

Royal Host Real Estate Investment Trust

March 31, 2010 and 2009

Royal Host Real Estate Investment Trust
CONSOLIDATED BALANCE SHEETS

Unaudited (in thousands of dollars)

	March 31, 2010	December 31, 2009
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	24,657	-
Marketable securities	9,671	39,409
Accounts, notes and distributions receivable	5,916	4,710
Prepaid expenses	3,642	2,726
Inventories	2,315	2,140
Assets of discontinued operations	466	427
	46,667	49,412
Capital assets	215,476	217,752
Intangible assets	1,872	2,358
Property held for sale	1,827	2,285
Restricted cash	2,640	2,732
	268,482	274,539
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	-	881
Accounts payable and accrued liabilities	8,816	10,379
Equity distributions payable	455	458
Interest accrued on convertible debentures	1,963	1,295
Mortgages	55,802	56,761
Obligations under capital leases	71	70
Liabilities of discontinued operations	30	76
	67,137	69,920
Mortgages	23,557	23,463
Convertible debentures (note 3)	147,578	147,292
Obligations under capital leases	90	108
Deferred revenue	567	461
Future income taxes	5,080	6,309
Total liabilities	244,009	247,553
Unitholders' equity	24,473	26,986
	268,482	274,539

See accompanying Notes to the Consolidated Interim Financial Statements

Royal Host Real Estate Investment Trust
CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND
COMPREHENSIVE LOSS

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

	Three months ended March 31, 2010 \$	Three months Ended March 31, 2009 \$
Hospitality revenue		
Rooms	16,152	16,717
Food and beverage	3,285	3,276
Franchising and management	413	455
Other	890	1,236
	20,740	21,684
Hospitality expenses	17,860	18,622
	2,880	3,062
Investment income		
Distributions and interest	264	2,739
Realized and unrealized losses on held-for-trading securities	-	(282)
Realized gains on available-for-sale securities	10,681	731
	10,945	3,188
Other expenses		
Trust administration	777	684
Interest and accretion on mortgages and capital leases	1,737	1,860
Interest and accretion on convertible debentures	2,610	2,849
Gain on convertible debenture repurchases	-	(612)
Depreciation and amortization	3,204	3,230
	8,328	8,011
Income (loss) from continuing operations before income taxes	5,497	(1,761)
Future income tax recovery	1,230	279
Income (loss) from continuing operations	6,727	(1,482)
Loss from discontinued operations, net of income tax	(449)	(69)
Net income (loss)	6,278	(1,551)
Other comprehensive loss (note 7)	(7,183)	(7,979)
Comprehensive loss	(905)	(9,530)
Basic earnings per unit: (in dollars) (note 5)		
Income (loss) from continuing operations	0.37	(0.07)
Loss from discontinued operations	(0.02)	-
Net income (loss)	0.35	(0.07)
Diluted earnings per unit: (in dollars) (note 5)		
Income (loss) from continuing operations	0.20	(0.07)
Loss from discontinued operations	(0.01)	-
Net income (loss)	0.19	(0.07)

See accompanying Notes to the Consolidated Interim Financial Statements

Royal Host Real Estate Investment Trust
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Unaudited (in thousands of dollars)

	Three months ended March 31, 2010 \$	Three months ended March 31, 2009 \$
Trust units		
Balance at beginning of period	143,343	163,213
Trust units repurchased pursuant to normal course issuer bid	-	(9,413)
Trust units repurchased pursuant to substantial issuer bid (note 4)	(776)	-
Employee loans pursuant to employee unit purchase program	3	(16)
Balance at end of period	142,570	153,784
Equity component of convertible debentures		
Balance at beginning of period	3,167	3,293
Convertible debentures repurchased pursuant to normal course issuer bid	-	(61)
Balance at end of period	3,167	3,232
Contributed surplus		
Balance at beginning of period	34,667	21,024
Trust units repurchased pursuant to normal course issuer bid	-	5,909
Trust units repurchased pursuant to substantial issuer bid (note 4)	530	-
Employee loans pursuant to employee unit purchase program	-	24
Balance at end of period	35,197	26,957
Accumulated income		
Balance at beginning of period	58,091	59,540
Net income (loss)	6,278	(1,551)
Balance at end of period	64,369	57,989
Accumulated distributions		
Balance at beginning of period	(222,425)	(210,309)
Distributions on trust units	(1,365)	(5,370)
Balance at end of period	(223,790)	(215,679)
Accumulated other comprehensive income (loss) (note 7)		
Balance at beginning of period	10,143	-
Other comprehensive income	(7,183)	(7,979)
Balance at end of period	2,960	(7,979)
Total unitholders' equity	24,473	18,304

See accompanying Notes to the Consolidated Interim Financial Statements

Royal Host Real Estate Investment Trust
CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of dollars)

