
Royal Host Inc.

(Formerly Royal Host Real Estate Investment Trust)

Interim Consolidated Financial Statements (Unaudited)

March 31, 2011 and 2010

Royal Host Inc.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION***Unaudited (in thousands of Canadian dollars)*

	March 31, 2011	December 31, 2010	January 1, 2010*
	\$	\$	\$
ASSETS			
Current			
Marketable securities (note 5)	2,000	1,886	39,409
Accounts receivable (note 6)	5,391	4,455	5,090
Prepaid expenses	1,990	1,431	2,775
Inventories (note 7)	2,434	2,366	2,140
	11,815	10,138	49,414
Non-current			
Property and equipment (note 8)	201,740	204,799	214,220
Intangible assets (note 9)	89	93	2,359
Deferred income tax (note 16)	2,775	2,850	285
Restricted cash	1,307	1,133	2,732
Total assets	217,726	219,013	269,010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness (note 10)	16,511	13,786	935
Accounts payable and accrued liabilities (note 11)	12,595	11,657	10,390
Distributions payable	-	-	458
Mortgages (note 12)	12,400	12,477	56,761
Interest accrued on convertible debentures	1,936	1,245	1,295
Obligations under finance leases (note 13)	77	75	70
	43,519	39,240	69,909
Non-current			
Mortgages (note 12)	31,631	31,834	23,463
Convertible debentures (note 14)	144,853	144,552	147,292
Obligations under finance leases (note 13)	13	33	108
Deferred revenue	526	592	475
Liability for trust units (note 2)	-	37,106	45,323
Conversion option liability (note 2)	-	2,390	4,429
Total liabilities	220,542	255,747	290,999
Commitments and provisions (note 23)			
Shareholders' equity (note 15)	(2,816)	(36,734)	(21,989)
Total liabilities and shareholders' equity	217,726	219,013	269,010

*Date of transition to International Financial Reporting Standards (IFRS)

*See accompanying Notes to the Interim Consolidated Financial Statements*Approved on behalf of the Board of Directors:
As signed by**George Armoyan**
Chairman of the Board

As signed by

Blair Cook
Chairman of the Audit Committee

Royal Host Inc.**CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS***Unaudited (in thousands of Canadian dollars, except per share and per unit amounts)*

	Three months ended March 31, 2011	Three months ended March 31, 2010
	\$	\$
Hospitality revenue		
Rooms	17,154	16,152
Food and beverage	3,408	3,285
Franchising and management	335	414
Tenant income	305	288
Other	500	602
	21,702	20,741
Hospitality expenses excluding depreciation		
Cost of inventory	1,008	965
Payroll and benefits	8,024	7,789
Property taxes	1,615	1,545
Utilities	2,080	1,820
Franchise and management fees	1,041	595
Other operating expenses	5,050	5,137
	18,818	17,851
	2,884	2,890
Investment income (loss)		
Interest income	2	264
Gain on available-for-sale securities	-	10,681
Unrealized loss on liabilities for trust units and conversion options	-	(6,416)
Gain on repurchase of trust units	-	3
	2	4,532
Finance costs		
Interest and accretion on mortgages and finance leases	996	1,737
Interest and accretion on convertible debentures	2,562	2,610
Distributions expense	-	1,365
	3,558	5,712
Other expenses		
Corporate administration	628	778
Depreciation and amortization	3,663	4,290
	4,291	5,068
Net loss before income taxes	(4,963)	(3,358)
Income tax recovery (note 16)	(368)	(1,200)
Net loss	(4,595)	(2,158)
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities (net of tax \$4)	(28)	3,498
Gain on available-for-sale securities transferred to net loss	-	(10,681)
	(28)	(7,183)
Comprehensive loss	(4,623)	(9,341)
Basic and diluted loss per share: (in CDN dollars) (note 17)		
Net loss	(0.26)	(0.12)

See accompanying Notes to the Interim Consolidated Financial Statements

Royal Host Inc.**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY***Unaudited (in thousands of Canadian dollars)*

	Three months ended March 31, 2011	Three months ended March 31, 2010
	\$	\$
Common shares		
Balance at beginning of period	-	-
Shares issued pursuant to reorganization	37,106	-
Shares issued pursuant to debenture conversion option	-	-
Shares repurchased pursuant to normal course issuer bid	(333)	-
Balance at end of period	36,773	-
Equity component of convertible debentures		
Balance at beginning of period	-	-
Balance transferred from long-term liabilities (net of tax \$631)	1,759	-
Convertible debentures repurchased pursuant to normal course issuer	-	-
Balance at end of period	1,759	-
Contributed surplus		
Balance at beginning of period	-	-
Common shares repurchased pursuant to normal course issuer bid	9	-
Balance at end of period	9	-
Accumulated income		
Accumulated income (deficit) at beginning of period	(38,746)	58,091
IFRS transitional adjustment (note 2)	-	(90,223)
Balance at beginning of period	(38,746)	(32,132)
Net loss	(4,595)	(2,158)
Balance at end of period	(43,341)	(34,290)
Accumulated other comprehensive income (loss)		
Balance at beginning of period	2,012	10,143
Unrealized gains (losses) on available-for-sale securities	(28)	3,498
Realized gains on available-for-sale securities transferred to net loss	-	(10,681)
Balance at end of period	1,984	2,960
Total shareholders' equity	(2,816)	(31,330)

See accompanying Notes to the Interim Consolidated Financial Statements

Royal Host Inc.**CONSOLIDATED STATEMENTS OF CASH FLOWS***Unaudited (in thousands of Canadian dollars)*

	Three months ended March 31, 2011 \$	Three months ended March 31, 2010 \$
OPERATING ACTIVITIES		
Net loss for the period	(4,595)	(2,158)
Adjustments for items not involving cash (note 18)	3,448	(847)
Net changes in non-cash working capital (note 18)	-	(3,119)
	(1,147)	(6,124)
FINANCING ACTIVITIES		
Increase in (repayment of) bank indebtedness	2,725	(935)
Repurchases of trust units pursuant to normal course issuer bids and substantial issuer bids	-	(243)
Repurchases of common shares pursuant to normal course issuer bids and substantial issuer bids	(324)	-
Principal repayments on mortgages and finance leases	(334)	(927)
Proceeds from repayment of employee unit purchase loans	-	3
	2,067	(2,102)
INVESTING ACTIVITIES		
Proceeds on dispositions of marketable securities	-	33,235
Acquisitions of marketable securities	(146)	-
Acquisitions of property and equipment	(600)	(444)
Decrease (increase) in restricted cash	(174)	92
	(920)	32,883
Increase in cash	-	24,657
Cash, beginning of period	-	-
Cash, end of period	-	24,657
Cash interest received	2	14
Cash interest paid		
Mortgages and capital leases	844	1,695
Convertible debentures	1,570	1,656
Bank indebtedness	124	22
Total cash interest paid	2,538	3,373

See accompanying Notes to the Interim Consolidated Financial Statements

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

1. GENERAL INFORMATION

Royal Host Inc. is a diversified hospitality company that delivers shareholder value through hotel ownership, investment and franchising and owns a portfolio of 31 operating hotels, comprising approximately 3,705 guest rooms. The portfolio includes select and full service hotels in the mid-market and economy hospitality segments. All of the hotels are located in Canada. The principal and head office of Royal Host is located at 6009 Quinpool Road, 10th Floor, Halifax, Nova Scotia, B3K 5J7. Royal Host Inc. (the “company”) is the successor entity to Royal Host Real Estate Investment Trust following the completion of the conversion from an income trust to a corporation by way of a court-approved plan of arrangement under the Canada Business Corporations Act (“CBCA”) effective January 1, 2011 within all provinces of Canada (the “Arrangement”). The Arrangement involved the exchange of the units of the REIT for Common Shares of Royal Host on a one-for-one basis and the dissolution of Royal Host Commercial Trust and the REIT in accordance with their respective declarations of trust. Effective January 4, 2011, the common shares of Royal Host began trading on the Toronto Stock Exchange (TSX) under the symbol RYL. These financial statements have been approved for release by the Board of Directors on June 3, 2011.

2. TRANSITION TO IFRS

Effective January 1, 2011, the company adopted International Financial Reporting Standards (IFRS). Prior to the adoption of IFRS, the company prepared its financial statements in accordance with Canadian generally accepted accounting principles (CGAAP). The company’s financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. The company’s transition date was January 1, 2010; therefore, the opening IFRS balance sheet has been reported as of this date. These financial statements (including both current period and comparative period balances) are prepared in accordance with the significant accounting policies summarized in Note 3. At the date of transition, all adjustments to previously reported balances were recorded within accumulated income.

a) Elective exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 First Time Adoption of International Financial Reporting Standards (IFRS 1), the company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are as described below:

i) Fair Value or Revaluation as Deemed Cost

The company has elected to measure certain items of property and equipment at fair value as of the date of transition to IFRS and use that fair value as deemed cost for those classes of assets in future periods.

ii) Leases

Based on the transitional provisions of IFRIC 4, the company has elected to only apply section IAS 17 Leases to those arrangements existing at the transition date.

iii) Business combinations

The company has elected to not apply IFRS 3 retrospectively to past business combinations. Accordingly, the company has not restated business combinations that took place prior to the transition date.

b) Mandatory exemptions to full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the company has applied certain mandatory exemptions from full retrospective application of IFRS, as described below:

i) Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the company under

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

CGAAP are consistent with their application under IFRS.

c) Reconciliation of equity as reported under CGAAP to IFRS

The following is a reconciliation of the company's equity reported in accordance with CGAAP to its equity in accordance with IFRS as at the transition date:

	Note	Trust Units	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Distributions	Accumulated Income (Incl. IFRS Trans. Balance)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
As reported under CGAAP – December 31, 2009		143,343	3,167	34,667	(222,425)	58,091	10,143	26,986
Property and equipment revaluation	(i)	-	-	-	-	(5,815)	-	(5,815)
Conversion feature of convertible debentures	(ii)	-	(3,167)	-	-	(1,262)	-	(4,429)
Reclassification of trust units	(iii)	(143,343)	-	-	-	98,020	-	(45,323)
Reclassification of contributed surplus and accumulated distributions	(iv)	-	-	(34,667)	222,425	(187,758)	-	-
Deferred income tax adjustment	(v)	-	-	-	-	6,592	-	6,592
As reported under IFRS – January 1, 2010		-	-	-	-	(32,132)	10,143	(21,989)

The following is a reconciliation of the company's equity reported in accordance with CGAAP to its equity in accordance with IFRS as at March 31, 2010:

