

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the six months ended June 30, 2002 and June 30, 2001

(unaudited)

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

	As At	
	June 30, 2002	December 31, 2001
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ASSETS		
Current Assets		
Cash and short-term investments <i>(Note 4)</i>	25,798	12,201
Accounts and notes receivable	8,228	8,348
Deposits and prepaid expenses	3,257	2,781
Inventories	3,499	3,471
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	40,782	26,801
Capital Assets <i>(Note 7)</i>	320,944	327,250
Long-term Notes Receivable and Other Assets	4,384	3,730
	<hr/>	<hr/>
	366,110	357,781
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LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	18,272	15,595
Current portion of mortgages and other debt <i>(Note 8)</i>	50,031	68,724
Current portion of capital leases <i>(Note 9)</i>	1,314	1,273
Distributions payable	1,663	1,636
Other current liabilities	1,847	2,140
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	73,127	89,368
Mortgages and Other Debt <i>(Note 8)</i>	81,987	83,582
Capital Leases <i>(Note 9)</i>	1,640	2,225
Future Income Taxes	1,118	883
Deferred Revenue	1,385	1,235
Equity <i>(Note 10)</i>	206,853	180,488
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	366,110	357,781
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See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Net (Loss) Earnings and Cash Available for Distribution
For the six months ended June 30, 2002 and June 30, 2001
\$000 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2002	2001	2002	2001
Hospitality Revenues				
Rooms	23,446	24,514	41,600	43,430
Food and beverage	5,808	6,536	10,368	11,141
Other hospitality revenues	4,576	5,982	8,892	11,110
	33,830	37,032	60,860	65,681
Hospitality Expenses	23,166	24,878	44,470	46,463
Operating Income	10,664	12,154	16,390	19,218
Other (Income) and Expenses				
Interest income	(136)	(113)	(219)	(127)
Interest on mortgages and other debt	3,117	3,470	6,422	7,272
Trust administration	444	404	841	806
Capital and future income taxes	242	189	360	365
Depreciation and amortization	4,642	4,513	8,994	9,301
	8,309	8,463	16,398	17,617
Net (Loss) Earnings (Note 5)	2,355	3,691	(8)	1,601
Add: Depreciation and amortization of capital assets	4,562	4,323	8,586	8,747
Add: Amortization of deferred financing fees	80	190	408	554
Add (deduct): Future income tax expense (recovery)	184	117	235	234
Cash Available for Distribution (Note 2 (c))	7,181	8,321	9,221	11,136
Per unit cash available for distribution (Note 2 (c))				
- basic (Note 5)	0.21	0.30	0.24	0.39
- diluted (Note 5)	0.20	0.28	0.24	0.39

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows
For the six months ended June 30, 2002 and June 30, 2001
\$000 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
CASH PROVIDED BY (USED IN)				
Operating Activities				
Net (loss) earnings	2,355	3,691	(8)	1,601
Items not affecting cash:				
Depreciation and amortization of capital assets	4,562	4,323	8,586	8,747
Future income tax expense (recovery)	184	117	235	234
Funds from operations	<u>7,101</u>	<u>8,131</u>	<u>8,813</u>	<u>10,582</u>
Change in non-cash working capital:				
Increase (decrease) in accounts and notes receivable	(1,903)	(1,665)	120	2,051
Increase in deposits and prepaid expenses	(116)	(4)	(476)	(442)
Increase in inventories	(113)	(143)	(28)	(574)
Increase in accounts payable and accrued liabilities	2,270	1,469	2,677	1,219
Decrease (increase) in other current liabilities	38	713	(293)	194
	<u>7,277</u>	<u>8,501</u>	<u>10,813</u>	<u>13,030</u>
Financing Activities				
Additions to mortgages and other debt	-	-	-	1,206
Principal repayments on mortgages and other debt and capital leases	(1,103)	(2,250)	(20,888)	(9,962)
Issuance of trust units	22	2,558	22	22,559
Issuance of trust units under distribution reinvestment plan	174	-	321	-
Issuance of convertible debenture	-	-	40,000	-
Unit issue costs	(157)	(207)	(1,879)	(1,298)
	<u>(1,064)</u>	<u>101</u>	<u>17,576</u>	<u>12,505</u>
Investing Activities				
Capital expenditures	(1,145)	(2,079)	(2,224)	(3,618)
Increase in long-term notes receivable and other assets	(603)	(364)	(654)	(37)
Increase (decrease) in deferred revenue	163	(421)	150	(326)
	<u>(1,585)</u>	<u>(2,864)</u>	<u>(2,728)</u>	<u>(3,981)</u>
Equity Distributions	<u>(6,335)</u>	<u>(6,942)</u>	<u>(12,064)</u>	<u>(12,996)</u>
Net Change in Cash and Short-term Investments	(1,707)	(1,204)	13,597	8,558
Cash and Short-term Investments, beginning of period	<u>27,505</u>	<u>16,561</u>	<u>12,201</u>	<u>6,799</u>
Cash and Short-term Investments, end of period	<u>25,798</u>	<u>15,357</u>	<u>25,798</u>	<u>15,357</u>

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at June 30, 2002 and June 30, 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 six months ended June 30, 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 estimated 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 quarterly basis by management and useful life estimates are revised, 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 10(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.