	Three months ended March 31, 2010 \$	Three months ended March 31, 2009 \$
OPERATING ACTIVITIES		
Income (loss) from continuing operations	6,727	(1,482)
Adjustments for items not involving cash (note 6)	(8,381)	2,259
	(1,654)	777
Cash flows provided by (used in) discontinued operations	9	(69)
Net changes in non-cash working capital – continuing operations (note 6)	(3,086)	(465)
Net changes in non-cash working capital – discontinued operations	(84)	(45)
	(4,815)	198
FINANCING ACTIVITIES		
Increase in (repayment of) bank indebtedness	(881)	97
Repurchases of convertible debentures pursuant to normal course issuer	-	(1,543)
Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bid	(243)	(3,504)
Equity distributions	(1,365)	(3,362)
Principal repayments on mortgages and capital leases	(927)	(864)
Proceeds from repayment of employee unit purchase loans	3	8
	(3,413)	(9,168)
INVESTING ACTIVITIES		
Proceeds on dispositions of marketable securities	33,235	6,550
Acquisitions of capital assets	(442)	(171)
Net acquisitions on expansion of property – discontinued operations	-	(2,578)
Decrease in restricted cash	92	198
Net cash on insurance recovery	-	807
	32,885	4,806
Increase (decrease) in cash and cash equivalents	24,657	(4,164)
Cash and cash equivalents, beginning of period	-	6,440
Cash and cash equivalents, end of period	24,657	2,276
Cash	9,651	2,276
Cash equivalents	15,006	-
Total cash and cash equivalents	24,657	2,276
Cash interest received	14	42
Cash interest paid		
Mortgages and capital leases	1,695	1,669
Convertible debentures	1,656	1,728
Total cash interest paid	3,351	3,397

See accompanying Notes to the Consolidated Interim Financial Statements

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2010 and 2009

Unaudited (in thousands of dollars, except per unit 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 of the year ended December 31, 2009. 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 audited consolidated financial statements for the year ended December 31, 2009.

Comparative figures for operations of properties and businesses that were disposed of prior to March 31, 2010, or held for sale at March 31, 2010, have been reclassified from continuing operations to discontinued operations on the consolidated statements of net income (loss) and comprehensive 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. FUTURE CHANGES IN ACCOUNTING POLICIES

Business Combinations

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.

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2010 and 2009

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

3. CONVERTIBLE DEBENTURES

	March 31, 2010	December 31, 2009
	\$	\$
6.00% Convertible Unsecured Subordinated Debentures, Series B	44,549	44,477
6.25% Convertible Unsecured Subordinated Debentures, Series C	50,792	50,658
5.90% Convertible Unsecured Subordinated Debentures, Series D	52,237	52,157
	<u>147,578</u>	<u>147,292</u>

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

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$4,200 in principal of its issued and outstanding 6.00% convertible debentures. During the three months ended March 31, 2010, Royal Host repurchased none of the 6.00% convertible debentures.

Commencing on September 10, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,500 in principal of its issued and outstanding 6.00% convertible debentures. During the three months ended March 31, 2009 none of Royal Host's convertible debentures were purchased pursuant to this bid.

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

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,200 in principal of its issued and outstanding 6.25% convertible debentures. During the three months ended March 31, 2010, Royal Host repurchased none of the 6.25% convertible debentures pursuant to this bid.

Commencing on September 10, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,900 in principal of its issued and outstanding 6.25% convertible debentures. During the three months ended March 31, 2009, Royal Host repurchased \$2,015 in principal of the 6.25% convertible debentures with an aggregate cost of \$1,430 (average cost \$71.00) pursuant to this bid.

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

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,400 in principal of its issued and outstanding 5.90% convertible debentures. During the three months ended March 31, 2010, Royal Host repurchased none of the 5.90% convertible debentures pursuant to this bid.

Commencing on September 10, 2008, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$6,000 in principal of its issued and outstanding 5.90% convertible debentures. During the three months ended March 31, 2009, Royal Host repurchased \$194 in principal of the 5.90% convertible debentures with an aggregate cost of \$113 (average price of \$58.23) pursuant to this bid.

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2010 and 2009

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

4. NORMAL COURSE ISSUER BID AND SUBSTANTIAL ISSUER BID

Normal Course Issuer Bid

Commencing on January 8, 2010, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.3 million of its issued and outstanding trust units. During the three months ended March 31, 2010, Royal Host repurchased no units pursuant to this bid. Subsequent to March 31, 2010, Royal Host repurchased 9 thousand trust units with an aggregate cost of \$23 (average cost \$2.62 per unit) pursuant to this bid.

Substantial Issuer Bid

On November 4, 2009, Royal Host initiated a substantial issuer bid ("SIB"), pursuant to which Royal Host offered to purchase for cancellation up to 5 million of its issued and outstanding trust units at a price of \$2.45 per trust unit. The offer remained open for acceptance until December 14, 2009 and unitholders tendered 1.2 million units which Royal Host purchased and cancelled. At December 14, 2009, Royal Host extended the offer to remain open for acceptance until January 11, 2010. Unitholders tendered a further 0.1 million units during the extension period which Royal Host purchased and cancelled.

5. PER UNIT CALCULATIONS

As at March 31, 2010, a total of 18,205,568 trust units (December 31, 2009 – 18,304,670) were issued and outstanding. The following table reconciles the basic and diluted per unit computations from continuing operations:

	Three months ended March 31, 2010				Three months ended March 31, 2009	
	Income (loss) \$	Units (in thousands) #	Per unit amount \$	Loss \$	Units (in thousands) #	Per unit amount \$
Basic earnings (loss) per unit						
Income (loss) from continuing operations	6,727	18,218	0.37	(1,482)	20,210	(0.07)
Loss from discontinued operations	(449)	18,218	(0.02)	(69)	-	-
Basic earnings (loss) per unit	6,278	18,218	0.35	(1,551)	20,210	(0.07)
Diluted earnings per unit						
Income (loss) from continuing operations	6,727	18,218	-	(1,482)	20,210	-
Interest on assumed conversion of convertible debentures	2,610	29,403	-	-	-	-
Diluted earnings from continuing operations	9,337	47,622	0.20	(1,482)	-	-
Loss from discontinued operations	(449)	47,622	(0.01)	(69)	-	-
Diluted earnings (loss) per unit	8,888	47,622	0.19	(1,551)	20,210	(0.07)

* All potential dilutive securities issued relate to convertible debentures which were anti-dilutive for the three months ended March 31, 2009.

