

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the three months ended March 31, 2001 and 2000

(unaudited)

ROYAL HOST REAL ESTATE INVESTMENT TRUST

For the period ended March 31, 2001

MANAGEMENT DISCUSSION AND ANALYSIS

Royal Host announces first quarter results for 2001

Royal Host Real Estate Investment Trust (REIT) today announced financial results for the three months ended March 31, 2001.

Royal Host's operating results for the first quarter of 2001 exhibit a number of recurring and consistent themes:

- Royal Host's core business of hotels is solid as room revenues continue to increase. Revenues are up by 5.6% and revenue per available room is up by 5% from the first quarter of 2000.
- Royal Host continues to restructure the non-core and less stable timeshare business, thereby resulting in reduced revenues during the quarter.
- Management has done an exceptional job of managing expenses – especially in light of substantial increases in energy costs. Consequently hospitality expenses decreased by 4.2% and operating margins improved by 9.1%.
- Management also reduced trust administration costs by 29.8%.
- Interest expenses peaked during this quarter especially when compared to the first quarter of 2000. This increase will balance itself out throughout the remainder of 2001 as both total debt and interest rates are declining.
- Capital taxes are typically a reduction of cash available for distribution. However during the first quarter of 2000, capital taxes increased distributable cash due to an over-accrual in the prior year. The impact of the one-time gain recorded in the first quarter of 2000 will balance itself out on a relative basis as 2001 progresses.
- By raising an additional \$20 million of equity, Royal Host has significantly improved its balance sheet. This equity improves flexibility, reduces risk and enhances the value of Royal Host's assets.
- It is important to note that the hotel business is highly cyclical throughout the calendar year, and the first quarter results are traditionally the weakest and are not indicative of results for the full year.

The outlook for Royal Host is one of continued improvement in its core business; continued future reductions in both interest and operating expenses; and a substantially stronger balance sheet.

RESULTS OF OPERATION

Revenue and Operating Income

For the quarter, room revenues increased by \$1 million to \$18.9 million representing a 5.6% increase over \$17.9 million in the same quarter last year.

Food and beverage revenue decreased by \$123,000 (2.6%) and lease and other hospitality revenues decreased by \$1.3 million (21.6%) over the previous year. This decrease was mainly the result of a reduction in timeshare revenues from the same period last year and sizeable franchise cancellation revenue during first quarter 2000, which did not recur in 2001. As a result, total revenues decreased by \$461,000 or 1.6% in the quarter from the same period in 2000.

Despite the slight drop in total revenues, operating income had an impressive 7.3% gain to \$7 million in 2001. This was accomplished through a \$943,000 (4.2%) decrease in hospitality expenses, despite rising costs in energy expenses.

Operating margins continued their upward trend and improved to 24.9% from 22.8% in the same quarter last year, an increase of 9.1%. This improvement was largely due to the success of cost cutting measures initiated by management in the later part of 2000, which began to impact operating results in the first quarter of 2001.

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Other Expenses

Interest on mortgages and other debt increased by \$407,000 over the previous year, primarily due to rising interest rates, whose impact was not fully felt in the first quarter of 2000. Interest expenses were also higher because the average amount of debt outstanding was greater in the first quarter of 2001. On a comparative basis, the interest expense will actually decrease for the remainder of 2001 versus 2000, since both outstanding debt and interest rates are decreasing.

Management has been extremely successful at reducing costs as trust administration was 29.8% lower at \$402,000 for the quarter, versus \$573,000 for the same period last year.

Capital and other taxes, before future income tax expenses were an expense of \$59,000 in this quarter, compared to a recovery of \$393,000 in 2000. Capital taxes in the first quarter of 2000 were impacted by an over-accrual in capital taxes in prior years.

During the quarter, Royal Host re-evaluated the useful lives of its properties for depreciation. The result was to extend the estimated useful lives of hotels and resort buildings from 25 years to between 25 and 40 years. This change was made commencing January 1, 2001. Had the previous basis been used, depreciation and amortization would have been \$5,379,000.

Earnings

Largely due to management's ability to control costs the net loss for the first quarter of 2001 was \$184,000 less than the loss incurred in the first quarter of 2000.

Cash Available for Distribution

Year over year cash available for distribution decreased by \$207,000 to \$2,815,000 in 2001 from \$3,022,000 in 2000. Basic per unit cash available for distribution was \$0.08 per unit in 2001 compared to \$0.09 per unit in the same quarter in 2000.

