Suites®	-	-	-	4	276	6.5%	3	228	5.4%	7	504	11.9%
Holiday Inn®	2	254	6.0%	-	-	-	1	137	3.2%	3	391	9.2%
Hilton®	1	323	7.6%	-	-	-	-	-	-	1	323	7.6%
Super 8®	2	159	3.8%	-	-	-	2	132	3.1%	4	291	6.9%
Best Western®	-	-	-	-	-	-	1	159	3.8%	1	159	3.8%
Ramada®	1	124	2.9%	-	-	-	-	-	-	1	124	2.9%
	16	2,629	57.5%	4	276	6.1%	14	1,523	36.0%	34	4,231	100.0%

Royal Host also maintains an investment portfolio of publicly-traded securities focused on the hospitality and service sectors, which allows the Trust to readjust the balance of resources dedicated to direct hotel ownership and indirect investments in response to changing market dynamics.

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 Thriftlodge® in Canada. Through its subsidiary, Travelodge Canada, Royal Host currently franchises over 100 locations, 13 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 provides 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 delivered a record-setting annual performance. The Trust increased Hospitality Gross Margin by 4.1% to \$44.9 million, repurchased 2.0 million trust units and \$5.1 million of convertible debentures through Normal Course Issuer Bids, and declared \$17.4 million in distributions in the year ending December 31, 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 provide growth. Royal Host has a strong financial position, highlighted by \$96.7 million in cash and marketable securities and a modest amount of property secured debt, which places it in a favourable position to capitalize on its opportunity-driven approach to maximizing Unitholder value.

This Management's Discussion & Analysis ("MD&A") dated March 6, 2008 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 audited Consolidated Financial Statements of Royal Host Real Estate Investment Trust for the year ended December 31, 2007. The Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Selected FINANCIAL INFORMATION

(\$000's, except as otherwise noted)	2007	2006	Change (%)
Hospitality Revenue (Continuing Operations)	147,002	144,281	1.9
Hospitality Expenses	102,123	101,162	1.0
Hospitality Gross Margin ⁽¹⁾	44,879	43,119	4.1
Hospitality Gross Margin % ⁽¹⁾	30.5%	29.9%	2.0
Royal Private Residence Club	-	8,790	(100.0)
Other Expenses	34,119	38,433	(11.2)
Income From Continuing Operations ⁽²⁾	10,760	13,476	(20.2)
Income From Discontinued Operations ⁽³⁾	3,616	782	362.4
Net Income	14,376	14,258	0.8
Basic Per Unit Net Earnings (\$)			
From Continuing Operations	0.41	0.53	(22.6)
From Discontinued Operations	0.14	0.03	366.7
	0.55	0.56	(1.8)
Distributable Income ⁽¹⁾	21,045	26,753	(21.3)
Distributions Declared on Trust Units	17,414	12,714	37.0
Basic Per Unit Distributable Income (\$) ⁽¹⁾	0.81	1.05	(22.9)
Per Unit Distributions Declared (\$)	0.66	0.50	32.0
Weighted Average Number of Trust Units Outstanding (000's)	26,018	25,654	1.4
Number of Trust Units Outstanding, end of year (000's)	27,488	24,501	12.2
Closing Trust Unit Trading Price, end of year (\$)	6.50	6.55	(0.8)

As at March 6, 2008, Royal Host had 27,094,905 trust units outstanding.

⁽¹⁾ Items represent non-GAAP financial measures.

⁽²⁾ The Trust's income from continuing operations for the year ended December 31, 2007 was \$10.8 million (2006 - \$13.5 million, including gross margin of \$8.8 million on the Royal Private Residence Club).

⁽³⁾ 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). Because these measures are not defined under GAAP, Royal Host's method of calculation may not be comparable to similar measures presented by other entities. These measures should not be used as an alternative to net earnings or cash flows from operations determined in accordance with GAAP when assessing Royal Host's financial performance. However, the 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, Hospitality Gross Margin, Distributable Income (and Basic and Diluted per Unit Distributable Income), Standardized Distributable Cash, Funds from Operations and Adjusted Funds from Operations.

Key Performance Drivers and Measures

The hospitality industry 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.

Hospitality Gross Margin

Hospitality Gross Margin is calculated by deducting gross margin generated by the Royal Private Residence Club development from gross margin.

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

Standardized Distributable Cash, Distributable Income, Funds from Operations and Adjusted Funds from Operations are non-GAAP financial measures commonly used by hotel real estate investment trusts. As a "non-GAAP" measure, the calculation of each of these measures 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 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 December 31			Years ended December 31		
	2007	2006	Change %	2007	2006	Change (%)
RevPAR	\$59.72	\$57.45	4.0	\$65.80	\$64.26	2.4
Occupancy	59.9%	60.5%	(1.0)	64.5%	65.8%	(2.0)
ADR	\$99.75	\$95.03	5.0	\$102.08	\$97.71	4.5

*Including the Travelodge Hotel Burlington on the Lake and the Thriftlodge Fort Nelson, and excluding the Sundial Inn.

The Trust's hotel portfolio is diversified geographically and derives its revenues from numerous customer 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.

During the year ended December 31, 2007, the Trust continued to benefit from increased ADR, illustrating the Trust's success in generating incremental revenue. The Trust was effective in accurately positioning room rates, utilizing improved forecasting and the development of a clearer understanding of the markets the Trust competes in and the various systems of reservation delivery.

RevPAR from continuing operations improved by 2.4% to \$65.80 for the year ended December 31, 2007 (2006 - \$64.26). ADR increased by \$4.37, or 4.5%, offset by a 2.0% decrease in Occupancy.

BY REGION (CONTINUING OPERATIONS)

ONTARIO 55.5% of rooms revenue 17 hotels / 2,554 rooms	Three months ended December 31			Years ended December 31		
	2007	2006	Change (%)	2007	2006	Change (%)
RevPAR	\$61.46	\$59.90	2.6	\$64.64	\$64.67	0.0
Occupancy	62.3%	61.7%	1.0	65.0%	66.0%	(1.5)
ADR	\$98.73	\$97.09	1.7	\$99.50	\$98.00	1.5

RevPAR was unchanged for the year ended December 31, 2007 at \$64.64 (2006 - \$64.67). ADR improved by 1.5% to \$99.50 from \$98.00 in 2006. Occupancy decreased by 1.5% to 65.0% from 66.0% in 2006. Particularly strong results in a number of properties including the Hilton London and the Trust's properties in Ottawa and Timmins, each of which benefited both from favourable market conditions and capital improvements, was offset by challenging environments in certain other Ontario markets.

WESTERN 38.2% of rooms revenue 15 hotels / 1,593 rooms	Three months ended December 31			Years ended December 31		
	2007	2006	Change (%)	2007	2006	Change (%)
RevPAR	\$57.64	\$54.08	6.6	\$67.63	\$63.81	6.0
Occupancy	54.2%	57.1%	(5.1)	61.6%	63.8%	(3.4)
ADR	\$106.31	\$94.66	12.3	\$109.72	\$100.04	9.7

RevPAR increased by 6.0% to \$67.63 for the year ended December 31, 2007 (2006 - \$63.81). ADR increased by 9.7% to \$109.72 from \$100.04 in 2006. Occupancy decreased by 3.4% to 61.6% from 63.8% in 2006 which is predominantly a result of lower Occupancy at the Trust's Southern Alberta limited service hotels and the Thriftlodge Fort Nelson. 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 and the Trust's properties in Regina and Saskatoon each delivered very strong results.

ATLANTIC 6.3% of rooms revenue 4 hotels / 276 rooms	Three months ended December 31			Years ended December 31		
	2007	2006	Change (%)	2007	2006	Change (%)
RevPAR	\$56.43	\$56.21	0.4	\$65.30	\$63.46	2.9
Occupancy	67.5%	65.7%	2.7	71.9%	70.7%	1.7
ADR	\$83.54	\$85.51	(2.3)	\$90.89	\$89.76	1.3

The Trust's Atlantic region has continued to generate a solid performance. Each of the Trust's Atlantic properties is well positioned in markets which benefit from strong demand generators and consistent economic environments.

Distributions TO UNITHOLDER

During 2007, the Trust distributed \$0.66 per trust unit, representing a 32% increase over 2006 (\$0.50 per trust unit). In aggregate, the Trust declared distributions to Unitholders of \$17.4 million (2006 - \$12.7 million), representing 82.7% of Distributable Income. The Trust has consistently raised distributions since January 2005 and most recently, increased distributions by 10% in February 2007, reflecting strong operating results and a positive outlook.

The Trust sets distributions at a sustainable level as determined by its Trustees based on, among other considerations, annual performance, projected cash flows, capital requirements and working capital requirements. Accordingly, cash distributions will not necessarily equal Distributable Income in any given period. Effective December 14, 2007, the Trust amended its distribution policy, and declares monthly cash distributions on or about the 15th day of the month to Unitholders of record at the end of the month, which are payable on or about the 15th day of the following month. As a result, 2007 contained thirteen distribution record dates, as opposed to the typical twelve.

Royal Host's trust units' overall return of 9.8% in 2007 outperformed the S&P TSX REIT Index's overall 5.7% loss.

DISTRIBUTABLE INCOME

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

(\$000's, except as otherwise noted, unaudited)	Years ended December 31		
	2007	2006	Change (%)
Cash Flows from Operating Activities	24,199	55,201	
Changes in Non-Cash Working Capital	3,682	3,352	
Changes in Investment in PRC	(1,551)	(35,166)	
Changes in Minority Interest	-	8,591	
Cash Flows from Total Operations	26,330	31,978	(17.7)
Provision for Capital Replacement*	(5,285)	(5,225)	
Distributable Income	21,045	26,753	(21.4)
Distributions Declared	17,414	12,715	37.0
Basic Per Unit Distributable Income (\$)	0.81	1.05	(22.9)
Diluted Per Unit Distributable Income (\$)	0.67	0.78	(14.1)
Per Unit Distributions Declared (\$)	0.66	0.50	32.0

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

Distributable Income decreased comparatively for the year ended December 31, 2007 to \$21.0 million, or \$0.81 per unit (2006 - \$26.8 million, or \$1.05 per unit), due to the recognition of \$8.8 million of gross margin, or \$0.34 per unit, on the Royal Private Residence Club during the year ended December 31, 2006.

