

**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

**Consolidated Interim Financial Statements**

**For the nine months ended September 30, 2000 and 1999**

*(unaudited)*

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

	As at	
	September 30 2000	December 31 1999
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and short-term investments	3,708	7,291
Reserved cash ( <i>Note 3</i> )	1,928	-
Accounts and notes receivable	10,041	8,055
Deposits and prepaid expenses	2,630	1,014
Inventories	2,779	2,706
	<u>21,086</u>	<u>19,066</u>
<b>Capital Assets (<i>Note 4</i>)</b>	<b>336,364</b>	<b>347,300</b>
<b>Long-term Notes Receivable and Other Assets</b>	<b>6,161</b>	<b>4,180</b>
	<u>363,611</u>	<u>370,546</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	12,641	12,812
Current portion of mortgages and other debt ( <i>Note 5</i> )	19,265	115,547
Distributions payable	1,874	-
Other current liabilities	1,549	3,503
	<u>35,329</u>	<u>131,862</u>
<b>Mortgages and Other Debt (<i>Note 5</i>)</b>	<b>141,606</b>	<b>41,057</b>
<b>Deferred Revenue</b>	<b>2,124</b>	<b>1,446</b>
<b>Equity (<i>Note 6</i>)</b>	<b>184,552</b>	<b>196,181</b>
	<u>363,611</u>	<u>370,546</u>

*See accompanying Notes to Consolidated Interim Financial Statements*

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

	<u>September 30, 2000</u>	<u>September 30, 1999</u>
<b>Hospitality Revenues</b>		
Rooms	70,906	64,432
Food and beverage	16,942	16,075
Lease and other hospitality revenues	20,695	18,463
	<u>108,543</u>	<u>98,970</u>
<b>Hospitality Expenses</b>	<u>72,753</u>	<u>67,991</u>
<b>Operating Income</b>	<u>35,790</u>	<u>30,979</u>
<b>Other (Income) and Expenses</b>		
Interest income	( 23 )	( 383 )
Interest on mortgages and other debt	11,330	9,367
Trust administration	1,812	1,850
Capital and other taxes	( 151 )	450
Non-recurring acquisition costs	-	2,200
Depreciation and amortization	16,281	13,509
	<u>29,249</u>	<u>26,993</u>
<b>Net Earnings (Note 2)</b>	<u>6,541</u>	<u>3,986</u>
Add: Depreciation and amortization	<u>16,281</u>	<u>13,509</u>
<b>Cash Available for Distribution (Note 2)</b>	<u>22,822</u>	<u>17,495</u>

*See accompanying Notes to Consolidated Interim Financial Statements*

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

	<u>September 30, 2000</u>	<u>September 30, 1999</u>
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating Activities</b>		
Net earnings	6,541	3,986
Items not affecting cash:		
Depreciation and amortization	16,281	13,509
Cash flows from operations	22,822	17,495
Increase in accounts and notes receivable	( 1,986 )	362
Increase in deposits and prepaid expenses	( 1,616 )	( 503 )
Increase in inventories	( 73 )	( 120 )
(Decrease) Increase in accounts payable and accrued liabilities	( 171 )	3,933
(Decrease) Increase in other current liabilities	( 1,954 )	447
	<u>17,022</u>	<u>21,614</u>
<b>Financing Activities</b>		
Additions to mortgages and other debt	847	132,805
Principal repayments on mortgages and other debt	(2,533 )	( 117,731 )
Net proceeds from debt refinancing	3,820	-
Issuance of trust units	-	10,006
Issuance of trust units under distribution reinvestment plan	-	10
Unit issue costs	-	( 24 )
	<u>2,134</u>	<u>25,066</u>
<b>Investing Activities</b>		
Capital expenditures	( 4,920 )	( 26,149 )
Increase in long-term notes receivable and other assets	( 273 )	( 1,539 )
Increase in deferred revenue	678	-
	<u>( 4,515 )</u>	<u>( 27,688 )</u>
<b>Equity Distributions</b>	<u>( 16,296 )</u>	<u>( 17,917 )</u>
<b>Net Change in Cash and Short-term Investments</b>	<u>( 1,655 )</u>	<u>1,075</u>
<b>Cash and Short-term Investments, beginning of period</b>	<u>7,291</u>	<u>14,642</u>
<b>Cash and Short-term Investments, end of period</b>	<u>5,636</u>	<u>15,717</u>
<b>Cash and Short-term Investments, end of period represented by:</b>		
Cash and Short-term Investments	3,708	15,717
Reserved Cash	1,928	-
	<u>5,636</u>	<u>15,717</u>

*See accompanying Notes to Consolidated Interim Financial Statements*

**ROYAL HOST REAL ESTATE INVESTMENT TRUST**  
**Notes to Consolidated Interim Financial Statements**  
**As at September 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 COMPUTATIONS**

There were 20,267,412 trust units outstanding as at September 30, 2000 (20,266,381 - 1999). Per unit computations are based on the weighted average number of trust units outstanding for the period, after adjusting the net earnings and cash available for distribution for payments on the convertible debenture of \$1,308,000 and payments on the redeemable partnership units of \$2,269,000.

