

Royal Host Real Estate Investment Trust

June 30, 2010 and 2009

Unaudited

Royal Host Real Estate Investment Trust
CONSOLIDATED BALANCE SHEETS

Unaudited (in thousands of dollars)

	June 30, 2010	December 31, 2009
	\$	\$
ASSETS		
Current		
Cash	4,386	-
Marketable securities	3,233	39,409
Accounts, notes and distributions receivable	5,335	4,710
Prepaid expenses	3,383	2,726
Inventories	2,266	2,140
Assets of discontinued operations	476	427
	19,079	49,412
Capital assets (note 3)	213,099	217,752
Intangible assets	782	2,358
Property held for sale	1,827	2,285
Restricted cash	1,630	2,732
	236,417	274,539
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness	-	881
Accounts payable and accrued liabilities	9,452	10,379
Equity distributions payable	455	458
Interest accrued on convertible debentures	1,271	1,295
Mortgages (note 3)	11,247	56,761
Obligations under capital leases	72	70
Liabilities of discontinued operations	30	76
	22,527	69,920
Mortgages (note 3)	43,747	23,463
Convertible debentures (note 4)	145,805	147,292
Obligations under capital leases	71	108
Deferred revenue	661	461
Future income taxes	4,709	6,309
Total liabilities	217,520	247,553
Contingencies (note 10)		
Unitholders' equity	18,897	26,986
	236,417	274,539

See accompanying Notes to the Interim Consolidated Financial Statements

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

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

	Three months ended June 30, 2010 \$	Three months ended June 30, 2009 \$	Six months ended June 30, 2010 \$	Six months ended June 30, 2009 \$
Hospitality revenue				
Rooms	19,134	18,704	35,286	35,421
Food and beverage	3,843	3,903	7,128	7,179
Franchising and management	484	518	897	973
Other	910	843	1,800	2,086
	24,371	23,968	45,111	45,659
Hospitality expenses	19,360	18,126	37,220	36,748
	5,011	5,842	7,891	8,911
Investment income				
Distributions and interest	28	2,426	292	5,165
Realized and unrealized gains on held-for-trading securities	-	477	-	195
Realized gains on available-for-sale securities	2,065	128	12,746	859
	2,093	3,031	13,038	6,219
Other expenses				
Trust administration	848	373	1,625	1,064
Interest and accretion on mortgages and capital leases	1,545	1,965	3,282	3,825
Interest and accretion on convertible debentures	2,610	2,715	5,220	5,564
Gain on convertible debenture repurchases	(408)	(422)	(408)	(1,034)
Depreciation and amortization	3,205	3,222	6,409	6,452
Impairment of intangible assets	601	-	601	-
	8,401	7,853	16,729	15,871
Income (loss) from continuing operations before income taxes	(1,297)	1,020	4,200	(741)
Future income tax recovery	371	108	1,601	387
Income (loss) from continuing operations	(926)	1,128	5,801	(354)
Loss from discontinued operations, net of income tax	(30)	(92)	(479)	(161)
Net income (loss)	(956)	1,036	5,322	(515)
Other comprehensive income (loss) (note 8)	(3,183)	7,857	(10,366)	(122)
Comprehensive income (loss)	(4,139)	8,893	(5,044)	(637)
Basic earnings (loss) per unit: (in dollars) (note 6)				
Income (loss) from continuing operations	(0.05)	0.06	0.32	(0.02)
Loss from discontinued operations	-	-	(0.03)	(0.01)
Net income (loss)	(0.05)	0.06	0.29	(0.03)
Diluted earnings (loss) per unit: (in dollars) (note 6)				
Income (loss) from continuing operations	(0.05)	0.06	0.22	(0.02)
Loss from discontinued operations	-	-	(0.01)	(0.01)
Net income (loss)	(0.05)	0.06	0.21	(0.03)

See accompanying Notes to the Interim Consolidated Financial Statements

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

Unaudited (in thousands of dollars)

