

ROYAL HOST[®]

HOTELS & RESORTS^{REIT}

FOR IMMEDIATE RELEASE

SYMBOL: "RYL.UN"

ROYAL HOST REIT ANNOUNCES RECORD SECOND QUARTER RESULTS

Calgary, Alberta, August 12, 2008 - Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") today announced record results for the three and six months ended June 30, 2008.

Royal Host generated record net income of \$18.0 million, or \$0.84 per unit, for the three months ended June 30, 2008, compared to \$4.8 million, or \$0.18 per unit, in the second quarter of 2007. Distributable income for the three months ended June 30, 2008 increased to \$7.7 million (2007 - \$6.5 million), or \$0.36 per unit (2007 - \$0.25 per unit).

Income from continuing operations increased to \$5.3 million, or \$0.25 per unit, for the three months ended June 30, 2008 (2007 - \$3.7 million, or \$0.14 per unit). Hospitality gross margin increased \$0.6 million, or 5.7%, to \$11.9 million. The Trust generated stable investment income, including a significant increase in interest and investment income.

Income from discontinued operations increased to \$12.7 million, or \$0.59 per unit (2007 - \$1.1 million, or \$0.04 per unit) attributable mainly to a gain on the sale of the Holiday Inn Edmonton – The Palace in June 2008.

The following table highlights the Trust's financial results for the three and six months ended June 30, 2008.

(\$000's, except as otherwise noted)	Three months ended June 30			Six months ended June 30		
	2008	2007 (restated)	Change (%)	2008	2007 (restated)	Change (%)
Hospitality Revenue	35,143	34,597	1.6	62,823	63,030	(0.3)
Hospitality Expenses	23,256	23,352	0.4	45,693	45,690	-
Hospitality Gross Margin	11,887	11,245	5.7	17,130	17,340	(1.2)
Hospitality Gross Margin %	33.8	32.5		27.3	27.5	
Investment Income	2,249	2,551	(11.8)	4,317	3,954	9.2
Other Expenses	8,802	10,123	(13.0)	18,864	20,177	(6.5)
Income From Continuing Operations	5,334	3,643	46.4	4,583	1,117	310.3
Income From Discontinued Operations	12,693	1,137	1,016.4	25,502	6,041	322.1
Net Income	18,027	4,810	185.3	30,085	7,158	320.3
Basic Per Unit Net Earnings (\$)						
From Continuing Operations	0.25	0.14	78.6	0.19	0.04	375.0
From Discontinued Operations	0.59	0.04	1,375.0	1.05	0.24	337.5
	0.84	0.18	366.7	1.24	0.28	342.9
Distributable Income	7,655	6,544	17.0	9,030	7,512	20.2
Distributions Declared on Trust Units	3,533	4,361	(19.0)	7,686	8,502	(9.6)
Basic Per Unit Distributable Income (\$)	0.36	0.25	44.0	0.37	0.30	23.3
Per Unit Distributions Declared (\$)	0.165	0.165	-	0.33	0.33	-

Hospitality revenue from continuing operations for the second quarter increased to \$35.1 million (2007 - \$34.6 million). RevPAR increased to \$67.64 (2007 - \$67.55); an increase was offset by a decrease in Occupancy.

“Throughout 2008 Royal Host has pursued opportunities to create incremental Unitholder value. The significant gains realized on asset sales and the redeployment of capital into marketable securities and unit repurchases have improved per unit results,” commented Patrick Lambie, Executive Vice President. “The resulting proceeds provide Royal Host with the financial flexibility to pursue opportunities which may result from current economic uncertainty,” he added.

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

CONTINUING HOSPITALITY OPERATIONS	Three months ended June 30			Six months ended June 30		
	2008	2007	Change (%)	2008	2007	Change (%)
32 hotels / 4,031 rooms						
RevPAR	\$67.64	\$67.55	0.1	\$60.87	\$61.25	(0.6)
Occupancy	64.5%	66.7%	(3.3)	60.0%	62.4%	(3.8)
ADR	\$104.95	\$101.27	3.6	\$101.40	\$98.17	3.3

During the second quarter, Royal Host took advantage of unique opportunities to sell the Holiday Inn Edmonton – The Palace and the El Rancho Motor Hotel & Convention Centre, generating gains on sales of \$13.0 million, bringing gains on sales to \$24.8 million in 2008.

Management of Royal Host will host an investor conference call on Wednesday, August 13, 2008 at 11:00 a.m. Eastern Time. The call may be accessed by dialing 1-416-642-5213 or 1-866-321-8231 and quoting confirmation code 2432922. A recording of this call will be available shortly after the call until August 21, 2008. To access this recording please dial 1-647-436-0148 or 1-888-203-1112 and provide the playback password 2432922. Alternatively, a recording of the audio webcast will also be available on the Trust's website after August 21, 2008.

Royal Host is a uniquely diversified hospitality trust that delivers Unitholder value through hotel ownership, investment, management and franchising. Royal Host's portfolio of Canadian hotels operates under a variety of recognizable brands as well as a number of unbranded properties. The Trust's hotel portfolio is further enhanced by a stable franchising business, a successful hotel management operation, and a portfolio of publicly-traded securities from within the hospitality and service sectors.

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 unaudited consolidated financial statements for the three and six months ended June 30, 2008 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.

For more information please contact:

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MANAGEMENT'S
DISCUSSION AND ANALYSIS
& CONSOLIDATED
FINANCIAL STATEMENTS

Management's Discussion and Analysis

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008

Highlights

In the second quarter of 2008, Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") demonstrated its effectiveness in generating sustainable Unitholder value and delivered record results. Royal Host's second quarter accomplishments included:

- Generating record Net Income of \$18.0 million and Distributable Income of \$7.7 million (2007 - \$6.5 million), or \$0.36 per unit (2007 - \$0.25 per unit);
- Generating a total return of 2.5%, significantly outperforming the S&P TSX REIT's overall return of 0.2%;
- Maintaining rooms revenue from continuing hotel operations at 2007 levels and holding costs at 2007 levels resulting in a \$0.6 million increase in Hospitality Gross Margin to \$11.9 million⁽¹⁾;
- Continuing to develop a portfolio of marketable securities focused on the hospitality and service sectors and generating \$2.2 million of investment income in the quarter;
- Selling the Holiday Inn Edmonton - The Palace and the El Rancho Motor Hotel & Convention Centre for gross proceeds of \$27.9 million, realizing gains on sales of \$13.0 million and contributing to the Trust's record \$18.0 million of Net Income, bringing gains on sales to \$24.8 million and net income to \$30.1 million thus far in 2008;
- Distributing \$3.5 million, or \$0.165 per unit, to Unitholders; and
- Reinvesting \$4.2 million in properties, including the completion of a comprehensive renovation of the Yellowknife Inn, reflecting an ongoing commitment to maintain and improve the quality of our hotels.

Subsequent to June 30, the Trust entered into an agreement to sell the Grand Okanagan Lakefront Resort and Conference Centre for \$131 million, representing a gain on sale of an estimated \$78 million, bringing gains on sales in 2008 to an estimated \$103 million.

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

Royal Host is a diversified hospitality trust that delivers Unitholder value through hotel ownership, investment, management and franchising.

Royal Host's portfolio of Canadian hotels operate under a variety of recognizable brands as set forth in the table below, as well as a number of unbranded properties. The Trust's hotel portfolio is further enhanced by a stable franchising business, a successful hotel management operation, and a portfolio of publicly-traded securities from within the hospitality and service sectors.

HOTEL OWNERSHIP	INVESTMENT PORTFOLIO	OPERATIONS
<p>Portfolio of 32 properties</p> <p>Generated \$11.9 million of hospitality gross margin in the second quarter of 2008</p> <p>Sold three properties in 2008 for gross proceeds of approximately \$53 million, realizing gains on sales of approximately \$24.8 million</p>	<p>\$62 million portfolio of marketable securities</p> <p>Generated \$2.2 million of investment income in the second quarter of 2008</p>	<p>100 Travelodge and Thriftlodge hotels</p> <p>Management of owned and third-party hotels</p> <p>Generated \$0.6 million of franchise and management revenue in the second quarter of 2008</p>

	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	32.6%	-	-	-	4	378	9.4%	13	1,694	42.0%
Independent	1	256	6.4%	-	-	-	2	426	3.5%	3	682	16.9%
Country Inns & Suites®	-	-	-	4	276	6.6%	3	228	5.7%	7	504	12.5%
Holiday Inn®	2	254	6.3%	-	-	-	-	-	-	2	254	6.3%
Hilton®	1	323	8.0%	-	-	-	-	-	-	1	323	8.0%
Super 8®	2	159	3.9%	-	-	-	2	132	3.3%	4	291	7.2%
Best Western®	-	-	-	-	-	-	1	159	3.9%	1	159	3.9%
Ramada®	1	124	3.1%	-	-	-	-	-	-	1	124	3.1%
	16	2,432	60.3%	4	276	6.8%	12	1,323	32.8%	32	4,031	100.0%

Including the 260-room Grand Okanagan Lakefront Resort and Conference Centre for which the Trust has finalized an agreement to sell.

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 totaled approximately \$139.5 million and \$169.5 million, respectively, as of June 30, 2008.

This Management's Discussion & Analysis ("MD&A") dated August 12, 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 unaudited Consolidated Financial Statements of Royal Host Real Estate Investment Trust for the three and six months ended June 30, 2008. The Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Selected FINANCIAL INFORMATION

(\$000's, except as otherwise noted)	Three months ended June 30			Six months ended June 30		
	2008	2007 (restated)	Change (%)	2008	2007 (restated)	Change (%)
Hospitality Revenue (Continuing Operations)	35,143	34,597	1.6	62,823	63,030	(0.3)
Hospitality Expenses	23,256	23,352	0.4	45,693	45,690	-
Hospitality Gross Margin ⁽¹⁾	11,887	11,245	5.7	17,130	17,340	(1.2)
Hospitality Gross Margin % ⁽¹⁾	33.8	32.5		27.3	27.5	
Investment Income	2,249	2,551	(11.8)	4,317	3,954	9.2
Other Expenses	8,802	10,123	(13.0)	16,864	20,177	(6.5)
Income From Continuing Operations	5,334	3,673	46.4	4,583	1,117	310.3
Income From Discontinued Operations ⁽²⁾	12,693	1,137	1,016.4	25,502	6,041	322.1
Net Income	18,027	4,810	185.3	30,085	7,158	320.3
Basic Per Unit Net Earnings (\$)						
From Continuing Operations	0.25	0.14	78.6	0.19	0.04	375.0
From Discontinued Operations	0.59	0.04	1,375.0	1.05	0.24	337.5
	0.84	0.18	366.7	1.24	0.28	342.9
Distributable Income ⁽¹⁾	7,655	6,544	17.0	9,030	7,512	20.2
Distributions Declared on Trust Units	3,533	4,361	(19.0)	7,686	8,502	(9.6)
Basic Per Unit Distributable Income (\$) ⁽¹⁾	0.36	0.25	44.0	0.37	0.30	23.3
Per Unit Distributions Declared (\$)	0.165	0.165	-	0.33	0.33	-
Weighted Average Number of Trust Units Outstanding (000's)	21,445	25,938	17.3	24,250	25,405	(4.5)
Number of Trust Units Outstanding, as at June 30 (000's)	21,467	26,368	18.6	21,467	23,368	(8.1)
Closing Trust Unit Trading Price, as at June 30 (\$)	6.50	7.35	(11.6)	6.50	7.35	(11.6)

As at August 12, 2008, Royal Host had 21,617,201 trust units outstanding.

