

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements

For the years ended December 31, 2000 and December 31, 1999

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management of Royal Host Real Estate Investment Trust ("Royal Host") is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, Royal Host recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further ensures the quality of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies.

The Board of Trustees discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, the majority of which is composed of trustees who are independent from Royal Host. This committee meets with management and with the Royal Host independent auditors to review Royal Host annual financial performance and to discuss audit, internal control, accounting policies and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Trustees.

The financial statements have been audited by Deloitte & Touche LLP, who were appointed by the Unitholders at the last Annual General Meeting of Unitholders. Their report is presented herein.

Randy B. Royer
President and Chief Executive Officer

Peter Sikora
Chief Financial Officer

Calgary, Canada
March 16, 2001

AUDITORS' REPORT

To the Unitholders of Royal Host Real Estate Investment Trust

We have audited the consolidated balance sheets of Royal Host Real Estate Investment Trust ("Royal Host") as at December 31, 2000 and 1999, and the consolidated statements of net earnings and cash available for distribution and cash flows for the years then ended. These consolidated financial statements are the responsibility of Royal Host's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Royal Host as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Chartered Accountants

Calgary, Canada
March 16, 2001

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheets
As at December 31
(in thousands of dollars)

	2000	1999
ASSETS		
Current Assets		
Cash and short-term investments <i>(Note 3)</i>	6,799	7,291
Accounts and notes receivable	12,320	8,055
Deposits and prepaid expenses	2,603	1,014
Inventories	2,903	2,706
Future income tax <i>(Note 2 (i))</i>	1,470	-
	<u>26,095</u>	<u>19,066</u>
Capital Assets <i>(Note 5)</i>	332,916	347,300
Long-term Notes Receivable and Other Assets	4,604	4,180
	<u>363,615</u>	<u>370,546</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	15,936	12,812
Current portion of mortgages and other debt <i>(Note 6)</i>	51,802	114,851
Current portion of capital leases <i>(Note 7)</i>	928	696
Distributions payable	1,874	-
Other current liabilities	2,013	3,503
	<u>72,553</u>	<u>131,862</u>
Mortgages and Other Debt <i>(Note 6)</i>	107,051	39,062
Capital Leases <i>(Note 7)</i>	2,205	1,995
Future Income Tax <i>(Note 2 (i))</i>	1,885	-
Deferred Revenue	2,145	1,446
Equity <i>(Note 8)</i>	<u>177,776</u>	<u>196,181</u>
	<u>363,615</u>	<u>370,546</u>

Approved on behalf of the Board of Trustees:

Randy B. Royer
Trustee

Peter Sikora
Trustee

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Net Earnings and Cash Available for Distribution
For the years ended December 31, 2000 and December 31, 1999
(in thousands of dollars)

	2000	1999
Hospitality Revenues		
Rooms	89,989	83,079
Food and beverage	23,023	21,873
Lease and other hospitality revenues	27,867	24,618
	<u>140,879</u>	<u>129,570</u>
Hospitality Expenses	<u>96,144</u>	<u>89,592</u>
Operating Income	<u>44,735</u>	<u>39,978</u>
Other (Income) and Expenses		
Interest income	(112)	(477)
Interest on mortgages and other debt	14,912	11,899
Trust administration	1,968	2,332
Capital and other taxes	(217)	610
Non-recurring acquisition costs <i>(Note 11)</i>	-	2,200
Future income tax recovery <i>(Note 2(i))</i>	(620)	-
Depreciation and amortization	21,932	20,678
	<u>37,863</u>	<u>37,242</u>
Net Earnings <i>(Note 4)</i>	6,872	2,736
Add: Depreciation and amortization	21,932	20,678
Deduct: Future income tax recovery	(620)	-
Cash Available for Distribution * <i>(Note 4)</i>	<u>28,184</u>	<u>23,414</u>

See accompanying Notes to Consolidated Financial Statements

** Before amounts relating to reserves, see Note 4*

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows
For the years ended December 31, 2000 and December 31, 1999
(in thousands of dollars)

