



FOR IMMEDIATE RELEASE

SYMBOL: "RYL.UN"

ROYAL HOST REIT ANNOUNCES THIRD QUARTER RESULTS AND SPECIAL DISTRIBUTION

Calgary, Alberta, November 11, 2008 - Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") today announced record results for the three and nine months ended September 30, 2008.

Royal Host generated record net income of \$76.4 million, or \$3.54 per unit, in the third quarter, largely attributable to the gain realized on the sale of the Grand Okanagan Lakefront Resort and Conference Centre as the Trust continued to be opportunistic in its pursuit of initiatives to increase Unitholder value.

During the quarter, Royal Host actively repurchased its trust units, bringing year-to-date repurchases to \$40.9 million and retired \$7.4 million of convertible debentures. In addition to being immediately accretive, Management believes that repurchases at a discount to the Trust's underlying net asset value are in the best interests of Unitholders. The Trust also continued to focus on the long-term value of its hotels through reinvestment of \$1.8 million during the quarter, totalling \$8.7 million to date in 2008.

Royal Host increased its portfolio of income-producing marketable securities by \$49.8 million in the third quarter. Subsequent to September 30, the Trust disclosed that it had accumulated approximately 13.3% of the trust units of the largest hospitality REIT in Canada. The resulting portfolio provides diversified cash flow, which represents a higher yield than that which was historically generated from hotel assets sold in 2008.

"The initiatives undertaken by the Trust throughout 2008 have reinforced a platform that ensures the Trust's ability to deliver Unitholder value, regardless of economic climate," commented Patrick Lambie, Executive Vice President. "The liquidity inherent on our balance sheet, along with a conservative payout ratio provides the capacity to meet all future obligations and continue to take advantage of opportunities," he added.

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

(\$000's, except as otherwise noted)	Three months ended September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
Hospitality Revenue	27,542	29,740	(7.4)	79,331	81,756	(3.0)
Hospitality Expenses	19,534	19,572	(0.2)	58,065	58,306	(0.4)
Hospitality Gross Margin	8,008	10,168	(21.2)	21,266	23,450	(9.3)
Hospitality Gross Margin %	29.1%	34.2%		26.8%	28.7%	
Investment Income	3,118	1,142	173.0	7,435	5,089	46.1
Royal Private Residence Club	(130)	-		(130)	-	
Other Expenses	9,750	8,434	15.6	24,415	26,874	(9.2)
Income From Continuing Operations	1,246	2,876	(56.7)	4,156	1,665	149.6
Income From Discontinued Operations	75,112	4,648	1,516.0	102,287	13,017	685.8
Net Income	76,358	7,524	914.9	106,443	14,682	625.0
Basic Per Unit Net Earnings (\$)						
From Continuing Operations	0.06	0.11	(45.5)	0.18	0.07	157.1
From Discontinued Operations	3.48	0.18	1,833.3	4.38	0.51	758.8
	3.54	0.29	1,120.7	4.56	0.58	686.2
Distributable Income	5,659	10,073	(43.8)	15,023	17,585	(14.6)
Distributions Declared on Trust Units	3,559	4,378	(18.7)	11,245	12,880	(12.7)
Basic Per Unit Distributable Income (\$)	0.26	0.39	(33.3)	0.64	0.69	(7.2)
Per Unit Distributions Declared (\$)	0.165	0.165	-	0.495	0.495	-

Results from hospitality operations in the third quarter reflect the reduced demand in certain markets as a result of economic uncertainty, as well as continued upward pressure on labour and other operating costs. Management has dedicated additional resources to mitigate the effect of these challenges on its core business.

After considering the strength of the Trust's financial performance to date in 2008, including gains realized from the sale of hotel properties in 2008, and after consideration of the sustainability of the Trust's regular monthly distributions, the Trustees of Royal Host intend to declare a special distribution for the 2008 fiscal year, with record and payment dates in December 2008. The amount of the special distribution will be guided by the estimate of taxable income for the 2008 fiscal year with potential adjustments. Current estimates of the undistributed taxable income for the 2008 fiscal year indicate a minimum special distribution of approximately \$28 million. The final amount of the special distribution will vary based on, among other considerations, actual earnings in the fourth quarter of 2008. It is anticipated that the special distribution will be declared, and the details of the distribution will be announced, in early December 2008.

Management of Royal Host will host an investor conference call on Wednesday, November 12, 2008 at 11:00 a.m. Eastern Time. The call may be accessed by dialing 1-416-640-3404 or 1-866-322-1159 and providing confirmation code 1184412. A recording of this call will be available shortly after the call until November 22, 2008. To access this recording please dial 1-647-436-0148 or 1-888-203-1112 and provide the playback password 1184412. Alternatively, a recording of the audio webcast will also be available on the Trust's website after November 15, 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 sizable 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 nine months ended September 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:

A. Brad Cann, CA, Executive Vice President and Chief Financial Officer
Royal Host Real Estate Investment Trust
(403) 259-9800 Telephone
(403) 259-8580 Fax
www.royalhost.com



2008

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MANAGEMENT'S
DISCUSSION AND ANALYSIS
& CONSOLIDATED
FINANCIAL STATEMENTS

Management's Discussion and Analysis

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

Highlights

In the third quarter of 2008, Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") undertook several strategic initiatives which positively impacted the Trust, more than offsetting the downturn experienced in certain Canadian hospitality markets and enhancing the Trust's diversification. Royal Host's third quarter accomplishments included:

- Selling the Grand Okanagan Lakefront Resort and Conference Centre for gross proceeds of \$131.0 million, realizing a gain on sale of \$78.6 million, bringing 2008 gains on sales of properties to \$101.8 million.
- Continuing to develop a portfolio of marketable securities focused on the hospitality and service sectors. At September 30, the Trust had \$96.3 million⁽¹⁾ of marketable securities and, during the quarter, the Trust generated \$3.1 million of investment income.
- Deploying \$8.7 million towards the repurchase of its trust units and convertible debentures.
- Generating a record \$76.4 million Net Income, or \$3.54 per unit, bringing Net Income to \$106.4 million, or \$4.56 per unit, thus far in 2008.
- Outperforming the S&P TSX REIT's overall return for the fourth consecutive quarter.
- Subsequent to September 30, the Trust disclosed that it had accumulated approximately 9.9 million trust units of InnVest Real Estate Investment Trust ("InnVest"), or 13.3% of InnVest's issued and outstanding trust units.

⁽¹⁾ Including \$18.1 million of Holloway Lodging REIT trust units and \$58.4 million of InnVest REIT trust units.

⁽²⁾ Distributable Income is a non-GAAP measure.

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 31 properties</p> <p>Generated \$8.0 million of hospitality gross margin in the third quarter of 2008</p> <p>Sold four properties in 2008 for gross proceeds of approximately \$184 million, realizing gains on sales of approximately \$103 million</p>	<p>\$96 million portfolio of marketable securities</p> <p>Generated \$3.1 million of investment income in the third quarter of 2008</p>	<p>100 franchised Travelodge and Thriftlodge hotels</p> <p>Management of owned and third-party hotels</p> <p>Generated \$0.7 million of franchise and management revenue in the third 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	10.1%	13	1,694	42.0%
Independent	1	256	6.9%	-	-	-	1	129	3.5%	2	385	10.3%
Country Inns & Suites®	-	-	-	4	276	7.4%	3	228	6.1%	7	504	13.5%
Holiday Inn®	2	254	6.8%	-	-	-	-	-	-	2	254	6.8%
Hilton®	1	323	8.7%	-	-	-	-	-	-	1	323	8.7%
Super 8®	2	159	4.3%	-	-	-	2	132	3.5%	4	291	7.8%
Best Western®	-	-	-	-	-	-	1	159	4.3%	1	159	4.3%
Ramada®	1	124	3.3%	-	-	-	-	-	-	1	124	3.3%
	16	2,432	65.1%	4	276	7.4%	11	1,026	32.8%	31	3,734	100.0%

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 \$132.1 million and \$158.7 million, respectively, as of September 30, 2008.

This Management's Discussion & Analysis ("MD&A") dated November 11, 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 nine months ended September 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 September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
Hospitality Revenue (Continuing Operations)	27,542	29,740	(7.4)	79,331	81,756	(3.0)
Hospitality Expenses	19,534	19,572	(0.2)	58,065	58,306	(0.4)
Hospitality Gross Margin ⁽¹⁾	8,008	10,168	(21.2)	21,266	23,450	(9.3)
Hospitality Gross Margin % ⁽¹⁾	29.1%	34.2%		26.8%	28.7%	
Investment Income	3,118	1,142	173.0	7,435	5,089	46.1
Royal Private Residence Club	(130)	-		(130)	-	
Other Expenses	9,750	8,434	15.6	24,415	26,874	(9.2)
Income From Continuing Operations	1,246	2,876	(56.7)	4,156	1,665	149.6
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Net Income	76,358	7,524	914.9	106,443	14,682	625.0
Basic Per Unit Net Earnings (\$)						
From Continuing Operations	0.06	0.11	(45.5)	0.18	0.07	157.1
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Distributable Income ⁽¹⁾	5,659	10,073	(43.8)	15,023	17,585	(14.6)
Distributions Declared on Trust Units	3,559	4,378	(18.7)	11,245	12,880	(12.7)
Basic Per Unit Distributable Income (\$) ⁽¹⁾	0.26	0.39	(33.3)	0.64	0.69	(7.2)
Per Unit Distributions Declared (\$)	0.165	0.165	-	0.495	0.495	-
Weighted Average Number of Trust Units Outstanding (000's)	21,579	25,971	(16.9)	23,355	25,596	(8.8)
Number of Trust Units Outstanding, as at September 30 (000's)	21,477	26,021	(17.5)	21,477	26,021	(17.5)
Closing Trust Unit Trading Price, as at September 30 (\$)	6.15	6.95	(11.5)	6.15	6.95	(11.5)

As at November 11, 2008, Royal Host had 20,857,527 trust units outstanding.

⁽¹⁾ Items represent non-GAAP financial measures.