⁽¹⁾ Items represent non-GAAP financial measures.

⁽²⁾ Discontinued operations are comprised of the Holiday Inn Edmonton - The Palace, the El Rancho Motor Hotel & Convention Centre, the Travelodge Hotel Burlington on the Lake, the Thriftlodge Fort Nelson 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.

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

Hospitality Gross Margin

Hospitality Gross Margin is calculated by deducting gross margin generated by investment and 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 varies widely.

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

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

Room STATISTICS

CONTINUING OPERATIONS 32 hotels / 4,031 rooms*	Three months ended June 30			Six months ended June 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$67.64	\$67.55	0.1	\$60.87	\$61.25	(0.6)
Occupancy	64.5%	66.7%	(3.3)	60.0%	62.4%	(3.8)
ADR	\$104.95	\$101.27	3.6	\$101.40	\$98.17	3.3

**Excludes the Holiday Inn Edmonton - The Palace, the El Rancho Motor Hotel & Convention Centre, the Travelodge Hotel Burlington on the Lake, the Thriftlodge Fort Nelson and 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 economic conditions in any one market. 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.

Through the effective positioning of room rates, the Trust continued to be successful in generating higher ADR during a period when high fuel costs, a high Canadian dollar and other factors continued to impact travel, which translated into declining Occupancy.

For the three months ended June 30, 2008, RevPAR increased slightly to \$67.64 (2007 - \$67.55). ADR increased by \$3.68, or 3.6%, and Occupancy decreased by 3.3%.

For the six months ended June 30, 2008, RevPAR from continuing operations decreased slightly to \$60.87 (2007 - \$61.25). ADR increased by \$3.23, or 3.3%, and Occupancy decreased by 3.8%.

ONTARIO 16 hotels / 2,432 rooms*	Three months ended June 30			Six months ended June 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$64.11	\$64.45	(0.5)	\$60.32	\$61.50	(1.9)
Occupancy	64.0%	65.7%	(2.6)	60.6%	62.5%	(3.0)
ADR	\$100.20	\$98.12	2.1	\$99.46	\$98.37	1.1

RevPAR for the three months ended June 30, 2008 decreased to \$64.11 (2007 - \$64.45); ADR increased 2.1% to \$100.20 (2007 - \$98.12) and Occupancy decreased by 2.6% to 64.0% from 65.7% in 2007. The Trust's properties in resource-based Northern Ontario as a whole delivered strong year-over-year gains. The Trust's Southwestern Ontario properties continued to experience the effects of weaker economic activity related to manufacturing, while the Trust's Central Ontario properties delivered stable results in the quarter.

RevPAR for the six months ended June 30, 2008 decreased to \$60.32 (2007 - \$61.50). ADR increased by \$1.09, or 1.1%, offset by a decrease in Occupancy.

WESTERN 12 hotels / 1,323 rooms*	Three months ended June 30			Six months ended June 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$73.52	\$73.14	0.5	\$61.91	\$61.23	1.1
Occupancy	63.1%	66.3%	(4.8)	57.2%	60.3%	(5.1)
ADR	\$116.55	\$110.24	5.7	\$108.20	\$101.50	6.6

RevPAR for the three months ended June 30, 2008 increased marginally by 0.5% to \$73.52 (2007 - \$73.14); ADR increased by 5.7%, to \$116.55 from \$110.24 in 2007 and Occupancy decreased by 4.8%, to 63.1% from 66.3% in 2007. The Best Western Village Park Inn in Calgary and the Trust's Saskatchewan and Manitoba properties continued to produce record results. The largest impact on the region's Occupancy was the decrease in Occupancy at the Yellowknife Inn which resulted from displacement of business during its renovation during the quarter. The Grand Okanagan Lakefront Resort and Conference Centre and the Trust's Southern Alberta limited service hotels delivered stable results.

RevPAR for the six months ended June 30, 2008 increased slightly to \$61.91 (2007 - \$61.23). ADR increased by \$6.70, or 6.6%, offset by a decrease in Occupancy.

ATLANTIC 4 hotels / 276 rooms*	Three months ended June 30			Six months ended June 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$68.73	\$66.17	3.9	\$60.40	\$59.24	2.0
Occupancy	70.1%	72.6%	(3.4)	64.1%	66.8%	(4.0)
ADR	\$98.01	\$91.14	7.5	\$94.22	\$88.62	6.3

The Trust's Atlantic region has continued to generate a solid performance. Healthy year-over-year growth in ADR was somewhat offset by an overall decrease in Occupancy at the Country Inn & Suites Dartmouth, which continued to be impacted by new supply in the market.

Distributions TO UNITHOLDERS

During the three and six months ended June 30, 2008, the Trust distributed \$0.165 per trust unit (2007 - \$0.165 per trust unit) and \$0.33 per trust unit (2007 - \$0.33 per trust unit), respectively. In aggregate, the Trust declared distributions to Unitholders of \$7.7 million (2007 - \$8.5 million) in the first half of 2008. From inception, the Trust has declared distributions of \$7.36 per unit, or \$175.3 million in total.

The Trust employs a conservative payout ratio and 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.

The Trust declares monthly cash distributions on or about the 15th day of the month to Unitholders of record at the end of the month; distributions are payable on or about the 15th day of the following month.

Royal Host's trust units' overall return of 5.2% in the first six months of 2008 significantly 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 measures by other trusts that use similar terms. Royal Host calculates Distributable Income by deducting a provision for capital replacement (calculated as 4.0% of rooms and food and beverage revenue) from cash flows from total operations, as presented in the Trust's Consolidated Financial Statements.

(\$000's, except as otherwise noted, unaudited)	Three months ended June 30			Six months ended June 30		
	2008	2007 (restated)	Change (%)	2008	2007 (restated)	Change (%)
Cash Flows from Operating Activities	3,799	4,951	(23.3)	7,371	6,767	8.9
Changes in Non-Cash Working Capital	5,130	3,030		3,927	4,813	
Decrease in Property Under Development	-	(51)		-	(1,551)	
Cash Flows from Total Operations	8,929	7,930	12.6	11,298	10,029	12.7
Provision for Capital Replacement ⁽¹⁾	(1,274)	(1,386)	(8.1)	(2,268)	(2,517)	(9.9)
Distributable Income	7,655	6,544	17.0	9,030	7,512	20.2
Distributions Declared	3,533	4,361	(19.0)	7,686	8,502	(9.6)
Basic Per Unit Distributable Income (\$)	0.36	0.25	44.0	0.37	0.30	23.3
Diluted Per Unit Distributable Income (\$)⁽²⁾	0.23	0.19	21.1	0.31	0.26	19.2
Per Unit Distributions Declared (\$)	0.165	0.165	-	0.33	0.33	-

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

⁽²⁾Based on a weighted-average number of trust units of 46,133,487 (2007 - 47,972,536) and 48,947,679 (2007 - 47,875,613) for the three and six months ended June 30, 2008, respectively.

Distributable Income increased comparatively for the three months ended June 30, 2008 to \$7.7 million, or \$0.36 per unit (2007 - \$6.5 million, or \$0.25 per unit), and for the six months ended June 30, 2008 to \$9.0 million, or \$0.37 per unit (2007 - \$7.5 million, or \$0.30 per unit). The increases in Distributable Income are attributable mostly to an increase in interest and investment income.

Standardized Distributable Cash

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

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

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

The Interpretive Release recommends the analysis of the relationship between Standardized Distributable Cash, distributions (including unit repurchases through normal course and substantial

issuer bids or any other unit transactions executed in exchange for cash in the normal course of business), and investing and financing activities.

(\$000's, except as otherwise noted, unaudited)	Three months ended June 30			Six months ended June 30		
	2008	2007 (restated)	Change (%)	2008	2007 (restated)	Change (%)
Net Cash Provided by Operating Activities	3,799	4,951	(23.3)	7,371	6,767	8.9
Capital Expenditures	(4,642)	(1,790)		(8,017)	(4,926)	
Standardized Distributable Cash	(843)	3,161		(646)	1,841	
Distributions Declared	3,533	4,361	(19.0)	7,686	8,502	(9.6)
Repurchases of Trust Units Pursuant to Normal Course and Substantial Issuer Bids	36,160	5,286	584.1	39,628	8,287	378.2
	39,693	9,647	311.5	47,314	16,789	181.8

The table below reconciles Standardized Distributable Cash and Distributable Income.

(\$000's, except as otherwise noted, unaudited)	Three months ended June 30			Six months ended June 30		
	2008	2007 (restated)	Change (%)	2008	2007 (restated)	Change (%)
Standardized Distributable Cash	(843)	3,161		(646)	1,841	
Capital Expenditures in Excess of Provision for Capital Replacement	3,368	404		5,749	2,409	
Increase (Decrease) in Non-Cash Working Capital and Property Under Development	5,130	2,979		3,927	3,262	
Distributable Income	7,655	6,544	17.0	9,030	7,512	20.2

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)	Three months ended June 30			Six months ended June 30		
	2008	2007 (restated)	Change (%)	2008	2007 (restated)	Change (%)
Cash Flows from Total Operations	8,929	7,930	12.6	11,298	10,029	12.7
Unrealized Gains (Losses) on Marketable Securities	45	1,071		(196)	1,433	
Realized Gains on Marketable Securities	143	722		146	722	
Accretion on Mortgages and Capital Leases	(126)	(71)		(238)	(230)	
Accretion on Convertible Debentures	(310)	(374)		(616)	(798)	
Premium on Repurchases of Convertible Debentures	-	(348)		-	(348)	
	<u>8,681</u>	<u>8,930</u>	(2.8)	<u>10,394</u>	<u>10,808</u>	(3.8)
Funds From Operations						
Provision for Capital Replacement	(1,274)	(1,386)		(2,268)	(2,517)	
Adjusted Funds From Operations	<u>7,407</u>	<u>7,544</u>	(1.8)	<u>8,126</u>	<u>8,291</u>	(2.0)
Per Unit Funds From Operations (\$)						
Basic	0.40	0.34	17.6	0.43	0.43	-
Diluted ⁽¹⁾	0.26	0.24	8.3	0.34	0.33	3.0
Per Unit Adjusted Funds From Operations (\$)						
Basic	0.35	0.29	20.7	0.34	0.33	3.0
Diluted ⁽¹⁾	0.23	0.21	9.5	0.29	0.27	7.4

⁽¹⁾Based on a weighted-average number of trust units of 46,133,487 (2007 - 47,972,536) and 48,947,679 (2007 - 47,875,613) for the three and six months ended June 30, 2008, respectively.

For the three months ended June 30, 2008, the Trust generated Funds from Operations of \$8.7 million (2007 - \$8.9 million). Funds from Operations reflects: the addition (deduction) of realized and unrealized gains and losses on marketable securities included in net income, and the deduction of accretion on mortgages and convertible debentures of \$0.4 million (2007 - \$0.4 million). 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.

