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SYMBOL: "RYL.UN"

ROYAL HOST REIT ANNOUNCES YEAR END RESULTS

Calgary, Alberta, March 11, 2009 - Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") today announced results for the year ended December 31, 2008.

Royal Host generated record net income of \$20.4 million, or \$0.90 per unit, in 2008, attributable to \$101.9 million of gains realized on the sale of properties, offset by a \$3.4 million decline in hospitality gross margin and the recognition of an \$86.9 million unrealized loss on marketable securities.

"2008, in particular the latter half, was undeniably challenging for the Canadian hotel sector as a whole, and Royal Host was not immune," commented Brad Cann, Executive Vice President and Chief Financial Officer. "Our results were impacted by the decline in Occupancy and the associated decrease in hospitality gross margin. In retrospect, we are particularly pleased with the asset sales we completed in 2008, in light of the industry's recent performance. At the same time, we are obviously disappointed with the recent decline in the market value of the Trust's portfolio of marketable securities. We continue to be focused more than ever on preserving and growing our income and cash flows, and maintaining our balance sheet's liquidity," he added.

During the fourth quarter, Royal Host acquired an additional 3.7 million units of InnVest REIT, contributing to the recognition of the unrealized loss on marketable securities in the fourth quarter. As at December 31, 2008, Royal Host held 14.0% of the units of InnVest REIT and 19.7% of the units of Holloway Lodging REIT.

Royal Host continued to actively repurchase its trust units during the fourth quarter of 2008, bringing repurchases for the year to 7.2 million units, or approximately one-quarter of its float at the beginning of 2008. During 2008, Royal Host also retired \$12.2 million of convertible debentures, recognizing \$1.5 million of discounts/gains on repurchases. In addition to being immediately accretive, Management believes that repurchases of its securities at significant discounts to their underlying value are in the best interests of Unitholders. The Trust also continued to focus on the long-term value of its portfolio of hotel properties through reinvestment totaling \$8.5 million during 2008.

During 2008, Royal Host declared \$42.7 million of distributions to Unitholders, or \$2.01 per trust unit, including a \$28.0 million special distribution in December 2008. The Trust declared a further \$0.10 per unit special distribution in February 2009.

The following table highlights the Trust's financial results for the year ended December 31, 2008.

(\$000's, except as otherwise noted)	2008	2007	Change (%)
Hospitality Revenue (Continuing Operations)	104,597	108,333	(3.4)
Hospitality Expenses	78,006	78,362	(0.5)
Hospitality Gross Margin	26,591	29,971	(11.3)
Hospitality Gross Margin %	25.4%	27.7%	
Investment Income (Loss)	(76,828)	6,355	
Royal Private Residence Club	(135)	-	
Other Expenses	(31,743)	(35,546)	
Income (Loss) from Continuing Operations	(82,115)	780	
Income from Discontinued Operations	102,492	13,596	653.8
Net Income	20,377	14,376	41.7
Other Comprehensive Income (Loss)	2,210	(2,210)	
Comprehensive Income	22,587	12,166	85.7
Basic Per Unit Net Earnings (Loss) (\$)			
From Continuing Operations	(3.61)	0.03	
From Discontinued Operations	4.51	0.52	
	0.90	0.55	63.6
Distributable Income	16,789	21,042	(20.2)
Distributions Declared on Trust Units			
Monthly	14,667	17,414	(15.8)
Special ⁽¹⁾	28,000	-	
Total	42,667	17,414	145.0
Basic Per Unit Distributable Income (\$)	0.74	0.81	(8.6)
Per Unit Distributions Declared (\$)			
Monthly	0.66	0.66	-
Special ⁽¹⁾	1.35	-	
Total	2.01	0.66	204.5

⁽¹⁾ Excluding the additional \$2.1 million special distribution (\$0.10 per trust unit) declared in February 2009, payable to Unitholders of record on December 29, 2008.

Management of Royal Host will host an investor conference call on Wednesday, March 11, 2009 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 4076880. A recording of this call will be available shortly after the call until March 18, 2009. To access this recording please dial 1-647-436-0148 or 1-888-203-1112 and provide the playback password 4076880. Alternatively, a recording of the audio webcast will also be available on the Trust's website after March 13, 2009.

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 year ended December 31, 2008 and its management's discussion and analysis, which are available on Royal Host's website at www.royalhost.com as well as the SEDAR website at www.sedar.com.

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

For more information please contact:

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2008

YEAR-END REPORT

MANAGEMENT'S
DISCUSSION AND ANALYSIS
& CONSOLIDATED
FINANCIAL STATEMENTS

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Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2008

2008 In Review

In many respects, Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") was very successful in 2008. Royal Host continued to execute on opportunities to generate value for its Unitholders. Its achievements include:

- Realizing gains of \$101.9 million from the well-timed sales of four hotels;
- Generating a record \$20.4 million net income, or \$0.90 per unit;
- Distributing \$42.7 million⁽¹⁾, or \$2.01 per unit⁽¹⁾, to Unitholders;
- Deploying \$45.8 million towards the repurchase of 7.2 million trust units and \$10.5 million towards the repurchase of \$12.3 million of its convertible debentures;
- Reinvesting \$8.5 million in the Trust's continuing properties, reflecting its ongoing commitment to maintain and improve the quality of its portfolio; and
- Outperforming the S&P TSX REIT's overall return for the fifth consecutive quarter.

At the same time, 2008 brought significant challenges which hindered the Trust's performance. The Trust recognized an \$82.1 million loss from continuing operations, attributable to:

- \$86.9 million of unrealized losses on its significantly enlarged portfolio of marketable securities; and
- A \$3.4 million decline in hospitality gross margin due to a decline in both revenue and profitability in the third and fourth quarters of 2008 resulting from lower Occupancy.

Notwithstanding these challenges, Royal Host ended 2008 solidly financed and committed to generating superior value for its Unitholders.

⁽¹⁾ Excluding the additional \$2.1 million special distribution (\$0.10 per trust unit) declared in February 2009, payable to Unitholders of record on December 29, 2008.

This Management's Discussion & Analysis ("MD&A") dated March 10, 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 year ended December 31, 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)	Years ended December 31		
	2008	2007	Change (%)
Hospitality Revenue (Continuing Operations)	104,597	108,333	(3.4)
Hospitality Expenses	78,006	78,362	(0.5)
Hospitality Gross Margin ⁽¹⁾	26,591	29,971	(11.3)
Hospitality Gross Margin % ⁽¹⁾	25.4%	27.7%	
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Other Expenses	(31,743)	(35,546)	(10.7%)
Income (Loss) from Continuing Operations	(82,115)	780	
Income from Discontinued Operations ⁽²⁾	102,492	13,596	653.8
Net Income	20,377	14,376	41.7
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Comprehensive Income	22,587	12,166	85.7
Basic Per Unit Net Earnings (Loss) (\$)			
From Continuing Operations	(3.61)	0.03	
From Discontinued Operations	4.51	0.52	
	0.90	0.55	63.6
Distributable Income ⁽¹⁾	16,789	21,042	(20.3)
Distributions Declared on Trust Units			
Monthly	14,667	17,414	(15.8)
Special ⁽³⁾	28,000	-	
Total	42,667	17,414	145.0
Basic Per Unit Distributable Income (\$) ⁽¹⁾	0.74	0.81	(8.6)
Per Unit Distributions Declared (\$)			
Monthly	0.66	0.66	-
Special ⁽³⁾	1.35	-	
Total	2.01	0.66	204.5
Weighted Average Number of Trust Units Outstanding (000's)	22,734	26,018	(12.6)
Number of Trust Units Outstanding, End of Year (000's)	20,739	27,488	(24.5)
Closing Trust Unit Trading Price, End of Year (\$)	3.28	6.50	(49.5)

As at March 10, 2009, Royal Host had 19,702,748 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"

⁽³⁾ 2008 distributions exclude the additional \$2.1 million special distribution (\$0.10 per trust unit) declared in February 2009, payable to Unitholders of record on December 29, 2008.

At a Glance

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.

Royal Host Businesses

HOTEL OWNERSHIP	INVESTMENT PORTFOLIO	OPERATIONS
Portfolio of 31 properties	\$56 million portfolio of marketable securities	98 franchised Travelodge® and Thriftlodge® hotels
Generated \$27 million of hospitality gross margin in 2008	Recognized over \$11 million of distribution and interest income and \$87 million of unrealized losses on marketable securities in 2008	Management of owned and third-party hotels
Sold four properties in 2008 for gross proceeds of approximately \$181 million, realizing gains on sales of approximately \$102 million		Generated \$3 million of franchise and management revenue in 2008

	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%
Country Inns & Suites®	-	-	-	4	276	7.4%	3	228	6.1%	7	504	13.5%
Independent	1	256	6.9%	-	-	-	1	129	3.5%	2	385	10.3%
Hilton®	1	323	8.7%	-	-	-	-	-	-	1	323	8.7%
Super 8®	2	159	4.3%	-	-	-	2	132	3.5%	4	291	7.8%
Holiday Inn®	2	254	6.8%	-	-	-	-	-	-	2	254	6.8%
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%
Full Service	6	1,228	50.5%	-	-	-	2	288	28.1%	8	1,516	40.6%
Limited Service	10	1,204	49.5%	4	276	100.0%	9	738	71.9%	23	2,218	59.4%

All figures are as at, and for the year ended, December 31, 2008.

Non-GAAP Measures

This MD&A includes certain non-GAAP 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 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 lodging statistics as key performance indicators:

- **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 transitory room inventory.

RevPAR, Occupancy and ADR

In the first half of 2008, several factors including high fuel costs and a high Canadian dollar negatively impacted travel, which translated into declining Occupancy.

While the Trust benefitted from normal corporate demand during the first nine months of 2008, it witnessed a notable decline in leisure travel in the summer months, particularly in secondary markets.

In the third quarter of 2008, reduced consumer and business confidence due to economic weakness and uncertainty impacted Occupancy' and in the fourth quarter of 2008, the global financial crisis and recession resulted in further deterioration in corporate transient business and intensified price competitiveness.

CONTINUING OPERATIONS (2004 – 2008)

31 hotels / 3,734 rooms*	2004	2005	2006	2007	2008
RevPAR	\$56.83	\$58.60	\$59.99	\$60.67	\$59.41
Occupancy	66.0%	66.4%	65.2%	63.7%	60.3%
ADR	\$86.17	\$88.31	\$92.02	\$95.29	\$97.52

The Trust's hotel portfolio of mostly upper and lower mid-scale hotel properties is diversified geographically among seven provinces and territories 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. Approximately 75-80% of the Trust's room revenue is derived from transient room nights while 20-25% is derived from group business. The majority of the Trust's hotels are not situated in locations generally considered to be primarily leisure markets; they depend more heavily on corporate business and less on leisure business.

Revenue generation remained a key priority throughout 2008. 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.

The Trust was most dramatically impacted by the weak performance of the London Hilton, now the Trust's largest property, and the Yellowknife Inn, as described below.

The properties sold in 2008 have been excluded from both 2008 and 2007 figures.

CONTINUING OPERATIONS

31 hotels / 3,734 rooms*	Three months ended December 31			Years ended December 31		
	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR	\$55.96	\$57.23	(2.2)	\$59.41	\$60.67	(2.1)
Occupancy	57.0%	59.8%	(4.8)	60.3%	63.7%	(5.3)
ADR	\$98.16	\$95.23	2.6	\$98.52	\$95.29	3.4

**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. Occupancy has been calculated including all available room nights at the Trust's hotels; available room nights has not been adjusted to exclude rooms/room nights unavailable during the renovation of the Yellowknife Inn or other hotels renovated.*

ONTARIO

Northern Ontario

The Trust's six properties in resource-based Northern Ontario as a whole delivered ADR growth, and while Occupancy was impacted by weaker leisure travel, all but the Travelodge Thunder Bay Airline generated healthy RevPAR growth.

Eastern Ontario

Higher ADR at the Trust's four Eastern Ontario properties as a whole was offset by lower Occupancy. The Ottawa market declined modestly, in part because Ottawa was one of the strongest markets in Ontario in 2007. The Holiday Inn Trenton was impacted by renovations in 2008 and experienced a modest decline in Occupancy and revenue.

Central Ontario

Higher ADR at the Trust's three Central Ontario properties as a whole was offset by lower Occupancy. The Travelodge Toronto Airport was impacted by reduced airline crew business and intensified price competitiveness on the airport strip. The Holiday Inn Oakville's Occupancy also declined. Although the property typically achieved in excess of its "fair share" of market share, the Oakville market has been impacted by the downturn in the automotive sector.

Southern Ontario

The Trust has three properties in Southern Ontario. Although the London Hilton continued to maintain its market share, the property derives a significant percentage of its business from conferences. Conference hotels are generally experiencing lower group volume as a result of event postponements and cancellations and higher group attrition (reduced attendance) at events. London and the surrounding area was also one of the markets hardest hit by the downturn in manufacturing, further impacting both the London Hilton and the Travelodge London South. The Trust renovated the London Hilton'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. As a defensive strategy, the hotel enhanced the points awarded to loyalty program participants in late 2008.

Ontario	Three months ended December 31			Years ended December 31			
	2008	2008	2007	Change (%)	2008	2007	Change (%)
RevPAR		\$56.48	\$59.83	(5.6)	\$60.39	\$63.34	(4.7)
Occupancy		57.2%	61.7%	(7.2)	60.9%	64.7%	(6.0)
ADR		\$98.67	\$97.00	1.7	\$99.24	\$97.87	1.4

WESTERN

Alberta

The Calgary market experienced weaker summer leisure travel, as evidenced by lower attendance at the 2008 Calgary Stampede. Although the 159-room Best Western Village Park Inn in Calgary is the market leader in its competitive set, Occupancy declined compared to 2007. The Trust's five other Southern Alberta limited service hotels delivered stable results.

Saskatchewan and Manitoba

The Trust's four properties in Winnipeg, Regina and most notably Saskatoon continued to produce excellent results both in terms of Occupancy and ADR.

Yellowknife

The largest impact on the region's Occupancy was the decrease in Occupancy at the 129-room Yellowknife Inn. The comprehensive renovation of the hotel was completed during 2008, mostly during the second quarter. Although the Trust scheduled the renovation during the lower Summer season, the lack of available labour and transportation delays prolonged the renovation. During the renovation, a significant number of rooms were unavailable and a significant amount of business was displaced. The property was relaunched in the fall of 2008 and Management is aggressively marketing the property, primarily to corporate travelers, to grow Occupancy; the property is located in prime proximity to government offices.

Western	Three months ended December 31			Years ended December 31		
	2008	2007	Change (%)	2008	2007	Change (%)
11 hotels / 1,026 rooms*						
RevPAR	\$55.28	\$51.67	7.0	\$55.90	\$53.54	4.4
Occupancy	56.4%	53.8%	4.9	57.5%	59.2%	(2.9)
ADR	\$97.95	\$96.09	1.9	\$97.16	\$90.38	7.5

ATLANTIC

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.

Atlantic	Three months ended December 31			Years ended December 31		
	2008	2007	Change (%)	2008	2007	Change (%)
4 hotels / 276 rooms*						
RevPAR	\$54.10	\$56.43	(2.2)	\$64.50	\$65.30	(2.1)
Occupancy	57.2%	67.5	(4.8)	66.2%	71.9%	(5.3)
ADR	\$94.61	\$83.54	2.6	\$97.35	\$90.89	3.4

Hospitality Gross Margin

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

Hospitality gross margin on continuing hotels was impacted in absolute terms as well as on a percentage of hospitality revenue by the decline in hospitality revenue compared to 2007.