	2000	1999
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net earnings	6,872	2,736
Items not affecting cash		
Depreciation and amortization	21,932	20,678
Future income tax recovery	(620)	-
Cash flows from operations	<u>28,184</u>	<u>23,414</u>
Increase in accounts and notes receivable	(4,265)	(2,570)
Increase in deposits and prepaid expenses	(1,589)	(305)
Increase in inventories	(197)	(511)
Increase in accounts payable and accrued liabilities	3,124	1,302
(Decrease) increase in other current liabilities	(1,490)	1,834
	<u>23,767</u>	<u>23,164</u>
Financing Activities		
Additions to mortgages and other debt	175	84,122
Principal repayments on mortgages and other debt	(4,250)	(69,411)
Net proceeds from debt refinancing	3,878	-
Issuance of trust units	-	10,006
Issuance of trust units under distribution reinvestment plan	-	17
Unit issue costs	-	(68)
	(197)	<u>24,666</u>
Investing Activities		
Capital expenditures	(4,924)	(29,321)
Increase (decrease) in long-term notes receivable and other assets	2,531	(862)
Increase in deferred revenue	699	591
	(1,694)	<u>29,592</u>
Equity Distributions	(22,368)	(25,589)
Net Change in Cash and Short-term Investments	(492)	(7,351)
Cash and Short-term Investments, beginning of year	<u>7,291</u>	<u>14,642</u>
Cash and Short-term Investments, end of year	<u>6,799</u>	<u>7,291</u>

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

1. GENERAL INFORMATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The Royal Host accounting policies and standards of financial disclosure are in accordance with generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

b) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 financial statements and revenue and expenses for the reported period. Actual results could differ from those estimates.

c) Principles of Consolidation

These consolidated financial statements include the accounts of Royal Host and its wholly-owned subsidiaries, and the accounts of all partnerships and co-tenancy to the extent of the Royal Host proportionate interest in their respective assets, liabilities, revenues, expenses and cash flows. All significant inter-company transactions and balances have been eliminated.

d) Revenue Recognition

Revenue is recognized upon performance of hotel and related services, and delivery of food and beverages. Revenue from prepaid vacations is recorded when the purchaser has complied with all major conditions of the sale, including the payment of the full purchase price or the arrangement of appropriate financing. 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. Certain portions of revenue from prepaid vacations are deferred until earned by Royal Host.

e) Capital Assets

Hotel properties are stated at the lower of net book value or net recoverable amount. The net recoverable amount represents the undiscounted projected future net cashflow generated from the property throughout its useful life, including its residual value, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Hotel properties are depreciated using the straight-line method over their estimated useful lives of 25 years.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations are capitalized to hotel properties. Furniture, equipment and certain improvements are depreciated on a straight-line basis over periods up to ten years.

Properties under development consist of properties under construction and are recorded at the lower of cost, including pre-development expenditures, and net recoverable amount.

Goodwill comprises the unamortized balance of the excess of the Royal Host acquisition cost over the fair value of the identifiable net assets of Royco Hotels & Resorts ("Royco") and R.V.I. Holiday Limited Partnership ("RVI"). Goodwill is amortized on a straight-line basis over periods between five and 15 years.

Goodwill is regularly evaluated by comparing future net cash flows against the book value of goodwill to assess the recoverability of goodwill. Any permanent impairment would be written down in the period identified and charged against earnings.

f) Capitalized Costs

Costs associated with the acquisition of the hotel properties are capitalized to the respective hotel property. These costs typically include realty agent commissions, property transfer taxes, legal fees, environmental studies, engineering, and other direct expenses.

The cost of hotel properties under development includes all expenditures incurred in connection with the activities of acquiring, developing and constructing these properties. These expenditures consist of all direct costs including debt interest and general and administrative.

g) Inventory

Inventory consists of food, beverages, china, silverware, glassware, linen and general supplies. These items are stated at lower of cost or net replacement value, and are determined on a first-in, first-out basis.

h) Financing Costs

Debt financing costs are deferred and amortized on a straight-line basis over the terms of the related loans.

i) Income Taxes

Royal Host is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute all taxable income directly earned by Royal Host to its unitholders and to deduct such distributions and designations for income tax purposes.