	Three months ended June 30, 2010 \$	Three months ended June 30, 2009 \$	Six months ended June 30, 2010 \$	Six months ended June 30, 2009 \$
Trust units				
Balance at beginning of period	142,570	153,784	143,343	163,213
Trust units issued pursuant to debenture conversion option	-	929	-	929
Trust units repurchased pursuant to normal course issuer bid (note 5)	(68)	(73)	(68)	(9,486)
Trust units repurchased pursuant to substantial issuer bid (note 5)	-	-	(776)	-
Employee loans pursuant to employee unit purchase program	3	13	6	(3)
Balance at end of period	142,505	154,653	142,505	154,653
Equity component of convertible debentures				
Balance at beginning of period	3,167	3,232	3,167	3,293
Trust units issued pursuant to debenture conversion option	-	(27)	-	(27)
Convertible debentures repurchased pursuant to normal course issuer bid	(52)	(25)	(52)	(86)
Balance at end of period	3,115	3,180	3,115	3,180
Contributed surplus				
Balance at beginning of period	35,197	26,957	34,667	21,024
Trust units repurchased pursuant to normal course issuer bid	45	(29)	45	5,880
Trust units repurchased pursuant to substantial issuer bid (note 5)	-	-	530	-
Employee loans pursuant to employee unit purchase program	-	-	-	24
Balance at end of period	35,242	26,928	35,242	26,928
Accumulated income				
Balance at beginning of period	64,369	57,989	58,091	59,540
Net income (loss)	(956)	1,036	5,322	(515)
Balance at end of period	63,413	59,025	63,413	59,025
Accumulated distributions				
Balance at beginning of period	(223,790)	(215,679)	(222,425)	(210,309)
Distributions on trust units	(1,365)	(3,245)	(2,730)	(8,615)
Balance at end of period	(225,155)	(218,924)	(225,155)	(218,924)
Accumulated other comprehensive income (loss)				
Balance at beginning of period	2,960	(7,979)	10,143	-
Other comprehensive income (loss) (note 8)	(3,183)	7,857	(10,366)	(122)
Balance at end of period	(223)	(122)	(223)	(122)
Total unitholders' equity	18,897	24,740	18,897	24,740

See accompanying Notes to the Interim Consolidated Financial Statements

Royal Host Real Estate Investment Trust
CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of dollars)

	Three months ended June 30, 2010 \$	Three months ended June 30, 2009 \$	Six months ended June 30, 2010 \$	Six months ended June 30, 2009 \$
OPERATING ACTIVITIES				
Income (loss) from continuing operations	(926)	1,128	5,801	(354)
Adjustments for items not involving cash (note 7)	1,331	2,447	(7,050)	4,706
	405	3,575	(1,249)	4,352
Cash flows used in discontinued operations	(39)	(60)	(30)	(129)
Net changes in non-cash working capital – continuing operations (note 7)	927	(1,663)	(2,159)	(2,128)
Net changes in non-cash working capital – discontinued operations	(10)	(182)	(94)	(227)
	1,283	1,670	(3,532)	1,868
FINANCING ACTIVITIES				
Increase in (repayment of) bank indebtedness	-	12,935	(881)	12,935
Repurchases of convertible debentures pursuant to normal course issuer bids	(1,708)	(704)	(1,708)	(2,247)
Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bid	(23)	(102)	(266)	(3,606)
Convertible debenture repayment at maturity	-	(7,288)	-	(7,288)
Distributions on trust units	(1,365)	(5,308)	(2,730)	(8,670)
Principal repayments on mortgages and capital leases	(24,175)	(879)	(25,102)	(1,743)
Mortgage refinancing costs	(283)	-	(283)	-
Proceeds from repayment of employee unit purchase loans	3	13	6	21
	(27,551)	(1,333)	(30,964)	(10,598)
INVESTING ACTIVITIES				
Proceeds on dispositions of marketable securities	5,321	3,437	38,556	9,987
Purchase of marketable securities	-	(47)	-	(47)
Acquisitions of capital assets	(334)	(1,203)	(776)	(1,374)
Net acquisitions on expansion of property – discontinued operations	-	(3,023)	-	(5,601)
Decrease in restricted cash	1,010	778	1,102	976
Net cash on insurance recovery	-	-	-	807
	5,997	(58)	38,882	4,748
Increase (decrease) in cash and cash equivalents	(20,271)	279	4,386	(3,982)
Cash and cash equivalents, beginning of period	24,657	2,179	-	6,440
Cash, end of period	4,386	2,458	4,386	2,458
Cash interest received	27	49	41	91
Cash interest paid				
Mortgages and capital leases	1,899	2,026	3,594	3,695
Convertible debentures	2,515	3,392	4,172	5,120
Total cash interest paid	4,414	5,418	7,766	8,815

See accompanying Notes to the Consolidated Interim Financial Statements

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 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.

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

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS would be effective for the interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will replace Canadian GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for Royal Host in the first quarter of 2011.

Royal Host is currently in the process of evaluating the potential impact of IFRS to its consolidated financial statements as part of the Trust's IFRS transition project. This is an ongoing process as the International Accounting Standards Board ("IASB") and the AcSB issue new standards and recommendations. Royal Host's consolidated financial position, as disclosed in the Trust's Canadian GAAP financial statements, may be significantly different when presented in accordance with IFRS.

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 and six months ended June 30, 2010 and 2009

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

3. MORTGAGES

	June 30, 2010	December 31, 2009
	\$	\$
Mortgages, secured by hotel properties	54,994	80,224
Less: current portion	11,247	56,761
	43,747	23,463

Principal repayments required for the twelve months ending June 30:

	\$
2011	11,536
2012	12,452
2013	24,908
2014	6,643
Total principal outstanding	55,539
Debt issuance costs	(545)
	54,994

During the three months ending June 30, 2010, the Trust repaid a mortgage pool in the amount of \$23,499 utilizing its cash on hand. The eleven properties that previously secured the mortgage pool are now unencumbered.