	Note	Trust Units	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Distributions	Accumulated Income (Incl. IFRS Trans. Balance)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
As reported under CGAAP – March 31, 2010		142,570	3,167	35,197	(223,790)	64,369	2,960	24,473
Property and equipment revaluation	(i)	-	-	-	-	(5,815)	-	(5,815)
Conversion feature of convertible debentures	(ii)	-	(3,167)	-	-	(1,262)	-	(4,429)
Reclassification of trust units	(iii)	(142,570)	-	(530)	-	98,020	-	(45,080)
Reclassification of contributed surplus and accumulated distributions	(iv)	-	-	(34,667)	223,790	(187,758)	-	1,365
Deferred income tax adjustment	(v)	-	-	-	-	6,592	-	6,592
Overall change to 2010 net loss	(vi)	-	-	-	-	(8,436)	-	(8,436)
As reported under IFRS – March 31, 2010		-	-	-	-	(34,290)	2,960	(31,330)

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

The following is a reconciliation of the company's equity reported in accordance with CGAAP to its equity in accordance with IFRS as at December 31, 2010:

	Note	Trust Units	Equity Component of Convertible Debentures	Contributed Surplus	Accumulated Distributions	Accumulated Income (Incl. IFRS Trans. Balance)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
As reported under CGAAP – December 31, 2010		138,164	3,061	38,210	(227,845)	55,362	-	6,952
Property and equipment revaluation	(i)	-	-	-	-	(5,815)	-	(5,815)
Conversion feature of convertible debentures	(ii)	-	(3,061)	-	-	(1,262)	-	(4,323)
Reclassification of trust units	(iii)	(138,164)	-	(3,543)	-	98,020	-	(43,687)
Reclassification of contributed surplus and accumulated distributions	(iv)	-	-	(34,667)	227,845	(187,758)	-	5,420
Deferred income tax adjustments	(v)	-	-	-	-	6,592	2,012	8,604
Overall change to 2010 net loss	(vi)	-	-	-	-	(3,885)	-	(3,885)
As reported under IFRS – December 31, 2010		-	-	-	-	(38,746)	2,012	(36,734)

Explanatory notes:

- i) Property and equipment fair value as deemed cost:

The following items of property and equipment were adjusted to fair value as of the transition date: land, building, and building components (roof, HVAC, and interior finishings). The use of fair value as “deemed cost” is permitted through an election available within IFRS 1; however, this election is only available at the transition date. For all subsequent periods, the company uses the cost method to record subsequent additions and changes in depreciation expenses. The fair value of the land assets for all 33 Royal Host properties (31 operating hotels and 2 non-operating sites) was determined using market-based evidence sourced from valuation work performed by independent professionally qualified valuers. The fair value for six of the buildings (and building components) was based on appraisals done by qualified valuation specialists, using discounted cash flow and market comparable valuation techniques. The buildings at another 20 of the Royal Host properties were valued internally using consistent discounted cash flow methodology, while the remaining five buildings were valued internally using market-based evidence. On a property by property basis, the fair values determined were allocated among the building and building components by first deducting the following amounts: (1) the value of the land and (2) the carrying value of the furniture, fixtures & equipment and the computer hardware and software. The residual amount was allocated to (1) building; (2) roof; (3) HVAC and (4) interior finishing based on engineering estimates of the relative cost to replace each type of component. The election to use fair value as deemed cost was not applied to the company's furniture, fixtures and equipment, computer hardware and software and intangible assets. As a result, the basic cost method was used and the carrying value of these assets at the date of transition was not adjusted.

- ii) Conversion feature of convertible debentures

Under IAS 32, paragraph 29, the convertible debentures issued by Royal Host qualify as a compound financial instrument because they represent a financial instrument that creates a financial liability of the entity as well as an option to the holder of the instrument to convert the liability into trust units. Under CGAAP, the two parts were classified

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

separately as a liability and equity for the conversion option; however, because IFRS dictates that Royal Host's trust units were a liability in substance, the equity portion of the convertible debentures will also be classified as a liability. The conversion feature has been measured at fair value upon the IFRS transition date using the binomial method. The conversion feature will be re-valued at each reporting date with changes reported in the consolidated statements of net loss and comprehensive loss. Following the conversion of Royal Host from a Trust to a Corporation on January 1, 2011, the company's shares are classified as equity and the conversion feature of the convertible debentures will be classified as equity.

iii) Reclassification of trust units

The trust units were reclassified to long-term liabilities for the year ended December 31, 2010 because they did not qualify to be reported as equity under IFRS. IAS 32 paragraph 16 specifies that in order to qualify as equity, financial instruments cannot include a contractual obligation to deliver cash or another financial asset to another entity. Prior to January 1, 2011, the company's Declaration of Trust included a puttable option on the units as well as a mandatory requirement to distribute all taxable income as distributions to the unitholders, constituting a contractual obligation. For the comparative periods ended March 31, 2010 and December 31, 2010, the trust units are presented as a financial liability, with measurement based on the units' closing ask price on the Toronto stock exchange (TSX) and the number of units outstanding at the reporting date. As IFRS 1 allows the designation of a previously recognized financial liability at fair value through profit and loss, the liability for trust units has been classified as such; therefore, changes in the market price of the units at subsequent reporting dates in 2010 are reported in the consolidated statements of net loss and comprehensive loss.

On January 1, 2011 Royal Host converted from a trust to a corporation and the trust units were exchanged for common shares. As the common shares have neither a puttable feature nor a required distribution, they qualify to be classified as an equity instrument, measured at the fair value of the trust units at January 1, 2011.

iv) Contributed surplus and accumulated distributions reclassification

At the date of transition to IFRS, the balance of contributed surplus represented the excess of the issue cost removed from trust units over the amount paid by Royal Host to repurchase these units up to December 31, 2009. Upon transition to IFRS, as the trust units are classified as a financial liability for the year ended December 31, 2010, the difference between the carrying value of the units repurchased and the amount paid by Royal Host is considered a gain or loss on repurchase of debt and is included in net loss. The distributions on the trust units are presented as finance costs on the consolidated statements of net loss and comprehensive loss due to the classification of the trust units as a financial liability.

v) Deferred income tax adjustments

The adjustment to deferred income tax is primarily a result of the changes to the carrying values and depreciation rates for the various property and equipment owned by the company. As a result of the property revaluations, a deferred income tax asset in respect of capital loss carryforwards has been recognized that previously was not recognized. The transition to IFRS also resulted in the recognition of deferred income taxes in respect of the conversion option of the convertible debentures.

vi) Overall change to 2010 net loss

In order to understand the nature of the individual adjustments to net income for the three months ended March 31, 2010 and year ended December 31, 2010, see the reconciliations provided below.

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

d) Reconciliation of net loss and comprehensive loss as reported under CGAAP to IFRS

The following is a reconciliation of the company's net loss reported in accordance with CGAAP to its net loss in accordance with IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010:

	Note	Three months ended March 31, 2010 \$	Year ended December 31, 2010 \$
Net income (loss) as reported under CGAAP		6,278	(2,729)
Adjustment to depreciation on property and equipment	(i)	(1,086)	(4,295)
Reversal of property impairment provision	(ii)	458	458
Unrealized gain (loss) on trust units liability	(iii)	(5,826)	6,560
Unrealized gain (loss) on convertible debenture option liability	(iv)	(590)	1,933
Distributions expense	(v)	(1,365)	(5,420)
Realized gain on repurchase of trust units	(vi)	3	49
Deferred tax recovery	(vii)	(30)	(3,106)
Other		-	(64)
Total adjustments		(8,436)	(3,885)
Net loss as reported under IFRS		(2,158)	(6,614)

The following is a reconciliation of the company's other comprehensive loss reported in accordance with CGAAP to its other comprehensive loss in accordance with IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010:

	Note	Three months ended March 31, 2010 \$	Year ended December 31, 2010 \$
Other comprehensive loss as reported under CGAAP		(7,183)	(10,143)
Deferred tax recovery	(vii)	-	2,012
Other comprehensive loss as reported under IFRS		(7,183)	(8,131)

The total of the reconciled net loss and other comprehensive loss equals the comprehensive loss reported under IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010.

Explanatory notes:

- i) Adjustment to depreciation on property and equipment

Certain items of property and equipment (land, building and building components) were recorded using fair value as "deemed cost" on transition, which varied from the previously recognized carrying value under CGAAP. As well, the property and equipment category previously reported as buildings was componentized into buildings, roofing, HVAC and interior finishings, resulting in the assignment of shorter useful lives than under CGAAP. Accordingly, the change in the carrying values and componentization resulted in an increase in depreciation expense for the periods.

- ii) Reversal of property impairment provision

This adjustment was necessitated by the revaluation of land and building assets as of January 1, 2010. Under CGAAP, impairment on a specific property owned by Royal Host was previously recorded at March 31, 2010; however, the

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

revaluation as of January 1, 2010 negated this impairment as the asset was already recorded at fair market value less selling costs based on reference to prices within the real estate market. The reversal of the impairment resulted in increased profits reported by the company for the period. Under CGAAP, this property was reported as "property held for sale"; however, IFRS does not permit the separate presentation of this property. As a result, in these financial statements, this property is recorded within the land component (see note 8).

iii) Unrealized gain (loss) on liability for trust units

With the reclassification of the company's trust units to non-current liabilities effective January 1, 2010, the liability itself was classified at fair value with changes recognized in net loss. As the fair value was determined on the basis of the prevailing market prices, the resulting gain or loss from a change in the liability was reported in the comparative figures.

iv) Unrealized gain (loss) on convertible debenture option liability

The convertible debenture conversion feature has been measured at fair value upon the IFRS transition date using the binomial method. The conversion feature will be re-valued at each reporting date with changes reported in the consolidated statements of net loss and comprehensive loss.

v) Distributions expense

The distributions declared during the three months ended March 31, 2010 and year ended December 31, 2010 have been reclassified as a finance cost because of the liability reclassification of the trust units for which the distributions were issued. IAS 32, paragraph 36 notes that the classification of a financial instrument as a financial liability or an equity instrument determines how the resulting expenses/distributions are classified. As the trust units were reclassified to liabilities as described above, the resulting distributions were reclassified to finance costs.

vi) Realized gain on repurchase of trust units

Under CGAAP, the gain or loss on repurchases of trust units was recorded directly to equity. As a result of the reclassification of trust units to liabilities, the gain or loss is included in the determination of net loss.

vii) Deferred income taxes

Deferred income tax assets were recognized under IFRS, at the transition date, for capital losses carried forward that were not recognized under Canadian GAAP. This was due to the increase in the valuation of the land portion of property and equipment when the fair value was used as "deemed cost" on the transition date. This created a deferred tax liability on the land and enabled Royal Host to recognize a deferred tax asset on the capital losses carried forward.

