

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the periods ended June 30, 2001 and 2000

(unaudited)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results for the three months and six months ended June 30, 2001.

REVENUES

For the second quarter, room revenues increased by \$400,000 to \$24.5 million representing a 1.6% increase over the previous year. For the six months ended June 30, 2001 room revenues increased by \$1.4 million or 3.3% over the same period last year. For both the second quarter and on a year to date basis, food and beverage revenues remained relatively constant over the previous year.

Lease and other hospitality revenues are \$1.2 million lower in the second quarter of 2001 and \$2.5 million lower for the six months ended June 30, 2001. For the six months, approximately \$1 million of this decrease is due to franchise cancellation fees earned in the first half of 2000, which were not repeated in 2001.

Total hospitality revenues decreased by \$1.2 million for the six months and \$700,000 for the second quarter of 2001 versus the same periods in the previous year.

EXPENSES

For the quarter, despite upward pressure on labour and other costs such as utilities, hospitality expenses of \$24.8 million represented virtually no change over the same period last year. For the six months, total hospitality expenses decreased by almost \$1 million from the previous year. Largely due to a reduction in total revenues, operating income was reduced to \$12.2 million for the second quarter and \$19.2 million for the first six months of 2001. Despite a slight drop in margins in the second quarter of 2001, the year-to-date operating margin increased to 29.4% from 29.3% in 2000. The increase in margin is even greater when the \$1 million in franchise cancellation fees in 2000 is taken into account. Virtually all of these franchise cancellation fees flowed down to the bottom line in 2000.

OTHER EXPENSES

For the quarter, interest on the mortgages and other debt decreased by \$302,000 from the previous year, primarily due to lower interest rates, and lower debt. For the first six months of 2001 interest costs were \$105,000 higher than the same period of 2000.

Management has been extremely successful at reducing costs as trust administration was 44.4% lower for the quarter in 2001 versus the same period last year. For the six months ended June 30, 2001 these costs are 38% lower at \$806,000 compared to \$1.3 million for the same period in 2000.

EARNINGS

Net earnings in 2001 improved by \$636,000 for the quarter and \$820,000 for the six months, compared to the same time periods for 2000. A portion of this improvement was due to a change in depreciation policy.

CASH AVAILABLE FOR DISTRIBUTION

During the second quarter of 2001, cash available for distribution improved by \$140,000. For the six months ended June 30, 2001 cash available for distribution decreased by \$67,000. Per unit (basic) cash available was \$0.30 for the second quarter of 2001 and \$0.39 for the first six months of 2001 compared to \$0.34 and \$0.43 respectively for the six months of 2000.

The decrease in per unit cash available for distribution is primarily due to an additional 3,823,600 units outstanding from the recent equity placement. This equity placement raised net proceeds of \$21.3 million, which was used to pay down debt and to upgrade certain hotel properties. Royal Host has not yet completed the upgrades and therefore has not yet fully recognized the benefit of the investment in its properties.

Key Operating Statistics*

<u>2nd Quarter</u>				<u>6 months ended June, 30</u>		
<u>2001</u>	<u>2000</u>	<u>% Change</u>		<u>2001</u>	<u>2000</u>	<u>% Change</u>
\$88.10	\$84.71	4.0%	ADR	\$85.63	\$82.22	4.1%
70.6%	72.0%	-1.9%	Occ.	64.3%	64.8%	-0.8%
\$62.24	\$60.97	2.1%	Rev PAR	\$55.04	\$53.26	3.3%

*Note: The figures above reflect only 50% of the operations of the co-tenancy property.

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

	As at	
	June 30, 2001	December 31, 2000
ASSETS		
Current Assets		
Cash and short-term investments <i>(Note 3)</i>	15,357	6,799
Accounts and notes receivable	10,269	12,320
Deposits and prepaid expenses	3,045	2,603
Inventories	3,477	2,903
Future income tax	830	1,470
	<u>32,978</u>	<u>26,095</u>
Capital Assets <i>(Note 5)</i>	327,962	332,916
Long-term Notes Receivable and Other Assets	<u>4,641</u>	<u>4,604</u>
	<u>365,581</u>	<u>363,615</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	17,155	15,936
Current portion of mortgages and other debt <i>(Note 6)</i>	49,898	51,802
Current portion of capital leases <i>(Note 7)</i>	999	928
Distributions payable	2,179	1,874
Other current liabilities	2,207	2,013
	<u>72,438</u>	<u>72,553</u>
Mortgages and Other Debt <i>(Note 6)</i>	100,643	107,051
Capital Leases <i>(Note 7)</i>	1,865	2,205
Future Income Taxes	1,479	1,885
Deferred Revenue	1,819	2,145
Equity <i>(Note 8)</i>	<u>187,337</u>	<u>177,776</u>
	<u>365,581</u>	<u>363,615</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 periods ended June 30, 2001 and 2000
\$000 (unaudited)