During the three months ended June 30, 2010, the Trust re-negotiated a maturing \$21,000 mortgage secured by two properties. The revised mortgage has a three year term bearing interest at 6.82% with interest and principal paid in quarterly instalments. The Trust has the option to extend the mortgage for two one-year terms subject to certain minimum thresholds at the time of maturity.

The Trust has a line of credit, secured by three properties, for which the availability is subject to an earnings test. The capacity of the line is subject to an earnings test based on the operating results of the secured properties to a maximum of \$11,800. The amount drawn on the operating line as of June 30, 2010 was \$ nil (December 31, 2009 - \$881).

4. CONVERTIBLE DEBENTURES

	June 30, 2010	December 31, 2009
	\$	\$
6.00% Convertible Unsecured Subordinated Debentures, Series B	44,297	44,477
6.25% Convertible Unsecured Subordinated Debentures, Series C	49,650	50,658
5.90% Convertible Unsecured Subordinated Debentures, Series D	51,858	52,157
	145,805	147,292

(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 and six months ended June 30, 2010, Royal Host repurchased \$342 in principal of the 6.00% convertible debentures with an aggregate cost of \$258 (average cost \$75.34) pursuant to this bid.

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 2010 and 2009

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

4. CONVERTIBLE DEBENTURES (CONT'D)

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 and six months ended June 30, 2009 none of Royal Host's convertible debentures were purchased pursuant to this bid.

During the three and six months ended June 30, 2009, \$952 of Royal Host's 6.00% convertible debentures were converted into trust units.

(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 and six months ended June 30, 2010, Royal Host repurchased \$1,331 in principal of the 6.25% convertible debentures with an aggregate cost of \$1,108 (average cost \$83.28) 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 and six months ended June 30, 2009, Royal Host repurchased \$800 and \$2,800 in principal of the 6.25% convertible debentures with an aggregate cost of \$500 (average cost \$62.24) and \$1,900 (average cost \$68.74) 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 and six months ended June 30, 2010, Royal Host repurchased \$475 in principal of the 5.90% convertible debentures with an aggregate cost of \$342 (average cost of \$71.95).

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 and six months ended June 30, 2009, Royal Host repurchased \$400 and \$600 in principal of the 5.90% convertible debentures with an aggregate cost of \$200 (average cost of \$58.61) and \$300 (average cost of \$58.48) pursuant to this bid.

5. 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 and six months ended June 30, 2010, Royal Host repurchased 8,700 units with an aggregate cost of \$23 (average price of \$2.63) pursuant to this bid. Subsequent to June 30, 2010, Royal Host repurchased no trust units 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 99,102 units during the extension period which Royal Host purchased and cancelled.

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 2010 and 2009

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

6. PER UNIT CALCULATIONS

As at June 30, 2010, a total of 18,196,868 trust units (December 31, 2009 – 18,304,670) were issued and outstanding. The following table reconciles the basic and diluted per unit computations:

	Three months ended June 30, 2010			Income (loss) \$	Three months ended June 30, 2009	
	Loss \$	Units (in thousands) #	Per unit amount \$		Units (in thousands) #	Per unit amount \$
Basic earnings (loss) per unit						
Income (loss) from continuing operations	(926)	18,198	(0.05)	1,128	19,662	0.06
Loss from discontinued operations	(30)	-	-	(92)	-	-
Basic earnings (loss) per unit	(956)	18,198	(0.05)	1,036	19,662	0.06
Diluted earnings (loss) per unit						
Income (loss) from continuing operations	(926)	18,198	(0.05)	1,128	19,662	0.06
Loss from discontinued operations	(30)	-	-	(92)	-	-
Diluted earnings (loss) per unit	(956)	18,198	(0.05)	1,036	19,662	0.06
Six months ended June 30, 2010						
	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	5,801	18,207	0.32	(354)	19,937	(0.02)
Loss from discontinued operations	(479)	18,207	(0.03)	(161)	19,937	(0.01)
Basic earnings (loss) per unit	5,322	18,207	0.29	(515)	19,937	(0.03)
Diluted earnings (loss) per unit						
Income (loss) from continuing operations	5,801	18,207	-	(354)	19,937	(0.02)
Interest on assumed conversion of convertible debentures	4,812	29,315	-	-	-	-
Diluted earnings from continuing operations	10,613	47,522	0.22	-	-	-
Loss from discontinued operations	(479)	47,522	(0.01)	(161)	19,937	(0.01)
Diluted earnings (loss) per unit	10,134	47,522	0.21	(515)	19,937	(0.03)

* All potential dilutive securities issued relate to convertible debentures which were anti-dilutive for the three months ended June 30, 2010 and the three and six months ended June 30, 2009.

