

ROYAL HOST[®]

H O T E L S & R E S O R T S^{REIT}

FOR IMMEDIATE RELEASE

SYMBOL: "RYL.UN"

ROYAL HOST REIT ANNOUNCES SECOND QUARTER RESULTS AND AMENDS MONTHLY PER UNIT DISTRIBUTION TO UNITHOLDERS TO \$0.025

Calgary, Alberta, August 11, 2009 - Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") today announced results for the three and six months ended June 30, 2009.

Hospitality revenue for the second quarter declined 13%, compared to 2008, to \$24.0 million, primarily as a result of lower occupancy; hospitality gross margin declined 30% to \$5.8 million. Investment income increased 35% to \$3.0 million. The Trust generated income from continuing operations of \$1.1 million (2008 - \$2.9 million), or \$0.06 (2008 - \$0.14) per unit, and Distributable Income for the second quarter of 2009 declined to \$2.6 million (2008 - \$7.7 million) or \$0.13 (2008 - \$0.36) per unit.

"The continued contraction in business and leisure travel due to the current recession has resulted in lower demand. The resulting decline in occupancy, combined with a growing frequency in rate discounting, has produced a challenging operating climate," commented Brad Cann, Executive Vice President and Chief Financial Officer of Royal Host. "Amid these challenges, Royal Host has maintained a disciplined approach to balancing occupancy and rate while remaining competitive, and we continue to operate our hotels as efficiently as possible, having advanced cost savings initiatives and reduced unnecessary costs wherever possible. Our results, nevertheless, reflect the strong headwinds hoteliers face during this cyclical downturn", he added.

| | Three months ended June 30 | | | Six months ended June 30 | | |
|-----------|-------------------------------|---------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| RevPAR | \$55.69 | \$62.27 | (10.6%) | \$52.44 | \$58.25 | (10.0%) |
| Occupancy | 55.9% | 62.8% | (11.1%) | 52.4% | 59.4% | (11.8%) |
| ADR | \$99.70 | \$99.11 | 0.6% | \$100.05 | \$98.04 | 2.0% |

To date in 2009, Royal Host declared monthly distributions of \$0.055 per unit, representing \$3.2 million in monthly distributions during the second quarter of 2009. Today, Royal Host declared a monthly distribution of \$0.025 per unit, payable on September 18, 2009, to Unitholders of record on August 31, 2009. After careful consideration of the Canadian lodging industry outlook and its impact on near term cash flows from the Trust's hospitality and investment portfolios, the Board of Trustees determined that it was in Royal Host's best interests to reduce distributions at this time and continue its periodic review.

The following table highlights the Trust's financial results for the three and six months ended June 30, 2009.

SELECTED FINANCIAL INFORMATION

| (\$000's, except as otherwise noted) | Three months ended June 30 | | | Six months ended June 30 | | |
|---|-------------------------------|--------|---------------|-----------------------------|--------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| Hospitality Revenue (Continuing Operations) | 23,971 | 27,638 | (13.3) | 45,655 | 51,789 | (11.8) |
| Hospitality Expenses | 18,126 | 19,250 | (5.8) | 36,748 | 38,531 | (4.6) |
| Hospitality Gross Margin | 5,845 | 8,388 | (30.3) | 8,907 | 13,258 | (32.8) |
| Hospitality Gross Margin % | 24.4% | 30.4% | | 19.5% | 25.6% | |
| Investment Income | 3,031 | 2,249 | 34.8 | 6,219 | 4,317 | 44.1 |
| Other Expenses | 7,748 | 7,697 | 0.7 | 15,480 | 14,665 | 5.6 |
| Income (Loss) From Continuing Operations | 1,128 | 2,940 | (61.6) | (354) | 2,910 | |
| Income (Loss) From Discontinued Operations | (92) | 15,087 | | (161) | 27,175 | |
| Net Income (Loss) | 1,036 | 18,027 | (94.3) | (515) | 30,085 | |
| Basic Per Unit Net Earnings (\$) | | | | | | |
| From Continuing Operations | 0.06 | 0.14 | (57.1) | (0.02) | 0.12 | |
| From Discontinued Operations | - | 0.70 | (100.0) | (0.01) | 1.12 | |
| | 0.06 | 0.84 | (92.9) | (0.03) | 1.24 | |
| Distributable Income | 2,611 | 7,664 | (65.9) | 2,519 | 9,039 | (72.1) |
| Distributions Declared on Trust Units | 3,245 | 3,533 | (8.2) | 8,615 | 7,686 | 12.1 |
| Basic Per Unit Distributable Income (\$) | 0.13 | 0.36 | (63.9) | 0.13 | 0.37 | (64.9) |
| Per Unit Distributions Declared (\$) | 0.165 | 0.165 | - | 0.33 | 0.33 | - |

Management of Royal Host will host an investor conference call on Wednesday, August 12, 2009 at 11:00 a.m. Eastern Time. The call may be accessed by dialing 1-416-642-5213 or 1-866-321-8231 and providing confirmation code 7904417. A recording of this call will be available shortly after the call until August 20, 2009. To access this recording please dial 1-647-436-0148 or 1-888-203-1112 and provide the playback passcode 7904417. Alternatively, a recording of the audio webcast will also be available on the Trust's website after August 15, 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.B", "RYL.DB.C" and "RYL.DB.D", respectively.

The above statements in regard to the financial results should be read in conjunction with Royal Host's unaudited consolidated financial statements for the three and six months ended June 30, 2009 and its management's discussion and analysis, which are available on Royal Host's website at www.royalhost.com as well as the SEDAR website at www.sedar.com.

This press release contains certain forward-looking statements relating, but not limited to, Royal Host's operations, anticipated financial performance, business prospects, and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", or similar words suggesting future outcomes. Such forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results

expressed, projected, or implied by such forward-looking statements. Such factors include, but are not limited to economic, competitive, and lodging industry conditions. Royal Host disclaims any responsibility to update any such forward-looking statements except as required by law.

For more information please contact:

A. Brad Cann, CA, CBV
Executive Vice President and Chief Financial Officer
Royal Host Real Estate Investment Trust
(888) 259 9899 Telephone
investorinfo@royalhost.com
www.royalhost.com

2009 Q2
Report

MANAGEMENT'S
DISCUSSION AND ANALYSIS
& FINANCIAL STATEMENTS

TABLE OF CONTENTS

| | |
|---|----|
| Management's Discussion and Analysis | 1 |
| Highlights | 1 |
| Royal Host - At a Glance..... | 3 |
| Non-GAAP Measures | 4 |
| Key Performance Drivers and Measures..... | 4 |
| RevPAR, Occupancy and ADR | 4 |
| Hospitality Gross Margin..... | 7 |
| Standardized Distributable Cash, Distributable Income, Funds From Operations and Adjusted Funds From Operations | 7 |
| Distributable Income..... | 7 |
| Standardized Distributable Cash..... | 10 |
| Funds From Operations and Adjusted Funds From Operations | 10 |
| Distributions to Unitholders | 11 |
| Seasonality | 12 |
| Results of Operations..... | 12 |
| Three months ended June 30, 2009..... | 12 |
| Hospitality Revenue | 12 |
| Hospitality Expenses | 13 |
| Hospitality Gross Margin..... | 13 |
| Investment Income | 14 |
| Other Expenses and Income..... | 14 |
| Net Income, Other Comprehensive Income and Comprehensive Income | 14 |
| Six months ended June 30, 2009 | 15 |
| Hospitality Revenue | 15 |
| Hospitality Expenses | 16 |
| Hospitality Gross Margin..... | 16 |
| Investment Income | 16 |
| Other Expenses and Income..... | 16 |
| Net Income (Loss), Other Comprehensive Loss and Comprehensive Income (Loss) | 17 |
| Discontinued Operations..... | 17 |
| Liquidity and Capital Resources | 18 |
| Liquidity | 18 |
| Marketable Securities | 18 |
| Off Balance Sheet Arrangement | 19 |
| Cash Flows | 19 |
| Cash Flows From Operating Activities | 19 |
| Cash Flows From Financing Activities | 20 |
| Cash Flows From Investing Activities | 21 |
| Capital Structure | 21 |
| Mortgages..... | 21 |
| Convertible Debentures | 22 |
| Unitholders' Equity..... | 23 |
| Summary of Quarterly Financial Results..... | 24 |
| Related Party Transactions | 24 |
| Business Environment and Outlook | 24 |
| Canadian Economy..... | 24 |
| Canadian Hotel Sector | 25 |
| Royal Host | 25 |
| Taxation Changes to Income Trusts | 25 |
| Risks and Uncertainties..... | 26 |
| Environmental Matters..... | 26 |
| Disclosure Controls and Procedures..... | 26 |
| Internal Controls Over Financial Reporting | 26 |
| Changes In Controls Over Financial Reporting..... | 27 |
| Key Accounting Policies and Estimates..... | 27 |
| Changes in Accounting Policies..... | 27 |
| Goodwill and Intangible Assets..... | 27 |
| Future Changes in Accounting Policies | 27 |
| Business Combinations..... | 27 |
| International Financial Reporting Standards..... | 27 |
| Cautionary Statement Regarding Forward-looking Information and Statements..... | 28 |

Management's Discussion and Analysis

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

Highlights

During the second quarter of 2009, lower demand and, in increasing frequency, dramatic room rate cuts by hoteliers, produced an increasingly difficult operating environment for the Canadian lodging industry and Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust"). Royal Host maintained its focus, above all else, on revenue generation and cost management.

In the quarter, Royal Host:

- Generated overall Occupancy of 55.9% (2008 - 62.8%), Average Daily Rate of \$99.70 (2008 - \$99.11) and Revenue per Available Room of \$55.69 (2008 - \$62.27).
- Generated \$5.8 million of hospitality gross margin (2008 - \$8.4 million) from \$24.0 million of hospitality revenue (2008 - \$27.6 million);
- Produced \$3.0 million of investment income (2008 - \$2.2 million);
- Realized net income of \$1.0 million (2008 - \$18.0 million), or \$0.06 per unit (2008 - \$0.84 per unit - income);
- Declared \$3.2 million of monthly distributions, or \$0.165 per unit, to Unitholders; and
- Deployed \$8.0 million towards the maturity and repurchase of its convertible debentures.

