

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the periods ended September 30, 2001 and 2000

(unaudited)

MANAGEMENT DISCUSSION AND ANALYSIS

THIRD QUARTER RESULTS

For the third quarter ended September 30, 2001 total hospitality revenues were \$2.3 million or 5.5% lower than the previous year. Lower room revenues accounted for \$1.07 million of the decrease reflecting a slower economy and the effects of September 11, 2001. The remaining reduction in revenue was primarily due to a \$1.14 million (15.3%) decrease in lease and other hospitality revenues. This reduction is a result of Royal Host's continued restructuring of the non-core timeshare business.

On the expense side, management has continued to reduce costs year over year. Hospitality expenses were reduced by \$805,000 or 3.1% in the quarter. Operating income for the quarter was \$1.5 million lower than the previous year.

During the third quarter, Royal Host benefited from lower interest rates, as interest expense was \$667,000 lower than in the previous year. In addition the REIT continued to reduce trust administration costs which saw a decline of \$36,000 for the quarter.

Cash available for distribution was \$661,000 or 5.7% lower than the previous year. Per unit cash available for distribution was \$0.41 (basic) and \$0.37 (diluted) compared to \$0.51 (basic) and \$0.46 (diluted) in 2000. The reduction in per unit cash available for distribution was primarily due to an additional 3,832,477 units outstanding during the third quarter of 2001.

NINE MONTH RESULTS

For the nine months ended September 30, 2001, room revenues increased \$333,000 (0.5%) over the same period last year. Largely due to a \$3.6 million reduction in lease and other hospitality revenues, total hospitality revenues were \$3.5 million (3.2%) lower compared to the previous year.

Superior cost controls allowed management to reduce hospitality expenses by \$1.8 million. Operating income decreased by \$1.7 million to \$34.1 million.

Both interest expenses and trust administration costs impacted the bottom line positively as they were \$562,000 and \$530,000, respectively, lower than the previous year.

Cash available for distribution was \$729,000 lower at September 30, 2001 than in the corresponding period in the prior year. Per unit cash available was \$0.81 (basic) and \$0.79 (diluted) compared to \$0.95 (basic) and \$0.89 (diluted) for the previous year.

	HOTEL STATISTICS			
	2001	2000	2001	2000
	<u>YTD Sept.</u>	<u>YTD Sept</u>	<u>Q3</u>	<u>Q3</u>
ADR	\$88.25	\$84.99	\$92.68	\$89.42
Occupancy	68.1%	70.2%	75.9%	81.0%
Rev PAR	\$60.13	\$59.66	\$70.31	\$72.43

On a year to date basis, Royal Host's portfolio continued to show an increase in RevPAR of 0.8% over the previous year, however during the third quarter RevPAR declined by 2.9%, reflecting the slowing economy and the impact of the September 11, 2001 terrorist attacks.

For both the nine months and the third quarter ended September 30, 2001, average daily rate continued to increase while occupancy decelerated. Occupancy decreased at a greater rate during the third quarter of 2001 than in the previous two quarters.

CAPITAL STRUCTURE AND LIQUIDITY

As part of Royal Host's Trust Indenture, debt must be maintained at less than 45% of total assets plus accumulated depreciation. As at September 30, this ratio was 36.6%.

During the third quarter, Royal Host completed a \$14,000,000 financing on its Toronto Airport hotel. The financing has a 10-year term at an 8.46% rate. Approximately \$11 million of the proceeds were used to retire short-term debt with the balance used for costs of the transaction and general corporate purposes.

The tragic events of September 11, 2001 coupled with a weakening economy created an environment of uncertainty in the hotel industry. Royal Host responded to this uncertainty by reducing distributions by \$0.02 per unit per month at the end of the third quarter. This substantially improves the REIT's cashflow position as it decreases the monthly cash distribution requirements by slightly more than \$540,000.

OUTLOOK

It is clear that the economic slowdown has impacted Royal Host's performance in the third quarter and we expect the impact to affect results for the balance of the year.