STANDARDIZED DISTRIBUTABLE CASH

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

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

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

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

(\$000's, except as otherwise noted, unaudited)	Years ended December 31		
	2007	2006	Change (%)
Net Cash Provided by Operating Activities	24,199	55,201	(56.2)
Capital Expenditures	(10,495)	(8,362)	
Standardized Distributable Cash	13,704	46,839	(70.7)
Distributions Declared	17,414	13,715	37.0
Repurchases of Trust Units Pursuant to Normal Course Issuer Bids	15,515	10,102	53.6
	32,929	23,817	38.3

Standardized Distributable Cash for the year ended December 31, 2006 includes the cash provided by the Royal Private Residence Club and, therefore, exceeds that for the year ended December 31, 2007.

The table below reconciles Standardized Distributable Cash and Distributable Income.

	Years ended December 31	
Standardized Distributable Cash	13,704	46,839
Capital Expenditures in Excess of Provision for Capital Replacement	5,210	3,137
Increase (decrease) in non-cash working capital, property under development and minority interest	2,131	(23,223)
Distributable Income	21,045	26,753

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

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

(\$000's, except as otherwise noted, unaudited)	Years ended December 31		
	2007	2006	Change (%)
Cash Flows provided by Total Operations	26,330	31,978	(17.7)
Realized gains on marketable securities	1,287	-	
Unrealized losses on marketable securities	(78)	-	
Accretion on Mortgages and Convertible Debentures	(1,997)	(1,721)	
Premium on Repurchases of Convertible Debentures	(637)	-	
Funds From Operations	24,905	30,257*	(17.7)
Provision for Capital Replacement	(5,285)	(5,225)	
Adjusted Funds From Operations	19,620	25,032	(21.6)
Per Unit Funds From Operations (\$)			
Basic	0.96	1.18	(18.6)
Diluted	0.75	0.85	(11.8)
Per Unit Adjusted Funds From Operations (\$)			
Basic	0.75	0.98	(23.5)
Diluted	0.65	0.75	(13.3)

*Includes recognition of \$8.8 million profit on Royal Private Residence Club in 2006.

For the period ending December 31, 2007, the Trust generated Funds from Operations of \$24.9 million (2006 - \$30.3 million). Funds from Operations reflects: the addition (deduction) of realized and unrealized gains and losses on marketable securities included in net income; the deduction of accretion on mortgages and convertible debentures of \$2.0 million (2006 - \$1.7 million), and the deduction of premiums on repurchase of convertible debentures of \$0.6 million (2006 - \$nil). Debt issuance costs and conversion options are accreted over the term of the related debt. Unrealized gains and losses on marketable securities included in other comprehensive income are not taken into account in the calculation of Funds From Operations or Adjusted Funds From Operations.

Adjusted Funds from Operations is calculated by deducting the Trust's provision for capital replacement from Funds from Operations. Adjusted Funds from Operations for 2007 was \$19.6 million (2006 - \$25.0 million).

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.

Year ENDED DECEMBER 31, 2007

The Trust generated a \$2.7 million increase in hospitality revenue and a \$1.8 million improvement in hospitality gross margin for the year ended December 31, 2007. Income from continuing operations was \$10.8 million (2006 - \$13.5 million, including gross margin of \$8.8 million on the Royal Private Residence Club).

(\$000's, except as otherwise noted)	Years ended December 31			
	2007	2006	Change	Change (%)
Hospitality Revenue	147,002	144,281	2,721	1.9
Hospitality Expenses	102,123	101,162	961	0.9
Hospitality Gross Margin	44,879	43,119	1,760	4.1
Royal Private Residence Club	-	8,790	(8,790)	(100.0)
Gross Margin	44,879	51,909	(7,030)	(13.5)
Other Expenses	34,119	38,433	(4,314)	(11.2)
Income from Continuing Operations	10,760	13,476	(2,716)	(20.2)

Hospitality REVENUE

Hospitality revenue from continuing operations for year ended December 31, 2007 increased by \$2.7 million to \$147.0 million (2006 - \$144.3 million).

(\$000's, except as otherwise noted)	Years ended December 31			
	2007	2006	Change	Change (%)
Revenue (continuing operations)				
Rooms	104,826	103,307	1,519	1.5
Food and Beverage	27,309	26,852	457	1.7
Franchising and Management	3,813	2,981	832	27.9
Other	11,054	11,141	(87)	0.8
	147,002	144,281	2,721	1.9

Rooms revenue increased by \$1.5 million, or 1.5%, to \$104.8 million (2006 - \$103.3 million), resulting from the Trust's yield management strategies. The Grand Okanagan Resort and Conference Centre, the Holiday Inn (The Palace), the Best Western Village Park Inn, the Super 8 Regina and the Trust's properties in Ottawa all produced particularly strong results.

Food and beverage revenue increased \$0.5 million, or 1.7%, to \$27.3 million (2006 - \$26.8 million).

Franchising and management revenue increased 27.9%. The increase in franchise fees is attributable to the receipt of termination fees in the first quarter of 2007 and Travelodge Canada's focused strategy on revenue generating initiatives with its Travelodge® and Thriftlodge® franchisees and ensuring a quality product by addressing underperforming hotels. The increase in management fees is primarily attributable to the Royal Private Residence Club.

Other revenue was unchanged at \$11.1 million (2006 - \$11.1 million), and includes revenue from telephone, retail sales, tenant lease and parking.

Hospitality EXPENSES

(\$000's, except as otherwise noted)	Years ended December 31			
	2007	2006	Change	Change (%)
Hospitality Expenses	102,123	101,162	961	1.0

Total hospitality expenses increased by \$0.9 million, or 1.0%, to \$102.1 million (2006 - \$101.2 million). Operating expenses as a percentage of revenue decreased to 69.5% (2006 - 70.1%). 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. The Trust's proactive strategies to lower costs in the areas of energy, property tax and insurance yielded savings.

Hospitality GROSS MARGIN

(\$000's, except as otherwise noted)	Years ended December 31			
	2007	2006	Change	Change (%)
Hospitality Gross Margin	44,879	43,119	1,760	4.1

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 \$1.8 million, or 4.1%, to \$44.9 million in 2007 (2006 - \$43.1 million). Gross margin as a percentage of revenue improved to 30.5% (2006 - 29.9%) 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 year ended December 31, 2007, the Trust recognized revenue from the sale of condominiums of \$1.7 million. The Trust recognized, during the year ended December 31, 2006, revenue of \$55.7 million, cost of sales of \$46.9 million and gross margin of \$8.8 million.

Other EXPENSES AND INCOME

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 year ended December 31, 2007 increased by \$0.3 million to \$10.8 million which includes the recognition of \$0.5 million of accretion of debt issuance costs (2006 - \$nil) related to mortgages. Interest on convertible debentures for the year ended December 31, 2007 increased by \$2.1 million as a result of: incremental indebtedness from the issuance of \$60.0 million of convertible debentures in June 2007; the recognition of \$1.5 million (2006 - \$0.1 million) of accretion of convertible debentures conversion options and debt issuance costs; and the recognition of \$0.6 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.

Investment income increased to \$5.1 million (2006 - \$1.7 million), as a result of higher returns from the Trust's newly-created investment portfolio. The Trust also generated realized gains on the sales of marketable securities of \$1.3 million (2006 - \$nil), illustrating the Trust's successful investment strategies. The Trust experienced unrealized losses on marketable securities of \$0.1 million (2006 - \$nil) due to market conditions at the end of the year, illustrating the variability of public markets and unrealized investment gains and losses. The investment portfolio provides management with an alternative method of cash deployment which allows the Trust to readjust the balance of resources dedicated to direct asset ownership and indirect investments.

As a result of continued focus on cost efficiencies, the Trust reduced trust administration expense by \$0.2 million to \$1.7 million (2006 - \$1.9 million) despite incurring reorganization costs in 2007.

Depreciation and amortization decreased by \$0.6 million to \$15.2 million (2006 - \$15.8 million). In 2006, depreciation and amortization included \$1.6 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 year ended December 31, 2007 was \$10.8 million (2006 - \$13.5 million, including gross margin of \$8.8 million on the Royal Private Residence Club). Income from discontinued operations was \$3.6 million (2006 - \$0.8 million), as described further in "Discontinued Operations and Property Held For Sale".

Net income was \$14.4 million (2006 - \$14.3 million). The Trust's other comprehensive loss of \$2.2 million (2006 - \$nil) is attributable primarily to unrealized losses on trust units classified as available-for-sale, due to the weakening financial markets in late 2007. Comprehensive income, the combination of net income and other comprehensive loss, was \$12.2 million (2006 - \$14.3 million) for the year ended December 31, 2007.

***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 year ended December 31, 2007 or that are held for sale as at December 31, 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.

As described in "Subsequent Events", the Travelodge Hotel Burlington on the Lake was sold on February 19, 2008. However, as at December 31, 2007, the Travelodge Hotel Burlington on the Lake did not satisfy the criteria for classification as discontinued operations and, as such, is included in continuing operations.