Management is confident that this minor decrease will reverse itself in future quarters, as the implemented cost cutting measures and reduced interest expenses will continue to positively impact operating results. In addition, the impact of one-time items such as capital tax and non-recurring revenues, which had such a positive influence on the results in the first quarter of 2000, will be substantially reduced in the next three quarters of 2001. Therefore, management is optimistic that operating results for 2001 will be consistent with expectations.

Hotel Statistics

	For the First Quarter		
	2001	2000	% change
36 Hotel Portfolio			
ADR	82.60	\$79.11	4.4%
Occupancy %	57.9%	57.6%	0.56%
RevPAR	47.81	45.54	5%

Note 1: RevPAR is a function of average daily room rate and occupancy.

Note 2: The figures above reflect the 50% co-tenancy arrangement and, as a result, include only 50% of the operations of that property.

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For the period ended March 31, 2001

Capital Structure and Liquidity

As part of the Trust Indenture, Royal Host is required to maintain debt levels at less than 45% of Total Assets plus Accumulated Depreciation. As at March 31, 2001, the ratio was 37%.

During the first quarter, Royal Host further improved its balance sheet by raising an additional \$20 million of equity through a “bought” deal with a syndicate of underwriters. The net proceeds of this offering are estimated at \$18.7 million after all fees and expenses. In addition, subsequent to the end of the quarter, the underwriters exercised a portion of the over allotment of units for additional proceeds of \$2.4 million. Royal Host used \$6.1 million of the net proceeds to reduce its outstanding debt prior to the end of the quarter. The balance of the proceeds will predominantly be used to upgrade and reposition certain hotel properties and for working capital and general trust purposes.

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

	As at	
	March 31 2001	December 31 2000
ASSETS		
Current Assets		
Cash and short-term investments <i>(Note 3)</i>	16,561	6,799
Accounts and notes receivable	8,604	12,320
Deposits and prepaid expenses	3,041	2,603
Inventories	3,334	2,903
Future income tax	1,150	1,470
	<u>32,690</u>	<u>26,095</u>
Capital Assets <i>(Note 5)</i>	330,031	332,916
Long-term Notes Receivable and Other Assets	<u>4,277</u>	<u>4,604</u>
	<u>366,998</u>	<u>363,615</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	15,686	15,936
Current portion of mortgages and other debt <i>(Note 6)</i>	51,165	51,802
Current portion of capital leases <i>(Note 7)</i>	953	928
Distributions payable	2,145	1,874
Other current liabilities	1,494	2,013
	<u>71,443</u>	<u>72,553</u>
Mortgages and Other Debt <i>(Note 6)</i>	101,397	107,051
Capital Leases <i>(Note 7)</i>	1,965	2,205
Future Income Taxes	1,682	1,885
Deferred Revenue	2,240	2,145
Equity <i>(Note 8)</i>	<u>188,271</u>	<u>177,776</u>
	<u>366,998</u>	<u>363,615</u>

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Net Loss and Cash Available for Distribution
For the three months ended March 31, 2001 and 2000
\$000 (unaudited)

	<u>March 31, 2001</u>	<u>March 31, 2000</u>
Hospitality Revenues		
Rooms	18,916	17,910
Food and beverage	4,605	4,728
Lease and other hospitality revenues	4,883	6,227
	<u>28,404</u>	<u>28,865</u>
Hospitality Expenses	<u>21,340</u>	<u>22,283</u>
Operating Income	<u>7,064</u>	<u>6,582</u>
Other (Income) and Expenses		
Interest income	(14)	(15)
Interest on mortgages and other debt	3,802	3,395
Trust administration	402	573
Capital and future income taxes	176	(548)
Depreciation and amortization	4,788	5,451
	<u>9,154</u>	<u>8,856</u>
Net Loss (Note 2)	(2,090)	(2,274)
Add: Depreciation and amortization of capital assets	4,424	5,193
Add: Amortization of deferred financing fees	364	258
Add (deduct): Future income tax expense (recovery)	117	(155)
	<u>2,815</u>	<u>3,022</u>
Cash Available for Distribution	<u>2,815</u>	<u>3,022</u>
Per unit cash available for distribution - basic (Note 2)	0.08	0.09
- fully diluted (Note 2)	0.08	0.09

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows
For the three months ended March 31, 2001 and 2000
\$000 (unaudited)