A significant portion of these capital losses were utilized by Royal Host to minimize taxes payable as of December 31, 2010, which caused a decrease in the tax asset and a corresponding deferred tax expense. The deferred tax liability on the land did not change during 2010. The net effect is a decrease in the deferred tax recovery under IFRS compared to CGAAP.

e) Statement of Cash Flow as reported under CGAAP and IFRS

The changes made to the consolidated statements of financial position and net loss and comprehensive loss have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board (IASB) along with the accounting policies the company expects to adopt in its consolidated financial statements as at and for the year ended December 31, 2011. As these interim financial statements are the company's first financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared using IFRS, but were not included in the company's most recent annual financial statements prepared in accordance with CGAAP, have been included in these financial statements for the comparative annual period. These interim financial statements should be read in conjunction with the company's 2010 annual financial statements as well as the IFRS transition disclosures in Note 2 to these financial statements and the additional annual disclosures included therein.

(b) Basis of Presentation

These consolidated financial statements include the accounts of Royal Host Inc., along with its wholly-owned subsidiaries and partnerships. All significant intercompany transactions and balances have been eliminated. The statements have been prepared on a going concern basis using the modified historical cost convention, which supplements the historical costs as the fair value has been elected as "deemed cost" for land, building, and building components.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with IFRS, particularly in the year of transition, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the reported periods. Significant areas requiring the use of management estimates include the determination of future cash flows in assessing the recoverability of hotel properties and other long-term assets, the estimation of useful lives for depreciation and amortization purposes, determination of the allowance for uncollectible receivables, assumptions used in the calculation of carrying value of convertible debenture components and the determination of deferred tax assets and liabilities. As a result, actual results could differ materially from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

(d) Marketable Securities

The Company measures its investments in marketable securities at fair value as determined using the applicable stock market bid price. At the end of each reporting period subsequent to initial recognition, the company must assess whether there is evidence of impairment of these assets. The following list of items include examples of events that typically provide evidence of impairment:

- (a) significant or prolonged decline in the fair value below its cost;
- (b) increased probability that the investee will enter bankruptcy or other financial reorganization.
- (c) a breach of contract, such as a default or delinquency by the investee in interest or principal payments; or
- (d) significant changes with adverse effects taking place in the environment in which the investee operates.

Declines in the fair value of marketable securities are reported in other comprehensive income unless there is objective evidence that the asset is impaired. In the case of an impairment, the decline is recorded directly through profit and loss after clearing out any existing balances in accumulated other comprehensive income. Increases in fair value are reported in other comprehensive income, unless the increase can be objectively related to an event occurring after a previous impairment loss was recognized in profit or loss, in which case the increase can be recorded directly through profit and loss.

(e) Accounts receivable

Trade receivables are initially recorded at the invoice price and subsequently reduced by any allowance for uncollectible accounts. Royal Host evaluates the collectability of accounts receivable based on the age of the receivable as well as the

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

specific customer details, with any losses recognized directly through profit and loss.

(f) Inventories

Inventories consist of linens, food, beverages, china, silverware, and glassware used or consumed in the rendering of services to customers of the hotel properties. These items are recorded at the lower of cost and net realisable value and are accounted for on a first-in, first-out basis. When circumstances that previously caused inventory to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of any previous write downs are reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.

(g) Property and Equipment

For certain classes of property and equipment, as described in note 2, the company elected to use fair value as “deemed cost”. Their carrying values were adjusted to fair value as of the date of the transition, only to be reduced by any subsequent accumulated depreciation and/or any accumulated impairment losses. On a quarterly basis, all property and equipment are evaluated for potential impairment to ensure that the carrying amount does not exceed the recoverable amount. Where the carrying amount of an asset is decreased, the decrease is recognized in the consolidated statements of net loss and comprehensive loss. The company accounts for its property and equipment under the cost model, whereby the assets are recorded at cost and subsequently depreciated over their useful lives, unless an impairment is identified requiring a write down to estimated fair value.

The useful life of each property is evaluated annually based on certain factors including construction materials used, location, condition of the property and the particular capital maintenance program and requirements of the property.

Land has an unlimited useful life and therefore is not depreciated. The depreciable amount of the assets are determined before deducting the residual value because in practice, the residual value of the assets are often insignificant and therefore immaterial in the calculation of the depreciable amount. The depreciation method noted below reflects the pattern in which the asset's future economic benefits are expected to be consumed by the company, assuming regular repair and maintenance of the properties. No amortization is taken on assets under construction until they are placed in use. Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations which extend the estimated useful life of an asset and enhance the service potential are capitalized to hotel properties. Property and equipment under development consists of renovations of properties and is recorded at the lower of cost and net recoverable value. Amortization of these assets begins once they are available for use.

Asset Class	Amortization Method	Useful Life
Building	Straight line basis	25-40 years
Roof	Straight line basis	25 years
HVAC	Straight line basis	20 years
Interior finishing	Straight line basis	10 years
Furniture, fixtures and equipment (FF&E)	Straight line basis	5 years
Computer hardware	Straight line basis	4 years
Computer software	Straight line basis	4 years
Assets under finance leases	Straight line basis	4-5 years

(h) Intangible Assets

Intangible assets consist primarily of franchise rights and, in periods prior to 2011, management agreements, recorded at their initial cost and reduced by amortization over their useful lives. These assets are amortized using the straight-line method based on their finite useful lives (9-10 years). The company has no identifiable intangible assets for which the expected useful life is indefinite.

(i) Restricted Cash

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

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

expenditures. The company assesses their intention and ability to hold this financial asset until maturity at the end of each reporting period.

(j) Bank Indebtedness

The company considers deposits in banks, certificates of deposit, and short-term investments with original maturities of three months or less as cash and cash equivalents. Cash balances, for which the company has the ability to and intent of offset, are used to reduce reported bank indebtedness; however, due to the seasonality of the cash flow cycle, the bank overdrafts sometimes exceed the cash on deposit.

(k) Mortgages

Mortgages are carried at their amortized cost; whereby any debt issuance costs were initially recorded as a reduction of the average carrying value of the debt to which they relate. Over the term of the debt, the liability will increase to the face value of the debt through the use of the effective interest method, with the accretion expense included in interest on mortgages on the consolidated statement of net loss and comprehensive loss. This treatment serves to yield a constant rate of interest over the life of the particular financial instrument.

(l) Convertible Debentures

Convertible debentures are carried at their amortized cost; whereby any debt issuance costs were initially recorded as a reduction of the average carrying value of the debt to which they relate. Over the term of the debt, the liability will increase to the face value of the debt through the use of the effective interest method, with the accretion expense included in interest on convertible debentures on the consolidated statement of net loss and comprehensive loss. This treatment serves to yield a constant rate of interest over the life of the particular financial instrument.

Upon initial recognition, the fair value of the conversion option was recorded as a reduction of the carrying value of the convertible debentures and the same amount was recorded as a "conversion option liability". Similar to the debt issuance costs, the conversion option is amortized over the term of the debt using the effective interest method. The conversion option liability was fair valued at the end of each reporting period up until December 31, 2010 with changes in fair value recorded in the consolidated statement of net loss and comprehensive loss. On January 1, 2011 Royal Host converted from a trust to a corporation and the trust units were exchanged for common shares and were classified as an equity instrument and, therefore, the "conversion option liability" was reclassified to equity as "equity component of convertible debentures", measured at the fair value of the "conversion option liability" at January 1, 2011.

(m) Leases

Upon initial recognition, the company classifies all leases as either a finance lease or an operating lease, depending on the substance of the transaction. Finance leases are classified as such because they are found to transfer substantially all of the risks and rewards incidental to ownership of the asset, whereas operating leases are classified as such because they are not found to meet the criteria required for classification as a finance lease. Upon commencement of the lease, finance leases are recorded as assets and liabilities in the statement of financial position at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The rate used to discount the payments is either the interest rate implicit in the lease or the company's incremental borrowing rate. Upon subsequent measurement, the asset is depreciated over the life of the lease while the liability is decreased by the actual lease payments and increased by the accretion of the interest expense.

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

(n) Financial Instruments

Royal Host has elected to apply the following treatment to each of its significant categories of financial instruments:

Asset/liability	Classification	Measurement basis
Marketable securities	Available-for-sale	*Fair value with changes recognized in other comprehensive loss
Accounts receivable	Loans and receivables	
Restricted cash	Held-to-maturity	**Amortized cost
Bank indebtedness, accounts payable and accrued liabilities, distributions payable, interest accrued on convertible debentures, mortgages, finance leases and convertible debentures	Financial liability	
Liability for trust units, conversion option on convertible debentures	Financial liability at fair value through profit or loss	*Fair value with changes recognized in net loss

*Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**The amortised cost of a financial asset or financial liability is equal to the amount at which it is initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

(o) Revenue Recognition

Revenue, consisting of rooms, food and beverage, franchising and management (in periods prior to 2011), tenant income and other revenue is measured at the fair value of consideration received or receivable, taking into account the amount of any discounts or volume rebates. Revenue is recognized when the amount can be measured reliably, it is probable that the economic benefits will flow to the company, and the costs incurred to complete the transaction can be reliably measured. Other revenue includes income from laundry and telephone usage, parking garage fees, and in-room movie rentals. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable which is estimated to be uncollectible.

(p) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of net loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Royal Host follows the liability method of accounting for deferred income taxes. This method requires recording a deferred income tax amount on differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are measured using the best estimate of the weighted average annual income tax rate expected for the full financial year and that are expected to apply when the tax assets or liabilities are expected to be either recovered or settled.

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

(q) Comprehensive loss

Comprehensive loss is the change in equity from transactions, events and circumstances from sources other than the company's shareholders. Other comprehensive loss refers to items recognized in comprehensive loss that are excluded from net loss calculated in accordance with IFRS. These items could include the following:

- (i) unrealized gains and losses on financial assets classified as 'available for sale' during the period (net of realized gains and losses as a reclassification to income);
- (ii) change in gains and losses on derivatives designated as cash flow hedges;
- (iii) change in the revaluation surplus balance for property and equipment.