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 2010 and 2009

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

7. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	\$	\$	\$	\$
Adjustments for items not involving cash				
Depreciation and amortization	3,205	3,222	6,409	6,452
Impairment of intangible assets	601	-	601	-
Future income tax recovery	(371)	(108)	(1,601)	(387)
Realized and unrealized gains on held-for-trading securities	-	(477)	-	(195)
Realized gains on available-for-sale securities	(2,065)	(128)	(12,746)	(859)
Gain on convertible debenture repurchases	(408)	(422)	(408)	(1,034)
Accretion on mortgages and capital leases	75	66	116	136
Accretion on convertible debentures	294	294	579	593
Adjustments for items not involving cash	1,331	2,447	(7,050)	4,706

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	\$	\$	\$	\$
Net changes in non-cash working capital – continuing operations				
Decrease (increase) in:				
Accounts, notes and distributions receivable	581	(74)	(625)	(1,487)
Prepaid expenses	259	(445)	(657)	(895)
Inventories	49	15	(126)	102
	889	(504)	(1,408)	(2,280)
Increase (decrease) in:				
Accounts payable and accrued liabilities	636	(258)	(927)	115
Interest accrued on convertible debentures	(692)	(971)	(24)	(149)
Deferred revenue	94	70	200	186
	38	(1,159)	(751)	152
Net change in non-cash working capital – continuing operations	927	(1,663)	(2,159)	(2,128)

Royal Host Real Estate Investment Trust

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 2010 and 2009

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

8. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes the following:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	\$	\$	\$	\$
Unrealized gains (losses) generated on available-for-sale securities	(1,118)	7,985	2,380	737
Realized gains on available-for-sale securities transferred to net income	(2,065)	(128)	(12,746)	(859)
Other comprehensive income (loss)	(3,183)	7,857	(10,366)	(122)

9. RELATED PARTY TRANSACTIONS

At June 30, 2010, Clarke Inc. owned approximately 29% of Royal Host's issued and outstanding trust units and, as such, is a related party (December 31, 2009 – 29%).

During the three and six months ended June 30, 2010, the Trust incurred professional and management fees of \$401 and \$862 for services supplied by Clarke Inc. (three and six months ended June 30, 2009 - \$100 and \$100 respectively). As at June 30, 2010, \$103 was owing in respect of these fees (December 31, 2009 - \$458).

During the three and six months ended June 30, 2010, the Trust incurred consulting fees for services provided by a Company controlled by a Trustee of Royal Host of \$nil (three and six months ended June 30, 2009 - \$nil and \$100). As at June 30, 2010, \$nil was owing in respect of these fees (December 31, 2009 - \$nil).

10. CONTINGENCIES

Royal Host has certain matters outstanding with taxation authorities related to its 2008 reorganization. Royal Host believes its positions on these matters are valid and that ultimately no amount will be payable. However, if Royal Host's positions are not ultimately sustained on one or more of these matters, material amounts would be payable.

11. SUBSEQUENT EVENT

On August 3, 2010, the Trust repaid a mortgage pool in the amount of \$10,218 utilizing cash on hand and the line of credit facility. The eight properties that had secured this mortgage pool are unencumbered following the repayment.

2010 *Q2*

MANAGEMENT'S
DISCUSSION AND
ANALYSIS

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MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 and six months ended June 30, 2010 compared with the three and six months ended June 30, 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 and six months ended June 30, 2010. This interim MD&A is prepared as at August 12, 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 From Continuing, Discontinued and Total Operations, Distributable Income (and Basic and Diluted per Unit Distributable Income), Standardized 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 second quarter of 2010, business across the Trust's properties increased compared to the same period in the prior year, reflected in higher occupancy rates. Competition remains intense, as seen in the decline in average daily rate as compared to the prior year. Royal Host maintained its focus on revenue generation, cost control and liquidity management.

In the quarter, Royal Host:

- Generated overall Occupancy of 58.0% (2009 – 55.9%), Average Daily Rate of \$98.11 (2009 - \$99.70) and Revenue per Available Room of \$56.95 (2009 - \$55.69).

- Generated \$5,011 of hospitality gross margin (2009 - \$5,842) from \$24,371 of hospitality revenue (2009 - \$23,968);

- Had a comprehensive loss of \$4,139, including an other comprehensive loss of \$3,183 and a loss of \$30 from discontinued operations (2009 – comprehensive income of \$8,893, including other comprehensive income of \$7,857 and loss of \$92 from discontinued operations);

- Realized net loss of \$956 (2009 – net income of \$1,036), or loss of \$0.05 per unit (2009 – income of \$0.06 per unit).