⁽²⁾ Discontinued operations are comprised of the Grand Okanagan Lakefront Resort and Conference Centre, 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 31 hotels / 3,734 rooms*	Three months ended September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$65.36	\$69.20	(5.5)	\$60.61	\$61.82	(2.0)
Occupancy	65.6%	71.7%	(8.5)	61.5%	65.0%	(5.4)
ADR	\$99.70	\$96.53	3.3	\$98.63	\$95.18	3.6

*Excludes the Grand Okanagan Lakefront Resort and Conference Centre, 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, reducing 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 and maintaining and growing market share. Reduced consumer and business confidence due to economic weakness and uncertainty, high fuel costs, a high Canadian dollar and other factors continued to negatively impact travel, which translated into declining Occupancy. While the Trust

continued to benefit from solid corporate demand, it witnessed a notable decline in leisure travel in the summer months, particularly, in secondary markets. The Trust was also dramatically impacted by the weak performance of the London Hilton, now the Trust's largest property and the Yellowknife Inn. Although the London Hilton continued to maintain its market share, London and the surrounding area was one of the markets hardest hit by the downturn in manufacturing. The Trust has, nevertheless, renovated the property's meeting space and public areas in 2008, and renovated all of the property's guest rooms in the last five years, positioning the hotel well within its market. The Yellowknife Inn's weaker performance was attributable to a significant number of rooms being out of service during the property's renovation.

For the three months ended September 30, 2008, RevPAR decreased 5.5% to \$65.36 (2007 - \$69.20). ADR increased by \$3.17, or 3.3%, and Occupancy decreased by 8.5%. For the nine months ended September 30, 2008, RevPAR from continuing operations decreased 2.0% to \$60.61 (2007 - \$61.82). ADR increased by \$3.45, or 3.6%, and Occupancy decreased by 5.4%. The properties sold in 2008 have been excluded from both 2008 and 2007 figures.

ONTARIO 16 hotels / 2,432 rooms*	Three months ended September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$64.46	\$70.53	(8.6)	\$61.69	\$64.51	(4.4)
Occupancy	64.9%	72.1%	(10.0)	62.1%	65.7%	(5.5)
ADR	\$99.33	\$97.77	1.6	\$99.41	\$98.15	1.3

RevPAR for the three months ended September 30, 2008 decreased 8.6% to \$64.46 (2007 - \$70.53); ADR increased 1.6% to \$99.33 (2007 - \$97.77) and Occupancy decreased by 10.0% to 64.9% from 72.1% in 2007. The Trust's properties in resource-based Northern Ontario as a whole delivered ADR growth, while Occupancy was impacted by weaker leisure travel. The Trust's Southwestern Ontario properties, most notably the London Hilton, continued to experience the effects of weaker economic activity related to the downturn in manufacturing. Higher ADR at the Trust's Central Ontario properties was offset by lower Occupancy. The Holiday Inn Trenton and Ramada Belleville both maintained 2007 revenue levels.

RevPAR for the nine months ended September 30, 2008 decreased 4.4% to \$61.69 (2007 - \$64.51). ADR increased by \$1.26, or 1.3%, offset by a 5.5% decrease in Occupancy, based on a greater proportion of corporate travel.

WESTERN 11 hotels / 1,026 rooms*	Three months ended September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$62.71	\$61.80	1.5	\$56.27	\$54.17	3.9
Occupancy	63.4%	66.9%	(5.2)	58.1%	61.1%	(4.9)
ADR	\$98.99	\$92.36	7.2	\$96.90	\$88.71	9.2

RevPAR for the three months ended September 30, 2008 increased by 1.5% to \$62.71 (2007 - \$61.80); ADR increased by 7.2% to \$98.99 from \$92.36 in 2007 and Occupancy decreased by 5.2%, to 63.4% from 66.9% in 2007.

The Trust's Saskatchewan and Manitoba properties, most notably the Country Inn & Suites Saskatoon continued to produce excellent results. The largest impact on the region's Occupancy was the decrease in Occupancy at the Yellowknife Inn resulting from displacement of business during delays with its renovation caused by lack of availability of labour and transportation delays. Due to the property's proximity to government offices, it relies primarily on corporate travel. The Trust took advantage of the low Summer season to complete the renovation of the property to fully prepare it for relaunch. Weaker summer leisure travel was evidence during the Calgary Stampede, which impacted Occupancy at the Best Western Village Park Inn in Calgary. The Trust's Southern Alberta limited service hotels delivered stable results.

RevPAR for the nine months ended September 30, 2008 increased 3.9% to \$56.27 (2007 - \$54.17). ADR increased by \$8.19, or 9.2%, offset by a 4.9% decrease in Occupancy.

ATLANTIC 4 hotels / 276 rooms*	Three months ended September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$83.09	\$86.30	(3.7)	\$67.96	\$68.26	(0.4)
Occupancy	79.6%	86.2%	(7.7)	69.3%	73.3%	(5.5)
ADR	\$104.36	\$100.15	4.2	\$98.11	\$93.14	5.3

The Trust's Atlantic region has continued to generate healthy year-over-year growth in ADR. Overall Occupancy declined as leisure travel in the summer months did not match 2007 levels. The Country Inn & Suites Dartmouth continued to be impacted by new supply in the market.

Distributions TO UNITHOLDERS

During the three and nine months ended September 30, 2008, the Trust distributed \$0.165 per trust unit (2007 - \$0.165 per trust unit) and \$0.495 per trust unit (2007 - \$0.495 per trust unit), respectively. In aggregate, the Trust declared distributions to Unitholders of \$11.2 million (2007 - \$12.9 million) in the first nine months of 2008. 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.

From inception, the Trust has declared distributions of \$7.52 per unit, or \$178.9 million in total. 2008 distributions represent an annualized pre-tax yield of 10.2% based on Royal Host's weighted average market price of \$6.45 during the nine months ended September 30, 2008.

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.

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 September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
Cash Flows from Operating Activities	9,411	11,415	(17.6)	16,782	18,182	(7.7)
Changes in Non-Cash Working Capital	(2,732)	167		1,195	4,980	
Decrease in Property Under Development	-	-		-	(1,551)	
Cash Flows from Total Operations	6,679	11,582	(42.3)	17,977	21,611	(16.8)
Provision for Capital Replacement ⁽¹⁾	(1,020)	(1,509)	(32.4)	(2,954)	(4,026)	(26.6)
Distributable Income	5,659	10,073	(43.8)	15,023	17,585	(14.6)
Distributions Declared	3,559	4,378	(18.7)	11,245	12,880	(12.7)
Payout Ratio	62.9%	43.5%		74.9%	73.2%	
Basic Per Unit Distributable Income (\$)	0.26	0.39	(33.3)	0.64	0.69	(7.2)
Diluted Per Unit Distributable Income (\$)⁽²⁾	0.20	0.26	(23.1)	0.51	0.55	(7.3)
Per Unit Distributions Declared (\$)	0.165	0.165	-	0.495	0.495	-

⁽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 46,042,506 (2007 - 52,852,685) and 47,955,457 (2007 - 49,681,820) for the three and nine months ended September 30, 2008, respectively.

Distributable Income decreased comparatively for the three months ended September 30, 2008 to \$5.7 million, or \$0.26 per unit (2007 - \$10.1 million, or \$0.39 per unit), and for the nine months ended September 30, 2008 to \$15.0 million, or \$0.64 per unit (2007 - \$17.6 million, or \$0.69 per unit), due primarily to decreases in cash flow from total operations as described on page 10.

The table below presents the components of Cash Flows from Total Operations.

(\$000's, except as otherwise noted, unaudited)	Three months ended September 30			Nine months ended September 30		
	2008	2007	Change	2008	2007	Change
Hospitality Gross Margin – Continuing Operations	8,008	10,168	(2,160)	21,266	23,450	(2,184)
Hospitality Gross Margin – Discontinued Operations	1,558	5,914	(4,356)	6,516	12,399	(5,883)
	9,566	16,082	(6,516)	27,782	35,849	(8,067)
Distributions and Interest	2,924	1,386	1,538	7,291	3,178	4,113
Royal Private Residence Club	(130)	-	(130)	(130)	-	(130)
Other Expenses ⁽¹⁾ :						
Trust Administration	(733)	(385)	(348)	(1,592)	(1,146)	(446)
Interest on Mortgages and Capital Leases	(2,291)	(2,533)	242	(7,146)	(7,798)	652
Interest on Convertible Debentures	(2,646)	(2,864)	220	(8,274)	(8,185)	(89)
Other	(11)	(104)	93	(46)	(287)	241
Cash Flows from Total Operations	6,679	11,582	(4,901)	17,977	21,611	(3,634)

⁽¹⁾ Continuing operations and discontinued operations, excluding items not affecting cash.

The downturn experienced in certain markets contributed to the reduction in cash flows from total operations. Cash flows from operations was also impacted comparatively due to 2007 reflecting twelve months of hotel results, while 2008 included only the period of time prior to the sale of each hotel; cash flows from operations do not include proceeds or gains realized on the sales of properties. These declines were partially offset by distributions and interest, as the the Trust continued to redeploy capital into higher-yielding investments.

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 September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
Net Cash Provided by Operating Activities	9,411	11,415	(17.6)	16,782	18,182	(7.7)
Capital Expenditures	(1,816)	(2,472)	(26.5)	(8,668)	(7,398)	17.2
Standardized Distributable Cash	7,595	8,943	(15.1)	8,114	10,784	(24.8)
Distributions Declared	3,559	4,378	(18.7)	11,245	12,880	(12.7)
Repurchases of Trust Units Pursuant to Normal Course and Substantial Issuer Bids	1,346	7,229	(81.4)	40,908	15,516	163.7
	4,905	11,607	(57.7)	52,153	28,396	83.6

The table below reconciles Standardized Distributable Cash and Distributable Income.