(\$'000's, except as otherwise noted)	Three months ended December 31			Years ended December 31		
	2008	2007	Change (%)	2008	2007	Change (%)
Hospitality Gross Margin	5,325	6,522	(18.3)	26,591	29,971	(11.3)
Hospitality Gross Margin %	21.1%	24.5%	(13.9)	25.4%	27.7%	(8.3)

Hospitality gross margin on discontinued hotels for the year ended December 31, 2008 declined to 33.2% (2007 – 37.7%) of hospitality revenue, and hospitality gross margin on total operations (both continuing and discontinued hotels) for the year ended December 31, 2008 declined to 26.6% (2007 – 30.3%) of hospitality revenue.

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 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.

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)	Years ended December 31		Change (%)
	2008	2007	
Cash Flows from Operating Activities	22,062	24,196	16.2
Changes in Non-Cash Working Capital	(776)	3,682	
Decrease in Property Under Development	-	(1,551)	
Cash Flows from Total Operations	21,286	26,327	(19.1)
Provision for Capital Replacement ⁽¹⁾	(4,497)	(5,285)	
Distributable Income	16,789	21,042	(20.2)
Distributions Declared			
Monthly	14,667	17,414	(15.8)
Special ⁽²⁾	28,000	-	
	42,667	17,414	145.0
Payout Ratio			
Monthly	87.4%	82.8%	
Special	166.8%	-	
	254.1%	82.8%	
Basic Per Unit Distributable Income (\$)	0.74	0.81	(8.6)
Diluted Per Unit Distributable Income (\$) ⁽³⁾	0.57	0.67	(14.9)
Per Unit Distributions Declared (\$)	2.01	0.66	204.5

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

⁽²⁾ Excluding the additional \$2.1 million special distribution declared in February 2009, payable to Unitholders of record on December 29, 2008.

⁽³⁾ Based on a weighted-average number of trust units of 46,926,162 (2007 - 50,104,490) for the year ended December 31, 2008, respectively.

Distributable Income decreased comparatively for the year ended December 31, 2008 to \$16.8 million, or \$0.74 per unit (2007 - \$21.0 million, or \$0.81 per unit), due primarily to decreases in cash flow from total operations as outlined below.

The table below illustrates the component of cash flows from total operations.

CASH FLOWS FROM TOTAL OPERATIONS

(\$000's, except as otherwise noted)	Years ended December 31		Change
	2008	2007	
CONTINUING OPERATIONS			
Hospitality Gross Margin	26,591	29,971	(3,380)
Distributions and Interest	11,185	5,146	6,039
Royal Private Residence Club	(135)	-	(135)
Other Expenses ⁽¹⁾ :			
Trust Administration	(2,508)	(1,716)	(792)
Interest on Mortgages and Capital Leases	(7,216)	(7,652)	436
Interest on Convertible Debentures	(11,061)	(11,170)	109
Other	(108)	(266)	158
Cash Flows from Continuing Operations	16,748	14,313	2,435
DISCONTINUED OPERATIONS			
Hospitality Gross Margin	6,325	14,797	(8,472)
Other Expenses ⁽¹⁾ :			
Interest on Mortgages and Capital Leases	(1,790)	(2,680)	890
Other	3	(103)	106
Cash Flows from Discontinued Operations	4,538	12,014	(7,476)
CASH FLOWS FROM TOTAL OPERATIONS	21,286	26,327	(5,041)

⁽¹⁾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 a significant increase in distributions and interest, as the Trust continued to redeploy capital into higher-yielding investments. In 2008, distributions and interest equated to 42.1% of hospitality gross margin (2007 - 17.2%).

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)	Years ended December 31		Change (%)
	2008	2007	
Net Cash Provided by Operating Activities	22,062	24,196	8.8
Capital Expenditures	(9,341)	(10,495)	(11.0)
Standardized Distributable Cash	12,721	13,701	(7.2)
Distributions Declared	42,667	17,414	145.0
Repurchases of Trust Units	45,841	15,515	195.5
	88,508	32,929	168.8

The table below reconciles Standardized Distributable Cash and Distributable Income.

(\$000's, except as otherwise noted)	Years ended December 31		Change (%)
	2008	2007	
Standardized Distributable Cash	12,721	13,701	(7.2)
Capital Expenditures in Excess of Provision for Capital Replacement	4,844	5,210	7.0
Increase (Decrease) in Non-cash Working Capital, Property Under Development and Minority Interest	(776)	2,131	
Distributable Income	16,789	21,042	(20.2)

The calculation of Standardized Distributable Cash includes the effect of changes in non-cash working capital, whereas the calculation of Distributable Income excludes the effect of changes in non-cash working capital. Furthermore, the calculation of Standardized Distributable Cash includes the deduction of total capital expenditures, whereas the calculation of Distributable Income includes the deduction of

the Trust's provision for capital replacement (calculated as 4.0% of total rooms and food and beverage revenue).

Funds From Operations and Adjusted Funds From Operations

For the year ended December 31, 2008, the Trust had an outflow of Funds from Operations of \$67.0 million (2007 - \$24.9 million). Funds from operations reflect: 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 \$1.8 million (2007 - \$2.0 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.

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 year ended December 31, 2008 was a \$71.5 million outflow (2007 - \$19.6 million).

(\$000's, except as otherwise noted)	2008	2007
Cash Flows provided by Total Operations	21,286	26,327
Realized Gains (Losses) on Marketable Securities	(1,098)	1,287
Unrealized Losses on Marketable Securities	(86,915)	(78)
Accretion on Mortgages and Capital Leases ⁽¹⁾	(524)	(452)
Accretion on Convertible Debentures	(1,230)	(1,544)
Discount (Premium) on Repurchases of Convertible Debentures	1,463	(637)
Funds From Operations	(67,018)	24,903
Provision for Capital Replacement	(4,497)	(5,285)
Adjusted Funds From Operations	(71,515)	19,618
Per Unit Funds From Operations (\$)		
Basic	(2.95)	0.96
Diluted ⁽²⁾	(2.95)	0.75
Per Unit Adjusted Funds From Operations (\$)		
Basic	(3.15)	0.75
Diluted ⁽²⁾	(3.15)	0.65

⁽¹⁾Including discontinued operations.

⁽²⁾Based on a weighted-average number of trust units of 22,734,339 (2007 - 50,104,490).

Delivering Unitholder Value – Distributions to Unitholders

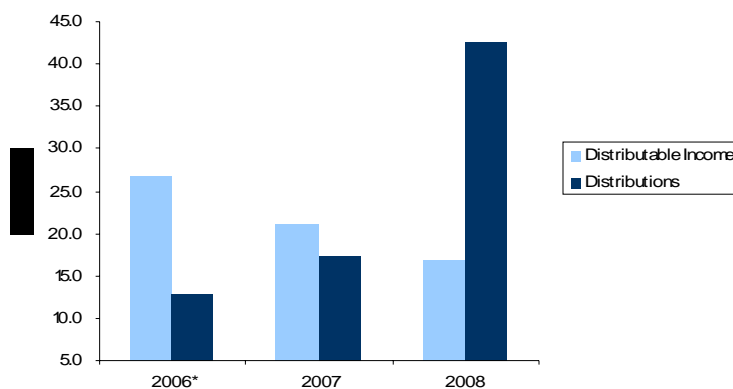
During 2008, the Trust declared monthly distributions of \$0.66 per trust unit (2007 - \$0.66 per trust unit). Monthly distributions for the year ended December 31, 2008 decreased to \$14.7 million from \$17.4 million in 2007. Although the Trust distributed \$0.66 per unit during 2008, unchanged from 2007, the Trust's March through December 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. In December 2008, the Trust declared a special distribution of \$1.35 per trust unit, bringing 2008 distributions to \$2.01 per trust unit, representing an increase of 204.5% over 2007. Subsequent to December 31, 2008 (on February 27, 2009), the Trust declared an additional special distribution in the amount of \$0.10 per trust unit.

To date in 2009, the Trust has maintained monthly distributions of \$0.055 per trust unit. The Trust sets monthly 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 to December 31, 2008, the Trust has declared distributions of \$8.98 per unit, or \$210.3 million in total. 2008 distributions, including and excluding the special distribution declared in 2008, represent an annualized pre-tax yield of 11.1% and 33.9%, respectively, based on Royal Host's 2008 weighted average market price of \$5.93. Royal Host's monthly distribution represented a pre-tax yield of 20.1%, based on the market price as of December 31, 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.

DISTRIBUTION COVERAGE



Performance of Trust Units and Convertible Debentures

Royal Host's trust units' overall loss of 18.6% in 2008 significantly outperformed the S&P TSX REIT Index's overall 43.1% loss. The REIT market, including hospitality REITs, experienced material corrections in the latter half of 2008.

OVERALL RETURN

	2007	2008	Q4 2008
Royal Host Real Estate Investment Trust – Trust Units	9.8%	(18.6%)	(22.0%) ⁽¹⁾
S&P TSX REIT Index	(5.7%)	(43.1%)	(32.5%) ⁽¹⁾

⁽¹⁾ (39.5%) excluding special distribution and (44.0%) for the twelve and three months ended December 31, 2008.

As at December 31, 2008, Royal Host's trust units had a market capitalization of \$68 million (December 31, 2007 - \$179 million).

The trading values of Royal Host's convertible debentures also declined significantly in late 2008, consistent with other real estate investment trusts in Canada and the United States. As at December 31, 2008, the Trust's convertible debentures had an aggregate market value of \$102 million (December 31, 2007 - \$169 million).

Seasonality

The hospitality industry business is seasonal in nature and the periods during which individual properties experience higher demand vary depending primarily on location. 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 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.

Results of Operations

Fourth Quarter

The fourth quarter of 2008 was one of the most challenging in recent years. The Canadian economy's continued deterioration produced a weak operating environment as well as significant weakness in capital markets.

SELECTED FOURTH QUARTER DATA

(\$'000's, except as otherwise noted, unaudited)	2008	2007	Change
Hospitality Revenue (continuing operations)	25,266	26,578	(1,312)
Hospitality Expenses	19,941	20,056	(115)
Hospitality Gross Margin ⁽¹⁾	5,325	6,522	(1,197)
Hospitality Gross Margin % ⁽¹⁾	21.1%	24.5%	
Investment Income (Loss)	(84,263)	1,266	(85,529)
Royal Private Residence Club	(5)	-	(5)
Gross Margin	(78,943)	7,788	(86,731)
Other Expenses	7,328	8,676	1,348
Loss from Continuing Operations	(86,271)	(888)	(85,383)
Income from Discontinued Operations	205	578	(373)
Net Loss	(86,066)	(310)	(85,756)
Other Comprehensive Income (Loss)	19,150	(1,739)	20,889
Comprehensive Loss	(66,916)	(2,049)	(64,867)
Basic Per Unit Net Loss			
From Continuing Operations	(4.13)	(0.03)	(4.10)
From Discontinued Operations	0.01	0.02	
	(4.12)	(0.01)	(4.11)

⁽¹⁾ Items represent non-GAAP financial measures.

Demand declined markedly and price competition intensified during the fourth quarter of 2008 as consumers sought lower pricing.

Hospitality revenue from continuing operations in the fourth quarter of 2008 decreased by \$1.3 million to \$25.3 million (2007 - \$26.6 million). Rooms revenue decreased by \$0.6 million to \$18.4 million (2007 - \$19.0 million). Overall RevPAR decreased 2.2%, resulting from a 2.6% decrease in ADR and a 4.8% decrease in Occupancy.

Food and beverage revenue decreased to \$5.1 million (2007 - \$5.6 million), due in part to the decline in Occupancy.

(\$000's, except as otherwise noted, unaudited)	2008	2007	Change
Hospitality Revenue (continuing operations)			
Rooms	18,379	19,017	(638)
Food and Beverage	5,120	5,638	(518)
Franchising and Management	661	769	(108)
Other	1,106	1,154	(48)
	<u>25,266</u>	<u>26,578</u>	<u>(1,312)</u>

Hospitality expenses decreased \$0.1 million to \$19.9 million (2007 - \$20.1 million). Hospitality gross margin decreased \$1.2 million in the fourth quarter of 2008 to \$5.3 million (2007 - \$6.5 million) or 21.1% of hospitality revenue (2007 - 24.5%).

During the fourth quarter, the Trust accumulated additional marketable securities, including 3.7 million trust units of InnVest REIT.

Distributions and interest income doubled to \$3.9 million (2007 - \$2.0 million), as a result of a significantly larger investment portfolio and higher yielding investments. During the fourth quarter, the Trust recognized unrealized losses on marketable securities of \$86.6 million on securities deemed to have other than temporary impairments.

(\$000's, except as otherwise noted, unaudited)	2008	2007	Change
Investment Income (Loss)			
Distributions and Interest	3,894	1,968	1,926
Unrealized Losses on Marketable Securities	(86,567)	(789)	(85,778)
Realized Gains (Losses) on Marketable Securities	(1,590)	87	(1,677)
	<u>(84,263)</u>	<u>1,266</u>	<u>(85,529)</u>

Other expenses decreased \$1.3 million to \$7.3 million (2007 - \$8.7 million).

Interest and accretion on mortgages and capital leases increased to \$1.7 million (2007 - \$1.9 million), and interest and accretion on convertible debentures decreased to \$3.2 million (2007 - \$3.3 million).

During the fourth quarter of 2008, the Trust recognized discounts/gains on repurchases of its convertible debentures of \$1.5 million (2007 - \$nil), representing the excess of the carrying value of the debentures retired over the cost of repurchasing the debentures.

Year Ended December 31, 2008

The Trust's hospitality revenue for the year ended December 31, 2008 decreased \$3.7 million and hospitality gross margin decreased \$3.4 million, or 11.3%. The Trust recognized an investment loss of \$76.8 million (2007 - \$6.4 million income), and a loss from continuing operations of \$82.1 million (2007 - \$0.8 million income), attributable mainly to \$86.9 million of unrealized losses on marketable securities.

(\$000's, except as otherwise noted)	Years ended December 31			
	2008	2007	Change	Change (%)
Hospitality Revenue	104,597	108,333	(3,736)	(3.4)
Hospitality Expenses	78,006	78,362	(356)	(0.5)
Hospitality Gross Margin	26,591	29,971	(3,380)	(11.3)
Investment Income (Loss)	(76,828)	6,355	(83,183)	
Royal Private Residence Club	(135)	-	(135)	
Gross Margin	(50,372)	36,326	(86,698)	
Other Expenses	31,743	35,546	(3,803)	(10.7)
Income (Loss) from Continuing Operations	(82,115)	780	(82,895)	

Hospitality Revenue

Hospitality revenue from continuing operations for the year ended December 31, 2008 decreased by \$3.7 million to \$104.6 million (2007 - \$108.3 million). \$1.6 million of the decline in hospitality revenue is attributable to the London Hilton and the Yellowknife Inn.