This Management's Discussion & Analysis ("MD&A") dated August 11, 2009 is the responsibility of Management. The Trustees carry out their responsibility for review of this MD&A principally through their Audit Committee. This MD&A should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Royal Host for the three and six months ended June 30, 2009. The Interim Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

SELECTED FINANCIAL INFORMATION

| (\$'000's, except as otherwise noted) | Three months ended June 30 | | | Six months ended June 30 | | |
|--|-------------------------------|--------|---------------|-----------------------------|--------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| Hospitality Revenue (Continuing Operations) | 23,971 | 27,638 | (13.3) | 45,655 | 51,789 | (11.8) |
| Hospitality Expenses | 18,126 | 19,250 | (5.8) | 36,748 | 38,531 | (4.6) |
| Hospitality Gross Margin ⁽¹⁾ | 5,845 | 8,388 | (30.3) | 8,907 | 13,258 | (32.8) |
| Hospitality Gross Margin % ⁽¹⁾ | 24.4% | 30.4% | | 19.5% | 25.6% | |
| Investment Income | 3,031 | 2,249 | 34.8 | 6,219 | 4,317 | 44.1 |
| Other Expenses | 7,748 | 7,697 | 0.7 | 15,480 | 14,665 | 5.6 |
| Income (Loss) From Continuing Operations | 1,128 | 2,940 | (61.6) | (354) | 2,910 | |
| Income (Loss) From Discontinued Operations ⁽²⁾ | (92) | 15,087 | | (161) | 27,175 | |
| Net Income (Loss) | 1,036 | 18,027 | (94.3) | (515) | 30,085 | |
| Basic Per Unit Net Earnings (\$) | | | | | | |
| From Continuing Operations | 0.06 | 0.14 | (57.1) | (0.02) | 0.12 | |
| From Discontinued Operations | - | 0.70 | (100.0) | (0.01) | 1.12 | |
| | 0.06 | 0.84 | (92.9) | (0.03) | 1.24 | |
| Distributable Income ⁽¹⁾ | 2,611 | 7,664 | (65.9) | 2,519 | 9,039 | (72.1) |
| Distributions Declared on Trust Units | 3,245 | 3,533 | (8.2) | 8,615 | 7,686 | 12.1 |
| Basic Per Unit Distributable Income (\$) ⁽¹⁾ | 0.13 | 0.36 | (63.9) | 0.13 | 0.37 | (64.9) |
| Per Unit Distributions Declared (\$) | 0.165 | 0.165 | - | 0.33 | 0.33 | - |
| Weighted Average Number of Trust Units Outstanding (000's) | 19,662 | 21,445 | (8.3) | 19,932 | 24,250 | (17.8) |
| Number of Trust Units Outstanding, as at June 30 (000's) | 19,750 | 21,467 | (8.0) | 19,750 | 21,467 | (8.0) |
| Closing Trust Unit Trading Price, as at June 30 (\$) | 3.06 | 6.50 | (52.9) | 3.06 | 6.50 | (52.9) |

As at August 11, 2009, Royal Host had 19,750,449 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"

Royal Host – 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.

| HOTEL OWNERSHIP | INVESTMENT PORTFOLIO | OPERATIONS |
|---|---|---|
| Portfolio of 31 properties Generated \$5.8 million of hospitality gross margin in second quarter of 2009 | \$47.3 million portfolio of marketable securities Recognized \$2.4 million of distribution and interest income | 98 franchised Travelodge® and Thriftlodge® hotels Management of owned and third-party hotels |

| | 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 | 35.3% | - | - | - | 4 | 378 | 10.1% | 13 | 1,694 | 45.4% |
| 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 | 27.5% | 31 | 3,734 | 100.0% |
| Full Service | 7 | 1,480 | 60.9% | - | - | - | 2 | 288 | 28.1% | 9 | 1,768 | 47.3% |
| Limited Service | 9 | 952 | 39.1% | 4 | 276 | 100.0% | 9 | 738 | 71.9% | 22 | 1,966 | 52.7% |

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. The majority of the Trust's hotels derive the bulk of their revenue from corporate business; they depend less on leisure business as they are not situated in locations generally considered to be primary leisure markets. Approximately 75-80% of the Trust's room revenue is derived from transient room nights while 20-25% is derived from group business.

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, Cash Flows Provided by Continuing, Discontinued and Total Operations, 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

Revenue generation remained a key priority in 2009. Royal Host continued to devote substantial resources and attention to maintaining and growing market share and revenue, including revenue management, stimulating demand through sales and marketing initiatives, such as community festivals, management of brand reservation systems and improvements to its properties. The Trust continually strives to strengthen its sales and marketing teams.

In the second quarter of 2009, sustained weakness in the Canadian economy continued to negatively impact travel, translating into lower Occupancy. During and subsequent to the second quarter, an increasing number of hoteliers reverted to cutting rates, further impacting Occupancy at Royal Host's hotels.

CONTINUING OPERATIONS

| 31 hotels / 3,734 rooms* | Three months ended June 30 | | | Six months ended June 30 | | |
|--------------------------|-------------------------------|---------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| RevPAR | \$55.69 | \$62.27 | (10.6%) | \$52.44 | \$58.25 | (10.0%) |
| Occupancy | 55.9% | 62.8% | (11.1%) | 52.4% | 59.4% | (11.8%) |
| ADR | \$99.70 | \$99.11 | 0.6% | \$100.05 | \$98.04 | 2.0% |

*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 have not been adjusted to exclude rooms/room nights unavailable during the renovation of the Yellowknife Inn or other hotels renovated.

ONTARIO

Northern Ontario

During the second quarter of 2009, the Trust's six properties in Northern Ontario as a whole delivered stable ADR and modestly lower Occupancy. Although the Super 8 Sudbury continued to deliver strong market penetration and growth in market share, it has been impacted by significant room supply growth.

Eastern Ontario

Higher ADR at the Trust's four Eastern Ontario properties as a whole was offset by a 2.7 Occupancy point decline. The Ottawa market declined, in part because of market strength in the second quarter of 2008 and a decline in demand resulting, in part, from the closure of the Ottawa Congress Centre during 2009. Furthermore, rate cuts by downtown hotels impacted Occupancy in other regions of Ottawa.

Central Ontario

Stable ADR at the Trust's three Central Ontario properties as a whole was offset by significantly lower Occupancy. The Travelodge Toronto Airport continued to be impacted by reduced airline crew business and dramatic rate cuts on the airport strip. The Holiday Inn Oakville's Occupancy also declined. Although the property continued to achieve above average market share, the Oakville market continues to be impacted by the difficulties experienced by the struggling automotive sector.

Southern Ontario

The Trust's three properties in Southern Ontario generated lower RevPAR despite stable ADR. The London Hilton's Occupancy decline was less in the second quarter than in the first quarter of 2009. Although the London Hilton continued to maintain its market share, the property derives a significant percentage of its business from conferences. Conference hotels as a whole continued to experience lower group volume as a result of event postponements and cancellations and reduced attendance at events. London and the surrounding area continued to be hit hard by the downturn in manufacturing, further impacting both the London Hilton and the Travelodge London South. Occupancy has also been impacted by recent room supply growth.

| Ontario | Three months ended June 30 | | | Six months ended June 30 | | |
|--------------------------|-------------------------------|----------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| 16 hotels / 2,432 rooms* | | | | | | |
| RevPAR | \$55.31 | \$64.11 | (13.7%) | \$52.49 | \$60.32 | (13.0%) |
| Occupancy | 55.3% | 64.0% | (13.6%) | 52.4% | 60.6% | (13.6%) |
| ADR | \$100.03 | \$100.20 | (0.2%) | \$100.18 | \$99.46 | 0.7% |

WESTERN**Alberta**

The 159-room Best Western Village Park Inn in Calgary continued to lead its competitive set and delivered strong Occupancy despite a weaker market. While each of the Trust's three Southern Alberta limited service hotels delivered higher Occupancy and RevPAR results as a whole, the Trust's two Red Deer properties were significantly impacted by weaker demand due to less crew business.

Saskatchewan and Manitoba

The Trust's property in Winnipeg and two properties in Regina continued to produce solid results despite lower occupancy. The Country Inn & Suites Saskatoon delivered exceptional ADR and RevPAR growth.

Yellowknife

The Yellowknife Inn was completely renovated during 2008, mostly during the second quarter, and was relaunched in the fall of 2008. Management has continued to aggressively market the property, primarily to corporate travelers; and the property has steadily gained market share. Occupancy and ADR both increased, resulting in a 120% increase in RevPAR over the second quarter of 2008.

| Western 11 hotels / 1,026 rooms* | Three months ended June 30 | | | Six months ended June 30 | | |
|-------------------------------------|-------------------------------|---------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| RevPAR | \$57.63 | \$56.45 | 2.1% | \$53.79 | \$53.08 | 1.3% |
| Occupancy | 57.4% | 58.3% | (1.6%) | 53.0% | 55.4% | (4.4%) |
| ADR | \$100.34 | \$96.77 | 3.7% | \$101.46 | \$95.72 | 6.0% |

ATLANTIC

In contrast to the first quarter of 2008, the Trust's Atlantic region generated a year-over-year decline in ADR. While three of the four hotels succeeded in growing ADR in the first quarter of 2009, they also were impacted by a sharp decline in demand, each experiencing notable declines in Occupancy, due largely to above-average demand in the second quarter of 2009 attributable, in part, to construction activity and the room supply growth in 2008 and 2009. The Country Inn & Suites Dartmouth delivered RevPAR growth. Each of the properties operates in tertiary markets where the addition of one or two hotels has a significant affect on the market's supply and demand balance. During the second quarter of 2009, market rates also declined, further impacting RevPAR.

| Atlantic 4 hotels / 276 rooms* | Three months ended June 30 | | | Six months ended June 30 | | |
|-----------------------------------|-------------------------------|---------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| RevPAR | \$51.55 | \$68.73 | (25.0%) | \$46.85 | \$60.40 | (22.4%) |
| Occupancy | 54.7% | 70.1% | (22.0%) | 50.3% | 64.1% | (21.6%) |
| ADR | \$94.21 | \$98.01 | (3.9%) | \$93.23 | \$94.22 | (1.1%) |

Hospitality Gross Margin

Hospitality Gross Margin is calculated by deducting gross margin generated by investment from gross margin. Hospitality gross margin on continuing hotels was impacted in absolute terms as well as on a percentage of hospitality revenue by the larger decline in hospitality revenue than hospitality expenses, compared to the second quarter of 2008, as several costs have a large fixed component.

| (\$000's, except as otherwise noted) | Three months ended June 30 | | | Six months ended June 30 | | |
|--------------------------------------|-------------------------------|-------|------------|-----------------------------|--------|------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| Hospitality Gross Margin | 5,845 | 8,388 | (30.3) | 8,907 | 13,258 | (32.8) |
| Hospitality Gross Margin % | 24.4 | 30.4 | (19.7) | 19.5 | 25.6 | (23.8) |

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 Trust has reconciled distributable cash to Cash Flows from Operating Activities as prescribed by the policies of the Canadian Securities Administrators and the July 6, 2007 Interpretive Release issued by the Canadian Institute of Chartered Accountants ("CICA").

The Trust calculates Funds from Operations and Adjusted Funds from Operations as prescribed 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 Interim Consolidated Financial Statements.

| (\$000's, except as otherwise noted) | Three months ended June 30 | | | Six months ended June 30 | | |
|---|-------------------------------|---------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| Cash Flows from Operating Activities | 1,670 | 3,799 | (56.1) | 1,868 | 7,371 | (74.7) |
| Changes in Non-Cash Working Capital | 1,845 | 5,139 | (64.1) | 2,355 | 3,936 | (40.2) |
| Cash Flows from Total Operations | 3,515 | 8,938 | (60.7) | 4,223 | 11,307 | (62.7) |
| Provision for Capital Replacement ⁽¹⁾ | (904) | (1,274) | (29.1) | (1,704) | (2,268) | (24.9) |
| Distributable Income | 2,611 | 7,664 | (65.9) | 2,519 | 9,039 | (72.1) |
| Monthly Distributions Declared | 3,245 | 3,533 | (8.2) | 6,541 | 7,686 | (14.9) |
| Basic Per Unit Distributable Income (\$)⁽²⁾ | 0.13 | 0.36 | (56.5) | 0.13 | 0.37 | (64.9) |
| Diluted Per Unit Distributable Income (\$)⁽²⁾ | 0.10 | 0.23 | (43.5) | 0.12 | 0.31 | (61.3) |
| Per Unit Monthly Distributions Declared (\$) | 0.165 | 0.165 | - | 0.33 | 0.33 | - |

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

⁽²⁾ Based on a weighted-average number of trust units of 19,659,778 (2008 - 21,444,886) and 19,937,039 (2008 - 24,249,905) for the three and six months ended June 30, 2009, respectively.

