

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the nine months ended September 30, 2002 and September 30, 2001

(unaudited)

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

	As At	
	September 30, 2002	December 31, 2001
	<u> </u>	<u> </u>
ASSETS		
Current Assets		
Cash and short-term investments <i>(Note 4)</i>	25,313	12,201
Accounts and notes receivable	9,327	8,348
Deposits and prepaid expenses	4,266	2,781
Inventories	3,583	3,471
	<u>42,489</u>	<u>26,801</u>
Capital Assets <i>(Note 7)</i>	328,874	327,250
Long-term Notes Receivable and Other Assets	<u>4,947</u>	<u>3,730</u>
	<u>376,310</u>	<u>357,781</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	17,583	15,595
Current portion of mortgages and other debt <i>(Note 8)</i>	36,078	68,724
Current portion of capital leases <i>(Note 9)</i>	1,270	1,273
Distributions payable	1,665	1,636
Other current liabilities	1,676	2,140
	<u>58,272</u>	<u>89,368</u>
Mortgages and Other Debt <i>(Note 8)</i>	105,973	83,582
Capital Leases <i>(Note 9)</i>	1,366	2,225
Future Income Taxes	2,505	883
Deferred Revenue	1,350	1,235
Equity <i>(Note 10)</i>	<u>206,844</u>	<u>180,488</u>
	<u>376,310</u>	<u>357,781</u>

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Net Earnings
For the nine months ended September 30, 2002 and September 30, 2001
\$000 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Hospitality Revenues				
Rooms	29,480	27,809	71,080	71,239
Food and beverage	6,195	5,626	16,563	16,767
Other hospitality revenues	6,045	6,386	14,937	17,496
	41,720	39,821	102,580	105,502
Hospitality Expenses	26,135	24,966	70,605	71,429
Operating Income	15,585	14,855	31,975	34,073
Other (Income) and Expenses				
Interest income	(125)	(149)	(344)	(276)
Interest on mortgages and other debt	3,153	3,496	9,575	10,768
Trust administration	414	476	1,255	1,282
Capital and future income taxes	1,479	191	1,839	557
Amortization	4,530	4,811	13,524	14,111
	9,451	8,825	25,849	26,442
Net Earnings (Note 5)	6,134	6,030	6,126	7,631
Per unit net earnings				
- basic (Note 5)	0.17	0.20	0.04	0.18
- diluted (Note 5)	0.17	0.20	0.04	0.18

See accompanying Notes to Consolidated Interim Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
CASH PROVIDED BY (USED IN)				
Operating Activities				
Net earnings	6,134	6,030	6,126	7,631
Items not affecting cash:				
Amortization of capital assets	4,431	4,461	13,017	13,208
Future income tax expense	1,387	117	1,622	351
Funds from operations	11,952	10,608	20,765	21,190
Change in non-cash working capital:				
(Increase) decrease in accounts and notes receivable	(1,099)	(532)	(979)	1,519
Increase in deposits and prepaid expenses	(1,009)	(114)	(1,485)	(556)
(Increase) decrease in inventories	(84)	31	(112)	(543)
Increase (decrease) in accounts payable and accrued liabilities	(689)	(847)	1,988	372
Decrease in other current liabilities	(171)	(676)	(464)	(482)
	8,900	8,470	19,713	21,500
Financing Activities				
Additions to mortgages and other debt	11,100	14,000	11,100	15,206
Principal repayments on mortgages and other debt and capital leases	(1,385)	(9,866)	(22,273)	(19,828)
Issuance of trust units	-	-	-	22,559
Issuance of trust units under employee unit purchase plan	37	-	59	-
Issuance of trust units under distribution reinvestment plan	188	54	509	54
Issuance of convertible debenture	-	-	40,000	-
Equity financing issue costs	(9)	(111)	(1,888)	(1,409)
	9,931	4,077	27,507	16,582
Investing Activities				
Capital expenditures	(12,361)	(4,312)	(14,585)	(7,930)
(Increase) decrease in long-term notes receivable and other assets	(563)	563	(1,217)	526
Increase (decrease) in deferred revenue	(35)	229	115	(97)
	(12,959)	(3,520)	(15,687)	(7,501)
Equity Distributions (Note 10)	(6,357)	(6,983)	(18,421)	(19,979)
Net Change in Cash and Short-term Investments	(485)	2,044	13,112	10,602
Cash and Short-term Investments, beginning of period	25,798	15,357	12,201	6,799
Cash and Short-term Investments, end of period	25,313	17,401	25,313	17,401

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at September 30, 2002 and September 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 as described in Note 3, Changes In Accounting Policy. 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, 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 Royal Host'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 amortized 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 amortized 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 had 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 (c)), 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 (a) 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 September 30, 2002 and September 30, 2001
(unaudited)

c) Non-GAAP Measures Reporting

Cash available for distribution is calculated as net earnings before 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 similar calculations used by other comparable entities.