(r) Foreign Currency Translation

The Canadian dollar is the functional currency of the company. Transactions in currencies other than the company's functional currency are translated using the rate of exchange prevailing on the date of the transaction. At each statement of financial position date, monetary assets and liabilities denominated in currencies other than the functional currency are translated at the rate of exchange prevailing on the balance sheet date with any gains or losses recognized in net loss.

(s) Provisions

Provisions are recognized in the financial statements only when all of the following three criteria are met: i) there is a present obligation as a result of a past event, ii) it is probable (more likely than not) that the company will be required to settle the obligation through the transfer of assets, and iii) the amount of the obligation can be reliably estimated.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

(i) Financial Instruments

IFRS 9 Financial Instruments was issued by the IASB on November 12, 2009 and will replace IAS 39: Financial Instruments – Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The company is currently evaluating the impact of IFRS 9 on its financial statements.

(ii) Income Taxes

In December 2010, the IASB made amendments to IAS 12 income taxes that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40: Investment Property. The amendments introduce a rebuttable presumption that an investment property is recovered entirely through sale. The presumption is rebutted if the investment property is held within a business model whose objective is to consume essentially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The company is currently evaluating the impact of IAS 12 on its financial statements.

5. MARKETABLE SECURITIES

	March 31, 2011		December 31, 2010		January 1, 2010	
	\$		\$		\$	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Marketable securities	21,290	2,000	21,144	1,886	93,320	39,409

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

6. ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following items:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Hotel accounts receivable	4,330	3,140	3,102
Franchise accounts receivable	925	1,013	715
Other accounts receivable	442	586	1,638
	5,697	4,739	5,455
Less allowance for doubtful accounts	306	284	365
	5,391	4,455	5,090

7. INVENTORIES

Inventories are comprised of the following items:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Linens	1,735	1,615	1,340
Food and beverage	340	388	401
China, glassware and other	359	363	399
	2,434	2,366	2,140

The carrying amount of inventory pledged as security for specific mortgages at March 31, 2011 was \$1,750.

8. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following items:

	March 31, 2011			December 31, 2010		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Land	46,203	-	46,203	46,203	-	46,203
Buildings	127,657	5,489	122,168	127,501	4,387	123,114
Roof	4,830	952	3,878	4,830	755	4,075
HVAC	12,919	3,578	9,341	12,881	2,860	10,021
Interior finishings	18,728	5,862	12,866	18,663	4,771	13,892
Furniture, fixtures and equipment	35,330	32,029	3,301	35,252	31,591	3,661
Computer hardware and software	5,408	4,420	988	5,385	4,331	1,054
Assets under capital lease	4,801	4,644	157	4,801	4,624	177
	255,876	56,974	198,902	255,516	53,319	202,197
Property under development	2,838	-	2,838	2,602	-	2,602
	258,714	56,974	201,740	258,118	53,319	204,799

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

Changes to property and equipment during the three months ended March 31, 2011 consist of the following:

March 31, 2011	Beginning net book value at January 1, 2011 \$	Additions \$	Disposals \$	Transfers \$	Depreciation expense \$	Net book value at March 31, 2011 \$
Land*	46,203	-	-	-	-	46,203
Buildings	123,114	154	-	-	(1,100)	122,168
Roof	4,075	-	-	-	(197)	3,878
HVAC	10,021	37	-	-	(717)	9,341
Interior finishings	13,892	66	-	-	(1,092)	12,866
Furniture, fixtures and equipment	3,661	84	-	-	(444)	3,301
Computer hardware and software	1,054	23	-	-	(89)	988
Assets under capital lease	177	-	-	-	(20)	157
	202,197	364	-	-	(3,659)	198,902
Property under development	2,602	236	-	-	-	2,838
	204,799	600	-	-	(3,659)	201,740

*For the three months ended March 31, 2011, the land category includes \$1,846 in assets that are considered non-operating assets

Changes to property and equipment during the year ended December 31, 2010 consist of the following:

December 31, 2010	Beginning net book value at January 1, 2010 \$	Additions \$	Disposals \$	Transfers \$	Depreciation expense \$	Net book value at December 31, 2010 \$
Land*	46,203	-	-	-	-	46,203
Buildings	126,864	632	-	5	(4,387)	123,114
Roof	4,192	638	-	-	(755)	4,075
HVAC	12,639	242	-	-	(2,860)	10,021
Interior finishings	18,471	192	-	-	(4,771)	13,892
Furniture, fixtures and equipment	4,804	701	(36)	13	(1,821)	3,661
Computer hardware and software	538	841	-	-	(325)	1,054
Assets under capital lease	390	-	-	(1)	(212)	177
	214,101	3,246	(36)	17	(15,131)	202,197
Property under development	119	2,500	-	(17)	-	2,602
	214,220	5,746	(36)	-	(15,131)	204,799

*For the year ended December 31, 2010, the land category includes \$1,846 in assets that are considered non-operating assets.

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

9. INTANGIBLE ASSETS

	Three months ended March 31, 2011	Year ended December 31, 2010
	\$	\$
Beginning cost of intangible assets	508	18,551
Additions	-	91
Write-off of fully amortized intangible assets	-	(18,134)
Ending cost of intangible assets	508	508
Beginning accumulated amortization of intangible assets	(415)	(16,192)
Impairment	-	(601)
Amortization expense	(4)	(1,756)
Write-off of fully amortized intangible assets	-	18,134
Ending accumulated amortization of intangible assets	(419)	(415)
Net book value	89	93

10. BANK INDEBTEDNESS

Royal Host has a credit facility with a maximum availability dependant on a valuation test. During the three months ended March 31, 2011, Royal Host renewed its \$25 million credit facility for a one year period. This line of credit is secured by six hotels with a net book value of \$45,629 at March 31, 2011 (December 31, 2010 - \$46,319). At March 31, 2011, the maximum availability of the facility was \$17,473 (December 31, 2010 - \$18,410) based on an earnings test for those assets pledged as security while the actual amount drawn was \$16,511 (December 31, 2010 - \$13,786). The facility bears interest at the Canadian bank prime rate plus a spread of 0.25% to 1.75% depending on a leverage test, and is payable on demand. At March 31, 2011, Royal Host is in compliance with all covenant requirements of the credit facility.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following items:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade accounts payable	1,819	1,631	2,228
Accrued liabilities	5,300	5,369	2,961
Taxes payable	797	257	810
Accrued payroll	2,165	2,041	2,076
Other liabilities	2,514	2,359	2,315
	12,595	11,657	10,390

12. MORTGAGES

	Three months ended March 31, 2011	Year ended December 31, 2010
	\$	\$
Beginning balance	44,311	80,224
Principal repayments	(316)	(36,329)
Interest accretion expense	36	416
Ending balance	44,031	44,311

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

Principal repayments required for the twelve months ending March 31:

	\$
2012	12,400
2013	960
2014	30,826
Total principal outstanding	44,186
Debt issuance costs	(155)
	44,031

Mortgages bear interest at rates ranging from 6.82% to 8.50% per annum (2010 – 6.82% to 8.50%) with a weighted average year-end rate of 7.52% per annum (2010 – 7.52%) and mature between 2011 and 2013. The mortgages are secured by first charges over six hotel properties owned by Royal Host with a total net book value of \$87,200 at March 31, 2011 (December 31, 2010 – total net book value of \$88,807).

During 2010, Royal Host repaid two mortgage pools in the amounts of \$23,499 and \$10,218 utilizing its cash and cash equivalents, marketable securities and bank indebtedness. The nineteen properties that previously secured these mortgage pools are unencumbered.

13. OBLIGATIONS UNDER FINANCE LEASES

Royal Host has entered into various finance lease obligations to acquire furniture, fixtures and equipment. The leases outstanding at March 31, 2011 bear interest at a weighted average annual rate of 7.64% per annum (December 31, 2010 – 7.64%). During the three months ended March 31, 2011 and the year ended December 31, 2010, Royal Host did not acquire any new assets under finance leases. The net book value of assets under finance leases as at March 31, 2011 was \$157 (December 31, 2010 - \$177).

Following is a table summarizing the total repayments required for the twelve months ending March 31:

	\$
2011	77
2012	17
Future minimum lease payments	94
Less: amounts representing interest	(4)
Present value of future minimum lease payments	90

14. CONVERTIBLE DEBENTURES

	Three months ended March 31, 2011 \$	Year ended December 31, 2010 \$
Beginning balance	144,552	147,292
Repurchase of debentures	-	(3,900)
Interest accretion expense	301	1,160
Ending balance	144,853	144,552

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
6.00% Convertible Unsecured Subordinated Debentures, Series B	44,155	44,077	44,477
6.25% Convertible Unsecured Subordinated Debentures, Series C	48,681	48,544	50,658
5.90% Convertible Unsecured Subordinated Debentures, Series D	52,017	51,931	52,157
	144,853	144,552	147,292

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

Principal repayments required for the twelve months ending March 31:

	\$
2011	-
2012	-
2013	50,239
2014	53,327
2015	45,984
Total principal outstanding	149,550
Debt issuance costs	(3,216)
Conversion option	(1,481)
	144,853

Convertible debentures may be convertible into common shares at any time at the conversion rate in effect on that date. The conversion rate shall be subject to adjustment from time to time based on a number of factors.

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

In October 2005, \$60,000 of convertible unsecured subordinated debentures were issued with a term of ten years. These debentures bear interest at 6.00% per annum which is payable semi-annually in arrears on April 30 and October 31 in each year commencing April 30, 2006. After October 31, 2009, the Series B debentures are redeemable, in whole at any time or in part from time to time prior to October 31, 2011, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$4.76 per unit. After October 31, 2011, but prior to the maturity date of October 31, 2015, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5th) trading day preceding the date of redemption or maturity. On redemption or at maturity on October 31, 2015, Royal Host has the option to repay the debentures in either cash or in equivalent shares of Royal Host. The number of shares to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the shares.

During the period ended March 31, 2011, \$nil (December 31, 2010 - \$nil) of Royal Host's 6.00% convertible unsecured subordinated debentures were converted into nil common shares (December 31, 2010 - nil trust units).

Commencing on September 10, 2010, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$4,163 in principal of its issued and outstanding 6.00% convertible debentures. During the year ended December 31, 2010, Royal Host repurchased \$111 6.00% convertible debentures at an aggregate cost of \$85 (average cost \$76.35) pursuant to this bid.

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$4,225 in principal of its issued and outstanding 6.00% convertible debentures. During the year ended December 31, 2010, Royal Host repurchased \$619 6.00% convertible debentures at an aggregate cost of \$464 (average cost \$74.98) pursuant to this bid.