(\$000's, except as otherwise noted, unaudited)	Three months ended September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
Standardized Distributable Cash	7,595	8,943	(15.1)	8,114	10,784	(24.8)
Capital Expenditures in Excess of Provision for Capital Replacement	796	963		5,714	3,372	
Increase (Decrease) in Non-Cash Working Capital and Property Under Development	(2,732)	167		1,195	3,429	
Distributable Income	5,659	10,073	(43.8)	15,023	17,585	(14.6)

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 September 30			Nine months ended September 30		
	2008	2007	Change (%)	2008	2007	Change (%)
Cash Flows from Total Operations	6,679	11,582	(42.3)	17,977	21,611	(16.8)
Unrealized Gains (Losses) on Marketable Securities	(152)	(722)		(348)	711	
Realized Gains on Marketable Securities	346	478		492	1,200	
Accretion on Mortgages and Capital Leases	(237)	(113)		(475)	(342)	
Accretion on Convertible Debentures	(315)	(615)		(931)	(1,413)	
(Premium) Discount on Repurchases of Convertible Debentures	36	(63)		36	(411)	
Funds From Operations	6,357	10,547	(39.7)	16,751	21,356	(21.6)
Provision for Capital Replacement	(1,020)	(1,509)	(32.4)	(2,954)	(4,026)	(26.6)
Adjusted Funds From Operations	5,337	9,038	(39.5)	13,797	17,330	(20.4)
Per Unit Funds From Operations (\$)						
Basic	0.29	0.41	(26.8)	0.72	0.83	(13.3)
Diluted ⁽¹⁾	0.21	0.27	(22.2)	0.55	0.63	(12.7)
Per Unit Adjusted Funds From Operations (\$)						
Basic	0.25	0.35	(28.6)	0.59	0.68	(13.2)
Diluted ⁽¹⁾	0.19	0.24	(20.8)	0.49	0.55	(10.9)

⁽¹⁾ Based on a weighted-average number of trust units of 46,042,506 (2007 - 52,852,685) and 47,955,457 (2007 - 49,681,820) for the three and nine months ended September 30, 2008, respectively.

For the three months ended September 30, 2008, the Trust generated Funds from Operations of \$6.4 million (2007 - \$10.5 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 \$0.5 million (2007 - \$0.7 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 nine months ended September 30, 2008, the Trust generated Funds From Operations of \$16.8 million (2007 - \$21.3 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 nine months ended September 30, 2008 was \$5.3 million (2007 - \$9.0 million) and \$13.8 million (2007 - \$17.3 million), respectively.

Performance OF TRUST UNITS

Royal Host's trust units' overall return of 1.9% in the first nine months of 2008 significantly outperformed the S&P TSX REIT Index's overall 15.6% loss. Likewise, the Trust's overall loss of 3.0% in the third quarter significantly outperformed the S&P TSX REIT Index's 7.4% loss. The REIT market, including hospitality REITs, experienced material corrections in the third quarter of 2008 as well as October 2008.

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 SEPTEMBER 30, 2008

The Trust's hospitality revenue for the three months ended September 30, 2008 decreased \$2.2 million and hospitality gross margin decreased \$2.2 million, or 21.2%. Investment income increased 173.0% to \$3.1 million (2007 - \$1.1 million). Income from continuing operations decreased to \$1.2 million (2007 - \$2.9 million), attributable mainly to a \$1.4 million increase in future income taxes.

(\$'000's, except as otherwise noted)	Three months ended September 30			
	2008	2007	Change	Change (%)
Hospitality Revenue	27,542	29,740	(2,198)	(7.4)
Hospitality Expenses	19,534	19,572	(38)	(0.2)
Hospitality Gross Margin	8,008	10,168	(2,160)	(21.2)
Investment Income	3,118	1,142	1,976	173.0
Royal Private Residence Club	(130)	-	(130)	
Gross Margin	10,996	11,310	(314)	(2.8)
Other Expenses	9,750	8,434	1,316	15.6
Income from Continuing Operations	1,246	2,876	(1,630)	(56.7)

Hospitality Revenue

Hospitality revenue from continuing operations for the three months ended September 30, 2008 decreased by \$2.2 million to \$27.5 million (2007 - \$29.7 million). \$1.4 million of the decline in hospitality revenue is attributable to the London Hilton and the Yellowknife Inn.

(\$'000's, except as otherwise noted)	Three months ended September 30			
	2008	2007	Change	Change (%)
Revenue (continuing operations)				
Rooms	22,134	23,622	(1,488)	(6.3)
Food and Beverage	3,366	3,946	(580)	(14.7)
Franchising and Management	683	823	(140)	(17.0)
Other	1,359	1,349	10	0.7
	27,542	29,740	(2,198)	(7.4)

Rooms revenue decreased by 6.3%, to \$22.1 million (2007 - \$23.6). Growth in ADR was offset by a decline in Occupancy, as described herein under "Room Statistics".

Food and beverage revenue decreased \$0.6 million, or 14.7%, to \$3.4 million (2007- \$4.0 million), due primarily to a steep decline in banquets, most notably at the London Hilton. Revenue was largely unchanged in the Trust's other food and beverage operations.

Franchising and management revenue decreased \$0.1 million to \$0.7 million, illustrating the relative stability of these businesses.

Other revenue was unchanged at \$1.4 million and includes revenue from telephone, retail sales, tenant lease and parking.

Hospitality Expenses

(\$'000's, except as otherwise noted)	Three months ended September 30			
	2008	2007	Change	Change (%)
Hospitality Expenses	19,534	19,572	(38)	(0.2)

Total hospitality expenses were relatively unchanged at \$19.5 million (2007 - \$19.6 million) despite lower occupancy, attributable primarily to increased labour and utility costs. As a result of the economic downturn in certain industries, including the airline industry, the Trust recognized a higher than anticipated allowance for doubtful accounts in the third quarter. 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 September 30			
	2008	2007	Change	Change (%)
Hospitality Gross Margin	8,008	10,168	(2,160)	(21.2)

Hospitality gross margin is calculated by deducting gross margin generated by the Royal Private Residence Club development from gross margin. Hospitality gross margin decreased by \$2.2 million, or 21.2%, to \$8.0 million in the three months ended September 30, 2008 (2007 - \$10.2 million). Hospitality gross margin as a percentage of hospitality revenue decreased to 29.1% (2007- 34.2%).

Rooms margins were unchanged from 2007, as increases in ADR allowed the Trust to absorb increased labour costs. Food and beverage margins declined as a result of fewer high margin banquets.

Investment Income

Interest and investment income, which represents distributions, interest and dividends on cash and cash equivalents and fixed maturity and equity investments more than doubled to \$2.9 million (2007 - \$1.4 million), as a result of a significantly larger investment portfolio and higher yielding investments. In the third quarter of 2008, the Trust recognized unrealized losses on marketable securities of \$0.2 million, compared to unrealized losses of \$0.7 million in the third 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 \$0.3 million of realized gains on marketable securities in the first three months of 2008 (2007 - \$0.5 million) as market conditions for a period of time offered a favourable opportunity to sell certain securities.

Royal Private Residence Club

During the three months ended September 30, 2008, the Trust recognized \$0.1 million of commissions in cost of sales (2007 - \$nil).

Other Expenses and Income

Interest and accretion on mortgages and capital leases for the three months ended September 30, 2008 increased by \$0.1 million to \$2.1 million (2007 - \$2.0 million) and included \$0.2 million of accretion (2007 - \$0.1 million).

Interest and accretion on convertible debentures for the three months ended September 30, 2008 decreased to \$2.9 million (2007 - \$3.5 million). Interest decreased \$0.2 million to \$2.6 million, impacted by the issuance of 5.9% convertible debentures in June 2007. Accretion on convertible debentures decreased to \$0.3 million in 2008 (2007 - \$0.6 million).

Trust administration expense increased to \$0.7 million (2007 - \$0.4 million), primarily as a result of increased trustee compensation.

Depreciation and amortization increased to \$3.2 million (2007 - \$3.0 million), based on capital additions to the Trust's continuing hotel portfolio.

The Trust recognized a future income tax expense of \$0.8 million during the three months ended September 30, 2008. Future income taxes are related to timing differences between tax and accounting values of 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 September 30, 2008 was \$1.2 million (2007 - \$2.9 million). Income from discontinued operations was \$75.1 million (2007 - \$4.6 million), as described further in "Discontinued Operations and Property Held For Sale".

Net income was \$76.4 million (2007 - \$7.5 million). The Trust's other comprehensive loss of \$15.7 million (2007 - \$0.4 million) is attributable to unrealized losses on marketable securities classified as available-for-sale, and include unrealized losses of \$14.3 million on the Trust's Holloway Lodging REIT and InnVest REIT trust units. The Trust has significant liquidity and possesses the flexibility to dispose of marketable securities when it is in the best interests of Unitholders.

Comprehensive income, the combination of net income and other comprehensive loss, was \$60.7 million (2007 - \$7.1 million) for the three months ended September 30, 2008.

Nine MONTHS ENDED SEPTEMBER 30, 2008

The Trust's hospitality revenue for the nine months ended September 30, 2008 decreased \$2.4 million. A \$2.2 million decrease in hospitality gross margin was offset by a \$2.3 million increase in investment income. Other expenses decreased by \$2.5 million, primarily due to a \$0.8 million decrease in interest and accretion on convertible debentures, and a \$1.9 million increase in the future income tax recovery. The Trust's income from continuing operations increased by \$2.5 million to \$4.2 million (2007 - \$1.7 million).

(\$'000's, except as otherwise noted)	Nine months ended September 30			
	2008	2007	Change	Change (%)
Hospitality Revenue	79,331	81,756	(2,425)	(3.0)
Hospitality Expenses	58,065	58,306	(241)	(0.4)
Hospitality Gross Margin	21,266	23,450	(2,184)	(9.3)
Investment Income	7,435	5,089	2,346	46.1
Royal Private Residence Club	(130)	-	(130)	
Gross Margin	28,571	28,539	32	0.1
Other Expenses	24,415	26,874	(2,459)	(9.2)
Income from Continuing Operations	4,156	1,665	2,491	149.6

Hospitality Revenue

Hospitality revenue from continuing operations for the nine months ended September 30, 2008 decreased by \$2.4 million to \$79.3 million (2007 - \$81.8 million).

(\$'000's, except as otherwise noted)	Nine months ended September 30			
	2008	2007	Change	Change (%)
Revenue (continuing operations)				
Rooms	61,829	63,019	(1,190)	(1.9)
Food and Beverage	12,022	12,762	(740)	(5.8)
Franchising and Management	1,506	2,160	(654)	(30.3)
Other	3,974	3,815	159	4.2
	79,331	81,756	(2,425)	(3.0)

Rooms revenue decreased by 1.9% to \$61.8 million (2007 - \$63.0 million). A 3.6% increase in ADR was offset by a 5.4% decline in Occupancy, attributable in part to the Yellowknife Inn's lower Occupancy due to its renovations in 2008.

Food and beverage revenue in the first half of 2008 was relatively consistent with 2007. A \$0.6 million decrease in food and beverage revenue in the third quarter of 2008, due to lower banquet revenue, contributed to a \$0.7 million decrease for the nine months ended September 30, 2008.