INCOME FROM DISCONTINUED OPERATIONS

<i>(\$000's, except as otherwise noted)</i>	Years ended December 31	
	2007	2006
Hospitality revenue	539	5,492
Hospitality expenses	653	3,319
Gross margin	(114)	2,173
Other expenses (income)	(5)	1,077
Income (loss) before gain (loss) on disposition	(109)	1,096
Gain (loss) on disposition	3,725	(314)
Income from discontinued operations	3,616	782

Revenue from discontinued operations for the year ended December 31, 2007 was \$0.5 million (2006 - \$5.5 million). 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 increased to \$3.6 million (2006 - \$0.8 million) due primarily to the significant gain realized on the sale of the Trust's former US hotel management business. Each of these dispositions will allow management to focus additional attention on the Trust's core businesses.

Liquidity AND CAPITAL RESOURCES

As at December 31, 2007, the Trust had cash and cash equivalents of \$46.8 million (December 31, 2006 - \$92.1 million) and liquid marketable securities of \$49.9 million (December 31, 2006 - \$2.0 million), comprised of publicly traded trust units, convertible debentures, preferred shares and common shares.

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 \$5.1 million and a net gain on marketable securities of \$1.3 million during the year ended December 31, 2007.

During 2007, Royal Host deployed cash on hand in the form of investments in publicly-traded securities with a focus on the hospitality and service sector. These investments further illustrate Royal Host's objective of increasing Unitholder value while remaining focused on its core business strengths in the hospitality industry. These investments are anticipated to generate superior yields to those otherwise available within the Trust's risk tolerance.

As part of this investment strategy, as at December 31, 2007, Royal Host held 6.8 million trust units, or 17.5% of the issued and outstanding trust units, of Holloway Lodging REIT ("Holloway"), a hotel real estate investment trust. 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.

On March 1, 2007, the Trust repaid the scheduled maturity of its 9.25% convertible debentures. 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, anticipating opportunities to increase Unitholder value, 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.

During 2007, the Trust deployed \$10.2 million in capital improvements throughout the hotel portfolio. The Trust is currently undertaking repositioning of the Yellowknife Inn, which will represent an expenditure totalling approximately \$3.0 million. This project is expected to be completed prior to the profitable summer season. The Trust's repositioning of the Travelodge Ottawa West property is expected to be completed in 2008. The Trust regularly reviews its hotel portfolio for accretive capital reinvestment opportunities.

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

Royal Host employs a modest amount of property secured debt. As at December 31, 2007, Royal Host's debt (excluding convertible debentures) to gross book value was 21.9% (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 December 31, 2007 Royal Host's debt (including convertible debentures) to gross book value was 54.3% (December 31, 2006 - 56.3%).

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

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 year ended December 31, 2007, nor has Royal Host experienced any indirect impact from the 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 December 31, 2007, the carrying value of the Trust's mortgages was \$122.6 million (December 31, 2006 - \$126.9 million). The carrying value reflects total outstanding principal of \$123.8 million (December 31, 2006 - \$126.9 million) less \$1.2 million of debt issuance costs (December 31, 2006 - \$nil). The \$4.3 million decrease in carrying value is attributable to the reclassification of debt issuance costs effective January 1, 2007 and \$3.1 million of scheduled mortgage principal repayments made during the year ended December 31, 2007.

(\$000's)	As at December 31, 2007						
	Total	2008	2009	2010	2011	2012	Thereafter
Mortgages	123,810	3,325	24,973	60,750	13,181	1,610	19,971
Capital Leases	361	119	65	70	75	32	-

CONVERTIBLE DEBENTURES

(\$000's)	Maturity Date	December 31, 2007		December 31, 2006		Conversion Price
		Carrying Value	Outstanding Balance	Carrying Value	Outstanding Balance	
Current:						
9.25% Convertible Debenture	March 2007	-	-	38,021	38,021	\$7.00
Long-term:						
7.90% Convertible Debenture, Series A	April 2009	8,025	8,250	35,000	35,000	\$6.00
6.00% Convertible Debenture, Series B	October 2015	52,317	55,627	58,464	60,000	\$6.85
6.25% Convertible Debenture, Series C	September 2013	55,585	59,313	58,225	60,000	\$7.00
5.90% Convertible Debenture, Series D	June 2014	57,380	60,000	-	-	\$8.90
		<u>173,307</u>	<u>183,191</u>	<u>151,689</u>	<u>155,000</u>	

As described above, during the year ended December 31, 2007, the Trust closed a \$60 million offering of a 5.90% convertible unsecured subordinated debenture due June 30, 2014.

Royal Host's convertible debentures have a total outstanding balance at December 31, 2007 of \$183.2 million (December 31, 2006 - \$193.0 million). The carrying value of the convertible debentures as at December 31, 2007 is \$173.3 million, reflecting \$9.9 million of debt issuance costs and conversion options.

As at December 31, 2007, the average maturity of mortgages was 2.8 years (December 31, 2006 - 3.8 years), the average maturity of convertible debentures was 6.4 years (December 31, 2006 - 5.3 years), and the average maturity of mortgages and convertible debentures combined was 5.0 years (December 31, 2006 - 4.7 years). As at December 31, 2007, Royal Host's mortgages had an average interest rate of 8.20% (December 31, 2006 - 8.19%). Royal Host's convertible debentures had an average interest rate of 6.13% (December 31, 2006 - 7.06%), and Royal Host's total debt had an average overall interest rate of 6.97% (December 31, 2006 - 7.52%), 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 year ended December 31, 2007, holders of the Trust's convertible debentures benefited from the strength in Royal Host's unit price performance and converted \$23.8 million of the 7.90% convertible debentures into 4.0 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.

Distributions

As a direct reflection of a 32.0% increase in per unit distributions (from \$0.50 to \$0.66) and an increase in the weighted-average number of trust units outstanding during 2007, distributions increased by \$4.7 million, or 37.0%, to \$17.4 million.

Investing **ACTIVITIES**

In addition to its investment portfolio, the Trust also reinvested significantly in its hotel properties. Royal Host is committed to optimizing its portfolio through broad reinvestment across its properties, and during the year ended December 31, 2007, the Trust's capital expenditures totalled \$10.2 million (2006 - \$10.6 million) and included improvements at the Holiday Inn Trenton, the Yellowknife Inn and several other hotels. Capital expenditures utilized cash of \$10.5 million (2006 - \$8.4 million). Capital improvements have been predominantly deployed in areas that directly improve the guest experience.

\$4.0 million was released from restricted cash during the year ended December 31, 2007, for reimbursement of previous capital investment. Restricted cash, described above, is available for funding certain hotel capital expenditures.

Unitholders' **EQUITY**

During the year ended December 31, 2007, equity increased by \$12.5 million to \$99.7 million. The increase is attributable to comprehensive income of \$12.2 million, the conversion of \$31.7 million of convertible debentures into trust units, less \$17.4 million of declared distributions and \$14.5 million related to the repurchase of 2.0 million trust units under the Trust's Normal Course Issuer Bid.

As at December 31, 2007, 27,487,825 trust units were issued and outstanding, and as at March 6, 2008, 27,094,905 trust units were issued and outstanding.

During the year ended December 31, 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 trust units and convertible debentures. Management believes that the market price of the Trust's securities may, from time to time, not fully reflect the underlying value of the securities.

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, or approximately 10% of the "public float" of its issued and outstanding trust units. During the year ended December 31, 2007, the Trust repurchased 2.0 million trust units with an aggregate cost of \$14.4 million (average cost of \$7.21 per unit) pursuant to this NCIB. Cumulatively to December 31, 2007, Royal Host has repurchased 5.0 million trust units pursuant to its NCIBs. Commencing on January 2, 2008, Royal Host

initiated an NCIB to repurchase a maximum of 2,157,622 of its issued and outstanding trust units. Subsequent to December 31, 2007, Royal Host repurchased 0.6 million trust units with an aggregate cost of \$3.5 million (average cost of \$6.18 per unit).

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 year ended December 31, 2007, Royal Host repurchased \$2.9 million in principal balance with an aggregate cost of \$3.5 million (average cost of \$118.72) of 7.90% debentures pursuant to this NCIB.

Commencing on November 28, 2007, Royal Host initiated an NCIB to repurchase up to \$0.8 million principal amount of its issued and outstanding 7.90% convertible debentures. During the year ended December 31, 2007, Royal Host repurchased \$26,000 in principal balance with an aggregate cost of \$30,000 (average cost of \$116.00) of 7.90% debentures 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 year ended December 31, 2007, Royal Host repurchased \$1.6 million in principal balance with an aggregate cost of \$1.7 million (average cost of \$108.00) of 6.00% debentures pursuant to this NCIB.

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 year ended December 31, 2007, Royal Host repurchased \$0.6 million in principal balance with an aggregate cost of \$0.7 million (average cost of \$106.23) of 6.25% debentures pursuant to this NCIB.

***Substantial* ISSUER BID**

On February 20, 2008, Royal Host initiated a Substantial Issuer Bid, pursuant to which the Trust offered to purchase for cancellation up to 5,386,000, or approximately 20%, of its outstanding trust units at a price of \$6.50 per trust unit. The offer will remain open for acceptance for at least 35 days after the date of commencement, unless withdrawn or extended by Royal Host. Management believes that the offer is in the best interests of Royal Host and its Unitholders as it provides an attractive use of capital given its market valuation.

***Subsequent* EVENTS**

Reorganization of Royal Host

The Trust was reorganized, effective January 1, 2008, as approved by the Trust's Unitholders on May 18, 2007, and as described in the Trust's Information Circular dated April 13, 2007. The purpose of the reorganization is to simplify the organizational structure of Royal Host and the entities in which it holds substantial interests and to substantially reduce complexity of accounting, legal, reporting and income tax compliance required by the previous structure. The reorganization will allow the Trust to maximize certain tax deductions, reducing the return

on capital portion of distributions to Unitholders. The reorganization will also eliminate the Trust's capital tax burden. The reorganization will affect future income taxes by reducing the current future income tax asset to \$nil and reducing the long term future income tax liability to \$3.7 million, resulting in a future income tax recovery of \$1.9 million in the first quarter of 2008.