Royal Host has a solid portfolio of well-maintained properties that continue to perform well despite current economic circumstances. With sound operating results, continued costs controls and a solid balance sheet, Royal Host is well positioned to face future economic uncertainties.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheet
\$000 (Unaudited)

	As At	
	September 30, 2001	December 31, 2000
ASSETS		
Current Assets		
Cash and short-term investments <i>(Note 3)</i>	17,401	6,799
Accounts and notes receivable	10,801	12,320
Deposits and prepaid expenses	3,159	2,603
Inventories	3,446	2,903
Future income tax	510	1,470
	35,317	26,095
Capital Assets <i>(Note 5)</i>	328,755	332,916
Long-term Notes Receivable and Other Assets	4,078	4,604
	368,150	363,615
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	16,308	15,936
Current portion of mortgages and other debt <i>(Note 6)</i>	70,547	51,802
Current portion of capital leases <i>(Note 7)</i>	1,195	928
Distributions payable	2,180	1,874
Other current liabilities	1,531	2,013
	91,761	72,553
Mortgages and Other Debt <i>(Note 6)</i>	84,418	107,051
Capital Leases <i>(Note 7)</i>	2,322	2,205
Future Income Taxes	1,276	1,885
Deferred Revenue	2,048	2,145
Equity <i>(Note 8)</i>	186,325	177,776
	368,150	363,615

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 September, 2001 and 2000
\$000 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2001	2000	2001	2000
Hospitality Revenues				
Rooms	27,809	28,878	71,239	70,906
Food and beverage	5,626	5,708	16,767	16,942
Lease and other hospitality revenues	6,309	7,447	17,057	20,695
	39,744	42,033	105,063	108,543
Hospitality Expenses	24,889	25,694	70,990	72,753
Operating Income	14,855	16,339	34,073	35,790
Other (Income) and Expenses				
Interest income	(149)	(1)	(276)	(23)
Interest on mortgages and other debt	3,496	4,163	10,768	11,330
Trust administration	476	512	1,282	1,812
Capital and future income taxes	191	(109)	557	(616)
Depreciation and amortization	4,811	5,549	14,111	16,281
	8,825	10,114	26,442	28,784
Net Earnings (Note 2)	6,030	6,225	7,631	7,006
Add: Depreciation and amortization of capital assets	4,461	5,455	13,208	15,856
Add: Amortization of deferred financing fees	350	94	903	425
Add (deduct): Future income tax expense (recovery)	117	(155)	351	(465)
Cash Available for Distribution	10,958	11,619	22,093	22,822
Per unit cash available for distribution				
- basic (Note 2)	0.41	0.51	0.81	0.95
- diluted (Note 2)	0.37	0.46	0.79	0.89

