

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the six months ended June 30, 2000 and 1999

(unaudited)

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheets
\$000 (unaudited)

	As at	
	June 30	December 31
	2000	1999
ASSETS		
Current Assets		
Cash and short-term investments	3,453	7,291
Accounts and notes receivable	10,534	8,055
Other current assets	4,433	3,720
	<u>18,420</u>	<u>19,066</u>
Capital Assets (Note 3)	340,231	347,300
Long-term Notes Receivable and Other Assets	<u>2,847</u>	<u>4,180</u>
	<u>361,498</u>	<u>370,546</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	14,918	12,812
Current portion of mortgages and other debt (Note 4)	116,868	115,547
Distributions payable	1,874	-
Other current liabilities	2,115	3,503
	<u>135,775</u>	<u>131,862</u>
Mortgages and Other Debt (Note 4)	39,293	41,057
Deferred Revenue	1,894	1,446
Equity (Note 5)	<u>184,536</u>	<u>196,181</u>
	<u>361,498</u>	<u>370,546</u>

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Net Earnings (Loss) and Cash Available for Distribution
For the six months ended June 30, 2000 and 1999
\$000 (unaudited)

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Hospitality Revenues		
Rooms	42,028	38,041
Food and beverage	11,234	10,538
Lease and other hospitality revenues	13,248	12,750
	<u>66,510</u>	<u>61,329</u>
Hospitality Expenses	<u>47,059</u>	<u>45,954</u>
Operating Income	<u>19,451</u>	<u>15,375</u>
Other (Income) and Expenses		
Interest income	(22)	(370)
Interest on mortgages and other debt	7,167	6,020
Trust administration	1,300	1,332
Capital and other taxes	(197)	300
Depreciation and amortization	10,732	8,977
	<u>18,980</u>	<u>16,259</u>
Net Earnings (Loss) (Note 2)	471	(884)
Add: Depreciation and amortization	<u>10,732</u>	<u>8,977</u>
Cash Available for Distribution (Note 2)	<u>11,203</u>	<u>8,093</u>

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows
For the six months ended June 30, 2000 and 1999
\$000 (unaudited)

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net Earnings (loss)	471	(884)
Items not affecting cash:		
Depreciation and amortization	10,732	8,977
Cash flows from operations	<u>11,203</u>	<u>8,093</u>
Increase in accounts and notes receivable	(2,479)	(6,442)
Increase in other current assets	(713)	(494)
Increase in accounts payable and accrued liabilities	2,106	9,251
Increase (decrease) in other current liabilities	(1,388)	186
Other changes in non-cash working capital	-	(34)
	<u>8,729</u>	<u>10,560</u>
Financing Activities		
Additions to mortgages and other debt	847	70,195
Principal repayments on mortgages and other debt	(1,290)	(58,867)
Issuance of trust units under distribution reinvestment plan	-	4
Unit issue costs	-	(24)
	<u>(443)</u>	<u>11,308</u>
Investing Activities		
Capital expenditures	(3,332)	(20,660)
Decrease (increase) in long-term notes receivable and other assets	1,002	(2,735)
Increase in deferred revenue	448	-
	<u>(1,882)</u>	<u>(23,395)</u>
Equity Distributions	<u>(10,242)</u>	<u>(11,142)</u>
Net Change in Cash and Short-term Investments	<u>(3,838)</u>	<u>(12,669)</u>
Cash and Short-term Investments, beginning of period	<u>7,291</u>	<u>14,642</u>
Cash and Short-term Investments, end of period	<u>3,453</u>	<u>1,973</u>

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at June 30, 2000 and 1999
(unaudited)

1. GENERAL INFORMATION

Royal Host Real Estate Investment Trust ("Royal Host") was created pursuant to the Declaration of Trust dated August 27, 1997. Royal Host is an unincorporated closed-end mutual fund trust established for the purpose of investing in hotel properties, under specified guidelines as defined under the Declaration of Trust.

2. PER UNIT COMPUTATION

There were 20,267,412 trust units outstanding as at June 30, 2000 (18,830,029 - 1999). Per unit computations are based on the weighted average number of trust units outstanding for the period, after adjusting the net loss and cash available for distribution for payments on the convertible debenture of \$875,000 and payments on the redeemable partnership units of \$1,513,000.

	June 30, 2000		June 30, 1999	
	Basic	Fully diluted	Basic	Fully diluted
Net (Loss) per unit	(0.09)	<i>anti-dilutive</i>	(0.14)	<i>anti-dilutive</i>
Per unit cash available for distribution	0.43	<i>anti-dilutive</i>	0.34	<i>anti-dilutive</i>
Weighted average number of trust units <i>(in thousands)</i>	20,267	N/A	18,830	24,108

Under the Royal Host capital replacement reserve policy, 3% of total hotel revenue is deducted from cash available for distribution to allow for the upkeep and renovation of the hotel properties. This policy may be amended from time to time at the discretion of the trustees. On this basis, the reserve provided for the six months ended June 30, 2000 would have been \$1,727,000 (\$1,585,000.- 1999). As Royal Host has spent \$3,332,000 to date in 2000 to renovate the hotel properties, the trustees have determined that no reserve will be provided in the period ended June 30, 2000.