	Three months ended		Six months ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Hospitality Revenues				
Rooms	24,514	24,118	43,430	42,028
Food and beverage	6,536	6,506	11,141	11,234
Lease and other hospitality revenues	5,865	7,021	10,748	13,248
	<u>36,915</u>	<u>37,645</u>	<u>65,319</u>	<u>66,510</u>
Hospitality Expenses	<u>24,761</u>	<u>24,776</u>	<u>46,101</u>	<u>47,059</u>
Operating Income	<u>12,154</u>	<u>12,869</u>	<u>19,218</u>	<u>19,451</u>
Other (Income) and Expenses				
Interest income	(113)	(7)	(127)	(22)
Interest on mortgages and other debt	3,470	3,772	7,272	7,167
Trust administration	404	727	806	1,300
Capital and future income taxes	189	41	365	(507)
Depreciation and amortization	4,513	5,281	9,301	10,732
	<u>8,463</u>	<u>9,814</u>	<u>17,617</u>	<u>18,670</u>
Net Earnings (Note 2)	<u>3,691</u>	<u>3,055</u>	<u>1,601</u>	<u>781</u>
Add: Depreciation and amortization of capital assets	4,323	5,208	8,747	10,401
Add: Amortization of deferred financing fees	190	73	554	331
Add (deduct): Future income tax expense (recovery)	117	(155)	234	(310)
Cash Available for Distribution	<u>8,321</u>	<u>8,181</u>	<u>11,136</u>	<u>11,203</u>
Per unit cash available for distribution				
- basic (Note 2)	0.30	0.34	0.39	0.43
- diluted (Note 2)	0.28	0.32	0.39	0.43

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

For the periods ended June 30, 2001 and 2000

\$000 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
CASH PROVIDED BY (USED IN)				
Operating Activities				
Net earnings	3,691	3,055	1,601	781
Items not affecting cash:				
Depreciation and amortization of capital assets	4,323	5,208	8,747	10,401
Future income tax expense (recovery)	117	(155)	234	(310)
Cash flows from operations	<u>8,131</u>	<u>8,108</u>	<u>10,582</u>	<u>10,872</u>
(Increase) decrease in accounts and notes receivables	(1,665)	(2,731)	2,051	(2,479)
Increase in deposits and prepaid expenses	(4)	(313)	(442)	(664)
Increase in inventories	(143)	(151)	(574)	(49)
Increase in accounts payable and accrued liabilities	1,469	816	1,219	2,106
Increase (decrease) in other current liabilities	713	(352)	194	(1,388)
	<u>8,501</u>	<u>5,377</u>	<u>13,030</u>	<u>8,398</u>
Financing Activities				
Additions to mortgages and other debt	-	175	1,206	175
Principal repayments on mortgages and other debt	(2,250)	(818)	(9,962)	(1,290)
Issuance of trust units	2,558	-	22,559	-
Unit issue costs	(207)	-	(1,298)	-
	<u>101</u>	<u>(643)</u>	<u>12,505</u>	<u>(1,115)</u>
Investing Activities				
Capital expenditures	(2,079)	(1,530)	(3,618)	(2,660)
Decrease (increase) in long-term notes receivable and other assets	(364)	1,531	(37)	1,333
(Decrease) increase in deferred revenue	(421)	368	(326)	448
	<u>(2,864)</u>	<u>369</u>	<u>(3,981)</u>	<u>(879)</u>
Equity Distributions	<u>(6,942)</u>	<u>(6,038)</u>	<u>(12,996)</u>	<u>(10,242)</u>
Net Change in Cash and Short-term Investments	<u>(1,204)</u>	<u>(935)</u>	<u>8,558</u>	<u>(3,838)</u>
Cash and Short-term Investments, beginning of period	<u>16,561</u>	<u>4,388</u>	<u>6,799</u>	<u>7,291</u>
Cash and Short-term Investments, end of period	<u>15,357</u>	<u>3,453</u>	<u>15,357</u>	<u>3,453</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at June 30, 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 six months ended June 30, 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 24,091,012 trust units outstanding as at June 30, 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 \$871,000 (\$875,000 - 2000) and payments on the redeemable partnership units of \$1,513,000 (\$1,513,000 - 2000).

