

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the three months ended March 31, 2002 and 2001

(unaudited)

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

	As At	
	March 31, 2002	December 31, 2001
	<u> </u>	<u> </u>
ASSETS		
Current Assets		
Cash and short-term investments <i>(Note 4)</i>	27,505	12,201
Accounts and notes receivable	6,325	8,348
Deposits and prepaid expenses	3,141	2,781
Inventories	3,386	3,471
Future income tax	1,239	255
	<u>41,596</u>	<u>27,056</u>
Capital Assets <i>(Note 7)</i>	324,305	327,250
Long-term Notes Receivable and Other Assets	<u>3,781</u>	<u>3,730</u>
	<u>369,682</u>	<u>358,036</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	16,002	15,595
Current portion of mortgages and other debt <i>(Note 8)</i>	50,011	68,724
Current portion of capital leases <i>(Note 9)</i>	1,304	1,273
Distributions payable	1,637	1,636
Other current liabilities	1,809	2,140
	<u>70,763</u>	<u>89,368</u>
Mortgages and Other Debt <i>(Note 8)</i>	82,828	83,582
Capital Leases <i>(Note 9)</i>	1,876	2,225
Future Income Taxes	2,173	1,138
Deferred Revenue	1,222	1,235
Equity <i>(Note 10)</i>	<u>210,820</u>	<u>180,488</u>
	<u>369,682</u>	<u>358,036</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, 2002 and 2001
\$000 (unaudited)

	Three Months Ended	
	March 31,	March 31,
	2002	2001
Hospitality Revenues		
Rooms	18,154	18,916
Food and beverage	4,560	4,605
Other hospitality revenues	4,316	5,128
	27,030	28,649
Hospitality Expenses	21,304	21,585
Operating Income	5,726	7,064
Other (Income) and Expenses		
Interest income	(83)	(14)
Interest on mortgages and other debt	3,305	3,802
Trust administration	397	402
Capital and future income taxes	118	176
Depreciation and amortization	4,352	4,788
	8,089	9,154
Net Loss (Note 5)	(2,363)	(2,090)
Add: Depreciation and amortization of capital assets	4,024	4,424
Add: Amortization of deferred financing fees	328	364
Add: Future income tax expense	51	117
Cash Available for Distribution	2,040	2,815
Per Unit Cash Available for Distribution		
- basic (Note 5)	0.03	0.08
- diluted (Note 5)	0.03	0.08

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, 2002 and 2001
\$000 (unaudited)

	Three Months Ended	
	March 31,	March 31,
	2002	2001
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net loss	(2,363)	(2,090)
Items not affecting cash:		
Depreciation and amortization		
of capital assets	4,024	4,424
Future income tax expense	51	117
Funds from operations	<u>1,712</u>	<u>2,451</u>
Change in non-working capital:		
Decrease in accounts and notes receivable	2,023	3,716
Increase in deposits and prepaid expenses	(360)	(438)
Decrease (increase) in inventories	85	(431)
Increase (decrease) in accounts payable		
and accrued liabilities	407	(250)
Decrease in other current liabilities	(331)	(519)
	<u>3,536</u>	<u>4,529</u>
Financing Activities		
Additions to mortgages and other debt	-	1,206
Principal repayments on mortgages		
and other debt and capital leases	(19,785)	(7,712)
Issuance of trust units	-	20,001
Issuance of trust units under distribution		
reinvestment plan	147	-
Issuance of 9.25% convertible debenture	40,000	-
Debenture and unit issue costs	(1,722)	(1,091)
	<u>18,640</u>	<u>12,404</u>
Investing Activities		
Capital expenditures	(1,079)	(1,539)
(Increase) decrease in long-term notes receivable		
and other assets	(51)	327
(Decrease) increase in deferred revenue	(13)	95
	<u>(1,143)</u>	<u>(1,117)</u>
Equity Distributions	<u>(5,729)</u>	<u>(6,054)</u>
Net Increase in Cash		
and Short-term Investments	15,304	9,762
Cash and Short-term Investments,		
beginning of period	<u>12,201</u>	<u>6,799</u>
Cash and Short-term Investments,		
end of period	<u>27,505</u>	<u>16,561</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, 2002 and 2001

(unaudited)

1. GENERAL INFORMATION

Royal Host Real Estate Investment Trust ("Royal Host") was created pursuant to the Declaration of Trust dated August 27, 1997. Royal Host is an unincorporated closed-end mutual fund trust established for the purpose of investing in hotel properties and hospitality businesses, 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 changes provided in Section 3062 - Goodwill and Other Intangible Assets (*Note 3(a)*). 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, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002 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, 2001.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Capital Assets

Hotel properties are recorded at the lower of net book value or net recoverable amount. The net recoverable amount represents the undiscounted projected future net cash flow 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 between 25 and 40 years. Hotel construction, condition and location characteristics are evaluated on a periodic basis by management and useful life estimates are revised accordingly, as may be necessary from time to time.