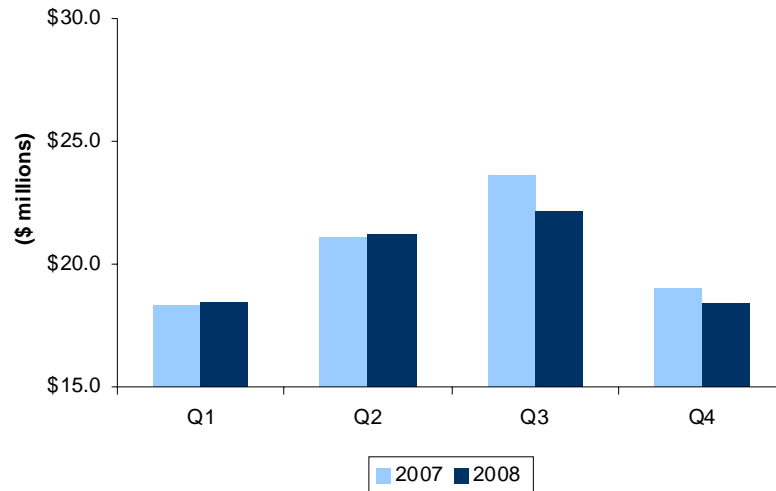
The sale of hotels in 2008 significantly impacted the trust's operating results; for illustrative purposes, the hotels and businesses included in continuing operations represented 73.4% of the Trust's total hospitality revenue for the year ended December 31, 2007.

During 2008, 76.7% (2007 - 75.7%) of the Trust's hospitality revenue was attributable to rooms, 16.4% (2007 - 17.0%) was attributable to the food and beverage, and 2.5% (2007 - 2.7%) was attributable to franchising and management.

(\$000's, except as otherwise noted)	Years ended December 31			
	2008	2007	Change	Change (%)
Revenue (continuing operations)				
Rooms	80,208	82,036	(1,828)	(2.2)
Food and Beverage	17,142	18,400	(1,258)	(6.8)
Franchising and Management	2,631	2,923	(292)	(10.0)
Other	4,616	4,974	(358)	(7.2)
	104,597	108,333	(3,736)	(3.4)

Rooms revenue decreased by 2.2% to \$80.2 million (2007 - \$82.0 million). Growth in ADR was offset by a decline in Occupancy, as described herein under "Room Statistics".

ROOMS REVENUE



Food and beverage revenue derived from restaurants, lounges, banquets and room service, decreased \$1.3 million, or 6.8%, to \$17.1 million (2007- \$18.4 million). The decrease is due to an overall decline in Occupancy and a steep decline in banquets, most notably at the London Hilton. Food and beverage revenue also declined at the Yellowknife Inn as a result of its comprehensive renovation. As at December 31, 2008, the Trust operated 20 food and beverage outlets.

Food and beverage revenue was also impacted by the conclusion of a long-term catering contract at the Travelodge Thunder Bay Airline, softer revenue during the six-month renovation of the Holiday Inn Trenton, and the closure of the restaurant at the Thriftlodge Lethbridge in early 2008. Revenue was largely unchanged in the Trust's other food and beverage operations.

Franchising and management revenue decreased \$0.3 million to \$2.6 million. During 2007, the Trust recognized \$0.3 million of franchise termination fees. As at December 31, 2008, the Trust franchised 98 Travelodge® and Thriftlodge® properties representing 8,794 guest rooms (December 31, 2007 – 102 properties representing 9,085 guest rooms), and managed four properties for third parties.

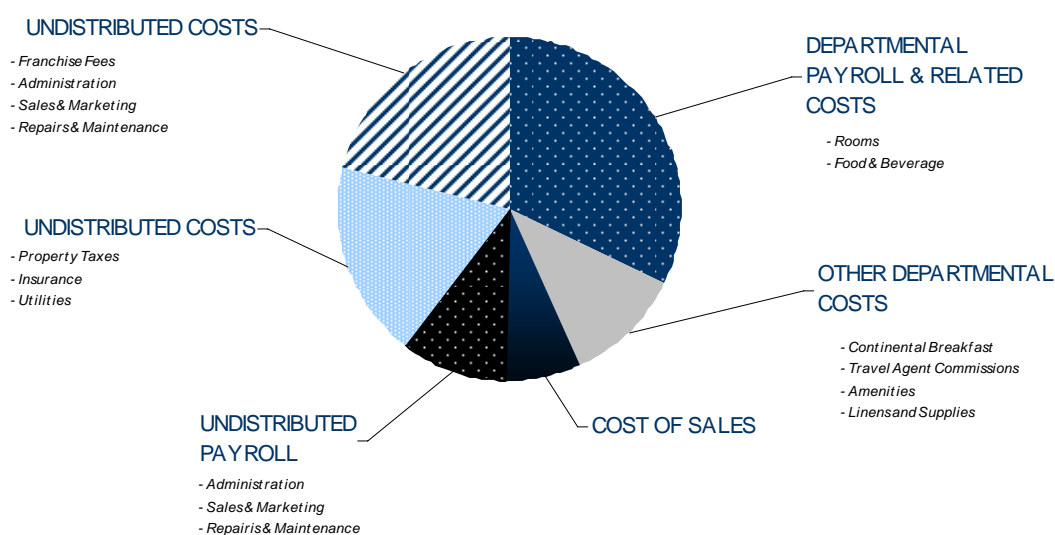
Other revenue decreased to \$4.6 million (2007 - \$5.0 million). Tenant revenue (four of the Trust's properties have leased restaurants) and parking revenue was unchanged for 2007, while telephone and in-room movie revenue declined modestly.

Hospitality Expenses

(\$'000's, except as otherwise noted)	Years ended December 31		Change	Change (%)
	2008	2007		
Hospitality Expenses	78,006	78,362	(356)	(0.5)

Hospitality expenses are comprised mostly of fixed and variable hotel expenses. The following diagram of the categories of hotel expenses is provided for illustrative purposes.

Hotel Expenses



Departmental (rooms and food and beverage) payroll and related costs were relatively flat compared to 2007. Expressed as a percentage of rooms and food and beverage revenue, this category increased one-half of a percentage point, attributable more so to the food and beverage department.

Cost of sales such as the cost of food and beverages and in-room movies decreased significantly from the prior year both in absolute terms as well as a percentage of associated revenue.

Other departmental costs (such as continental breakfast and other amenities, and travel agent commissions) remained constant as a percentage of total hotel revenue compared with the prior year.

Undistributed payroll and related costs (administration, sales and marketing, and property operation and maintenance) increased modestly compared to 2007 due to additional resources being applied to the area of sales.

Other undistributed costs such as franchise fees, utilities, property taxes and insurance increased by \$0.7 million. The increase is attributable to, among other factors, a \$0.2 million allowance for doubtful

accounts related to the economic downturn in certain industries, including the airline industry; as well as a \$0.2 million increase in utilities and a \$0.1 million increase in insurance. Property taxes were unchanged from 2007.

Operating costs in the Trust's franchising and management businesses were relatively stable.

Early in, and throughout, 2008 Management reinforced and introduced additional, strict measures to ensure costs were well controlled.

Hospitality Gross Margin

(\$000's, except as otherwise noted)	Years ended December 31			
	2008	2007	Change	Change (%)
Hospitality Gross Margin	26,591	29,971	(3,380)	(11.3)

Hospitality gross margin decreased by \$3.4 million, or 11.3%, to \$26.6 million in the year ended December 31, 2008 (2007 - \$30.0 million). Hospitality gross margin as a percentage of hospitality revenue decreased to 25.4% (2007- 27.7%).

Rooms margins declined from 2007 levels due to declining rooms revenue resulting from lower Occupancy. Food and beverage margins declined, in part, to fewer high margin banquets.

Investment Income (Loss)

Distributions and interest income on cash and cash equivalents and fixed maturity and equity investments more than doubled to \$11.2 million (2007 - \$5.1 million), as a result of a significantly larger investment portfolio and higher yielding investments. The Trust also recognized \$86.9 million of unrealized losses on marketable securities deemed to have other than temporary impairments. In 2008, the Trust recognized realized losses on marketable securities of \$1.1 million (2007 - \$1.3 million gain).

Royal Private Residence Club

During the year ended December 31, 2008, the Trust recognized \$0.1 million of commissions in cost of sales (2007 - \$nil).

During the first half of 2007, sales of the final condominiums were closed, bringing cumulative sales to 100%. During the year ended December 31, 2007, the Trust recognized revenue from the sale of condominiums of \$1.7 million.

Other Expenses and Income

Interest and accretion on mortgages and capital leases for the year ended December 31, 2008 decreased by \$0.5 million to \$7.5 million (2007 - \$8.0 million) and included \$0.3 million of accretion (2007 - \$0.4 million).

Interest and accretion on convertible debentures for the year ended December 31, 2008 decreased \$0.4 million to \$12.3 million (2007 - \$12.7 million). Interest on convertible debentures was impacted by the issuance of 5.9% convertible debentures in June 2007 and repurchases of convertible debentures. Accretion on convertible debentures decreased to \$1.2 million in 2008 (2007 - \$1.5 million). Accretion is a monthly charge recorded to income to recognize debt issuance costs and the value of any conversion option over the term of the security.

During the year ended December 31, 2008, the Trust recognized discounts/gains on repurchases of its convertible debentures of \$1.5 million (2007 - \$0.6 million premium), representing the excess of the carrying value of the debentures retired over the cost of repurchasing the debentures.

Trust administration expense increased to \$2.5 million (2007 - \$1.7 million), primarily as a result of increased trustee compensation and consulting fees (see "Related Party Transactions").

Depreciation and amortization increased to \$12.6 million (2007 - \$12.3 million), based on capital additions to the Trust's continuing hotel portfolio.

The Trust recognized a future income tax recovery of \$1.8 million during the year ended December 31, 2008. Future income taxes are related to timing differences between tax and accounting values of capital assets and debt issuance costs.

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

The Trust's loss from continuing operations for the year ended December 31, 2008 was \$82.1 million (2007 - \$0.8 million income). Income from discontinued operations was \$102.5 million (2007 - \$13.6 million), as described further in "Discontinued Operations and Property Held For Sale". Net income was \$20.4 million (2007 - \$14.4 million).

The Trust recognized other comprehensive income of \$2.2 million (2007 - \$2.2 million loss). Unrealized losses on marketable securities classified as available-for-sale recognized in other comprehensive income (loss) in 2007 were determined to be other than temporary and, as such, were reversed out of other comprehensive loss and recognized in net income. Unrealized losses included \$78.2 million on the Trust's Holloway Lodging REIT and InnVest REIT trust units. The Trust has sufficient 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 \$22.6 million (2007 - \$12.2 million) for the year ended December 31, 2008.

Maximizing Unitholder Value – Sale of Assets

Royal Host regularly analyzes each of its assets for growth potential, market penetration, market growth, required capital reinvestment and the like, and considers options to maximize the value of its

portfolio. The Trust is driven to achieve the highest risk adjusted returns available, thereby maximizing Unitholder value.

During 2008, Royal Host evaluated opportunities for strategic transactions and undertook asset sales, selling four properties. 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 believed could be effectively deployed at higher rates of return by purchasing marketable securities and repurchasing its Trust units and convertible debentures. The sales of the El Rancho Motor Hotel & Convention Centre, and the U.S. hotel management business in 2007, represented opportunities to sell non-core assets at attractive prices, allowing Management to redeploy resources to the balance of the Trust's portfolio and generate incremental returns.

2008 SALES OF HOTEL PROPERTIES

	Hotel Property	Gross Proceeds (\$000's)	Net Proceeds (\$000's)	Gain On Sale (\$000's)
Q ₁	Travelodge Hotel Burlington on the Lake (Burlington, Ontario) (122 guest rooms)	24,800	24,800	11,700
Q ₂	El Rancho Motor Hotel & Convention Centre (Lethbridge, Alberta) (63 guest rooms)	2,900	2,900	-
	Holiday Inn Edmonton – The Palace (Edmonton, Alberta) (137 guest rooms)	25,000	25,000	13,100
Q ₃	Grand Okanagan Lakefront Resort and Conference Centre (Kelowna, British Columbia) (297 guest rooms)	131,000 ⁽¹⁾	83,600 ⁽¹⁾	78,400

⁽¹⁾ Gross proceeds include \$12.4 million in respect of a casino expansion, which the Trust committed to complete. Net proceeds exclude \$12.4 million in respect of the casino expansion and the \$35.0 million mortgage assumed by the purchaser.

Discontinued Operations

The operations of properties and businesses that were sold prior to December 31, 2008 or that are held for sale as at December 31, 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 four properties sold in 2008 as well as:

- Thriftlodge Fort Nelson (Fort Nelson, British Columbia), which was 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 received in 2008 totaled approximately \$4.5

million, generating a gain on insurance recovery of approximately \$2.1 million. Final property insurance proceeds of \$0.8 million were received in the first quarter of 2009. Management is currently considering the best use of the site.

- Sundial Inn (Orillia, Ontario), which was decommissioned effective January 31, 2008 due to a decline in its financial performance. Management continues to pursue selling this property.
- The Trust's former US hotel management business, which was 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)	Years ended December 31	
	2008	2007
Hospitality Revenue	19,055	39,208
Hospitality Expenses	12,730	24,411
Hospitality Gross Margin	6,325	14,797
Hospitality Gross Margin %	33.2%	37.7%
Other Expenses	7,855	4,928
	(1,530)	9,869
Gain from Insurance Recovery	2,129	-
Gain on Sales	101,893	3,727
Income from Discontinued Operations	102,492	13,596

Hospitality revenue from discontinued operations for the year ended December 31, 2008 was \$19.1 million (2007 - \$39.2 million). 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. The hotels included in discontinued operations represented 26.6% of the Trust's total hospitality revenue for the year ended December 31, 2007.

Income from discontinued operations for the year ended December 31, 2008 increased to \$102.5 million (2007 - \$13.6 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 sales of \$78.4 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, and during 2008 the third quarter of 2008, the Trust recognized a \$1.3 million allowance for a doubtful receivable in discontinued operations.

The Trust recognized future income taxes of \$4.4 million during the year ended December 31, 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 significantly exceeded the corresponding cost basis for tax purposes. As such, Royal Host generated considerable 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 in a given 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. As such, on December 10, 2008, the Trust declared a \$28.0 million (\$1.35 per trust unit) special distribution, and on February 27, 2009 the Trust declared an additional \$2.1 million (\$0.10 per trust unit) special distribution.

The distributions declared in 2008 and the additional special distribution declared in February 2009 are taxable as 2008 income as follows:

	Return of Capital	Capital Gains	Investment Income	Total
Distributions (per trust unit)	\$0.02	\$2.06	\$0.05	\$2.13

Liquidity and Capital Resources

The Trust's principal sources of funds to satisfy cash requirements are cash flows from hospitality operations and distributions and interest income from its portfolio of marketable securities.

Liquidity

As at December 31, 2008, the Trust's financial condition continued to be of high quality, and the Trust had sufficient liquidity. Cash and cash equivalents were \$6.4 million (December 31, 2007 - \$46.8 million), and Royal Host also had access to potential additional borrowing on its unencumbered properties. As at December 31, 2008, marketable securities were \$56.4 million (December 31, 2007 - \$49.9 million).

Factors which most significantly affected the Trust's liquidity in 2008 were the sale of assets, purchases of marketable securities and repurchases of its trust units and convertible debentures.

Royal Host's cash and cash equivalents, additional borrowing potential on its unencumbered properties, 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, planned debt repayments and capital investment, and operating expenses, as well as to pursue other opportunities to create Unitholder value.

The Trust's Series A, 7.9% Convertible Debentures mature on April 30, 2009 (principal outstanding as at December 31, 2008 - \$7.3 million).