Royal Host Real Estate Investment Trust**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Three months ended March 31, 2010 and 2009

*Unaudited (in thousands of dollars, except per unit amounts)***6. SUPPLEMENTAL CASH FLOW INFORMATION**

	Three months ended March 31, 2010	Three months ended March 31, 2009
Adjustments for items not involving cash	\$	\$
Depreciation and amortization	3,204	3,230
Future income tax recovery	(1,230)	(279)
Unrealized losses on held-for-trading securities	-	282
Realized gains on available-for-sale securities	(10,681)	(731)
Gain on convertible debenture repurchases	-	(612)
Accretion on mortgages and capital leases	40	70
Accretion on convertible debentures	286	299
Adjustments for items not involving cash	(8,381)	2,259

	Three months ended March 31, 2010	Three months ended March 31, 2009
Net changes in non-cash working capital balances	\$	\$
Decrease (increase) in:		
Accounts, notes and distributions receivable	(1,206)	(1,413)
Prepaid expenses	(916)	(450)
Inventories	(175)	(87)
	(2,297)	(1,776)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,563)	373
Interest accrued on convertible debentures	668	822
Deferred revenue	106	116
	(789)	1,311
Net change in non-cash working capital balances	(3,086)	(465)

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2010 and 2009

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

7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Three months ended March 31, 2010	Three months ended March 31, 2009
	\$	\$
Accumulated other comprehensive income, beginning of period	10,143	-
Other comprehensive loss	(7,183)	(7,979)
Accumulated other comprehensive income (loss), end of period	2,960	(7,979)

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
	\$	\$
Unrealized gains (losses) generated on available-for-sale securities	3,498	(7,248)
Realized gains on available-for-sale securities transferred to net income	(10,681)	(731)
Other comprehensive income (loss)	(7,183)	(7,979)

8. RELATED PARTY TRANSACTIONS

At March 31, 2010, Clarke Inc. owned approximately 5,294 (29%) of Royal Host's issued and outstanding trust units and, as such, is a related party (December 31, 2009 - 5,294).

During the three months ended March 31, 2010, the Trust incurred professional and management fees of \$407 for services supplied by Clarke Inc. (March 31, 2009 - \$66). As at March 31, 2010, \$137 was owing in respect of these fees (December 31, 2009 - \$458).

During the three months ended March 31, 2010, the Trust incurred consulting fees for services provided by a Company controlled by a Trustee of Royal Host of \$nil (March 31, 2009 - \$75). As at March 31, 2010, \$nil was owing in respect of these fees (December 31, 2009 - \$nil).

2010 *Q1*

MANAGEMENT'S
DISCUSSION AND
ANALYSIS

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MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2010

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Royal Host Real Estate Investment Trust ("Royal Host" or "the Trust") for the three months ended March 31, 2010 compared with the three months ended March 31, 2009. This interim MD&A should be read in conjunction with the information disclosed within the unaudited, interim consolidated financial statements and notes thereto for the three months ended March 31, 2010. This interim MD&A is prepared as at May 11, 2010 (unless otherwise stated). All dollar amounts are shown in thousands of Canadian dollars unless otherwise indicated. Additional information relating to the Company, including risk factors as described on pages 33 to 42 of the Trust's Annual Information Form ("AIF") dated as of March 8, 2010 is hereby incorporated by reference into this interim MD&A, and can be obtained from SEDAR at www.sedar.com.

Non-GAAP Measures

This interim 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 interim 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), Funds from Operations and Adjusted Funds from Operations.

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.

Cautionary Statement Regarding Forward-looking Information and Statements

This interim 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 interim 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 interim 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.

OVERVIEW

During the first quarter of 2010, increasing competition and room rate cuts continued, providing a difficult operating environment for the Canadian lodging industry and Royal Host. Royal Host maintained its focus on revenue generation, cost control and liquidity management.

In the quarter, Royal Host:

- Generated overall Occupancy of 50.0% (2009 – 49.0%), Average Daily Rate of \$97.11 (2009 - \$100.45) and Revenue per Available Room of \$48.60 (2009 - \$49.19).

- Generated \$2,880 of hospitality gross margin (2009 - \$3,062) from \$20,740 of hospitality revenue (2009 - \$21,684);

- Had a comprehensive loss of \$905 including an other comprehensive loss of \$7,183 and a loss of \$449 from discontinued operations (2009 – comprehensive loss of \$9,530 including other comprehensive loss of \$7,979 and loss of \$69 from discontinued operations);

- Realized net income of \$6,278 (2009 – loss of \$1,551), or \$0.35 per unit (2009 – loss of \$0.07 per unit).