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

In September 2006, \$60,000 of convertible unsecured subordinated debentures were issued with a term of seven years. These debentures bear interest at 6.25% per annum which is payable semi-annually in arrears on March 31 and September 30 in each year commencing March 31, 2007. After September 30, 2009, the Series C debentures are redeemable, in whole at any time or in part from time to time prior to September 30, 2011, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$4.87 per unit. After September 30, 2011, but prior to the maturity date of September 30, 2013, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

maturity. On redemption or at maturity on September 30, 2013, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of shares to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the shares. Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$4.87 per share at any time from the date of issue to close of business on the day prior to the maturity date, September 30, 2013.

During the period ended March 31, 2011, \$nil (December 31, 2010 - \$nil) of Royal Host's 6.25% convertible unsecured subordinated debentures were converted into nil common shares (December 31, 2010 - nil trust units).

Commencing on September 10, 2010, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,010 in principal of its issued and outstanding 6.25% convertible debentures. During the year ended December 31, 2010, Royal Host repurchased nil 6.25% convertible debentures pursuant to this bid.

Commencing on September 10, 2009, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,243 in principal of its issued and outstanding 6.25% convertible debentures. During the year ended December 31, 2010, Royal Host repurchased \$2,760 in principal of the 6.25% convertible debentures at an aggregate cost of \$2,250 (average cost \$81.51).

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

In June 2007, \$60,000 of convertible unsecured subordinated debentures were issued with a term of seven years. These debentures bear interest at 5.90% per annum which is payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2007. The Series D debentures may not be redeemed by Royal Host prior to June 30, 2010. On or after June 30, 2010, but prior to June 30, 2011, the debentures are redeemable, in whole at any time or in part from time to time, at the option of Royal Host on at least thirty (30) days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$6.19 per unit. After June 30, 2011, but prior to the maturity date of June 30, 2014, the debentures are redeemable without stipulation. The term "current market price" is defined in the Indenture to mean the weighted average trading price of the units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of redemption or maturity. On redemption or at maturity on June 30, 2014, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of shares to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the shares. At December 31, 2009, based on certain conditions, the debentures are convertible, at the holders' discretion, at \$6.19 per share at any time until the close of business on the day prior to the maturity date, June 30, 2014.

During the period ended March 31, 2011, \$nil (December 31, 2010 - \$nil) of Royal Host's 5.90% convertible unsecured subordinated debentures were converted into nil common shares (December 31, 2010 - nil trust units).

Commencing on September 10, 2010, Royal Host initiated a normal course issuer bid to repurchase a maximum of \$5,332 in principal of its issued and outstanding 5.90% convertible debentures. During the year-ended December 31, 2010, Royal Host repurchased no 5.90% convertible debentures pursuant to this bid.

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 year ended December 31, 2010, Royal Host repurchased \$571 in principal of the 5.90% convertible debentures at an aggregate cost of \$413 (average price of \$72.28) pursuant to this bid.

15. SHAREHOLDERS' EQUITY

Effective January 1, 2011, unitholders received one common share for each one unit held prior to the incorporation of Royal Host Inc. Holders of common shares are entitled to one vote per common share at meetings of the shareholders, along with dividends when declared by the Board of Directors and the right to receive a pro-rata share of the remaining property and assets of Royal Host upon its dissolution or winding up. For the three months ended March 31, 2011, the Board of Directors

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

decided to not declare any dividend. During the year ended December 31, 2010, the Trust declared distributions of \$0.30 per unit.

	Three months ended March 31, 2011	Year ended December 31, 2010
	#	#
Beginning balance	17,650,478	18,304,670
Shares/units repurchased under NCIB	(223,600)	(548,700)
Trust units repurchased under SIB	-	(99,102)
Trust units cancelled under employee loans	-	(6,390)
Ending balance	17,426,878	17,650,478

Normal Course Issuer Bid

Commencing on January 12, 2011, Royal Host initiated a normal course issuer bid ("NCIB") to repurchase a maximum of 1.3 million of its issued and outstanding common shares. The company has repurchased 122,500 common shares as at March 31, 2011, pursuant to this bid. The repurchased units have been cancelled with 14,500 of the repurchased units cancelled subsequent to March 31, 2011.

Commencing on January 12, 2010, Royal Host initiated an NCIB to repurchase a maximum of 1.3 million of its issued and outstanding trust units. During the year ended December 31, 2010, Royal Host repurchased 620,000 units with an aggregate cost of \$1,411 (average price of \$2.28 per unit) pursuant to this bid. Of the units repurchased, 71,300 were cancelled subsequent to year end. Subsequent to December 31, 2010, Royal Host repurchased 34,000 common shares 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 trust units during the extension period, which Royal Host purchased and cancelled.

16. INCOME TAXES

As a mutual fund trust, Royal Host was not subject to income tax but instead was obligated to distribute all of its taxable income to unitholders. Effective January 1, 2011, Royal Host converted to a corporation through the Arrangement whereby each unitholder received common shares of the new corporation "Royal Host Inc." in exchange for their units. The exchange was completed on a tax-deferred basis; however, Royal Host will be subject to Canadian federal and provincial corporate income tax on its taxable income beginning January 1, 2011.

The income tax recovery is comprised of:

	Three months ended March 31, 2011	Three months ended March 31, 2010
	\$	\$
Current income tax expense	185	-
Deferred income tax recovery	(553)	(1,200)
Income tax recovery	(368)	(1,200)

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

The income tax recovery differs from that computed using the best estimate of the weighted average annual statutory rate expected to apply as shown in the following table:

	Three months ended March 31, 2011		Three months ended March 31, 2010	
	\$	%	\$	%
Net loss before income taxes	4,963		3,358	
Recovery of income taxes at statutory rate	1,400	28.2%	1,028	30.6%
Increase (decrease) from statutory rate:				
Effects of rescheduling temporary differences in capital assets	67	1.4	209	6.2
Unrecognized non-capital loss carryforwards	(886)	(17.9)	-	-
Items not deductible (taxable)	(185)	(3.7)	31	0.9
Other items	(28)	(0.6)	(68)	(2.0)
Income tax recovery	368	7.4	1,200	35.7

As Royal Host was not subject to income taxes prior to January 1, 2011, in periods prior to December 31, 2010 a deferred tax asset (liability) was recognized in respect of those differences expected to reverse after January 1, 2011. Royal Host's net deferred income tax asset (liability) is comprised of the following:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Marketable securities	2,016	2,012	-
Property and equipment	1,814	1,194	(1,797)
Debt issuance costs	(807)	(769)	(847)
Convertible debentures and conversion options	(390)	215	741
Capital loss carryforwards	40	36	2,200
Intangible assets	102	162	(12)
Net deferred tax asset (liability)	2,775	2,850	285

17. PER SHARE CALCULATIONS (Per unit in previous period)

	Three months ended March 31, 2011			Three months ended March 31, 2010		
	Net loss \$	Weighted average shares (in thousands) #	Per share amount \$	Net loss \$	Weighted average units (in thousands) #	Per unit amount \$
Basic and diluted loss per share						
Net loss	4,595	17,505	(0.26)	2,158	18,218	(0.12)

The diluted earnings per share/unit for the periods ended March 31, 2011 and March 31, 2010 includes no common shares or trust units issuable on the conversion of any convertible unsecured subordinated debentures because all of the conversions are anti-dilutive.

Based on the market price of Royal Host trust units at March 31, 2011, the company would have to issue 95,406,698 common shares if 100% of the debentures were settled at their various maturity dates by the issuance of equity.

Royal Host Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2011 and 2010

*Unaudited (in thousands of Canadian dollars, except per unit amounts)***18. SUPPLEMENTAL CASH FLOW INFORMATION**

Adjustment for items not involving cash	Three months ended March 31, 2011 \$	Three months ended March 31, 2010 \$
Depreciation and amortization	3,663	4,290
Realized gains on available-for-sale securities	-	(10,681)
Unrealized loss on liabilities for trust units and conversion options	-	6,416
Deferred income tax recovery	(553)	(1,200)
Gain on convertible debenture repurchases	-	(3)
Accretion on mortgages and finance leases	37	40
Accretion on convertible debentures	301	291
	3,448	(847)
Net changes in non-cash working capital balances	Three months ended March 31, 2011 \$	Three months ended March 31, 2010 \$
Decrease (increase) in:		
Accounts receivable	(936)	(1,282)
Prepaid expenses	(559)	(890)
Inventories	(68)	(175)
	(1,563)	(2,347)
Increase (decrease) in:		
Accounts payable and accrued liabilities	938	(1,543)
Interest accrued on convertible debentures	691	668
Distributions payable	-	(2)
Deferred revenue	(66)	105
	1,563	(772)
Net change in non-cash working capital balances	-	(3,119)

19. RELATED PARTY TRANSACTIONS

At March 31, 2011, Clarke Inc. owned approximately 5.294 million or 30% (December 31, 2010 – 5.294 million (30%)) of Royal Host's issued and outstanding common shares and, as such, is considered a related party to Royal Host. During the three months ended March 31, 2011, Royal Host incurred professional and management fees of \$53 for services supplied by Clarke Inc. (three months ended March 31, 2010 - \$461). As at March 31, 2011, \$30 was owing in respect of these fees (December 31, 2010 - \$57).

The remuneration of directors and other members of key management is as follows:

Key Management Compensation	Three months ended March 31, 2011 \$	Three months ended March 31, 2010 \$
Short-term employee benefits	\$183	\$244
Termination benefits	-	-
Share-based payments	-	-
	\$183	\$244

During the three months ended March 31, 2011, Royal Host incurred leasing costs for office space provided by a company controlled by a Trustee of Royal Host of \$26 (three months ended March 31, 2010 - \$nil). As at March 31, 2011, \$nil was owing in respect of these fees (December 31, 2010 - \$nil).

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

20. CAPITAL MANAGEMENT

Royal Host's capital structure consists of:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Bank indebtedness	16,511	13,786	935
Mortgages	44,031	44,311	80,224
Convertible debentures	144,853	144,552	147,292
Total debt	205,395	202,649	228,451
Shareholders' equity	(2,816)	(36,734)	(21,989)
Total capitalization	202,579	165,915	206,462

Royal Host's primary objective for managing capital is to maximize long-term shareholder value by:

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

Royal Host relies on its cash flow from operations to fund dividends to shareholders, capital expenditures and to extinguish principal and interest obligations associated with debt. This cash flow is supplemented, when necessary, by the issuance of its securities, drawing on available credit facilities and/or the selling of assets. Royal Host sets dividends at a specific level as determined by the Board of Directors based on, among other considerations, annual performance, projected cash flows, capital requirements and working capital requirements. Royal Host monitors key short-term and long-term capital ratios including interest coverage (cash flow from operations to interest), net debt to cash flow from operations, and net debt to total capitalization.