The Trust's 2009 debt maturities consist of one mortgage in the amount of \$22.2 million in October 2009, which includes a 6-month extension provision.

The Trust intends to continue to invest in its hotel portfolio in 2009, particularly in circumstances where doing so has the potential to markedly enhance the hotel's ability to compete during these difficult economic times. Costs to complete the casino expansion at the Grand Okanagan Resort (a condition of the sale of the property) totaled \$6.1 million as at December 31, 2008; the project is anticipated to conclude in the first half of 2009.

The Trust is in the process of entering into a \$20 million secured revolving credit facility to enhance its balance sheet.

Royal Host will continue to balance preserving its liquidity and utilizing its cash to maximize Unitholder value.

Marketable Securities

During 2008, Royal Host invested \$92.3 million (net of dispositions) in publicly-traded trust units, convertible debentures, preferred shares and common shares, with the objective of increasing Unitholder value while remaining focused on the hospitality industry.

Management believed that the highest risk-adjusted long-term rate of return was achievable at the time by redeploying cash generated by its asset sales into units of InnVest REIT and Holloway Lodging REIT, hotel real estate investment trusts which offered both income and an expectation of long-term capital appreciation. Both InnVest and Holloway's trust units had declined in price significantly at the times purchases were made and were trading significantly below Management's estimates of underlying value, offering good perceived downside protection.

These investments were perceived to offer attractive yields compared to direct investments in hotels and the additional diversification associated with a larger number of properties, as well as an expectation of above-average capital appreciation.

The global financial crisis resulted in a significant decline in the market value of the Trust's securities portfolio. As at December 31, 2008, the Trust's portfolio of marketable securities had a carrying value of \$56.4 million, net of unrealized losses on marketable securities of \$86.9 million.

In December 2008, the Trust pledged certain of its marketable securities as security for a \$9.5 million letter of credit obtained in connection with the casino expansion project. Royal Host is entitled to reduce the amount of the letter of credit as the cost to complete the casino decreases. Subsequent to

December 31, 2008, the letter of credit was reduced to \$7.8 million, secured by marketable securities with a carrying value of \$9.8 million.

As at December 31, 2008, substantially all of Royal Host's portfolio of marketable securities was invested in equity instruments.

Major Holdings of Marketable Securities

(as at December 31 2008)	# of Units	% of Total	Carrying Value	Monthly Distribution Per Unit	Monthly Distribution
InnVest REIT	10.4 million	14.0%	\$39.9 million	\$0.0625	\$0.7 million
Holloway Lodging REIT	7.7 million	19.9%	\$ 6.7 million	\$0.0175	\$0.1 million

As a result of the higher levels of invested capital in 2008, the Trust realized distribution and interest income of \$11.2 million during the year ended December 31, 2008 (2007 – \$5.1 million).

Subsequent to December 31, 2008, certain marketable securities were sold, primarily for redeployment into repurchases of the Trust's units and convertible debentures.

On November 13, 2008, Holloway Lodging REIT announced the 61% reduction of its monthly cash distributions from \$0.045 per unit to \$0.0175 per unit (\$0.21 per annum), and on November 20, 2008, InnVest REIT announced the 33% reduction of its monthly cash distributions from \$0.09375 per unit to \$0.0625 per unit (\$0.75 per annum).

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 InnVest and/or 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.

Notwithstanding the recent decreases in market prices and distribution reductions, these securities are anticipated to generate attractive returns 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 resources to fund its cash requirements and is under no compulsion to dispose of securities.

In October 2008, InnVest REIT announced that it had adopted a unitholder rights plan for approximately 180 days, subject to regulatory approval, whereby rights to acquire additional trust units of InnVest at a substantial discount became exercisable upon the occurrence of certain triggering events, including the acquisition by a person or group of persons of 15% of more of the outstanding trust units of InnVest in a transaction not approved by InnVest's Board of Trustees.

In December 2008, Royal Host requisitioned a special meeting of InnVest unitholders to consider certain changes to InnVest's Board of Trustees, more specifically, to nominate representatives of Royal Host to the InnVest board. InnVest, in response to this request, called an annual meeting of unitholders to be held on April 14, 2009. Royal Host's proposal, if successful, would be that nominees of Royal Host would occupy a majority of the seats of InnVest's Board of Trustees.

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 2008.

As at December 31, 2008, the Trust also had restricted cash of \$4.7 million (December 31, 2007 - \$4.0 million) in the form of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

Capital Assets

As at December 31, 2008, the Trust had 31 operating hotel properties representing 3,734 guest rooms (December 31, 2007 - 37 hotel properties representing 4,498 guest rooms). During 2008, the Trust sold four hotels representing 619 guest rooms, one hotel was decommissioned and one hotel was destroyed by fire.

Eight of the Trust's hotels are categorized as full service, while 23 are limited service (December 31, 2007 – 14 full service and 23 limited service). Full Service hotels are properties which provide a wide variety of facilities and amenities, including food and beverage outlets, meeting rooms and recreational activities. Limited Service hotels are properties which provides only some of the facilities of a full-service property

As at December 31, 2008, the Trust had 1,467 employees; eight of the Trust's 31 operating hotel properties were unionized.

The Trust made significant investments over the last five years to maintain or enhance the physical condition of its hotels and their respective market positions; 2008 capital improvements are described further under "Cash Flows from Investing Activities". Royal Host's 2009 capital plan calls for continued investment in its hotel portfolio. Management regularly reviews the Trust's cash requirements and will expend cash on individual capital projects as deemed appropriate.

Off Balance Sheet Arrangement

During 2008, Royal Host entered into a \$9.5 million credit facility. As at December 31, 2008, marketable securities with a carrying value of \$11.9 million were pledged as security for a \$9.5 million letter of credit in connection with the Grand Okanagan Resort casino expansion. Otherwise, Royal Host

had no undisclosed off balance sheet arrangements as at December 31, 2008. As at March 10, 2009, the letter of credit had been reduced to \$7.8 million and the carrying value of marketable securities pledged as security was \$9.8 million.

Cash Flows

The following table details the Trust's cash flows:

Cash Flows (\$000's)	Years ended December 31	
	2008	2007
Cash Generated from Operating Activities	22,062	24,196
Cash Utilized in Financing Activities	(103,808)	(16,951)
Cash Generated from (Utilized in) Investing Activities	41,363	(52,566)
Decrease in Cash and Cash Equivalents	(40,383)	(45,321)

Cash Flows From Operating Activities

Cash flows provided by operations totaled \$22.1 million, a \$2.1 million decrease compared to 2007.

CONTINUING OPERATIONS

During 2008, Royal Host's continuing operations provided \$16.7 million of cash flow before changes in working capital, representing a \$2.4 million increase over 2007. A \$6.0 million increase in distribution and interest income was partially offset by a \$3.4 million decline in hospitality gross margin and a \$0.8 million increase in trust administration costs. Interest on mortgages, capital leases and convertible debentures was relatively flat.

DISCONTINUED OPERATIONS

During 2008, Royal Host's discontinued operations provided \$4.5 million of cash flow before changes in working capital, excluding proceeds from the sale of assets (see "Cash Flow From Investing Activities" below), consisting of \$6.3 million of hospitality gross margin less \$1.8 million of interest on mortgages and capital leases.

CHANGES IN NON-CASH WORKING CAPITAL

Changes in continuing non-cash working capital generated \$2.9 million of cash flow (2007 – utilized \$4.3 million). Changes in discontinued non-cash working capital utilized \$2.2 million of cash flows (2007 – generated \$0.6 million), including proceeds received on the sale of the Grand Okanagan Resort and yet to be spent on the casino expansion.

Cash Flows From Financing Activities

REPURCHASES OF SECURITIES

In the interest of delivering value to its Unitholders, the Trust has undertaken a number of Normal Course Issuer Bids (“NCIBs”) and a Substantial Issuer Bid 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.

Significant declines in the price of the Trust’s units and convertible debentures during 2008 offered the Trust the opportunity to repurchase its securities at significant discount to their underlying value.

	NCIB/SIB Term (Maximum)	2008			2007		
		Cost to Repurchase (\$millions)	Average Cost (\$)	Cost (\$millions)	Cost to Repurchase (\$millions)	Average Cost (\$)	Cost (\$millions)
Trust Units	January 2, 2008 to January 1, 2009 (2,157,622 units)	\$10.7 (1,854,940 units)	\$5.74	\$14.7	\$nil	n/a	\$nil
	February 20, 2008 to March 30, 2008 (5,386,000 units)	\$35.2 (5,386,000 units)	\$6.50	\$42.6	\$nil	n/a	\$nil
	December 29, 2006 to December 28, 2007 (2,000,000 units)	\$nil	n/a	\$nil	\$14.5 (2,000,000 units)	\$7.21	\$16.6

	NCIB/SIB Term (Maximum)	2008			2007		
		Cost to Repurchase (\$millions)	Average Cost (\$)	Face Value (\$millions)	Cost to Repurchase (\$millions)	Average Cost (\$)	Face Value (\$millions)
7.9% Convertible Debentures	November 28, 2007 to November 27, 2008 (\$0.8 million)	\$0.5	\$101.00	\$0.4	\$nil	n/a	\$nil
	November 23, 2006 to November 22, 2007 (\$3.5 million)	\$nil	n/a	\$nil	\$3.5	\$118.72	\$2.9
6.0% Convertible Debentures	September 10, 2008 to September 9, 2009 (\$5.5 million)	\$5.3	\$97.13	\$5.5	\$nil	n/a	\$nil
	March 30, 2007 to March 29, 2008 (\$5.9 million)	\$nil	n/a	\$nil	\$1.7	\$108.00	\$1.6
6.25% Convertible Debentures	September 10, 2008 to September 9, 2009 (\$5.9 million)	\$2.8	\$87.84	\$3.1	\$nil	n/a	\$nil
	March 30, 2007 to March 29, 2008 (\$6.0 million)	\$nil	n/a	\$nil	\$0.7	\$106.23	\$0.6
5.9% Convertible Debentures	September 10, 2008 to September 9, 2009 (\$6.0 million)	\$1.9	\$60.00	\$3.2	\$nil	n/a	\$nil

Subsequent to December 31, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.5 million of its issued and outstanding trust units. Subsequent to December 31, 2008, the Trust repurchased 1.0 million trust units with an aggregate cost of \$3.0 million (average cost of \$2.97 per unit), \$2.0 million of its 6.25% convertible debentures with an aggregate cost of \$1.4 million (average cost of \$71.00), and \$0.05 million of its 5.90% convertible debentures with an aggregate cost of \$0.03 million (average cost of \$57.06).

Subsequent to December 31, 2008, the Trust sold certain marketable securities primarily for redeployment into repurchases of the Trust's securities.

DISTRIBUTIONS TO UNITHOLDERS

During 2008, the Trust distributed \$42.7 million to Unitholders, comprised of twelve monthly distributions of \$0.055 per unit, as well as a special distribution of \$1.35 per unit.

Cash Flows From Investing Activities

During 2008, the Trust invested \$92.3 million in marketable securities, net of dispositions, most notably the Trust's acquisition of 9.4 million InnVest trust units.

Asset sales during 2008 contributed \$145.6 million to the Trust's cash position, including \$83.6 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).

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 2008, the Trust's investments totaled \$9.1 million (2007 - \$10.2 million) in capital expenditures, and utilized cash of \$9.3 million (2007 - \$10.5 million).

During 2008, the Trust completed a comprehensive renovation of all guest rooms and public spaces at the Yellowknife Inn. The Trust also replaced beds and carpets in guest rooms at a number of properties, including the Travelodge Toronto Airport Dixon Road property. In addition, the Trust carried out exterior renovations at the Holiday Inn Trenton, lobby renovations at the Ramada Belleville and ballroom and meeting space renovations at the London Hilton.

During 2008, the Trust also expended \$6.4 million on the casino expansion at the Grand Okanagan Lakefront Resort and Conference Centre (a condition of the sale of the property), which is scheduled to be completed in early 2009.

Capital Structure

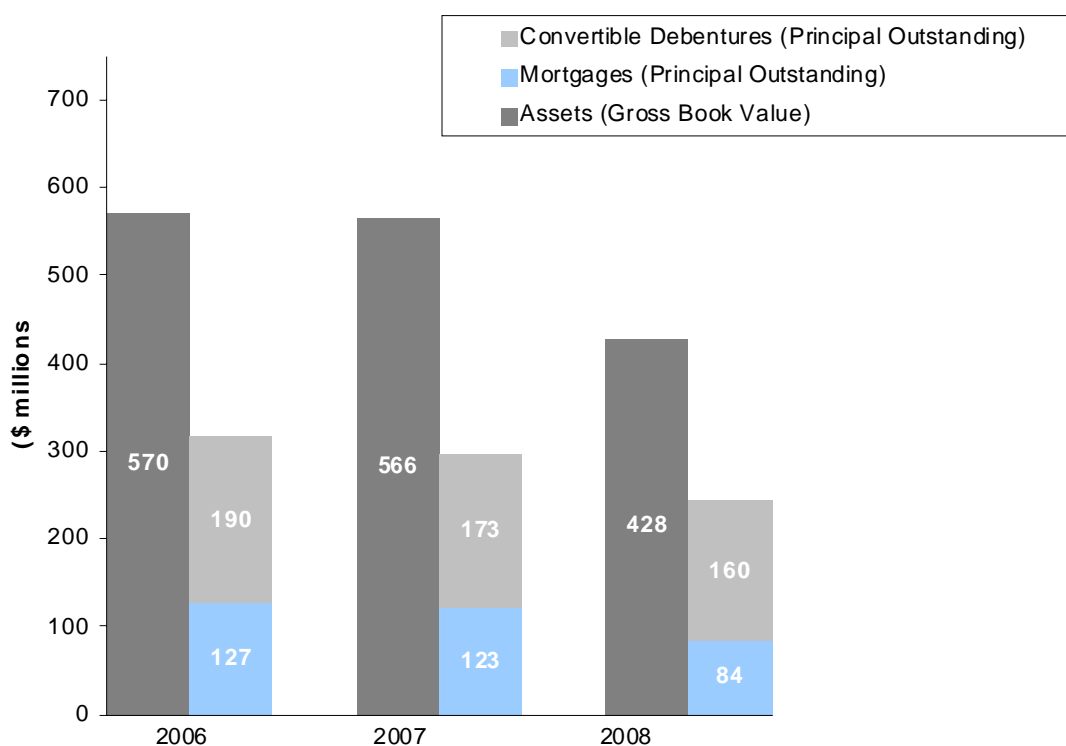
As at December 31, 2008, total debt had an aggregate carrying value of \$243.4 million (December 31, 2007 - \$295.9 million); principal outstanding at December 31, 2008 totaled \$251.8 million (December 31, 2007 - \$307.2 million).

Debt

Royal Host's debt (excluding convertible debentures) is limited by its Declaration of Trust to 45% of gross book value. As at December 31, 2008, Royal Host's debt (excluding convertible debentures) to gross book value was 19.7% (December 31, 2007 - 21.9%). As at December 31, 2008, Royal Host's debt (including convertible debentures) to gross book value was 58.9% (December 31, 2007 - 54.3%).