SELECTED FINANCIAL INFORMATION

Highlights of the interim consolidated financial statements for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 are as follows:

(\$000's, except as otherwise noted)	Three months ended March 31	
	2010	2009
Hospitality Revenue (Continuing Operations)	20,740	21,684
Hospitality Expenses	17,860	18,622
Hospitality Gross Margin ⁽¹⁾	2,880	3,062
Hospitality Gross Margin % ⁽¹⁾	13.9%	14.1%
Investment Income	10,945	3,188
Other Expenses	(8,328)	(8,011)
Future Income Tax Recovery	1,230	279
Income (Loss) From Continuing Operations	6,727	(1,482)
Loss From Discontinued Operations ⁽¹⁾	(449)	(69)
Net Income (Loss)	6,278	(1,551)
Basic Per Unit Net Income (Loss) (\$)		
From Continuing Operations	0.37	(0.07)
From Discontinued Operations	(0.02)	
	0.35	
Distributable Income ⁽²⁾	(2,422)	(92)
Distributions Declared on Trust Units ⁽³⁾	1,365	3,296
Basic Per Unit Distributable Income (\$) ⁽²⁾	(0.13)	-
Per Unit Distributions Declared (\$)	0.075	0.165
Weighted Average Number of Trust Units Outstanding (000's)	18,218	20,210
Number of Trust Units Outstanding, as at March 31 (000's)	18,206	19,543
Closing Trust Unit Trading Price, as at March 31 (\$)	2.80	2.48

As at May 11, 2010, Royal Host had 18,196,868 trust units outstanding.

⁽¹⁾ 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"

⁽²⁾ Items represent non-GAAP financial measures.

⁽³⁾ Excludes the special distribution declared in February 2009, payable to Unitholders of record on December 29, 2008.

Hospitality Revenue

Hospitality revenue decreased by \$944 from \$21,684 in the prior year to \$20,740 in the three months ended March 31, 2010 primarily due to lower room rates. Room revenue decreased by \$565, or 3.4%, due to a decline in ADR of 3.3%. Food and beverage revenue derived from restaurants and lounges, banquets and room service, remained steady compared to the first quarter of 2009 increasing by \$9 to \$3,285 (2009 - \$3,276). Franchising and management revenue decreased \$42 to \$413 from \$455 in 2009.

Hospitality Expenses

Hospitality expenses decreased by \$762 to \$17,860 for the three months ended March 31, 2010 (2009 - \$18,622) as management continued their efforts to manage costs in the current operating environment, while not impacting guest service levels. Reduced utilities expenses in 2010 also contributed to the decrease in hospitality expense as result of lower natural gas prices and lower consumption from warmer temperatures in Ontario and Alberta.

Investment Income

Total investment income rose in the first quarter of 2010 by \$7,757 to \$10,945 from \$3,188 in the first quarter of 2009. The increase is mainly due to \$10,681 in realized gains on the sale of Innvest REIT units. Subsequent to the quarter end the Trust disposed of its remaining holdings of Innvest REIT units. Distribution and interest income declined \$2,475 to \$264 from \$2,739 in the first quarter of 2010 as holdings in the investment portfolio reduced distribution levels in the latter part of 2009 and due to the reduction in overall size of the investment portfolio as compared to 2009.

Other Expenses

Other Expenses totaled \$8,328, an increase of \$317 from the 2009 level of \$8,011. The increase is mainly due to gains of \$612 recorded in 2009 on the repurchase of convertible debentures with no similar offset to other expenses recorded in 2010.

Future Income Tax Recovery

The future income tax recovery of \$1,230 is \$951 higher than the recovery in 2009 of \$279. The increase over 2009 is mainly due to a change in estimate from prior periods.

Other Comprehensive Loss

The Trust recognized an other comprehensive loss for the three months ended March 31, 2010 of \$7,183 (2009 – \$7,979), mainly attributable to \$10,681 in unrealized gains at December 31, 2009 that were realized in the quarter.

Summary of Quarterly Financial Results

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

(\$000's, except as otherwise noted)	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	20,740	22,746	25,196	23,971	21,684	25,266	27,542	27,638
Income (Loss)								
From Continuing Operations	6,727	1,151	(2,223)	1,128	(1,482)	(86,261)	1,246	2,940
From Discontinued Operations	(449)	17	121	(92)	(69)	205	75,112	15,087
	6,278	1,168	(2,102)	1,036	(1,551)	(86,056)	76,358	18,027
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	0.37	0.06	(0.11)	0.06	(0.07)	(4.13)	0.06	0.14
Diluted	0.20	0.06	(0.11)	0.06	(0.07)	(4.13)	0.06	0.13
Income (Loss) from Total Operations								
Basic	0.35	0.06	(0.10)	0.06	(0.07)	(4.12)	3.54	0.84
Diluted	0.19	0.06	(0.10)	0.06	(0.07)	(4.12)	3.54	0.84

Royal Host is a diversified hospitality trust that delivers Unitholder value through hotel ownership, investment 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 and a portfolio of publicly-traded securities from within the hospitality and service sectors.