- Repaid a mortgage pool in the amount of \$23,499 utilizing its cash on hand. The eleven properties that previously secured the mortgage pool are now unencumbered.

- Renewed a mortgage facility of \$21,000 secured by two properties for a three year period with two additional one year renewal periods.

- Management of the Trust's ten full service hotels was successfully transitioned to the third party manager, Crescent Hotels and Resorts Canada Company.

SELECTED FINANCIAL INFORMATION

Highlights of the interim consolidated financial statements for the three and six months ended June 30, 2010 compared to the three months ended June 30, 2009 are as follows:

(\$000's, except as otherwise noted)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Hospitality Revenue (Continuing Operations)	24,371	23,968	45,111	45,659
Hospitality Expenses	19,360	18,126	37,220	36,748
Hospitality Gross Margin ⁽²⁾	5,011	5,842	7,891	8,911
Hospitality Gross Margin % ⁽²⁾	20.6%	24.4%	17.5%	19.5%
Investment Income	2,093	3,031	13,038	6,219
Other Expenses	8,401	7,853	16,729	15,871
Future Income Tax Recovery	371	108	1,601	387
Income (Loss) From Continuing Operations	(926)	1,128	5,801	(354)
Loss From Discontinued Operations ⁽¹⁾	(30)	(92)	(479)	(161)
Net Income (Loss)	(956)	1,036	5,322	(515)
Basic Per Unit Net Income (Loss) (\$)				
From Continuing Operations	(0.05)	0.06	0.32	(0.02)
From Discontinued Operations	-	-	(0.03)	(0.01)
	(0.05)	0.06	0.29	(0.03)
Distributable Income ⁽²⁾	(553)	2,611	(2,976)	2,519
Distributions Declared on Trust Units ⁽³⁾	1,365	3,245	2,730	6,541
Basic Per Unit Distributable Income (\$) ⁽²⁾	(0.03)	0.13	(0.16)	0.13
Per Unit Distributions Declared (\$)	0.075	0.165	0.15	0.33
Weighted Average Number of Trust Units Outstanding (000's)	18,198	19,662	18,207	19,932
Number of Trust Units Outstanding, as at June 30 (000's)	18,197	19,750	18,197	19,750
Closing Trust Unit Trading Price, as at June 30 (\$)	2.45	3.06	2.45	3.06

As at August 13, 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

For the three months ended June 30, 2010, hospitality revenue increased by \$403 to \$24,371 from \$23,968 in the prior year primarily due to overall higher occupancy. Room revenue increased \$430 to \$19,134 from \$18,704 in the prior year, due to an increase in occupancy of 2%. Food and beverage revenue derived from restaurants and lounges, banquets and room service, decreased \$60 compared to the second quarter of 2009 to \$3,843 (2009 - \$3,903) due to changes in the guest sales mix and softness in certain markets. Franchising and management revenue decreased by \$34 to \$484 compared to \$518 in the second quarter of 2009 due to the management of fewer properties in 2010 compared to 2009 offset by higher franchising revenue.

For the six months ended June 30, 2010, hospitality revenue decreased by \$548 to \$45,111 from \$45,659 in the prior year primarily due to lower room rates during the first quarter of 2010. Room revenue decreased by \$135 to \$35,286 from \$35,421 in the prior year, due to a decline in ADR of 3.3% in the first quarter of 2010. Food and beverage revenue derived from restaurants and lounges, banquets and room service, decreased slightly compared to the six months ended 2009 by \$51 to \$7,128 (2009 - \$7,179). Franchising and management revenue decreased \$76 to \$897 in the six months ended (2009 - \$973).

Hospitality Expenses

For the three months ended June 30, 2010, hospitality expenses increased by \$1,234 to \$19,360 (2009 - \$18,126). Management and accounting fees increased approximately \$630 compared to the same quarter in 2009 due to the increased use of external management companies. Higher occupancy rates in the quarter drove increases in payroll, repairs and maintenance and other operating costs.

For the six months ended June 30, 2010, hospitality expenses increased by \$472 to \$37,220 from \$36,748 in 2009 due to lower costs in the first quarter of 2010 primarily due to savings in utilities expenses being offset by the second quarter increases described above.

Investment Income

Total investment income decreased in the second quarter of 2010 by \$938 to \$2,093 from \$3,031 in the second quarter of 2009. The decrease is due to the \$2,398 drop in distribution income as the Trust reduced the size of the investment portfolio and portfolio investments eliminated distributions in 2009. This was offset by \$2,065 of realized gains in the quarter (2009 - \$128) as the Trust disposed of the remainder of its Innvest holding in the quarter.

For the six months ended June 30, investment income increased \$6,819 to \$13,038 due to \$12,746 of realized gains from sales of investments offset by a decrease in distribution income of \$4,873, the result of the reduction in the size of the portfolio and previously mentioned elimination of distributions by portfolio holdings.