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c) Non-GAAP Measures Reporting

Cash available for distribution is calculated as net earnings before depreciation and amortization of capital assets, amortization of deferred financing fees and future income tax expense less the capital replacement reserve. This amount is determined in accordance with the Declaration of Trust and is intended to approximate Royal Host's taxable income, which is distributed to unitholders. Special charges and the capital replacement reserve are determined at the discretion of the Board of Trustees. Readers are cautioned that cash available for distribution is not a defined measure of performance under Canadian generally accepted accounting principles ("GAAP"). Royal Host's calculation of cash available for distribution may be different than the calculation used by other entities.

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 six months ended:	June 30, 2002	June 30, 2001
	<i>(000's)</i>	<i>(000's)</i>
Loss per Unit		
Adjusted basic net loss (note 5)	(3,323)	(783)
Items to reflect comparative pro forma 2001 balance:		
Add: Goodwill amortization	-	1,929
Less: Intangible assets amortization - 2001 pro forma	-	(1,964)
Adjusted net loss (2001 pro forma)	(3,323)	(818)
Basic loss per unit		
Adjusted net loss for per unit calculations	(0.14)	(0.04)
Add: Goodwill amortization	-	0.09
Less: Intangible assets amortization	-	(0.09)
Adjusted net loss	(0.14)	(0.04)
Diluted loss per unit		
Adjusted net loss for per unit calculations	(0.14)	(0.04)
Add: Goodwill amortization	-	0.09
Less: Intangible assets amortization	-	(0.09)
Adjusted net loss	(0.14)	(0.04)
 Weighted average units	 24,312,257	 22,230,718

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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-value 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 June 30, 2002.

4. RESERVED CASH

Included in cash is an amount of \$2,541,000 (December 2001 - \$3,194,000) of reserved cash representing funds on deposit with lenders for future planned capital expenditures within the next 12 months.

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5. PER UNIT COMPUTATIONS

There were 24,565,601 trust units outstanding as at June 30, 2002 (2001 – 24,091,012). 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 \$2,180,000 (2001 - \$871,000) and payments on the redeemable partnership units of \$1,135,000 (2001 - \$1,513,000).

For the six months ended:

	June 30, 2002			June 30, 2001		
	(\$000's)	Weighted Average Units (000's)	Per Unit	(\$000's)	Weighted Average Units (000's)	Per Unit
Loss per unit						
Net (loss) earnings	(8)			1,601		
Less:						
Interest on convertible debentures	(2,180)			(871)		
Distributions on redeemable partnership units	(1,135)			(1,513)		
Basic loss per unit	(3,323)	24,312	(0.14)	(783)	22,231	(0.04)
Unit options		907			907	
Unit option repurchase		(1,375)			(1,470)	
Diluted loss per unit	(3,323)	23,844	(0.14)	(783)	21,668	(0.04)
Cash available for distribution						
Net (loss) earnings	(8)			1,601		
Add (deduct):						
Depreciation and amortization of capital assets	8,586			8,747		
Amortization of deferred financing fees	408			554		
Future income tax expense	235			234		
Distributions on redeemable partnership units	(1,135)			(1,513)		
Interest on convertible debentures	(2,180)			(871)		
Basic and diluted cash available for distribution per unit	5,906	24,312	0.24	8,752	22,231	0.39

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For the three months ended:	June 30, 2002			June 30, 2001		
	(\$000's)	Weighted Average Units (000's)	Per Unit	(\$000's)	Weighted Average Units (000's)	Per Unit
Earnings per unit						
Net earnings	2,355			3,691		
Less:						
Interest on convertible debentures	(1,362)			(438)		
Distributions on redeemable partnership units	(567)			(756)		
Basic and diluted earnings per unit	426	24,499	0.02	2,497	23,986	0.10
Cash available for distribution						
Net earnings	2,355			3,691		
Add (deduct):						
Depreciation and amortization of capital assets	4,562			4,323		
Amortization of deferred financing fees	80			190		
Future income tax expense	184			117		
Distributions on redeemable partnership units	(567)			(756)		
Interest on convertible debentures	(1,362)			(438)		
Basic cash available for distribution per unit	5,252	24,499	0.21	7,127	23,986	0.30
Add back:						
\$22M convertible units	-	-		438	2,091	
\$40M convertible units	922	5,714		-	-	
Distributions on redeemable partnership units	567	3,152		756	3,151	
Diluted cash available for distribution per unit	6,741	33,365	0.20	8,321	29,228	0.28