3. CHANGES IN ACCOUNTING POLICY

a) Stock Based Compensation Plans

Effective January 1, 2002, the Trust adopted Section 3870 - Stock Based Compensation Plans of the CICA Handbook 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.

b) Foreign Currency Translation

Effective January 1, 2002, the Trust adopted the amendments to Section 1650 - Foreign Currency Translation of the CICA Handbook. 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 September 30, 2002.

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

c) Goodwill & Intangible Assets

Effective January 1, 2002, the Trust has adopted Section 3062 - Goodwill and Other Intangible Assets of the CICA Handbook. 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 nine months ended:	September 30, 2002	September 30, 2001
	<i>(000's)</i>	<i>(000's)</i>
Earnings per Unit		
Adjusted basic net earnings (note 5)	867	4,046
Items to reflect comparative pro forma 2001 balance:		
Add: Goodwill amortization	-	2,898
Less: Intangible assets amortization - 2001 pro forma	-	(2,945)
Adjusted net earnings (2001 pro forma)	867	3,999
Basic earnings per unit		
Adjusted net earnings for per unit calculations	0.04	0.18
Add: Goodwill amortization	-	0.13
Less: Intangible assets amortization	-	(0.13)
Adjusted net earnings	0.04	0.18
Diluted earnings per unit		
Adjusted net earnings for per unit calculations	0.04	0.18
Add: Goodwill amortization	-	0.13
Less: Intangible assets amortization	-	(0.13)
Adjusted net earnings	0.04	0.18
 Weighted average units	 24,401,073	 22,858,143

4. RESERVED CASH

Included in cash is an amount of \$3,697,000 (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
As at September 30, 2002 and September 30, 2001
(unaudited)

5. CASH AVAILABLE FOR DISTRIBUTION AND PER UNIT COMPUTATIONS

There were 24,597,160 trust units outstanding as at September 30, 2002 (2001 – 24,099,889). 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 debentures of \$3,557,000 (2001 - \$1,316,000) and payments on the redeemable partnership units of \$1,702,000 (2001 - \$2,269,000).

For the nine months ended:	September 30, 2002			September 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	6,126			7,631		
Less:						
Distributions on redeemable partnership units	(1,702)			(2,269)		
Interest on 8% convertible debentures	(1,316)			(1,316)		
Interest on 9.25% convertible debentures	(2,241)			-		
Basic and diluted earnings	867	24,401	0.04	4,046	22,858	0.18
Cash available for distribution						
Net earnings	6,126			7,631		
Add (deduct):						
Depreciation and amortization of capital assets	13,017			13,208		
Amortization of deferred financing fees	507			903		
Future income tax expense	1,622			351		
Cash available for distribution	21,272			22,093		
Distributions on redeemable partnership units	(1,702)			(2,269)		
Interest on 8% convertible debentures	(1,316)			(1,316)		
Interest on 9.25% convertible debentures	(2,241)			-		
Basic adjusted cash available for distribution	16,013	24,401	0.66	18,508	22,858	0.81
Adjustment for impact of:						
Distributions on redeemable partnership units	1,702	3,151		2,269	3,151	
Interest on 8% convertible debentures	-	-		1,316	2,127	
Interest on 9.25% convertible debentures	2,241	4,626		-	-	
Diluted adjusted cash available for distribution	19,956	32,178	0.62	22,093	28,136	0.79

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

For the three months ended:	September 30, 2002			September 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	6,134			6,030		
Less:						
Distributions on redeemable partnership units	(567)			(756)		
Interest on 8% convertible debentures	(444)			(444)		
Interest on 9.25% convertible debentures	(933)			-		
Basic earnings	4,190	24,576	0.17	4,830	24,093	0.20
Adjustment for impact of:						
Interest on 9.25% convertible debentures	933	5,714				
Diluted earnings	5,123	30,290	0.17	4,830	24,093	0.20
Cash available for distribution						
Net earnings	6,134			6,030		
Add (deduct):						
Depreciation and amortization of capital assets	4,431			4,461		
Amortization of deferred financing fees	99			350		
Future income tax expense	1,387			117		
Cash available for distribution	12,051			10,958		
Distributions on redeemable partnership units	(567)			(756)		
Interest on 8% convertible debentures	(444)			(444)		
Interest on 9.25% convertible debentures	(933)			-		
Basic adjusted cash available for distribution	10,107	24,576	0.42	9,758	24,093	0.41
Adjustment for impact of:						
Distributions on redeemable partnership units	567	3,152		756	3,151	
Interest on 8% convertible debentures	444	2,000		444	2,127	
Interest on 9.25% convertible debentures	933	5,714		-	-	
Diluted adjusted cash available for distribution	12,051	35,442	0.34	10,958	29,371	0.37

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 nine months ended September 30, 2002 would have been \$2,815,000 (2001 - \$2,831,000). As Royal Host spent \$2,925,000, excluding capital leases and the purchase of two hotel properties for an aggregate purchase price of \$11,660,000 (see Note 7), up to and including September 30, 2002 (2001 - \$7,930,000) to renovate and reposition the hotel properties, the Trustees have determined that no reserve would be provided for in 2002 and 2001.