For the six months ended June 30, 2008, the Trust generated Funds From Operations of \$10.4 million (2007 - \$10.8 million). Adjusted Funds from Operations is calculated by deducting the Trust's provision for capital replacement from Funds from Operations.

Adjusted Funds from Operations for the three and six months ended June 30, 2008 was \$7.4 million (2007 - \$7.5 million) and \$8.1 million (2007 - \$8.3 million), respectively.

Seasonality

The hospitality industry business is seasonal in nature. While the Trust's revenue is typically higher in the second and third quarters, as compared to the first and fourth quarters, several of the Trust's costs, including property taxes and interest are essentially fixed, and other costs such as utilities are largely fixed. Consequently, profitability varies significantly from quarter to quarter and distributions in the first and fourth quarters typically exceed the Trust's corresponding Distributable Income.

Three MONTHS ENDED JUNE 30, 2008

The Trust's hospitality revenue for the three months ended June 30, 2008 increased \$0.5 million and hospitality gross margin increased \$0.6 million, or 5.7%. The Trust's income from continuing operations improved by \$1.7 million to \$5.3 million (2007 - \$3.7 million).

(\$'000's, except as otherwise noted)	Three months ended June 30			
	2008	2007 (restated)	Change	Change (%)
Hospitality Revenue	35,143	34,597	546	1.6
Hospitality Expenses	23,256	23,352	(91)	(0.4)
Hospitality Gross Margin	11,887	11,245	642	5.7
Investment Income	2,249	2,551	(302)	(11.8)
Gross Margin	14,136	13,796	340	2.4
Other Expenses	8,802	10,123	(1,321)	(13.0)
Income from Continuing Operations	5,334	3,673	1,661	45.2

Hospitality Revenue

Hospitality revenue from continuing operations for the three months ended June 30, 2008 increased by \$0.5 million to \$35.1 million (2007 - \$34.6 million).

(\$'000's, except as otherwise noted)	Three months ended June 30			
	2008	2007	Change	Change (%)
Revenue (continuing operations)				
Rooms	24,871	24,569	302	1.2
Food and Beverage	6,974	6,669	305	4.6
Franchising and Management	567	550	17	-
Other	2,731	2,809	(78)	2.2
	35,143	34,597	546	1.6

Rooms revenue increased by 1.2%, to \$24.9 million (2007 - \$24.6). Growth in ADR was offset by a decline in Occupancy, as described herein under "Room Statistics".

Food and beverage revenue increased \$0.3 million, or 4.6%, to \$7.0 million (2007- \$6.7 million), despite lower overall Occupancy.

Franchising and management revenue was unchanged at \$0.6 million, illustrating the stability of these businesses.

Other revenue was relatively unchanged at \$2.7 million and includes revenue from telephone, retail sales, tenant lease and parking.

Hospitality Expenses

(\$000's, except as otherwise noted)	Three months ended June 30			
	2008	2007	Change	Change (%)
Hospitality Expenses	23,256	23,352	(96)	(0.4)

Total hospitality expenses were unchanged at \$23.3 million (2007 - \$23.4 million), demonstrating prudent management of costs during declining Occupancy, as well as control over overhead costs. The Trust continues to manage wage and utility cost pressures in addition to employing proactive strategies to manage costs throughout its operations.

Hospitality Gross Margin

(\$000's, except as otherwise noted)	Three months ended June 30			
	2008	2007	Change	Change (%)
Hospitality Gross Margin	11,887	11,245	641	5.7

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 \$0.6 million, or 5.7%, to \$11.9 million in the three months ended June 30, 2008 (2007 - \$11.2 million). Hospitality gross margin as a percentage of hospitality revenue improved to 33.8% (2007- 32.5%).

Investment Income

Interest and investment income, which represents interest, distributions and dividends on cash and cash equivalents, fixed maturity and equity investments more than doubled to \$2.1 million (2007 - \$0.8 million), as a result of a significantly larger investment portfolio and higher yielding investments. The Trust did not experience any significant unrealized gains on marketable securities in the second quarter of 2008, whereas unrealized gains of \$1.1 million were recorded in the second quarter of 2007, illustrating the variability of public markets. The investment portfolio provides the Trust with an alternative method of cash deployment which allows management to readjust the balance of resources dedicated to direct asset ownership and indirect investments, thereby enhancing Unitholder value over the long term. Realized gains and losses are recognized upon the sale of investments. The Trust recorded \$0.1 million of realized gains in the first half of 2008 (2007 - \$0.7 million) as market conditions were not conducive to selling of securities.

Royal Private Residence Club

During the first half of 2007, sales of the final condominiums were closed. During the three months ended June 30, 2007, the Trust recognized revenue from the sale of condominiums of \$0.2 million and a corresponding \$0.2 million of cost of sales.

Other Expenses and Income

Interest and accretion on mortgages and capital leases for the three months ended June 30, 2008 decreased by \$0.2 million to \$2.4 million and included \$0.1 million of accretion (2007 - \$0.2 million).

Interest and accretion on convertible debentures for the three months ended June 30, 2008 decreased by \$0.1 million to \$3.1 million. Interest increased \$0.3 million to \$2.8 million, impacted by the issuance of 5.9% convertible debentures in June 2007. Accretion on convertible debentures decreased by \$0.1 million to \$0.3 million in 2008 (2007 - \$0.4 million). Premium on repurchases of convertible debentures was \$nil (2007 - \$0.3 million).

Trust administration expense increased to \$0.5 million (2007 - \$0.4 million), primarily as a result of reorganization costs incurred in 2008.

Depreciation and amortization remained consistent at \$3.5 million (2007 - \$3.4 million).

The Trust recognized a future income tax recovery of \$0.7 million during the three months ended June 30, 2008. Future income taxes are related to timing differences between tax and accounting values on capital assets and debt issuance costs.

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

The Trust's income from continuing operations for the three months ended June 30, 2008 was \$5.3 million (2007 - \$3.7 million). Income from discontinued operations was \$12.7 million (2007 - \$1.1 million), as described further in "Discontinued Operations and Property Held For Sale".

Net income was \$18.0 million (2007 - \$4.8 million). The Trust's other comprehensive income of \$0.3 million (2007 - \$nil) is attributable primarily to unrealized gains on marketable securities classified as available-for-sale. Comprehensive income, the combination of net income and other comprehensive loss, was \$18.3 million (2007 - \$4.8 million) for the three months ended June 30, 2008.

Six MONTHS ENDED JUNE 30, 2008

The Trust's hospitality revenue for the six months ended June 30, 2008 decreased \$0.2 million and hospitality gross margin decreased \$0.2 million. The Trust's income from continuing operations improved by \$2.0 million to \$4.6 million (2007 - \$1.1 million).

(\$000's, except as otherwise noted)	Six months ended June 30			
	2008	2007 (restated)	Change	Change (%)
Hospitality Revenue	62,823	63,030	(207)	0.3
Hospitality Expenses	45,693	45,690	3	-
Hospitality Gross Margin	17,130	17,340	(210)	(1.2)
Investment Income	4,317	3,954	363	(9.2)
Gross Margin	21,447	21,294	153	0.7
Other Expenses	16,864	20,177	(3,313)	(16.4)
Income from Continuing Operations	4,583	1,117	3,466	310.3

Hospitality Revenue

Hospitality revenue from continuing operations for the six months ended June 30, 2008 decreased by \$0.2 million to \$62.8 million (2007 - \$63.0 million).

(\$000's, except as otherwise noted)	Six months ended June 30			
	2008	2007	Change	Change (%)
Revenue (continuing operations)				
Rooms	44,793	44,576	217	0.5
Food and Beverage	11,919	11,884	35	0.3
Franchising and Management	1,134	1,337	(203)	(15.2)
Other	4,977	5,233	(256)	0.5
	62,823	63,030	(207)	0.3

Rooms revenue increased by 0.5% to \$44.8 million (2007 - \$44.6 million). A 3.3% increase in ADR was offset by a 3.8% decline in Occupancy, attributable in part to the Yellowknife Inn's lower Occupancy due to its renovations in the first half of 2008.

An increase in food and beverage revenue in the second quarter of 2008 reversed the decline in the first quarter revenue, resulting in food and beverage revenue for the six months that was consistent with 2007 at \$11.9 million.

Franchising and management revenue decreased \$0.2 million due to the receipt of \$0.3 million of franchise termination fees in the first quarter of 2007.

Other revenue decreased by \$0.3 million, or 0.5%, to \$5.0 million (2007 - \$5.3 million), and includes revenue from telephone, retail sales, tenant lease and parking.

Hospitality Expenses

(\$000's, except as otherwise noted)	Six months ended June 30			
	2008	2007	Change	Change (%)
Hospitality Expenses	45,693	45,690	3	-

Total hospitality expenses were unchanged at \$45.7 million. Hospitality expenses were impacted by continued wage and utility pressures, and an allowance for doubtful accounts. However, cost savings in other areas mitigated these factors.

Hospitality Gross Margin

(\$000's, except as otherwise noted)	Six months ended June 30			
	2008	2007	Change	Change (%)
Hospitality Gross Margin	17,130	17,340	(210)	(1.2)

Hospitality gross margin is calculated by deducting gross margin generated by the Royal Private Residence Club development from gross margin. As a result of proactive management, hospitality gross margin for the six months ended June 30, 2008 was relatively unchanged at \$17.1 million (2007 - \$17.3 million). Hospitality gross margin represented 27.3% of hospitality revenue (2007-27.5%).

Investment Income

Interest and other investment income increased to \$4.3 million (2007 - \$4.0 million), as a result of higher returns from the Trust's investment portfolio, demonstrating the benefit of the Trust's value-creation strategy. The Trust experienced unrealized losses on marketable securities of \$0.2 million (2007 - unrealized gain of \$1.4 million) due to market conditions at June 30, 2008, illustrating the variability of public markets.

Royal Private Residence Club

During the six months ended June 30, 2007, the Trust recognized revenue from the sale of condominiums of \$1.7 million and a corresponding \$1.7 million of cost of sales.

Other Expenses and Income

Interest and accretion on mortgages and capital leases for the six months ended June 30, 2008 decreased by \$0.4 million to \$5.1 million and included \$0.2 million of accretion (2007 - \$0.2 million).

Interest and accretion on convertible debentures for the six months ended June 30, 2008 decreased by \$0.2 million to \$6.2 million. Interest on convertible debentures was impacted by the maturity of the 9.25% convertible debentures in March 2007 and the issuance of 5.9% convertible debentures on June 2007. Interest increased \$0.3 million to \$5.6 million. Accretion on convertible debentures

decreased to \$0.6 million in 2008 (2007 - \$0.8 million). Premium on repurchases of convertible debentures was \$nil (2007 - \$0.3 million)

The trust administration expense increased to \$0.9 million (2007 - \$0.8 million), as a result of reorganization costs in 2008.

Depreciation and amortization increased modestly to \$7.1 million (2007 - \$6.9 million).

The Trust recognized a future income tax recovery of \$2.3 million during the six months ended June 30, 2008, due largely to the reorganization completed by the Trust effective January 1, 2008.

Net Income, Other Comprehensive Loss and Comprehensive Income

The Trust's income from continuing operations for the six months ended June 30, 2008 was \$4.6 million (2007 - \$1.1 million). Income from discontinued operations was \$25.5 million (2007 - \$6.0 million), as described further in "Discontinued Operations and Property Held For Sale".