Sale of Travelodge Hotel Burlington on the Lake

On February 19, 2008, Royal Host closed on the sale of the 122-room Travelodge Hotel Burlington on the Lake to an unrelated party for \$24.8 million, resulting in a gain on sale of assets of approximately \$13.0 million. Management believed that accepting this offer was in the best interests of the Trust's Unitholders.

Thriftlodge Fort Nelson

On January 8, 2008, the 70-room Thriftlodge Fort Nelson was destroyed by fire. The gross and net book values of capital assets destroyed in the fire totalled \$5.3 million and \$3.3 million, respectively. The Trust maintained adequate insurance coverage on the property. Management is currently considering the best use of the property site.

Sundial Inn

Due to the continued decline in the financial performance of the Sundial Inn in Orillia, Ontario, the Trust decommissioned the property effective January 31, 2008. Management continues to pursue disposing of this property.

Selected ANNUAL INFORMATION FOR THREE YEARS

(\$000's, except as otherwise noted)	For the years ended December 31		
	2007	2006	2005
Revenue	147,002	144,281	139,951
Net Income			
From Continuing Operations	10,760	13,476	1,838
From Discontinued Operations	3,616	782	508
Basic Per Unit Net Earnings (\$)	0.55	0.56	0.07
Total Assets	422,413	440,033	421,004
Total Long-term Liabilities	322,699	283,647	270,314
Distributions Declared Per Unit (\$)	0.66	0.50	0.385

Three MONTHS ENDED DECEMBER 31, 2007

Selected Fourth Quarter Data

(\$000's, except as otherwise noted, unaudited)	For the three months ended December 31			
	2007	2006	Change	Change (%)
Hospitality Revenue (continuing operations)				
Rooms	23,583	23,060	523	2.2
Food and Beverage	7,905	7,586	319	4.2
Franchising and Management	769	850	(81)	(9.5)
Other	2,557	2,550	7	0.2
	<u>34,814</u>	<u>34,046</u>	<u>768</u>	<u>2.3</u>
Hospitality Expenses	<u>25,839</u>	<u>24,796</u>	<u>1,043</u>	<u>4.2</u>
	8,975	9,250	(275)	(3.0)
Royal Private Residence Club	-	63	(63)	(100.0)
Gross Margin	<u>8,975</u>	<u>9,313</u>	<u>(338)</u>	<u>(3.6)</u>
Other Expenses	<u>8,709</u>	<u>9,087</u>	<u>(378)</u>	<u>(4.2)</u>
Income from Continuing Operations	<u>266</u>	<u>226</u>	<u>40</u>	<u>17.7</u>
Loss from Discontinued Operations	<u>(575)</u>	<u>(470)</u>	<u>(105)</u>	<u>(22.3)</u>
Net Loss	<u>(309)</u>	<u>(244)</u>	<u>(65)</u>	<u>(26.6)</u>

Hospitality revenue from continuing operations in the fourth quarter of 2007 increased by \$0.8 million to \$34.8 million (2006 - \$34.0 million). Rooms revenue increased by \$0.5 million to \$23.6 million (2006 - \$23.1 million). Overall RevPAR increased 4.0%, resulting from a 5.0% increase in ADR and a 1.0% decrease in Occupancy. RevPAR and revenue increased in each of the Trust's regions, most notably its Western region which generated 6.6% RevPAR growth. The London Hilton and Travelodge Ottawa West provided the largest growth in revenue in the Trust's Ontario region. The Holiday Inn (The Palace), the Best Western Village Park Inn and the Trust's properties in Regina and Saskatoon continued to generate record results. Positive results generated by the Trust's properties in New Glasgow and Saint John were also noteworthy.

Food and beverage revenue increased to \$7.9 million (2006 - \$7.6 million).

Hospitality expenses increased \$1.0 million to \$25.8 million (2006 - \$24.8 million). Gross margin decreased \$0.3 million in the fourth quarter of 2007 to \$9.0 million (2006 - \$9.3 million). Other expenses decreased \$0.4 million to \$8.7 million (2006 - \$9.1 million).

Income from continuing operations increased to \$0.3 million (2006 - \$0.2 million), and the loss from discontinued operations increased to \$0.6 million (2006 - \$0.5 million).

Summary OF QUARTERLY FINANCIAL RESULTS

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	34,814	42,223	38,420*	31,717*	37,468*	93,653*	37,658	31,170
Income (Loss)								
From Continuing Operations	266	7,498	4,773	(1,782)	226	13,296	2,174	(2,220)
From Discontinued Operations	(575)	30	36	4,125	(470)	643	415	194
	(309)	7,528	4,809	2,343	(244)	13,939	2,589	(2,026)
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	0.01	0.29	0.18	(0.07)	0.01	0.52	0.08	(0.09)
Diluted	0.01	0.21	0.15	(0.07)	0.01	0.31	0.08	(0.09)
Income (Loss) from Total Operations								
Basic	(0.01)	0.29	0.19	0.10	(0.01)	0.54	0.10	(0.08)
Diluted	(0.01)	0.21	0.15	0.10	(0.01)	0.33	0.10	(0.08)

* Includes Royal Private Residence Club.

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

Quarterly financial results as presented reflect the restatement of quarterly non-cash provisions for future income taxes. The effects of the restatement are as follows: future income taxes (recovery) for the three months ended June 30, 2007 decreased by \$1.5 million to \$0.4 million and the future income tax liability as at June 30, 2007 increased by \$1.5 million to \$8.3 million; future income taxes for the three months ended September 30, 2007 increased by \$1.0 million to (\$0.2 million) and the future income tax liability as at September 30, 2007 decreased by \$0.5 million to \$6.7 million.

Business ENVIRONMENT AND OUTLOOK

Royal Host is in an advantageous position to capitalize on the opportunities that the Canadian hospitality industry is widely expected to offer in 2008. Canada's overall general economic environment is healthy, and the outlook for its hospitality industry remains favourable. Growth in demand is anticipated to exceed that of supply in 2008, resulting in higher revenues. With solid fundamentals, a focus on revenue management and a geographically diverse portfolio, which spans multiple demand generators and customer segments. Royal Host's position within the Canadian hospitality industry is strong.

The Trust's positive performance for the year ended December 31, 2007 reflects its focus on its core businesses, its commitment to improving the quality of its product, and the dedicated efforts of its highly-skilled team to continue delivering value to its Unitholders.

Royal Host has a solid Balance Sheet, highlighted by \$96.7 million of cash and marketable securities at the end of the year, and is therefore uniquely positioned to take advantage of opportunities it seeks out in the months ahead. 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 and Substantial Issuer Bids and investment in securities, providing a good use of the Trust's resources for the benefit of Unitholders.

Royal Host's unique strategy for deploying resources and core strengths position the Trust to maximize opportunities in the current economic environment to create 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. The following is a discussion of the key risks and uncertainties facing its business on a day-to-day basis and the strategies adopted to mitigate these risks. However, it should not be assumed that this discussion is exhaustive or that the strategies adopted to mitigate these risks will be effective.

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

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

General Economic Risks

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

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

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

- diversification of its hotel portfolio both geographically and across market segments in order to lower the exposure to regional economic fluctuations;
- ownership of properties in desirable locations with a history of stable cash flows that are at or above our minimum expected rate of return;
- maintaining a strong balance sheet and undertaking conservative fiscal strategies; and
- using debt securities with fixed interest rates and repayment terms where such financing can be obtained on favourable terms.

Operating Risks

The Trust also faces normal operating risks associated with the hotel business. These risks include:

- operating cost increases due to inflation and other factors;
- dependence on business travelers and tourism;
- increases in energy costs and other expenses; and
- reliance on key personnel.

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

- ensuring customer satisfaction through proactive measures such as staff training;
- maintaining a high quality product by ensuring, through constant reinvestment, that the hotel portfolio is constantly renovated and managed at or above industry standards;
- developing specific revenue management and sales and marketing programs targeting a wide variety of customer segments;
- employing sophisticated operating systems to manage and control costs;
- managing the capital structures with a focus on a prudent use of leverage; and
- providing incentive-based compensation programs to attract and maintain a high-quality management team.

Competitive Risks

Substantially all of Royal Host's hotels are located in developed areas that include other hotel properties. The number of competitive hotel properties in a particular area could have a material effect on occupancy and ADR of its hotels or hotel properties acquired in the future. New, competing hotels may be opened in the Trust's markets, which could adversely affect the profitability of hotel operations.

Investment Risks

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

In order to mitigate these risks, the Trust:

- has implemented strict investment policies and procedures;
- has invested exclusively in Canadian publicly-traded securities, which removes direct currency risk;
- holds significant cash and cash equivalents so that market volatility does not unduly influence the Trust's investment decisions; and
- has not pledged any marketable securities as security for indebtedness.

Environmental Risks

The Trust is subject to numerous federal, provincial and local laws and regulations concerning the environment. Under these laws and regulations, Royal Host may be liable for the costs of removal or remediation of certain hazardous or toxic substances on its properties.

In recent years, environmental legislation in Canada has undergone significant change in response to greater public awareness. As a result, environmental management and remediation standards have increased. The nature of the business does not subject it to a high level of environmental risk, but Royal Host takes this risk seriously. Under current investment guidelines, all potential acquisition properties must have minimum phase one environmental assessments conducted by an independent consultant prior to purchase. Royal Host also maintains environmental impairment insurance on all properties.

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.