Other Expenses

For the three months ended June 30, 2010, other expenses totaled \$8,401, an increase of \$548 from the 2009 level of \$7,853. The increase is due to an impairment of intangible assets of \$601 related to the elimination of our management business. Trust administration expenses increased due to consulting fees related to the restructure of the Trust and severance charges for certain employees not retained in the quarter. Mortgage interest expense decreased in the quarter with the repayment of a mortgage pool and renewal of another mortgage at lower interest rates.

For the six months ended June 30, 2010, other expenses increased \$858 to \$16,729 from \$15,871 in 2009 due to the second quarter factors previously described and gains on convertible debenture repurchases in the first quarter of 2009 that exceeded those in 2010.

Future Income Tax Recovery

For the three months ended June 30, 2010, the future income tax recovery of \$371 is \$263 higher than the recovery in 2009 of \$108. For the six months ended June 30, 2010, the future income tax recover of \$1,601 exceeded the same period in 2009 by \$1,214. The increases in both the 3 month and 6 month periods in 2010 over 2009 are both due to a change in estimate from prior periods.

Other Comprehensive Income (Loss)

For the three months ended June 30, 2010, the Trust recognized other comprehensive loss of \$3,183, a decrease of \$11,040 when compared to the same period in 2009 in which the Trust recognized other comprehensive income of \$7,857. The decrease is due to unrealized losses on available for sale securities in 2010 as unit prices of portfolio investments declined in the quarter whereas 2009 had significant unrealized gains in the quarter. Additionally, in 2010, there were realized gains transferred out of accumulated other comprehensive income contributing to the loss in the quarter.

For the six months ended June 30, 2010 the other comprehensive loss of \$10,366 was \$10,244 greater than the same period in 2009. This increase was primarily due to realized gains that were transferred out of accumulated other comprehensive income as the Trust sold a significant amount of investments holdings in 2010.

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	24,371	20,740	22,746	25,196	23,968	21,684	25,266	27,542
Income (Loss)								
From Continuing Operations	(926)	6,727	1,151	(2,223)	1,128	(1,482)	(86,261)	1,246
From Discontinued Operations	(30)	(449)	17	121	(92)	(69)	205	75,112
	(956)	6,278	1,168	(2,102)	1,036	(1,551)	(86,056)	76,358
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	(0.05)	0.37	0.06	(0.11)	0.06	(0.07)	(4.13)	0.06
Diluted	(0.05)	0.20	0.06	(0.11)	0.06	(0.07)	(4.13)	0.06
Income (Loss) from Total Operations								
Basic	(0.05)	0.35	0.06	(0.10)	0.06	(0.07)	(4.12)	3.54
Diluted	(0.05)	0.19	0.06	(0.10)	0.06	(0.07)	(4.12)	3.54

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 June 30			Six months ended June 30		
	2010	2009	Variance	2010	2009	Variance
Room revenue	19,134	18,704	\$430	35,286	35,421	(\$135)
Food and beverage	3,843	3,903	(60)	7,128	7,179	(51)
Franchise and management	484	518	(34)	897	973	(76)
Other revenue	910	843	67	1,800	2,086	(286)
Total revenue	24,371	23,968	403	45,111	45,659	(548)

Key Performance Drivers and Measures

RevPAR, Occupancy and ADR

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 June 30, 2010			Three months ended June 30, 2009		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Region						
Ontario	59.6%	\$97.17	\$57.88	55.3%	\$100.03	\$55.31
Western	54.6%	\$102.59	\$56.02	57.4%	\$100.34	\$57.63
Atlantic	58.1%	\$90.30	\$52.47	54.7%	\$94.21	\$51.55
Total	58.0%	\$98.11	\$56.95	55.9%	\$99.70	\$55.69

31 hotels / 3,670 rooms	Six months ended June 30, 2010			Six months ended June 30, 2009		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Region						
Ontario	54.8%	\$96.64	\$52.96	52.4%	\$100.18	\$52.49
Western	52.7%	\$102.25	\$53.90	53.0%	\$101.46	\$53.79
Atlantic	53.0%	\$89.16	\$47.23	50.3%	\$93.23	\$46.85
Total	54.1%	\$97.65	\$52.80	52.4%	\$100.05	\$52.44

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 renovations.

ONTARIO

The overall Occupancy Rate for the Trust's Ontario properties increased in the second quarter of 2010 compared to 2009, the result of very strong results from many of the Trust's Ontario properties. The Trust's hotels at Toronto airport and Barrie benefitted from the G8 and G20 conferences while the property at Chatham continued to benefit from construction projects in the area. These improved results were offset by a weak quarter from the Ottawa Chimo Hotel which was negatively affected by the G8 and G20 events as government groups cancelled during that period. Overall ADR declined from prior year, the result of continued competitive pressures on price as well as more rate sensitive travelers.