⁽³⁾ Based on a weighted-average number of trust units of 50,086,658 (2008 - 46,133,487) and 31,017,289 (2008 - 48,947,679) for the three and six months ended June 30, 2009, respectively.

Distributable Income decreased comparatively for the three months ended June 30, 2009 to \$2.6 million, or \$0.13 per unit (2008 - \$7.7 million, or \$0.36 per unit), due primarily to decreases in cash flow from total operations as outlined below. Distributable Income for the six months ended June 30, 2009 decreased to \$2.5 million (2008 - \$9.0 million) due mostly to a decline in cash flows from operating activities.

The Trust sets monthly distributions 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.

Distributions declared in the second quarter of 2009 and year to date exceeded Distributable Income due to seasonality, cyclical softness and the declaration of a \$2.1 million special distribution in February 2009.

The table below illustrates the component of cash flows from total operations for the three and six months ended June 30, 2009, respectively.

CASH FLOWS PROVIDED BY OPERATIONS

| (\$000's, except as otherwise noted) | Three months ended June 30 | | | Six months ended June 30 | | |
|---|-------------------------------|--------------|---------------|-----------------------------|---------------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| CONTINUING OPERATIONS | | | | | | |
| Hospitality Gross Margin | 5,845 | 8,388 | (30.3) | 8,907 | 13,258 | (32.8) |
| Distributions and Interest | 2,426 | 2,061 | 17.7 | 5,165 | 4,367 | 18.3 |
| Other Expenses ⁽¹⁾ : | | | | | | |
| Trust Administration | (373) | (452) | (17.5) | (1,064) | (859) | 23.9 |
| Interest on Mortgages and Capital Leases | (1,899) | (1,613) | 17.7 | (3,689) | (3,476) | 6.1 |
| Interest on Convertible Debentures | (2,421) | (2,810) | (13.8) | (4,971) | (5,620) | (11.5) |
| Other | (3) | 3 | - | 4 | 57 | (93.0) |
| Cash Flows Provided by Continuing Operations ⁽²⁾ | 3,575 | 5,577 | (35.9) | 4,352 | 7,727 | (43.7) |
| DISCONTINUED OPERATIONS | | | | | | |
| Hospitality Gross Margin | (60) | 4,014 | | (129) | 4,937 | |
| Other Expenses ⁽¹⁾ : | | | | | | |
| Interest on Mortgages and Capital Leases | - | (671) | | - | (1,374) | |
| Other | - | 18 | | - | 17 | |
| Cash Flows Provided by (Used in) Discontinued Operations ⁽²⁾ | (60) | 3,361 | | (129) | 3,580 | |
| CASH FLOWS PROVIDED BY OPERATIONS⁽²⁾ | 3,515 | 8,938 | (60.7) | 4,223 | 11,307 | (62.7) |

⁽¹⁾Excluding items not affecting cash.

⁽²⁾Items represent non-GAAP financial measures.

Cash flows provided by total operations for the three and six months ended June 30, 2009 declined to \$3.5 million (2008 - \$8.9 million) and \$4.2 million (2008 - \$11.3 million), respectively, due largely to the downturn experienced in certain lodging markets and the loss of cash flows from hotels sold in 2008; cash flows provided by operations do not include proceeds or gains realized on the sales of properties. These declines were partially offset by an increase in distributions and interest, resulting from the redeployment of capital into higher-yielding investments.

The table below reconciles Cash Flows Provided by Operations, a non-GAAP measure, and Cash Flows From Operating Activities per the Trust's Consolidated Statement of Cash Flows for the three and six months ended June 30, 2009.

| (\$000's, except as otherwise noted) | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------------------|-------------------------------|---------|-----------------------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| Cash Flows Provided by Operations | 3,515 | 8,938 | 4,223 | 11,307 |
| Changes in Non-Cash Working Capital | (1,845) | (5,139) | (2,355) | (3,936) |
| Cash Flows from Operating Activities | 1,670 | 3,799 | 1,868 | 7,371 |

Standardized Distributable Cash

Standardized Distributable Cash is defined by the Canadian Institute of Chartered Accountants 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.

| (\$000's, except as otherwise noted) | Three months ended June 30 | | | Six months ended June 30 | | |
|---|-------------------------------|---------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| Net Cash Provided by Operating Activities | 1,670 | 3,799 | (56.1) | 1,868 | 7,371 | (74.7) |
| Capital Expenditures | (1,203) | (4,640) | (74.1) | (1,374) | (8,015) | (82.9) |
| Standardized Distributable Cash | 467 | (841) | | 494 | (644) | |
| Distributions Declared | 3,245 | 3,533 | (8.2) | 8,615 | 7,686 | 12.1 |
| Repurchases of Trust Units | 102 | 36,095 | (99.7) | 3,606 | 39,563 | (90.9) |
| | 3,347 | 39,628 | (91.6) | 12,221 | 47,249 | (74.1) |

The table below reconciles Standardized Distributable Cash and Distributable Income.

| (\$000's, except as otherwise noted) | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|-------|-----------------------------|-------|
| | 2009 | 2008 | 2009 | 2008 |
| Standardized Distributable Cash | 467 | (841) | 494 | 644 |
| Capital Expenditures in Excess of Provision for Capital Replacement | 299 | 3,366 | (330) | 5,747 |
| Increase (Decrease) in Non-cash Working Capital | 1,845 | 5,139 | 2,355 | 3,936 |
| Distributable Income | 2,611 | 7,664 | 2,519 | 9,039 |

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 three months ended June 30, 2009, the Trust had an inflow of Funds from Operations of \$4.2 million (2008 - \$8.7 million) due, in part, to the decline in cash flows provided by operations, as described previously. 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. 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. Funds from Operations for the six months ended June 30, 2009 was \$5.6 million (2008 - \$10.4 million).

Adjusted Funds from Operations is calculated by deducting the Trust's provision for capital replacement from Funds from Operations. Adjusted Funds from Operations for the three and six months ended June 30, 2009 were \$3.3 million (2008 - \$7.4 million) and \$3.9 million (2008 - \$8.1 million), respectively.

| (\$'000's, except as otherwise noted) | Three months ended June 30 | | | Six months ended June 30 | | |
|---|-------------------------------|---------|---------------|-----------------------------|---------|---------------|
| | 2009 | 2008 | Change (%) | 2009 | 2008 | Change (%) |
| Cash Flows Provided by Operations | 3,515 | 8,938 | (60.7) | 4,223 | 11,307 | (62.7) |
| Realized and Unrealized Gains (Losses) on Held For Trading Marketable Securities | 128 | 143 | | 859 | 146 | |
| Realized Gains on Available-for-sale Marketable Securities | 477 | 45 | | 195 | (196) | |
| Accretion on Mortgages and Capital Leases ⁽¹⁾ | (66) | (104) | | (136) | (217) | |
| Accretion on Convertible Debentures | (294) | (311) | | (593) | (616) | |
| Discount (Premium) on Repurchases of Convertible Debentures | 422 | (9) | | 1,034 | (9) | |
| Funds From Operations | 4,182 | 8,702 | (52.0) | 5,582 | 10,415 | (46.4) |
| Provision for Capital Replacement | (904) | (1,274) | (29.1) | (1,704) | (2,268) | (24.9) |
| Adjusted Funds From Operations | 3,278 | 7,428 | (55.9) | 3,878 | 8,147 | (52.4) |
| Per Unit Funds From Operations (\$) | | | | | | |
| Basic ⁽²⁾ | 0.21 | 0.41 | (48.8) | 0.28 | 0.43 | (34.9) |
| Diluted ⁽³⁾ | 0.13 | 0.26 | (50.0) | 0.20 | 0.34 | (41.2) |
| Per Unit Adjusted Funds From Operations (\$) | | | | | | |
| Basic ⁽²⁾ | 0.17 | 0.35 | (51.4) | 0.19 | 0.34 | (44.1) |
| Diluted ⁽³⁾ | 0.11 | 0.23 | (52.2) | 0.16 | 0.29 | (44.8) |

⁽¹⁾ Including discontinued operations.

⁽²⁾ Based on a weighted-average number of trust units of 19,659,778 (2008 - 21,444,886) and 19,937,039 (2008 - 24,249,905) for the three and six months ended June 30, 2009, respectively.

⁽³⁾ Based on a weighted-average number of trust units of 50,086,658 (2008 - 46,133,487) and 50,119,019 (2008 - 48,947,679) for the three and six months ended June 30, 2009, respectively.

Distributions to Unitholders

During the first and second quarters of 2009, the Trust maintained monthly distributions of \$0.055 per trust unit. Distributions for the three months ended June 30, 2009 totaled \$3.2 million. Distributions for the six months ended June 30, 2009 totaled \$8.6 million, including the \$2.1 million special distribution declared in February 2009.

Royal Host sets monthly distributions based on, among other considerations, financial performance, projected cash flows, capital requirements and working capital requirements. After consideration of the Canadian lodging industry outlook and its impact on cash flows from the Trust's hospitality and investment portfolios, the Board of Trustees determined that it was in Royal Host's best long-term interest to reduce distributions to \$0.025 per unit per month, effective immediately.

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

Three months ended June 30, 2009

The Trust's hospitality revenue for the three months ended June 30, 2009 decreased \$3.7 million and hospitality gross margin decreased \$2.5 million for the comparable period in 2008. The Trust recognized investment income of \$3.0 million (2008 - \$2.2 million), and income from continuing operations of \$1.1 million (2008 - \$2.9 million).

| (\$000's, except as otherwise noted) | Three months ended June 30 | | | |
|--------------------------------------|----------------------------|--------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Hospitality Revenue | 23,971 | 27,638 | (3,667) | (13.3) |
| Hospitality Expenses | 18,126 | 19,250 | (1,124) | (5.8) |
| Hospitality Gross Margin | 5,845 | 8,388 | (2,543) | (30.3) |
| Investment Income | 3,031 | 2,249 | 782 | 34.8 |
| Gross Margin | 8,876 | 10,637 | (1,761) | (16.6) |
| Other Expenses | 7,748 | 7,697 | 51 | 0.7 |
| Income from Continuing Operations | 1,128 | 2,940 | 1,812 | (61.6) |

Hospitality Revenue

Hospitality revenue from continuing operations for the three months ended June 30, 2009 decreased by \$3.7 million to \$24.0 million (2008 - \$27.6 million).

| (\$000's, except as otherwise noted) | Three months ended June 30 | | | |
|--------------------------------------|----------------------------|--------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Revenue (continuing operations) | | | | |
| Rooms | 18,704 | 21,224 | (2,520) | (11.9) |
| Food and Beverage | 3,903 | 4,629 | (726) | (15.7) |
| Franchising and Management | 264 | 314 | (50) | (15.9) |
| Other | 1,100 | 1,471 | (371) | (25.2) |
| | 23,971 | 27,638 | (3,667) | (13.3) |

Rooms revenue decreased by 11.9% to \$18.7 million (2008 - \$21.2 million). Stable ADR was offset by a decline in Occupancy, as described herein under "Room Statistics".