ROYAL HOST AT A GLANCE

	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	1,215	33.1	-	-	-	4	404	11.0	13	1,619	44.1
Country Inns & Suites®	-	-	-	4	280	7.6	3	231	6.3	7	511	13.9
Independent	1	256	7.0	-	-	-	1	130	3.5	2	386	10.5
Hilton®	1	323	8.8	-	-	-	-	-	-	1	323	8.8
Super 8®	2	159	4.3	-	-	-	2	134	3.7	4	293	8.0
Holiday Inn®	2	254	6.9	-	-	-	-	-	-	2	254	6.9
Best Western®	-	-	-	-	-	-	1	160	4.4	1	160	4.4
Ramada®	1	124	3.4	-	-	-	-	-	-	1	124	3.4
	16	2,331	63.5	4	280	7.6	11	1,059	28.9	31	3,670	100.0
Full Service	8	1,418	60.8	-	-	-	2	290	27.4	10	1,708	46.5
Limited Service	8	913	39.2	4	280	100.0	9	769	72.6	21	1,962	53.5

The Trust's hotel portfolio of mostly mid-scale 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 and transient oriented leisure segments; they depend less on the group tour segments as they are not situated in locations generally considered to be primary destination leisure markets. Approximately 75% - 80% of the Trust's room revenue is derived from transient room nights with the remainder derived from group business.

Revenue

31 hotels / 3,670 rooms*	Three months ended March 31		
	2010	2009	Variance
Room revenue	\$16,152	\$16,717	(\$565)
Food and beverage	3,285	3,276	9
Franchise and management	413	455	(42)
Other revenue	890	1,236	(346)
Total revenue	20,740	21,684	(944)

Key Performance Drivers and Measures

RevPAR, Occupancy and ADR

Revenue generation remained a key priority in 2010. 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 and management of brand reservation systems.

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.

31 hotels / 3,670 rooms	Three months ended March 31, 2010			Three months ended March 31, 2009		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Region						
Ontario	50.0%	\$96.00	\$47.98	49.5%	\$100.33	\$49.66
Western	50.8%	\$101.87	\$51.75	48.6%	\$102.79	\$49.97
Atlantic	47.8%	\$87.77	\$41.94	45.8%	\$92.06	\$42.15
Total	50.0%	\$97.11	\$48.60	49.0%	\$100.45	\$49.19

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

The quarter ended March 31, 2010 continued to be challenging across most markets in Ontario with the declines in the manufacturing sector affecting much of the Southern region and lower convention and business travel affecting the Eastern region. Properties in Ottawa were negatively affected by the proroguing of Parliament which decreased occupancies as compared to a year earlier causing a significant drop in overall RevPAR. These decreases were partially offset by a strong performance from the Trust's property in Chatham due to construction activity and the London and Oakville properties which have both started to benefit from a recovering automotive sector.

WESTERN

Quarterly room revenue from the Western properties increased slightly as the Trust's mix of properties produced fairly balanced results as compared to the prior year. Properties in Regina, Saskatoon, Winnipeg, and Yellowknife performed well in the quarter, growing RevPAR on the strength of increased rates and higher occupancies (Saskatoon, Winnipeg, and Yellowknife) or through improved occupancy only (Regina). Yellowknife continues to leverage its improved product following completion of a renovation in 2009, with significant gains in occupancy as compared to the prior year. This was offset by weakness in other properties in markets where reduced oil and gas activity has reduced crew business.

ATLANTIC

Three of the Trust's four Atlantic properties had declines in RevPAR in the first quarter as compared to the prior year. The most significant decline was the Dartmouth property where results have been impacted by new supply in the area.

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

Distributable Income, Standardized Distributable Cash, Funds from Operations and Adjusted Funds from Operations are non-GAAP measures commonly used by hotel real estate investment trusts. As a non-GAAP measure, the calculation of each of these measures and reporting practices varies widely.

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

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

Distributable Income

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

Distributable Income (\$000's, except as otherwise noted)	Three months ended March 31	
	2010	2009
Cash Flows from Operating Activities	(4,815)	198
Changes in Non-Cash Working Capital	3,170	510
Cash Flows from Total Operations	(1,645)	708
Provision for Capital Replacement ⁽¹⁾	(777)	(800)
Distributable Income	(2,422)	(92)
Distributions Declared		
Monthly ⁽²⁾	1,365	3,296
Basic Per Unit Distributable Income (\$)	(0.13)	-
Diluted Per Unit Distributable Income (\$) ⁽³⁾	(0.13)	-
Per Unit Distributions Declared (\$)	0.075	0.165

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

(2) Excludes the special distribution declared in February 2009, payable to Unitholders of record on December 29, 2008.

(3) Based on a weighted-average number of trust units of 18,217,680 for the three months ended March 31, 2010 (2009 – 20,209,969).

Distributable Income decreased comparatively for the three months ended March 31, 2010 to a negative \$2,422, or (\$0.13) per unit (2009 – (\$92), or \$nil per unit), due primarily to decreases in cash flow from total operations as outlined below.

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

CASH FLOWS FROM TOTAL OPERATIONS

(\$000's, except as otherwise noted)	2010	2009
CONTINUING OPERATIONS		
Hospitality Gross Margin	2,880	3,062
Distributions and Interest	264	2,739
Other Expenses(1):		
Trust Administration	(778)	(691)
Interest on Mortgages and Capital Leases	(1,696)	(1,790)
Interest on Convertible Debentures	(2,324)	(2,550)
Other	-	7
Cash Flows from Continuing Operations	(1,654)	777
DISCONTINUED OPERATIONS		
Other Expenses(1) :		
Other	(9)	69
Cash Flows from Discontinued Operations	9	(69)
CASH FLOWS FROM TOTAL OPERATIONS	(1,645)	708
Net changes in non-cash working capital - continuing	(3,086)	(465)
Net changes in non-cash working capital - discontinued	(84)	(45)
CASH FLOWS FROM OPERATING ACTIVITIES	(4,815)	198

⁽¹⁾ Excluding items not affecting cash.