Royal Host's mortgages have certain covenants concerning debt service coverage and replacement reserves. Royal Host's credit facility contains financial covenants which mandate a minimum level of debt service coverage and a maximum level of senior debt to earnings. Royal Host is in compliance with these covenants as of March 31, 2011. Royal Host has complied with all externally imposed capital restrictions.

21. FINANCIAL INSTRUMENTS

Royal Host's financial instruments consist of marketable securities, accounts receivable, restricted cash, bank indebtedness, accounts payable and accrued liabilities, equity distributions payable, interest accrued on convertible debentures, mortgages, convertible debentures, obligations under finance leases and the liability for trust units.

(a) Fair Values

The carrying value of accounts receivable, restricted cash, bank indebtedness, accounts payable and accrued liabilities, equity distributions payable, interest accrued on convertible debentures, current portion of mortgages and current portion of finance leases approximate their fair market value; therefore, they are not included in the table noted below. The fair value of the non-current and non-current obligations under finance leases is estimated using discounted cash flow analyses based on discount rates that reflect current market conditions for instruments with similar terms and risk. The fair value of marketable securities, convertible debentures and the liability for trust units are based on the quoted market price for these instruments. Fair value estimates are made at a specific point in time based on relevant market information. These are estimates and involve uncertainties and matters of significant judgement. As a result, the fair value estimates could be significantly affected by changes in assumptions and market rates.

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

	March 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale						
Marketable securities	2,000	2,000	1,886	1,886	39,409	39,409
Financial liabilities at fair value through profit and loss						
Liability for trust units	-	-	37,106	37,106	45,323	45,323
Conversion option liability	-	-	2,390	2,390	4,429	4,429
Financial liabilities (Measured at amortized cost)						
Mortgages (non-current)	31,631	31,397	31,834	31,999	23,463	26,868
Convertible debentures	144,853	133,163	144,552	124,237	147,292	101,570
Finance leases	13	13	33	33	108	108

Fair Value Hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices observed in active markets for identical assets and liabilities.
- Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The marketable securities, liability for trust units along with the convertible debentures have all been fair valued at Level 1 in the hierarchy, while the interest accrued on convertible debentures, mortgages, the finance leases and conversion option liability have been fair valued at Level 2 of the hierarchy.

(b) Credit Risk

As of March 31, 2011, Royal Host had net accounts receivable of \$5,391 (December 31, 2010 - \$4,454) net of allowance for doubtful accounts of \$306 (December 31, 2010 - \$284). Management assesses all categories of accounts receivable and determines the allowance, based primarily on aging, for hotel accounts receivable and franchise accounts receivable. Other accounts receivable are assessed on a case by case basis.

The company's principal assets consist largely of 31 hotel properties across Canada. Credit risk on hotel accounts receivables of \$ 4,330 (December 31, 2010 - \$3,139) arises from the possibility that guests may not fulfill their obligations upon leaving the hotel. The company mitigates this credit risk by performing credit checks on prospective guests and limiting the availability of credit arrangements to the large corporate/government customers.

Royal Host also owns the Travelodge Canada Master Franchise agreement through which they generate accounts receivable from the various Travelodge hotels for franchise fees. This credit risk is minimized through the use of the franchise agreement which permits hotels to be removed from the brand due to inability to pay their applicable fees in a timely manner. As at March 31, 2011, Royal Host had franchise accounts receivable of \$925 (December 31, 2010 - \$1,013).

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

(c) Liquidity Risk

Liquidity risk relates to the possibility of insufficient debt and equity capital available to fund operations and to refinance debts as they mature. Royal Host has a mortgage scheduled to mature on October 10, 2011 with \$11,396 due at maturity. Royal Host's planned actions with respect to its liquidity requirements include refinancing maturing debt in whole or part, debt financing on other unencumbered properties and the sale of certain assets. The working capital deficit of \$31,704 consists of marketable securities (\$2,000), accounts receivable (\$5,391), prepaid expenses (\$1,990) and inventories (\$2,434), less bank indebtedness (\$16,511), accounts payable and accrued liabilities (\$12,595) current portion of mortgages (\$12,400), interest accrued on convertible debentures (\$1,936) and obligations under finance leases (\$77).

As at March 31, 2011, Royal Host's mortgages had a weighted average maturity of 1.8 years (December 31, 2010 – 2.0 years) and its convertible debentures had a weighted average maturity of 3.4 years (December 31, 2010 – 3.7 years).

(d) Market Risk

The company has both fixed and floating rate debt resulting in an exposure to interest rate movements. Interest rate risk is continually monitored and managed through limiting the amount of floating rate debt as well as the total amount of debt. As at March 31, 2011, Royal Host had variable interest rate debt of \$16,511 outstanding (December 31, 2010 - \$13,786). Based on Royal Host's March 31, 2011 level of variable interest rate debt, a 1% change in interest rates would change the net loss by \$165 (Three months ended March 31, 2010 - \$nil).

Royal Host has certain exposures to fluctuations in market prices of its financial instruments, specifically the marketable securities, convertible debentures and, in periods prior to 2011, liability for trust units. Historical movements and volatilities in these market variables may significantly increase or decrease the value of Royal Host's financial instruments. Based on Royal Host's knowledge and experience of the financial markets, Royal Host believes the following movements are "reasonably possible" over a 12 month period. Fluctuations in market prices over the amounts presented below are possible. The information provided below is for presentation purposes only and does not represent an estimate of expected volatility in its financial instruments. Other price risk represents the risk of an increase or decrease in the trading price of marketable securities listed on the TSX.

If these movements were to occur, the impact on the consolidated statements of net loss and comprehensive loss would be as follows:

		Other Price Risk	
		(+10%)	(-10%)
	Carrying	Other	Other
	Amount	Comprehensive	Comprehensive
		Income	Income*
Available-for-sale			
Marketable securities	\$2,000	\$200	\$200

* - assuming no impairment

22. SEASONALITY

The hospitality industry is seasonal in nature and the periods during which individual properties experience higher demand vary depending primarily on location. While Royal Host's revenue is typically higher in the second and third quarters of the fiscal year, as compared to the first and fourth quarters, several of the company's costs, including property taxes, depreciation, interest and utilities do not vary significantly by quarter. As a result, profitability of Royal Host can vary significantly from quarter to quarter.

Royal Host Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010

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

23. COMMITMENTS AND PROVISIONS

Operating lease commitments

Royal Host has operating lease commitments related to furniture, fixtures and equipment. At March 31, 2011 future minimum annual lease payments are as follows:

	\$
2011	380
2012	474
2013	406
2014	388
2015	312
	1,960

Other commitments

Under the terms of the hotel franchise agreements expiring at various dates through July 12, 2022, annual payments for franchise expenses (including fees, reservation and advertising services) are due to franchise brands for 29 of the 31 hotels owned by Royal Host (2010 - 29 of the 31 hotels). The franchise expenses paid to external parties are calculated based upon percentages of defined revenue.

24. SUBSEQUENT EVENTS

On May 4, 2011, there was a fire at the company's Orillia property. The building had previously been decommissioned and the company maintained insurance coverage.

On May 26, 2011, the company completed a private placement from treasury of 170,000 common shares of Royal Host to Mr. John Carnella, President and Chief Executive Officer of the company, at a price of \$1.48 per common share for aggregate proceeds to the company of \$252. On the same date the company announced the issuance of 170,000 incentive stock options to Mr. Carnella at an exercise price of \$1.48 per common share. The stock options have a five year term with a three year vesting period.

ROYAL HOST INC.

March 31, 2011

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2011

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Royal Host Inc. ("Royal Host" or "the Company") for the three months ended March 31, 2011 compared with the three months ended March 31, 2010. This interim MD&A should be read in conjunction with the information disclosed within the unaudited, consolidated financial statements and notes thereto for the three months ended March 31, 2011. This interim MD&A is prepared as at June 3, 2011 (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 29 to 34 of the Company's Annual Information Form ("AIF") dated as of March 31, 2011 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-IFAS measures (measures that are not calculated or presented in accordance with IFAS). Because these measures are not defined under IFAS, 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 IFAS when assessing Royal Host's financial performance. However, the Company believes these measures are useful in supplementing the reader's understanding of the Company's performance.

This interim MD&A includes the following non-IFAS measures: Revenue per Available Room ("RevPAR"), Average Daily Rate ("ADR"), Occupancy, Hospitality Gross Margin, Cash Flows Provided by Continuing, Discontinued and Total Operations, Funds from Operations and Adjusted Funds from Operations.

Management and the Board of Directors 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 Company'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 Company. 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 Company'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

This MD&A reflects the Company's adoption of IFRS effective from January 1, 2010, with information for 2010 being restated from that which was previously issued under Canadian GAAP. Periods prior to January 1, 2010 have not been restated.

During the first quarter of 2011, revenue increased compared to the prior year as a result of improved occupancy, primarily in Ontario where the majority of Royal Host's properties are located. In the quarter, Royal Host:

- Generated overall Occupancy of 53.2% (2010 – 50.0%), Average Daily Rate of \$97.04 (2010 - \$97.11) and Revenue per Available Room of \$51.61 (2010 - \$48.60).
- Generated \$2,884 of hospitality gross margin (2010 - \$2,890) from \$21,702 of hospitality revenue (2010 - \$20,741);
- Converted to a Corporation effective January 1, 2011 following approval by unitholders on December 15, 2010 for the plan of arrangement to create Royal Host Inc.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – KEY CHANGES

Royal Host has presented its financial results for the first quarter of 2011 and the comparative prior period in accordance with IFRS.

IFRS is based upon a conceptual framework similar to Canadian GAAP; however, there are significant differences in the recognition, measurement and disclosure requirements for certain accounting areas. The key changes in accounting policies due to the initial adoption of IFRS were outlined in the MD&A for the year ended December 31, 2010. The following list captures certain key changes under IFRS:

PROPERTY AND EQUIPMENT

Royal Host has selected the cost model to account for the property and equipment at its hotels, and has elected under IFRS 1 to record its land, building and building components on January 1, 2010 (the Transition Date) at fair value. Royal Host has also further componentized its property and equipment. Depreciation and amortization expense has increased from the depreciation and amortization expense reflected under Canadian GAAP due to; (1) the fair value increase for certain hotel properties on the Transition Date; and (2) useful lives of many of the components are shorter than under Canadian GAAP.