Food and beverage revenue derived from restaurants and lounges, banquets and room service, decreased \$0.7 million, or 15.7%, to \$3.9 million (2008 - \$4.6 million). The decrease is due to an overall decline in Occupancy and fewer banquets than in 2008.

Food and beverage revenue was also impacted by the cessation of a catering contract at the Travelodge Thunder Bay Airline in late 2008, which resumed in the latter part of the second quarter of 2009, and the permanent closure of two restaurants in the latter part of 2008. Consistent with the first quarter of 2009, revenue was somewhat impacted in the Trust's other food and beverage operations by less tour and other group business.

Franchising and management revenue decreased \$0.1 million to \$0.3 million. As at June 30, 2009, the Trust franchised 98 Travelodge® and Thriftlodge® properties representing 8,799 guest rooms (June 30, 2008 - 100 properties representing 8,992 guest rooms), and managed four properties for third parties.

Other revenue decreased 25.2% to \$1.1 million (2008 - \$1.5 million). Tenant revenue and telephone revenue decreased over the second quarter of 2008, while parking revenue increased modestly.

Hospitality Expenses

| (\$'000's, except as otherwise noted) | Three months ended June 30 | | | |
|---------------------------------------|----------------------------|--------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Hospitality Expenses | 18,126 | 19,250 | (1,124) | (5.8) |

In the second quarter, Management continued to reinforce strict measures to align its costs with market conditions and ensure costs were well controlled. The Trust's hotels operated with minimum staffing levels and spending. As a result, departmental (rooms and food and beverage) payroll and related costs declined relative to the prior year.

Cost of sales such as the cost of food and beverages also decreased from the prior year both in absolute terms as well as a percentage of associated revenue, due to cost reduction initiatives.

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 2008 due to additional resources being applied to the area of sales.

Utilities and property taxes were essentially unchanged, while franchise fees, which are based on revenue, declined and insurance increased somewhat due to the payment of various deductibles. Operating costs in the Trust's franchising and management businesses remained stable.

Hospitality expenses were impacted by the inclusion of certain asset management costs which did not satisfy the criteria for capitalization.

Hospitality Gross Margin

| (\$'000's, except as otherwise noted) | Three months ended June 30 | | | |
|---------------------------------------|----------------------------|-------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Hospitality Gross Margin | 5,845 | 8,388 | (2,543) | (30.3) |

Impacted by lower Occupancy, hospitality gross margin decreased by \$2.5 million, or 30.3%, to \$5.8 million in the three months ended June 30, 2009 (2008 - \$8.4 million). Hospitality gross margin as a percentage of hospitality revenue decreased to 24.4% (2008 - 30.3%).

Rooms margins declined from 2008 levels due to a larger decline in rooms revenue (resulting from lower Occupancy) than the corresponding reduction in hospitality expenses due to the mix of fixed and variable costs. Food and beverage margins declined due, in part, to fewer high margin banquets.

Investment Income

Distributions and interest income on cash and cash equivalents and fixed maturity and equity investments increased 17.7% to \$2.4 million (2008 - \$2.1 million), as a result of a larger investment portfolio and higher yielding investments. During the quarter, the Trust sold \$3.4 million of marketable securities. The Trust recognized \$0.6 million (2008 - \$0.2 million) of realized and unrealized losses on marketable securities.

Other Expenses and Income

Interest and accretion on mortgages and capital leases for the three months ended June 30, 2009 increased to \$2.0 million (2008 - \$1.7 million) and included \$0.1 million of accretion (2008 - \$0.1 million).

Interest and accretion on convertible debentures for the three months ended June 30, 2009 decreased \$0.4 million to \$2.7 million (2008 - \$3.1 million) due to the maturity of the Trust's 7.9% convertible debentures during the second quarter of 2009 and repurchases and conversions of convertible debentures in the latter half of 2008 and first six months of 2009. Accretion on convertible debentures was unchanged at \$0.3 million in the second quarter of 2009 (2008 - \$0.3 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 three months ended June 30, 2009, the Trust recognized a discount on repurchases of its convertible debentures of \$0.4 million (2008 - \$nil), representing the excess of the carrying value of the debentures retired over the cost of repurchasing the debentures.

Trust administration expense decreased to \$0.4 million (2008 - \$0.5 million), primarily as a result of decreased consulting fees (see "Related Party Transactions").

Depreciation and amortization increased to \$3.2 million (2008 - \$3.1 million).

The Trust recognized a future income tax recovery of \$0.1 million during the three months ended June 30, 2009. Future income taxes are related to timing differences between tax and accounting values of capital assets and debt issuance costs.

Net Income, Other Comprehensive Income and Comprehensive Income

The Trust's income from continuing operations for the three months ended June 30, 2009 was \$1.1 million (2008 - \$2.9). The Trust's loss from discontinued operations was \$0.1 million (2008 - \$15.1 million income), as described further in "Discontinued Operations and Property Held For Sale". Net income was \$1.0 million (2008 - \$18.0 million income).

The Trust recognized other comprehensive income of \$7.9 million (2008 - \$0.3 million), attributable to unrealized gains on marketable securities classified as available-for-sale, including InnVest REIT and Holloway Lodging REIT trust units.

Comprehensive income, the combination of net loss and other comprehensive loss, was \$8.9 million for the three months ended June 30, 2009 (2008 - \$18.3 million income).

Six months ended June 30, 2009

The Trust's hospitality revenue for the six months ended June 30, 2009 decreased \$6.1 million and hospitality gross margin decreased \$4.4 million for the comparable period in 2008. The Trust recognized investment income of \$6.2 million (2008 - \$4.3 million), and a loss from continuing operations of \$0.4 million (2008 - \$2.9 million income).

| (\$'000's, except as otherwise noted) | Six months ended June 30 | | | |
|--|--------------------------|--------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Hospitality Revenue | 45,655 | 51,789 | (6,134) | (11.9) |
| Hospitality Expenses | 36,748 | 38,531 | (1,783) | (4.6) |
| Hospitality Gross Margin | 8,907 | 13,258 | (4,351) | (32.8) |
| Investment Income | 6,219 | 4,317 | 1,902 | 44.1 |
| Gross Margin | 15,126 | 17,575 | (2,449) | (13.9) |
| Other Expenses | 15,480 | 14,665 | 815 | 5.6 |
| Income (Loss) from Continuing Operations | (354) | 2,910 | (3,264) | (112.2) |

Hospitality Revenue

Hospitality revenue from continuing operations for the six months ended June 30, 2009 decreased by \$6.1 million to \$45.7 million (2008 - \$51.8 million).

| (\$'000's, except as otherwise noted) | Six months ended June 30 | | | |
|---------------------------------------|--------------------------|--------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Revenue (continuing operations) | | | | |
| Rooms | 35,421 | 39,695 | (4,274) | (10.8) |
| Food and Beverage | 7,179 | 8,656 | (1,477) | (17.1) |
| Franchising and Management | 719 | 823 | (104) | (12.6) |
| Other | 2,336 | 2,615 | (279) | (10.7) |
| | 45,655 | 51,789 | (6,134) | (11.9) |

Rooms revenue decreased by 10.8% to \$35.4 million (2008 - \$39.7 million). Modest growth in ADR was offset by a decline in Occupancy, as described herein under "Room Statistics".

Food and beverage revenue decreased \$1.5 million, or 17.1%, to \$7.2 million (2008 - \$8.7 million). The decrease is due to an overall decline in Occupancy and fewer banquets in the Trust's nine full service hotels in 2009.

Consistent with the first quarter of 2009, food and beverage revenue was also impacted most significantly by the temporary cessation of a catering contract at the Travelodge Thunder Bay Airline from late 2008 through the latter part of the second quarter of 2009. The closure of two restaurants in the latter part of 2008 and the decline in tour and other group business, particularly at the Travelodge Ottawa West, also impacted food and beverage revenue.

Hospitality Expenses

| (\$000's, except as otherwise noted) | Six months ended June 30 | | | |
|--------------------------------------|--------------------------|--------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Hospitality Expenses | 36,748 | 38,531 | (1,783) | (4.6) |

Hospitality expenses for the first half of 2009 represented 80.5% of hospitality revenue (2008 - 74.4%). Despite the Trust's cost reduction initiatives, due to the loss of revenue, departmental (rooms and food and beverage) payroll and related costs increased as a percentage of revenue compared to the six months ended June 30, 2008. Cost of sales such as the cost of food and beverages decreased significantly from the prior year both in absolute terms as well as a percentage of associated revenue.

As noted earlier, hospitality expenses were also impacted by the inclusion of certain asset management costs which did not satisfy the criteria for capitalization, as well as certain non-cash expenses recorded in the first quarter of 2009.

Hospitality Gross Margin

| (\$000's, except as otherwise noted) | Six months ended June 30 | | | |
|--------------------------------------|--------------------------|--------|---------|------------|
| | 2009 | 2008 | Change | Change (%) |
| Hospitality Gross Margin | 8,907 | 13,258 | (4,351) | (32.8) |

Hospitality gross margin decreased by \$4.4 million, or 32.8%, to \$8.9 million in the six months ended June 30, 2009 (2008 - \$13.3 million). Hospitality gross margin as a percentage of hospitality revenue decreased to 19.5% (2008 - 25.6%).

In both the first and second quarters of 2009, rooms margins declined from 2008 levels due to a larger decline in rooms revenue (resulting from lower Occupancy) than the corresponding reduction in hospitality expenses. Food and beverage margins declined due, in part, to fewer higher margin banquets.

Investment Income

Distributions and interest income on cash and cash equivalents and fixed maturity and equity investments increased 18% to \$5.2 million (2008 - \$4.4 million), as a result of a significantly larger investment portfolio and higher yielding investments.

During the six months ended June 30, 2009, the Trust sold \$10.0 million of marketable securities and recognized realized and unrealized gains on marketable securities of \$1.1 million (2008 - \$0.1 million loss).

Other Expenses and Income

Interest and accretion on mortgages and capital leases for the six months ended June 30, 2009 was \$3.8 million (2008 - \$3.7 million) and included \$0.1 million of accretion (2008 - \$0.2 million).

Interest and accretion on convertible debentures for the six months ended June 30, 2009 decreased \$0.7 million to \$5.6 million (2008 - \$6.2 million), due to the maturity of the Trust's 7.9% convertible debentures during the second quarter of 2009 and repurchases and conversions of convertible debentures in the latter half of 2008 and first six months of 2009. Accretion on convertible debentures was unchanged at \$0.6 million for the six months ended June 30, 2009 (2008 - \$0.6 million).

During the six months ended June 30, 2009, the Trust recognized a discount on repurchases of its convertible debentures of \$1.0 million (2008 - \$nil).

Trust administration expense increased to \$1.1 million (2008 - \$0.9 million), primarily as a result of increased trustee compensation and consulting fees (see "Related Party Transactions").

Depreciation and amortization increased to \$6.5 million (2008 - \$6.3 million).

The Trust recognized a future income tax recovery of \$0.4 million during the six months ended June 30, 2009.

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

The Trust's loss from continuing operations for the six months ended June 30, 2009 was \$0.4 million (2008 - \$2.9 million income). The Trust's loss from discontinued operations was \$0.2 million (2008 - \$27.2 million income), as described further in "Discontinued Operations". Net loss was \$0.5 million (2008 - \$30.1 million income).

The Trust recognized other comprehensive loss of \$0.1 million (2008 - \$1.3 million), attributable to unrealized losses on marketable securities classified as available-for-sale.