During the first quarter of 2010, Royal Host's continuing operations used \$4,815 of cash flow, representing a \$5,013 decrease from 2009. This was mainly due to a decrease in distribution and interest income and reduced hospitality gross margin.

During the three months ended March 31, 2010, Royal Host's discontinued operations generated \$9 in cash flow compared to \$69 utilized in the same period in 2009.

For the three months ended March 31, 2010, changes in non-cash working capital utilized \$3,170 of cash flow compared to \$510 utilized in the same period in 2009, mainly due to an increase in prepaid expenses and a decrease in accounts payable and accrued liabilities.

Standardized Distributable Cash

The Interpretive Release issued by the Canadian Institute of Chartered Accountants recommends disclosure of Standardized Distributable Cash. This is provided in the table below.

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

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

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

(\$000's, except as otherwise noted)	2010	2009
Cash Flows From Operating Activities	(4,815)	198
Capital Expenditures	(442)	(171)
Standardized Distributable Cash	(5,257)	27
Distributions Declared	1,365	3,296
Repurchases of Trust Units	243	3,504
Total Cash Distributions and Unit Repurchases	1,608	6,800

The table below reconciles Standardized Distributable Cash and Distributable Income.

(\$000's, except as otherwise noted)	2010	2009
Standardized Distributable Cash	(5,257)	27
Capital Expenditures less than Provision for Capital Replacement	(335)	(629)
Increase (Decrease) in Non-cash Working Capital	3,170	510
Distributable Income	(2,422)	(92)

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

(\$000's, except as otherwise noted)	2010	2009
Cash Flows From Total Operations	(1,645)	708
Realized Gains (Losses) on Available-For-Sale Securities	10,681	731
Realized Gains (Losses) on Held-For-Trading Securities	-	(282)
Accretion on Mortgages and Capital Leases	(40)	(70)
Accretion on Convertible Debentures	(286)	(299)
Gain on Repurchases of Convertible Debentures	-	612
Funds From Operations	8,710	1,400
Provision for Capital Replacement	(777)	(800)
Adjusted Funds From Operations	7,933	600
Per Unit Funds From Operations (\$)		
Basic	0.48	0.07
Diluted ⁽¹⁾	0.24	0.07
Per Unit Adjusted Funds From Operations (\$)		
Basic	0.44	0.03
Diluted ⁽¹⁾	0.22	0.03

⁽¹⁾Based on a weighted-average number of trust units of 47,621,567 (2009 – 20,209,969).

For the three months ended March 31, 2010, the Trust recorded Funds from Operations of \$8,710 (2009 - \$1,400). The increase over 2009 is due entirely to the increase in realized gains on available-for-sale securities from the sale of certain investments.

Adjusted Funds from Operations for the three months ended March 31, 2010 was \$7,933 (2009 - \$600).

Distributions to Unitholders

During the first quarter of 2010, the Trust maintained monthly distributions of \$0.025 per trust unit. Distributions declared in the three months ended March 31, 2010 totaled \$1,365 compared to \$3,296 in 2009.

Royal Host sets monthly distributions based on, among other considerations, financial performance, projected cash flows, capital requirements and working capital requirements.

Seasonality

The hospitality industry 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.

Discontinued Operations

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. The trust recorded an impairment charge on the Sundial Inn property of \$458 in the three months ended March 31, 2010 to reflect estimated current net realizable value.

Liquidity and Capital Resources

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

As at March 31, 2010, Royal Host had \$24,657 of cash and cash equivalents, undrawn credit facilities of \$11,200, marketable securities of \$9,671 (December 31, 2009 - \$39,409), and access to potential additional borrowing on its properties. Royal Host's undrawn credit facility, additional borrowing potential and marketable securities, together with its future cash flows and refinancing of mortgages, are expected to be sufficient to fund anticipated cash requirements over the next year.

As at March 31, 2010, the Trust also had restricted cash of \$2,640 (December 31, 2009 - \$2,732) in the form of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

Capital Structure

As at March 31, 2010, mortgages and convertible debentures had an aggregate carrying value of \$226,937 (December 31, 2009 - \$227,516). Principal outstanding at March 31, 2010 totaled \$233,307 (December 31, 2008 - \$234,080). The Trust had also drawn \$nil of its \$11,600 credit facility.

Royal Host's debt (excluding convertible debentures) is limited by its Declaration of Trust to 45% of gross book value. As at March 31, 2010, Royal Host's debt (excluding convertible debentures) to gross book value was 22.9% (December 31, 2009 – 23.3%). As at March 31, 2010, Royal Host's debt (including convertible debentures) to gross book value was 67.3% (December 31, 2009 – 67.1%).

Mortgages

As at March 31, 2010, the carrying value of the Trust's mortgages was \$79,359 (December 31, 2009 - \$80,224). The carrying value reflects total outstanding principal of \$79,696 (December 31, 2009 - \$80,469) less \$337 of debt issuance costs (December 31, 2009 - \$382). The \$865 decrease in carrying value during the year is attributable to the accretion of debt issuance costs of \$40 and \$905 of scheduled mortgage principal repayments made during 2010.