CLASSIFICATION OF ROYAL HOST TRUST UNITS

Prior to January 1, 2011 Royal Host was a Trust entity with its Trust Units listed on the TSX. Under Canadian GAAP, Royal Host's Trust units were presented as equity. Under IFRS, a component of a trust unit is considered a financial instrument, where a liability arises due to a contractual obligation to deliver cash or another financial asset to another entity. Prior to January 1, 2011, the mandatory requirement to distribute taxable income under the Declaration of Trust constituted a contractual obligation. The components of the Trusts' units representing the future distribution obligation are presented as a financial liability under IFRS. This component is measured at fair value with any related gains and losses recognized on the consolidated statement of net loss and comprehensive loss. As the fair value of the future distribution obligation cannot be reliably measured separately from the Trust's units, the entire Trust unit is considered a financial liability measured at fair value, with any related gains and losses recognized on the consolidated statement of net loss and comprehensive loss.

At the Special Unitholders' meeting on December 15, 2010, Unitholders voted to convert Royal Host to a Corporation effective January 1, 2011. As a result, the share capital of Royal Host Inc is presented as equity from January 1, 2011 forward. For January 1, 2010 through December 31, 2010, Royal Host's trust units are presented as a liability on the consolidated statement of financial position and distributions to Unitholders are reflected as distribution expenses with any unrealized change in the fair value of the trust units recognized on the consolidated statements of net loss and comprehensive loss at each reporting date in 2010.

DISCONTINUED OPERATIONS

The definition of discontinued operations under IFRS is more restrictive than under Canadian GAAP. While disposals of an individual hotel property constituted a discontinued operation under the Canadian GAAP standards, IFRS mandates that only significant operations, such as a major line of business or geographical area of operation, meet the IFRS requirements to present the results as discontinued operations. This different treatment under IFRS resulted in the reclassification of amounts previously reported as discontinued operations to continuing operations in Royal Host's comparative consolidated statement of net loss and comprehensive loss, affecting net loss before income taxes in 2010, but not net loss.

SELECTED FINANCIAL INFORMATION

Highlights of the consolidated statement of net loss and comprehensive loss for the three months ended March 31, 2011 compared to the comparative period are as follows:

(\$000's, except as otherwise noted)	Three months ended March 31	
	2011	2010
Hospitality Revenue	21,702	20,741
Hospitality Expenses	18,818	17,851
Hospitality Gross Margin ⁽¹⁾	2,884	2,890
Hospitality Gross Margin % ⁽¹⁾	13.3%	13.9%
Investment Income	2	4,532
Finance Costs	3,558	5,712
Other Expenses	4,291	5,068
Income Tax Recovery	368	1,200
Net Loss	(4,595)	(2,158)
Basic Per Unit Net Loss (\$)	(0.26)	(0.12)
Weighted Average Number of Shares Outstanding (000's)	17,505	18,218
Number of Shares Outstanding, as at March 31 (000's)	17,427	18,206
Closing Share Trading Price, as at March 31 (\$)	1.65	2.80

As at June 3, 2011, Royal Host had 17,676,878 shares outstanding.

⁽¹⁾ Items represent non-GAAP financial measures.

Hospitality Revenue

Hospitality revenue for the three months ended March 31, 2011 increased by \$961 to \$21,702 from \$20,741 for the comparable period in the prior year, primarily due to increased occupancy. Room revenue increased by \$1,002, or 6.2%, due to an increase in occupancy and ADR was flat on a year over year basis. Food and beverage revenue derived from restaurants, lounges, banquets and room service, increased \$123 or 3.7% over 2010 due to increased occupancy at the hotels. Franchising and management revenue decreased \$79 to \$335 from \$413 in 2010 largely due to the replacement of Royal Host as manager at certain hotels previously managed by Royal Host. Tenant income was up 5.9% to \$305 in 2011 as a result of additional leases at certain hotels while Other Revenue, consisting of cancellation fees, parking charges, telephone, movie and facility usage fees dropped \$102 to \$500 for the quarter as the result of decreased parking lot usage.

Hospitality Expenses

Hospitality expenses for the three months ended March 31, 2011 increased by \$967 to \$18,818 (2010 - \$17,851) primarily due to increased payroll and increased utilities expenses. Payroll was negatively affected by workers compensation claims and increased staffing from higher occupancy rates. Utilities expense increased as a result of increased rates in both Alberta and Ontario along with colder temperatures in 2011 compared to 2010.

Investment Income

Total investment income in the first quarter of 2011 of \$2 was lower than 2010 when income of \$4,532 was recorded as a result of substantial investment sales.

Finance Costs

Financing costs decreased by \$2,154 in 2011 compared to the same period in 2010. Of this decrease, \$741 is due to a reduction in mortgage interest for the period as the Company significantly reduced outstanding mortgages in 2010 by paying down principal as it came due. The remaining reduction is due to IFRS accounting treatment of Trust Units as debt in 2010 with corresponding distributions on the trust units recorded as a finance charge. Following the conversion to a corporation effective January 1, 2011, the Company's trust units became common shares and meet the requirement for equity classification under IFRS; therefore, any future dividend payments will remain a direct charge to equity as opposed to an expense on the consolidated statement of net loss and comprehensive loss.

Other Expenses

Other Expenses totaled \$4,291, a decrease of \$777 from the 2010 level of \$5,068. Corporate administration expenses declined \$150 as compared to the prior year primarily due to decreased corporate payroll expense. Depreciation and amortization expense decreased \$627 in the quarter primarily because certain intangibles were fully amortized in 2010 with no comparable charges in 2011.

Income Tax Recovery

The Company recognized an income tax recovery of \$368 in 2011 a decrease of \$524 from the 2010 recovery of \$1,200. The decrease was the result of a decrease in deductible temporary differences in the Company's depreciable capital assets.

Other Comprehensive Loss

The Company recognized an other comprehensive loss for the three months ended March 31, 2011 of \$28 (2010 - \$7,183). The 2011 loss represents the unrealized loss in market value of

investments held at March 31, 2011. The 2010 loss was mainly attributable to the reclassification out of other comprehensive income of unrealized gains recognized in prior periods that were realized in that quarter from the sale of certain investments.

Summary of Quarterly Financial Results

(\$000's, except as otherwise noted)	2011 Q1	IFRS Reporting				Canadian GAAP		
		Q4	2010		Q1	2009		
			Q3	Q2		Q4	Q3	Q2
Revenue	21,702	22,522	24,634	24,371	20,741	22,746	25,196	23,971
Income (Loss)								
From Continuing Operations	(4,595)	(5,421)	(1,593)	2,558	(2,158)	1,151	(2,223)	1,128
From Discontinued Operations	-	-	-	-	-	17	121	(92)
	(4,595)	(5,421)	(1,593)	2,558	(2,158)	1,168	(2,102)	1,036
Per Unit Results (\$)								
Income (Loss) from Continuing Operations								
Basic	(0.26)	(0.30)	(0.08)	0.14	(0.12)	0.06	(0.11)	0.06
Diluted	(0.26)	(0.30)	(0.08)	0.10	(0.12)	0.06	(0.11)	0.06
Income (Loss) from Total Operations								
Basic	(0.26)	(0.30)	(0.08)	0.14	(0.12)	0.06	(0.10)	0.06
Diluted	(0.26)	(0.30)	(0.08)	0.10	(0.12)	0.06	(0.10)	0.06

Royal Host is a diversified hospitality company that delivers Shareholder 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 Company's hotel portfolio is further enhanced by a stable franchising business and units that it holds in a publicly-traded hospitality trust.

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	1,253	33.8	3	209	5.7	4	415	11.2	16	1,877	50.7
Country Inns & Suites®	-	-	-	1	64	1.7	3	228	6.1	4	292	7.8
Independent	1	256	6.9	-	-	-	1	129	3.5	2	385	10.4
Hilton®	1	323	8.7	-	-	-	-	-	-	1	323	8.7
Super 8®	2	159	4.2	-	-	-	2	132	3.6	4	291	7.9
Holiday Inn®	2	254	6.9	-	-	-	-	-	-	2	254	6.9
Best Western®	-	-	-	-	-	-	1	159	4.3	1	159	4.3
Ramada®	1	124	3.3	-	-	-	-	-	-	1	124	3.3
	16	2,369	63.9	4	273	7.4	11	1,063	28.7	31	3,705	100.0
Full Service	8	1,590	67.1	-	-	-	2	288	27.1	10	1,878	50.7
Limited Service	8	779	32.9	4	273	100.0	9	775	72.9	21	1,827	49.3

The Company's hotel portfolio of mostly mid-scale and select service hotel properties is diversified geographically among seven provinces and territories within Canada and derives its revenues from numerous customer segments. The majority of the Company's hotels derive the bulk of their revenue from corporate and leisure segments; they depend less on the group segments as they are generally not configured with significant meeting space. Approximately 75% - 80% of the Company's room revenue is derived from corporate and leisure transient room nights with the remainder derived from group business.

Revenue

31 hotels / 3,705 rooms	Three months ended March 31		
	2011	2010	Variance
Room revenue	\$17,154	\$16,152	1,002
Food and beverage	3,408	3,285	123
Franchise and management	335	414	(79)
Tenant income	305	288	17
Other revenue	500	602	(102)
Total revenue	<u>21,702</u>	<u>20,741</u>	<u>961</u>

Key Performance Drivers and Measures

RevPAR, Occupancy and ADR

Revenue generation remains a key priority in 2011. The managers of Royal Host's hotels continue to devote substantial resources and attention to maintaining and growing market share and revenue, stimulating demand through local, regional, national and international sales and marketing initiatives.

The hospitality industry and hotel real estate investment companies commonly use three lodging statistics as key performance indicators:

- **RevPAR**, which combines pricing levels with 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 room revenue for the period by the number of rooms available during the 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 occupied guest rooms and is calculated by dividing total room revenue by the number of rooms rented in a given period.