Net income was \$30.1 million (2007 - \$7.2 million). The Trust's other comprehensive loss of \$1.3 million (2007 - \$0.1 million) is attributable primarily to unrealized losses on marketable securities classified as available-for-sale, due to the weak financial markets at June 30, 2008. Comprehensive income, the combination of net income and other comprehensive loss, was \$28.8 million (2007 - \$7.1 million) for the six months ended June 30, 2008.

Discontinued Operations and Property Held For Sale

SALE OF ASSETS

Royal Host regularly evaluates opportunities for strategic transactions in the interest of maximizing Unitholder value. The sale of the Travelodge Burlington on the Lake and the Holiday Inn Edmonton – The Palace (and the Grand Okanagan Lakefront Resort and Conference Centre subsequent to June 30, 2008) each represented unique opportunities to exit assets at significant premiums, generating gains that Management felt could be effectively deployed at higher rates of return. The sale of the El Rancho Motor Hotel & Convention Centre and the U.S. hotel management business represented an opportunity to sell non-core assets at an attractive price, allowing Management to redeploy the Trust's resources to the balance of its portfolio and generate incremental returns.

The operations of properties and businesses that were sold prior to June 30, 2008 or that are held for sale as at June 30, 2008 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 is comprised of the following business units of Royal Host:

- Holiday Inn Edmonton - The Palace (Edmonton, Alberta): Sold on June 9, 2008 for gross proceeds of \$25 million, generating a gain on sale of approximately \$13.1 million during the second quarter of 2008.
- El Rancho Motor Hotel & Convention Centre (Lethbridge, Alberta): Sold on April 30, 2008 for gross proceeds of \$2.9 million, generating neither a gain nor a loss on sale. The Trust recognized a property impairment provision of approximately \$0.1 million during the first quarter of 2008.
- Travelodge Hotel Burlington on the Lake (Burlington, Ontario): Sold on February 21, 2008 for gross proceeds of \$24.8 million, generating a gain on sale of approximately \$11.7 million during the first quarter of 2008.
- Thriftlodge Fort Nelson (Fort Nelson, British Columbia): Destroyed by fire on January 11, 2008. The gross and net book values of capital assets destroyed totaled approximately \$5.3 million and \$3.2 million, respectively. During the three months ended June 30, 2008, the Trust received insurance proceeds totaling approximately \$4.5 million, generating a gain on insurance recovery of approximately \$1.3 million. Receipt of final insurance proceeds is anticipated in the third quarter. Management is currently considering the best use of the site.
- Sundial Inn (Orillia, Ontario): Decommissioned effective January 31, 2008 due to decline in financial performance. Management continues to pursue selling this property.
- The Trust's former US hotel management business, which it sold effective January 1, 2007, generating a gain on sale of approximately \$4.2 million during the first quarter of 2007.

Subsequent to June 30, 2008, the Trust entered into an agreement to sell the Grand Okanagan Lakefront Resort and Conference Centre. On June 30, 2008, the resort did not satisfy the criteria required by the CICA Handbook Section 3475 "*Disposal of Long-Lived Assets and Discontinued Operations*" for inclusion in property held for sale and discontinued operations. The property will be included in discontinued operations commencing in the third quarter of 2008.

INCOME FROM DISCONTINUED OPERATIONS

(\$'000's, except as otherwise noted)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Hospitality revenue	1,684	3,765	4,294	7,199
Hospitality expenses	1,141	2,400	3,208	4,772
Gross margin	543	1,365	1,086	2,427
Other expenses	2,214	206	1,674	601
Gain from insurance recovery	(1,322)	-	(1,322)	-
(Gains) losses on dispositions	(13,042)	22	(24,768)	(4,215)
Income from discontinued operations	12,693	1,137	25,502	6,041

Hospitality revenue from discontinued operations for the three and six months ended June 30, 2008 was \$1.7 million (2007 - \$3.8 million) and \$4.3 million (2007 - \$7.2 million), respectively. Hospitality revenue was impacted by the various sales and closure: the Thriftlodge Fort Nelson (January 11, 2008); the Sundial Inn (January 31, 2008); the Travelodge Burlington on the Lake (February 21, 2008); the El Rancho Motor Hotel & Convention Centre (April 30, 2008); and the Holiday Inn – The Palace (June 9, 2008).

Hospitality expenses included costs associated with decommissioning and securing the Sundial Inn and the closure of the Thriftlodge Fort Nelson. Income from discontinued operations for the six months ended June 30, 2008 increased to \$25.5 million (2007 - \$6.0 million) due primarily to the sales of the Holiday Inn Edmonton – The Palace and the Travelodge Hotel Burlington on the Lake, which generated gains on sale of \$13.1 million and \$11.7 million respectively. The Trust also recognized a property impairment provision of \$0.1 million during the first quarter of 2008 in connection with the El Rancho Motor Hotel & Convention Centre.

The Trust recognized future income taxes of \$2.1 million and \$1.2 million during the three and six months ended June 30, 2008, as timing differences on the properties' capital assets reversed during the period during which each property was sold.

Liquidity AND CAPITAL RESOURCES

As at June 30, 2008, the Trust had significant liquidity and a strong capital base. Cash and cash equivalents was \$37.5 million (2007 - \$46.8 million) and marketable securities of \$62.0 million (December 31, 2007 - \$49.9 million), comprised of publicly traded trust units, convertible debentures, preferred shares and common shares. Asset sales during the first half of 2008 contributed \$51.7 million to the Trust's cash position, and insurance proceeds for the Thriftlodge Fort Nelson fire contributed \$3.6 million to the Trust's cash position.

Subsequent to June 30, 2008, the Trust entered into an agreement to sell the Grand Okanagan Lakefront Resort and Conference Centre. The Trust will receive net cash of an estimated \$85 million, net of the Trust's commitment to complete the current casino expansion and the purchaser's assumption of a \$35.0 million mortgage.

During the six months ended June 30, 2008, the Trust repurchased 0.7 million trust units with an aggregate cost of \$4.3 million pursuant to its Normal Course Issuer Bid, and the Trust repurchased 5.4 million trust units with an aggregate value of \$35.2 million pursuant to its Substantial Issuer Bid.

The Trust invests excess cash not required for operations in banker's acceptances and liquid Canadian income-earning marketable securities. As a result of the higher levels of invested capital in 2008, the Trust realized interest and investment income of \$4.4 million during the six months ended June 30, 2008 (2007 – \$1.8 million).

During the three months ended June 30, 2008, Royal Host invested \$2.0 million in publicly-traded securities with a focus on the hospitality and service sectors. As at June 30, 2008, the Trust held \$62.0 million of marketable securities. 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 at June 30, 2008, Royal Host held approximately 7.0 million trust units, or 18.1% 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.

Subsequent to June 30, 2008, Royal Host invested an additional \$38.3 million in publicly-traded securities with a focus on the hospitality and service sectors, including an additional 36,800 Holloway trust units, bringing Royal Host's holdings in Holloway to 7,020,000 trust units.

As at June 30, 2008, the Trust also had restricted cash of \$4.0 million (December 31, 2007 - \$4.0 million), which consists primarily of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

Royal Host employs a modest amount of property secured debt. As at June 30, 2008, Royal Host's debt (excluding convertible debentures) to gross book value was 22.6% (December 31, 2007 -

21.9%). Royal Host's debt (excluding convertible debentures) is limited by its Declaration of Trust to 45% of gross book value. As at June 30, 2008 Royal Host's debt (including convertible debentures) to gross book value was 56.7% (December 31, 2007 - 54.3%).

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 to pursue other opportunities to create Unitholder value. Notwithstanding the foregoing, Royal Host has \$12.0 million of undrawn credit facilities and leverage capacity related to numerous unsecured properties.

Royal Host did not own any of the non-bank asset backed commercial paper that was negatively impacted by the subprime mortgage market crisis of 2007 and 2008.

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 June 30, 2008, the carrying value of the Trust's mortgages was \$120.0 million (December 31, 2007 - \$122.6 million). The carrying value reflects total outstanding principal of \$120.9 million (December 31, 2007 - \$123.8 million) less \$1.0 million of debt issuance costs (December 31, 2007 - \$1.2 million). The \$1.9 million decrease in carrying value during the quarter is attributable to the accretion of debt issuance costs of \$0.1 million, the repayment of a \$1.3 million mortgage on the Thriftlodge Fort Nelson, and \$0.8 million of scheduled mortgage principal repayments made during the six months ended June 30, 2008.

(\$000's)	For the twelve months ending June 30						
	Total	2009	2010	2011	2012	2013	Thereafter
Mortgages	120,933	3,366	59,643	25,066	12,965	5,770	14,123
Capital Leases	327	91	81	81	74	-	-

CONVERTIBLE DEBENTURES

(\$000's)	Maturity Date	June 30, 2008		December 31, 2007		Conversion Price
		Carrying Value	Outstanding Balance	Carrying Value	Outstanding Balance	
Current:						
7.9% Convertible Debenture, Series A	April 2009	7,840	7,922	-	-	\$6.00
Long Term:						
7.90% Convertible Debenture, Series A	April 2009	-	-	8,025	8,250	\$6.00
6.00% Convertible Debenture, Series B	October 2015	52,474	55,627	52,317	55,627	\$6.85
6.25% Convertible Debenture, Series C	September 2013	55,829	59,293	55,585	59,313	\$7.00
5.90% Convertible Debenture, Series D	June 2014	57,542	60,000	57,380	60,000	\$8.90
		165,845	174,920	173,307	183,190	

Royal Host's convertible debentures have a total outstanding balance at June 30, 2008 of \$182.8 million (December 31, 2007 - \$183.2 million). The carrying value of the convertible debentures as at June 30, 2008 is \$173.7 million, reflecting \$6.2 million of debt issuance costs and \$2.9 million of conversion options.

MATURITY DATES AND INTEREST RATES

	Weighted Average Maturity (Years)		Weighted Average Interest Rate (%)	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Mortgages	2.3	2.8	8.18%	8.18%
Convertible Debentures	5.9	6.4	6.13%	6.13%
Mortgages and Convertible Debentures	4.5	5.0	6.95%	6.95%

During the six months ended June 30, 2008, \$0.3 million of the Trust's convertible debentures were converted into trust units.

Distributions

Distributions for the six months ended June 30, 2008 decreased to \$7.7 million from \$8.5 million in 2007. Although the Trust distributed \$0.33 per unit in the first half of 2008, unchanged from \$0.33 per unit in 2007, the Trust's March through June distributions were significantly lower in 2008 than in 2007 resulting from the repurchases of trust unit under the Trust's Substantial Issuer Bid and Normal Course Issuer Bid in the first quarter of 2008.

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; capital improvements have been predominantly deployed in areas that directly improve the guest experience. During the first and second quarters of 2008, the Trust's capital expenditures totaled \$4.2 million (2007 - \$1.8 million) and \$6.4 million (2007 - \$4.1 million), respectively. Capital expenditures included the complete renovation of the Yellowknife Inn; exterior improvements at the Holiday Inn Trenton; guest room renovations at the Grand Okanagan Lakefront Resort and Conference Centre, the London Hilton, Travelodge Ottawa West and Travelodge Thunder Bay; lobby renovations at the Ramada Belleville; as well as the casino expansion at the Grand Okanagan Lakefront Resort and Conference Centre, which is scheduled to be completed in early 2009. During the first half of 2008, capital expenditures utilized cash of \$8.0 million (2007 - \$4.9 million).