Comprehensive loss, the combination of net loss and other comprehensive loss, was \$0.6 million for the six months ended June 30, 2009 (2008 - \$28.8 million income).

Discontinued Operations

The operations of properties and businesses that were sold prior to June 30, 2009 or that are held for sale as at June 30, 2009 have been included in discontinued operations on the consolidated statements of net income (loss) and comprehensive income (loss), and reflected as assets and liabilities of discontinued operations and property held for sale on the consolidated balance sheets.

Discontinued operations is comprised of the four properties sold in 2008: Travelodge Hotel Burlington on the Lake, El Rancho Motor Hotel & Convention Centre, Holiday Inn Edmonton – The Palace, and Grand Okanagan Lakefront Resort and Conference Centre, as well as the Thriftlodge Fort Nelson, which was destroyed by fire in 2008 and the Sundial Inn which was decommissioned in 2008.

INCOME FROM DISCONTINUED OPERATIONS

| (\$000's, except as otherwise noted) | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|--------|-----------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Hospitality Revenue | - | 9,186 | - | 15,327 |
| Hospitality Expenses | 63 | 5,172 | 132 | 10,390 |
| Hospitality Gross Margin | (63) | 4,014 | (132) | 4,937 |
| Other Expenses | 29 | 3,293 | 29 | 3,852 |
| | (92) | 721 | (161) | 1,085 |
| Gain on Sales | - | 13,044 | - | 24,768 |
| Gain from Insurance Recovery | - | 1,322 | - | 1,322 |
| Income (Loss) from Discontinued Operations | (92) | 15,087 | (161) | 27,175 |

Hospitality revenue from discontinued operations for the three and six months ended June 30, 2009 was \$nil (2008 - \$9.2 million) and \$nil (2008 - \$15.3 million), respectively.

The Trust generated a loss from discontinued operations for the three months ended June 30, 2009 of \$0.1 million. Income from discontinued operations for the first quarter of 2008 was \$15.1 million, due primarily to the sale of the Travelodge Hotel Burlington on the Lake, which generated a gain on sale of \$11.7 million. The Trust's loss from discontinued operations for the six months ended June 30, 2009 was \$0.2 million. Income from discontinued operations for the six months ended June 30, 2008 was \$27.2 million, due to the sale of the Holiday Inn Edmonton – The Palace in the second quarter of 2008. Comparative figures include all four of the hotels sold in 2008.

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

During the first quarter of 2009, the Trust entered into a \$20 million secured revolving credit facility to enhance its liquidity. Royal Host will continue to balance preserving its liquidity and utilizing its cash to maximize Unitholder value.

The Trust's Series A, 7.9% Convertible Debentures matured on April 30, 2009. Repayment was funded from working capital and the Trust's credit facility as described herein.

As at June 30, 2009, Royal Host had \$2.5 million of cash, undrawn credit facilities of \$6.4 million and access to potential additional borrowing on its properties; marketable securities were \$47.3 million (December 31, 2008 - \$56.4 million). Royal Host's undrawn credit facility, additional borrowing potential and marketable securities, together with its future cash flows and mortgage refinancings, are expected to be sufficient to fund anticipated cash requirements over the next year.

The Trust's 2009 single debt maturity over the next twelve months is a mortgage in the amount of \$21.8 million, which matures in May 2010.

Costs to complete the casino expansion at the Grand Okanagan Resort (a condition of the sale of the property) totaled \$0.1 million as at June 30, 2009; the project was substantially completed and turned over to the tenant in June 2009.

Marketable Securities

As a result of the higher levels of invested capital in 2009, the Trust realized distribution and interest income of \$2.4 million during the three months ended June 30, 2009 (2008 - \$2.1 million).

During the three and six months ended June 30, 2009, Royal Host sold marketable securities for proceeds of \$3.4 million and \$10.0 million, respectively.

As at June 30, 2009, the Trust's portfolio of marketable securities has a carrying value of \$47.3 million (June 30, 2008 - \$56.4 million). As at June 30, 2009, substantially all of Royal Host's portfolio of marketable securities was invested in equity instruments.

Major Holdings of Marketable Securities

| (as at June 30, 2009) | # of Units | % of Total | Carrying Value | Monthly Distribution Per Unit | Monthly Distribution |
|-----------------------|--------------|------------|----------------|-------------------------------|----------------------|
| InnVest REIT | 10.4 million | 14.0% | \$41.0 million | \$0.0625 | \$0.7 million |
| Holloway Lodging REIT | 7.8 million | 19.9% | \$ 6.0 million | \$nil | \$nil |

Management believes that the highest risk-adjusted rate of return is currently achievable by holdings its investments in InnVest REIT and Holloway Lodging REIT.

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 June 30, 2009, the letter of credit was reduced to \$2.9 million, secured by marketable securities with a market value of \$3.6 million.

On July 21, 2009, Holloway announced it was suspending its monthly distributions, effective July 2009, reducing Royal Host's anticipated annual distribution income by \$1.6 million.

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.

As at June 30, 2009, the Trust also had restricted cash of \$3.8 million (December 31, 2008 - \$4.7 million) in the form of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

Off Balance Sheet Arrangement

During 2008, Royal Host entered into a \$9.5 million credit facility. As at June 30, 2009, marketable securities with a carrying value of \$4.8 million were pledged as security for a \$3.8 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 June 30, 2009. As at August 11, 2009, the letter of credit had been reduced to \$2.9 million; \$3.6 of marketable securities were pledged as security.

Cash Flows

The following table details the Trust's cash flows:

| Cash Flows (\$'000's) | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|----------|-----------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Cash Generated from (Utilized in) Operating Activities | 1,670 | 3,799 | 1,868 | 7,371 |
| Cash Utilized in Financing Activities | (1,333) | (41,796) | (10,598) | (50,544) |
| Cash Generated from Investing Activities | (58) | 26,728 | 4,748 | 33,826 |
| Increase (decrease) in Cash and Cash Equivalents | 279 | (11,269) | (3,982) | (9,347) |

Cash Flows From Operating Activities

Cash flows from operating activities totaled \$1.7 million, a \$2.1 million decrease compared to 2008.

CONTINUING OPERATIONS

During the second quarter of 2009, Royal Host's continuing operations provided \$3.6 million of cash flow before changes in working capital, representing a \$2.0 million decrease from 2008. A \$2.5 million decline in hospitality gross margin was offset by a \$0.4 million increase in distribution and interest income. Interest on mortgages, capital leases and convertible debentures was relatively flat.

During the first half of 2009, Royal Host's continuing operations provided \$4.4 million of cash flow before changes in working capital, representing a \$3.4 million decrease from 2008. A \$4.4 million decline in hospitality gross margin was offset by a \$0.8 million increase in distribution and interest income. Interest on mortgages, capital leases and convertible debentures decreased by \$0.4 million.

DISCONTINUED OPERATIONS

During the three and six months ended June 30, 2009, Royal Host's discontinued operations utilized \$0.1 million of cash flow before changes in working capital, excluding proceeds from the sale of assets (see "Cash Flow From Investing Activities" below).

CHANGES IN NON-CASH WORKING CAPITAL

During the three months ended June 30, 2009, changes in continuing non-cash working capital utilized \$1.7 million of cash flow and changes in discontinued non-cash working capital utilized \$0.2 of cash flows.

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 and 2009 offered the Trust the opportunity to repurchase its securities at significant discount to their underlying value.

| | NCIB/Term (Maximum) | Three months ended June 30, 2009 | | | Six months ended June 30, 2009 | | |
|-------------|--|---------------------------------------|-------------------------|----------------------|---------------------------------------|-------------------------|-----------------------|
| | | Cost to Repurchase (\$millions) | Average Cost (\$) | Cost (\$millions) | Cost to Repurchase (\$millions) | Average Cost (\$) | Cost (\$millions') |
| Trust Units | January 12, 2009 to January 11, 2010 (1,472,468 units) | n/a | n/a | n/a | \$3.6 1,205,356 units | \$2.91 | \$9.5 |

| | NCIB/Term (Maximum) | Three months ended June 30, 2009 | | | Six months ended June 30, 2009 | | |
|------------------------------------|---|---------------------------------------|-------------------------|----------------------|---------------------------------------|-------------------------|----------------------|
| | | Cost to Repurchase (\$millions) | Average Cost (\$) | Cost (\$millions) | Cost to Repurchase (\$millions) | Average Cost (\$) | Cost (\$millions) |
| 6.25% Convertible Debentures | September 10, 2008 to September 9, 2009 (\$5.9 million) | \$0.4 | \$62.09 | \$0.7 | \$1.9 | \$68.42 | \$2.8 |
| 5.9% Convertible Debentures | September 10, 2008 to September 9, 2009 (\$6.0 million) | \$0.2 | \$59.17 | \$0.3 | \$0.3 | \$58.15 | \$0.6 |

DISTRIBUTIONS TO UNITHOLDERS

During the six months ended June 30, 2009, the Trust declared \$8.6 million of distributions to Unitholders, comprised of six distributions of \$0.055 per unit as well as a special distribution of \$0.10 per unit.

Cash Flows From Investing Activities

During the three and six months ended June 30, 2009, the Trust received \$3.4 million and \$10.0 million, respectively, of proceeds from the sale of marketable securities.

Royal Host is committed to optimizing its hotel portfolio through broad reinvestment across its properties and the Trust will deploy maintenance and growth capital when it deems it appropriate. Recent capital improvements have been predominantly deployed in areas that directly improve the guest experience; however, due to current conditions, the Trust restricted capital reinvestment in the second quarter of 2009. Capital additions during the six months ended June 30, 2009 utilized cash of \$1.4 million (2008 - \$8.0 million).

During 2009, the Trust also expended \$5.6 million on the casino expansion at the Grand Okanagan Lakefront Resort and Conference Centre (a condition of the sale of the property), which concluded in June 2009.

Capital Structure

As at June 30, 2009, mortgages and convertible debentures had an aggregate carrying value of \$231.0 million (December 31, 2008 - \$243.4 million); principal outstanding at June 30, 2009 totaled \$238.5 million (December 31, 2008 - \$251.8 million). The Trust had also drawn \$12.9 million of its \$20.0 million credit facility.

Royal Host's debt (excluding convertible debentures) is limited by its Declaration of Trust to 45% of gross book value. As at June 30, 2009, Royal Host's debt (excluding convertible debentures) to gross book value was 23.3% (December 31, 2008 - 19.7%). As at June 30, 2009, Royal Host's debt (including convertible debentures) to gross book value was 61.2% (December 31, 2008 - 58.9%).

Mortgages

As at June 30, 2009, the carrying value of the Trust's mortgages was \$82.1 million (December 31, 2008 - \$83.6 million). The carrying value reflects total outstanding principal of \$82.5 million (December 31, 2008 - \$84.3 million) less \$0.4 million of debt issuance costs (December 31, 2008 - \$0.6 million). The \$1.6 million decrease in carrying value during the year is attributable to the accretion of debt issuance costs of \$0.1 million and \$1.7 million of scheduled mortgage principal repayments made during 2009.