	<u>March 31,</u> <u>2001</u>	<u>March 31,</u> <u>2000</u>
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net loss	(2,090)	(2,274)
Items not affecting cash:		
Depreciation and amortization of capital assets	4,424	5,193
Future income tax expense (recovery)	117	(155)
Cash flows from operations	<u>2,451</u>	<u>2,764</u>
Decrease in accounts and notes receivable	3,716	252
Increase in deposits and prepaid expenses	(438)	(351)
(Increase) decrease in inventories	(431)	102
(Decrease) increase in accounts payable and accrued liabilities	(250)	1,290
Decrease in other current liabilities	(519)	(1,036)
	<u>4,529</u>	<u>3,021</u>
Financing Activities		
Additions to mortgages and other debt	1,206	-
Principal repayments on mortgages and other debt	(7,712)	(472)
Issuance of trust units	20,001	-
Unit issue costs	(1,091)	-
	<u>12,404</u>	<u>(472)</u>
Investing Activities		
Capital expenditures	(1,539)	(1,130)
Decrease (increase) in long-term notes receivable and other assets	327	(198)
Increase in deferred revenue	95	80
	<u>(1,117)</u>	<u>(1,248)</u>
Equity Distributions	<u>(6,054)</u>	<u>(4,204)</u>
Net Change in Cash and Short-term Investments	<u>9,762</u>	<u>(2,903)</u>
Cash and Short-term Investments, beginning of period	<u>6,799</u>	<u>7,291</u>
Cash and Short-term Investments, end of period	<u>16,561</u>	<u>4,388</u>

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at March 31, 2001 and 2000
(unaudited)

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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.

These consolidated interim financial statements follow the same accounting policies and methods as the most recent annual financial statements, except for a change in the estimated useful lives of hotel and resort buildings (*Note 5*) and changes in the method of calculating loss and cash available for distribution per unit to conform to new accounting standards for per unit computations (*Note 2*). These financial statements include all adjustments necessary to present fairly the results for the interim period. Certain information and footnote disclosures normally included in the year-end consolidated financial statements have been condensed or omitted. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001 due to the seasonal nature of operations.

These interim financial statements should be read in conjunction with the most recent annual financial statements and notes included in the Company's annual report for the year ended December 31, 2000.

2. PER UNIT COMPUTATIONS

There were 23,657,412 trust units outstanding as at March 31, 2001 (20,267,412 - 2000). 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 \$433,000 (\$457,000 - 2000) and payments on the redeemable partnership units of \$757,000 (\$757,000 - 2000).

	March 31, 2001			March 31, 2000		
	(\$000's)	Weighted Average Units <i>(000's)</i>	Per Unit	(\$000's)	Weighted Average Units <i>(000's)</i>	Per Unit
Loss per unit						
Net loss	(2,090)			(2,274)		
Less: Interest on convertible debenture	(433)			(457)		
Distributions on redeemable partnership units	(757)			(757)		
Basic loss per unit	(3,280)	20,456	(0.16)	(3,488)	20,267	(0.17)
Unit options		962			990	
Purchased through options		(1,545)			(1,839)	
Fully diluted loss per unit	(3,280)	19,873	(0.17)	(3,488)	19,418	(0.18)
Cash available for distribution						
Basic loss per unit	(3,280)			(3,488)		
Add: Depreciation and amortization of capital assets	4,424			5,193		
Add: Amortization of deferred financing fees	364			258		
Add (deduct): Future income tax expense (recovery)	117			(155)		
Basic cash per unit	1,625	20,456	0.08	1,808	20,267	0.09
Fully diluted cash per unit	1,625	20,456	0.08	1,808	20,267	0.09

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Royal Host has complied with the new requirements of the Canadian Institute of Chartered Accountants ("CICA") with respect to the calculation of earnings and cash per unit. Comparative figures have been restated.

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 three months ended March 31, 2001 would have been \$766,000 (\$742,000 - 2000). As Royal Host has spent \$1,539,000 to date in 2001 (\$1,130,000 - 2000) to renovate the hotel properties, the trustees have determined that no reserve will be provided in the periods ended March 31, 2001 and 2000.

3. RESERVED CASH

Included in cash is an amount of \$2,869,000 (\$3,727,000 - December 31, 2000) of reserved cash representing funds on deposit with lenders for future planned capital expenditures within the next twelve months.

4. RELATED PARTY TRANSACTIONS

During the first quarter of 2001, Royal Host transferred a portion of its accounts receivable, aggregating \$2,761,000, to a company of which certain officers of Royal Host hold, in aggregate, a 45% interest. No gain or loss was recognised, and this transaction was conducted at amounts approximating fair market value.