\$0.1 million and \$0.4 million were released from restricted cash during the three and six months ended June 30, 2008, respectively, for reimbursement of previous capital investment. Restricted cash, described above, is available for funding certain hotel capital expenditures.

Unitholders' Equity

During the six months ended June 30, 2008, equity decreased by \$18.2 million to \$81.5 million. The decrease is a result of comprehensive income of \$28.8 million, \$7.7 million of declared distributions, \$4.3 million related to the repurchase of 0.7 million trust units under the Trust's Normal Course Issuer Bid, and \$35.2 million related to the repurchase of 5.4 million trust units under the Trust's Substantial Issuer Bid.

As at June 30, 2008, 21,466,810 trust units were issued and outstanding.

Normal COURSE ISSUER BIDS

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

Normal Course Issuer Bid - Trust Units

Commencing on January 2, 2008, Royal Host initiated an NCIB to repurchase a maximum of 2,157,622, or approximately 10% of its “public float”, of its issued and outstanding trust units. During the first quarter of 2008, Royal Host repurchased 0.6 million trust units with an aggregate cost of \$3.5 million (average cost of \$6.18 per unit). During the second quarter of 2008, the Trust repurchased 0.1 million trust units with an aggregate cost of \$0.9 million (average cost of \$6.41 per unit). Cumulatively to June 30, 2008, Royal Host has repurchased 5.7 million trust units with an aggregate cost of \$37.0 million pursuant to its NCIBs.

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 its “public float”, of its issued and outstanding trust units. During the six months ended June 30, 2007, the Trust repurchased 1.0 million trust units with an aggregate cost of \$7.2 million (average cost of \$7.30 per unit).

Normal Course Issuer Bid - 7.90% Convertible Debentures

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 three and six months ended June 30, 2008, Royal Host did not repurchase any debentures pursuant to this NCIB.

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 six months ended June 30, 2007, Royal Host repurchased \$1.0 million in principal balance with an aggregate cost of \$1.2 million (average cost of \$121.13) 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. This bid expired at the end of the first quarter of 2008.

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. This bid expired at the end of the first quarter of 2008.

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 closed on March 30, 2008 and Royal Host agreed to repurchase 5,385,997 tendered trust units with an aggregate cost of \$35.0 million. Management believes that the offer was in the best interests of Royal Host and its Unitholders as it provides an attractive use of capital given its market valuation.

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 was to simplify the organizational structure of Royal Host and the entities in which it held substantial interests and to substantially reduce the complexity of the accounting, legal, reporting and income tax compliance required by the previous structure. The reorganization also allows the Trust to deduct certain additional tax deductions, which would reduce the return on capital portion of distributions to Unitholders. The reorganization also eliminated the Trust's capital tax burden. During the first quarter of 2008, the Trust reduced its current future income tax asset to \$nil and reducing the long-term future income tax liability to \$3.0 million, generating a \$1.9 million future income tax recovery.

Subsequent EVENT

Sale of Grand Okanagan Lakefront Resort and Conference Centre

As described herein under "Discontinued Operations and Property Held For Sale", subsequent to June 30, 2008, the Trust finalized an agreement to sell the Grand Okanagan Lakefront Resort and Conference Centre for \$131 million, representing a gain on sale of approximately \$78 million. All conditions of the agreement have been satisfied and the sale is scheduled to close on August 14, 2008. As at June 30, 2008, the resort did not satisfy the criteria required by the CICA Handbook 3475 "Disposal of Long-Lived Assets and Discontinued Operations". The resort will be included in discontinued operations commencing in the third quarter of 2008.

Restatement

Royal Host's financial statements for the three and six months ended June 30, 2007 as presented reflect the restatement of quarterly non-cash provisions for future income taxes. The effects of the restatement are as follows: for the three and six months ended June 30, 2007, future income taxes increased \$1.5 million, net income and comprehensive income decreased by \$1.5 million, and the future income tax liability as at June 30, 2007 increased by \$1.5 million to \$8.3 million.

Summary OF QUARTERLY FINANCIAL RESULTS

(\$000's, except as otherwise noted)	2008			2007			2006	
	Q2	Q1	Q4	Q3 (restated)	Q2 (restated)	Q1	Q4	Q3
Revenue	35,143	27,680	31,280	38,531	34,744*	29,928*	33,997*	89,716*
Income (Loss)								
From Continuing Operations	5,334	(818)	(690)	6,302	3,622	(2,098)	(604)	12,585
From Discontinued Operations	12,693	12,876	(164)	600	554	4,441	(53)	1,490
	18,027	12,058	(854)	6,902	4,176	2,343	(657)	14,075
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	0.25	(0.03)	(0.02)	0.24	0.14	(0.08)	(0.02)	0.49
Diluted	0.18	(0.03)	(0.02)	0.19	0.13	(0.08)	(0.02)	0.30
Income (Loss) from Total Operations								
Basic	0.84	0.45	(0.03)	0.27	0.17	0.10	(0.03)	0.55
Diluted	0.46	0.45	(0.03)	0.20	0.14	0.10	(0.03)	0.33

* Includes Royal Private Residence Club.

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

Business ENVIRONMENT AND OUTLOOK

Historically, the hospitality industry in Canada is a reflection of the underlying economic climate. Presently, Canadian economic indicators are uncertain. With significant liquidity and a strong capital base, a unique strategy for deploying capital, a focus on revenue management and a geographically diverse portfolio which spans multiple demand generators and customer segments, Royal Host is uniquely positioned to capitalize on changes in the Canadian hospitality industry.

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 trust unit repurchases and investment in securities, providing an excellent use of the Trust's resources for the benefit of Unitholders.

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 the nature of travel;
- geopolitical events affecting consumer and business confidence;
- fiscal and taxation policies; and
- changes in legislation.

While these factors are mainly external and uncontrollable, the 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 its exposure to regional economic fluctuations;
- ownership of properties in desirable locations with a history of stable cash flows which are at or above its 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; and
- holds significant cash and cash equivalents so that market volatility does not unduly influence the Trust's investment decisions.

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 otherwise have 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. Return of capital generally is (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 Unitholders’ adjusted cost base in such 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 provided that a SIFT’s safe harbour is 40% of the October 31, 2006 benchmark and for the year ended December 31, 2008, a SIFT’s safe harbour is 60%. As at June 30, 2008, 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.

(\$000’s unless otherwise noted)	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 June 30, 2008. Based on that evaluation, both concluded that the design and operation of these disclosure controls and procedures were effective as at June 30, 2008 to provide reasonable assurance that material information relating to Royal Host would be made known to them.

Internal CONTROL OVER FINANCIAL REPORTING

There have been no changes in Royal Host's internal control over financial reporting during the three months ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, Royal Host's internal control over financial reporting.

Key ACCOUNTING POLICIES AND ESTIMATES

Note 2 to the unaudited interim consolidated financial statements for the three and six months ended June 30, 2008 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 judgment and are subject to the inherent risk of inaccuracy, particularly where they relate to events that are expected to take place well into the future.

Changes IN ACCOUNTING POLICIES

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 adopted this section on January 1, 2008. This change in accounting policy did not have an impact on the financial statements of Royal Host.

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.

Royal Host adopted this section on January 1, 2008. This new requirement is for disclosure only and did 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 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 retains the previous 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.

Royal Host adopted these sections on January 1, 2008. This new requirement is for disclosure only and did not impact the financial results of Royal Host.

Future CHANGES IN ACCOUNTING POLICIES

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 and developing an implementation plan.

Intangible Assets

The CICA issued Handbook Section 3064 “Goodwill and Intangible Assets” to replace Handbook Section 3062 “Goodwill and Other Intangible Assets”. Handbook Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This section is effective for interim and annual financial statements for years beginning on or after October 1, 2008. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Accounting Standard 38 “Intangible Assets”. The Trust is evaluating the impact of the adoption of Handbook Section 3064.

OFF BALANCE SHEET ARRANGEMENT

Royal Host had no undisclosed off balance sheet arrangements as at June 30, 2008.

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 June 30, 2008 and contain estimates or assumptions about the outcome of future events. These forward-looking statements are provided in the interest of providing readers with information regarding the Trust. Readers are cautioned that the forward-looking information may not be appropriate for any other use. These forward-looking statements are subject to risks, uncertainties, and other factors that could result in the outcome of these events being materially different from those anticipated in this MD&A. These factors include, but are not limited to: general economic conditions, levels of travel in Royal Host’s

key market areas, political conditions and events, competitive pressures, changes in government policy or regulations and other risk factors including risks and uncertainties described above. Royal Host does not undertake to update such forward-looking statements should its estimates or assumptions change, except as required by law. Additional information relating to Royal Host and the risks to which its business is subject is contained in its Annual Information Form, which is available at www.sedar.com.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

(unaudited)

2008

FOR THE THREE AND SIX MONTHS
ENDED JUNE 30, 2008

ROYAL HOST[®]
HOTELS & RESORTS^{REIT}

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

(unaudited)

	As at	
	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	37,476	46,823
Marketable securities	61,999	49,874
Accounts and notes receivable	12,583	8,464
Prepaid expenses	3,704	3,225
Assets of discontinued operations (Note 5)	1,244	46
Inventories (Note 6)	2,881	3,327
Future income taxes (Note 14)	-	1,316
	<u>119,887</u>	<u>113,075</u>
Capital assets (Note 7)	272,156	303,359
Property held for sale (Note 5)	2,025	2,025
Restricted cash	3,990	3,954
	<u>398,058</u>	<u>422,413</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	13,095	14,314
Equity distributions payable	1,181	1,512
Interest accrued on convertible debentures	1,592	1,592
Mortgages (Note 8)	2,981	3,325
Convertible debentures (Note 9)	7,840	-
Obligations under capital leases (Note 10)	72	119
Other liabilities	1,918	1,872
Liabilities of discontinued operations (Note 5)	99	43
	<u>28,778</u>	<u>22,777</u>
Mortgages (Note 8)	117,000	119,298
Convertible debentures (Note 9)	165,845	173,307
Obligations under capital leases (Note 10)	210	242
Deferred revenue	302	168
Future income taxes (Note 14)	4,427	6,907
	<u>316,562</u>	<u>322,699</u>
Unitholders' equity (Note 11)	81,496	99,714
	<u>398,058</u>	<u>422,413</u>

See accompanying Notes to the Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Income and Comprehensive Income