WESTERN

RevPAR declined in the current quarter as compared to 2009 although it remains slightly above the prior year for the 6 months ended June 30. ADR has increased but overall occupancy has declined in the three and six months ended June 30. The Yellowknife Inn continues to increase both rate and occupancy following the completion of an extensive renovation. The gains at Yellowknife have been offset by declines in ADR and Occupancy at the Calgary Village Park Inn due to soft market conditions in Calgary and a reduction in rooms available while maintenance was carried out in the quarter. The smaller market properties continued to be affected by lower levels of oil and gas related crew business.

ATLANTIC

In Atlantic Canada, Occupancy had a healthy improvement in the quarter offset by a rate decline. The decline in rate was primarily at the Dartmouth and Moncton hotels which compete directly with recent new builds but these two properties also led the way with increases in occupancy.

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. Management 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 unaudited, interim Consolidated Financial Statements.

Distributable Income (\$'000's, except as otherwise noted)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash Flows from (used in) Operating Activities	1,283	1,670	(3,532)	1,868
Changes in Non-Cash Working Capital	(917)	1,845	2,253	2,355
Cash Flows from (used in) Total Operations	366	3,515	(1,279)	4,223
Provision for Capital Replacement ⁽¹⁾	(919)	(904)	(1,697)	(1,704)
Distributable Income	(553)	2,611	(2,976)	2,519
Distributions Declared				
Monthly	1,365	3,245	2,730	6,541
Basic Per Unit Distributable Income (\$) ⁽²⁾	(0.03)	0.13	(0.16)	0.13
Diluted Per Unit Distributable Income (\$) ⁽²⁾	(0.03)	0.10	(0.16)	0.12
Per Unit Distributions Declared (\$) ⁽²⁾	0.075	0.165	0.15	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 18,197,591 (2009 - 19,659,778) and 18,207,033 (2009 - 19,937,039) for the three and six months ended June 30, 2010, respectively.

Distributable Income decreased comparatively for the three months ended June 30, 2010 to a negative \$553, or (\$0.03) per unit (2009 – \$2,611, or \$0.13 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 (USED IN) TOTAL OPERATIONS

(\$000's, except as otherwise noted)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
CONTINUING OPERATIONS				
Hospitality Gross Margin	5,011	5,842	7,891	8,911
Distributions and Interest	28	2,426	292	5,165
Other Expenses:				
Trust Administration	(848)	(373)	(1,625)	(1,064)
Interest on Mortgages and Capital Leases	(1,470)	(1,899)	(3,166)	(3,689)
Interest on Convertible Debentures	(2,316)	(2,421)	(4,641)	(4,971)
Cash Flows from (used in) Continuing Operations	405	3,575	(1,249)	4,352
DISCONTINUED OPERATIONS				
Other Expenses:				
Other	39	60	30	129
Cash Flows used in Discontinued Operations	(39)	(60)	(30)	(129)
CASH FLOWS FROM (USED IN) TOTAL OPERATIONS	366	3,515	(1,279)	4,223
Net changes in non-cash working capital – continuing operations	927	(1,663)	(2,159)	(2,128)
Net changes in non-cash working capital – discontinued operations	(10)	(182)	(94)	(227)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	1,283	1,670	(3,532)	1,868

During the second quarter of 2010, Royal Host's continuing operations generated \$405 of cash flow, representing a \$3,170 decrease from 2009. This was mainly due to a decrease in distribution and interest income and reduced hospitality gross margin partially offset by a decline in mortgage interest.

During the three months ended June 30, 2010, Royal Host's discontinued operations consumed \$39 in cash flow compared to \$60 consumed in the same period in 2009.

For the three months ended June 30, 2010, changes in non-cash working capital generated \$917 of cash flow compared to \$1,845 consumed in the same period in 2009, mainly due to a decrease in accounts receivable and prepaid expenses in the quarter along with an increase in accounts payable and decrease in interest accrued on convertible debentures.

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)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash Flows From (used in) Operating Activities	1,283	1,670	(3,532)	1,868
Capital Expenditures	(334)	(1,203)	(776)	(1,374)
Standardized Distributable Cash	949	467	(4,308)	494
Distributions Declared	1,365	3,245	2,730	8,615
Repurchases of Trust Units	23	102	266	3,606
Total Cash Distributions and Unit Repurchases	1,388	3,347	2,996	12,221

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	
	2010	2009	2010	2009
Standardized Distributable Cash	949	467	(4,308)	494
Capital Expenditures greater than (less than) Provision for Capital Replacement	(585)	299	(921)	(330)
Increase (Decrease) in Non-cash Working Capital	(917)	1,845	2,253	2,355
Distributable Income	(553)	2,611	(2,976)	2,519