3. CAPITAL ASSETS

	<i>\$000</i>			
	June 30, 2000		December 31, 1999	
	Gross book value	Accumulated depreciation	Net book Value	Net book Value
Land	37,303	-	37,303	37,303
Building	270,925	22,595	248,330	253,160
Furniture, fixtures, and equipment	34,302	11,314	22,988	24,789
Paving and other	1,167	85	1,082	1,102
	343,697	33,994	309,703	316,354
Properties under development	2,988	-	2,988	1,475
Goodwill	34,276	6,736	27,540	29,471
	380,961	40,730	340,231	347,300

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4. MORTGAGES AND OTHER DEBT

	<i>(in \$000)</i>	
	June 30, 2000	December 31, 1999
Mortgages and other debt secured by hotel properties	156,161	156,604
Less: Current portion	<u>116,868</u>	<u>115,547</u>
	<u>39,293</u>	<u>41,057</u>
	June 30	December 31
Twelve months ending June 30 <i>(in \$000's)</i>		
2001	116,868	115,547
2002	33,421	34,421
2003	2,997	2,056
2004	915	1,982
2005	441	891
Subsequent	<u>1,519</u>	<u>1,707</u>
	156,161	<u>156,604</u>

5. EQUITY

	<i>(in \$000)</i>	
	June 30, 2000 \$000	December 31, 1999 \$000
Balance, beginning of period	196,181	209,079
Net Earnings	471	2,736
Issuance of trust units under private placement		10,006
Issuance of trust units under distribution reinvestment plan		17
Unit issue costs		(68)
Equity distributions on:		
Trust units	(9,728)	(21,883)
Partnership units	(1,513)	(1,946)
Interest paid on convertible debentures	<u>(875)</u>	<u>(1,760)</u>
Balance, end of period	<u>184,536</u>	<u>196,181</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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a) Unit Capital

	Number of units	<i>(in thousands of dollars)</i>
Issued on October 31, 1997	11,000,000	107,024
Issued on November 27, 1997	1,650,000	16,054
Issued on December 11, 1997	<u>464,487</u>	<u>4,644</u>
Balance, December 31, 1997	13,114,487	127,722
Issuance of Special Warrants (subsequently converted)	<u>5,715,000</u>	<u>59,420</u>
Balance, December 31, 1998	18,829,487	187,142
Issuance of trust units under private placement	1,435,530	10,006
Issuance of trust units under distribution reinvestment plan	<u>2,395</u>	<u>17</u>
Balance, June 30, 2000 & December 31, 1999	<u>20,267,412</u>	<u>197,165</u>

b) Distributions to Unitholders

Pursuant to the Royal Host Declaration of Trust, the Trust regularly makes distributions to its unitholders based on net income determined in accordance with the Income Tax Act (Canada) and adjusted by adding back depreciation and amortization, interest expense on installment receipts term loans (net of imputed installment receipt interest income), and excluding capital gains and losses on disposition of properties and funds contributed to the capital reserve.

Cash available for distribution for the period ended June 30, 2000 was \$11,203,000 (1999, - \$8,093,000) and distributions to unitholders aggregated \$9,728,000 (1999 - \$9,415,000) for the same period.

c) Distribution Reinvestment Plan

Royal Host has established a Distribution Reinvestment Plan that is administered by its transfer agent and has reserved 500,000 units for issue under this Plan.

d) Unit Options

Royal Host has reserved 1,883,000 units under its unit option plan. As at June 30, 2000, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 990,000 units (1999 – 962,500 units), ranging from \$10.00 to \$10.50 per unit (in 2000, the weighted average exercise price is \$10.03). These options expire on October 31, 2007 and on March 22, 2008. During 2000, no options were issued or exercised.

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e) Redeemable Partnership Units

As consideration for the purchase of the Royco and RVI businesses, 1,706,998 redeemable partnership units were issued by a partnership managed by a wholly-owned subsidiary of Royal Host. A further 1,444,445 redeemable partnership units were issued effective January 1, 2000, pursuant to a clause in the purchase agreement requiring a minimum level of earnings in the period following the acquisition, which was met by the businesses.

Holders of redeemable partnership units ("Holders") are entitled to receive distributions from the partnership equivalent to the distributions paid by Royal Host to its unitholders, commencing on January 1, 1999. Each partnership unit is redeemable by the Holders after January 1, 2000 at a cash price equal to the market value of a Royal Host unit, or at the option of Royal Host and subject to regulatory approval, one Royal Host unit or a combination thereof.

Under certain circumstances, including a change of control ("Trigger Event"), the Holders have the right to redeem the partnership units for cash proceeds of \$27.5 million. If the Trigger Event occurs after the issuance of the additional redeemable units but prior to January 1, 2004, then the Holders may redeem the then outstanding redeemable partnership units for cash, at the greater of \$9.00 per unit or the market price of the Royal Host units. Change in control is defined as ownership by any one entity or a group of related entities of more than 20% of the outstanding units of Royal Host.

For accounting purposes, the redeemable partnership units have equity characteristics and accordingly, they have been accounted for as such.

f) Convertible Debenture

The convertible debenture bears interest at 8% per annum and is payable monthly, at Royal Host's option, in either cash or in equivalent units of Royal Host. In addition, upon maturity in 2003, Royal Host has the option to repay the debenture in either cash or in equivalent units of Royal Host.

Based on certain conditions, the debenture is convertible at \$10.00 per trust unit to August 31, 2001 or \$11.00 per trust unit for the period from September 1, 2001 to August 31, 2003.

For accounting purposes, the debenture has equity characteristics and accordingly, it is accounted for as such.

6. RECLASSIFICATION

Certain prior year's figures have been reclassified to conform with the presentation adopted for 2000.