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 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 residents of Canada for purposes of the Income Tax Act (and reduce such Unitholder's adjusted cost base in Unit for purposes of the Income Tax Act). Distributions, whether of income or capital, to a Unitholder who is not resident in Canada for purposes of the Income Tax Act, or that is a partnership that is not a "Canadian Partnership" for purposes of the Income Tax Act, generally will be subject to Canadian withholding taxes.

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 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 December 31, 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.

The following table outlines the safe harbour growth limits applicable to Royal Host.

<i>(\$000's unless otherwise noted)</i>	2008	2009	2010	Total
Available Safe Harbour Limit	52,526	50,000	50,000	152,526

Disclosure **CONTROLS AND PROCEDURES**

The Executive Vice President / Chief Financial Officer (in the capacity of both Chief Financial Officer and Chief Executive Officer for this purpose) and the Executive Vice President (in the capacity of Chief Executive Officer for this purpose) both evaluated the effectiveness of Royal Host’s disclosure controls and procedures as at December 31, 2007. Based on that evaluation, both concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 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 year ended December 31, 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 during the year ended December 31, 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, as opposed to the amortized cost basis used prior thereto. 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, 2007 includes a summary of the Trust’s significant accounting policies.

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

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

Trust units, preferred shares and common shares held by the Trust have been classified as “available-for-sale”, while convertible debentures held by the Trust have been classified as “held for trading”.

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 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 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 materially impacted by the adoption of these new accounting policies.

Future CHANGES IN 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.

International Financial Reporting Standards

The Accounting Standards Board ("AcSB") establishes financial accounting and reporting standards for use by Canadian companies. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced the use of International Financial Reporting Standards ("IFRS") will be required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises including listed companies. IFRS will replace Canada's current GAAP. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Trust is evaluating the impact of the adoption of IFRS.

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, "*Capital Disclosures*", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for fiscal periods beginning on or after October 1, 2007 this enhanced disclosure is intended to allow users to better evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact Royal Host's financial results.

Financial Instruments

The CICA issued Handbook Section 3862, "*Financial Instruments – Disclosure*", and Handbook Section 3863, "*Financial Instruments – Presentation*" to replace the existing Handbook Section 3861 "*Financial Instruments – Disclosure and Presentation*." Handbook Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Handbook Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of Royal Host.

***Off* BALANCE SHEET ARRANGEMENT**

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

***Forward-looking* STATEMENTS**

Certain statements in this Management's Discussion and Analysis, including those in the "Business Environment and Outlook" section, relate to periods commencing after December 31, 2007 and contain estimates or assumptions about the outcome of future events. These forward-looking statements are subject to risks, uncertainties, and other factors that could result in the outcome of these events being materially different from those anticipated in this MD&A. These factors include, but are not limited to: general economic conditions, levels of travel in Royal Host's key market areas, political conditions and events, competitive pressures, changes in government policy or regulations and other risk factors including risks and uncertainties described 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 Financial Statements

2007

FOR THE YEAR ENDED DECEMBER 31, 2007

ROYAL HOST[®]
HOTELS & RESORTS^{REIT}

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

	As at	
	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	46,823	92,144
Marketable securities	49,874	2,000
Accounts and notes receivable	8,464	9,529
Prepaid expenses	3,225	3,237
Inventories	3,327	3,174
Property under development	-	1,551
Assets of discontinued operations (Note 5)	46	4,285
Future income taxes (Note 13)	1,316	931
	<u>113,075</u>	<u>116,851</u>
Long-term notes receivable	-	47
Capital assets (Note 6)	303,359	308,396
Property held for sale (Note 5)	2,025	2,056
Restricted cash	3,954	5,261
Deferred debt issuance costs (Note 2)	-	7,422
	<u>422,413</u>	<u>440,033</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	14,314	16,421
Equity distributions payable	1,512	1,232
Interest accrued on convertible debentures	1,592	3,390
Mortgages (Note 7)	3,325	3,108
Convertible debentures (Note 8)	-	38,021
Obligations under capital leases (Note 9)	119	375
Other liabilities	1,872	2,288
Liabilities of discontinued operations (Note 5)	43	4,351
	<u>22,777</u>	<u>69,186</u>
Mortgages (Note 7)	119,298	123,820
Convertible debentures (Note 8)	173,307	151,689
Obligations under capital leases (Note 9)	242	242
Deferred revenue	168	417
Future income taxes (Note 13)	6,907	7,479
	<u>322,699</u>	<u>352,833</u>
Unitholders' equity (Note 10)	<u>99,714</u>	<u>87,200</u>
	<u>422,413</u>	<u>440,033</u>

Commitments, Contingencies and Guarantees (Note 15)

See accompanying Notes to the Consolidated Financial Statements

Approved on behalf of the Board of Trustees:

As signed by

George Armoyan
Chairman of the Board

As signed by

Melinda M. Lee
Chairman of the Audit Committee

ROYAL HOST REAL ESTATE INVESTMENT TRUSTConsolidated Statements of Net Income and Comprehensive Income
in \$000's (except per unit amounts)

	Years Ended	
	December 31, 2007	December 31, 2006
Hospitality revenue		
Rooms	104,826	103,307
Food and beverage	27,309	26,852
Franchising and management	3,813	2,981
Other	11,054	11,141
	<u>147,002</u>	<u>144,281</u>
Hospitality expenses	<u>102,123</u>	<u>101,162</u>
	<u>44,879</u>	<u>43,119</u>
Royal Private Residence Club (Note 4)		
Revenue	1,675	55,668
Cost of sales	1,675	46,878
	<u>-</u>	<u>8,790</u>
Gross margin	<u>44,879</u>	<u>51,909</u>
Other expenses and income		
Trust administration	1,716	1,865
Interest and accretion on mortgages and capital leases	10,784	10,498
Interest and accretion on convertible debentures	13,351	11,206
Interest and investment income	(5,146)	(1,705)
Unrealized losses on marketable securities (Note 2)	78	-
Realized gains on marketable securities (Note 2)	(1,287)	-
Depreciation and amortization	15,212	15,768
Future income taxes (recovery) (Note 13)	(862)	722
Capital and other taxes	135	172
Loss (gain) on foreign currency translation	138	(93)
	<u>34,119</u>	<u>38,433</u>
Income from continuing operations	<u>10,760</u>	<u>13,476</u>
Income from discontinued operations (Note 5)	<u>3,616</u>	<u>782</u>
Net income	<u>14,376</u>	<u>14,258</u>
Other comprehensive loss (Notes 2 and 14)	<u>2,210</u>	<u>-</u>
Comprehensive income	<u>12,166</u>	<u>14,258</u>
Basic per unit net earnings (Note 11)		
- from continuing operations	0.41	0.53
- from discontinued operations	0.14	0.03
	<u>0.55</u>	<u>0.56</u>
Diluted per unit net earnings (Note 11)		
- from continuing operations	0.41	0.49
- from discontinued operations	0.14	0.02
	<u>0.55</u>	<u>0.51</u>

See accompanying Notes to the Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
in \$000's

	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	-	-	-	14,258	-	-	14,258
Equity distributions							
Trust units	-	-	-	-	-	(12,715)	(12,715)
Issuance of trust units pursuant to distribution reinvestment plan	12	-	-	-	-	-	12
Issuance of trust units pursuant to debenture conversion option	5	-	-	-	-	-	5
Trust units repurchased pursuant to normal course issuer bid (Note 10)	(15,816)	-	4,670	-	-	-	(11,146)
Employee loans pursuant to employee unit purchase program (Note 10)	33	-	3	-	-	-	36
Conversion option related to issuance of convertible debentures (Note 8)	-	1,800	-	-	-	-	1,800
Balance, December 31, 2006	201,775	3,480	7,497	24,676	-	(150,228)	87,200
Transitional adjustment on adoption of new accounting policy (Note 2)	-	-	-	111	-	-	111
Comprehensive income (loss) (Note 14)	-	-	-	14,376	(2,210)	-	12,166
Equity distributions							
Trust units	-	-	-	-	-	(17,414)	(17,414)
Issuance of trust units pursuant to distribution reinvestment plan	9	-	-	-	-	-	9
Issuance of trust units pursuant to debenture conversion option (Note 8)	31,772	(80)	-	-	-	-	31,692
Trust units cancelled pursuant to normal course issuer bid (Note 10)	(16,601)	-	2,131	-	-	-	(14,470)
Convertible debentures cancelled pursuant to normal course issuer bid (Note 8)	-	(63)	-	-	-	-	(63)
Employee loans pursuant to employee unit purchase program (Note 10)	183	-	-	-	-	-	183
Conversion option related to issuance of convertible debentures (Note 8)	-	300	-	-	-	-	300
Balance, December 31, 2007	217,138	3,637	9,628	39,163	(2,210)	(167,642)	99,714

Accumulated income, accumulated other comprehensive loss and distributions at December 31, 2007 were (\$130,689) (2006 - (\$125,552))

See accompanying Notes to the Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows
in \$000's

	Years Ended	
	December 31, 2007	December 31, 2006
Operating activities		
Income from continuing operations	10,760	13,476
Items not affecting cash:		
Depreciation and amortization	15,212	15,768
Future income taxes (recovery)	(862)	722
Unrealized losses on marketable securities (Note 2)	78	-
Realized gains on marketable securities (Note 2)	(1,287)	-
Premium on repurchases of convertible debentures	637	-
Accretion on mortgages and convertible debentures (Note 7 and 8)	1,997	154
Cash flows provided by continuing operations	26,535	30,120
Cash flows provided by (used in) discontinued operations (Note 5)	(205)	1,858
Changes in non-cash working capital - continuing operations (Note 12)	(3,633)	(3,548)
Changes in non-cash working capital - discontinued operations (Note 5)	(49)	196
Decrease in property under development	1,551	35,166
Decrease in minority interest	-	(8,591)
	24,199	55,201
Financing activities		
Issuance of convertible debentures	60,000	60,000
Debt issuance costs	(2,476)	(2,618)
Redemption upon maturity of convertible debentures	(32,469)	-
Repurchases of convertible debentures pursuant to normal course issuer bids	(5,819)	(1,691)
Principal repayments on mortgages and capital leases	(3,733)	(18,785)
Repurchases of trust units pursuant to normal course issuer bids	(15,515)	(10,102)
Equity distributions	(17,125)	(12,357)
Proceeds from repayment of employee unit purchase program loan	183	-
	(16,954)	14,447
Investing activities		
Purchases of marketable securities	(107,819)	(2,000)
Dispositions of marketable securities	58,943	-
Net cash on dispositions - discontinued operations (Note 5)	5,451	-
Net cash on dispositions - continuing operations	-	460
Acquisitions of capital assets	(10,495)	(8,362)
Decrease in restricted cash	1,307	772
Decrease in long-term notes receivable	47	143
	(52,566)	(8,987)
Increase (decrease) in cash and cash equivalents	(45,321)	60,661
Cash and cash equivalents, beginning of year	92,144	31,483
Cash and cash equivalents, end of year	46,823	92,144
Cash interest paid		
Mortgages and capital leases	10,189	11,516
Convertible debentures	13,604	10,091
	23,793	21,607

See accompanying Notes to the Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

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. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the reported periods. Actual results could differ from those estimates.

