



THE COMPANY

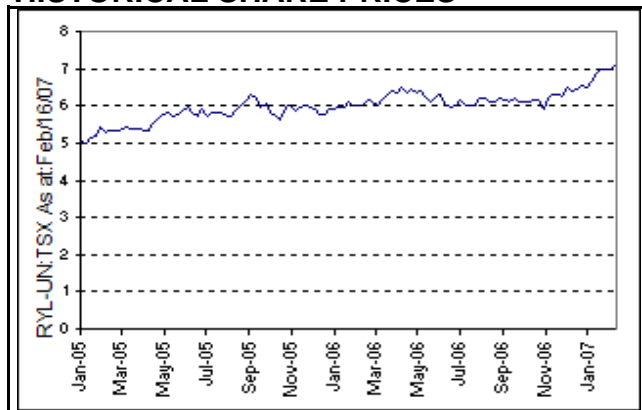
Royal Host Real Estate Investment Trust is a hotel owner and operator. The hotel portfolio consists of 37 properties located across Canada with a total of 5,039 guestrooms. The REIT also has a franchise operation through Travelodge Canada. At the end of 2004, Royal Host had 120 franchise locations. In addition to its core, limited service hotel assets, the Trust operates several resorts, including the Grand Okanagan located in Kelowna, BC.

FINANCIAL DATA

	2002	2003	2004
FFO* (\$)	0.73	0.48	0.58
Price to FFO* (times)	7.53	11.46	9.48
Distribution (\$)	0.72	0.52	0.24
Distribution Yield (%)	13.09	8.73	4.36
Net Asset Value** (NAV) (\$)	7.50	5.90	6.50
Price to NAV (times)	0.73	0.93	0.85

* Funds From Operations, ** Estimated NAV at year end

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT ROYAL HOST

While Royal Host REIT became a public entity in 1998, the Trust can trace its history back to 1974. During that year, the Royer family, who still lead Royal Host to this day, selected Red Deer, Alberta for their first hotel operation. Encouraged by initial success, the Royer family purchased the Travelodge Master Franchise, launched the Grand Okanagan Resort, and ventured into houseboats and other hospitality businesses. Nearly 25 years after they launched their first hotel, the Royer family packaged their various business ventures into what is now known as the Royal Host Real Estate Investment Trust. The issue, with a unit price of \$10, raised \$128,000,000 in equity for the Trust.

As is evident by current unit prices, the last seven years have been anything but smooth for Royal Host. Events such as the September 11th, 2001 terrorist attacks, the subsequent economic recession, and SARS, have all materially impacted Canada's hospitality industry. Royal Host, targeting business travelers with its Travelodge brand, and vacationing families with its numerous resorts, was particularly hit as tourism and business travel declined. Royal Host's cash flow dropped markedly and the Trust was forced to cut distributions two times. Shortly after the terrorist attacks, the Trust cut its distribution from \$0.08 to \$0.06. However, as the SARS unfolded, and Canadian travel virtually stopped, the Trust was unable to gain anticipated post-9/11 traction. Distributions were cut further to \$0.02 a unit.

We believe that Royal Host's units are fundamentally undervalued, and several catalysts have emerged that will unlock unitholder value. The most important development has been management's clear intention to re-focus the Trust back to its core operations – hotel ownership and management. The first stage of this plan is currently being executed. Troubled properties such as the Toronto Travelodge and the Oklahoma marina have been sold. We expect the Trust to announce a withdrawal from its timeshare business in the near future. In a related announcement, the Trust signed a deal with Humphrey Hospitality to expand its hotel management business. Clearly, the Trust is allocating resources to areas within its core competence.

It could be said that Royal Host is currently operating under the shadow of its own history. Many investors and analysts have simply given up on the Trust. The Royer family's disparate assets may have served them well under their private holding company, but the public markets, and specifically REIT investors, favor clarity and purpose. The Trust's recent actions signal that it is transforming itself into such a vehicle.