DEBT TO GROSS BOOK VALUE

As at December 31, 2008
(\$millions)



Mortgages

As at December 31, 2008, the carrying value of the Trust's mortgages was \$83.6 million (December 31, 2007 - \$122.6 million). The carrying value reflects total outstanding principal of \$84.3 million (December 31, 2007 - \$123.8 million) less \$0.6 million of debt issuance costs (December 31, 2007 - \$1.2 million). The \$39.0 million decrease in carrying value during the year is attributable to the

accretion of debt issuance costs of \$0.3 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 \$3.3 million of scheduled mortgage principal repayments made during 2008.

MORTGAGE MATURITIES

As at December 31, 2008	Principal Outstanding (\$000's)	Interest Rate	Security
October 2009*	22,160	7.35%	2 hotel properties
September 2010	25,312	9.38%	11 hotel properties
October 2011	12,363	8.46%	1 hotel property
March 2013	5,237	8.50%	2 hotel properties
October 2013	7,779	7.37%	1 hotel property
November 2018	11,425	9.30%	8 hotel properties
Total	84,276		

*The mortgage maturing in October 2009 includes an additional 6-month extension provision, and Management anticipates being otherwise able to obtain replacement financing if it does not request the extension.

Royal Host is solidly financed; and it will continue to proactively manage its debt maturities.

As at December 31, 2008, the Trust had eight unencumbered properties. The Trust is in the process of entering into a \$20 million secured revolving credit facility to be secured by three hotel properties with interest accruing at the bank's prime lending rate plus a spread of 0.25% to 1.25% per annum, depending on a leverage test.

Royal Host has entered into various capital leases. The present values of future minimum lease payments under capital leases as at December 31, 2008 are as follows:

CAPITAL LEASES

(\$000's)	Total	2009	2010	2011	2012	2013	Thereafter
Capital Leases	277	81	81	81	34	-	-

Convertible Debentures

Royal Host's convertible debentures have a total outstanding balance at December 31, 2008 of \$167.5 million (December 31, 2007 - \$183.2 million). The carrying value of the convertible debentures as at December 31, 2008 is \$159.8 million, reflecting \$5.3 million of debt issuance costs and \$2.5 million of conversion options.

(\$000's)	Maturity Date	December 31, 2008		December 31, 2007		Conversion Price
		Carrying Value	Outstanding Balance	Carrying Value	Outstanding Balance	
Current:						
7.9% Convertible Debenture, Series A	April 2009	7,252	7,288	-	-	\$3.63 ⁽¹⁾
Long Term:						
7.90% Convertible Debenture, Series A	April 2009	-	-	8,025	8,250	
6.00% Convertible Debenture, Series B	October 2015	45,154	47,718	52,317	55,627	\$4.14 ⁽¹⁾
6.25% Convertible Debenture, Series C	September 2013	52,771	55,771	55,585	59,313	\$4.23 ⁽¹⁾
5.90% Convertible Debenture, Series D	June 2014	54,590	56,757	57,380	60,000	\$5.38 ⁽¹⁾
		152,515	160,246	173,307	183,190	

⁽¹⁾ As a result of the special distribution and pursuant to the terms and conditions of the Trust Indenture dated February 21, 2002, as supplemented by a Supplemental Trust Indenture thereto, the conversion prices of the Trust's convertible debentures have been adjusted effective from and after the close of business on December 29, 2008.

During the year ended December 31, 2008, Royal Host repurchased \$12.3 million of convertible debentures and \$3.4 million of the Trust's convertible debentures were converted into 0.5 million trust units.

CONVERSIONS AND REPURCHASES OF CONVERTIBLE DEBENTURES

(\$000's)	7.9% Series A	6.00% Series B	6.25% Series C	5.90% Series D	Total
Outstanding Balance, December 31, 2007	8,250	55,627	59,313	60,000	183,190
Repurchased Pursuant to Normal Course Issuer Bids	(442)	(5,480)	(3,116)	(3,243)	(12,281)
Converted into Trust Units	(520)	(2,429)	(426)	-	(3,375)
Outstanding Balance, December 31, 2008	7,288	47,718	55,771	56,757	167,534

Subsequent to December 31, 2008, the Trust repurchased \$2.1 million of the 6.25% and 5.90% convertible debentures.

MATURITY DATES AND INTEREST RATES

As at December 31,			Weighted Average Maturity (Years)	
	2007	2008	2007	2008
Mortgages	8.20%	8.46%	2.8	2.1
Convertible Debentures	6.13%	6.13%	6.4	5.4
Mortgages and Convertible Debentures	6.97%	6.91%	5.0	4.3

Unitholders' Equity

During the year ended December 31, 2008, equity decreased by \$62.9 million from \$99.7 million to \$36.8 million as illustrated below:

(\$000's)	2007	2008
Unitholders' Equity, Beginning of Year	87,200	99,714
Comprehensive Income	12,166	22,587
Issuance of Trust Units Pursuant to Conversions of Convertible Debentures	31,692	3,063
Repurchases of Trust Units	(14,470)	(45,841)
Distributions to Unitholders	(17,414)	(42,667)
Other	540	(95)
Unitholders' Equity, End of Year	99,714	36,761

As at December 31, 2008, 20,739,003 trust units were issued and outstanding (March 10, 2009 – 19,702,748).

TRUST UNITS	2007	2008
Number of Trust Units, Beginning of Year	24,500,976	27,487,825
Issuance of Trust Units Pursuant to Debenture Conversion Option	5,180,885	492,115
Trust Units Cancelled Pursuant to Normal Course Issuer Bid	(2,194,036)	(1,854,940)
Trust Units Cancelled Pursuant to Substantial Issuer Bid	-	(5,385,997)
Number of Trust Units, End of Year	27,487,825	20,739,003

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 Events

Commencing on January 8, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.5 million of its issued and outstanding trust units (see "Repurchases of Securities").

Selected Annual Information for Three Years

(\$000's, except as otherwise noted)	For the years ended December 31		
	2008	2007	2006
Revenue (Continuing Operations)	104,597	108,333	107,027
Income (Loss)			
From Continuing Operations	(82,115)	780	3,769
From Discontinued Operations	102,492	13,596	10,489
	20,377	14,376	14,258
Basic Per Unit Net Earnings (\$)	0.90	0.55	0.55
Total Assets	310,036	422,413	440,033
Total Long-term Liabilities	220,242	299,922	283,647
Distributions Declared Per Unit (\$)			
Monthly	0.66	0.66	0.50
Special	1.35	-	-
Total	2.01	0.66	0.50

SUMMARY OF QUARTERLY FINANCIAL RESULTS

(\$000's, except as otherwise noted)	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3 (restated)	Q2 (restated)	Q1
Revenue	25,266	27,542	27,638	24,151	26,578	29,740	27,659*	24,357*
Income (Loss)								
From Continuing Operations	(86,271)	1,246	2,940	(30)	(888)	2,293	1,792	(2,417)
From Discontinued Operations	205	75,112	15,087	12,088	578	5,234	3,017	4,766
	(86,066)	76,358	18,027	12,058	(310)	7,527	4,809	2,349
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	(4.13)	0.06	0.14	0.00	(0.03)	0.11	0.07	(0.10)
Diluted	(4.13)	0.06	0.13	0.00	(0.03)	0.11	0.07	(0.10)
Income (Loss) from Total Operations								
Basic	(4.12)	3.54	0.84	0.44	(0.01)	0.29	0.19	0.10
Diluted	(4.12)	3.54	0.84	0.44	(0.01)	0.29	0.19	0.10

Note: the sum of quarterly per unit figures do not equal annual per unit figures

*Includes Royal Private Residence Club.

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

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

Related Party Transactions

At December 31, 2008, Clarke Inc. owned approximately 5.3 million of Royal Host's issued and outstanding trust units and, as such, is a related party. As at December 31, 2008, Royal Host owned Clarke's 6.0% convertible debentures with a carrying value of approximately \$2.1 million, which were included in the Trust's marketable securities.

During the year ended December 31, 2008, the Trust incurred professional and management fees totaling \$0.2 million for services supplied by Clarke Inc. The Trust also entered into an agreement with Clarke Inc. to provide professional and management services to the Trust, to assist primarily with the

Grand Okanagan Resort casino expansion and asset management. The annual advisory fee for these services is \$200,000 per annum.

During the year ended December 31, 2008, the Trust entered into an agreement with a company controlled by a trustee of the REIT to provide consultancy and other executive services, primarily in the area of real estate transactions, and recorded consulting fees of \$300,000. Included in accounts payable and accrued liabilities as of December 31, 2008 is \$25,000 (December 30, 2007 - \$nil).

Business Environment and Outlook

Canadian Economy

The Canadian economy has been profoundly impacted by the severe turmoil in financial markets due to the global financial crisis, a U.S. recession and a fragile global economy. During 2008, the Canadian economy deteriorated markedly into a recession, marked by lower business profits, investment and spending, employment and consumer spending. Notwithstanding global monetary stimulus, the evolution of the global financial crisis and its impact on the Canadian and global economies is unclear. Some economic forecasts suggest the possibility of some strengthening of the U.S. economy in the second half of 2009 and possibly a recovery in late 2009, while others call for a more prolonged period of economic weakness.

Canadian Hotel Sector

The demand for hotel accommodations is significantly impacted by macroeconomic conditions and consumer and business confidence. Although the outlook for the Canadian hotel sector is uncertain, there are presently few favourable lodging sector indicators. Continuing Canadian and International economic uncertainty provide little visibility and make predicting the future difficult.

Pannell Kerr Forster, a recognized industry consultant, has projected the following 2009 lodging statistics:

	Occupancy		ADR (\$)		RevPAR (\$)	
	2008 Forecast	2009 Projection	2008 Forecast	2009 Projection	2008 Forecast	2009 Projection
National	63%	61%	131	133	83	81
Central Canada	61%	59%	130	131	79	78
Western	66%	64%	133	138	88	89
Atlantic	60%	58%	119	120	71	70

{Source: PKF Consulting, February 2009}

2009 is expected to be a very challenging year. Demand for lodging, both corporate and leisure, is anticipated to decline and competition is anticipated to intensify as travelers become more price conscious, in some cases 'trading down' in their choice of accommodations.

The Canadian hotel sector is generally considered to be in a stronger position than in previous sector downturns, with a generally healthy supply and demand balance.

The cessation of conduit (commercial mortgage-backed securities) lending to the Canadian hotel sector, traditionally a significant source of capital, is anticipated to potentially impact the Canadian hotel sector as existing debt matures.

Royal Host

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. Royal Host has a solid financial condition and sufficient liquidity.

Royal Host has, and will continue to, adapt to the economic slowdown by implementing operational contingency plans and comprehensive reviews of operating expenditures. Key priorities include protecting gross margin and cash flows through revenue generation and reducing costs; and enhancing liquidity.

Taxation Changes to Income Trusts

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. Commencing on January 1, 2011, Royal Host will no longer be permitted to deduct for tax purposes its taxable distributions and, as such, will be required to pay tax prior to distribution. Distributions that are classified as return of capital are not subject to this tax.

Management has reviewed applicable legislative provisions and other applicable guidance. Management currently believes that hotel operations, management and franchising are each non-compliant activities, and Royal Host constitutes a SIFT trust. As a result, unless Royal Host disposes of assets and activities that do not qualify under exemptions, 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. Guidelines released by the Minister of Finance on December 15, 2006 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). As at December 31, 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)	2009	2010	Total
Available Safe Harbour Limit	102,526	50,000	152,526

The Trust has deliberated extensively on these matters and continues to consider what actions, if any, it will take as a result of post-2010 legislation.

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 or control:

- general economic conditions and consumer confidence, which determine discretionary spending;
- the state of the airline and other transportation industries, and tourism;
- 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;
- 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, and dependence on business and leisure travel.

In order to mitigate these operating 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; and
- providing incentive-based compensation programs to attract and maintain a high-quality management team.

The hotel industry is seasonal in nature. Generally, hospitality revenue is great in the second and third quarters than in the first and fourth quarters. The Trust manages its cash flows throughout the year to ensure that sufficient cash is available to meet all obligations during periods of lower revenue.

A significant number of the Trust's properties are located in the province of Ontario and are affected by factors specifically affecting the Ontario hotel market.

Workforce Availability

Royal Host's ability to provide services to its customers is dependant on the availability of employees to service its customers. Royal Host periodically reviews market factors to ensure that its compensation programs are competitive.

Competitive Risks

The hotel industry is highly competitive.

Substantially all of Royal Host's hotels are located in developed areas and compete with 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. Development of additional competing hotels in the Trust's markets could adversely affect the profitability of the Trust's hotel operations.

Investment Risks

Royal Host operates solely in the hotel and hospitality sector and is subject to risks inherent in investing in a single industry.

Royal Host's investments are subject to varying degrees of risk generally associated with the ownership of real property. The underlying value of Royal Host's real estate investments and Royal Host's income and ability to make distributions to its Unitholders is dependent upon the ability of Royal Host to operate its hotels in a manner sufficient to maintain or increase revenue and to generate sufficient income in excess of operating expenses.

Illiquidity of Real Estate

Royal Host currently operates 31 hotels. Significant adverse changes in operations of any hotel in the Trust's portfolio could have a material adverse affect on revenues and the Trust's ability to make distributions to its Unitholders.

Real estate investments are relatively illiquid. There can be no assurance that Royal Host will be able to dispose of an investment when it finds a disposition advantageous or necessary or that the sale price of any disposition will recover or exceed the amount of Royal Host's investment. Royal Host's ability to vary its hotel portfolio in response to changes in economic and other conditions is limited. Furthermore, Royal Host may be required to fund ongoing expenditures in periods of economic weaknesses.

Securities Investment Risks

The Trust has invested in publicly-traded securities which are subject to decrease in market value and can be expected to result in volatility of the Trust's cash flows and financial results. Several factors, including economic developments, changes in interest rates, political changes, tax changes and catastrophic events can influence public markets. 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
- maintains sufficient liquidity so that market volatility does not unduly influence the Trust's investment decisions.

Financing Risks

There can be no assurances that Royal Host, upon the incurrence of debt, will be able to meet its debt service obligations and, to the extent that it cannot, Royal Host risks the loss of some or all of its assets to foreclosure. However, Royal Host may not generally incur debt that exceeds 45% of Gross Book Value pursuant to the investment restrictions contained in the Declaration of Trust. Adverse economic conditions could result in higher interest rates, which could increase debt service requirements and could reduce the amounts available for distribution to Unitholders. Royal Host may obtain one or more forms of interest rate protection (swap agreements, interest rate cap contracts, etc.) to hedge against the possible adverse effects of interest rate fluctuations. Adverse economic conditions could cause the terms on which borrowings become available to be unfavourable. In such circumstances, if Royal Host is in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments.

The ability of Royal Host to execute its business plan may in part depend on Royal Host being able to raise financing through equity and/or debt capital markets. Any failure of Royal Host to repay or refinance any or all of its credit facilities or other debt financing arrangements at their respective maturity dates on acceptable terms or to comply with applicable covenants thereunder could have a material adverse effect on Royal Host and its operations and financial results and, as a result, the amount of cash available to fund distribution to Unitholders and the market value of the Trust's convertible debentures and/or trust units. There is no assurance that Royal Host will be able to refinance any or all of its credit facilities or other debt financing arrangements at their respective maturity dates on acceptable terms, or on any basis.

The Trust has developed strategies focused on managing its capital structure with a prudent use of leverage.

Dilution

The number of trust units Royal Host is authorized to issue is unlimited. The Trustees have the discretion to issue additional trust units. Any issuance of trust units may have a dilutive effect on Unitholders..