(c) Principles of Consolidation

These consolidated financial statements include the accounts of Royal Host, its wholly-owned subsidiaries and variable interest entities for which Royal Host is the primary beneficiary, and partnerships and joint ventures to the extent of Royal Host's interest in their respective assets, liabilities, revenues, expenses and cash flows. All intercompany transactions and balances have been eliminated.

(d) Revenue Recognition

Revenue, consisting of rooms, food and beverage, franchising and management, and other revenue, is recognized when services are provided and collection is reasonably assured. Other revenue includes telephone and retail sales, tenant leases and parking, spa and health clubs. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable which is estimated to be uncollectible.

Revenue from the Royal Private Residence Club is recorded at the time each condominium sale is closed, and title and possession have been transferred to the buyer.

(e) Capital Assets

Hotel properties are recorded at the lower of cost less accumulated amortization or net recoverable value. The net recoverable value represents the estimated undiscounted projected future net cash flow generated from the property throughout its useful life, including its residual value, and is intended to determine the recovery of an investment and is not an expression of a property's fair market value.

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

Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations are capitalized to hotel properties. Furniture, fixtures and equipment and certain building improvements are amortized on a straight-line basis over periods of up to ten years.

Franchise rights and management contracts are amortized using the straight-line method based on their estimated useful lives.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Capital Assets (continued)

Capital assets under development consists of renovations of properties and are recorded at the lower of cost and their net recoverable value. Amortization of these assets begins once they are available for use.

(f) Impairment of Long-Lived Assets

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

(g) Inventories

Inventories consists of food, beverages, china, silverware, glassware and linen. These items are recorded at the lower of cost or net replacement value and are determined on a first-in, first-out basis.

(h) Financial Instruments and Comprehensive Income

The 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 on 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 resulted in an adjustment to certain opening financial statement accounts. Prior periods' financial 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 materially impacted by the adoption of these new policies.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income Taxes

Royal Host is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the Trustees intend to distribute all taxable income directly earned by Royal Host to its Unitholders and to deduct such distributions and designations for income tax purposes for as long as allowed by taxation authorities.

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

(j) Cash and Cash Equivalents

Cash and cash equivalents include all cash, bankers acceptances and commercial paper with an original maturity of less than three months and excludes restricted cash.

(k) Restricted Cash

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

(l) Foreign Currency Translation

The Trust's foreign operations are conducted through integrated subsidiaries and financial statements are translated using the temporal method. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the consolidated financial statements. Non-monetary assets, liabilities and other items recorded in the net earnings arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction. The Trust discloses exchange gains and losses as part of net earnings.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The CICA has announced several future changes in accounting policy which will affect the financial statements of Royal Host subsequent to December 31, 2007. The significant changes, along with the impact on the financial statements of Royal Host are as follows:

(a) Inventories

In June 2007, the CICA issued Handbook Section 3031, "*Inventories*" which applies to periods beginning on or after January 1, 2008. This new primary source of GAAP states that when 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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

3. FUTURE CHANGES IN ACCOUNTING POLICIES (continued)

(b) International Financial Reporting Standards

The Accounting Standards Board ("AcSB") establishes financial accounting and reporting standards for use by Canadian companies. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced the use of International Financial Reporting Standards ("IFRS") will be required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises including listed companies. IFRS will replace Canada's current GAAP. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Trust is evaluating the impact of the adoption of IFRS.

(c) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535 "*Capital Disclosures*", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective fiscal periods beginning January 1, 2008 for Royal Host, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of Royal Host.

(d) Financial Instruments

The CICA issued Handbook Section 3862, "*Financial Instruments - Disclosure*" and Handbook Section 3863, "*Financial Instruments - Presentation*" to replace Handbook Section 3861 "*Financial Instruments - Disclosure and Presentation*." Handbook Section 3862 requires enhanced disclosure of the nature and extent of financial instrument risks and how an entity manages those risks. Handbook Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning January 1, 2008 for Royal Host. This new requirement is for disclosure only and will not impact the financial results of Royal Host.

4. 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.

During the year ended December 31, 2006, Royal Host completed construction and closed the sales and transferred ownership of substantially all of the condominiums. 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. Revenue and cost of sales were recognized on 96.8% of the condominiums during the year ended December 31, 2006. During the year ended December 31, 2007, Royal Host completed the sales of all remaining condominium units.

In April 2005, Royal Host entered into a non-revolving \$28.0 million financing arrangement consisting of a \$20.0 million construction loan and an \$8.0 million mezzanine loan. Royal Host provided a completion, cost overrun and debt service deficiency guarantee on the construction loan and a specific guarantee of payment of notes receivable. During the year ended December 31, 2006, the \$8.0 million mezzanine loan and \$7.4 million drawn on the construction loan were repaid in full.

At December 31, 2007, property under development included \$nil (2006 - \$0.1 million) of capitalized interest.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

5. 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 December 31, 2007 and those held for sale as at December 31, 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 approximately \$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.

Effective January 31, 2008, the Trust decommissioned the Sundial Inn in Orillia, Ontario. During the fourth quarter of 2006, the Trust recorded a property impairment provision of \$0.7 million in discontinued operations relating to this property. Royal Host continues to pursue disposing of this property.

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

	Years Ended (in \$000's)	
	December 31, 2007	December 31, 2006
Hospitality revenue		
Rooms	464	629
Management	60	4,526
Other	15	337
	<u>539</u>	<u>5,492</u>
Hospitality expenses	<u>653</u>	<u>3,319</u>
Gross margin	<u>(114)</u>	<u>2,173</u>
Other expenses		
Depreciation and amortization	14	46
Property impairment provision	-	704
Future income taxes (recovery)	(110)	12
Capital and other taxes	66	273
Loss on foreign currency translation	25	42
	<u>(5)</u>	<u>1,077</u>
Income (loss) before gain (loss) on disposition	<u>(109)</u>	<u>1,096</u>
Gain (loss) on disposition	<u>3,725</u>	<u>(314)</u>
Income from discontinued operations	<u><u>3,616</u></u>	<u><u>782</u></u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

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

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

	Years Ended (in \$000's)	
	December 31, 2007	December 31, 2006
Income from discontinued operations	3,616	782
Items not affecting cash:		
Future income taxes (recovery)	(110)	12
Depreciation and amortization	14	46
(Gain) loss on disposition	(3,725)	314
Property impairment provision	-	704
Cash flows provided by (used in) discontinued operations	<u>(205)</u>	<u>1,858</u>
Changes in non-cash working capital		
Assets of discontinued operations	4,239	(4,097)
Liabilities of discontinued operations	(4,288)	4,293
	<u>(49)</u>	<u>196</u>

6. CAPITAL ASSETS

	(in \$000's)		
	Gross Book Value	Accumulated Amortization	Net Book Value
December 31, 2007			
Buildings	327,961	80,199	247,762
Land	37,192	-	37,192
Furniture, fixtures and equipment	50,731	42,182	8,549
Other	1,678	436	1,242
	<u>417,562</u>	<u>122,817</u>	<u>294,745</u>
Capital assets under development	2,312	-	2,312
Intangible assets:			
Franchise rights and management contracts	27,414	21,112	6,302
	<u>447,288</u>	<u>143,929</u>	<u>303,359</u>
	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 year ended December 31, 2007, capital additions to Royal Host's hotel properties totalled \$10.2 million (December 31, 2006 - \$10.6 million).

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Financial Statements

7. MORTGAGES

	<i>(in \$000's)</i>	
	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Mortgages secured by hotel properties	122,623	126,928
Less: current portion	3,325	3,108
	<u>119,298</u>	<u>123,820</u>

Principal repayments required for the years ending December 31:

	<u><i>(in \$000's)</i></u>
2008	3,325
2009	24,973
2010	60,750
2011	13,181
2012	1,610
Subsequent	19,971
Total principal outstanding	123,810
Debt issuance costs	(1,187)
	<u>122,623</u>

Mortgages bear interest at rates ranging from 7.35% to 9.38% per annum (2006 - 7.35% to 9.38%) with a weighted average year-end rate of 8.20% per annum (2006 - 8.19%) and mature between 2009 and 2013. The mortgages are secured by fixed charges over specified hotel properties.