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 six months ended June 30, 2002 would have been \$1,677,000 (2001 - \$1,765,000). As Royal Host spent \$2,209,000, excluding capital leases, to date at June 30th in 2002 (2001 - \$3,618,000) 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 (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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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7. CAPITAL ASSETS

	<i>(in \$000's)</i>			
	June 30, 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	282,402	38,499	243,903	241,293
Furniture, fixtures and equipment	39,411	24,255	15,156	16,874
Paving and other	1,195	297	898	1,043
	360,311	63,051	297,260	296,513
Properties under development	2,924	-	2,924	9,008
Goodwill	-	-	-	21,729
Intangible assets				
- Franchise rights and management contracts	27,528	8,952	18,576	-
- Customer lists and intellectual and human capital	7,270	5,086	2,184	-
	398,033	77,089	320,944	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.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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8. MORTGAGES AND OTHER DEBT

	<i>(in \$000's)</i>	
	<u>June 30, 2002</u>	<u>December 31, 2001</u>
Mortgages and other debt secured by hotel properties	132,018	152,306
Less current portion	50,031	68,724
Long-term obligations	<u>81,987</u>	<u>83,582</u>
Twelve months ending June 30 <i>(in 000's)</i>		
2003	50,031	
2004	2,870	
2005	2,458	
2006	2,681	
2007	2,857	
Subsequent	71,121	
	<u>132,018</u>	
Supplementary Information:	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Cash interest paid in the period	<u>6,352</u>	<u>7,133</u>

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 June 30, 2002 are as follows:

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
Present value of future minimum lease payments	2,954	3,498
Less current portion	1,314	1,273
Long-term obligations	<u>1,640</u>	<u>2,225</u>
Twelve months ending June 30 <i>(in 000's)</i>		
2003	1,552	
2004	1,023	
2005	519	
2006	195	
2007	85	
Subsequent	4	
Future minimum lease payments	<u>3,378</u>	
Amounts representing interest	424	
Present value of future minimum lease payments	<u>2,954</u>	

ROYAL HOST REAL ESTATE INVESTMENT TRUST
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10. EQUITY

	<i>(in \$000's)</i>	
	June 30, 2002	December 31, 2001
Balance, beginning of period	130,988	128,276
Net (loss) earnings	(8)	7,054
Issuance of trust units		
- Public offering	-	22,559
- Distribution reinvestment plan	321	144
- Employee unit purchase program <i>(Note 10(g))</i>	2,320	-
Employee loans pursuant to employee unit purchase program <i>(Note 10 (g))</i>	(2,298)	-
Unit issue costs	(1,879)	(1,409)
Equity distributions on:		
Trust units	(8,776)	(21,040)
Redeemable partnership units	(1,135)	(2,836)
Interest paid on convertible debentures	(2,180)	(1,760)
	117,353	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	206,853	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		
Employee unit purchase program <i>(Note 10(g))</i>	400,000	2,320
Distribution reinvestment plan	49,755	321
Balance June 30, 2002	24,565,601	222,509

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.

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b) Distributions to Unitholders

Cash available for distribution for the six months ended June 30, 2002 was \$9,221,000 (2001 - \$11,136,000) and distributions declared to Unitholders, excluding distributions on redeemable partnership units, aggregated \$8,776,000 (2001 - \$10,917,000) 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, Royal Host 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 June 30, 2002, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 907,500 units (2001 – 907,500 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

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.

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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.

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

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 approved Royal Host employees (excluding certain senior executives) were eligible to finance the purchase of units from treasury at \$5.80 per unit at that time.

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 Royal Host. Royal Host has recorded employee loans receivable of \$2,320,000 in respect to this transaction, which bear interest at a fixed rate of 5.0%, a rate established based on consideration of existing institutional rates and Canadian Customs and Revenue Agency ("CCRA") guidelines for employee loan rates at that time. 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 (Note 3 (b)).

In accordance with EIC ("Emerging Issues Committee") 44, for accounting purposes, these employee loans receivable have been offset against the corresponding trust units equity.

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 June 30, 2002 is approximately \$3.2 million.

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at June 30, 2002 and June 30, 2001
(unaudited)

12. SUBSEQUENT EVENTS

a) Acquisitions

On July 12, 2002, Royal Host acquired 2 hotel properties from a single vendor, adding 233 guestrooms, for an aggregate purchase price of \$11,300,000. Cash consideration was paid from the net proceeds of the 9.25% Convertible Unsecured Subordinated Debenture issued February 21, 2002.

b) Financing

On July 3, 2002, Royal Host completed financing arrangements in the amount of \$5,000,000, the proceeds to be used to renovate certain hotel properties. The loan is interest bearing at the bank's floating base rate, which is currently 6.0%. The loan is secured by first mortgages on the land and general security registered against certain hotel properties.

13. 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.