The Trust has one mortgage and two mortgage pools encompassing twenty-one properties coming due within the next 12 months; \$21,035 due May 2010, \$23,674 due September 2010 and \$10,332 in November 2010. The Trust has agreed to a four week extension on the mortgage due in May 2010 and is negotiating to renew this mortgage. The remaining mortgages due in 2010 are expected to be repaid early using cash on hand, with a small portion of the remaining mortgage balance refinanced thus leaving more properties unencumbered by the end of the year.

MORTGAGE MATURITIES

As at March 31, 2010	Principal Outstanding (\$000's)	Interest Rate	Security
May 2010	21,035	7.35%	2 hotel properties
September 2010	23,674	9.38%	11 hotel properties
November 2010	10,332	9.30%	8 hotel properties and vacant land
October 2011	11,932	8.46%	1 hotel property
March 2013	4,945	8.50%	2 hotel properties
October 2013	<u>7,441</u>	7.37%	1 hotel property
Total	79,359		

As at March 31, 2010, 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. The Trust has a secured revolving credit facility with a maximum availability dependant on a valuation test. At March 31, 2010, the maximum availability of the facility is \$11,200 of which \$nil was drawn. The facility is 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.

Related Party Transactions

At March 31, 2010, Clarke Inc. owned approximately 5,294 (approximately 29%) of Royal Host's issued and outstanding trust units and, as such, is a related party.

During the three months ended March 31, 2010, the Trust incurred professional and management fees totaling \$407 (2009 - \$66) for services provided by Clarke Inc.

Taxation Changes to Income Trusts

In June 2007, Bill C-52 (the "Bill") was enacted for the taxation of publicly traded trusts, including income trusts. The Bill imposes additional income taxes, 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 of such entities as dividends. The Bill applies to publicly traded trusts which existed prior to November 1, 2006 starting with taxation years ending in 2011. An exception to this legislation exists for those trusts that qualify as a real estate investment trust ("Qualifying REIT") in accordance with the legislation.

Pursuant to the legislation, a REIT which carries on Canadian hotel operations will not be a Qualifying REIT. The Trust has evaluated and considered the options available to address the taxation changes under the Bill and determined that no action is required by the Trust before December 31, 2011. The Trust has estimated the non-taxable portion of distributions made in 2010 will approximate 100% and remain so through 2011. The Trust continues to study two options available to address the changes from the Bill; conversion to a corporation or a reorganization to become a Qualifying REIT.

An existing trust may lose its relief from taxation in the interim periods to 2011 where it undergoes "undue expansion". Based on the "normal growth" guidelines, Royal Host can issue approximately \$156 million in equity in 2010 and maintain its relief from taxation 2011.

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 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 March 31, 2010 by Management under the supervision of the Director of Finance (in the capacity of the Chief Financial Officer for this purpose) and the President and Chief Executive Officer. Based on that evaluation, these individuals concluded that the design and operation of these disclosure controls and procedures were effective as at March 31, 2010.

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 President and Chief Executive Officer and Director of Finance, 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 were effective as of March 31, 2010.

Key Accounting Policies and Estimates

Note 2 to the consolidated financial statements for the year ended December 31, 2009 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

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Accordingly, the Trust will be required to adopt IFRS on January 1, 2011 for its interim periods and its fiscal year ended December 31, 2011. Comparative interim and annual information will be required for the year ending December 31, 2010.

The Trust's changeover plan to IFRS has been developed and its implementation has begun throughout the financial reporting environment. The changeover is being led by the interim Chief Financial Officer with the assistance of Royal Host finance staff. External advisors have also been engaged to assist in the transition to IFRS.

ROYAL HOST IFRS CHANGEOVER PLAN: ASSESSMENT AS OF MARCH 31, 2010

Key activity	Milestones/deadlines	Effort accomplished/remaining effort to complete
<p>Financial statement preparation:</p> <p>Identification of differences in Canadian GAAP and IFRS accounting policies</p> <p>Selection of IFRS accounting policies</p> <p>Selection of IFRS 1 accounting policy choices</p> <p>Quantification of changes in accounting policy choices</p> <p>Identification of additional financial statement disclosure under IFRS</p>	<p>To be finalized before commencement of IFRS reporting in 2011</p> <p>Assessment ongoing until reporting date but to be finalized during 3rd quarter, 2010</p>	<p>IFRS 1 accounting policy choices identified and critical items under review.</p> <p>Major company specific accounting policy choices identified</p> <p>Full disclosure under IFRS to be performed internally for all quarters in 2010.</p>
<p>Information technology:</p> <p>Execution for running 2010 general ledger for both Canadian GAAP and IFRS determined</p> <p>Processing changes identified</p> <p>Additional data gathering (disclosures)</p>	<p>To be completed for parallel processing of 2010 general ledgers; 1st quarter, 2010</p>	<p>IT assessment complete. No requirement for parallel general ledger in 2010.</p>
<p>Human capital and training:</p> <p>IFRS expertise identified and developed at all levels of the business (subsidiaries, parent, audit committee and board of directors)</p> <p>Additional human capital determined</p>	<p>Development ongoing until reporting date but to be finalized during 2nd quarter, 2010</p>	<p>IFRS transition team chosen with expert technical resources identified.</p>
<p>Business activities:</p> <p>Financial covenants</p> <p>Compensation arrangements</p>	<p>Covenants/Incentive schemes to be recalculated under IFRS during the transition period in 2010. Covenant differences under IFRS to be communicated to financial institution by mid-2010</p>	<p>Canadian GAAP dependant covenants identified</p> <p>All GAAP applicable compensation agreements identified</p>
<p>Policies & control environment:</p> <p>ICFR:</p> <p>Accounting policy determination, documentation and implementation</p> <p>Review of policy choice selection and implementation</p>	<p>Accounting policy choice selection reviewed and approved by management and audit committee before November 2010.</p> <p>CEO/CFO certification process updated by November 2010</p>	<p>Accounting policy amendment team assembled</p>

***Royal Host IFRS changeover plan may be amended anytime until the reporting date (January 1, 2011). Any change to the changeover plan will be identified in subsequent financial statement reporting periods.