With a renewed focus – and greater margins – we see potential for distribution increases. In fact, Royal Host increased its monthly distribution from \$0.02 to \$0.03 in January '05. Even with this increase, the Trust's payout ratio is still well below its peer group. The Trust's payout ratio is 53.7% and 66.7% on a FFO and AFFO basis, respectively. The REIT sector's average FFO payout ratio is 78.3% and the current AFFO payout ratio is 97.8% (Source: BMO Nesbitt Burns). After an intensive capital expenditure program throughout 2002 and 2003, future cap ex will focus mostly on maintenance programs. As free cash flow begins to approach historical levels, a \$0.48 annual distribution is not out of the question.

WHY ABC FUNDS BOUGHT ROYAL HOST (cont'd)

An estimated book value of \$5.00 will provide a floor for Royal Host. It must be emphasized that the reclassification of Royal Host's convertible debentures will probably change this value. Net asset value (NAV), the key figure to focus on, is conservatively estimated at \$6.50. Given the current appetite for real estate properties from pension funds, institutional real estate investors, and private equity funds, Royal Host's NAV could be closer to \$7.00. Royal Host agrees that its current unit price does not reflect fair market value. On December 16th, 2004, the Trust announced a normal course issuer bid to purchase up to 1,200,000 of its outstanding units.

The other catalyst on the horizon for Royal Host is the presence of Geosam Investments, the private investment firm controlled by George Armoyan. Mr. Armoyan has a history of buying large stakes in undervalued companies – and then either taking them out entirely or convincing management of new strategic alternatives. For example, on August 13th, Geosam announced a 10% stake in Consolidated Properties Ltd. One month later, Geosam announced an all cash offer for Consolidated (in the end, a white knight, Aspen Properties, took Consolidated private for a 51% premium). Geosam Investments currently owns 19.7% of Royal Host.

With divestitures, acquisitions, and strategic changes, the road will not be smooth. However, given the above catalysts, and its current discount to NAV, we feel that Royal Host's unit price should improve over time.

ABC Funds
April 22, 2005

UPDATES

On May 11th, Royal Host held its Annual General Meeting (AGM) for investors and analysts. Annual meetings are usually platitudinous events; senior executives, after reviewing the prior year's happenings, give a vague, optimistic forecast for the current calendar year. Subsequent to this overview is the election of the Board. The list of nominees presented on the Corporation's proxy is usually elected without discussion. Indeed, in today's world of email, real-time news, and increased corporate disclosure, AGMs are increasingly becoming mere formalities.

Royal Host's AGM proceeded along this agenda as planned – until the election of the Board was tabled. In a dramatic turn of events, three long-serving Royal Host Board members were unexpectedly replaced with three representatives of George Armoyan's Geosam Investments. Before the meeting, George Armoyan was Geosam's sole representative on Royal Host's Board of Directors. With three new representatives, Geosam now effectively controls half of Royal Host's Board, giving it significant influence with respect to the future direction of the Trust. During Royal Host's first quarter conference call on May 12th, Greg Royer, President & CEO, welcomed the new Directors enthusiastically, saying their presence gives the Trust a more "focused" direction.

We purchased Royal Host units because we feel that the current unit price does not reflect the fundamental value of the Trust's nation-wide Travelodge franchise, premier resorts & hotels, and expanding hotel management business. As outlined in our first Royal Host commentary, we feel Royal Host's true net asset value (NAV) is approximately \$6.50. Furthermore, Geosam's 19.8% interest was a clear sign that a catalyst had arrived and that the Trust's underlying value would be unlocked sooner rather than later. With these latest developments, we expect Royal Host's repositioning will only be accelerated.