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

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.

7. CAPITAL ASSETS

	<i>(in \$000's)</i>			
	September 30, 2002		December 31, 2001	
	Gross Book Value	Accumulated Amortization	Net Book Value	Net Book Value
Land	38,183	-	38,183	37,303
Buildings	293,165	40,352	252,813	241,293
Furniture, fixtures and equipment	40,701	26,085	14,616	16,874
Paving and other	1,234	315	919	1,043
	373,283	66,752	306,531	296,513
Properties under development	2,246	-	2,246	9,008
Goodwill	-	-	-	21,729
Intangible assets				
- Franchise rights and management contracts	27,620	9,576	18,044	-
- Customer lists and intellectual and human capital	7,270	5,217	2,053	-
	410,419	81,545	328,874	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.

On July 12, 2002, Royal Host acquired 2 hotel properties from a single vendor, adding 233 guestrooms, for an aggregate purchase price of \$11,660,000. Cash consideration was paid from the net proceeds of the 9.25% Convertible Unsecured Subordinated Debenture issued February 21, 2002.

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

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

8. MORTGAGES AND OTHER DEBT

	<i>(in \$000's)</i>	
	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Mortgages and other debt secured by hotel properties	142,051	152,306
Less current portion	36,078	68,724
Long-term obligations	<u>105,973</u>	<u>83,582</u>
Twelve months ending September 30 <i>(in 000's)</i>		
2003	36,078	
2004	2,495	
2005	27,463	
2006	2,738	
2007	19,639	
Subsequent	53,638	
	<u>142,051</u>	
Supplementary Information:	<u>September 30,</u> <u>2002</u>	<u>September 30,</u> <u>2001</u>
Cash interest paid in the period	<u>9,487</u>	<u>10,532</u>

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 was 6.0% at July 2002. The loan is secured by first mortgages on the land and general security registered against certain hotel properties. To date, renovations related to this debt have not yet commenced and no funds have been advanced by the lender.

On August 22, 2002, Royal Host completed a \$25,000,000 first mortgage on the Grand Okanagan Resort and Conference Center. The mortgage has a 3-year term at a fixed rate of 8.50%. The loan replaces approximately \$14 million in 12% debt on the hotel, which had matured. Approximately \$2 million of the remaining proceeds will be used to renovate the property and the balance will be used for working capital and general purposes.

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

9. OBLIGATIONS UNDER CAPITAL LEASES

Royal Host 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 September 30, 2002 are as follows:

	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Present value of future minimum lease payments	2,636	3,498
Less current portion	1,270	1,273
Long-term obligations	<u>1,366</u>	<u>2,225</u>
Twelve months ending September 30 <i>(in 000's)</i>		
2003	1,476	
2004	842	
2005	449	
2006	160	
2007	64	
Subsequent	<u>6</u>	
Future minimum lease payments	2,997	
Amounts representing interest	<u>361</u>	
Present value of future minimum lease payments	<u>2,636</u>	

10. EQUITY

	<i>(in \$000's)</i>	
	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Balance, beginning of period	130,988	128,276
Net earnings	6,126	7,054
Issuance of trust units		
- Public offering	-	22,559
- Distribution reinvestment plan	509	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>	(2,261)	-
Equity financing issue costs	(1,888)	(1,409)
Equity distributions on:		
Trust units	(13,191)	(21,040)
Redeemable partnership units	(1,702)	(2,836)
Interest paid on convertible debentures	(3,557)	(1,760)
	<u>117,344</u>	<u>130,988</u>
Convertible Equity		
Redeemable partnership units	27,500	27,500
Convertible debentures	<u>62,000</u>	<u>22,000</u>
	<u>89,500</u>	<u>49,500</u>
Balance, end of period	<u>206,844</u>	<u>180,488</u>

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

a) Unit Capital

	<u>Number of units</u>	<u>(in \$000's)</u>
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	81,314	509
Balance September 30, 2002	24,597,160	222,697

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 nine months ended September 30, 2002 was \$21,272,000 (2001 - \$22,093,000) and distributions declared to Unitholders, excluding distributions on redeemable partnership units, aggregated \$13,191,000 (2001 - \$16,700,000) for the same period. For the same period, the distributions to holders of redeemable partnership units was \$1,702,000 (2001 - \$2,269,000) and interest on convertible debentures was \$3,557,000 (2001 - \$1,316,000).

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 September 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 (a)).

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

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.

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

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

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 (a)).

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 an 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 September 30, 2002 is approximately \$3.2 million.

12. SUBSEQUENT EVENTS

On November 1, 2002, Royal Host commenced operation of its property in Yellowknife, Northwest Territories after expiration of the tenant lease contract. This property had been leased to the previous owner for a fixed fee of \$2,015,000 per annum.

The property is a 130 room full-service hotel and is connected to a shopping mall, containing 24,752 net leasable square feet, in which it maintains an approximate 1/3 interest.

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.