Effective January 1, 2000, Royal Host adopted the recommendations of Abstract 107 of the Emerging Issues Committee of the CICA regarding future income taxes which requires recording a future tax amount for temporary differences existing in subsidiaries of the trust. This accounting change has been applied retroactively without restatement. The impact of the change was to record a future tax liability and a charge to unitholders' equity at January 1, 2000 of \$1,035,000. Temporary differences consist primarily of loss carry forwards and book versus tax values of capital assets.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

j) Unit Option Plan

Royal Host has a unit option plan as described in Note 8(d). No compensation expense is recognized for the plan when options are granted. Consideration received on exercise of options is credited to unitholders' equity.

3. RESERVED CASH

Included in cash is an amount of \$3,727,000 of reserved cash representing funds on deposit with lenders for future planned capital expenditures within the next 12 months. In December 2000, the Company filed a "Request for Release" of reserved cash in the amount of \$1,038,000 for capital expenditures to date. Subsequent to December 31, 2000, Royal Host has submitted "Requests for Release" of reserved cash on deposit for capital expenditures in the amount of \$502,000.

4. PER UNIT COMPUTATIONS

There were 20,267,412 trust units outstanding as at December 31, 2000 (20,267,412 –1999). Per unit computations are based on the weighted average number of trust units outstanding for the year, after adjusting the net earnings and cash available for distribution for payments on the convertible debenture of \$1,760,000 (1999 - \$1,760,000) and payments on the redeemable partnership units of \$3,025,000 (1999 - \$1,946,000).

	For the years ended December 31,			
	2000		1999	
	Basic	Fully diluted	Basic	Fully diluted
Net earnings (loss) per unit	0.10	<i>anti-dilutive</i>	(0.05)	<i>anti-dilutive</i>
Per unit cash available for distribution	1.15	1.10	1.02	0.94
Weighted average number of trust units (<i>in thousands</i>)	20,267	25,744	19,251	25,319

Per unit computations are based on the weighted average number of trust units outstanding during the year of 20,267,412 units (1999 – 19,251,185 units).

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 year ended December 31, 2000 would have been \$3,671,000 (1999 - \$3,434,000). As Royal Host spent approximately \$6.6 million in 2000 (1999 - \$29 million) to renovate and reposition the hotel properties, the trustees have determined that no reserve would be provided for 2000 and 1999.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

5. CAPITAL ASSETS

	<i>(in thousands of dollars)</i>		
	Gross book value	Accumulated depreciation and amortization	Net book value
2000			
Land	37,303	-	37,303
Building	274,227	28,171	246,056
Furniture, fixtures, and equipment	35,745	14,311	21,434
Paving and other	1,173	108	1,065
	348,448	42,590	305,858
Properties under development	1,457	-	1,457
Goodwill	34,276	8,675	25,601
	384,181	51,265	332,916
1999			
Land	37,303	-	37,303
Building	270,267	17,107	253,160
Furniture, fixtures, and equipment	33,123	8,334	24,789
Paving and other	1,167	65	1,102
	341,860	25,506	316,354
Properties under development	1,475	-	1,475
Goodwill	34,276	4,805	29,471
	377,611	30,311	347,300

All hotel properties are wholly-owned by Royal Host except for one hotel property which represents less than 5% of total capital assets, and is jointly owned by Royal Host and the vendor. Pursuant to the Exchange Agreement dated September 11, 1998, the vendor has an option to exchange its 50% ownership interest for units of Royal Host. The valuation of such exchange is to be determined based on a specified capitalization rate and the units of Royal Host are to be priced based on a 20 day weighted average trading price per unit. This calculation is taken into consideration in the fully diluted per unit calculations in Note 4.

For discussion of capital replacement reserves in 2000 and 1999, see Note 4.