Franchising and management revenue decreased \$0.7 million due in part to the receipt of \$0.3 million of franchise termination fees in the first quarter of 2007.

Other revenue increased by \$0.2 million, or 4.2%, to \$4.0 million (2007 - \$3.8 million), and includes revenue from tenant lease, retail sales, parking and telephone.

Hospitality Expenses

(\$000's, except as otherwise noted)	Nine months ended September 30			
	2008	2007	Change	Change (%)
Hospitality Expenses	58,065	58,306	(241)	0.4

Total hospitality expenses decreased modestly to \$58.1 million. Hospitality expenses were impacted by continued wage and utility pressures, and an allowance for doubtful accounts.

Hospitality Gross Margin

(\$000's, except as otherwise noted)	Nine months ended September 30			
	2008	2007	Change	Change (%)
Hospitality Gross Margin	21,266	23,450	(2,184)	(9.3)

Hospitality gross margin is calculated by deducting gross margin generated by investment and the Royal Private Residence Club development from gross margin. Hospitality gross margin for the nine months ended September 30, 2008 was impacted by lower high margin banquet revenue and wage and utility pressures, decreasing to \$21.3 million (2007 - \$23.5 million). Hospitality gross margin represented 26.8% of hospitality revenue (2007- 28.7%).

Investment Income

Interest and other investment income increased to \$7.4 million (2007 - \$5.1 million), as a result of higher returns from the Trust's investment portfolio. The Trust experienced unrealized losses on marketable securities of \$0.3 million (2007 – unrealized gain of \$0.7 million) due to market conditions at September 30, 2008, illustrating the variability of public markets.

Royal Private Residence Club

During the nine months ended September 30, 2008, the Trust recognized \$0.1 million of commissions in cost of sales (2007 - \$nil).

Other Expenses and Income

Interest and accretion on mortgages and capital leases for the nine months ended September 30, 2008 decreased by \$0.3 million to \$5.8 million and included \$0.5 million of accretion (2007 - \$0.3 million).

Interest and accretion on convertible debentures for the nine months ended September 30, 2008 decreased by \$0.8 million to \$9.2 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 was virtually unchanged at \$8.3 million. Accretion on convertible debentures decreased to \$0.9 million in 2008 (2007 - \$1.4 million). Premium on repurchases of convertible debentures was \$nil (2007 - \$0.4 million premium).

The trust administration expense increased to \$1.6 million (2007 - \$1.1 million), as a result of increased trustee compensation in 2008 and reorganization costs.

Depreciation and amortization increased to \$9.4 million (2007 - \$9.0 million) based on capital additions to the Trust's continuing hotel operations.

The Trust recognized a \$2.3 million future income tax recovery during the first half of 2008, due largely to the reorganization completed by the Trust effective January 1, 2008. The Trust recognized a \$0.8 million future income tax expense during the third quarter of 2008, resulting in a \$1.5 million future income tax recovery for the nine months ended September 30, 2008.

Net Income, Other Comprehensive Loss and Comprehensive Income

The Trust's income from continuing operations for the nine months ended September 30, 2008 was \$4.2 million (2007 - \$1.7 million). Income from discontinued operations was \$102.3 million (2007 - \$13.0 million), as described further in "Discontinued Operations and Property Held For Sale".

Net income was \$106.4 million (2007 - \$14.7 million). The Trust's other comprehensive loss of \$16.9 million (2007 - \$0.5 million) is attributable to unrealized losses on marketable securities classified as available-for-sale and include unrealized losses of \$15.5 million on the Trust's Holloway Lodging REIT and InnVest REIT trust units, due to the weak financial markets at September 30, 2008. Management's estimates of fair market value significantly exceed the current prices of these securities.

Comprehensive income, the combination of net income and other comprehensive loss, was \$89.5 million (2007 - \$14.2 million) for the nine months ended September 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, the Holiday Inn Edmonton – The Palace and the Grand Okanagan Lakefront Resort and Conference Centre 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 September 30, 2008 or that are held for sale as at September 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:

- Grand Okanagan Lakefront Resort and Conference Centre (Kelowna, British Columbia): Sold on August 15, 2008 for gross proceeds of \$131.0 million, including \$12.4 million in respect of a casino expansion, which the Trust committed to complete. The Trust generated a gain on sale of approximately \$78.6 million during the third quarter of 2008. Liability of discontinued operations include \$8.6 million, representing the portion of the \$12.4 million of proceeds not yet spent on the aforementioned casino expansion.
- Holiday Inn Edmonton - The Palace (Edmonton, Alberta): Sold on June 9, 2008 for gross proceeds of \$25.0 million, generating a gain on sale of approximately \$13.1 million during the third 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. Insurance proceeds total approximately \$4.5 million, generating a gain on insurance recovery of approximately \$1.3 million. Receipt of final insurance proceeds is anticipated in the fourth 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.

INCOME FROM DISCONTINUED OPERATIONS

(\$000's, except as otherwise noted)	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Hospitality revenue	3,732	12,664	19,060	30,877
Hospitality expenses	2,174	6,750	12,544	18,478
Gross margin	1,558	5,914	6,516	12,399
Other expenses	3,706	1,266	7,579	3,597
	(2,148)	4,648	(1,063)	8,802
Gain from insurance recovery	(7)	-	1,315	-
Gains on dispositions	77,267	-	102,035	4,215
Income from discontinued operations	75,112	4,648	102,287	13,017

Hospitality revenue from discontinued operations for the three and nine months ended September 30, 2008 was \$3.7 million (2007 - \$12.7 million) and \$19.1 million (2007 - \$30.9 million), respectively. Hospitality revenue was impacted by the aforementioned sales and closure, most notably the sale of the Grand Okanagan Lakefront Resort and Conference Centre on August 15, 2008. Hospitality expenses included certain costs associated with decommissioning and securing the Sundial Inn and the closure of the Thriftlodge Fort Nelson.

Income from discontinued operations for the nine months ended September 30, 2008 increased to \$102.3 million (2007 - \$13.0 million) due primarily to the sales of the Grand Okanagan Lakefront Resort and Conference Centre, the Holiday Inn Edmonton – The Palace and the Travelodge Hotel Burlington on the Lake, which generated gains on sale of \$78.6 million, \$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. During the third quarter of 2008, the Trust recognized a \$1.4 million allowance for a doubtful receivable in discontinued operations.

The Trust recognized future income taxes of \$2.9 million and \$4.1 million during the three and nine months ended September 30, 2008, as timing differences on the properties' capital assets reversed during the period in which each property was sold. The difference between tax and accounting values of capital assets increased significantly as a result of the sale of the Grand Okanagan Lakefront Resort and Conference Centre.

Taxation

The aggregate proceeds from the sales of assets in 2008 exceeded the corresponding cost basis for tax purposes. As such, Royal Host generated capital gains for tax purposes. To the extent that the total business income and non-business income (such as taxable capital gains) for tax purposes, exceeds distributions to Unitholders for the year, such income would be taxable. Pursuant to the Trust's Declaration of Trust, it is contractually obligated to distribute all taxable income it earns to Unitholders.

Liquidity AND CAPITAL RESOURCES

As at September 30, 2008, the Trust had significant liquidity and a strong capital base, with cash and cash equivalents of \$54.5 million (December 31, 2007 - \$46.8 million) and marketable securities of \$96.3 million (December 31, 2007 - \$49.9 million). Asset sales during 2008 contributed \$168.7 million to the Trust's cash position, including \$85.0 million from the sale of the Grand Okanagan Lakefront Resort and Conference Centre (net of the Trust's commitment to complete the current casino expansion and the purchaser's assumption of a \$35.0 million mortgage). Insurance proceeds for the Thriftlodge Fort Nelson fire contributed \$3.6 million to the Trust's cash position.

During the nine months ended September 30, 2008, the Trust repurchased 0.9 million trust units with an aggregate cost of \$5.7 million pursuant to its Normal Course Issuer Bid and 5.4 million trust units with an aggregate cost of \$35.2 million pursuant to its Substantial Issuer Bid.

During the nine months ended September 30, 2008, the Trust repurchased \$7.5 million in principal balance of its convertible debentures, as described further in "Normal Course Issuer Bids".

Marketable Securities

The Trust's portfolio of marketable securities is comprised of publicly-traded trust units, convertible debentures, preferred shares and common shares.

As a result of the higher levels of invested capital in 2008, the Trust realized interest and investment income of \$7.3 million during the nine months ended September 30, 2008 (2007 – \$3.2 million).

During the three months ended September 30, 2008, Royal Host invested \$63.2 million (net of dispositions) in publicly-traded securities with a focus on the hospitality and service sectors. As at September 30, 2008, the Trust held \$96.3 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 returns over the long term to those otherwise available within the Trust's risk tolerance.

As at September 30, 2008, Royal Host held approximately 7.2 million trust units, or 18.5% of the issued and outstanding trust units of Holloway Lodging REIT, a hotel real estate investment trust. Royal Host's Holloway trust units had a carrying value of approximately \$18.1 million and presently yield \$0.045 per month per unit, or \$0.3 million monthly.

As at September 30, 2008, Royal Host held approximately 6.7 million trust units of InnVest REIT, a hotel real estate investment trust. Royal Host's InnVest trust units had a carrying value of approximately \$58.4 million.

On October 1, 2008, Royal Host disclosed that it held approximately 9.9 million, or 13.3%, of the issued and outstanding trust units of InnVest. Royal Host's InnVest trust units presently yield \$0.09375 per month per unit, or \$0.9 million monthly.

These investments offer attractive yields and the additional diversification associated with a larger number of properties.

Notwithstanding the recent decreases in market prices, these securities generate superior yields for the Trust and each of these REITs possesses quality hotel portfolios. Each of these trusts' units trade at significant discounts to commonly-held estimates of net asset value, affording Royal Host the opportunity for future capital appreciation. Royal Host has sufficient capital to fund its cash requirements and is under no compulsion to dispose of securities.

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

The Trust did not employ the use of direct leverage on its marketable securities in the quarter.

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.

As at September 30, 2008, the Trust also had \$19.0 of restricted cash equivalents at September 30, 2008 (December 31, 2007 - \$nil) securing a letter of credit in connection with the expansion of the casino at the Grand Okanagan Lakefront Resort and Conference Centre. The Trust also had restricted

cash of \$4.3 million (December 31, 2007 - \$4.0 million) in the form 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 September 30, 2008, Royal Host's debt (excluding convertible debentures) to gross book value was 15.9% (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 September 30, 2008 Royal Host's debt (including convertible debentures) to gross book value was 48.0% (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. Royal Host also has leverage capacity related to numerous unsecured properties.