MORTGAGE MATURITIES

| As at June 30, 2009 | Principal Outstanding (\$000's) | Interest Rate | Security |
|-------------------------|---------------------------------|---------------|------------------------------------|
| May 2010 ⁽¹⁾ | 21,785 | 7.35% | 2 hotel properties |
| September 2010 | 24,699 | 9.38% | 11 hotel properties |
| November 2010 | 11,015 | 9.30% | 8 hotel properties and vacant land |
| October 2011 | 12,209 | 8.46% | 1 hotel property |
| March 2013 | 5,140 | 8.50% | 2 hotel properties |
| October 2013 | 7,670 | 7.37% | 1 hotel property |
| Total | 82,518 | | |

⁽¹⁾ Six-month extension provision on original November 2009 maturity was exercised and has been approved.

On April 30, 2009, the Trust entered into an Amended and Restated Loan Agreement (the "Loan"). The Loan has a principal value of \$21.8 million and was originally scheduled to mature on November 8, 2009. Subsequent to June 30, 2009, the Lender approved Royal Host's election to extend maturity for a further six months.

Royal Host is solidly financed; and it will continue to proactively manage its debt maturities. As at June 30, 2009, the Trust's secured debt as a whole represents a loan-to-net book value of 43.1%.

As at August 11, 2009, the Trust has three operating hotel properties (the Yellowknife Inn, the Travelodge Thunder Bay and the Travelodge Thunder Bay Airline), which have not been directly pledged as mortgage security. During the first quarter of 2009, the Trust entered into a \$20 million secured revolving credit facility, secured by three other 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.

Convertible Debentures

Royal Host's convertible debentures have a total outstanding balance at June 30, 2009 of \$155.9 million (December 31, 2008 - \$167.5 million). The carrying value of the convertible debentures as at June 30, 2009, reflects \$4.8 million of debt issuance costs and \$2.2 million of conversion options.

On April 30, 2009, the Trust repaid its \$7.3 million 7.9% convertible debenture, and during the six months ended June 30, 2009, Royal Host repurchased \$10.6 million of convertible debentures.

| (\$000's) | Maturity Date | June 30, 2009 | | December 31, 2008 | | Conversion Price |
|---------------------------------------|----------------|----------------|---------------------|-------------------|---------------------|-----------------------|
| | | Carrying Value | Outstanding Balance | Carrying Value | Outstanding Balance | |
| Current: | | | | | | |
| 7.9% Convertible Debenture, Series A | April 2009 | \$nil | \$nil | 7,252 | 7,288 | n/a |
| Long Term: | | | | | | |
| 6.00% Convertible Debenture, Series B | October 2015 | 44,387 | 46,766 | 45,154 | 47,718 | \$4.76 ⁽¹⁾ |
| 6.25% Convertible Debenture, Series C | September 2013 | 50,399 | 52,999 | 52,771 | 55,771 | \$4.87 ⁽¹⁾ |
| 5.90% Convertible Debenture, Series D | June 2014 | 54,189 | 56,168 | 54,590 | 56,757 | \$6.19 ⁽¹⁾ |
| | | 148,975 | 155,933 | 152,515 | 160,246 | |

⁽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 were adjusted effective from and after the close of business on December 29, 2008.

As at June 30, 2009, Royal Host's convertible debentures had a market capitalization of \$102.5 million.

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, 2008 | 7,288 | 47,718 | 55,771 | 56,757 | 167,534 |
| Repurchased Pursuant to Normal Course Issuer Bids | - | - | (2,772) | (589) | (3,361) |
| Repurchased Upon Maturity | (7,288) | - | - | - | (7,288) |
| Converted into Trust Units | - | (952) | - | - | (952) |
| Outstanding Balance, June 30, 2009 | - | 46,766 | 52,999 | 56,168 | 155,933 |

MATURITY DATES AND INTEREST RATES

| | Weighted Average Interest Rate | | Weighted Average Maturity (Years) | |
|--------------------------------------|-----------------------------------|----------------------|---|----------------------|
| | June 30, 2009 | December 31, 2008 | June 30, 2009 | December 31, 2008 |
| Mortgages | 8.46% | 8.46% | 1.6 | 2.1 |
| Convertible Debentures | 6.05% | 6.13% | 5.1 | 5.4 |
| Mortgages and Convertible Debentures | 6.88% | 6.91% | 3.9 | 4.3 |

Unitholders' Equity

During the six months ended June 30, 2009, equity decreased by \$12.0 million from \$36.8 million to \$24.7 million as illustrated below:

| (\$000's) | Six months ended June 30 | |
|--|--------------------------|----------|
| | 2009 | 2008 |
| Unitholders' Equity, Beginning of Period | 36,761 | 99,714 |
| Comprehensive Income (Loss) | (637) | 28,798 |
| Repurchases of Trust Units | (3,606) | (39,563) |
| Distributions to Unitholders | (8,615) | (7,686) |
| Issuance of Trust Units Pursuant to Conversion of Convertible Debentures | 902 | 238 |
| Other | (65) | (5) |
| Unitholders' Equity, End of Period | 24,740 | 81,496 |

As at June 30, 2009, 19,750,449 trust units were issued and outstanding (December 31, 2008 – 20,739,003).

| TRUST UNITS | Six months ended June 30 | |
|--|--------------------------|-------------|
| | 2009 | 2008 |
| Number of Trust Units, Beginning of Period | 20,739,003 | 27,487,825 |
| Trust Units Cancelled Pursuant to Normal Course Issuer Bid | (1,215,510) | (692,540) |
| Trust Units Cancelled Pursuant to Substantial Issuer Bid | - | (5,385,997) |
| Trust Units Issued Pursuant to Conversions of Convertible Debentures | 226,956 | 57,522 |
| Number of Trust Units, End of Period | 19,750,449 | 21,466,810 |

As at June 30, 2009, Royal Host's trust units had a market capitalization of \$59.8 million.

Summary of Quarterly Financial Results

| (\$000's, except as otherwise noted) | 2009 | | 2008 | | | | 2007 | |
|--|--------|---------|----------|--------|--------|--------|--------|--------|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Revenue | 23,971 | 21,684 | 25,266 | 27,542 | 27,638 | 24,151 | 26,578 | 29,740 |
| Income (Loss) | | | | | | | | |
| From Continuing Operations | 1,128 | (1,482) | (86,271) | 1,246 | 2,940 | (30) | (888) | 2,293 |
| From Discontinued Operations | (92) | (69) | 205 | 75,112 | 15,087 | 12,088 | 578 | 5,234 |
| | 1,036 | (1,551) | (86,066) | 76,358 | 18,027 | 12,058 | (310) | 7,527 |
| Per Unit Results (\$) | | | | | | | | |
| Income (Loss) from Continuing Operations | | | | | | | | |
| Basic | 0.06 | (0.07) | (4.13) | 0.06 | 0.14 | 0.00 | (0.03) | 0.11 |
| Diluted | 0.06 | (0.07) | (4.13) | 0.06 | 0.13 | 0.00 | (0.03) | 0.11 |
| Income (Loss) from Total Operations | | | | | | | | |
| Basic | 0.06 | (0.07) | (4.12) | 3.54 | 0.84 | 0.44 | (0.01) | 0.29 |
| Diluted | 0.06 | (0.07) | (4.12) | 3.54 | 0.53 | 0.44 | (0.01) | 0.29 |

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

Related Party Transactions

At June 30, 2009, Clarke Inc. owned approximately 5.3 million (approximately 27%) of Royal Host's issued and outstanding trust units and, as such, is a related party.

During the three and six months ended June 30, 2009, the Trust incurred professional and management fees totaling \$0.1 million and \$0.1 million, respectively, for services provided by Clarke Inc. (primarily related to the Grand Okanagan Resort casino expansion and asset management).

During the three and six months ended June 30, 2009, the Trust incurred consulting fees totaling \$nil million and \$0.1 million, respectively, for services supplied by a company controlled by a former trustee of the REIT. Included in accounts payable and accrued liabilities as of June 30, 2009 is \$nil. The arrangement was terminated in April 2009.

Business Environment and Outlook

Canadian Economy

The Canadian economy was profoundly impacted by the severe turmoil in financial markets due to the global financial crisis and a global recession. During 2008, the Canadian economy deteriorated into a recession. Due largely to global monetary stimulus, there are indications that economic activity has begun to expand in many countries. Similarly, there are indications that a recovery in the Canadian economy has begun. The Bank of Canada has reported that in the second quarter of 2009, although

the Canadian economy continued to contract, the pace of decline appears to have moderated; the downturn in activity in the first half of 2009 was less severe than previously anticipated, and expects that growth will resume later in 2009.

Canadian Hotel Sector

The demand for hotel accommodations is significantly impacted by macroeconomic conditions and consumer and business confidence. Therefore, given the present economic situation, the outlook for the Canadian hotel sector remains uncertain. The remainder of 2009 is expected to continue to be very challenging. Demand for lodging, both corporate and leisure, is anticipated to remain somewhat weak. Occupancy continues to fall short of 2008 levels and rate has declined as deep discounts have become more common, particularly in urban markets.

The hotel sector tends to lag the broad economy, leading some to forecast an improvement in the sector in 2010. There appears to be pent up demand, particularly in the leisure segment. Room rates will be determined largely by the industry's reaction to lower demand.

The H1N1 Influenza outbreak has had a limited effect on the Canadian hotel sector to date, but continues to have the potential to significantly adversely impact Canadian tourism and travel.

Royal Host

As the Canadian hotel sector moves through this economic cycle, Royal Host's three most important focuses remain revenue generation, cost controls and preserving and improving its financial condition. Royal Host continues to focus considerable attention on revenue management and generating demand. Meanwhile, Royal Host has continued to manage costs through a number of initiatives, including staffing to demand. Finally, Royal Host has and will continue to work diligently on ensuring it has ample liquidity, including exploring alternatives for upcoming debt maturities. Royal Host remains well positioned to take advantage of opportunities as they arise.

Taxation Changes to Income Trusts

The provisions of Bill C-52 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.

Commencing on January 1, 2011, 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 is 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). 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.

Income trusts have essentially three alternatives: convert to a corporation; complete a sale; or remain an income trust and position themselves as advantageously as possible in terms of post-2010 taxation. In 2008, the Minister of Finance introduced two methods of enabling a SIFT trust to convert into a

publicly-traded corporation generally without material adverse tax consequences for the trust or its Unitholders.

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.

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

Environmental Matters

The Trust is exposed to certain environmental risks in conducting regular operations including contamination of owned property and improper care and handling of raw materials and wastes.

Royal Host regularly reviews its operations and facilities to identify any potential environmental contamination or liability. These reviews identified no material remediation issues and potential risks and there have been no material events arising subsequently that would indicate additional obligations. Royal Host believes it complies materially with all relevant environmental laws and regulations. The Trust is not aware of any pending or proceeding actions against it or any of its subsidiaries relating to environmental issues.

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 June 30, 2009 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). 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 June 30, 2009.

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 June 30, 2009.

Changes In Controls Over Financial Reporting

There have been no changes in Royal Host's internal control over financial reporting during the six months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, Royal Host's internal control over financial reporting.

During the second quarter of 2009, 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 1 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

Goodwill and Intangible Assets

The CICA has a new accounting standard, Section 3064 "Goodwill and Intangible Assets" to replace Handbook Section 3062 "Goodwill and Other Intangible Assets". Handbook Section 3064 clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Royal Host adopted this section on January 1, 2009. The adoption of Section 3064 did not have a material effect on the financial statements of Royal Host.

Future Changes in Accounting Policies

Business Combinations

The CICA issued Section 1582 "Business Combinations", which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The adoption of the revised standard is expected to impact Royal Host's financial statements only to the extent that business combinations are entered into after the effective date.