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 of 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 their 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"). To December 31, 2001, goodwill has been amortized on a straight-line basis over periods between five and 15 years.

Effective January 1, 2002, Royal Host adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062 regarding Goodwill and Other Intangible Assets, which requires non-amortization of goodwill (see Note 3 (a)), for years beginning after January 1, 2002.

b) Unit Option Plan

Royal Host has a unit option plan as described in Note 9(d). No compensation expense is recognized for the plan when options are granted. Consideration received on exercise of options is credited to Unitholders' equity. See Note 3 (b) for changes in accounting policy related to Stock Based Compensation Plans.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at March 31, 2002 and 2001
(unaudited)

3. CHANGES IN ACCOUNTING POLICY

a) Goodwill & Intangible Assets

Effective January 1, 2002, the Trust has adopted Section 3062 - Goodwill and Other Intangible Assets of the Handbook of the CICA. In accordance with the changes provided in this section, Management has evaluated the goodwill balance at January 1, 2002, totaling approximately \$21.7 million, for reclassification to intangible assets versus the traditional classification of goodwill. Upon evaluating goodwill, Management reclassified goodwill to two categories of intangible assets: (1) franchise rights and management contracts, and (2) customer lists and intellectual and human capital. Management evaluated the estimated useful lives of the corresponding intangible assets to ensure the amortization periods being used appropriately reflected the period of remaining benefit.

Effective January 1, 2002, intangible assets – franchise rights and management contracts have been amortized on a straight-line basis over periods between three and ten years, with intangible assets – customer lists and intellectual and human capital amortized on a straight-line basis over periods between one and seven years.

Intangible assets are recorded at the lower of net book value or net recoverable amount. Any permanent impairment would be written down in the period identified and charged against earnings.

This change in accounting policy affects calculations of net earnings (loss) and net earnings (loss) per unit, but does not impact cash available for distribution and cash available for distribution per unit calculations. The following table depicts the impact of adopting this accounting policy:

For the three months ended:	March 31, 2002	March 31, 2001
	<i>(000's)</i>	<i>(000's)</i>
Loss per Unit		
Adjusted basic net loss (note 5)	(3,749)	(3,280)
Items to reflect comparative pro forma 2001 balance:		
Add: Goodwill amortization	-	961
Less: Intangible assets amortization - 2001 pro forma	-	(980)
Adjusted net loss (2001 pro forma)	(3,749)	(3,299)
Basic loss per unit		
Adjusted net loss for per unit calculations	(0.16)	(0.16)
Add: Goodwill amortization	-	0.05
Less: Intangible assets amortization	-	(0.05)
Adjusted net loss	(0.16)	(0.16)
Diluted loss per unit		
Adjusted net loss for per unit calculations	(0.16)	(0.17)
Add: Goodwill amortization	-	0.05
Less: Intangible assets amortization	-	(0.05)
Adjusted net loss	(0.16)	(0.17)
 Weighted average units	 24,122,807	 20,455,745

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Interim Financial Statements

As at March 31, 2002 and 2001

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b) Stock Based Compensation Plans

Effective January 1, 2002, the Trust adopted Section 3870 - Stock Based Compensation Plans of the Handbook of the CICA with respect to the accounting and disclosure of stock based compensation plans, which recommends that awards to employees be valued using fair-market method of accounting.

Under CICA Section 3870, companies that elect a method other than fair-value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as the Black-Scholes model, as if the fair-value method of accounting had been used. These new rules do not apply to pre-existing awards except for those awards that call for settlement in cash and other assets.

The adoption of Handbook Section 3870 has no financial impact to the Trust on the unit options, under the existing unit option plan, which were issued prior to the date of adoption.

c) Foreign Currency Translation

Effective January 1, 2002, the Trust adopted the amendments to Section 1650 - Foreign Currency Translation of the Handbook of the CICA. These amendments deal with elimination of the deferral and amortization for unrealized translation gains and losses on non-current monetary assets and liabilities and the requirement to disclose the exchange gains and losses included in net earnings.

The Trust has no material deferred unrealized translation gains or losses on non-monetary assets and liabilities, and therefore required no adjustments to net earnings at January 1, 2002 or March 31, 2002.