Contractual Obligations

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

MORTGAGES AND CAPITAL LEASES

As at September 30, 2008, the carrying value of the Trust's mortgages was \$84.3 million (December 31, 2007 - \$122.6 million). The carrying value reflects total outstanding principal of \$85.1 million (December 31, 2007 - \$123.8 million) less \$0.7 million of debt issuance costs (December 31, 2007 - \$1.2 million). The \$38.3 million decrease in carrying value during the nine months is attributable to the accretion of debt issuance costs of \$0.5 million; the repayment of a \$35.0 million mortgage on the Grand Okanagan Lakefront Resort and Conference Centre and a \$1.3 million mortgage on the Thriftlodge Fort Nelson; and \$2.4 million of scheduled mortgage principal repayments made during the nine months ended September 30, 2008.

For the twelve months ending September 30

(\$000's)	Total	2009	2010	2011	2012	2013	Thereafter
Mortgages	85,112	3,425	24,519	24,754	12,902	5,734	13,778
Capital Leases	300	84	81	81	54	-	-

CONVERTIBLE DEBENTURES

(\$000's)	Maturity Date	September 30, 2008		December 31, 2007		Conversion Price
		Carrying Value	Outstanding Balance	Carrying Value	Outstanding Balance	
Current:						
7.9% Convertible Debenture, Series A	April 2009	7,628	7,688	-	-	\$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	46,502	49,218	52,317	55,627	\$6.85
6.25% Convertible Debenture, Series C	September 2013	53,586	56,771	55,585	59,313	\$7.00
5.90% Convertible Debenture, Series D	June 2014	57,623	60,000	57,380	60,000	\$8.90
		157,711	165,989	173,307	183,190	

Royal Host's convertible debentures have a total outstanding balance at September 30, 2008 of \$166.0 million (December 31, 2007 - \$183.2 million). The carrying value of the convertible debentures as at September 30, 2008 is \$157.7 million, reflecting \$5.7 million of debt issuance costs and \$2.6 million of conversion options.

During the nine months ended September 30, 2008, \$1.8 million of the Trust's convertible debentures were converted into 0.3 million trust units, and Royal Host repurchased \$7.6 million of convertible debentures.

MATURITY DATES AND INTEREST RATES

	Weighted Average Maturity (Years)		Weighted Average Interest Rate (%)	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
Mortgages	2.3	2.8	8.46%	8.18%
Convertible Debentures	5.7	6.4	6.13%	6.13%
Mortgages and Convertible Debentures	4.6	5.0	6.90%	6.95%

Distributions

Distributions for the nine months ended September 30, 2008 decreased to \$11.2 million from \$12.9 million in 2007. Although the Trust distributed \$0.495 per unit during 2008, unchanged from 2007, the Trust's March through September distributions were significantly lower in 2008 than in 2007 resulting from the repurchases of trust units during 2008 under the Trust's Substantial Issuer Bid and Normal Course Issuer Bid.

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 three and nine months ended September 30, 2008, the Trust's capital additions totaled \$1.5 million (2007 - \$2.8 million) and \$8.0 million (2007 - \$6.9 million), respectively. Notable capital expenditures included the renovation of the main ballroom and meeting space, as well as public areas, at the London Hilton; the complete renovation of the Yellowknife Inn; exterior improvements at the Holiday Inn Trenton; guest room renovations at London Hilton, Travelodge Ottawa West and Travelodge Thunder Bay and the Grand Okanagan Lakefront Resort and Conference Centre; lobby renovations at the Ramada Belleville. During the third quarter, the Trust also commenced exterior improvements and guest room renovations at the Super 8 Regina. During the nine months ended September 30, 2008, capital expenditures utilized cash of \$8.7 million (2007 - \$7.4 million). The Trust also expended \$3.8 million on the casino expansion at the Grand Okanagan Lakefront Resort and Conference Centre, which is scheduled to be completed in early 2009.

Unitholders' Equity

During the nine months ended September 30, 2008, equity increased by \$38.8 million to \$138.5 million. The increase is a result of comprehensive income of \$89.5 million, \$11.2 million of declared distributions, \$1.7 million of trust units issued pursuant to the debenture conversion option, \$5.7 million related to the repurchase of 0.9 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 September 30, 2008, 21,477,126 trust units were issued and outstanding.

TRUST UNITS	
Number of trust units, December 31, 2007	27,487,825
Issuance of trust units pursuant to debenture conversion option	283,138
Trust units cancelled pursuant to normal course issuer bid	(907,840)
Trust units cancelled pursuant to substantial issuer bid	<u>(5,385,997)</u>
Number of trust units, September 30, 2008	<u><u>21,477,126</u></u>

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.

Recent decreases in the price of the Trust's units have offered the Trust the opportunity to repurchase its trust units at prices significantly below their underlying value.

Normal Course Issuer Bids – 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 third quarter of 2008, Royal Host repurchased 0.2 million trust units with an aggregate cost of \$1.3 million (average cost of \$6.55 per unit). During the nine months ended September 30, 2008, the Trust repurchased 0.9 million trust units with an aggregate cost of \$5.7 million (average cost of \$6.31 per unit). Cumulatively to September 30, 2008, Royal Host has repurchased 5.9 million trust units with an aggregate cost of \$38.4 million. Subsequent to September 30, 2008, Royal Host repurchased 0.6 million trusts units with an aggregate cost of \$3.5 million (average cost of \$5.63 per unit).

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 nine months ended September 30, 2007, the Trust repurchased 2.0 million trust units with an aggregate cost of \$14.4 million (average cost of \$7.21 per unit).

Normal Course Issuer Bids – 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 nine months ended September 30, 2008, Royal Host repurchased \$40,000 in principal balance with an aggregate cost of \$50,000 (average cost of \$110.00) of debentures. Subsequent to September 30, 2008, Royal Host repurchased \$0.4 million in principal balance with an aggregate cost of \$0.4 (average cost of \$100.00) of debentures.

Commencing on November 23, 2006, Royal Host initiated an NCIB to repurchase up to \$3.5 million principal amount of its issued and outstanding 7.90% convertible debentures. During the third quarter of 2007, Royal Host repurchased \$1.4 million in principal balance with an aggregate cost of

\$1.7 million (average cost of \$117.72) of debentures. During the nine months ended September 30, 2007, Royal Host repurchased \$2.4 million in principal balance with an aggregate cost of \$2.9 million (average cost of \$119.11) of debentures.

Normal Course Issuer Bids – 6.00% Convertible Debentures

Commencing on September 10, 2008, Royal Host initiated an NCIB to repurchase up to \$5.5 million principal amount of its issued and outstanding 6.00% convertible debentures. This bid terminates on September 9, 2009 or such earlier time as the Bid is completed or terminated at the option of Royal Host. During the three and nine months ended September 30, 2008, Royal Host repurchased \$5.5 million in principal balance with an aggregate cost of \$5.3 million (average cost of \$97.13) of debentures.

Commencing on March 30, 2007, Royal Host initiated an NCIB to repurchase up to \$5.9 million principal amount of its issued and outstanding 6.00% convertible debentures. During the three months ended September 30, 2007, Royal Host repurchased \$0.4 million in principal balance with an aggregate cost of \$0.4 million (average cost of \$105.56) of debentures. During the nine months ended September 30, 2007, Royal Host repurchased \$1.6 million in principal balance with an aggregate cost of \$1.7 million (average cost of \$107.53) of debentures. This bid expired at the end of the first quarter of 2008. During the first quarter of 2008, Royal Host did not repurchase any debentures.

Normal Course Issuer Bids – 6.25% Convertible Debentures

Commencing on September 10, 2008, Royal Host initiated an NCIB to repurchase up to \$5.9 million principal amount of its issued and outstanding 6.25% convertible debentures. This bid terminates on September 9, 2009 or such earlier time as the Bid is completed or terminated at the option of Royal Host. During the three and nine months ended September 30, 2008, Royal Host repurchased \$2.1 million in principal balance with an aggregate cost of \$2.0 million (average cost of \$95.00) of debentures.

Commencing on March 30, 2007, Royal Host initiated an NCIB to repurchase up to \$6.0 million principal amount of its issued and outstanding 6.25% convertible debentures. During the three months ended September 30, 2007, Royal Host repurchased \$0.1 million in principal balance with an aggregate cost of \$0.1 million (average cost of \$102.25) of debentures. During the nine months ended September 30, 2007, Royal Host repurchased \$0.6 million in principal balance with an aggregate cost of \$0.6 million (average cost of \$105.86) of debentures. This bid expired at the end of the first quarter of 2008. During the first quarter of 2008, Royal Host did not repurchase any debentures.

Normal Course Issuer Bid – 5.90% Convertible Debentures

Commencing on September 10, 2008, Royal Host initiated an NCIB to repurchase up to \$6.0 million principal amount of its issued and outstanding 5.90% convertible debentures. This bid terminates on September 9, 2009 or such earlier time as the Bid is completed or terminated at the option of Royal Host. During the three and nine months ended September 30, 2008, Royal Host did not repurchase any debentures.

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 provided 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

Subsequent to September 30, 2008, the Trust disclosed it held approximately 9.9 million, or 13.3%, of the issues and outstanding trust units of InnVest.

Restatement

Royal Host's financial statements for the three and nine months ended September 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 months ended September 30, 2007, future income taxes decreased by \$0.5 million, and net income and comprehensive income increased by \$0.5 million, respectively; and for the nine months ended September 30, 2008, future income taxes increased by \$0.5 million, and net income and comprehensive income decreased by \$0.5 million; and the future income tax liability as at September 30, 2007 increased by \$0.5 million to \$7.7 million.

Summary OF QUARTERLY FINANCIAL RESULTS

(\$000's, except as otherwise noted)	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3 (restated)	Q2 (restated)	Q1	Q4
Revenue	27,542	27,683	24,151	26,578	29,740	27,659*	24,357*	25,976*
Income (Loss)								
From Continuing Operations	1,246	2,940	(30)	(873)	2,876	1,792	(2,417)	(256)
From Discontinued Operations	75,112	15,087	12,088	564	4,648	3,017	4,766	12
	76,358	18,027	12,058	(309)	7,524	4,809	2,349	(244)
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	0.06	0.14	0.00	(0.03)	0.11	0.07	(0.10)	(0.01)
Diluted	0.06	0.13	0.00	(0.03)	0.11	0.07	(0.10)	(0.01)
Income (Loss) from Total Operations								
Basic	3.54	0.84	0.44	(0.01)	0.29	0.19	0.10	(0.01)
Diluted	3.54	0.84	0.44	(0.01)	0.29	0.19	0.10	(0.01)

* Includes Royal Private Residence Club.