	September 30, 2000		September 30, 1999	
	Basic	Fully diluted	Basic	Fully diluted
Net earnings per unit	0.15	<i>anti-dilutive</i>	0.06	<i>anti-dilutive</i>
Per unit cash available for distribution	0.95	0.90	0.78	0.72
Weighted average number of trust units <i>(in thousands)</i>	20,267	26,500	18,909	24,188

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 nine months ended September 30, 2000 would have been \$2,828,000 (1999 - \$2,626,000). As Royal Host has spent \$4,920,000 to date in 2000 to renovate the hotel properties, the trustees have determined that no reserve will be provided in the period ended September 30, 2000.

**3. RESERVED CASH**

Reserved cash represents funds on deposit with lenders for future planned capital expenditures within the next twelve months, and therefore is not available for general operational use.

**4. CAPITAL ASSETS**

	<i>\$000</i>			
	September 30, 2000		December 31, 1999	
	Gross book value	Accumulated depreciation	Net book Value	Net book Value
Land	37,303	-	37,303	37,303
Building	273,035	25,396	247,639	253,160
Furniture, fixtures, and equipment	35,284	12,932	22,352	24,789
Paving and other	1,173	97	1,076	1,102
	<b>346,795</b>	<b>38,425</b>	<b>308,370</b>	<b>316,354</b>
Properties under development	1,423	-	1,423	1,475
Goodwill	34,276	7,705	26,571	29,471
	<b>382,494</b>	<b>46,130</b>	<b>336,364</b>	<b>347,300</b>

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**5. MORTGAGES AND OTHER DEBT**

	<i>(in \$000)</i>	
	<b>September 30, 2000</b>	<b>December 31, 1999</b>
Mortgages and other debt secured by hotel properties	160,871	156,604
Less: Current portion	<u>19,265</u>	<u>115,547</u>
	<b><u>141,606</u></b>	<b><u>41,057</u></b>
<b>Twelve months ending September 30</b> <i>(in \$000's)</i>	<b>September 30 2000</b>	
2001	19,265	
2002	83,656	
2003	3,925	
2004	2,068	
2005	1,889	
Subsequent	<u>50,068</u>	
	<b><u>160,871</u></b>	

**Refinancing**

Subsequent to September 30, 2000 Royal Host refinanced \$15,300,000 of the two year term debt to a ten year term bearing interest at 9.3%. This refinancing reduced the principal maturing in 2002.

**6. EQUITY**

	<i>(in \$000)</i>	
	<b>September 30, 2000</b>	<b>December 31, 1999</b>
Balance, beginning of period	146,681	159,579
Net earnings	6,541	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	( 14,593 )	( 21,883 )
Redeemable partnership units	( 2,269 )	( 1,946 )
Interest paid on convertible debentures	( 1,308 )	( 1,760 )
	<b><u>135,052</u></b>	<b><u>146,681</u></b>
Convertible equity		
Redeemable partnership units	27,500	27,500
Convertible debenture	<u>22,000</u>	<u>22,000</u>
<b>Balance, end of period</b>	<b><u>184,552</u></b>	<b><u>196,181</u></b>

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**a) Unit Capital**

	<b>Number of units</b>	<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>
<b>Balance, December 31, 1997</b>	<b>13,114,487</b>	<b>127,722</b>
Issuance of Special Warrants (subsequently converted)	<u>5,715,000</u>	<u>59,420</u>
<b>Balance, December 31, 1998</b>	<b>18,829,487</b>	<b>187,142</b>
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>
<b>Balance, September 30, 2000 and December 31, 1999</b>	<b><u>20,267,412</u></b>	<b><u>197,165</u></b>

**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 September 30, 2000 was \$22,822,000 (1999 - \$17,495,000) and distributions to unitholders aggregated \$14,593,000 (1999 - \$17,019,000) 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 September 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.

Holder of redeemable partnership units ("Holder") 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 Holder 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 Holder has 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 Holder 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.

**7. RECLASSIFICATION**

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