As at December 31, 2007, Royal Host had undrawn credit facilities totalling \$12.0 million (2006 - \$12.0 million) secured by first charges over two hotels. Interest is payable on a floating rate basis at rates ranging from prime plus 1.0% to prime plus 2.0%.

8. CONVERTIBLE DEBENTURES

	<i>(in \$000's)</i>	
	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
9.25% Convertible Unsecured Subordinated Debentures	-	38,021
7.90% Convertible Unsecured Subordinated Debentures, Series A	8,025	35,000
6.00% Convertible Unsecured Subordinated Debentures, Series B	52,317	58,464
6.25% Convertible Unsecured Subordinated Debentures, Series C	55,585	58,225
5.90% Convertible Unsecured Subordinated Debentures, Series D	57,380	-
	<u>173,307</u>	<u>189,710</u>
Less: current portion	-	38,021
	<u>173,307</u>	<u>151,689</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Financial Statements

8. CONVERTIBLE DEBENTURES (continued)

Principal repayments required for the years ending December 31:

	<u>(in \$000's)</u>
2008	-
2009	8,250
2010	-
2011	-
2012	-
Subsequent	<u>174,941</u>
Total principal outstanding	183,191
Debt issuance costs	(6,779)
Equity conversion option	<u>(3,105)</u>
	<u><u>173,307</u></u>

(a) 9.25% Convertible Unsecured Subordinated Debentures

The convertible debentures of \$38.0 million bear interest at 9.25% per annum and are payable semi-annually in arrears on March 1 and September 1 in each year commencing September 1, 2002.

On redemption or at maturity on March 1, 2007, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units. The 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.

After March 1, 2005, 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 \$7.00 per unit.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$7.00 per trust unit from date of issue to maturity at March 1, 2007.

Commencing on July 17, 2006, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$3.9 million in principal of its issued and outstanding 9.25% convertible debentures. During the year ended December 31, 2006, Royal Host repurchased and cancelled \$0.9 million of debentures (average cost of \$101.88) pursuant to this bid.

During the year ended December 31, 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

The convertible debentures of \$35.0 million bear interest at 7.90% per annum and are payable semi-annually in arrears on April 30 and October 31 in each year commencing October 31, 2004.

The Series A debentures may not be redeemed by Royal Host prior to the maturity date. At maturity on April 30, 2009, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units. The 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 maturity.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

8. CONVERTIBLE DEBENTURES (continued)

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

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$6.00 per trust unit at any time from the date of issue to close of business on the day prior to the maturity date, April 30, 2009.

Commencing on November 23, 2006, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$3.5 million in principal of its issued and outstanding 7.90% convertible debentures. During the year ended December 31, 2007, Royal Host repurchased \$2.9 million (2006 - \$nil) in principal of the 7.90% convertible debentures with an aggregate cost of \$3.5 million (average cost of \$118.72) pursuant to this bid.

Commencing on November 28, 2007, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$0.8 million in principal of its issued and outstanding 7.90% convertible debentures. During the year ended December 31, 2007, Royal Host repurchased \$26,000 in principal of the 7.90% convertible debentures with an aggregate cost of \$30,000 (average cost of \$116.00) pursuant to this bid.

During the year ended December 31, 2007, \$23.8 million (2006 - \$nil) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 4.0 million trust units.

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

In October 2005, \$60.0 million of convertible unsecured subordinated debentures were issued with a term of ten years. These debentures bear interest at 6.00% per annum and are payable semi-annually in arrears on April 30 and October 31 in each year commencing April 30, 2006.

The Series B debentures may not be redeemed by Royal Host prior to October 31, 2009. On or after October 31, 2009, but prior to October 31, 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 \$6.85 per unit. After October 31, 2011, but prior to the maturity date of October 31, 2015, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity.

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

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$6.85 per trust unit at any time from the date of issue to close of business on the day prior to the maturity date, October 31, 2015.

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, \$58.3 million was recorded as a long-term liability with the balance of \$1.7 million recorded as Conversion Option in unitholders' equity. The long-term liability will increase to the \$60.0 million face value of the debenture over its ten year term, with the accretion being included in interest on convertible debentures on the consolidated statements of income and comprehensive income.

Commencing on March 30, 2007, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5.9 million in principal of its issued and outstanding 6.00% convertible debentures. During the year ended December 31, 2007, Royal Host repurchased \$1.6 million in principal of the 6.00% convertible debentures with an aggregate cost of \$1.7 million (average cost of \$108.00) pursuant to this bid.

During the year ended December 31, 2007, \$2.8 million (2006 - \$nil) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into 0.4 million trust units.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Financial Statements

8. CONVERTIBLE DEBENTURES (continued)

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

In September 2006, \$60.0 million of convertible unsecured subordinated debentures were issued with a term of seven years. These debentures bear interest at 6.25% per annum and are payable semi-annually in arrears on March 31 and September 30 in each year commencing March 31, 2007.

The Series C debentures may not be redeemed by Royal Host prior to September 30, 2009. On or after September 30, 2009, but prior to September 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 \$7.00 per unit. After September 30, 2011, but prior to the maturity date of September 30, 2013, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity.

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

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$7.00 per trust unit at any time from the date of issue to close of business on the day prior to the maturity date, September 30, 2013.

In accordance with EIC 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, \$58.2 million was recorded as a long-term liability with the balance of \$1.8 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 statements of income and comprehensive income.

Commencing on March 30, 2007, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$6.0 million in principal of its issued and outstanding 6.25% convertible debentures. During the year ended December 31, 2007, Royal Host repurchased \$0.6 million in principal of the 6.25% convertible debentures with an aggregate cost of \$0.7 million (average cost of \$106.23) pursuant to this bid.

During the year ended December 31, 2007, \$0.1 million (2006 - \$nil) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 13,426 trust units.

(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.

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8. CONVERTIBLE DEBENTURES (continued)

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

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 164, "Convertible and Other Debt Instruments with Embedded Derivatives", the principal amount of the debenture has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$59.7 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 statements of income and comprehensive income.

9. OBLIGATIONS UNDER CAPITAL LEASES

Royal Host has entered into various capital lease obligations to acquire computers and furniture, fixtures and equipment. The present values of future minimum lease payments under capital leases as at December 31, 2007 are as follows:

	<i>(in \$000's)</i>	
	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Present value of future minimum lease payments	361	617
Less: current portion of principal payments	119	375
	<u>242</u>	<u>242</u>

Total repayments required for the years ending December 31:

	<i>(in \$000's)</i>	
	2008	140
	2009	82
	2010	81
	2011	81
	2012	34
Future minimum lease payments		<u>418</u>
Less: amounts representing interest		<u>57</u>
Present value of future minimum lease payments		<u>361</u>

The leases outstanding at December 31, 2007 bear interest at a weighted average annual rate of 7.92% per annum (December 31, 2006 - 8.59%).

During the year ended December 31, 2007, Royal Host acquired assets under capital lease of \$0.4 million (2006 - \$nil) bringing the total assets under capital lease as at December 31, 2007 to \$1.4 million (December 31, 2006 - \$1.6 million).

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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10. UNITHOLDERS' EQUITY

(a) Trust Units

As at December 31, 2007, a total of 27,487,825 trust units (December 31, 2006 - 24,500,976) were issued and outstanding.

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 year ended December 31, 2007, 2.0 million trust units (December 31, 2006 - nil) were repurchased with an aggregate cost of \$14.4 million (average cost of \$7.21 per unit).

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 year ended December 31, 2006, Royal Host repurchased 1.8 million trust units with an aggregate cost of \$11.1 million (average cost of \$6.19 per unit)

(b) Unit Options

As at December 31, 2007, Royal Host has no unit options outstanding to purchase trust units (December 31, 2006 - 0.1 million units at an exercise price of \$10.00 per unit). All unit options were fully vested and exercisable at December 31, 2006. The options expired on October 31, 2007.

(c) Employee Unit Purchase Program

As at December 31, 2007, 0.1 million units (December 31, 2006 - 0.1 million units) were allotted pursuant to the Trust's Employee Unit Purchase Program. During the year ended December 31, 2006, 0.3 million unallotted trust units were cancelled.

The Employee Unit Purchase Program represents a financing program for selected employees to purchase units of Royal Host. Royal Host has outstanding loans receivable, net of additions and terminations, of \$0.4 million (December 31, 2006 - \$0.5 million) with respect to the program. These loans bear interest at a fixed rate of 3.0% per annum (December 31, 2006 - 3.0%). This plan structure does not meet the definition of stock based compensation plans, and therefore does not fall under CICA Handbook Section 3870, "Stock Based Compensation Plans".

In accordance with EIC 132, "Share Purchase Financing", for accounting purposes, these employee loans receivable have been offset against the corresponding unit capital.

11. PER UNIT CALCULATIONS

Per unit computations are based on the weighted average number of trust units outstanding for the period.

For the year ended December 31, 2007:	(in \$000's)	Weighted Average Units (in 000's)	Per Unit (\$)
Basic earnings - continuing operations	10,760		0.41
Basic earnings - discontinued operations	3,616		0.14
Basic earnings - total operations	14,376	26,018	0.55
Basic earnings - continuing operations	10,760		
Add: notional conversion of convertible debentures	-	-	
Diluted earnings - continuing operations	10,760		0.41
Diluted earnings - discontinued operations	3,616		0.14
Diluted earnings - total operations	14,376	26,018	0.55

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to the Consolidated Financial Statements

11. PER UNIT CALCULATIONS (continued)

For the year ended December 31, 2006	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Basic earnings - continuing operations	13,476		0.53
Basic earnings - discontinued operations	782		0.03
Basic earnings - total operations	<u>14,258</u>	25,654	<u>0.56</u>
Basic earnings - continuing operations	13,476		
Add: notional conversion of convertible debentures	7,495	17,175	
Diluted earnings - continuing operations	20,971		0.49
Diluted earnings - discontinued operations	782		0.02
Diluted earnings - total operations	<u>21,753</u>	<u>42,829</u>	<u>0.51</u>

The diluted earnings per unit for the year ended December 31, 2007 include no trust units issuable on the conversion of any convertible unsecured subordinated debentures because all of the conversions are anti-dilutive.