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("AcSB") announced the replacement of Canadian GAAP with International Financial Reporting Standards ("IFRS") for publicly accountable profit-oriented enterprises including listed companies, effective for years beginning on or after January 1, 2011. 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 IASB 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.

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 Interim Financial Statements

2009

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

ROYAL HOST[®]
HOTELS & RESORTS^{REIT}

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

in \$000's

(unaudited)

| | As at | |
|--|------------------|----------------------|
| | June 30, 2009 | December 31, 2008 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | 2,458 | 6,440 |
| Marketable securities | 47,342 | 56,350 |
| Accounts, notes and distributions receivable | 6,363 | 4,876 |
| Prepaid expenses | 3,483 | 2,588 |
| Assets of discontinued operations | 417 | 1,177 |
| Inventories | 2,118 | 2,220 |
| | <u>62,181</u> | <u>73,651</u> |
| Capital assets | 221,242 | 225,081 |
| Intangible assets (Note 2) | 3,496 | 4,533 |
| Property held for sale | 2,025 | 2,025 |
| Restricted cash | 3,770 | 4,746 |
| | <u>292,714</u> | <u>310,036</u> |
| LIABILITIES AND UNITHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Bank indebtedness (Note 4) | 12,935 | - |
| Accounts payable and accrued liabilities (Note 11) | 12,026 | 11,869 |
| Equity distributions payable | 1,086 | 1,141 |
| Interest accrued on convertible debentures | 1,296 | 1,445 |
| Mortgages | 24,643 | 24,636 |
| Convertible debentures | - | 7,252 |
| Obligations under capital leases | 67 | 65 |
| Other liabilities | 429 | 269 |
| Liabilities of discontinued operations | 607 | 6,356 |
| | <u>53,089</u> | <u>53,033</u> |
| Mortgages (Note 5) | 57,418 | 59,000 |
| Convertible debentures (Note 6) | 148,975 | 152,515 |
| Obligations under capital leases | 144 | 178 |
| Deferred revenue | 594 | 408 |
| Future income taxes | 7,754 | 8,141 |
| | <u>267,974</u> | <u>273,275</u> |
| Unitholders' equity | <u>24,740</u> | <u>36,761</u> |
| | <u>292,714</u> | <u>310,036</u> |

See accompanying Notes to the Consolidated Interim Financial Statements.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

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

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 |
| Hospitality revenue | | | | |
| Rooms | 18,704 | 21,224 | 35,421 | 39,695 |
| Food and beverage | 3,903 | 4,629 | 7,179 | 8,656 |
| Franchising and management | 264 | 314 | 719 | 823 |
| Other | 1,100 | 1,471 | 2,336 | 2,615 |
| | <u>23,971</u> | <u>27,638</u> | <u>45,655</u> | <u>51,789</u> |
| Hospitality expenses | <u>18,126</u> | <u>19,250</u> | <u>36,748</u> | <u>38,531</u> |
| | <u>5,845</u> | <u>8,388</u> | <u>8,907</u> | <u>13,258</u> |
| Investment income | | | | |
| Distributions and interest | 2,426 | 2,061 | 5,165 | 4,367 |
| Realized and unrealized gains (losses) on held for trading securities | 477 | 45 | 195 | (196) |
| Realized gains on available-for-sale securities | 128 | 143 | 859 | 146 |
| | <u>3,031</u> | <u>2,249</u> | <u>6,219</u> | <u>4,317</u> |
| | <u>8,876</u> | <u>10,637</u> | <u>15,126</u> | <u>17,575</u> |
| Other expenses | | | | |
| Trust administration (Note 11) | 373 | 452 | 1,064 | 859 |
| Interest and accretion on mortgages and capital leases | 1,965 | 1,717 | 3,825 | 3,693 |
| Interest and accretion on convertible debentures | 2,715 | 3,121 | 5,564 | 6,236 |
| (Gain) loss on convertible debenture repurchases | (422) | 9 | (1,034) | 9 |
| Depreciation and amortization | 3,222 | 3,101 | 6,452 | 6,267 |
| Future income taxes recovery | (108) | (700) | (387) | (2,342) |
| (Gain) loss on foreign currency translation | 3 | (3) | (4) | (57) |
| | <u>7,748</u> | <u>7,697</u> | <u>15,480</u> | <u>14,665</u> |
| Income (loss) from continuing operations | <u>1,128</u> | <u>2,940</u> | <u>(354)</u> | <u>2,910</u> |
| Income (loss) from discontinued operations | <u>(92)</u> | <u>15,087</u> | <u>(161)</u> | <u>27,175</u> |
| Net income (loss) | <u>1,036</u> | <u>18,027</u> | <u>(515)</u> | <u>30,085</u> |
| Other comprehensive income (loss) (Note 10) | <u>7,857</u> | <u>267</u> | <u>(122)</u> | <u>(1,287)</u> |
| Comprehensive income (loss) | <u>8,893</u> | <u>18,294</u> | <u>(637)</u> | <u>28,798</u> |
| Basic per unit net earnings (loss) (Note 8) | | | | |
| - from continuing operations | 0.06 | 0.14 | (0.02) | 0.12 |
| - from discontinued operations | - | 0.70 | (0.01) | 1.12 |
| | <u>0.06</u> | <u>0.84</u> | <u>(0.03)</u> | <u>1.24</u> |
| Diluted per unit net earnings (loss) (Note 8) | | | | |
| - from continuing operations | 0.06 | 0.13 | (0.02) | 0.12 |
| - from discontinued operations | - | 0.40 | (0.01) | 1.12 |
| | <u>0.06</u> | <u>0.53</u> | <u>(0.03)</u> | <u>1.24</u> |

See accompanying Notes to the Consolidated Interim Financial Statements.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

in \$000's

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 |
| Operating activities | | | | |
| Income (loss) from continuing operations | 1,128 | 2,940 | (354) | 2,910 |
| Items not affecting cash: | | | | |
| Depreciation and amortization | 3,222 | 3,101 | 6,452 | 6,267 |
| Future income taxes recovery | (108) | (700) | (387) | (2,342) |
| Unrealized (gains) losses on marketable securities | (1,742) | (45) | (1,742) | 196 |
| Realized (gains) losses on marketable securities | 1,137 | (143) | 688 | (146) |
| (Gain) loss on convertible debenture repurchases | (422) | 9 | (1,034) | 9 |
| Accretion on mortgages and capital leases | 66 | 104 | 136 | 217 |
| Accretion on convertible debentures | 294 | 311 | 593 | 616 |
| Cash flows provided by continuing operations | 3,575 | 5,577 | 4,352 | 7,727 |
| Cash flows provided by (used in) discontinued operations | (60) | 3,361 | (129) | 3,580 |
| Changes in non-cash working capital - continuing operations (Note 9) | (1,663) | (3,770) | (2,128) | (4,817) |
| Changes in non-cash working capital - discontinued operations | (182) | (1,369) | (227) | 881 |
| | 1,670 | 3,799 | 1,868 | 7,371 |
| Financing activities | | | | |
| Increase in bank indebtedness | 12,935 | - | 12,935 | - |
| Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bid | (102) | (36,095) | (3,606) | (39,563) |
| Repurchases of convertible debentures pursuant to normal course issuer bids | (704) | - | (2,247) | - |
| Convertible debenture repayment at maturity | (7,288) | - | (7,288) | - |
| Equity distributions | (5,308) | (3,537) | (8,670) | (8,017) |
| Principal repayments on mortgages and capital leases - continuing operations | (879) | (1,070) | (1,743) | (1,675) |
| Principal repayments on mortgages and capital leases - discontinued operations | - | (1,037) | - | (1,284) |
| Proceeds from repayment of employee unit purchase program loan | 13 | (57) | 21 | (5) |
| | (1,333) | (41,796) | (10,598) | (50,544) |
| Investing activities | | | | |
| Proceeds on dispositions of marketable securities | 3,437 | 2,444 | 9,987 | 2,904 |
| Purchases of marketable securities | (47) | (1,957) | (47) | (16,366) |
| Acquisitions of capital assets - continuing operations | (1,203) | (4,041) | (1,374) | (7,258) |
| Acquisitions of capital assets - discontinued operations | - | (599) | - | (757) |
| Net acquisitions on expansion of property - discontinued operations | (3,023) | - | (5,601) | - |
| (Increase) decrease in restricted cash | 778 | (192) | 976 | (36) |
| Net cash on dispositions of capital assets | - | 27,448 | - | 51,714 |
| Net cash on insurance recovery | - | 3,625 | 807 | 3,625 |
| | (58) | 26,728 | 4,748 | 33,826 |
| Increase (decrease) in cash and cash equivalents | 279 | (11,269) | (3,982) | (9,347) |
| Cash and cash equivalents, beginning of period | 2,179 | 48,745 | 6,440 | 46,823 |
| Cash and cash equivalents, end of period | 2,458 | 37,476 | 2,458 | 37,476 |
| Cash interest paid | | | | |
| Mortgages and capital leases | 2,026 | 2,291 | 3,695 | 4,848 |
| Convertible debentures | 3,392 | 3,767 | 5,120 | 5,620 |
| | 5,418 | 6,058 | 8,815 | 10,468 |

See accompanying Notes to the Consolidated Interim Financial Statements.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity

in \$000's

(unaudited)

| | Trust Units | Convertible Equity | Contributed Surplus | Accumulated Income | Accumulated Other Comprehensive Loss | Distributions | Total |
|---|----------------|-----------------------|------------------------|-----------------------|---|------------------|----------------|
| Balance, December 31, 2007 | 217,138 | 3,637 | 9,628 | 39,163 | (2,210) | (167,642) | 99,714 |
| Comprehensive income (loss) | - | - | - | 30,085 | (1,287) | - | 28,798 |
| Distributions on trust units | - | - | - | - | - | (7,686) | (7,686) |
| Issuance of trust units pursuant to debenture conversion option | 238 | - | - | - | - | - | 238 |
| Trust units repurchased pursuant to normal course issuer bid | (5,478) | - | 1,157 | - | - | - | (4,321) |
| Trust units repurchased pursuant to substantial issuer bid | (42,572) | - | 7,330 | - | - | - | (35,242) |
| Employee loans pursuant to employee unit purchase program | (5) | - | - | - | - | - | (5) |
| Balance, June 30, 2008 | 169,321 | 3,637 | 18,115 | 69,248 | (3,497) | (175,328) | 81,496 |
| Comprehensive income (loss) | - | - | - | (9,708) | 3,497 | - | (6,211) |
| Distributions on trust units | - | - | - | - | - | (34,981) | (34,981) |
| Issuance of trust units pursuant to debenture conversion option | 2,906 | (81) | - | - | - | - | 2,825 |
| Convertible debentures repurchased pursuant to normal course issuer bid | - | (263) | - | - | - | - | (263) |
| Trust units repurchased pursuant to normal course issuer bid | (9,172) | - | 2,894 | - | - | - | (6,278) |
| Employee loans pursuant to employee unit purchase program | 158 | - | 15 | - | - | - | 173 |
| Balance, December 31, 2008 | 163,213 | 3,293 | 21,024 | 59,540 | - | (210,309) | 36,761 |
| Comprehensive loss (Note 8) | - | - | - | (515) | (122) | - | (637) |
| Distributions on trust units | - | - | - | - | - | (8,615) | (8,615) |
| Issuance of trust units pursuant to debenture conversion option (Note 6) | 929 | (27) | - | - | - | - | 902 |
| Convertible debentures repurchased pursuant to normal course issuer bid (Note 6) | - | (86) | - | - | - | - | (86) |
| Trust units repurchased pursuant to normal course issuer bid | (9,486) | - | 5,880 | - | - | - | (3,606) |
| Employee loans pursuant to employee unit purchase program | (3) | - | 24 | - | - | - | 21 |
| Balance, June 30, 2009 | 154,653 | 3,180 | 26,928 | 59,025 | (122) | (218,924) | 24,740 |

See accompanying Notes to the Consolidated Interim Financial Statements.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

Unaudited (in thousands of dollars, except per share amounts)

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.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2008 except for the changes described in note two. These financial statements do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2008.