Uninsured and Underinsured Losses

The Declaration of Trust requires that Royal Host obtain and maintain at all times insurance coverage in respect of potential liabilities of Royal Host and the accidental loss of value of the assets of Royal Host from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties.

Management believes that the insurance coverage maintained by Royal Host is of the type and amount customarily obtained for or by an owner on real property assets. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods that may be uninsurable or not economically insurable. The Trustees use their discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on Royal Host's investments at a reasonable cost and on suitable terms.

This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of Royal Host's lost investment. Certain factors, including inflation, changes in building codes and ordinances and environmental considerations, also might make it infeasible to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by Royal Host might not be adequate to restore its economic position with respect to such property.

Risks of Operating Hotels Under Franchise Agreements

The majority of the Trust's hotels in the Hotel Portfolio are subject to franchise agreements and hotels in which Royal Host invests subsequently may also be operated pursuant to franchise agreements. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a hotel or Royal Host to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement.

It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Trustees determine are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Trustees may elect to allow the franchise agreement to lapse. In any case, if a franchise is terminated, Royal Host may seek to obtain a suitable replacement franchise, or to operate the hotel independent of a franchise agreement. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. However, the risk of loss of a franchise agreement is mitigated by Royal Host holding the master franchise for Travelodge® in Canada.

Reliance on Key Personnel

Royal Host depends on the services of key personnel. The loss of the services of any key personnel could have an adverse effect on Royal Host.

Potential Conflicts of Interest

Royal Host may be subject to various conflicts of interest because of the fact that its officers as well as the Trustees are engaged in a wide range of business activities. Royal Host may become involved in transactions that conflict with the interests of the foregoing.

The Trustees and the officers of Royal Host may from time to time deal with persons, firms, institutions or corporations with which Royal Host may be dealing, or which may be seeking investments similar to those desired by Royal Host. The interests of these persons could conflict with those of Royal Host. In addition, from time to time, these persons may be competing with Royal Host for available investment opportunities.

Any decisions regarding the approval or enforcement of the terms of any agreement entered into by Royal Host with a Trustee who is not an Independent Trustee, or with an associate of a non-Independent Trustee, may be made by a majority of two-thirds of the Independent Trustees.

The Declaration of Trust contains "conflicts of interest" provisions requiring Trustees and officers of Royal Host to disclose material interests in material contracts and transactions and refrain from voting thereon. See "Management of Royal Host – Conflicts of Interest Restrictions and Provisions".

As at the date hereof, Royal Host is not aware of any existing or potential material conflicts of interest between Royal Host and any Trustee or officer of Royal Host.

Restrictions on Potential Growth

The payout by Royal Host of substantially all of its cash flow and the restrictions in the Declaration of Trust on incurrence of debt make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of Royal Host and its cash flow.

Changes in Legislation / Investment Eligibility

There can be no assurance that the treatment of mutual fund trusts will not be changed in a manner that adversely affects Unitholders. If Royal Host ceases to qualify as a "mutual fund trust" under the Tax Act, Royal Host's trust units will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds.

Royal Host will endeavour to ensure that its trust units continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible

investments and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time.

Mutual Fund Trust Status

It is intended that Royal Host continue to qualify as a mutual fund trust for the purposes of the Tax Act. Royal Host may not, however, always be able to satisfy any future requirements for the maintenance of mutual fund trust status. Should the status of Royal Host as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for Royal Host and Unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- Royal Host would be taxed on certain types of income distributed to Unitholders. Payment of this tax may have adverse consequences for some Unitholders, particularly Unitholders that are non-residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.
- Royal Host would cease to be eligible for the capital gains refund mechanism available under the Tax Act.
- Trust units held by Unitholders that are not residents of Canada would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a disposition of Units held by them.
- Royal Host's debentures and trust units would not constitute qualified investments for exempt plans. If, at the end of any month, an exempt plan holds securities that are not qualified investments, the Plan must pay a tax equal to 1% of the fair market value of the securities at the time the securities were acquired by the Plan. An RRSP or RRIF holding non-qualified investments would be subject to taxation on income attributable to the non-qualifying investments and an RESP may have its registration revoked.
- Royal Host would be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by Royal Host may have adverse income tax consequences for certain Unitholders, including non-resident persons and residents of Canada that are otherwise exempt from Canadian income tax.

In addition, Royal Host may take certain measures in the future, to the extent Royal Host believes them necessary, to ensure that Royal Host maintains its status as a mutual fund trust. These measures could be adverse to certain holders of Units.

Nature of Units

A return on an investment in trust units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in the trust units by a Unitholder is at risk, and

the anticipated return on a Unitholder's investment is based on certain performance assumptions. Although Royal Host intends to make distributions of its available cash to Unitholders, these cash distributions are not guaranteed and may be reduced or suspended. The actual amount distributed will depend on numerous factors disclosed in Royal Host's continuous disclosure documents, including the financial performance of the hotels in its portfolio, its debt covenants and obligations, working capital requirements and future capital requirements. In addition, the market value of the trust units may decline if Royal Host is unable to meet cash distribution targets in the future or for various other reasons, and that decline may be significant. The after-tax return from an investment in trust units to Unitholders subject to Canadian income tax can be made up of both a return on and a return of capital. That composition may change over time, thus affecting a Unitholder's after-tax return. Returns on capital are generally taxed as ordinary income in the hands of a Canadian-resident Unitholder. Returns of capital to a Canadian-resident Unitholder are generally tax-deferred (and reduce the Unitholder's cost base in the Units for tax purposes). Both types of returns are generally subject to tax withheld at source in the case of non-resident Unitholders.

Trust units are not traditional equity investments. Trust units represent an undivided ownership interest in Royal Host. As holders of trust units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or rights to dissent from fundamental transactions undertaken by a corporation and to apply to court to be paid "fair value" for their securities. As well, Royal Host may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of Unitholders upon an insolvency is uncertain.

Trust units are not debt instruments and are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. Further, cash distributions are not guaranteed amounts and may fluctuate with the financial performance of Royal Host. The trading price of the trust units can be greatly affected by such financial performance and Royal Host's anticipated cash distribution levels. The market value of the Units could decline if Royal Host was unable to maintain its cash distribution levels in the future and that deterioration could be significant.

Unitholder Limited Liability

Because laws related to real estate investment trusts involve uncertainties, there is a risk, albeit remote that Unitholders could be held personally liable for the Trust's obligations to the extent that such obligations are not satisfied by Royal Host, subject to protection afforded by the *Income Trusts Liability Act (Alberta)* which limits the liability of unitholders of income trusts governed by the laws of the Province of Alberta.

Environmental Risks

The Trust is subject to numerous federal, provincial and local laws and regulations concerning the environment. Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate such property properly, may adversely affect the owner's ability to borrow using such real property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at the disposal or treatment facility, whether or not such facility is or ever was owned or operated by such person. In connection with the ownership of the hotel portfolio, Royal Host may be potentially liable for any such costs. Phase I environmental audits are obtained on all of the hotels acquired by Royal Host. The purpose of Phase I audit reports is to identify potential sources of contamination for which the hotels may be responsible and to assess the status of environmental regulatory compliance. Phase I audit reports received to date have not revealed any environmental liability that Royal Host believes would have a material adverse effect on Royal Host's business, assets or results of operations, nor is Royal Host aware of any such liability. Nevertheless, it is possible that these reports do not reveal all environmental liabilities or that there are material environmental liabilities of which Royal Host is unaware. Royal Host also maintains environmental impairment insurance on all properties.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Trust is communicated to management, including the Executive Vice President/Chief Financial Officer, on a timely basis to allow timely and appropriate decisions regarding required public disclosure.

An evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures was conducted as of December 31, 2008, by Management under the supervision of the Executive Vice President/Chief Financial Officer (in the capacity of both Chief Financial Officer and Chief Executive Officer for this purpose) evaluated the effectiveness of Royal Host's disclosure controls and procedures as at December 31, 2008. Based on that evaluation, the Executive Vice President/Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2008.

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

Management, under the supervision of the Executive Vice President/Chief Financial Officer, has evaluated the effectiveness of the Trust’s ICFR using the COSO framework, published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the design and operating effectiveness of the trust’s ICFR was effective as of December 31, 2008.

Changes In Controls Over Financial Reporting

There have been no changes in Royal Host’s internal control over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, Royal Host’s internal control over financial reporting.

Subsequent to December 31, 2008, certain management changes occurred and certain management responsibilities were reassigned. These changes have not materially affected Royal Host’s internal controls over financial reporting.

Key Accounting Policies and Estimates

Note 2 to the consolidated financial statements for the year ended December 31, 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

On February 13, 2008, the Accounting Standards Board ("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 2010.

The Trust's Consolidated Financial Statements are currently prepared in accordance with Canadian GAAP and may be significantly different when presented in accordance with IFRS.

The Trust's management is currently in the process of evaluating the potential impact of IFRS to its consolidated financial statements. The International Accounting Standards Board ("IASB") is currently undertaking a significant reform program. As a result, a number of international standards are subject

to new issuance, update and revision. Current and proposed projects will result in changes to standards, and the changes could materially affect how Royal Host would account for transactions. Management will continue to monitor standards issued by the ISAB and the AcSB, as well as regulations issued by the CSA, which may affect the timing, nature or disclosure of the Trust's adoption of IFRS.

The Trust has performed a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential impact of the adoption of IFRS to accounting and reporting processes, disclosure, information systems and business processes. The Trust is currently in the process of developing an IFRS convergence plan. An IFRS Steering Committee comprised of senior level management will monitor the Trust's IFRS Convergence Project and provide periodic updates to the Trust's Senior Management, Audit Committee and Board of Trustees.

The Trust's IFRS Convergence Plan will encompass, among other elements of adoption of IFRS: differences between Canadian GAAP and IFRS; training and education of employees; resource requirements; assessing impact on internal controls over financial reporting; assessing impact on business activities; assessing impact on information systems; and communication.

Goodwill and 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.

Cautionary Statement Regarding Forward-looking Information and Statements

This MD&A sets out Management's assessment of the Trust's future plans and operations and contains forward-looking statements as defined under applicable Canadian securities legislation. These forward-looking statements typically contain the words "anticipate", "believe", "estimate", "expect", "may", "will", "should", "plan" or other similar terms 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 Management's expectations, estimates and assumptions, although considered reasonable, may prove to be incorrect and readers should not place undue reliance on forward-looking statements. 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. The Trust's actual results could differ materially from those expressed in, or implied by, these forward-looking statements. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Royal Host does not undertake to update forward-looking statements should its estimates or assumptions change, except as required by law. Additional information relating to Royal Host and the risks to which its business is subject is contained in its Annual Information Form, which is available at www.sedar.com.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements

2008

FOR THE YEAR ENDED DECEMBER 31, 2008

ROYAL HOST[®]
HOTELS & RESORTS^{REIT}

March 9, 2009

Auditors' Report

To the Unitholders of Royal Host Real Estate Investment Trust

We have audited the consolidated balance sheet of Royal Host Real Estate Investment Trust (the "Trust") as at December 31, 2008 and 2007 and the consolidated statements of net income and comprehensive income, cash flows, and unitholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

	As at	
	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	6,440	46,823
Marketable securities	56,350	49,874
Accounts, notes and distributions receivable	4,876	8,464
Prepaid expenses	2,588	3,225
Assets of discontinued operations (Note 6)	1,177	46
Inventories (Note 7)	2,220	3,327
Future income taxes (Note 16)	-	1,316
	<u>73,651</u>	<u>113,075</u>
Capital assets (Note 8)	229,614	303,359
Property held for sale (Note 6)	2,025	2,025
Restricted cash	4,746	3,954
	<u>310,036</u>	<u>422,413</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (Note 19)	11,869	14,314
Equity distributions payable (Note 18)	1,141	1,512
Interest accrued on convertible debentures	1,445	1,592
Mortgages (Note 9)	24,636	3,325
Convertible debentures (Note 10)	7,252	-
Obligations under capital leases (Note 11)	65	119
Other liabilities	269	1,872
Liabilities of discontinued operations (Note 6)	6,356	43
	<u>53,033</u>	<u>22,777</u>
Mortgages (Note 9)	59,000	119,298
Convertible debentures (Note 10)	152,515	173,307
Obligations under capital leases (Note 11)	178	242
Deferred revenue	408	168
Future income taxes (Note 16)	8,141	6,907
	<u>273,275</u>	<u>322,699</u>
Unitholders' equity (Note 12)	<u>36,761</u>	<u>99,714</u>
	<u>310,036</u>	<u>422,413</u>

Commitments, Contingencies and Guarantees (Note 25)

See accompanying Notes to the Consolidated Financial Statements.

Approved on behalf of the Board of Trustees:

As signed by

George Armojan
Chairman of the Board

As signed by

Melinda M. Lee
Chairman of the Audit Committee

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Income and Comprehensive Income
in \$000's (except per unit amounts)

	Years Ended	
	December 31, 2008	December 31, 2007
Hospitality revenue		
Rooms	80,208	82,036
Food and beverage	17,142	18,400
Franchising and management	2,631	2,923
Other	4,616	4,974
	<u>104,597</u>	<u>108,333</u>
Hospitality expenses	<u>78,006</u>	<u>78,362</u>
	<u>26,591</u>	<u>29,971</u>
Investment (loss) income		
Distributions and interest	11,185	5,146
Unrealized losses on marketable securities	(86,915)	(78)
Realized (losses) gains on marketable securities	(1,098)	1,287
	<u>(76,828)</u>	<u>6,355</u>
Royal Private Residence Club (Note 5)		
Revenue	-	1,675
Cost of sales	135	1,675
	<u>(135)</u>	<u>-</u>
	<u>(50,372)</u>	<u>36,326</u>
Other expenses		
Trust administration (Note 19)	2,508	1,716
Interest and accretion on mortgages and capital leases	7,512	8,015
Interest and accretion on convertible debentures	12,291	12,714
(Discount) premium on convertible debenture repurchases	(1,463)	637
Depreciation and amortization	12,616	12,307
Future income taxes recovery (Note 16)	(1,829)	(109)
Capital and other taxes	-	126
Loss on foreign currency translation	108	140
	<u>31,743</u>	<u>35,546</u>
(Loss) income from continuing operations	<u>(82,115)</u>	<u>780</u>
Income from discontinued operations (Note 6)	<u>102,492</u>	<u>13,596</u>
Net income	<u>20,377</u>	<u>14,376</u>
Other comprehensive income (loss) (Note 17)	<u>2,210</u>	<u>(2,210)</u>
Comprehensive income	<u>22,587</u>	<u>12,166</u>
Basic per unit net earnings (Note 14)		
- from continuing operations	(3.61)	0.03
- from discontinued operations	4.51	0.52
	<u>0.90</u>	<u>0.55</u>
Diluted per unit net earnings (Note 14)		
- from continuing operations	(3.61)	0.03
- from discontinued operations	4.51	0.52
	<u>0.90</u>	<u>0.55</u>

See accompanying Notes to the Consolidated Financial Statements.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

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

	Trust Units	Convertible Equity	Contributed Surplus	Accumulated Income	Accumulated Other Comprehensive Loss	Distributions	Total
Balance, December 31, 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)	-	-	-	14,376	(2,210)	-	12,166
Equity distributions							
Trust units	-	-	-	-	-	(17,414)	(17,414)
Issuance of trust units pursuant to distribution reinvestment plan	9	-	-	-	-	-	9
Issuance of trust units pursuant to debenture conversion option	31,772	(80)	-	-	-	-	31,692
Trust units repurchased pursuant to normal course issuer bid (Note 11)	(16,601)	-	2,131	-	-	-	(14,470)
Employee loans pursuant to employee unit purchase program	183	-	-	-	-	-	183
Convertible debentures repurchased pursuant to normal course issuer bid (Note 11)	-	(63)	-	-	-	-	(63)
Conversion option related to issuance of convertible debentures (Note 9)	-	300	-	-	-	-	300
Balance, December 31, 2007	217,138	3,637	9,628	39,163	(2,210)	(167,642)	99,714
Comprehensive income (Note 17)	-	-	-	20,377	2,210	-	22,587
Equity distributions							
Trust units	-	-	-	-	-	(42,667)	(42,667)
Issuance of trust units pursuant to debenture conversion option (Note 10)	3,144	(81)	-	-	-	-	3,063
Convertible debentures repurchased pursuant to normal course issuer bid (Note 13)	-	(263)	-	-	-	-	(263)
Trust units repurchased pursuant to normal course issuer bid (Note 13)	(14,650)	-	3,999	-	-	-	(10,651)
Trust units repurchased pursuant to substantial issuer bid (Note 13)	(42,572)	-	7,382	-	-	-	(35,190)
Employee loans pursuant to employee unit purchase program	153	-	15	-	-	-	168
Balance, December 31, 2008	163,213	3,293	21,024	59,540	-	(210,309)	36,761

Accumulated income, accumulated other comprehensive loss and distributions at December 31, 2008 were (\$150,769) (December 31, 2007 - (\$130,689)).