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

Related PARTY TRANSACTIONS

At September 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. Royal Host owns approximately \$3.3 million of Clarke's 6.0% convertible debentures, which are included in the Trust's marketable securities.

During the three and nine months ended September 30, 2008, the Trust incurred professional and management fees of \$0.04 million and \$0.08 million, respectively, for services supplied by Clarke Inc.

During the three months ended September 30, 2008, the Trust also entered into an agreement with Clarke Inc. to provide professional and management services to the Trust. The annual advisory fee for these services is \$200,000 per annum.

During the three months ended September 30, 2008, the Trust entered into an agreement with a company controlled by a trustee of the REIT to provide consultancy and other executive services, and recorded consulting fees of \$0.2 million. Included in accounts payable and accrued liabilities as of September 30, 2008 is \$0.2 million (December 30, 2007 - \$nil).

Business ENVIRONMENT AND OUTLOOK

The Canadian economy has been profoundly impacted by the severe turmoil in financial markets due to the global financial crisis, a U.S. recession, the weakening global economy and plunging commodity prices. Notwithstanding global monetary stimulus, the evolution of the global financial crisis and its impact on the Canadian and global economies is unclear.

Given that the demand for hotel accommodations is significantly impacted by macroeconomic conditions and consumer and business confidence, the outlook for the Canadian hotel sector is uncertain due to continuing Canadian and International economic uncertainty.

Royal Host owns and operates a portfolio of hotels with the added diversity of successful hotel management and franchise businesses. The Trust's substantial investment portfolio further enhances its diversification. With exceptional diversity, significant liquidity, strong capital base, and a conservative approach to distributions, the Trust is well positioned to continue to take advantage of opportunities within the hospitality sector.

The Trust will continue to employ strategies to create and 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 September 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 September 30, 2008. Based on that evaluation, both concluded that the design and operation of these disclosure controls and procedures were effective as at September 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 September 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 nine months ended September 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 September 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 September 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 NINE MONTHS
ENDED SEPTEMBER 30, 2008**

ROYAL HOST[®]
HOTELS & RESORTS^{REIT}

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

(unaudited)

	As at	
	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	54,506	46,823
Marketable securities	96,327	49,874
Restricted cash equivalents	19,000	-
Accounts, notes and distributions receivable	7,435	8,464
Prepaid expenses	3,112	3,225
Assets of discontinued operations (Note 5)	1,721	46
Inventories (Note 6)	2,186	3,327
Future income taxes (Note 14)	-	1,316
	<u>184,287</u>	<u>113,075</u>
Capital assets (Note 7)	231,796	303,359
Property held for sale (Note 5)	2,025	2,025
Restricted cash	4,272	3,954
	<u>422,380</u>	<u>422,413</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	12,084	14,314
Equity distributions payable	1,182	1,512
Interest accrued on convertible debentures	2,369	1,592
Mortgages (Note 8)	2,980	3,325
Convertible debentures (Note 9)	7,628	-
Obligations under capital leases (Note 10)	67	119
Other liabilities	390	1,872
Liabilities of discontinued operations (Note 5)	9,315	43
	<u>36,015</u>	<u>22,777</u>
Mortgages (Note 8)	81,417	119,298
Convertible debentures (Note 9)	157,711	173,307
Obligations under capital leases (Note 10)	194	242
Deferred revenue	343	168
Future income taxes (Note 14)	8,164	6,907
	<u>283,844</u>	<u>322,699</u>
Unitholders' equity (Note 11)	138,536	99,714
	<u>422,380</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		Nine Months Ended	
	September 30, 2008	September 30, 2007 (restated - Note 22)	September 30, 2008	September 30, 2007 (restated - Note 22)
Hospitality revenue				
Rooms	22,134	23,622	61,829	63,019
Food and beverage	3,366	3,946	12,022	12,762
Franchising and management	683	823	1,506	2,160
Other	1,359	1,349	3,974	3,815
	<u>27,542</u>	<u>29,740</u>	<u>79,331</u>	<u>81,756</u>
Hospitality expenses	<u>19,534</u>	<u>19,572</u>	<u>58,065</u>	<u>58,306</u>
	<u>8,008</u>	<u>10,168</u>	<u>21,266</u>	<u>23,450</u>
Investment income				
Distributions and interest	2,924	1,386	7,291	3,178
Unrealized gains (losses) on marketable securities	(152)	(722)	(348)	711
Realized gains on marketable securities	346	478	492	1,200
	<u>3,118</u>	<u>1,142</u>	<u>7,435</u>	<u>5,089</u>
Royal Private Residence Club (Note 4)				
Revenue	-	-	-	1,675
Cost of sales	130	-	130	1,675
	<u>(130)</u>	<u>-</u>	<u>(130)</u>	<u>-</u>
	<u>10,996</u>	<u>11,310</u>	<u>28,571</u>	<u>28,539</u>
Other expenses				
Trust administration	733	385	1,592	1,146
Interest and accretion on mortgages and capital leases	2,079	2,001	5,772	6,101
Interest and accretion on convertible debentures	2,925	3,544	9,169	10,009
Depreciation and amortization	3,166	3,008	9,434	9,018
Future income taxes expense (recovery) (Note 14)	836	(608)	(1,506)	397
Capital and other taxes	-	30	-	94
Loss (gain) on foreign currency translation	11	74	(46)	109
	<u>9,750</u>	<u>8,434</u>	<u>24,415</u>	<u>26,874</u>
Income from continuing operations	<u>1,246</u>	<u>2,876</u>	<u>4,156</u>	<u>1,665</u>
Income from discontinued operations (Note 5)	<u>75,112</u>	<u>4,648</u>	<u>102,287</u>	<u>13,017</u>
Net income	<u>76,358</u>	<u>7,524</u>	<u>106,443</u>	<u>14,682</u>
Other comprehensive loss (Note 15)	<u>(15,653)</u>	<u>(409)</u>	<u>(16,940)</u>	<u>(471)</u>
Comprehensive income	<u>60,705</u>	<u>7,115</u>	<u>89,503</u>	<u>14,211</u>
Basic per unit net earnings (Note 12)				
- from continuing operations	0.06	0.11	0.18	0.07
- from discontinued operations	3.48	0.18	4.38	0.51
	<u>3.54</u>	<u>0.29</u>	<u>4.56</u>	<u>0.58</u>
Diluted per unit net earnings (Note 12)				
- from continuing operations	0.06	0.11	0.18	0.07
- from discontinued operations	3.48	0.18	4.38	0.51
	<u>3.54</u>	<u>0.29</u>	<u>4.56</u>	<u>0.58</u>

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)	-	-	-	14,682	(471)	-	14,211
Equity distributions							
Trust units	-	-	-	-	-	(12,880)	(12,880)
Issuance of trust units pursuant to distribution reinvestment plan	9	-	-	-	-	-	9
Issuance of trust units pursuant to debenture conversion option	23,061	(80)	-	-	-	-	22,981
Trust units cancelled pursuant to normal course issuer bid (Note 11)	(16,603)	-	2,132	-	-	-	(14,471)
Employee loans pursuant to employee unit purchase program	152	-	-	-	-	-	152
Convertible debentures cancelled pursuant to normal course issuer bid (Note 11)	-	(63)	-	-	-	-	(63)
Conversion option related to issuance of convertible debentures (Note 9)	-	300	-	-	-	-	300
Balance, September 30, 2007	208,394	3,637	9,629	39,469	(471)	(163,108)	97,550
Comprehensive income (loss)	-	-	-	(306)	(1,739)	-	(2,045)
Equity distributions							
Trust units	-	-	-	-	-	(4,534)	(4,534)
Issuance of trust units pursuant to debenture conversion option	8,711	-	-	-	-	-	8,711
Trust units cancelled pursuant to normal course issuer bid (Note 11)	2	-	(1)	-	-	-	1
Employee loans pursuant to employee unit purchase program	31	-	-	-	-	-	31
Balance, December 31, 2007	217,138	3,637	9,628	39,163	(2,210)	(167,642)	99,714
Comprehensive income (loss) (Note 15)	-	-	-	106,443	(16,940)	-	89,503
Equity distributions							
Trust units	-	-	-	-	-	(11,245)	(11,245)
Issuance of trust units pursuant to debenture conversion option (Note 9)	1,687	(3)	-	-	-	-	1,684
Convertible debentures repurchased pursuant to normal course issuer bid (Note 11)	-	(217)	-	-	-	-	(217)
Trust units repurchased pursuant to normal course issuer bid (Note 11)	(7,098)	-	1,432	-	-	-	(5,666)
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, September 30, 2008	169,160	3,417	18,390	145,606	(19,150)	(178,887)	138,536