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

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
		(restated - Note 22)		(restated - Note 22)
Hospitality revenue				
Rooms	24,871	24,569	44,793	44,576
Food and beverage	6,974	6,669	11,919	11,884
Franchising and management	567	550	1,134	1,337
Other	2,731	2,809	4,977	5,233
	<u>35,143</u>	<u>34,597</u>	<u>62,823</u>	<u>63,030</u>
Hospitality expenses	<u>23,256</u>	<u>23,352</u>	<u>45,693</u>	<u>45,690</u>
	<u>11,887</u>	<u>11,245</u>	<u>17,130</u>	<u>17,340</u>
Investment income				
Interest and investment income	2,061	758	4,367	1,799
Unrealized gains (losses) on marketable securities	45	1,071	(196)	1,433
Realized gains on marketable securities	143	722	146	722
	<u>2,249</u>	<u>2,551</u>	<u>4,317</u>	<u>3,954</u>
Royal Private Residence Club (Note 4)				
Revenue	-	177	-	1,675
Cost of sales	-	177	-	1,675
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>14,136</u>	<u>13,796</u>	<u>21,447</u>	<u>21,294</u>
Other expenses				
Trust administration	452	350	859	761
Interest and accretion on mortgages and capital leases	2,418	2,583	5,093	5,504
Interest and accretion on convertible debentures	3,129	3,255	6,244	6,465
Depreciation and amortization	3,506	3,430	7,067	6,928
Future income taxes expense (recovery) (Note 14)	(700)	438	(2,342)	419
Capital and other taxes	-	35	-	64
Loss (gain) on foreign currency translation	(3)	32	(57)	36
	<u>8,802</u>	<u>10,123</u>	<u>16,864</u>	<u>20,177</u>
Income from continuing operations	<u>5,334</u>	<u>3,673</u>	<u>4,583</u>	<u>1,117</u>
Income from discontinued operations (Note 5)	<u>12,693</u>	<u>1,137</u>	<u>25,502</u>	<u>6,041</u>
Net income	<u>18,027</u>	<u>4,810</u>	<u>30,085</u>	<u>7,158</u>
Other comprehensive income (loss) (Note 15)	<u>267</u>	<u>(30)</u>	<u>(1,287)</u>	<u>(62)</u>
Comprehensive income	<u>18,294</u>	<u>4,780</u>	<u>28,798</u>	<u>7,096</u>
Basic per unit net earnings (Note 12)				
- from continuing operations	0.25	0.14	0.19	0.04
- from discontinued operations	0.59	0.04	1.05	0.24
	<u>0.84</u>	<u>0.18</u>	<u>1.24</u>	<u>0.28</u>
Diluted per unit net earnings (Note 12)				
- from continuing operations	0.18	0.13	0.19	0.04
- from discontinued operations	0.28	0.02	1.05	0.24
	<u>0.46</u>	<u>0.15</u>	<u>1.24</u>	<u>0.28</u>

See accompanying Notes to the Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity

in \$000's
(unaudited)

	Trust Units	Convertible Equity	Contributed Surplus	Accumulated Income	Accumulated Other Comprehensive Loss	Distributions	Total
Balance, December 31, 2006	201,775	3,480	7,497	24,676	-	(150,228)	87,200
Transitional adjustment on adoption of new accounting policy	-	-	-	111	-	-	111
Comprehensive income (loss)	-	-	-	7,158	(62)	-	7,096
Equity distributions							
Trust units	-	-	-	-	-	(8,502)	(8,502)
Issuance of trust units pursuant to distribution reinvestment plan	9	-	-	-	-	-	9
Issuance of trust units pursuant to debenture conversion option	17,780	-	-	-	-	-	17,780
Trust units cancelled pursuant to normal course issuer bid (Note 11)	(8,335)	-	1,084	-	-	-	(7,251)
Employee loans pursuant to employee unit purchase program	134	-	-	-	-	-	134
Conversion option related to issuance of convertible debentures (Note 9)	-	300	-	-	-	-	300
Balance, June 30, 2007 (restated - Note 22)	211,363	3,780	8,581	31,945	(62)	(158,730)	96,877
Comprehensive income (loss)	-	-	-	7,218	(2,148)	-	5,070
Equity distributions							
Trust units	-	-	-	-	-	(8,912)	(8,912)
Issuance of trust units pursuant to debenture conversion option	13,992	(80)	-	-	-	-	13,912
Convertible debentures cancelled pursuant to normal course issuer bid (Note 11)	-	(63)	-	-	-	-	(63)
Trust units cancelled pursuant to normal course issuer bid (Note 11)	(8,266)	-	1,047	-	-	-	(7,219)
Employee loans pursuant to employee unit purchase program	49	-	-	-	-	-	49
Balance, December 31, 2007	217,138	3,637	9,628	39,163	(2,210)	(167,642)	99,714
Comprehensive income (loss) (Note 15)	-	-	-	30,085	(1,287)	-	28,798
Equity distributions							
Trust units	-	-	-	-	-	(7,686)	(7,686)
Issuance of trust units pursuant to debenture conversion option (Note 9)	238	-	-	-	-	-	238
Trust units cancelled pursuant to normal course issuer bid (Note 11)	(5,478)	-	1,157	-	-	-	(4,321)
Trust units repurchased pursuant to substantial issuer bid (Note 11)	(42,572)	-	7,330	-	-	-	(35,242)
Employee loans pursuant to employee unit purchase program	(5)	-	-	-	-	-	(5)
Balance, June 30, 2008	169,321	3,637	18,115	69,248	(3,497)	(175,328)	81,496

Accumulated income, accumulated other comprehensive loss and distributions at June 30, 2008 were (\$109,577) (December 31, 2007 - (\$130,689))

See accompanying Notes to the Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

in \$000's
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007 (restated - Note 22)	June 30, 2008	June 30, 2007 (restated - Note 22)
Operating activities				
Income from continuing operations	5,334	3,673	4,583	1,117
Items not affecting cash:				
Depreciation and amortization	3,506	3,430	7,067	6,928
Future income taxes recovery	(700)	438	(2,342)	419
Unrealized (gains) losses on marketable securities	(45)	(1,071)	196	(1,433)
Realized gains on marketable securities	(143)	(722)	(146)	(722)
Premium on repurchases of convertible debentures	-	348	-	348
Accretion on mortgages and convertible debentures	436	445	854	1,028
Cash flows provided by continuing operations	8,388	6,541	10,212	7,685
Cash flows provided by (used in) discontinued operations (Note 5)	541	1,389	1,086	2,344
Changes in non-cash working capital - continuing operations (Note 13)	(4,880)	(2,972)	(3,630)	(4,673)
Changes in non-cash working capital - discontinued operations (Note 5)	(250)	(58)	(297)	(140)
Decrease in property under development	-	51	-	1,551
	3,799	4,951	7,371	6,767
Financing activities				
Issuance of convertible debentures	-	60,000	-	60,000
Debt issuance costs	-	(2,362)	-	(2,362)
Redemption upon maturity of convertible debentures	-	-	-	(32,469)
Repurchases of convertible debentures pursuant to normal course issuer bids	-	(2,764)	-	(3,064)
Principal repayments on mortgages and capital leases	(2,107)	(871)	(2,959)	(1,753)
Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bid	(36,159)	(5,286)	(39,562)	(8,287)
Equity distributions	(3,537)	(4,321)	(8,017)	(8,289)
Proceeds from repayment of employee unit purchase program loan	8	10	(5)	134
	(41,795)	44,406	(50,543)	3,910
Investing activities				
Purchases of marketable securities	(1,956)	(22,929)	(16,365)	(37,201)
Dispositions of marketable securities	2,444	17,986	2,904	18,923
Net cash on dispositions of capital assets (Note 5)	27,448	-	51,714	5,251
Net cash on insurance recovery (Note 5)	3,625	-	3,625	-
Acquisitions of capital assets	(4,642)	(1,790)	(8,017)	(4,926)
Decrease in restricted cash	(192)	(269)	(36)	1,474
Decrease in long-term notes receivable	-	8	-	11
	26,727	(6,994)	33,825	(16,468)
Increase (decrease) in cash and cash equivalents	(11,269)	42,363	(9,347)	(5,791)
Cash and cash equivalents, beginning of period	48,745	43,990	46,823	92,144
Cash and cash equivalents, end of period	37,476	86,353	37,476	86,353
Cash interest paid				
Mortgages and capital leases	2,291	2,528	4,848	5,097
Convertible debentures	3,767	3,477	5,620	7,097
	6,058	6,005	10,468	12,194

See accompanying Notes to the Consolidated Interim Financial Statements

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

1. GENERAL INFORMATION

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

2. CHANGES IN ACCOUNTING POLICIES

These unaudited consolidated interim financial statements and notes have been prepared using the accounting policies that are consistent with the policies used in preparing the Trust's 2007 annual consolidated financial statements with the exception of the policies noted below. These financial statements do not include all disclosures required under Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the annual consolidated financial statements.

(a) 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 adopted CICA Handbook Section 3031 "*Inventories*", on January 1, 2008. This change in accounting policy did not have an impact on the financial statements of Royal Host.

(b) 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 has not impacted the financial results of Royal Host.

(c) 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 has not impacted the financial results of Royal Host.

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3. FUTURE CHANGES IN ACCOUNTING POLICIES

The CICA has announced two future changes in accounting policy which will affect the financial statements of Royal Host subsequent to March 31, 2008. The significant changes, along with the impact on the financial statements of Royal Host are as follows:

(a) 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 Canadian generally accepted accounting principles. 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 and developing an implementation plan.

(b) Goodwill and Intangible Assets

The CICA has issued a new accounting standard, Section 3064, "*Goodwill and Intangible Assets*", which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. The Trust does not anticipate this new standard will impact its consolidated financial statements. This new and amended standard will be effective for the Trust's 2009 fiscal year, and will be adopted on a retroactive basis with restatement.

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. Revenue and cost of sales (including commissions and other selling costs) were recorded at the time each condominium sale was closed, and title and possession were transferred to the buyer. During the six months ended June 30, 2007, Royal Host completed the final sales of the condominium units.

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

The operations of properties and businesses that were disposed of prior to June 30, 2008 and those held for sale as at June 30, 2008 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 January 1, 2007, Royal Host sold its US management business, resulting in a gain on disposition of approximately \$4.2 million during the six months ended June 30, 2007.

On January 11, 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 \$3.2 million. Royal Host maintained adequate insurance coverage on the property. During the six months ended June 30, 2008, Royal Host received insurance proceeds of \$3.6 million and has recognized an insurance receivable for \$0.9 million.

Effective January 31, 2008, the Trust decommissioned the Sundial Inn in Orillia, Ontario. Royal Host continues to pursue disposing of this property.

On February 21, 2008, Royal Host sold the Travelodge Hotel Burlington on the Lake for total proceeds of \$24.8 million. The Trust recognized a gain on the sale of \$11.7 million during the six months ended June 30, 2008.

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

On April 30, 2008, Royal Host sold the El Rancho Motor Hotel and Convention Centre in Lethbridge, Alberta for total proceeds of \$2.9 million. The Trust recognized a property impairment provision of \$0.1 million during the six months ended June 30, 2008.

On June 9, 2008, Royal Host sold the Holiday Inn Edmonton - The Palace for total proceeds of \$25.0 million. The Trust recognized a gain on the sale of \$13.1 million during the three months ended June 30, 2008.

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 quarter.