5. CAPITAL ASSETS

	<i>(in \$000's)</i>			
	March 31, 2001		December 31, 2000	
	Gross Book Value	Accumulated Depreciation	Net Book Value	Net Book Value
Land	37,303	-	37,303	37,303
Building	275,000	30,024	244,976	246,056
Furniture, fixtures, and equipment	35,665	15,924	19,741	21,434
Paving and other	1,173	118	1,055	1,065
	349,141	46,066	303,075	305,858
Properties under development	2,318	-	2,318	1,457
Goodwill	34,276	9,638	24,638	25,601
	385,735	55,704	330,031	332,916

Royal Host re-evaluated the useful lives of its properties for depreciation purposes. The result was to extend the estimated useful lives of hotel and resort buildings from 25 years to between 25 and 40 years, commencing January 1, 2001. Had the previous basis been used, depreciation and amortization expense would have been \$5,379,000.

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 2.

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6. MORTGAGES AND OTHER DEBT

	<i>(in \$000's)</i>	
	March 31, 2001	December 31, 2000
Mortgages and other debt secured by hotel properties	152,562	158,853
Less: Current portion	<u>51,165</u>	<u>51,802</u>
	<u>101,397</u>	<u>107,051</u>
	March 31, 2001	December 31, 2000
Twelve months ending March 31 <i>(in \$000's)</i>		
2002	51,165	51,802
2003	32,402	37,296
2004	2,851	3,119
2005	2,192	2,145
2006	2,392	2,345
Subsequent	<u>61,560</u>	<u>62,146</u>
	<u>152,562</u>	<u>158,853</u>
	March 31, 2001	March 31, 2000
Supplementary Information:		
Cash interest paid in the quarter	3,998	2,147

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 March 31, 2001 are as follows:

Years ending March 31 <i>(in \$000's)</i>		
2002		1,221
2003		1,190
2004		795
2005		165
2006		43
Future minimum lease payments		<u>3,414</u>
Amounts representing interest		<u>496</u>
Present value of future minimum lease payments		2,918
Less current portion		<u>953</u>
Long-term obligation		<u>1,965</u>

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8. EQUITY

	<i>(in \$000's)</i>	
	<u>March 31, 2001</u>	<u>December 31, 2000</u>
Balance, beginning of period	128,276	146,681
Adjustment for future income taxes <i>(Note 9)</i>	-	(1,035)
As restated	128,276	145,646
Net (loss) earnings	(2,090)	6,872
Issuance of trust units under public offering	20,001	-
Unit issue costs	(1,091)	-
Equity distributions on:		
Trust units	(5,135)	(19,457)
Redeemable partnership units	(757)	(3,025)
Interest paid on convertible debentures	(433)	(1,760)
	<u>138,771</u>	<u>128,276</u>
Convertible equity		
Redeemable partnership units	27,500	27,500
Convertible debenture	22,000	22,000
	<u>49,500</u>	<u>49,500</u>
Balance, end of period	<u>188,271</u>	<u>177,776</u>

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	<u>2,395</u>	<u>17</u>
Balance, December 31, 2000 and 1999	20,267,412	197,165
Issued on March 27, 2001	3,390,000	20,001
Balance, March 31, 2001	<u>23,657,412</u>	<u>217,166</u>

On March 27, 2001 pursuant to a prospectus, Royal Host issued 3,390,000 units at a unit price of \$5.90 for total gross proceeds of \$20,001,000.

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b) Distributions to Unitholders

Cash available for distribution for the period ended March 31, 2001 was \$2,815,000 (\$3,022,000 - 2000) and distributions declared to unitholders aggregated \$5,135,000 (\$4,864,000 - 2000) 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. During 2001, 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 March 31, 2001, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 962,500 units (2000 - 990,000 units), ranging from \$10.00 to \$10.50 per unit (in 2001 and 2000, the weighted average exercise price is \$10.03). These options expire on October 31, 2007 and on March 22, 2008. During 2001, no options have been issued or exercised, and 27,500 units have expired.

e) Redeemable Partnership Units

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 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 2000, 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 purchase units from treasury at \$5.80 per unit.

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9. COMPARATIVE FIGURES

Certain prior year's figures have been reclassified to conform with the presentation adopted for 2001; also certain of the 2000 figures have been restated to reflect the adoption of future income taxes and the new accounting standards for per unit computations. There was no material change to the statement of net loss.

10. SUBSEQUENT EVENT

On April 23, 2001 Royal Host issued 433,600 units for net proceeds of \$2,430,000. This represented an over allotment of the public offering dated March 16, 2001, which closed on March 27, 2001.