4. RESERVED CASH

Included in cash is an amount of \$3,297,000 (December 2001 - \$3,194,000) of reserved cash representing funds on deposit with lenders for future planned capital expenditures within the next 12 months.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Interim Financial Statements

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5. PER UNIT COMPUTATIONS

There were 24,138,035 trust units outstanding as at March 31, 2002 (2001 – 23,657,412). Per unit computations are based on the weighted average number of trust units outstanding for the period, after adjusting the net earnings (loss) and cash available for distribution for payments on the convertible debentures of \$819,000 (2001 - \$433,000) and payments on the redeemable partnership units of \$567,000 (2001 - \$756,000).

For the three months ended:	March 31, 2002			March 31, 2001		
	(\$000's)	Weighted Average Units (000's)	Per Unit	(\$000's)	Weighted Average Units (000's)	Per Unit
Loss per unit						
Net loss	(2,363)			(2,090)		
Less:						
Interest on convertible debentures	(819)			(433)		
Distributions on redeemable partnership units	(567)			(757)		
Basic loss per unit	(3,749)	24,123	(0.16)	(3,280)	20,456	(0.16)
Unit options		907			962	
Unit purchase buy-back		(1,396)			(1,545)	
Diluted loss per unit	(3,749)	23,634	(0.16)	(3,280)	19,873	(0.17)
Cash available for distribution						
Net loss	(2,363)			(2,090)		
Add (deduct):						
Depreciation and amortization of capital assets	4,024			4,424		
Amortization of deferred financing fees	328			364		
Future income tax expense	51			117		
Distributions on redeemable partnership units	(567)			(757)		
Interest on convertible debentures	(819)			(433)		
Basic and diluted cash available for distribution per unit	654	24,123	0.03	1,625	20,456	0.08

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, 2002 would have been \$590,000 (2001 - \$766,000). As Royal Host spent \$1,079,000, excluding capital leases, to date in 2002 (2001 - \$1,539,000) to renovate and reposition the hotel properties, the Trustees have determined that no reserve would be provided for in 2002 and 2001.

Royal Host has complied with the new requirements of the CICA with respect to the calculation of earnings and diluted earnings. Comparative figures have been restated to conform to these new accounting standards (see Note 3 (a)).

6. RELATED PARTY TRANSACTIONS

During 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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7. CAPITAL ASSETS

(in \$000's)

	March 31, 2002		December 31, 2001	
	Gross Book Value	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	37,303	-	37,303	37,303
Buildings	277,553	36,567	240,986	241,293
Furniture, fixtures and equipment	37,934	22,411	15,523	16,874
Paving and other	1,195	279	916	1,043
	353,985	59,257	294,728	296,513
Properties under development	8,619	-	8,619	9,008
Goodwill	-	-	-	21,729
Intangible assets				
- Franchise rights and management contracts	19,285	603	18,682	-
- Customer lists and intellectual and human capital	2,444	168	2,276	-
	384,333	60,028	324,305	327,250

All hotel properties are wholly-owned by Royal Host, except one hotel property representing less than 5% of total capital assets, which 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 5 and determined to be anti-dilutive.

For discussion of capital replacement reserves in 2002 and 2001, see Note 5.

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8. MORTGAGES AND OTHER DEBT

	<i>(in \$000's)</i>	
	March 31, 2002	December 31, 2001
Mortgages and other debt secured by hotel properties	132,839	152,306
Less current portion	50,011	68,724
Long-term obligations	82,828	83,582
Twelve months ending March 31 <i>(in 000's)</i>		
2003	50,011	
2004	3,129	
2005	2,405	
2006	2,623	
2007	2,309	
Subsequent	72,362	
	132,839	
Supplementary Information:		
	March 31, 2002	March 31, 2001
Cash interest paid in the period	3,211	3,998

9. OBLIGATIONS UNDER CAPITAL LEASES

The company has entered into various capital lease obligations to acquire computers and hotel furniture, fixtures and equipment. The present values of minimum lease payments under capital lease as of March 31, 2002 are as follows:

	<i>(in \$000's)</i>	
	March 31, 2002	December 31, 2001
Present value of future minimum lease payments	3,180	3,498
Less current portion	1,304	1,273
Long-term obligations	1,876	2,225
Twelve months ending March 31 <i>(in 000's)</i>		
2003	1,550	
2004	1,176	
2005	559	
2006	253	
2007	93	
Subsequent	13	
Future minimum lease payments	3,644	
Amounts representing interest	464	
Present value of future minimum lease payments	3,180	

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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10. EQUITY