Properties under development include interest expense capitalized of \$66,000 (1999 - \$637,000). The Royal Host commitment to complete properties under development in 2000 is estimated at \$747,000 (1999 - \$2.4 million).

6. MORTGAGES AND OTHER DEBT

	<i>(in thousands of dollars)</i>	
	2000	1999
Mortgages and other debt secured by hotel properties	158,853	153,913
Less: Current portion	51,802	114,851
	107,051	39,062

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

Mortgages and other debt bear interest at rates ranging from 8.0% to 12.0% (1999 – 7.05% to 12.0%) with a weighted average year end rate of 9.24% (1999 - 8.30%) and mature between 2001 and 2010. The mortgages and other debt are secured by fixed charges over specified hotel properties.

Financing charges are deferred and amortized over the term of the related debt. In 2000, \$931,000 was included in amortization (\$1,362,000 in 1999).

In 2000, Royal Host refinanced approximately \$98 million of the mortgages and other debt due in 2000. The existing debt was refinanced and replaced with approximately \$105 million of new debt.

Principal repayments are as follows:

Years ending December 31 *(in thousands of dollars)*

2001	51,802
2002	37,296
2003	3,119
2004	2,145
2005	2,345
Subsequent	<u>62,146</u>
	<u>158,853</u>

Included in amounts due in 2002 is an amount of \$35 million that is due in August, 2001 but is extendable subject to certain conditions which Royal Host believes in the ordinary course will be met. Accordingly, this amount has been classified as long term in nature.

7. OBLIGATIONS UNDER CAPITAL LEASES

The company has entered into various capital lease obligations to acquire computers and hotel furniture, fixtures and equipment. The present value of minimum lease payments under capital lease as of December 31, 2000 are as follows:

Years ending December 31 *(in thousands of dollars)*

2001	1,222
2002	1,190
2003	971
2004	303
2005	<u>35</u>
Future minimum lease payments	3,721
Amounts representing interest	<u>588</u>
Present value of future minimum lease payments	3,133
Less current portion	<u>928</u>
Long-term obligation	<u>2,205</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

8. EQUITY

	<i>(in thousands of dollars)</i>	
	2000	1999
Equity balance, beginning of year, as previously reported	146,681	159,579
Adjustment for future income taxes (Note 2(i))	(1,035)	-
As restated	145,646	159,579
Net earnings	6,872	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	(19,457)	(21,883)
Redeemable partnership units	(3,025)	(1,946)
Interest on convertible debenture	(1,760)	(1,760)
	128,276	146,681
 Convertible Equity		
Redeemable partnership units	27,500	27,500
Convertible debenture	22,000	22,000
	49,500	49,500
 Equity balance, end of year	177,776	196,181

a) Unit Capital

	Number of units	<i>(in thousands of dollars)</i>
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	2,395	17
Balance, December 31, 2000 and 1999	20,267,412	197,165

On September 16, 1999, Royal Host conducted a private placement consisting of 1,435,530 units issued at a weighted average unit price of \$6.97 for total proceeds of \$10,006,000.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

b) Distributions to Unitholders

Cash available for distribution for the year ended December 31, 2000 was \$28,184,000 (1999 - \$23,414,000) and distributions declared to unitholders, excluding distributions on redeemable partnership units, aggregated \$19,457,000 (1999 - \$21,883,000) 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. For 2000, all Distribution Reinvestment Plan units have been purchased on the open market by the transfer agent.

d) Unit Options

Royal Host has reserved 1,883,000 units under its unit option plan. As at December 31, 2000, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 990,000 units (1999 - 990,000 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 23, 2008. During 2000, no options were issued, exercised, or expired (1999 - 27,500 units expired).

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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

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 September 30, 2001 or \$11.00 per trust unit for the period from October 1, 2001 to September 30, 2003.

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

g) Employee Unit Purchase Program

During the year, trustees approved the issue, subject to regulatory approval, of up to 400,000 units from treasury for an employee unit purchase program. Under this program, certain Royal Host employees will be eligible to finance the purchase of units from treasury at \$5.80 per unit, using interest-bearing employee loans from Royal Host and a brokerage margin account. Distributions otherwise payable on the units will be used to retire the loans receivable from the employees.