31 hotels / 3,705 rooms	Three months ended March 31, 2011			Three months ended March 31, 2010		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Region						
Ontario	54.7%	\$94.94	\$51.90	50.0%	\$96.00	\$47.98
Western	52.1%	\$103.72	\$54.01	50.8%	\$101.87	\$51.75
Atlantic	44.6%	\$89.39	\$39.90	47.8%	\$87.77	\$41.94
Total	53.2%	\$97.04	\$51.61	50.0%	\$97.11	\$48.60

Occupancy has been calculated including all available room nights at the Company's hotels; available room nights have not been adjusted to exclude rooms/room nights unavailable during renovations

ONTARIO

RevPAR increased 8.2% in Ontario compared to the prior year driven primarily by improvements at many of the Company's full service properties. Properties in Belleville, Toronto, London and Thunder Bay all improved markedly over the prior year although in many cases this improvement is coming off the cyclical, multi-year lows of 2010. Results in Ottawa were mixed and were challenged by the federal election which depressed government business. RevPAR at the Company's select service properties, which tend to be located in smaller markets, was mixed in the first quarter of 2011.

WESTERN

Overall, quarterly RevPAR at the Western properties increased 4.4% as the result of higher occupancy and higher average rate. The improvement was led by the Yellowknife Inn which continues to capture market share and improve rate following a renovation that was completed in 2009. The Company's Calgary property posted improved results over the prior year and several select service properties also improved in comparison to 2010.

ATLANTIC

RevPAR in the Company's four Atlantic Canada properties was down 4.9% compared to the prior year almost entirely due to poor results at the Saint John property which was negatively impacted by the delayed start to several large construction projects in the area.

Funds From Operations and Adjusted Funds From Operations

Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) are non-GAAP measures commonly used by hotel and real estate industries. The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results of Royal Host.

The REALpac FFO definition does not capture the impact of classifying Royal Host's Unitholders equity as a liability for the comparative period (for 2010 only as Royal Host converted to a corporation on January 1, 2011). As a result, Management has presented an updated FFO for 2010 which adds back the distributions expense and the unrealized fair value loss on trust units liability during the comparative period.

Funds From Operations and Adjusted Funds From Operations

(\$000's, except as otherwise noted)	Three months ended March 31,	
	2011	2010
Cash Flows From Operations	(1,147)	(6,124)
Gain on Available-For-Sale Securities	-	10,681
Distribution Expense	-	1,365
Accretion on Mortgages and Capital Leases	(37)	(40)
Accretion on Convertible Debentures	(301)	(290)
Funds From Operations	(1,485)	5,592
Provision for Capital Replacement	(822)	(777)
Adjusted Funds From Operations	(2,307)	4,815
Per Unit Funds From Operations (\$)		
Basic	(0.08)	0.31
Diluted ⁽¹⁾	(0.08)	0.17
Per Unit Adjusted Funds From Operations (\$)		
Basic	(0.13)	0.26
Diluted ⁽¹⁾	(0.13)	0.16

⁽¹⁾Based on a weighted-average number of shares outstanding of 17,505,295 (2010 - 47,621,567). In 2011 all the convertible bonds are anti-dilutive whereas in 2010 the same bonds were dilutive adding to the outstanding amount.

For the three months ended March 31, 2011, the Company recorded Funds from Operations of negative \$1,485 (2010 - \$5,592). The decrease in 2011 is due primarily to realized gains on available-for-sale securities from the sale of certain investments in 2010 that were not repeated in 2011.

Adjusted Funds from Operations for the three months ended March 31, 2011 were negative \$2,307 (2010 - \$4,815).

The following table illustrates the components of cash flows from operations.

CASH FLOWS FROM OPERATIONS

(\$000's, except as otherwise noted)	Three months ended March 31,	
	2011	2011
Hospitality Gross Margin	2,884	2,890
Interest Income	2	264
Other Expenses(1):		
Corporate Administration	(628)	(778)
Interest on Mortgages and Capital Leases (1)	(959)	(1,697)
Interest on Convertible Debentures (1)	(2,261)	(2,321)
Distributions expense	-	(1,365)
Income tax expense (1)	(185)	-
	(1,147)	(3,007)
Net changes in non-cash working capital	-	(3,117)
CASH FLOWS FROM OPERATIONS	(1,147)	(6,124)

⁽¹⁾ Excluding items not affecting cash.

During the first quarter of 2011, Royal Host's operations generated negative cash flow of \$1,147, representing an improvement of \$1,860 from 2010. This improvement is primarily the result of lower interest costs and the classification of distributions as an expense in 2010 with no charge in 2011.

For the three months ended March 31, 2011, changes in non-cash working capital generated nil of cash flow compared to \$3,117 utilized in the same period in 2010, mainly due to a decrease in accounts receivable and prepaid expenses and an increase in accounts payable and accrued liabilities in the three months ended March 31, 2011 versus the same period in 2010.

Dividends - Distributions to Unitholders

On January 1, 2011 Royal Host converted to a corporation. In March, 2011 the Company announced that the Board of Directors had decided to not pay a dividend in the first quarter of 2011. During the first quarter of 2010, as a Trust, a monthly distribution of \$0.025 per trust unit was paid totaling \$1,365 for the quarter. Under IFRS accounting standards, the trust unit distributions paid in 2010 are classified as a finance cost on the consolidated statement of net loss due to the classification of trust units as a long term liability.

Royal Host reviews dividend payments on a quarterly basis 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 Company's revenue is typically higher in the second and third quarters, as compared to the first and fourth quarters, several of the Company's costs, including property taxes and interest, are fixed and other costs, such as payroll and utilities, are largely fixed. Consequently, profitability and cash flow varies significantly from quarter to quarter.

Liquidity and Capital Resources

The Company's principal sources of funds to satisfy cash requirements are cash flows from hospitality operations, its credit facility, proceeds from sales of property and equipment, additional borrowing on unencumbered assets and liquidations from its portfolio of marketable securities.

At March 31, 2011, Royal Host had undrawn credit facilities of \$962 (December 31, 2010 - \$4,624), marketable securities of \$2,000 (December 31, 2010 - \$1,886), and access to potential additional borrowing on its nineteen unencumbered properties. At March 31, 2011, the Company was engaged in negotiations with prospective purchasers of certain of its hotels. The negotiations continue, but remain preliminary and may not result in completed sales. To the extent that sales are completed, Royal Host will use the proceeds primarily to repay indebtedness and to fund investment in its hotel portfolio.

As at March 31, 2011, the Company also had restricted cash of \$1,307 (December 31, 2010 - \$1,133) in the form of funds held by lenders pursuant to financing arrangements for future planned capital expenditures.

Capital Structure

As at March 31, 2011, mortgages and convertible debentures had an aggregate carrying value of \$188,884 (December 31, 2010 - \$188,863). Principal outstanding at March 31, 2011 totaled \$193,736 (December 31, 2010 - \$194,186). The Company had also drawn \$16,511 of its \$25,000 credit facility which is subject to a maximum availability at March 31, 2011 of \$17,473.

Mortgages

As at March 31, 2011, the carrying value of the Company's mortgages was \$44,031 (December 31, 2010 - \$44,311). The carrying value reflects total outstanding principal of \$44,242 (December 31, 2010 - \$44,544) less \$211 of debt issuance costs (December 31, 2010 - \$233). The \$280 decrease in carrying value during the year is attributable to the accretion of debt issuance costs of \$35 and \$315 of scheduled mortgage principal repayments made during the three months ended March 31, 2011.

The Company has one mortgage with a current outstanding balance of \$11,602 coming due within the next 12 months. The mortgage is due in October 2011 and is secured by the Toronto Airport property. The Company is evaluating options which include refinancing in whole or in part or repaying the mortgage with proceeds from the sale of properties currently listed for sale.

MORTGAGE MATURITIES

As at March 31, 2010	Principal Outstanding (\$000's)	Interest Rate	Security
October 2011	11,602	8.46%	1 hotel property
March 2013	4,739	8.50%	2 hotel properties
June 2013	20,685	6.82%	2 hotel properties
October 2013	<u>7,216</u>	7.37%	1 hotel property
Total	44,242		

As at March 31, 2011, the Company has nineteen operating hotel properties which have not been directly pledged as mortgage security.

The Company has a secured revolving credit facility with a maximum availability which is dependant on a valuation test. At March 31, 2011, the maximum availability of the facility was \$17,473 of which \$16,511 was drawn. The facility is secured by six hotel properties with interest on the outstanding amount accruing at the bank's prime lending rate plus a spread of 0.25% to 1.75% per annum.

Related Party Transactions

At March 31, 2011, Clarke Inc. owned approximately 5.294 million (approximately 30%) of Royal Host's issued and outstanding shares and, as such, is a related party.

During the three months ended March 31, 2011, the Company incurred professional and management fees totaling \$53 (2010 - \$1,407) for services provided by Clarke Inc.

Subsequent Events

Subsequent to the quarter ending March 31, 2011, Royal Host appointed Mr. John Carnella as President and CEO. Following Mr. Carnella's appointment, the Company completed a non-brokered private placement offering with Mr. Carnella for 170,000 shares at 1.48 per share for total proceeds of \$252. Proceeds from the private placement will be used for general corporate purposes.

On May 4, 2011 there was a fire at the Company's property in Orillia, Ontario causing extensive damage to the building structure. The hotel had been decommissioned in 2008 and the property classified as property under development. The Company had insurance coverage in place on the property and is working with the provider to complete a claim.

Environmental Matters

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

Royal Host regularly reviews its operations and facilities to identify any potential environmental contamination or liability. The property at Orillia has been identified as requiring remediation for certain hazardous building materials that remain within the structure. The total cost of the remediation work is not known at this time. Other than the Orillia property, 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 is in compliance with all relevant environmental laws and regulations. The Company 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 Company 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 Company's disclosure controls and procedures was conducted as of March 31, 2011 by Management under the supervision of the Chief Financial Officer. Based on that evaluation, the CFO concluded that the design and operation of these disclosure controls and procedures were effective as at March 31, 2011.

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 IFRS.

Management, under the supervision of the President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company'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 Company's ICFR were effective as of March 31, 2011.

Key Accounting Policies and Estimates

Note 3 to the consolidated financial statements for the three months ended March 31, 2011 includes a summary of the Company's significant accounting policies.

The application of some of these policies requires the Company to make estimates related to 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 in the future.

Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, the Company has adopted International Financial Reporting Standards (IFRS). Note 2 to the consolidated financial statements for the three months ended March 31, 2011 includes a summary of elective exemptions and reconciliations of equity and comprehensive loss reported under Canadian GAAP and IFRS.

Outlook

The overall increased occupancies that Royal Host enjoyed in the first quarter of 2011 along with industry forecasts for 2011 support the view that the Canadian lodging sector may be through the trough of the most recent downturn in the industry. Royal Host's strategic plan calls for the sale of certain assets and using the proceeds to reduce debt and fund further capital investment in its core holdings.