Accumulated income, accumulated other comprehensive loss and distributions at September 30, 2008 were (\$52,431) (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		Nine Months Ended	
	September 30, 2008	September 30, 2007 (restated - Note 22)	September 30, 2008	September 30, 2007 (restated - Note 22)
Operating activities				
Income from continuing operations	1,246	2,876	4,156	1,665
Items not affecting cash:				
Depreciation and amortization	3,166	3,008	9,434	9,018
Future income taxes recovery	836	(608)	(1,506)	397
Unrealized (gains) losses on marketable securities	152	722	348	(711)
Realized gains on marketable securities	(346)	(478)	(492)	(1,200)
Premium (discount) on repurchases of convertible debentures	(36)	63	(36)	411
Accretion on mortgages and convertible debentures	552	728	1,406	1,755
Cash flows provided by continuing operations	5,570	6,311	13,310	11,335
Cash flows provided by (used in) discontinued operations (Note 5)	1,109	5,271	4,667	10,276
Changes in non-cash working capital - continuing operations (Note 13)	4,351	191	(219)	(5,271)
Changes in non-cash working capital - discontinued operations (Note 5)	(1,619)	(358)	(976)	291
Decrease in property under development	-	-	-	1,551
	9,411	11,415	16,782	18,182
Financing activities				
Issuance of convertible debentures	-	-	-	60,000
Debt issuance costs	-	(114)	-	(2,476)
Redemption upon maturity of convertible debentures	-	-	-	(32,469)
Repurchases of convertible debentures pursuant to normal course issuer bids	(7,398)	(2,208)	(7,398)	(5,272)
Principal repayments on mortgages and capital leases	(35,935)	(986)	(38,894)	(2,739)
Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bid	(1,346)	(7,229)	(40,908)	(15,516)
Equity distributions	(3,558)	(4,303)	(11,575)	(12,592)
Proceeds from repayment of employee unit purchase program loan	10	18	5	152
	(48,227)	(14,822)	(98,770)	(10,912)
Investing activities				
Purchases of marketable securities	(58,688)	(33,361)	(75,053)	(70,562)
Dispositions of marketable securities	8,901	36,543	11,805	55,466
Net cash on dispositions of capital assets (Note 5)	116,993	-	168,707	5,251
Net cash on dispositions of property under development (Note 5)	9,738	-	8,573	-
Net cash on insurance recovery (Note 5)	-	-	3,625	-
Acquisitions of capital assets	(1,816)	(2,472)	(8,668)	(7,398)
Decrease (increase) in restricted cash and restricted cash equivalents	(19,282)	(209)	(19,318)	1,265
Decrease in long-term notes receivable	-	36	-	47
	55,846	537	89,671	(15,931)
Increase (decrease) in cash and cash equivalents	17,030	(2,870)	7,683	(8,661)
Cash and cash equivalents, beginning of period	37,476	86,353	46,823	92,144
Cash and cash equivalents, end of period	54,506	83,483	54,506	83,483
Cash interest paid				
Mortgages and capital leases	2,338	2,549	7,186	7,646
Convertible debentures	1,841	2,016	7,461	9,113
	4,179	4,565	14,647	16,759

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.

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

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 September 30, 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.

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 September 30, 2008 and those held for sale as at September 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.

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 nine months ended September 30, 2008, Royal Host received insurance proceeds of \$3.6 million and subsequent to September 30, 2008, Royal Host received additional insurance proceeds of \$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 nine months ended September 30, 2008.

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

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 nine months ended September 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 nine months ended September 30, 2008.

On August 15, 2008, Royal Host sold the Grand Okanagan Lakefront Resort and Conference Centre for total proceeds of \$131.0 million including \$12.4 million in respect of a casino expansion. The Trust recognized a gain on the sale of \$78.4 million during the three months ended September 30, 2008. Liabilities of discontinued operations include \$8.6 million, representing the portion of the \$12.4 million of proceeds not yet spent.

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		Nine Months Ended	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
		(restated - Note 22)		(restated - Note 22)
Hospitality revenue				
Rooms	2,047	8,022	10,321	18,602
Food and beverage	670	2,303	4,762	6,642
Management	292	504	603	840
Other	723	1,835	3,374	4,793
	<u>3,732</u>	<u>12,664</u>	<u>19,060</u>	<u>30,877</u>
Hospitality expenses	<u>2,174</u>	<u>6,750</u>	<u>12,544</u>	<u>18,478</u>
Gross margin	<u>1,558</u>	<u>5,914</u>	<u>6,516</u>	<u>12,399</u>
Other expenses				
Depreciation and amortization	355	610	1,518	2,179
Interest and accretion on mortgages and capital leases	449	643	1,849	2,039
Property impairment provision	-	-	132	-
Future income taxes (recovery)	2,902	13	4,080	(705)
Capital and other taxes	1	8	1	71
Loss on foreign currency translation	(1)	(8)	(1)	13
	<u>3,706</u>	<u>1,266</u>	<u>7,579</u>	<u>3,597</u>
	(2,148)	4,648	(1,063)	8,802
Gain (loss) from insurance recovery	(7)	-	1,315	-
Gains on dispositions	<u>77,267</u>	<u>-</u>	<u>102,035</u>	<u>4,215</u>
Income from discontinued operations	<u>75,112</u>	<u>4,648</u>	<u>102,287</u>	<u>13,017</u>

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

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)		Nine Months Ended (in \$000's)	
	September 30, 2008	September 30, 2007 (restated - Note 22)	September 30, 2008	September 30, 2007 (restated - Note 22)
Income from discontinued operations	75,112	4,648	102,287	13,017
Items not affecting cash:				
Future income taxes (recovery)	2,902	13	4,080	(705)
Depreciation and amortization	355	610	1,518	2,179
(Gain) loss from insurance recovery	7	-	(1,315)	-
Gains on dispositions	(77,267)	-	(102,035)	(4,215)
Property impairment provision	-	-	132	-
Cash flows provided by discontinued operations	1,109	5,271	4,667	10,276
Changes in non-cash working capital				
Assets of discontinued operations	96	74	(1,675)	380
Liabilities of discontinued operations	(1,715)	(432)	699	(89)
	(1,619)	(358)	(976)	291

6. INVENTORIES

Inventories are comprised of the following items:

	(in \$000's)	
	September 30, 2008	December 31, 2007
Linens	1,364	1,843
Food and beverage	385	659
China, glassware and other	437	825
	2,186	3,327

During the three and nine months ended September 30, 2008, respectively, hospitality expenses included \$1.0 million (September 30, 2007 - \$1.1 million) and \$3.2 million (September 30, 2007 - \$3.5 million) of cost of goods sold related to the inventory items listed above.

7. CAPITAL ASSETS

September 30, 2008	(in \$000's)		
	Gross Book Value	Accumulated Amortization	Net Book Value
Buildings	254,201	65,575	188,626
Land	28,679	-	28,679
Furniture, fixtures and equipment	42,441	35,032	7,409
Other	984	176	808
	326,305	100,783	225,522
Capital assets under development	1,457	-	1,457
Intangible assets:			
Franchise rights and management contracts	18,542	13,725	4,817
	346,304	114,508	231,796

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

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 nine months ended September 30, 2008, respectively, capital additions to Royal Host's hotel properties totalled \$1.5 million (September 30, 2007 - \$2.8 million) and \$8.0 million (September 30, 2007 - \$6.9 million).

8. MORTGAGES

	<i>(in \$000's)</i>	
	September 30, 2008	December 31, 2007
Mortgages secured by hotel properties	84,397	122,623
Less: current portion	2,980	3,325
	<u>81,417</u>	<u>119,298</u>

Principal repayments required for the twelve months ending September 30:

	<i>(in \$000's)</i>
2009	3,425
2010	24,519
2011	24,754
2012	12,902
2013	5,734
Subsequent	13,778
Total principal outstanding	85,112
Debt issuance costs	(715)
	<u>84,397</u>

9. CONVERTIBLE DEBENTURES

	<i>(in \$000's)</i>	
	September 30, 2008	December 31, 2007
7.90% Convertible Unsecured Subordinated Debentures, Series A	7,628	8,025
6.00% Convertible Unsecured Subordinated Debentures, Series B	46,502	52,317
6.25% Convertible Unsecured Subordinated Debentures, Series C	53,586	55,585
5.90% Convertible Unsecured Subordinated Debentures, Series D	57,623	57,380
	<u>165,339</u>	<u>173,307</u>
Less: current portion	7,628	-
	<u>157,711</u>	<u>173,307</u>

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

9. CONVERTIBLE DEBENTURES (continued)

Principal repayments required for the twelve months ending September 30:

	<u>(in \$000's)</u>
2009	7,688
2010	-
2011	-
2012	-
2013	56,771
Subsequent	<u>109,218</u>
Total principal outstanding	173,677
Debt issuance costs	(5,719)
Equity conversion option	<u>(2,619)</u>
	<u><u>165,339</u></u>

(a) 9.25% Convertible Unsecured Subordinated Debentures

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

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

During the three months ended September 30, 2008, \$0.2 million (September 30, 2007 - \$4.8 million) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 31,998 trust units (September 30, 2007 - 0.8 million trust units). During the nine months ended September 30, 2008, \$0.5 million (September 30, 2007 - \$15.0 million) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 0.1 million trust units (September 30, 2007 - 2.5 million trust units).

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

During the three months ended September 30, 2008, \$0.9 million (September 30, 2007 - \$0.5 million) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into 0.1 million trust units (September 30, 2007 - 0.1 million trust units). During the nine months ended September 30, 2008, \$0.9 million (September 30, 2007 - \$2.8 million) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into 0.1 million trust units (September 20, 2007 - 0.4 million trust units).

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

During the three months ended September 30, 2008, \$0.4 million (September 30, 2007 - \$0.1 million) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 58,000 trust units (September 30, 2007 - 7,428 trust units). During the nine months ended September 30, 2008, \$0.4 million (September 30, 2007 - \$0.1 million) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 0.1 million trust units (September 20, 2007 - 11,998 trust units).

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

9. CONVERTIBLE DEBENTURES (continued)

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

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

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 September 30, 2008 are as follows:

	<i>(in \$000's)</i>	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Present value of future minimum lease payments	261	361
Less: current portion of principal payments	67	119
	<u>194</u>	<u>242</u>

Total repayments required for the twelve months ending September 30:

	<u><i>(in \$000's)</i></u>
2009	84
2010	81
2011	81
2012	54
2013	-
Future minimum lease payments	<u>300</u>
Less: amounts representing interest	<u>39</u>
Present value of future minimum lease payments	<u>261</u>

During the three and nine months ended September 30, 2008, Royal Host did not acquire any new assets under capital lease (September 30, 2007 - \$0.4 million). The net book value of assets under capital lease as at September 30, 2008 was \$0.9 million (December 31, 2007 - \$1.4 million).

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

***II.* 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 September 30, 2008, 0.2 million trust units with an aggregate cost of \$1.3 million (average cost of \$6.55 per unit) were repurchased pursuant to this bid. During the nine months ended September 30, 2008, Royal Host repurchased 0.9 million trust units with an aggregate cost of \$5.7 million (average cost of \$6.31 per unit) pursuant to this bid. Subsequent to September 30, 2008, 0.6 million trust units with an aggregate cost of \$3.5 million (average cost of \$5.63 per unit) were repurchased.

Commencing on December 29, 2006, Royal Host initiated a normal course issuer bid to repurchase a maximum of 2.0 million of its issued and outstanding trust units. During the three months ended September 30, 2007, 1.0 million trust units with an aggregate cost of \$7.23 million (average cost of \$7.13 per unit) were repurchased pursuant to this bid. During the nine months ended September 30, 2007, 2.0 million trust units with an aggregate cost of \$14.4 million (average cost of \$7.21 per unit) were repurchased and cancelled pursuant to this bid.