ABC Funds
May 20, 2005

On August 15th, Royal Host announced its operating performance for the first six months of the 2005 fiscal year. The Trust's core businesses performed well amidst a rebounding hospitality industry. During the second quarter, revenue per available room (RevPAR) improved by \$2.30 to \$65.12, with the year-to-date figure coming in at \$58.51. The REIT continues to focus on bottom line improvements; gross margin improved by 14% when compared to the same period in 2004. With these improved results, and a positive outlook, Royal Host increased its monthly distribution by 17% to \$0.035 from \$0.03 per unit. We would not be surprised to see another distribution increase in the first quarter of 2006.

Royal Host's franchise operations and hotel management business, classified as "other hospitality revenue" grew by 15% year-over-year. This line item is often overlooked as it only accounts for approximately 10%-15% of the Trust's revenue. However, franchise operations and hotel management revenues flow directly to the Trust's bottom line. The Trust's management contract with US-based Supertel Hospitality is a key driver of net income. Due to the fixed-cost nature of its management business, incremental fees generated from its Supertel contract provide powerful leverage to Royal Host's bottom line.

While Royal Host's operations exceeded expectations, the Trust's corporate finance decisions tell a much more compelling story. Armed with its growing cash position (as of June 30th the Trust had \$8,000,000 on its balance sheet), Royal Host

UPDATES (cont'd)

continues to execute its two outstanding Normal Course Issuer Bids. The first Issuer Bid, announced December 2004, allows the Trust to purchase 1,200,000 units. Between January 1st and June 30th, Royal Host purchased 100,000 units at an average cost of \$5.41. During the Q2 conference call, Greg Royer, the Trust's CEO, stated that at this time purchasing units is the most accretive option facing Royal Host. In other words, Mr. Royer feels that current unit prices do not reflect the Trust's true net asset value (NAV), and continues to buy back stock at these levels. The second Issuer Bid, announced in July 2005, allows the Trust to purchase \$2,000,000 of its 9.25% convertible debentures. To date, Royal Host has not purchased any convertible debentures, citing that buying units is more accretive.

We continue to believe that Royal Host's true NAV is north of \$6.50. While most investors and analysts focus on Royal Host's Travelodge hotel operation, and value the Trust using cap rates between 9.50% and 10.50%, it is important to note that 70% of the Trust's income is derived from just 14 hotel properties. These 14 properties, like the Grand Okanagan in Kelowna and the Toronto Travelodge, are typically discounted using cap rates between 8.00% and 9.00% (based on recent private market transactions). In addition, we believe the Trust has excess land that could be sold, used for hotel expansion, or condo development. We believe these hidden assets will be surfaced within the next twelve months.

ABC Funds
August 19, 2005

For the 2005 fiscal year, Royal Host recorded improved results in all areas of its business. Revenue of \$144.3 million, the highest in the Trust's history, represents an increase of 4% over last year. Looking at the Trust's key hotel operating numbers, RevPAR and ADR increased by 3.6% and 3.9%, respectively. Royal Host's dual focus on core operations and cost control has translated into strong gains in income and cash flow. The 2005 gross margin of 29%, a 9% increase over 2004, approached the historical high of 32% reached in 2002. Cash available from operations rose 43% to \$0.70 per unit. As a result of these impressive numbers, the Trust's annual distribution has been raised by 14% to \$0.48 per unit. Assuming continued strong performance in 2006, distributions could easily rise to \$0.55 - \$0.60 per unit.

Looking at 2006, the Trust could pursue opportunities to take advantage of record hotel valuations. During the Trust's year-end conference call, Greg Royer, the Trust's CEO, commented that capitalization rates are the lowest he's seen in quite some time – especially for limited service hotels (e.g. Travelodge and Thriftlodge). It is interesting that Royal Host is the only TSX listed REIT with an implied capitalization rate north of 10%, despite the fact that Mr. Royer sees several limited service properties selling below this number. Indeed, Mr. Royer could look to sell these properties at record prices to narrow the gap between the Trust's current market value and what he sees to be the Trust's true intrinsic value. When these potential asset sales are coupled with the expected windfall from the completion of the Royal Private Residence Club, development projects, and a generally improving hotel industry, we see many catalysts that will drive the units to what we believe is a net asset value of approximately \$7.00.