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows
For the periods ended September 30, 2001 and 2000
\$000 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2001	2000	2001	2000
CASH PROVIDED BY (USED IN)				
Operating Activities				
Net earnings	6,030	6,225	7,631	7,006
Items not affecting cash:				
Depreciation and amortization				
of capital assets	4,461	5,455	13,208	15,856
Future income tax expense (recovery)	117	(155)	351	(465)
Funds from operations	<u>10,608</u>	<u>11,525</u>	<u>21,190</u>	<u>22,397</u>
Decrease (increase) in accounts and notes receivable	(532)	493	1,519	(1,986)
Increase in deposits and prepaid expenses	(114)	(952)	(556)	(1,616)
Decrease (increase) in inventories	31	(24)	(543)	(73)
Decrease in accounts payable and accrued liabilities	(847)	(2,277)	372	(171)
Decrease in other current liabilities	(676)	(566)	(482)	(1,954)
	<u>8,470</u>	<u>8,199</u>	<u>21,500</u>	<u>16,597</u>
Financing Activities				
Additions to mortgages and other debt	14,000	5,953	15,206	6,128
Principal repayments on mortgages and other debt	(9,866)	(1,243)	(19,828)	(2,533)
Issuance of trust units	-	-	22,559	-
Issuance of trust units under distribution reinvestment plan	54	-	54	-
Unit issue costs	(111)	-	(1,409)	-
	<u>4,077</u>	<u>4,710</u>	<u>16,582</u>	<u>3,595</u>
Investing Activities				
Capital expenditures	(4,312)	(1,588)	(7,930)	(4,248)
(Increase) decrease in long-term notes receivable and other assets	563	(3,314)	526	(1,981)
Increase (decrease) in deferred revenue	229	230	(97)	678
	<u>(3,520)</u>	<u>(4,672)</u>	<u>(7,501)</u>	<u>(5,551)</u>
Equity Distributions	<u>(6,983)</u>	<u>(6,054)</u>	<u>(19,979)</u>	<u>(16,296)</u>
Net Change in Cash and Short-term Investments	2,044	2,183	10,602	(1,655)
Cash and Short-term Investments, beginning of period	<u>15,357</u>	<u>3,453</u>	<u>6,799</u>	<u>7,291</u>
Cash and Short-term Investments, end of period	<u>17,401</u>	<u>5,636</u>	<u>17,401</u>	<u>5,636</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at September 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 earnings 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 nine months ended September 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 24,099,889 trust units outstanding as at September 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 \$1,316,000 (\$1,318,000 - 2000) and payments on the redeemable partnership units of \$2,269,000 (\$2,269,000 - 2000).

For the nine months ended:	September 30, 2001			September 30, 2000		
	(\$000's)	Weighted Average Units (000's)	Per Unit	(\$000's)	Weighted Average Units (000's)	Per Unit
Earnings per unit						
Net earnings	7,631			7,006		
Less: Interest on convertible debenture	(1,316)			(1,318)		
Distributions on redeemable partnership units	(2,269)			(2,269)		
Basic and diluted earnings per unit	4,046	22,858	0.18	3,419	20,267	0.17
Cash available for distribution						
Net earnings	7,631			7,006		
Add (deduct):						
Depreciation and amortization of capital assets	13,208			15,856		
Amortization of deferred financing fees	903			425		
Future income tax expense (recovery)	351			(465)		
Redeemable partnership units	(2,269)			(2,269)		
Convertible debenture	(1,316)			(1,318)		
Basic cash per unit	18,508	22,858	0.81	19,235	20,267	0.95
Add back:						
Redeemable partnership units	2,269	3,151		2,269	3,151	
Convertible debenture	1,316	2,127		1,318	2,127	
Diluted cash per unit	22,093	28,136	0.79	22,822	25,545	0.89

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For the three months ended:	September 30, 2001			September 30, 2000		
	(\$000's)	Weighted Average Units (000's)	Per Unit	(\$000's)	Weighted Average Units (000's)	Per Unit
Earnings per unit						
Net earnings	6,030			6,225		
Less: Interest on convertible debenture	(444)			(442)		
Distributions on redeemable partnership units	(756)			(756)		
Basic earnings per unit	4,830	24,093	0.20	5,027	20,267	0.25
Convertible debenture	-	-		442	2,127	
Redeemable partnership units	-	-		756	3,151	
Diluted earnings per unit	4,830	24,093	0.20	6,225	25,545	0.24
Cash available for distribution						
Net earnings	6,030			6,225		
Add (deduct):						
Depreciation and amortization of capital assets	4,461			5,455		
Amortization of deferred financing fees	350			94		
Future income tax expense (recovery)	117			(155)		
Redeemable partnership units	(756)			(756)		
Convertible debenture	(444)			(442)		
Basic cash per unit	9,758	24,093	0.41	10,421	20,267	0.51
Add back:						
Redeemable partnership units	756	3,151		756	3,151	
Convertible debenture	444	2,127		442	2,127	
Fully diluted cash per unit	10,958	29,371	0.37	11,619	25,545	0.45