See accompanying Notes to the Consolidated Financial Statements.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

in \$000's

	Years Ended	
	December 31, 2008	December 31, 2007
Operating activities		
(Loss) income from continuing operations	(82,115)	780
Items not affecting cash:		
Depreciation and amortization	12,616	12,307
Future income taxes recovery	(1,829)	(109)
Unrealized losses on marketable securities	86,915	78
Realized losses (gains) on marketable securities	1,098	(1,287)
(Discount) premium on repurchases of convertible debentures	(1,463)	637
Accretion on mortgages and capital leases	296	363
Accretion on convertible debentures	1,230	1,544
Cash flows provided by continuing operations	16,748	14,313
Cash flows provided by discontinued operations (Note 6)	4,538	12,014
Changes in non-cash working capital - continuing operations (Note 15)	2,927	(4,279)
Changes in non-cash working capital - discontinued operations (Note 6)	(2,151)	597
Decrease in property under development	-	1,551
	22,062	24,196
Financing activities		
Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bid	(45,841)	(15,515)
Repurchases of convertible debentures pursuant to normal course issuer bids	(10,468)	(5,816)
Equity distributions	(43,038)	(17,125)
Principal repayments on mortgages and capital leases - continuing operations	(3,345)	(3,486)
Principal repayments on mortgages and capital leases - discontinued operations (Note 6)	(1,284)	(247)
Proceeds from repayment of employee unit purchase program loan	168	183
Issuance of convertible debentures	-	60,000
Debt issuance costs	-	(2,476)
Redemption upon maturity of convertible debentures	-	(32,469)
	(103,808)	(16,951)
Investing activities		
Net cash on dispositions of capital assets (Note 6)	145,597	5,451
Net acquisitions on expansion of property - discontinued operations (Note 6)	(6,350)	-
Purchases of marketable securities	(110,170)	(107,819)
Dispositions of marketable securities	17,892	58,943
Acquisitions of capital assets - continuing operations	(8,518)	(9,712)
Acquisitions of capital assets - discontinued operations (Note 6)	(823)	(783)
Net cash on insurance recovery (Note 6)	4,527	-
(Increase) decrease in restricted cash and restricted cash equivalents	(792)	1,307
Decrease in long-term notes receivable	-	47
	41,363	(52,566)
Decrease in cash and cash equivalents	(40,383)	(45,321)
Cash and cash equivalents, beginning of year	46,823	92,144
Cash and cash equivalents, end of year	6,440	46,823
Cash interest paid		
Mortgages and capital leases	9,038	10,189
Convertible debentures	11,208	13,604
	20,246	23,793

See accompanying Notes to the Consolidated Financial Statements.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

***1.* GENERAL INFORMATION**

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

***2.* SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of Accounting

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

(b) Use of Estimates

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

(c) Principles of Consolidation

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

(d) Revenue Recognition

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

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

(e) Capital Assets

Hotel properties are recorded at the lower of cost less accumulated amortization less any recognized impairments.

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

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

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

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

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of Long-Lived Assets

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

(g) Inventories

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

Effective January 1, 2008, when circumstances that previously caused inventory 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 any previous write down is reversed. The Trust's financial statements do not reflect any reversals of previous writedowns.

(h) Financial Instruments and Comprehensive Income

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

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

CICA Handbook Section 1530, "*Comprehensive Income*" requires an entity to recognize unrealized gains and losses on financial instruments that are classified as available-for-sale in "other comprehensive income", an account included in unitholders' equity. When such gains and losses are realized or when the asset is impaired, the amount is recognized in net income.

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

Debt issuance costs are initially recorded as a reduction of the average carrying value of the debt to which they relate. Over the term of the debt the long term liability will increase to the face value of the debt through the use of the effective interest method, with the accretion being included in interest on mortgages or interest on convertible debentures on the consolidated statement of net income and comprehensive income.

(i) Income Taxes

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

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

(j) Cash and Cash Equivalents

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Restricted Cash

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

(l) Foreign Currency Translation

Foreign currency balances are translated at the balance sheet date with any gains or losses recognized in net income.

3. CHANGES IN ACCOUNTING POLICIES

(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.

4. 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 December 31, 2008. The significant changes, along with the impact on the financial statements of Royal Host are as follows:

(a) International Financial Reporting Standards

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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

4. FUTURE CHANGES IN ACCOUNTING POLICIES (continued)

(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.

5. 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. All condominium sales were closed in 2007.

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

The operations of properties and businesses that were disposed of prior to December 31, 2008 and those held for sale as at December 31, 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 year ended December 31, 2008, Royal Host received insurance proceeds of \$4.5 million. Subsequent to December 31, 2008, Royal Host received additional proceeds of \$0.8 million. The Trust recognized a gain from insurance recovery of \$2.1 million during the year ended December 31, 2008.

Effective January 31, 2008, the Trust decommissioned the Sundial Inn in Orillia, Ontario. Royal Host continues to pursue disposing of this property. The carrying amount of this property is recorded as property held for sale.

On February 21, 2008, Royal Host sold the Travelodge Hotel Burlington on the Lake for total proceeds of \$24.8 million. The Trust, after selling expenses of \$0.4 million, recognized a gain on the sale of \$11.7 million during the year ended December 31, 2008.

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 year ended December 31, 2008. The Trust, after selling expenses of \$0.1 million, recognized a loss on the sale of \$19,000.

On June 9, 2008, Royal Host sold the Holiday Inn Edmonton - The Palace for total proceeds of \$25.0 million. The Trust, after selling expenses of \$0.3 million, recognized a gain on the sale of \$13.1 million during the year ended December 31, 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 total proceeds of \$131.0 million were reduced by \$35.0 million as the purchaser assumed the existing mortgage. The Trust, after selling expenses of \$0.4 million, recognized a gain on the sale of \$78.4 million during the year ended December 31, 2008. Liabilities of discontinued operations include \$6.1 million of costs to complete the expansion of the casino, as agreed with the purchaser.

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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

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

	Years Ended (in \$000's)	
	December 31, 2008	December 31, 2007
Hospitality revenue		
Rooms	10,321	23,254
Food and beverage	4,762	8,909
Management	603	950
Other	3,369	6,095
	<u>19,055</u>	<u>39,208</u>
Hospitality expenses	<u>12,730</u>	<u>24,411</u>
Gross margin	<u>6,325</u>	<u>14,797</u>
Other expenses		
Depreciation and amortization	1,329	2,919
Interest and accretion on mortgages and capital leases	2,018	2,769
Property impairment provision	132	-
Future income taxes (recovery)	4,379	(863)
Capital and other taxes	(2)	75
Loss on foreign currency translation	(1)	28
	<u>7,855</u>	<u>4,928</u>
	(1,530)	9,869
Gain from insurance recovery	2,129	-
Gains on sales	<u>101,893</u>	<u>3,727</u>
Income from discontinued operations	<u>102,492</u>	<u>13,596</u>

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

	Years Ended (in \$000's)	
	December 31, 2008	December 31, 2007
Operating activities		
Income from discontinued operations	102,492	13,596
Items not affecting cash:		
Future income taxes (recovery)	4,379	(863)
Depreciation and amortization	1,329	2,919
Gain from insurance recovery	(2,129)	-
Gains on sales	(101,893)	(3,727)
Accretion on mortgages and capital leases	228	89
Property impairment provision	132	-
Cash flows provided by discontinued operations	<u>4,538</u>	<u>12,014</u>
Financing activities		
Principal repayments on mortgages and capital leases	<u>(1,284)</u>	<u>(247)</u>
Investing activities		
Acquisitions of capital assets	<u>(823)</u>	<u>(783)</u>
Changes in non-cash working capital		
Assets of discontinued operations	(946)	5,504
Liabilities of discontinued operations	(1,205)	(4,907)
	<u>(2,151)</u>	<u>597</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

7. INVENTORIES

Inventories are comprised of the following items:

	<i>(in \$000's)</i>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Linens	1,342	1,843
Food and beverage	436	659
China, glassware and other	442	825
	<u>2,220</u>	<u>3,327</u>

During the year ended December 31, 2008, respectively, hospitality expenses included \$4.5 million (December 31, 2007 - \$4.9 million) of cost of goods sold related to the inventory items listed above.

8. CAPITAL ASSETS

	<i>(in \$000's)</i>		
December 31, 2008	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Buildings	255,553	67,580	187,973
Land	28,679	-	28,679
Furniture, fixtures and equipment	43,121	35,635	7,486
Other	1,003	187	816
	<u>328,356</u>	<u>103,402</u>	<u>224,954</u>
Capital assets under development	338	-	338
Intangible assets:			
Franchise rights and management contracts	18,542	14,220	4,322
	<u>347,236</u>	<u>117,622</u>	<u>229,614</u>
		<i>(in \$000's)</i>	
December 31, 2007	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
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 year ended December 31, 2008, capital additions to Royal Host's hotel properties totalled \$9.1 million (December 31, 2007 - \$10.2 million).

9. MORTGAGES

	<i>(in \$000's)</i>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Mortgages secured by hotel properties	83,636	122,623
Less: current portion	24,636	3,325
	<u>59,000</u>	<u>119,298</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

9. MORTGAGES (continued)

Principal repayments required for the twelve months ending December 31:

	<u>(in \$000's)</u>
2009	24,894
2010	25,668
2011	13,087
2012	1,506
2013	12,190
Subsequent	6,931
Total principal outstanding	<u>84,276</u>
Debt issuance costs	<u>(640)</u>
	<u><u>83,636</u></u>

Mortgages bear interest at rates ranging from 7.35% to 9.38% per annum (2007 - 7.35% to 9.38%) with a weighted average year-end rate of 8.46% per annum (2007 - 8.20%) and mature between 2009 and 2018. The mortgages are secured by fixed charges over specified hotel properties.

As at December 31, 2008, Royal Host had undrawn credit facilities totalling \$nil (2007 - \$12.0 million) secured by first charges over two hotels.

As at December 31, 2008, marketable securities with a carrying value of \$11.9 million were pledged as security for a \$9.5 million letter of credit. (See Note 23)

On January 1, 2008, certain wholly-owned subsidiaries of Royal Host were amalgamated in connection with the reorganization of the Trust. One of Royal Host's lenders has asserted that the amalgamation constituted an event of default under the loan agreement. The mortgage matures on October 2009 and is classified as current on the Trust's balance sheet. Royal Host and the lender are working towards a restated loan agreement.

10. CONVERTIBLE DEBENTURES

	<u>(in \$000's)</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2008</u>	<u>2008</u>	<u>2007</u>
7.90% Convertible Unsecured Subordinated Debentures, Series A	7,252		8,025
6.00% Convertible Unsecured Subordinated Debentures, Series B	45,154		52,317
6.25% Convertible Unsecured Subordinated Debentures, Series C	52,771		55,585
5.90% Convertible Unsecured Subordinated Debentures, Series D	54,590		57,380
	<u>159,767</u>		<u>173,307</u>
Less: current portion	7,252		-
	<u><u>152,515</u></u>		<u><u>173,307</u></u>

Principal repayments required for the twelve months ending December 31:

	<u>(in \$000's)</u>
2009	7,288
2010	-
2011	-
2012	-
2013	55,771
Subsequent	104,475
Total principal outstanding	<u>167,534</u>
Debt issuance costs	(5,308)
Equity conversion option	<u>(2,459)</u>
	<u><u>159,767</u></u>

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

10. CONVERTIBLE DEBENTURES (continued)

Convertible debentures may be convertible into Trust units at any time at the conversion rate established in effect on that date. The conversion rate shall be subject to adjustment from time to time based on a number of factors. At December 31, 2008, the current conversion rates were adjusted to be 60.47% of those rates. The factor contributing to the reduction relates to the special distributions declared and paid at December 31, 2008. The revised current conversion rate of 60.47% is an estimate and is subject to audit.

(a) 9.25% Convertible Unsecured Subordinated Debentures

During the year ended December 31, 2007, \$5.6 million of Royal Host's 9.25% convertible unsecured subordinated debentures were converted into 0.8 million trust units. The remaining \$32.5 million of the 9.25% convertible unsecured subordinated debentures were redeemed upon maturity on March 1, 2007.

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

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

The Series A debentures may not be redeemed by Royal Host prior to the maturity date. At maturity on April 30, 2009, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of maturity.

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

During the year ended December 31, 2008, \$0.5 million (December 31, 2007 - \$23.8 million) of Royal Host's 7.90% convertible unsecured subordinated debentures were converted into 0.1 million trust units (December 31, 2007 - 4.0 million trust units).

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

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

The Series B debentures may not be redeemed by Royal Host prior to October 31, 2009. On or after October 31, 2009, but prior to October 31, 2011, the debentures are redeemable, in whole at any time or in part from time to time, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$6.85 per unit. After October 31, 2011, but prior to the maturity date of October 31, 2015, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity.

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

In accordance with EIC ("Emerging Issues Committee") 158, "Accounting for Convertible Debt Instruments", the principal amount of the debenture has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$58.3 million was recorded as a long-term liability with the balance of \$1.7 million recorded as Conversion Option in unitholders' equity. The long-term liability will increase to the \$60.0 million face value of the debenture over its ten year term, with the accretion being included in interest on convertible debentures on the consolidated statements of income and comprehensive income.

During the year ended December 31, 2008, \$2.4 million (December 31, 2007 - \$2.8 million) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into 0.4 million trust units (December 31, 2007 - 0.4 million trust units).

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

10. CONVERTIBLE DEBENTURES (continued)

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

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

The Series C debentures may not be redeemed by Royal Host prior to September 30, 2009. On or after September 30, 2009, but prior to September 30, 2011, the debentures are redeemable, in whole at any time or in part from time to time, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$7.00 per unit. After September 30, 2011, but prior to the maturity date of September 30, 2013, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity.