For the six months ended:	June 30, 2001			June 30, 2000		
	(\$000's)	Weighted Average Units (000's)	Per Unit	(\$000's)	Weighted Average Units (000's)	Per Unit
Cash and earnings available for distribution						
Net earnings	1,601			781		
Less: Interest on convertible debenture	(871)			(875)		
Distributions on redeemable partnership units	(1,513)			(1,513)		
Basic loss	(783)	22,231	(0.04)	(1,607)	20,267	(0.08)
Unit options		907			990	
Purchased through options		(1,470)			(1,795)	
Diluted loss	(783)	21,668	(0.04)	(1,607)	19,462	(0.08)
Add (deduct):						
Depreciation and amortization of capital assets	8,747			10,401		
Amortization of deferred financing fees	554			331		
Future income tax expense (recovery)	234			(310)		
Basic cash	8,752	22,231	0.39	8,815	20,267	0.43
Add back:						
Convertible debenture	-	-		875	2,091	
Diluted cash	8,752	22,231	0.39	9,690	22,358	0.43

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For the three months ended:	June 30, 2001			June 30, 2000		
	(\$000's)	Weighted Average Units (000's)	Per Unit	(\$000's)	Weighted Average Units (000's)	Per Unit
Cash and earnings available for distribution						
Net earnings	3,691			3,055		
Less: Interest on convertible debenture	(438)			(438)		
Distributions on redeemable partnership units	(756)			(756)		
Basic and diluted earnings	<u>2,497</u>	<u>23,986</u>	<u>0.10</u>	<u>1,861</u>	<u>20,267</u>	<u>0.09</u>
Add (deduct):						
Depreciation and amortization of capital assets	4,323			5,208		
Amortization of deferred financing fees	190			73		
Future income tax expense (recovery)	117			(155)		
Basic cash	<u>7,127</u>	<u>23,986</u>	<u>0.30</u>	<u>6,987</u>	<u>20,267</u>	<u>0.34</u>
Add back:						
Convertible debentures	438	2,091		438	2,091	
Redeemable partnership units	756	3,151		756	3,151	
Diluted cash	<u>8,321</u>	<u>29,228</u>	<u>0.28</u>	<u>8,181</u>	<u>25,509</u>	<u>0.32</u>

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.

3. RESERVED CASH

Included in cash is an amount of \$3,347,000 (\$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 six months 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 recognized, and this transaction was conducted at amounts approximating fair market value.

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5. CAPITAL ASSETS

	<i>(in \$000's)</i>			
	June 30, 2001		December 31, 2000	
	Gross Book Value	Accumulated Depreciation	Net Book Value	Net Book Value
Land	37,303	-	37,303	37,303
Building	275,211	31,787	243,424	246,056
Furniture, fixtures, and equipment	35,848	17,485	18,363	21,434
Paving and other	1,184	129	1,055	1,065
	349,546	49,401	300,145	305,858
Properties under development	4,146	-	4,146	1,457
Goodwill	34,276	10,605	23,671	25,601
	387,968	60,006	327,962	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 \$10,500,000 for the six months ended June 30, 2001.

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 has been taken into consideration in the diluted per unit calculations in Note 2 and is anti-dilutive.

6. MORTGAGES AND OTHER DEBT

	<i>(in \$000's)</i>	
	June 30, 2001	December 31, 2000
Mortgages and other debt secured by hotel properties	150,541	158,853
Less: Current portion	49,898	51,802
	100,643	107,051
Twelve months ending June 30 <i>(in \$000's)</i>		
2002	49,898	
2003	32,440	
2004	2,587	
2005	2,240	
2006	2,445	
Subsequent	60,931	
	150,541	

	<i>(in \$000's)</i>	
Supplementary Information:	June 30, 2001	June 30, 2000
Cash interest paid in the period	7,133	5,898

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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 June 30, 2001 are as follows:

Years ending June 30 *(in \$000's)*

2002	1,260
2003	1,200
2004	660
2005	155
2006	55
Subsequent periods	20
Future minimum lease payments	<u>3,350</u>
Amounts representing interest	486
Present value of future minimum lease payments	<u>2,864</u>
Less current portion	999
Long-term obligation	<u>1,865</u>

8. EQUITY

(in \$000's)

	June 30, 2001	December 31, 2000
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 earnings	1,601	6,872
Issuance of trust units under public offering	22,559	-
Unit issue costs	(1,298)	-
Equity distributions on:		
Trust units	(10,917)	(19,457)
Redeemable partnership units	(1,513)	(3,025)
Interest paid on convertible debentures	(871)	(1,760)
	<u>137,837</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>187,337</u>	<u>177,776</u>

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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
Issued on April 23, 2001	433,600	2,558
Balance, June 30, 2001	<u>24,091,012</u>	<u>219,724</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. On April 23, 2001, Royal Host issued 433,600 units at a unit price of \$5.90 for total gross proceeds of \$2,558,000 pertaining to the over-allotment option granted in the March 27, 2001 prospectus.

b) Distributions to Unitholders

Cash available for distribution for the period ended June 30, 2001 was \$11,136,000 (\$11,203,000 - 2000) and distributions declared to unitholders, excluding distributions on redeemable partnership units, aggregated \$10,917,000 (\$9,728,000 - 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 June 30, 2001, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 907,500 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 23, 2008. During 2001, no options have been issued or exercised, and 82,500 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

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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 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 finance the purchase of units from treasury at \$5.80 per unit. To date, no units have been issued under the plan.

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 earnings.