Comparative figures for operations of properties and businesses that were disposed of prior to June 30, 2009, or held for sale at June 30, 2009, have been reclassified from continuing operations to discontinued operations on the consolidated statements of net income (loss) and comprehensive income (loss) and the consolidated statements of cash flows.

Revenues earned from hotel operations fluctuate throughout the year, with the second and third quarters typically higher than the first and fourth due to the increased level of leisure travel in the summer months.

2. CHANGES IN ACCOUNTING POLICIES

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. This standard is effective for the Trust's 2009 fiscal year, and adopted on a retroactive basis with restatement. This change in accounting policy did not have a material impact on the financial statements of Royal Host.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The CICA issued Section 1582, "*Business Combinations*", which replaces Section 1581, "*Business Combinations*". This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The adoption of the revised standard is expected to impact Royal Host's financial statements only to the extent that business combinations are entered into after the effective date.

4. BANK INDEBTEDNESS

During the six months ended June 30, 2009, the Trust entered into a credit facility with a maximum availability of \$20.0 million. The facility bears interest at the Canadian bank prime rate plus 0.75%, is payable on demand and secured by three properties owned by the Trust.

5. MORTGAGES

During the six months ended June 30, 2009, the Trust was in non-monetary default under a loan agreement. During the three months ended June 30, 2009, the lender entered into a restated loan agreement with the Trust, curing the event of default. Subsequent to June 30, 2009, the Trust obtained agreement from the lender to extend the maturity date of the mortgage to May, 2010.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

Unaudited (in thousands of dollars, except per share amounts)

6. CONVERTIBLE DEBENTURES

| | (in \$000's) | |
|---|------------------|---------------------|
| | June 30, 2009 | December 31 2008 |
| 7.90% Convertible Unsecured Subordinated Debentures, Series A | - | 7,252 |
| 6.00% Convertible Unsecured Subordinated Debentures, Series B | 44,387 | 45,154 |
| 6.25% Convertible Unsecured Subordinated Debentures, Series C | 50,399 | 52,771 |
| 5.90% Convertible Unsecured Subordinated Debentures, Series D | 54,189 | 54,590 |
| | <u>148,975</u> | <u>159,767</u> |
| Less: current portion | - | 7,252 |
| | <u>148,975</u> | <u>152,515</u> |

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

During the three and six months ended June 30, 2009, \$1.0 million of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into trust units.

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

Commencing on September 10 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5.9 million in principal of its issued and outstanding 6.25% convertible debentures. During the three months ended June 30, 2009, Royal Host repurchased \$0.8 million in principal of the 6.25% convertible debentures with an aggregate cost of \$0.5 million (average price of \$62.24) pursuant to this bid. During the six months ended June 30, 2009, Royal Host repurchased \$2.8 million in principal of the 6.25% convertible debentures with an aggregate cost of \$1.9 million (average cost \$68.74) pursuant to this bid.

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

Commencing on September 10, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$6.0 million in principal of its issued and outstanding 5.90% convertible debentures. During the three months ended June 30, 2009, Royal Host repurchased \$0.4 million in principal of the 5.90% convertible debentures with an aggregate cost of \$0.2 million (average price of \$58.61) pursuant to this bid. During the six months ended June 30, 2009, Royal Host repurchased \$0.6 million in principal of the 5.90% convertible debentures with an aggregate cost of \$0.3 million (average cost \$58.48) pursuant to this bid.

(d) Revised conversion prices

During the three months ended June 30, 2009, 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 were adjusted. The adjustments to the conversion prices are as follows: (i) the 6.00% convertible unsecured subordinated debentures, series B, due October 31, 2015, was lowered from \$6.85 per trust unit (or approximately 145.99 trust units per \$1,000 principal amount of debentures) to \$4.76 per trust unit (or approximately 210.08 trust units per \$1,000 principal amount of debentures); (ii) the 6.25% convertible unsecured subordinated debentures, due September 30, 2013, was lowered from \$7.00 per trust unit (or approximately 142.86 trust units per \$1,000 principal amount of debentures) to \$4.87 per trust unit (or approximately 205.34 trust units per \$1,000 principal amount of debentures); and (iii) the 5.90% convertible unsecured subordinated debentures, due June 30, 2014, was lowered from \$8.90 per trust unit (or approximately 112.36 trust units per \$1,000 principal amount of debentures) to \$6.19 per trust unit (or approximately 161.55 trust units per \$1,000 principal amount of debentures).

7. NORMAL COURSE ISSUER BID

Commencing on January 12, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.5 million of its issued and outstanding trust units. During the three months ended June 30, 2009, Royal Host repurchased 9,300 units with an aggregate cost of \$0.02 million (average cost of \$2.45 per unit) pursuant to this bid. During the six months ended June 30, 2009, Royal Host repurchased 1.2 million units with an aggregate cost of \$3.4 million (average cost of \$2.98 per unit) pursuant to this bid.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

Unaudited (in thousands of dollars, except per share amounts)

8. PER UNIT CALCULATIONS

As at June 30, 2009, a total of 19,750,449 trust units (December 31, 2008 - 20,739,003) were issued and outstanding.

The following table reconciles the basic and diluted per unit computations from continuing operations:

| | Three Months Ended June 30, 2009 | | | Three Months Ended June 30, 2008 | | |
|---|-------------------------------------|-------------------------|--------------------|-------------------------------------|-------------------------|--------------------|
| | Income | Units (in thousands) | Per Unit Amount | Income | Units (in thousands) | Per Unit Amount |
| | \$ | # | \$ | \$ | # | \$ |
| Basic earnings per unit | 1,128 | 19,662 | 0.06 | 2,940 | 21,445 | 0.14 |
| Interest on assumed conversion of convertible debentures | - | - | - | 1,973 | 16,594 | - |
| Diluted earnings per unit | 1,128 | 19,662 | 0.06 | 4,913 | 38,039 | 0.13 |

The diluted earnings for the three months ended June 30, 2009 include no trust units issuable on the conversion of any convertible unsecured debentures because all of the conversions are anti-dilutive. The diluted earnings per unit for the three months ended June 30, 2008 includes the trust units issuable on the conversion of the 6.00% and 6.25% convertible unsecured subordinated debentures.

| | Six Months Ended June 30, 2009 | | | Six Months Ended June 30, 2008 | | |
|---|-----------------------------------|-------------------------|--------------------|-----------------------------------|-------------------------|--------------------|
| | Income (loss) | Units (in thousands) | Per Unit Amount | Income | Units (in thousands) | Per Unit Amount |
| | \$ | # | \$ | \$ | # | \$ |
| Basic earnings (loss) per unit | (354) | 19,937 | (0.02) | 2,910 | 24,250 | 0.12 |
| Interest on assumed conversion of convertible debentures | - | - | - | - | - | - |
| Diluted earnings (loss) per unit | (354) | 19,937 | (0.02) | 2,910 | 24,250 | 0.12 |

The diluted earnings per unit for the six months ended June 30, 2009 and the six months ended June 30, 2008 include no trust units issuable on the conversion of any convertible unsecured subordinated debentures because all of the conversions are anti-dilutive.

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

| | Three Months Ended (in \$000's) | | Six Months Ended (in \$000's) | |
|--|------------------------------------|------------------|----------------------------------|------------------|
| | June 30, 2009 | June 30, 2008 | June 30, 2009 | June 30, 2008 |
| (Increase) decrease in: | | | | |
| Accounts and notes receivable | (74) | (2,351) | (1,487) | (3,268) |
| Prepaid expenses | (445) | 175 | (895) | 126 |
| Inventories | 15 | 154 | 102 | 408 |
| | (504) | (2,022) | (2,280) | (2,734) |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued liabilities | (373) | 312 | (45) | (412) |
| Interest accrued on convertible debentures | (971) | (955) | (149) | - |
| Other liabilities | 115 | (1,523) | 160 | (1,383) |
| Deferred revenue | 70 | 418 | 186 | (288) |
| | (1,159) | (1,748) | 152 | (2,083) |
| | (1,663) | (3,770) | (2,128) | (4,817) |

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to the Consolidated Financial Statements

Three and six months ended June 30, 2009 and 2008

Unaudited (in thousands of dollars, except per share amounts)

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | (in \$000's) | | (in \$000's) | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2009 | 2008 | 2009 | 2008 |
| Accumulated other comprehensive loss, beginning of period | (7,979) | (3,764) | - | (2,210) |
| Other comprehensive income (loss) | 7,857 | 267 | (122) | (1,287) |
| Accumulated other comprehensive loss, end of period | (122) | (3,497) | (122) | (3,497) |

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | (in \$000's) | | (in \$000's) | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2009 | 2008 | 2009 | 2008 |
| Unrealized gains (losses) generated on available-for-sale marketable securities | 7,985 | 410 | 737 | (1,141) |
| Realized gains on available-for-sale assets transferred to net income | (128) | (143) | (859) | (146) |
| Other comprehensive income (loss) | 7,857 | 267 | (122) | (1,287) |

11. RELATED PARTY TRANSACTIONS

At June 30, 2009, Clarke Inc. owned approximately 5.3 million (27%) of Royal Host's issued and outstanding trust units and, as such, is a related party (December 31, 2008 - 5.3 million). At June 30, 2009, Royal Host owns \$nil of Clarke Inc. 6.0% Convertible Debentures, which are included in the Trust's marketable securities (December 31, 2008 - \$2.1 million).

During the three and six months ended June 30, 2009, the Trust incurred professional and management fees of \$0.1 million and \$0.1 million respectively for services supplied by Clarke Inc. (three and six months ended June 30, 2008 - \$nil). As at June 30, 2009, \$42,000 was owing in respect of these fees (December 31, 2008 - \$17,000).

During the three and six months ended June 30, 2009, the Trust incurred consulting fees for services provided by a Company controlled by a former Trustee of Royal Host of \$nil and \$0.1 million respectively (three and six months ended June 30, 2008 - \$nil). As at June 30, 2009, \$nil was owing in respect of these fees (December 31, 2008 - \$25,000).

12. COMMITMENTS

The Trust has entered into contracts to secure future electrical and natural gas requirements. These contracts require the physical delivery of commodities and cannot be settled in cash. At June 30, 2009 the future commitments under these contracts totaled \$0.9 million for deliveries to December 31, 2010.

Letter of credit

The Trust has a letter of credit outstanding to secure obligations related to the construction of a casino at the Grand Okanagan Resort. Subsequent to June 30, 2009, the amount on the letter of credit was reduced to \$2.9 million (December 31, 2008, \$6.4 million) and the Trust had pledged marketable securities of \$3.6 million (December 31, 2008, \$8.0 million).



INVESTOR INQUIRIES

investorinfo@royalhost.com

1-888-259-9899