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.

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

Commencing on November 28, 2007, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$0.8 million in principal of its issued and outstanding 7.90% convertible debentures. During the three months ended September 30, 2008, Royal Host repurchased \$0.04 million in principal of the 7.90% convertible debentures with an aggregate cost of \$0.05 million (average cost of \$110.00) pursuant to this bid. Subsequent to September 30, 2008, Royal Host repurchased \$0.4 million in principal of the 7.9% convertible debentures with an aggregate cost of \$0.4 million. (average cost of \$100.00) 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 September 30, 2007, \$1.4 million in principal of the 7.90% convertible debentures were repurchased with an aggregate cost of \$1.7 million (average cost of \$117.72) pursuant to this bid. During the nine months ended September 30, 2007, \$2.4 million in principal of the 7.90% convertible debentures were repurchased with an aggregate cost of \$2.9 million (average cost of \$119.11) pursuant to this bid.

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

Commencing on September 10 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5.5 million in principal of its issued and outstanding 6.00% convertible debentures. During the three months ended September 30, 2008, Royal Host repurchased \$5.5 million in principal of the 6.00% convertible debentures with an aggregate cost of \$5.3 million (average cost of \$97.13) pursuant to this bid.

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 nine months ended September 30, 2008, no debentures were repurchased pursuant this bid. During the three months ended September 30, 2007, \$0.4 million in principal of the 6.00% convertible debentures were repurchased with an aggregate cost of \$0.4 million (average cost of \$105.56) pursuant to this bid. During the nine months ended September 30, 2007, \$1.6 million in principle of the 6.00% convertible debentures were repurchased with an aggregate cost of \$1.7 million (average cost of \$107.53) pursuant to this bid.

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

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

Commencing on September 10 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5.9 million in principal of its issued and outstanding 6.25% convertible debentures. During the three months ended September 30, 2008, Royal Host repurchased \$2.1 million in principal of the 6.25% convertible debentures with an aggregate cost of \$2.0 million (average cost of \$95.00) pursuant to this bid.

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 nine months ended September 30, 2008, no debentures were repurchased pursuant to this bid. During the three months ended September 30, 2007, \$0.1 million in principal of the 6.25% convertible debentures were repurchased with an aggregate cost of \$0.1 million (average cost of \$102.25) pursuant to this bid. During the nine months ended September 30, 2007, \$0.6 million in principal of the 6.25% convertible debenture were repurchased with an aggregate cost of \$0.6 million (average cost of \$105.86) pursuant to this bid.

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

Commencing on September 10, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$6.0 million in principal of its issued and outstanding 5.90% convertible debentures. During the three months ended September 30, 2008, Royal Host repurchased \$nil in principal of the 5.90% convertible debentures.

12. PER UNIT CALCULATIONS

As at September 30, 2008, a total of 21,477,126 trust units (December 31, 2007 - 27,487,825) were issued and outstanding.

For the three months ended September 30, 2008:	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Basic earnings - continuing operations	1,246		0.06
Basic earnings - discontinued operations	75,112		3.48
Basic earnings - total operations	76,358	21,579	3.54
Diluted earnings - continuing operations	1,246		0.06
Diluted earnings - discontinued operations	75,112		3.48
Diluted earnings - total operations	76,358	21,579	3.54
For the three months ended September 30, 2007			
	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Basic earnings - continuing operations	2,876		0.11
Basic earnings - discontinued operations	4,648		0.18
Basic earnings - total operations	7,524	25,971	0.29
Basic earnings - continuing operations	2,876		
Diluted earnings - discontinued operations	4,648		0.18
Diluted earnings - total operations	7,524	25,971	0.29

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12. PER UNIT CALCULATIONS (continued)

For the nine months ended September 30, 2008:	Weighted Average Units		Per Unit (\$)
	(in \$000's)	(in 000's)	
Basic earnings - continuing operations	4,156		0.18
Basic earnings - discontinued operations	102,287		4.38
Basic earnings - total operations	106,443	23,355	4.56
Diluted earnings - continuing operations	4,156		0.18
Diluted earnings - discontinued operations	102,287		4.38
Diluted earnings - total operations	106,443	23,355	4.56
For the nine months ended September 30, 2007:			
	Weighted Average Units		Per Unit (\$)
	(in \$000's)	(in 000's)	
Basic earnings - continuing operations	1,665		0.07
Basic earnings - discontinued operations	13,017		0.51
Basic earnings - total operations	14,682	25,596	0.58
Diluted earnings - continuing operations	1,665		0.07
Diluted earnings - discontinued operations	13,017		0.51
Diluted earnings - total operations	14,682	25,596	0.58

The diluted earnings per unit for the nine months ended September 30, 2008 and September 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 (in \$000's)		Nine Months Ended (in \$000's)	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
(Increase) decrease in:				
Accounts and notes receivable	3,213	(1,305)	512	(50)
Prepaid expenses	592	143	113	(605)
Inventories	695	(6)	1,141	979
	4,500	(1,168)	1,766	324

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

	Three Months Ended		Nine Months Ended	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Increase (decrease) in:				
Accounts payable and accrued liabilities	561	864	(1,455)	(4,452)
Interest accrued on convertible debentures	777	913	777	(517)
Other liabilities	(1,528)	(515)	(1,482)	(472)
Deferred revenue	41	94	175	(109)
Future income taxes	-	-	-	(48)
Equity distribution payable	-	3	-	3
	<u>(149)</u>	<u>1,359</u>	<u>(1,985)</u>	<u>(5,595)</u>
	<u>4,351</u>	<u>191</u>	<u>(219)</u>	<u>(5,271)</u>

14. FUTURE INCOME TAXES

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

	<i>(in \$000's)</i>	
	September 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	(1,029)	(1,059)
Tax liabilities relating to temporary differences on capital assets	(7,135)	(5,848)
Future income tax liability	<u>(8,164)</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		Nine Months Ended	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Accumulated other comprehensive loss, beginning of period	3,497	62	2,210	-
Other comprehensive loss	15,653	409	16,940	471
Accumulated other comprehensive loss, end of period	<u>19,150</u>	<u>471</u>	<u>19,150</u>	<u>471</u>

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15. ACCUMULATED OTHER COMPREHENSIVE LOSS (continued)

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

	Three Months Ended		Nine Months Ended	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Unrealized (gains) losses generated on available-for-sale assets	15,307	(69)	16,448	(729)
Realized gains on available-for-sale assets transferred to net income	346	478	492	1,200
Other comprehensive loss	15,653	409	16,940	471

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

At September 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. Royal Host owns approximately \$3.3 million of Clarke Inc. 6.0% Convertible Debentures, which are included in the Trust's marketable securities.

During the three and nine months ended September 30, 2008, the Trust incurred professional and management fees of \$0.04 million and \$0.1 million, respectively, for services supplied by Clarke Inc. As at September 30, 2008, \$nil was owing in respect of these fees.

During the three months ended September 30, 2008, the Trust entered into an agreement with Clarke Inc., effective October 1, 2008, whereby Clarke will provide professional and management services to the Trust. The annual advisory fee for these services is \$200,000 per annum.

During the three months ended September 30, 2008, the Trust entered into a Service Agreement, effective January 1, 2008, with a company controlled by a Trustee of Royal Host; the company will provide consultancy and other senior executive services to the Trust. During the three and nine months ended September 30, 2008, Royal Host incurred consulting fees of \$225,000. As at September 30, 2008, \$225,000 (December 31, 2007 - \$nil) was owing to this company in relation to consulting services.

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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.

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>September 30, 2008</u>	<u>December 31, 2007</u>
Mortgages	84,397	122,623
Convertible debentures	165,339	173,307
Total debt	<u>249,736</u>	<u>295,930</u>
Cash and cash equivalents	<u>(54,506)</u>	<u>(46,823)</u>
Net debt	<u>195,230</u>	<u>249,107</u>
Unitholders' equity	<u>138,536</u>	<u>99,714</u>
Total capitalization (total debt plus unitholders' equity)	<u><u>388,272</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

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19. CAPITAL MANAGEMENT (continued)

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.

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 September 30, 2008, the Trust's indebtedness excluding convertible debentures was 15.9% 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:

	September 30, 2008		December 31, 2007	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgages	81,417	81,934	119,298	122,892
Convertible debentures	157,711	147,868	173,307	162,958
Capital leases	194	179	242	244

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20. FINANCIAL INSTRUMENTS (continued)

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 September 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 September 30, 2008, the Trust had accounts receivable of \$7.4 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 September 30, 2008, the accounts and notes receivable include \$1.4 million of accounts receivables over 30 days (December 31, 2007 - \$3.3 million that includes a vendor take-back mortgage). The average days outstanding for accounts receivable past due are 69 days (December 31, 2007 - 60 days).

(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 September 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 September 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 5.7 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>	
	<u>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Marketable securities available for sale	91,283	44,482
Marketable securities held for trading	5,044	5,392
	<u>96,327</u>	<u>49,874</u>

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.

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20. FINANCIAL INSTRUMENTS (continued)

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)	91,283	9,128	(9,128)
Held for trading (net income)	5,044	504	(504)
Total marketable securities	<u>96,327</u>	<u>9,633</u>	<u>(9,633)</u>

21. SUBSEQUENT EVENT

On October 1, 2008, Royal Host acquired ownership of approximately 3.1 million trust units of InnVest Real Estate Investment Trust ("InnVest"), representing approximately 4.2% of the total outstanding trust units of InnVest bringing Royal Hosts total holdings to approximately 9.9 million trust units of InnVest, representing approximately 13.3% of the total outstanding trust units of InnVest.

22. COMPARATIVE FIGURES AND RESTATEMENT

Comparatives figures for operations of properties and businesses that were disposed of prior to September 30, 2008, or held for sale at September 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 nine months ended September 30, 2007 as presented also reflect the restatement of quarterly non-cash provisions for future income taxes. The effects of the restatement are as follows: for the three and nine months ended September 30, 2007, future income taxes decreased by \$1.0 million and increased by \$0.5 million, respectively, net income and comprehensive income increased by \$1.0 million and decreased \$0.5 million for the three and nine months respectively, and the future income tax liability as at September 30, 2007 increased by \$0.5 million to \$7.7 million.