First-Time Adoption of IFRS

The significant decisions under IFRS 1 which are currently being reviewed relate to:

Relevant exemptions available under IFRS 1	Application
Fair value or revaluation of deemed cost	The Trust may elect to measure an item of property, plant or equipment at the date of transition to IFRS at its fair value and use this value as its deemed cost at that date. At this time, the Trust is still assessing the application of this first time adoption option.

While work is still being undertaken on all areas of IFRS 1, it is not believed that any other decisions made under the provisions of IFRS 1, other than those noted above, will have a material impact on the financial statements of the Company on transition.

Accounting Policies

The IFRS transition team continues to monitor and analyze differences in Canadian GAAP and IFRS accounting policies as they relate to the Trust. Based on the Trust's analysis to date, the following standards present the most significant differences the Company will face upon transition to IFRS:

- Income Taxes (IAS 12)
- Property, Plant and Equipment (IAS 16)
- Financial Instruments - Presentation (IAS 32)
- Impairment of Assets (IAS 36)

The policy differences mentioned above does not represent an exhaustive list of differences the Trust will face upon transition to IFRS. Instead, the Trust believes at this time, these policy differences are the most relevant to the Company's financial reporting. It is also important to note that the International Accounting Standards Board have various ongoing projects that could impact the breadth and depth of differences between IFRS and Canadian GAAP accounting policies before and after the date of transition. The IFRS transition team will monitor any new developments from these standard setters and analyze the impact that changes to IFRS standards may have on the Trust's consolidated financial statements. The Trust's analysis of differences between IFRS and Canadian GAAP accounting policies is not complete nor is the impact of these differences quantifiable at this time. The Trust expects to be able to reasonably determine and estimate the impact of these differences on the consolidated financial statements as the changeover plan progresses in the later part of the fiscal year. At that time, any quantifiable differences that can be reasonably determined and estimated will be disclosed.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

As mentioned above, optional IFRS 1 exemptions and exceptions and accounting policy alternatives have been analyzed to date. In line with this analysis, the Trust has assessed the required changes to disclosure controls and procedures and controls over financial reporting that are associated with these various options and alternatives. Where the Trust has identified any potential changes, disclosure and financial reporting controls will be updated to ensure these controls remain adequate.

Financial Reporting Expertise

The IFRS transition team has researched literature from various sources to assess the differences between IFRS and Canadian GAAP standards, IFRS 1 exemptions and exceptions, system applications and functions that could be used to enhance and assist with the IFRS changeover. The IFRS transition team will continually refine its IFRS knowledge base and hold training sessions for the remainder of the Trust's finance team that are impacted by the IFRS transition throughout the third and fourth quarter of 2010. In line with the Audit Committee charter, all members must have a sufficient level of financial literacy. As is the case, management will begin to work with these members in the second and third quarter of 2010 to provide technical resources concerning IFRS as

well as detailed status updates regarding the IFRS changeover plan. As 2010 progresses, management will continue to work closely with the Audit Committee to enhance their IFRS knowledge and the Company's progress towards transition.

Business Activities

The Trust has spent considerable time analyzing other business areas that may be affected due to the adoption of IFRS. The major other areas that may be impacted by this transition are:

1) Borrowing

The Trust has a number of borrowing facilities that require certain covenant ratios to be maintained. The IFRS transition team has worked closely with the treasury function of the Trust to discuss any impact IFRS adjustments will have on these covenants. The treasury function will correspond with lenders when an accurate impact on these covenants can be determined.

2) Trust Indenture

The Trust indenture contains certain policies that are determined by amounts from the Trust's financial statements. The IFRS transition team will continue to monitor the impact of IFRS on the policies contained in the Trust indenture and keep the Audit Committee and Board of Trustees apprised of any potential impact.

IT Systems

The Trust has performed a detailed analysis regarding the impact the IFRS transition will have on IT systems. The Trust believes that due to the nature of adjustments that need to be made on transition to IFRS no significant impact is expected with regards to the Trust's IT systems.

Outlook

Royal Host continues to examine all aspects of its business and property portfolio with the goal to maximize overall profitability. In May, 2010, Royal Host signed an agreement, pending lender approval, with Crescent Hotels and Resorts Canada Company ("Crescent") to assume the management of Royal Host's ten full service properties. Crescent is a top ranked independent third party management company currently managing approximately 55 hotels and resorts in the U.S. and Canada.

With the pending Crescent agreement in place, Royal Host's entire portfolio of 31 hotels is now managed by third party management companies who are expected to drive improved results from the properties. Royal Host will further streamline its corporate structure and focus on franchising, financing and asset management for its portfolio of 31 properties.