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)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash Flows From (used in) Total Operations	366	3,515	(1,279)	4,223
Realized Gains on Available-For-Sale Securities	2,065	128	12,746	859
Realized Gains on Held-For-Trading Securities	-	477	-	195
Accretion on Mortgages and Capital Leases	(75)	(66)	(116)	(136)
Accretion on Convertible Debentures	(294)	(294)	(579)	(593)
Gain on Repurchases of Convertible Debentures	408	422	408	1,034
Funds From Operations	2,470	4,182	11,180	5,582
Provision for Capital Replacement	(919)	(904)	(1,697)	(1,704)
Adjusted Funds From Operations	1,551	3,278	9,483	3,878
Per Unit Funds From Operations (\$)				
Basic ⁽¹⁾	0.14	0.21	0.61	0.28
Diluted ⁽¹⁾	0.10	0.13	0.33	0.20
Per Unit Adjusted Funds From Operations (\$)				
Basic ⁽¹⁾	0.09	0.17	0.52	0.19
Diluted ⁽¹⁾	0.08	0.11	0.30	0.16

⁽¹⁾ Based on a weighted-average number of trust units of 18,197,591 (2009 - 19,659,778) and 18,207,033 (2009 - 19,937,039) for the three and six months ended June 30, 2010, respectively.

For the three months ended June 30, 2010, the Trust recorded Funds from Operations of \$2,470 (2009 - \$4,182). The decrease from 2009 is due to a decrease in the gross margin and decline in distribution and interest income in the quarter.

Adjusted Funds from Operations for the three months ended June 30, 2010 was \$1,551 (2009 - \$3,278).

Distributions to Unitholders

During the first two quarters of 2010, the Trust maintained monthly distributions of \$0.025 per trust unit. Distributions declared in the three months ended June 30, 2010 totaled \$1,365 compared to \$3,245 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 certain 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 six months ended June 30, 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 sales of its portfolio of marketable securities.

As at June 30, 2010, Royal Host had \$4,386 of cash, undrawn credit facilities of \$11,800, marketable securities of \$3,233 (December 31, 2009 - \$39,409), and access to potential additional borrowing on its fourteen unencumbered properties. Royal Host's undrawn credit facility, additional borrowing potential and marketable securities, together with its future cash flows, are expected to be sufficient to fund anticipated cash requirements over the next year.

As at June 30, 2010, the Trust also had restricted cash of \$1,630 (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 June 30, 2010, mortgages and convertible debentures had an aggregate carrying value of \$200,799 (December 31, 2009 - \$227,516). Principal outstanding at June 30, 2010 totaled \$207,002 (December 31, 2009 - \$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 June 30, 2010, Royal Host's debt (excluding convertible debentures) to gross book value was 15.0% (December 31, 2009 – 23.3%). As at June 30, 2010, Royal Host's debt (including convertible debentures) to gross book value was 56.0% (December 31, 2009 – 67.1%).

Mortgages

As at June 30, 2010, the carrying value of the Trust's mortgages was \$54,994 (December 31, 2009 - \$80,224). The carrying value reflects total outstanding principal of \$55,539 (December 31, 2009 - \$80,469) less \$545 of debt issuance costs (December 31, 2009 - \$245). The \$24,930 decrease in principal during the year is attributable to the repayment of a mortgage pool of \$23,499, scheduled mortgage principal repayments made during 2010 of \$1,603 and additional debt issuance costs incurred in 2010 of \$283.

The Trust has one mortgage pool encompassing eight properties maturing in November 2010. The balance of this mortgage pool was repaid on August 3, 2010, the earliest repayment date.

MORTGAGE MATURITIES

As at June 30, 2010	Principal Outstanding (\$000's)	Interest Rate	Security
November 2010	10,286	9.30%	8 hotel properties and vacant land
October 2011	11,880	8.46%	1 hotel property
March 2013	4,932	8.50%	2 hotel properties
June 2013	21,000	6.82%	2 hotel properties
October 2013	<u>7,441</u>	7.37%	1 hotel property
Total	55,539		

As at June 30, 2010, the Trust has fourteen operating hotel properties 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 June 30, 2010, the maximum availability of the facility is \$11,600 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 June 30, 2010, Clarke Inc. owned approximately 29% (2009 – 29%) 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, 2010, the Trust incurred professional and management fees totaling \$401 (2009 - \$100) and \$862 (2009 - \$100) 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 June 30, 2010 by Management under the supervision of the Chief Financial Officer and the Executive Vice-President acting in the capacity of 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 June 30, 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 Executive Vice-President acting in the capacity of Chief Executive Officer and the 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 were effective as of June 30, 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 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 JUNE 30, 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.</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 as necessary.</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 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 Trust'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

With the management of the Trust's full service hotels transitioned to Crescent Hotels and Resort Canada Company in the second quarter of 2010, 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.