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 \$2,798,000 (\$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 nine 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>			
	September 30, 2001	September 30, 2001	September 30, 2001	
	Gross Book Value	Accumulated Depreciation	Net Book Value	Net Book Value
Land	37,303	-	37,303	37,303
Building	275,223	33,598	241,625	246,056
Furniture, fixture and equipment	37,396	19,189	18,207	21,434
Paving and other	1,193	141	1,052	1,065
	351,115	52,928	298,187	305,858
Properties under development	7,868	-	7,868	1,457
Goodwill	34,276	11,576	22,700	25,601
	393,259	64,504	328,755	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 \$16,035,000 for the nine months ended September 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>	
	September 30, 2001	December 31, 2000
Mortgages and other debt secured by hotel properties	154,965	158,853
Less current portion	70,547	51,802
Long-term obligations	84,418	107,051

Twelve months ended September 30 *(in 000's)*

2002	70,547
2003	3,302
2004	2,524
2005	2,486
2006	2,711
Subsequent	73,395
	154,965

Supplementary Information:

	September 30, 2001	September 30, 2000
Cash interest paid in the period	10,532	9,123

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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 September 30, 2001 are as follows:

	<i>(in \$000's)</i>	
	<u>September 30,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
Present value of future minimum lease payments	3,517	3,133
Less current portion	1,195	928
Long-term obligations	<u>2,322</u>	<u>2,205</u>

For the years ending September 30 *(in 000's)*

2002	1497
2003	1405
2004	736
2005	344
2006	83
Subsequent	<u>30</u>
Future minimum lease payments	4095
Amounts representing interest	<u>578</u>
Present value of future minimum lease payments	<u>3517</u>

8. EQUITY

	<i>(in \$000's)</i>	
	<u>September 30,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
Balance, beginning of period	128,276	146,681
Adjustment for future income taxes <i>(Note 9)</i>		(1,035)
As restated	<u>128,276</u>	<u>145,646</u>
Net earnings	7,631	6,872
Issuance of trust units - public offering	22,559	-
Issuance of trust units - distribution reinvestment plan	54	-
Unit issue costs	(1,409)	-
Equity distributions on:		
Trust units	(16,700)	(19,457)
Redeemable partnership units	(2,269)	(3,025)
Interest paid on convertible debentures	(1,317)	(1,760)
	<u>136,825</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>186,325</u>	<u>177,776</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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(unaudited)

a) Unit Capital

	Number of units	(in \$000's)
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
Issuance of trust units under public offering		
March 27, 2001	3,390,000	20,001
April 23, 2001	433,600	2,558
Issuance of trust units under distribution reinvestment plan	8,877	54
Balance September 30, 2001	24,099,889	219,778

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 September 30, 2001 was \$22,093,000 (\$22,822,000 - 2000) and distributions declared to unitholders, excluding distributions on redeemable partnership units, aggregated \$16,700,000 (\$14,593,000 - 2000) for the same period.

c) Distribution Reinvestment Plan

Royal Host has established a Distribution Reinvestment Plan ("DRIP") that is administered by its transfer agent and has reserved 500,000 units for issue under this Plan. For the period January 2001 to July 2001, DRIP units have been purchased on the open market by the transfer agent. Subsequent to July 2001, the company has issued new units for DRIP participants out of the previously authorized reserve units.

d) Unit Options

Royal Host has reserved 1,883,000 units under its unit option plan. As at September 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

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.

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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 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 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.

10. SUBSEQUENT EVENTS

On November 9, 2001, Canada 3000 Inc. ceased operations, after obtaining approval for a court-supervised restructuring of its finances and business operations by an Order of the Ontario Superior Court of Justice under the Companies' Creditors Arrangement Act. As a result of contracted Canada 3000 crew business, the company has an outstanding receivable of \$450,000 of which \$100,000 has been allowed for in these financial statements. The collectibility of this account is not determinable at this time.