	<i>(in \$000's)</i>	
	March 31, 2002	December 31, 2001
Balance, beginning of period	130,988	128,276
Net (loss) earnings	(2,363)	7,054
Issuance of trust units - public offering	-	22,559
Issuance of trust units - distribution reinvestment plan	147	144
Unit issue costs	(1,722)	(1,409)
Equity distributions on:		
Trust units	(4,344)	(21,040)
Redeemable partnership units	(567)	(2,836)
Interest paid on convertible debentures	(819)	(1,760)
	121,320	130,988
Convertible Equity		
Redeemable partnership units	27,500	27,500
Convertible debentures	62,000	22,000
	89,500	49,500
Balance, end of period	210,820	180,488

a) Unit Capital

	Number of units	<i>(in \$000's)</i>
Balance, December 31, 2000	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	24,834	144
Balance December 31, 2001	24,115,846	219,868
Issuance of trust units under distribution reinvestment plan	22,189	147
Balance March 31, 2002	24,138,035	220,015

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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Interim Financial Statements

As at March 31, 2002 and 2001

(unaudited)

b) Distributions to Unitholders

Cash available for distribution for the three months ended March 31, 2002 was \$2,040,000 (2001 - \$2,815,000) and distributions declared to Unitholders, excluding distributions on redeemable partnership units, aggregated \$4,344,000 (2001 - \$5,135,000) 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, the transfer agent purchased DRIP units on the open market. Subsequent to July 2001, the company has issued new units for DRIP participants out of the previously authorized reserved units.

d) Unit Options

Royal Host has reserved 1,883,000 units under its unit option plan. As at March 31, 2002, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 907,500 units (2001 - 962,500 units), ranging from \$10.00 to \$10.50 per unit. In 2002 and 2001, the weighted average exercise price is \$10.03. These options expire on October 31, 2007 and on March 23, 2008. During 2002, no options were issued or exercised, and no units expired.

The adoption of Handbook Section 3870 - Stock Based Compensation Plans has no financial impact on the stock options under the existing stock option plan, which were issued prior to the date of adoption (see Note 3 (b)).

e) Redeemable Partnership Units

Holders of redeemable partnership units ("Holders") are entitled to receive distributions indirectly from Royal Host 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.

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 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 are classified as equity instruments.

f) Convertible Debentures

For accounting purposes, the convertible debentures have equity characteristics and accordingly, they are classified as equity instruments.

i) 8.00% Convertible Secured Debentures

The convertible debentures of \$22,000,000 bear interest at 8% per annum and are payable monthly, at Royal Host's option, in either cash or Royal Host units of an equivalent value. In addition, upon maturity in 2003, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host.

Based on certain conditions, the debentures are convertible at \$11.00 per trust unit for the period from October 1, 2001 to September 30, 2003.

ROYAL HOST REAL ESTATE INVESTMENT TRUST

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ii) 9.25% Convertible Unsecured Subordinated Debentures

The convertible debentures of \$40,000,000 bear interest at 9.25% per annum and are payable semi-annually in arrears on March 1 and September 1 in each year commencing September 1, 2002. In addition, upon maturity in 2007, Royal Host has the option to repay the debentures in either cash or in equivalent units of Royal Host. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units on the maturity date.

Based on certain conditions, the debentures are convertible at \$7.00 per trust unit from date of issue to March 1, 2007.

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 are eligible to finance the purchase of units from treasury at \$5.80 per unit.

On April 1, 2002, 400,000 units were issued under this plan. The employee unit purchase program represents a financing program for selected employees to purchase units of the REIT. This plan structure does not meet the definition of stock based compensation plans, and therefore does not fall under the new Handbook Section 3870 – Stock Based Compensation Plans (see Note 3 (b)).

11. COMMITMENTS

Effective December 18, 2001, Royal Host management, acting in its capacity as authorized officers of a unincorporated vacation club society (“Society”) entered into a lease agreement with a party to secure, on behalf of the Society, the right to use a vacation property. The lease agreement temporarily obligates a Royal Host subsidiary to lease the particular vacation property for three successive 15-year terms followed by a final 5-year term. The renewal terms are automatic and substantially obligate the lessee to renew the lease for a full term of 50 years.

Management intends to fully transfer the entitlements and obligations associated with this lease agreement to the Society, and the Society has agreed to accept the entitlements and obligations associated with the lease agreement pending finalization of legal and contractual documentation pertaining to the transfer of the lease entitlements and obligations to the Society.

It is anticipated that the finalization of such transfer of lease entitlements and obligations will occur in the near future. Should matters arise that result, for whatever reason, in the entitlements and obligations of the lease agreement not transferring to the Society, Royal Host may record such entitlements and obligations in its consolidated financial statements at that time. The current estimated fair value of each of the future entitlements and of the obligations at March 31, 2002 is approximately \$3.2 million.

12. COMPARATIVE FIGURES

Certain prior year's figures have been reclassified to conform with the presentation adopted for 2002; also certain of the 2001 figures have been restated to reflect the adoption of new accounting standards.