ABC Funds
April 7, 2006

On June 19th, Royal Host's CEO, Greg Royer, announced his intention to resign from the Trust effective August 31st. In addition, Terry Royer announced that he will resign as Trustee effective immediately. With these two surprising resignations, the three founding members of Royal Host are no longer involved in day-to-day operations.

Naturally, the sudden departure of the two remaining Royer brothers leads to speculation regarding the future direction of Royal Host. It is no secret that George Armoyan has been shopping the REIT and, as a self-described activist investor, is keen on finding a suitable exit strategy. Backed by Mr. Armoyan's financial expertise and access to capital markets, Greg Royer and his team have done much to turn around the REIT since 2003. We believe that there are three tasks remaining for Mr. Armoyan before another REIT or private entity purchases Royal Host: the completion of the Royal Private Residence Club, the redemption of outstanding convertible debentures, and the sale of non-performing assets. Given that all three of these tasks are scheduled to be completed by the end of the year, Royal Host is well positioned as a consolidation candidate.

ABC Funds
June 23, 2006

On November 9th, Royal Host reported results from its first full quarter under the leadership of new President Mike Jackson. The Trust's core business continues to benefit from healthy industry conditions. Year-to-date revenue, at \$113.7 million, is 4% higher than last year. Revenue per available room (RevPAR) increased 2.8% due to higher room rental rates. Adjusted funds from operations (AFFO) for the first nine months was \$25 million compared to \$20 million for the same period last year. As a result of its strong performance, the Trust increased its annual distribution by 25% to \$0.60/unit from \$0.48/unit.

UPDATES (cont'd)

During the quarter, Royal Host continued its initiatives outlined earlier in the year to increase shareholder value. As expected, the Trust recognized a one-time \$8.7 million profit from the completion of the Royal Private Residence Club. Royal Host continues to refine its capital structure. The Trust purchased 542,200 units during the third quarter at an average cost of \$6.10. A total of 2.3 million units have been repurchased since the Trust's normal course issuer bid was announced in 2005. On the debt side, over \$2 million worth of high-interest convertible debentures have been repurchased since 2005. As of September 30th, Royal Host had \$90 million in cash and short term investments. When these initiatives are coupled with the fact that Royal Host is one of only a handful of Canadian REITs that trade below their net asset value, we believe the Trust is an excellent consolidation or privatization candidate.

ABC Funds

November 10, 2006

Over the last year, George Armoyan has initiated several measures that have transformed Royal Host from the ugly duckling of Canada's lodging sector into a nimble, cash rich hotel operator. As we noted in our previous updates, selling non-core assets, buying units below net asset value, and freeing up encumbered assets have done much to unlock Royal Host's value. As a result of these efforts, Royal Host's unit price has recovered from a low of \$4 to over \$7 today. We believe, however, that Royal Host's unit price now trades close to our estimate of the portfolio's net asset value.

As we mentioned in our Legacy Hotel REIT update last week, amidst the excitement towards the hotel industry, we see reasons to take a more cautious stance. It is interesting to see the same investors who shunned the hotel industry two years ago are jumping back in with more enthusiasm than ever. Capitalization rates have plummeted as investors compete more and more for limited industrial, office, and hotel assets. In many cases, cap rates fall below the cost of capital. The bottom line is that real estate is no longer undervalued and, as a result, is now priced for perfection. There is no margin for error.

We have always thought that Royal Host could be a takeout candidate for a private investor or competitor. With the heavy lifting largely done, now is the time for a buyer to emerge. However, with the units now close to net asset value, we see greater opportunities elsewhere. In consequence, we have sold our units to redeploy the proceeds in other equities.

ABC Funds

February 16, 2007