The diluted earnings per unit for the year ended December 31, 2006 exclude trust units issuable on the conversion of the 9.25% convertible unsecured subordinated debenture into trust units because the conversion is anti-dilutive.

12. CHANGES IN NON-CASH WORKING CAPITAL

	Years Ended (in \$000's)	
	<u>December 31, 2007</u>	<u>December 31, 2006</u>
(Increase) decrease in:		
Accounts and notes receivable	(625)	3,965
Prepaid expenses	12	247
Inventories	(153)	(24)
	<u>(766)</u>	<u>4,188</u>
Increase (decrease) in:		
Accounts payable and accrued liabilities	(357)	(8,550)
Interest accrued on convertible debentures	(1,798)	961
Other liabilities	(416)	202
Deferred revenue	(249)	(222)
Future income taxes	(47)	(127)
	<u>(2,867)</u>	<u>(7,736)</u>
	<u>(3,633)</u>	<u>(3,548)</u>

13. FUTURE INCOME TAXES

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

	(in \$000's)	
	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Tax assets relating to subsidiary operating losses and temporary differences on current items	1,316	931
Future income tax asset	<u>1,316</u>	<u>931</u>
Tax liabilities related to temporary differences on debt issuance costs	(1,059)	-
Tax liabilities relating to temporary differences on capital assets	(5,848)	(7,479)
Future income tax liability	<u>(6,907)</u>	<u>(7,479)</u>

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13. FUTURE INCOME TAXES (continued)

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 \$0.9 million recorded during the year ended December 31, 2007 includes an expense of \$1.1 million on temporary differences related to the specified investment flow-through ("SIFT") legislation passed in Bill C-52.

As at December 31, 2007, the Trust has tax losses of approximately \$4.4 million (December 31, 2006 - \$3.1 million) available to reduce future taxable income within the subsidiaries owned by the Trust. The losses expire in 2008 (\$0.1 million), 2010 (\$0.1 million), 2011 (\$0.2 million), 2014 (\$1.8 million), 2015 (\$0.5 million), 2025 (\$1.1 million), 2026 (\$0.2 million) and 2027 (\$0.4 million).

The effective tax rate in the provision for income tax differs from the combined federal and provincial statutory income tax rate for the following reasons:

	<i>(in \$000's)</i>	
	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Income from continuing operations before future income taxes	9,898	14,198
Statutory income tax rate	<u>32.39%</u>	<u>34.93%</u>
Calculated income tax provision based on statutory rates	3,206	4,959
Increase (decrease) resulting from:		
Net income attributable to the Trust	(3,694)	(3,544)
Tax rate reductions	(671)	(476)
Future income tax on recognition of SIFT assets and liabilities	1,058	-
Non-deductible permanent differences	23	27
Previously unrecognized taxes losses from prior years	(570)	-
Other items	(214)	(244)
Future income tax expense (recovery)	<u>(862)</u>	<u>722</u>

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<i>(in \$000's)</i>	
	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Accumulated other comprehensive loss, beginning of year	-	-
Other comprehensive loss	(2,210)	-
Accumulated other comprehensive loss, end of year	<u>(2,210)</u>	<u>-</u>

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14. ACCUMULATED OTHER COMPREHENSIVE LOSS (continued)

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

	Years Ended (in \$000's)	
	December 31, 2007	December 31, 2006
Unrealized losses generated on available-for-sale assets	(923)	-
Realized gains on available-for-sale assets transferred to net income	(1,287)	-
Other comprehensive loss	(2,210)	-

15. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

In the normal course of business, the Trust may enter into various agreements that may meet the definition of a guarantee pursuant to CICA Accounting Guideline 14 "Disclosure of Guarantees" ("AcG-14"). AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires the Trust to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or, (iii) failure of a third party to pay its indebtedness when due.

Under the terms of the hotel franchise agreements expiring at various dates commencing October 31, 2008 through to December 12, 2021, annual payments for franchise expenses (including fees, reservation and advertising services) are due to external parties for 32 of the 37 hotels owned by Royal Host (2006 - 32 of the 37 hotels). The franchise royalties and membership fees paid to external parties are calculated based upon percentages of defined revenue.

16. OPERATING LEASES

Certain property and equipment is leased under operating lease agreements expiring at varying intervals. Total future minimum rental payments required under these leases are as follows:

Years ending December 31:	(in \$000's)
2008	625
2009	499
2010	459
2011	416
2012	469
Thereafter	1,192
	<u>3,660</u>

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17. SUBSEQUENT EVENTS

(a) Thriftlodge Fort Nelson

On January 8, 2008, the Thriftlodge Fort Nelson was destroyed by fire. The gross book value of capital assets destroyed in the fire totalled \$5.3 million. The net book value of capital assets destroyed in the fire totalled \$3.3 million.

Royal Host maintained adequate insurance coverage on the property. The impact on the Trust's financial statements is not anticipated to be material.

(b) Reorganization of Royal Host

On May 18, 2007, Royal Host obtained Unitholder approval to complete the reorganization of the Trust as described in its Information Circular dated April 13, 2007. On November 6, 2007, the Trust received an advance income tax ruling from the Canada Revenue Agency in respect of the reorganization. The reorganization was effective January 1, 2008. The reorganization will affect future income taxes by reducing the current future income tax asset to \$nil and reducing the long term future income tax liability to \$3.7 million, resulting in a future income tax recovery of \$1.9 million in the first quarter of 2008.

(c) Travelodge Hotel Burlington on the Lake

Subsequent to December 31, 2007, Royal Host disposed of the Travelodge Hotel Burlington on the Lake for total proceeds of \$24.8 million. On December 31, 2007, the property did not meet the criteria for discontinued operations under CICA Handbook Section 3475 "*Disposal of Long-Lived Assets and Discontinued Operations*" and the financial results have therefore been included in continuing operations. In the first quarter of 2008, Royal Host will recognize a gain on sale of asset of approximately \$13.0 million as a result of the disposition.

During the year ended December 31, 2007, the Travelodge Hotel Burlington on the Lake recorded hospitality revenue of \$4.5 million (2006 - \$4.5 million) and net income of \$2.1 million (2006 - \$2.0 million).

(d) Issuer Bids

Commencing on January 2, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of 2.1 million of its issued and outstanding trust units. Subsequent to December 31, 2007, 0.6 million trust units with an aggregate cost of \$3.5 million (average cost of \$6.18 per unit) were repurchased pursuant to this bid.

On February 20, 2008, Royal Host initiated a substantial issuer bid, pursuant to which Royal Host offered to purchase for cancellation up to 5.4 million of its issued and outstanding trust units at a price of \$6.50 per trust unit. The offer will remain open for acceptance for at least 35 days after the date of commencement, unless withdrawn or extended by Royal Host.

18. COMPARATIVE FIGURES AND RESTATEMENT

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

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19. STATEMENT OF CASH FLOWS

During the year ended December 31, 2007, Royal Host declared monthly distributions on or about the 15th of the month to Unitholders of record on or about the 15th day of the following month with distributions payable on or about the last business day of the following month. Commencing with a distribution record date of December 31, 2007, Royal Host paid monthly distributions to Unitholders of record on or about the last day of the month, with distributions payable on or about the 15th day of the following 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 distribution at a level that will be sustainable over a longer period. The terms of the distribution are set by the Declaration of Trust. In each year, the aggregate amount payable by Royal Host for distribution to Unitholders shall not be less than the Trust's income for the year, as calculated in accordance with the Income Tax Act (Canada).

20. FINANCIAL INSTRUMENTS

(a) Fair Values

The fair value of current assets and liabilities approximate their carrying values at December 31, 2007, due to their short-term nature. The fair values of the non-current portion of mortgages and other debt and convertible equity instruments are as follows:

	December 31, 2007		December 31, 2006	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgages	119,298	122,892	123,820	133,498
Convertible debentures	173,307	162,958	151,689	155,833
Capital leases	242	244	242	252

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

(b) Credit Risk Management

Credit risks arising from receivables from corporate accounts are minimized, as amounts due from any one debtor are not significant and routine credit assessments are carried out prior to credit being granted.

(b) Interest Rate Risk Management

Interest rate risk is continually monitored and managed through limiting the amount of variable rate debt as well as the total amount of debt. As at December 31, 2007 and 2006, Royal Host had no variable rate debt outstanding.

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21. RELATED PARTY TRANSACTIONS

Clarke Inc.

At December 31, 2007, Clarke Inc. owned approximately 5.2 million of Royal Host's issued and outstanding trust units and, as such, is a related party.

On November 2, 2007, Royal Host acquired approximately 3.3 million units of Holloway Lodging Real Estate Investment Trust from Clarke Inc. for proceeds of \$13.3 million through the facilities of The Toronto Stock Exchange ("TSX"). The transaction was measured at the exchange amount which was the market price on the TSX at the time of the purchase.

22. MEASUREMENT UNCERTAINTY

Royal Host is involved in various legal claims associated with the normal course of operations. Where appropriate, Royal Host believes it has made adequate provisions for such legal claims.

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 vendor take-back mortgage.

In December 2007, the purchaser commenced an action against Royal Host for alleged breach of the agreement of purchase and sale agreement. Royal Host intends to vigorously defend against the claim and assert a counterclaim for breach of the agreement. No amounts have been recorded with respect to this lawsuit.

There is measurement uncertainty as to the final resolution of amounts recorded with respect to the above transactions. Such adjustments could be material.