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

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

In accordance with EIC 158, "Accounting for Convertible Debt Instruments", the principal amount of the debenture has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$58.2 million was recorded as a long-term liability with the balance of \$1.8 million recorded as Conversion Option in equity. The long-term liability will increase to the \$60.0 million face value of the debenture over its seven year term, with the accretion being included in interest on convertible debentures on the consolidated statements of income and comprehensive income.

During the year ended December 31, 2008, \$0.4 million (December 31, 2007 - \$0.1 million) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into 0.1 million trust units (December 31, 2007 - 13,426 trust units).

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

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

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

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

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

In accordance with EIC 164, "Convertible and Other Debt Instruments with Embedded Derivatives", the principal amount of the debenture has been allocated between its liability and equity elements and classified separately on the balance sheet. As a result, \$59.7 million was recorded as a long-term liability with the balance of \$0.3 million recorded as conversion option in equity. The long-term liability will increase to the \$60.0 million face value of the debenture over its seven year term, with the accretion being included in interest on convertible debentures on the consolidated statements of income and comprehensive income.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

11. OBLIGATIONS UNDER CAPITAL LEASES

Royal Host has entered into various capital lease obligations to acquire computers and furniture, fixtures and equipment. The present values of future minimum lease payments under capital leases as at December 31, 2008 are as follows:

	<i>(in \$000's)</i>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Present value of future minimum lease payments	243	361
Less: current portion of principal payments	65	119
	<u>178</u>	<u>242</u>

Total repayments required for the twelve months ending December 31:

	<u><i>(in \$000's)</i></u>
2009	81
2010	81
2011	81
2012	34
2013	-
Future minimum lease payments	<u>277</u>
Less: amounts representing interest	<u>34</u>
Present value of future minimum lease payments	<u>243</u>

The leases outstanding at December 31, 2008 bear interest at a weighted average annual rate of 7.64% per annum (December 31, 2007 - 7.92%).

During the year ended December 31, 2008, Royal Host did not acquire any new assets under capital lease (December 31, 2007 - \$0.4 million). The net book value of assets under capital lease as at December 31, 2008 was \$0.8 million (December 31, 2007 - \$1.4 million).

12. UNITHOLDERS' EQUITY

(a) Trust Units

As at December 31, 2008, a total of 20,739,003 trust units (December 31, 2007 - 27,487,825) were issued and outstanding.

(b) Unit Options

All unit options were fully vested and exercisable at December 31, 2006. The options expired on October 31, 2007.

(c) Employee Unit Purchase Program

As at December 31, 2008, 0.1 million units (December 31, 2007 - 0.1 million units) were allotted pursuant to the Trust's Employee Unit Purchase Program.

The Employee Unit Purchase Program represents a financing program for selected employees to purchase units of Royal Host. Royal Host has net outstanding loans receivable of \$0.2 million (December 31, 2007 - \$0.4 million) with respect to the program. These loans bear interest at a fixed rate of 5.0% per annum (December 31, 2007 - 3.0%). This plan structure does not meet the definition of stock based compensation plans, and therefore does not fall under CICA Handbook Section 3870, "Stock Based Compensation Plans".

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

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

13. 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 year ended December 31, 2008, Royal Host repurchased 1.9 million units with an aggregate cost of \$10.7 million (average cost of \$5.74 per unit) pursuant to this bid. Subsequent to December 31, 2008, Royal Host repurchased 0.02 million trust units with an aggregate cost of \$0.07 million (average cost of \$3.00 per unit) pursuant to this bid.

Commencing on December 29, 2006, Royal Host initiated a normal course issuer bid to repurchase a maximum of 2.0 million of its issued and outstanding trust units. During the year ended December 31, 2007, 2.0 million trust units were repurchased with an aggregate cost of \$14.4 million (average cost of \$7.21 per unit).

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 year ended December 31, 2008, Royal Host repurchased \$0.4 million in principal of the 7.90% convertible debentures with an aggregate cost of \$0.5 million (average cost of \$101.00) 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 year ended December 31, 2007, Royal Host repurchased \$2.9 million in principal of the 7.90% convertible debentures with an aggregate cost of \$3.5 million (average cost of \$118.72) pursuant to this bid.

(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 year ended December 31, 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 year ended December 31, 2008, Royal Host repurchased \$1.6 million in the principal of the 6.00% convertible debentures with an aggregate cost of \$1.7 million (average cost of \$108.00) pursuant to this bid.

(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 year ended December 31, 2008, Royal Host repurchased \$3.1 million in principal of the 6.25% convertible debentures with an aggregate cost of \$2.8 million (average cost of \$87.84) pursuant to this bid.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

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

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

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 year ended December 31, 2008, Royal Host repurchased \$0.6 million in principal of the 6.25% convertible debentures with an aggregate cost of \$0.7 million (average cost of \$106.23) pursuant to this bid.

Subsequent to December 31, 2008, Royal Host repurchased \$2.0 million in principal of the 6.25% convertible debentures with an aggregate cost of \$1.4 million (average cost of \$71.00) 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 year ended December 31, 2008, Royal Host repurchased \$3.2 million in principal of the 5.90% convertible debentures with an aggregate cost of \$1.9 million (average price of \$60.00) pursuant to this bid.

Subsequent to December 31, 2008, Royal Host repurchased \$0.05 million in principal of the 5.90% convertible debentures with an aggregate cost of \$0.03 million (average cost of \$57.06) pursuant to this bid.

14. PER UNIT CALCULATIONS

As at December 31, 2008, a total of 20,739,003 trust units (December 31, 2007 - 27,487,825) were issued and outstanding.

For the year ended December 31, 2008:

	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Basic earnings - continuing operations	(82,115)		(3.61)
Basic earnings - discontinued operations	102,492		4.51
Basic earnings - total operations	20,377	22,732	0.90
Diluted earnings - continuing operations	(82,115)		(3.61)
Diluted earnings - discontinued operations	102,492		4.51
Diluted earnings - total operations	20,377	22,732	0.90

For the year ended December 31, 2007:

	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Basic earnings - continuing operations	780		0.03
Basic earnings - discontinued operations	13,596		0.52
Basic earnings - total operations	14,376	26,018	0.55
Diluted earnings - continuing operations	780		0.03
Diluted earnings - discontinued operations	13,596		0.52
Diluted earnings - total operations	14,376	26,018	0.55

The diluted earnings per unit for the year ended December 31, 2008 and December 31, 2007 include no trust units issuable on the conversion of any convertible unsecured subordinated debentures because all of the conversions are anti-dilutive.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

15. CHANGES IN NON-CASH WORKING CAPITAL (CONTINUING OPERATIONS)

	Years Ended (in \$000's)	
	December 31, 2008	December 31, 2007
(Increase) decrease in:		
Accounts and notes receivable	4,592	(1,909)
Prepaid expenses	495	44
Inventories	108	(166)
	<u>5,195</u>	<u>(2,031)</u>

	Years Ended (in \$000's)	
	December 31, 2008	December 31, 2007
Increase (decrease) in:		
Accounts payable and accrued liabilities	(2,272)	(351)
Interest accrued on convertible debentures	(147)	(1,798)
Other liabilities	(92)	(788)
Deferred revenue	243	736
Future income taxes	-	(47)
	<u>(2,268)</u>	<u>(2,248)</u>
	<u>2,927</u>	<u>(4,279)</u>

16. FUTURE INCOME TAXES

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

	(in \$000's)	
	December 31, 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	(1,102)	(1,059)
Tax liabilities relating to temporary differences on capital assets	(7,039)	(5,848)
Future income tax liability	<u>(8,141)</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 proposals originally announced on October 31, 2006 and amended on March 27, 2007 relating to the taxation of certain income trust and partnerships under the Income Tax Act. Pursuant to the October 31, 2006 proposals, commencing on January 1, 2011 (provided Royal Host does not exceed "normal growth" as defined in guidelines issued by the Department of Finance) certain distributions from Royal Host which would have otherwise been taxed as ordinary income generally will be characterized as dividends, in addition to Royal Host generally being subject to tax on certain income at tax rates that approximate those applicable to corporations. Returns of capital generally are (and under the October 31, 2006 proposals will continue to be) tax-deferred for Unitholders who are resident in Canada for purposes of the Tax Act (and reduce such Unitholder's adjusted cost base in Unit for purposes of the Tax Act). Distributions, whether of income or capital, to a Unitholder who is not resident in Canada for purposes of the Tax Act, or that is a partnership that is not a "Canadian partnership" for purposes of the Tax Act, generally will be subject to Canadian withholding tax.

On June 12, 2007, the taxation changes in Bill C-52 became substantively enacted. The future income tax recovery of \$0.9 million recorded during the year ended December 31, 2007 includes an expense of \$1.1 million on temporary differences related to the specified investment flow-through ("SIFT") legislation passed in Bill C-52.

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

16. FUTURE INCOME TAXES (continued)

As at December 31, 2007, the Trust had tax losses of approximately \$4.4 million available to reduce future taxable income within the subsidiaries owned by the Trust. These tax losses as a result of a reorganization have been transferred to the tax cost of assets and as a result the Trust had tax losses of nil at December 31, 2008.

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

	<i>(in \$000's)</i>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Income from continuing operations before future income taxes	(83,944)	671
Statutory income tax rate	32.68%	32.82%
Calculated income tax provision based on statutory rates	(27,433)	220
Increase (decrease) resulting from:		
Unrealized loss on marketable securities	28,405	26
Non-taxable permanent difference	(339)	-
Return of capital on distributions received	(1,972)	-
Tax rate reductions	(359)	(671)
Future income tax on recognition of SIFT assets and liabilities	-	1,058
Non-deductible permanent differences	241	23
Previously unrecognized tax losses from prior years	-	(570)
Other items	(372)	(195)
Future income tax recovery	(1,829)	(109)

17. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<i>(in \$000's)</i>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Accumulated other comprehensive loss, beginning of year	(2,210)	-
Other comprehensive income (loss)	2,210	(2,210)
Accumulated other comprehensive loss, end of year	-	(2,210)

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

	<i>(in \$000's)</i>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Unrealized losses generated on available-for-sale assets	(84,138)	(923)
Realized gains (losses) on available-for-sale assets transferred to net income	1,098	(1,287)
Impairment transferred to net income	85,250	-
Other comprehensive income (loss)	2,210	(2,210)

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

18. 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. 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).

19. RELATED PARTY TRANSACTIONS

At December 31, 2008, Clarke Inc. owned approximately 5.3 million (December 31, 2007 - 5.2 million) of Royal Host's issued and outstanding trust units and, as such, is a related party. Royal Host owns approximately \$2.1 million (December 31, 2007 - approximately \$3.7 million) of Clarke Inc. 6.0% Convertible Debentures, which are included in the Trust's marketable securities.

During the year ended December 31, 2008, the Trust incurred professional and management fees of \$0.2 million for services supplied by Clarke Inc. These are recorded at the exchange amount as trust administration expense. As at December 31, 2008, \$17,000 was owing in respect of these fees. During the year ended December 31, 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 \$0.2 million per annum. During the year ended December 31, 2008, \$50,000 was incurred under this contract and is included in the total fees of \$0.2 million.

During the year ended December 31, 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 year ended December 31, 2008, Royal Host incurred consulting fees of \$0.3 million. These are recorded at the exchange amount as trust administration expense. As at December 31, 2008, \$25,000 (December 31, 2007 - \$nil) was owing to this company in relation to consulting services.

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

20. 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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

21. CAPITAL MANAGEMENT

Royal Host's capital consists of cash and cash equivalents, mortgages, convertible debentures 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>December 31, 2008</u>	<u>December 31, 2007</u>
Mortgages	83,636	122,623
Convertible debentures	159,767	173,307
Total debt	<u>243,403</u>	<u>295,930</u>
Cash and cash equivalents	(6,440)	(46,823)
Net debt	<u>236,963</u>	<u>249,107</u>
Unitholders' equity	<u>36,761</u>	<u>99,714</u>
Total capitalization (net debt plus unitholders' equity)	<u>273,724</u>	<u>348,821</u>

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

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

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

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

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

The Trust is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of Unitholders' capital that can be issued by the Trust, based on the Trust's market capitalization on October 31, 2006, to \$102.5 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 December 31, 2008, the Trust's indebtedness excluding convertible debentures was 19.8% of gross book value (December 31, 2007 - 21.9%).

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

21. CAPITAL MANAGEMENT (continued)

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 December 31, 2008, the Trust's estimate of foreign ownership was less than 2.0%.

22. 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, notes and distributions receivable, restricted cash, accounts payable and accrued liabilities, equity distributions payable, interest accrued on convertible debentures, current portion of mortgages, current portion of convertible debentures 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:

	December 31, 2008		December 31, 2007	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mortgages	59,000	63,302	119,298	122,892
Convertible debentures	152,515	158,896	173,307	181,388
Capital leases	178	166	242	244

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

(b) Credit Risk

As at December 31, 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 December 31, 2008, the Trust had accounts receivable of \$4.9 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 December 31, 2008, the accounts and notes receivable include \$1.0 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 67 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 December 31, 2008 and December 31, 2007, Royal Host had no variable rate debt outstanding.

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

22. FINANCIAL INSTRUMENTS (continued)

(c) Interest Rate and Liquidity Risk (continued)

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 21 of the consolidated financial statements.

As at December 31, 2008, the Trust's mortgages had a weighted average maturity of 3.17 years (December 31, 2007 - 2.8 years) and convertible debentures had a weighted average maturity of 5.4 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>December 31, 2008</u>	<u>December 31, 2007</u>
Marketable securities available for sale	53,622	44,482
Marketable securities held for trading	<u>2,728</u>	<u>5,392</u>
	<u><u>56,350</u></u>	<u><u>49,874</u></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.

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:

	<i>Other Price Risk (in \$000's)</i>		
	<u>Carrying amount</u>	<u>(+10%) Income</u>	<u>(-10%) Income</u>
Marketable securities			
Available for sale (other comprehensive income)	53,622	5,362	(5,362)
Held for trading (net income)	<u>2,728</u>	<u>273</u>	<u>(273)</u>
Total marketable securities	<u><u>56,350</u></u>	<u><u>5,635</u></u>	<u><u>(5,635)</u></u>

23. SUBSEQUENT EVENT

Commencing on January 8, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.5 million of its issued and outstanding trust units. Subsequent to December 31, 2008 1.0 million trust units with an aggregate cost of \$3.0 million (average cost of \$2.97 per unit) were purchased pursuant to this bid. Subsequent to December 31, 2008 the \$9.5 million letter of credit was reduced to \$7.8 million, and the marketable securities pledged on the letter of credit were reduced to \$9.8 million.

24. COMPARATIVE FIGURES

Comparatives figures for operations of properties and businesses that were disposed of prior to December 31, 2008, or held for sale at December 31, 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.

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25. COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

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

Under the terms of the hotel franchise agreements expiring at various dates commencing April 2, 2009 through to July 12, 2022, annual payments for franchise expenses (including fees, reservation and advertising services) are due to franchise brands for 29 of the 31 hotels owned by Royal Host (2007 - 32 of the 37 hotels). The franchise royalties and membership fees paid to external parties are calculated based upon percentages of defined revenue.

26. OPERATING LEASES

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

Years ending December 31:

	<u>(in \$000's)</u>
2009	911
2010	377
2011	352
2012	344
2013	317
Thereafter	<u>571</u>
	<u><u>2,872</u></u>