	Three Months Ended		Six Months Ended	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
		<i>(restated - Note 22)</i>		<i>(restated - Note 22)</i>
Hospitality revenue				
Rooms	1,252	2,886	3,176	5,401
Food and beverage	348	651	829	1,271
Management	-	-	-	60
Other	84	228	289	467
	1,684	3,765	4,294	7,199
Hospitality expenses	1,141	2,400	3,208	4,772
Gross margin	543	1,365	1,086	2,427
Other expenses				
Depreciation and amortization	108	330	364	651
Property impairment provision	-	-	132	-
Future income taxes (recovery)	2,106	(99)	1,178	(133)
Capital and other taxes	-	(14)	-	63
Loss on foreign currency translation	-	(11)	-	20
	2,214	206	1,674	601
	(1,671)	1,159	(588)	1,826
Gain from insurance recovery	1,322	-	1,322	-
Gains (losses) on dispositions	13,042	(22)	24,768	4,215
Income from discontinued operations	12,693	1,137	25,502	6,041

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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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:

	Three Months Ended (in \$000's)		Six Months Ended (in \$000's)	
	June 30, 2008	June 30, 2007 (restated - Note 22)	June 30, 2008	June 30, 2007 (restated - Note 22)
Income from discontinued operations	12,693	1,137	25,502	6,041
Items not affecting cash:				
Future income taxes (recovery)	2,106	(99)	1,178	(133)
Depreciation and amortization	106	329	364	651
Gain from insurance recovery	(1,322)	-	(1,322)	-
(Gains) losses on dispositions	(13,042)	22	(24,768)	(4,215)
Property impairment provision	-	-	132	-
Cash flows provided by discontinued operations	541	1,389	1,086	2,344
Changes in non-cash working capital				
Assets of discontinued operations	(66)	42	(353)	4,146
Liabilities of discontinued operations	(184)	(100)	56	(4,286)
	(250)	(58)	(297)	(140)

6. INVENTORIES

Inventories are comprised of the following items:

	(in \$000's)	
	June 30, 2008	December 31, 2007
Linens	1,679	1,843
Food and beverage	511	659
China, glassware and other	691	825
	2,881	3,327

During the three and six months ended June 30, 2008, respectively, hospitality expenses included \$1.9 million (June 30, 2007 - \$1.9 million) and \$3.3 million (June 30, 2007 - \$3.4 million) of cost of goods sold related to the inventory items listed above.

7. CAPITAL ASSETS

June 30, 2008	(in \$000's)		
	Gross Book Value	Accumulated Amortization	Net Book Value
Buildings	296,501	74,958	221,543
Land	34,092	-	34,092
Furniture, fixtures and equipment	48,803	40,601	8,202
Other	1,626	446	1,180
	381,022	116,005	265,017
Capital assets under development	1,827	-	1,827
Intangible assets:			
Franchise rights and management contracts	27,414	22,102	5,312
	410,263	138,107	272,156

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7. CAPITAL ASSETS (continued)

December 31, 2007	<i>(in \$000's)</i>		
	Gross Book Value	Accumulated Amortization	Net Book Value
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>

During the three and six months ended June 30, 2008, respectively, capital additions to Royal Host's hotel properties totalled \$4.2 million (June 30, 2007 - \$1.8 million) and \$6.4 million (June 30, 2007 - \$4.1 million).

8. MORTGAGES

	<i>(in \$000's)</i>	
	June 30, 2008	December 31, 2007
Mortgages secured by hotel properties	119,981	122,623
Less: current portion	2,981	3,325
	<u>117,000</u>	<u>119,298</u>

Principal repayments required for the twelve months ending June 30:

	<i>(in \$000's)</i>
2009	3,366
2010	59,643
2011	25,066
2012	12,965
2013	5,770
Subsequent	14,123
Total principal outstanding	120,933
Debt issuance costs	(952)
	<u>119,981</u>

9. CONVERTIBLE DEBENTURES

	<i>(in \$000's)</i>	
	June 30, 2008	December 31, 2007
7.90% Convertible Unsecured Subordinated Debentures, Series A	7,840	8,025
6.00% Convertible Unsecured Subordinated Debentures, Series B	52,474	52,317
6.25% Convertible Unsecured Subordinated Debentures, Series C	55,829	55,585
5.90% Convertible Unsecured Subordinated Debentures, Series D	57,542	57,380
	<u>173,685</u>	<u>173,307</u>
Less: current portion	7,840	-
	<u>165,845</u>	<u>173,307</u>

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9. CONVERTIBLE DEBENTURES (continued)

Principal repayments required for the twelve months ending June 30:

	<u>(in \$000's)</u>
2009	7,922
2010	-
2011	-
2012	-
2013	-
Subsequent	<u>174,920</u>
Total principal outstanding	182,842
Debt issuance costs	(6,242)
Equity conversion option	<u>(2,915)</u>
	<u><u>173,685</u></u>

(a) 9.25% Convertible Unsecured Subordinated Debentures

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

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

During the three months ended June 30, 2008, \$0.3 million (June 30, 2007 - \$8.0 million) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 54,665 trust units (June 30, 2007 - 1.3 million trust units). During the six months ended June 30, 2008, \$0.3 million (June 30, 2007 - \$10.2 million) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 54,665 trust units (June 30, 2007 - 1.7 million trust units). Subsequent to June 30, 2008, \$9,000 of the debentures were converted into 1,500 trust units.

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

During the three months ended June 30, 2008, none (June 30, 2007 - \$1.7 million) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into trust units (June 30, 2007 - 0.2 million trust units). During the six months ended June 30, 2008, none (June 30, 2007 - \$2.2 million) of Royal Host's 6.00% convertible unsecured subordinate debentures were converted into trust units (June 20, 2007 - 0.3 million trust units).

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

During the three and six months ended June 30, 2008, \$20,000 (June 30, 2007 - \$32,000) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 2,857 trust units (June 30, 2007 - 4,570 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.

10. OBLIGATIONS UNDER CAPITAL LEASES

Royal Host has entered into various capital lease obligations to acquire computers and furniture, fixtures and equipment. The present values of future minimum lease payments under capital leases as at June 30, 2008

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10. OBLIGATIONS UNDER CAPITAL LEASES (continued)

are as follows:

	<i>(in \$000's)</i>	
	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Present value of future minimum lease payments	282	361
Less: current portion of principal payments	72	119
	<u>210</u>	<u>242</u>

Total repayments required for the twelve months ending June 30:

	<i>(in \$000's)</i>
2009	91
2010	81
2011	81
2012	74
2013	-
Future minimum lease payments	<u>327</u>
Less: amounts representing interest	45
Present value of future minimum lease payments	<u>282</u>

During the three and six months ended June 30, 2008, Royal Host did not acquire any new assets under capital lease (June 30, 2007 - \$0.4 million). The net book value of assets under capital lease as at June 30, 2008 was \$1.1 million (December 31, 2007 - \$1.4 million).

11. NORMAL COURSE ISSUER BIDS AND SUBSTANTIAL ISSUER BID

(a) Trust Units

Normal Course Issuer Bid

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. During the three months ended June 30, 2008, 0.1 million trust units with an aggregate cost of \$0.9 million (average cost of \$6.41 per unit) were repurchased pursuant to this bid. During the six months ended June 30, 2008, 0.7 million trust units with an aggregate cost of \$4.3 million (average cost of \$6.24 per unit) were repurchased. Subsequent to June 30, 2008, no trust units were repurchased pursuant to this bid.

Commencing on December 29, 2006, Royal Host initiated a normal course issuer bid to repurchase a maximum of 2.0 million of its issued and outstanding trust units. During the three months ended June 30, 2007, 0.7 million trust units with an aggregate cost of \$5.3 million (average cost of \$7.42 per unit) were repurchased pursuant to this bid. During the six months ended June 30, 2007, 1.0 million trust units with an aggregate cost of \$7.2 million (average cost of \$7.30 per unit) were repurchased.

Substantial Issuer 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 remained open for acceptance until March 27, 2008. Unitholders tendered 6.4 million trust units pursuant to the substantial issuer bid, of which Royal Host purchased the maximum of 5.4 million on a pro rata basis, or approximately 85% of the units that were tendered. Payment for Trust Units tendered, and accepted for repurchase, was made on April 3, 2008. The 5.4 million trust units were cancelled on April 9, 2008.

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11. NORMAL COURSE ISSUER BIDS AND SUBSTANTIAL ISSUER BID (continued)

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

Commencing on November 28, 2007, Royal Host initiated a normal course issuer bid to repurchase up to \$0.8 million in principal of its issued and outstanding 7.90% convertible debentures. During the three and six months ended June 30, 2008, no debentures were repurchased pursuant to this bid.

Commencing on November 23, 2006, Royal Host initiated a normal course issuer bid to repurchase up to \$3.5 million in principal of its issued and outstanding 7.90% convertible debentures. During the three months ended June 30, 2007, \$0.7 million in principal of the 7.90% convertible debentures were repurchased with an aggregate cost of \$0.8 million (average cost of \$122.97) pursuant to this bid. During the six months ended June 30, 2007, \$1.0 million in principal of the 7.90% convertible debentures were repurchased with an aggregate cost of \$1.2 million (average cost of \$121.13) pursuant to this bid.

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

Commencing on March 30, 2007, Royal Host initiated a normal course issuer bid to repurchase up to \$5.9 million in principal of its issued and outstanding 6.00% convertible debentures. During the three and six months ended June 30, 2008, no debentures were repurchased pursuant this bid. During the three and six months ended June 30, 2007, \$1.2 million in principal of the 6.00% convertible debentures were repurchased with an aggregate cost of \$1.3 million (average cost of \$108.22) pursuant to this bid.

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

Commencing on March 30, 2007, Royal Host initiated a normal course issuer bid to repurchase up to \$6.0 million in principal of its issued and outstanding 6.25% convertible debentures. During the three and six months ended June 30, 2008, no debentures were repurchased pursuant to this bid. During the three and six months ended June 30, 2007, \$0.4 million in principal of the 6.25% convertible debentures were repurchased with an aggregate cost of \$0.4 million (average cost of \$106.29) pursuant to this bid.

12. PER UNIT CALCULATIONS

As at June 30, 2008, a total of 21,466,810 trust units (December 31, 2007 - 27,487,825) were issued and outstanding.

For the three months ended June 30, 2008:

	(in \$000's)	Weighted Average Units (in 000's)	Per Unit (\$)
Basic earnings - continuing operations	5,334		0.25
Basic earnings - discontinued operations	12,693		0.59
Basic earnings - total operations	18,027	21,445	0.84
Basic earnings - continuing operations	5,334		
Add: notional conversion of convertible debentures	3,130	24,689	
Diluted earnings - continuing operations	8,464		0.18
Diluted earnings - discontinued operations	12,693		0.28
Diluted earnings - total operations	21,157	46,134	0.46

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12. PER UNIT CALCULATIONS (continued)

For the three months ended June 30, 2007			
	(in \$000's)	Weighted Average Units (in 000's)	Per Unit (\$)
	<i>(restated - Note 22)</i>		
Basic earnings - continuing operations	3,673		0.14
Basic earnings - discontinued operations	1,137		0.04
Basic earnings - total operations	4,810	25,938	0.18
Basic earnings - continuing operations	3,673		
Add: notional conversion of convertible debentures	2,381	22,034	
Diluted earnings - continuing operations	6,054		0.13
Diluted earnings - discontinued operations	1,137		0.02
Diluted earnings - total operations	7,191	47,972	0.15
For the six months ended June 30, 2008:			
	(in \$000's)	Weighted Average Units (in 000's)	Per Unit (\$)
Basic earnings - continuing operations	4,583		0.19
Basic earnings - discontinued operations	25,502		1.05
Basic earnings - total operations	30,085	24,250	1.24
Diluted earnings - continuing operations	4,583		0.19
Diluted earnings - discontinued operations	25,502		1.05
Diluted earnings - total operations	30,085	24,250	1.24
For the six months ended June 30, 2007:			
	(in \$000's)	Weighted Average Units (in 000's)	Per Unit (\$)
	<i>(restated - Note 22)</i>		
Basic earnings - continuing operations	1,117		0.04
Basic earnings - discontinued operations	6,041		0.24
Basic earnings - total operations	7,158	25,405	0.28
Diluted earnings - continuing operations	1,117		0.04
Diluted earnings - discontinued operations	6,041		0.24
Diluted earnings - total operations	7,158	25,405	0.28

The diluted earnings per unit for the six months ended June 30, 2008 and June 30, 2007 include no trust units issuable on the conversion of any convertible unsecured subordinated debentures because all of the conversions are anti-dilutive.

13. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended		Six Months Ended	
	(in \$000's)		(in \$000's)	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
(Increase) decrease in:				
Accounts and notes receivable	(2,882)	(558)	(4,119)	(646)
Prepaid expenses	(514)	(1,044)	(479)	(1,663)
Inventories	130	(68)	446	(39)
	(3,266)	(1,670)	(4,152)	(2,348)

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13. CHANGES IN NON-CASH WORKING CAPITAL (continued)

	Three Months Ended (in \$000's)		Six Months Ended (in \$000's)	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Increase (decrease) in:				
Accounts payable and accrued liabilities	544	(805)	342	(687)
Interest accrued on convertible debentures	(955)	(596)	-	(1,430)
Other liabilities	(1,337)	67	46	43
Deferred revenue	134	32	134	(203)
Future income taxes	-	-	-	(48)
	<u>(1,614)</u>	<u>(1,302)</u>	<u>522</u>	<u>(2,325)</u>
	<u>(4,880)</u>	<u>(2,972)</u>	<u>(3,630)</u>	<u>(4,673)</u>

14. FUTURE INCOME TAXES

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

	(in \$000's)	
	June 30, 2008	December 31, 2007
Tax assets relating to subsidiary operating losses and temporary differences on current items	-	1,316
Future income tax asset	<u>-</u>	<u>1,316</u>
Tax liabilities related to temporary differences on debt issuance costs	(1,046)	(1,059)
Tax liabilities relating to temporary differences on capital assets	(3,381)	(5,848)
Future income tax liability	<u>(4,427)</u>	<u>(6,907)</u>

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

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Three Months Ended (in \$000's)		Six Months Ended (in \$000's)	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Accumulated other comprehensive loss, beginning of period	3,764	32	2,210	-
Other comprehensive (income) loss	(267)	30	1,287	62
Accumulated other comprehensive loss, end of period	<u>3,497</u>	<u>62</u>	<u>3,497</u>	<u>62</u>

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

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15. ACCUMULATED OTHER COMPREHENSIVE LOSS (continued)

	Three Months Ended		Six Months Ended	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Unrealized (gains) losses generated on available-for-sale assets	(410)	(692)	1,141	(660)
Realized losses on available-for-sale assets transferred to net income	<u>143</u>	<u>722</u>	<u>146</u>	<u>722</u>
Other comprehensive (income) loss	<u>(267)</u>	<u>30</u>	<u>1,287</u>	<u>62</u>

16. 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).

17. RELATED PARTY TRANSACTIONS

Clarke Inc.

At June 30, 2008, Clarke Inc. owned approximately 5.3 million of Royal Host's issued and outstanding trust units and, as such, is a related party. For the three and six months ended June 30, 2008 there were no related party transactions with Clarke Inc. Royal Host owns approximately \$3.4 million of Clarke Inc. 6.0% Convertible Debentures, which are included in marketable securities on the Trust's balance sheet.

18. 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. Royal Host intends to vigorously defend against the claim. Royal Host filed a Statement of Defence and Counterclaim seeking enforcement of the mortgage and payment of \$2.0 million. No amounts have been recorded with respect to this lawsuit.

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18. MEASUREMENT UNCERTAINTY (continued)

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

19. CAPITAL MANAGEMENT

Royal Host's capital consists of cash and cash equivalents, marketable securities, debt and Unitholders' equity.

The following table provides a summary of certain information with respect to the Trust's capital structure and financial position:

	<i>(in \$000's)</i>	
	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Mortgages	119,981	122,623
Convertible debentures	173,685	173,307
Total debt	<u>293,666</u>	<u>295,930</u>
Cash and cash equivalents	<u>(37,476)</u>	<u>(46,823)</u>
Net debt	<u>256,190</u>	<u>249,107</u>
Unitholders' equity	<u>81,496</u>	<u>99,714</u>
Total capitalization (total debt plus unitholders' equity)	<u><u>375,162</u></u>	<u><u>395,644</u></u>

In accordance with CICA Handbook Section 1535 "Capital Disclosures", the Trust's primary objective for managing capital is to maximize long-term Unitholder value by:

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

The Trust's objectives and strategies in maintaining capital have remained unchanged from December 31, 2007.

The Trust relies on its cash flow from operations to fund distributions to Unitholders and capital expenditures. This cash flow is supplemented, when necessary, by the issuance of its securities. Royal Host sets distributions at a sustainable level as determined by the Trustees based on, among other considerations, annual performance, projected cash flows, capital requirements and working capital requirements.

The Trust monitors key short-term and long-term capital ratios including interest coverage (cash flow from operations to interest), net debt to cash flow from operations, and net debt to total capitalization.

The Trust is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of Unitholders' capital that can be issued by the Trust, based on the Trust's market capitalization on October 31, 2006, to \$52.5 million in 2008, \$50.0 million in 2009 and \$50.0 million in 2010. If the maximum growth allowed is exceeded, the Trust may be subject to taxation prior to 2011. The Trust has not exceeded the maximum growth allowed.

The Trust's long-term debt obligations have certain covenants concerning debt service coverage, compliance with the Trust's Declaration of Trust, and replacement reserves. The covenants remain unchanged from December 31, 2007 and the Trust is in compliance with those covenants.

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19. CAPITAL MANAGEMENT (continued)

The Trust has complied with externally imposed capital restrictions.

The Declaration of Trust under which the Trust was formed provides that indebtedness (defined to exclude convertible debentures) is not permitted to exceed 45% of gross book value (defined as the book value of the Trust's assets plus accumulated amortization). As at June 30, 2008, the Trust's indebtedness excluding convertible debentures was 22.6% of gross book value (December 31, 2007 - 21.9%).

The Declaration of Trust under which the Trust was formed, provides that no more than 49% of the Units of the Trust can be held by non-Canadian residents. The potential impact of exceeding this maximum foreign ownership may be the loss of mutual fund trust status, which may adversely impact the valuation of the Units. At June 30, 2008, the Trust's estimate of foreign ownership was less than 2.0%.

20. FINANCIAL INSTRUMENTS

The Trust's financial instruments consist of cash and cash equivalents, marketable securities, accounts and notes receivable, accounts payable and accrued liabilities, equity distributions payable, interest accrued on convertible debentures, mortgages and convertible debentures and capital leases.

(a) Fair Values

The carrying value of cash and cash equivalents, marketable securities, accounts and notes receivable, accounts payable and accrued liabilities, equity distributions payable, interest accrued on convertible debentures, current portion of mortgages and capital leases approximates their fair market value. The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The fair market value of marketable securities are based on the quoted market prices at the balance sheet date.

The fair value of non-current portion of mortgages and other debt and convertible equity instruments are as follows:

	June 30, 2008 (in \$000's)		December 31, 2007 (in \$000's)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgages	117,000	118,028	119,298	122,892
Convertible debentures	165,845	155,334	173,307	162,958
Capital leases	210	211	242	244

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

(b) Credit Risk

As at June 30, 2008, the Trust held investments in the form of Banker's Acceptance Notes. The credit risk on cash and cash equivalents is limited because the counter-parties are banks with high credit-ratings.

As at June 30, 2008, the Trust had accounts receivable of \$12.6 million (December 31, 2007 - \$8.5 million), net of allowances for doubtful accounts, estimated by management based on prior collectability and assessment of overall credit risk. Management does not believe the Trust is subject to any significant credit risk. Credit risk arising from trade receivables are minimized, as amounts due from any one debtor are not significant and routine credit assessments are carried out prior to credit being granted.

As at June 30, 2008, the accounts and notes receivable include \$2.7 million of accounts receivables over 30 days and a vendor take-back mortgage (December 31, 2007 - \$3.3 million). The average days outstanding for accounts receivable past due are 68 days (December 31, 2007 - 60 days). The vendor take-back mortgage was due August 24, 2006.

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20. FINANCIAL INSTRUMENTS (continued)

(c) Interest Rate and Liquidity Risk

Interest rate risk is continually monitored and managed through limiting the amount of variable rate debt as well as the total amount of debt. As at June 30, 2008 and December 31, 2007, Royal Host had no variable rate debt outstanding.

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the Trust to refinance its debts as they mature. Royal Host manages its liquidity risk through its capital management program described in note 19 of the interim consolidated financial statements.

As at June 30, 2008, the Trust's mortgages had a weighted average maturity of 2.3 years (December 31, 2007 - 2.8 years) and convertible debentures had a weighted average maturity of 5.9 years (December 31, 2007 - 6.4 years).

(d) Market Risk

Marketable securities include both available-for-sale and assets held for trading. The following table summarizes the carrying value of each category of marketable securities included under marketable securities on the balance sheet:

	<i>(in \$000's)</i>	
	June 30, 2008	December 31, 2007
Marketable securities available for sale	56,793	44,482
Marketable securities held for trading	5,206	5,392
	61,999	49,874

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

Other price risk represents the risk of an increase or decrease in the trading price of marketable securities listed on the TSX. If these movements were to occur, the impact on the consolidated statement of comprehensive income would be as follows:

	Other Price Risk (in \$000's)		
	Carrying amount	(+10%) Income	(-10%) Income
Marketable securities			
Available for sale (other comprehensive income)	56,793	5,679	(5,679)
Held for trading (net income)	5,206	521	(521)
Total marketable securities	61,999	6,200	(6,200)

21. SUBSEQUENT EVENT

On July 28, 2008, Royal Host finalized an agreement to sell the Grand Okanagan Lakefront Resort and Conference Centre in Kelowna, British Columbia for \$131 million, resulting in a gain of approximately \$78 million. All conditions to the agreement have been satisfied and the sale is scheduled to close on or before August 14, 2008. This property is included in continuing operations, as it did not satisfy the criteria required by the CICA Handbook Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations" for inclusion in discontinued operations as at June 30, 2008.

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22. COMPARATIVE FIGURES AND RESTATEMENT

Comparatives figures for operations of properties and businesses that were disposed of prior to June 30, 2008, or held for sale at June 30, 2008, have been reclassified from continuing operations to discontinued operations on the consolidated statements of net income and comprehensive income and the consolidated statements of cash flows.

Royal Host's financial statements for the three and six months ended June 30, 2007 as presented reflect the restatement of quarterly non-cash provisions for future income taxes. The effects of the restatement are as follows: for the three and six months ended June 30, 2007, future income taxes increased by \$1.5 million, net income and comprehensive income decreased by \$1.5 million, and the future income tax liability as at June 30, 2007 increased by \$1.5 million to \$8.3 million.