9. COMMITMENTS

The Company has entered into long-term supply arrangements with two electrical utility companies and two natural gas providers to supply the Company with some of its electricity and natural gas needs for certain Alberta and Ontario properties. The electricity contracts are for a term of five years at a blended rate of approximately 5.7 cents per kilowatt hour for annual usage of approximately 18.2 million kilowatt hours. The natural gas contracts are for terms of three and five years, at a blended rate of approximately 17 cents per cubic meter, excluding delivery, on annual usage of approximately 2.9 million cubic meters. The Company is not required to guarantee usage levels for any contracts.

10. LEASE AND OTHER HOSPITALITY REVENUES

Lease and other hospitality revenues include rental income from one hotel property that is leased to the previous owner for a fixed fee of \$2,015,000 per annum. The lease is renewable at the option of the tenant for a further three additional 5-year terms commencing October 31, 2002 at an amount equal to the base lease adjusted by the consumer price index. The lease may be terminated if the property is sold by Royal Host upon due notice along with payment of a penalty calculated in accordance with the lease agreement.

11. NON-RECURRING ACQUISITION COSTS

In 1999, Royal Host recorded a \$2,200,000 (\$0.11 per unit, basic) non-recurring charge against income, relating to the Canadian Hotel Income Properties REIT acquisition attempt.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

12. FRANCHISE AGREEMENTS

Under the terms of the hotel franchise agreements expiring at various dates commencing October 31, 2007 through to March 26, 2019, annual payments for franchise expenses (including fees, reservation and advertising services) are due for 18 of the 36 hotels (18 of the 36 hotels in 1999). In 1999, nine hotels were converted to the Travelodge brand for which Royal Host is the master franchisor in Canada (there were no hotels converted to the Travelodge brand in 2000). The franchise royalties are computed based upon percentages of defined revenues and amounted to \$1,573,000 for the year (1999 - \$1,495,000).

13. OPERATING LEASES

Certain property and equipment are leased under operating lease agreements expiring at varying intervals. The following is a five-year schedule for future minimum rental payments required under these leases as at December 31, 2000:

Year ending December 31 *(in thousands of dollars)*

2001	1,252
2002	879
2003	434
2004	285
2005	112
Total future minimum rental payments	<u>2,962</u>

14. RISK MANAGEMENT

Royal Host's key financial risk exposures include credit risks arising from receivables from corporate accounts and amounts owed by purchasers of prepaid vacations, and interest rate risk arising from fluctuations in interest rates.

Credit risks are minimized, as amounts due from any one debtor are not significant and routine credit assessments are carried out prior to credit being granted. The majority of accounts receivable are from prepaid vacation owners and are secured by the prepaid vacations purchased.

Interest rate risk is continually monitored and managed through limiting the amount of variable rate debt as well as the total amount of debt. The amount of variable rate debt aggregated \$40,060,000 or 25% of the Royal Host total debt portfolio as at December 31, 2000 (\$99,627,000 or 63% of the Royal Host total debt portfolio as at December 31, 1999). Variable rates range from prime plus 3/4% to prime plus 2% (prime to prime plus 3% at December 31, 1999).

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
As at December 31, 2000 and 1999

15. FAIR VALUES

Current assets and liabilities approximate their carrying values at December 31, 2000 due to their short-term nature. The fair values of the non-current portion of mortgages and other debt, and convertible equity instruments are as follows:

	<i>(in thousands of dollars)</i>	
	Carrying values	Fair values
Mortgages and other debt	107,051	100,754
Capital leases	2,205	1,986
Redeemable partnership units and convertible debenture	49,500	46,286

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 judgment and cannot be determined with precision. Changes in assumptions and estimates could significantly affect fair values.

16. RECLASSIFICATION

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

17. SUBSEQUENT EVENTS

On March 27, 2001 pursuant to a prospectus, Royal Host issued 3,390,000 units for net proceeds of \$19,000,000. The funds are to be used to reduce debt and for renovations.