

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements
(unaudited)

For the three months ended March 31, 2005 and March 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

The following Management's Discussion and Analysis of Operations and Financial Condition ("MD&A") dated May 11, 2005, should be read in conjunction with the unaudited interim consolidated financial statements and notes of Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") for the three months ended March 31, 2005. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The results are reported in Canadian dollars with foreign operations measured in US dollars and translated into Canadian dollars using the temporal method.

Certain statements in this MD&A, including those in the Outlook section, relate to future periods commencing after March 31, 2005 and contain estimates or assumptions about the outcome of future events. These forward-looking statements are subject to risks, uncertainties and other factors that could result in the outcome of these events being materially different from those anticipated in this MD&A. These factors include, but are not limited to: general economic conditions, levels of travel in our key market areas, political conditions and events, competitive pressures, changes in government policy or regulations and other risk factors. We do not undertake to update such forward-looking statements should our estimates or assumptions change. Additional information relating to Royal Host, including our Annual Information Form, is available at www.sedar.com.

SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

For the three months ended March 31 (\$000's except per unit amounts)	2005	2004 (Restated)
Hospitality Revenues (from Continuing Operations):		
Rooms	20,758	21,183
Food and beverage	5,503	5,190
Other	3,814	3,374
	<u>30,075</u>	<u>29,747</u>
Net Loss:		
from continuing operations	(2,962)	(2,055)
from discontinued operations	(109)	(66)
	<u>(3,071)</u>	<u>(2,121)</u>
Adjusted Cash Available for Distribution from Continuing Operations	<u>197</u>	<u>753</u>
Cash Distributions Declared on Trust Units	<u>2,222</u>	<u>1,466</u>
Basic Per Unit Net Loss:		
from Continuing Operations	(0.13)	(0.09)
from Discontinued Operations	(0.01)	-
	<u>(0.14)</u>	<u>(0.09)</u>
Diluted Per Unit Net Loss:		
from Continuing Operations	(0.13)	(0.10)
from Discontinued Operations	(0.01)	-
	<u>(0.14)</u>	<u>(0.10)</u>
Basic Per Unit Adjusted Cash Available for Distribution from Continuing Operations	<u>0.01</u>	<u>0.03</u>

KEY PERFORMANCE INDICATORS

The following table summarizes the key performance indicators for the three months ended March 31, 2005, 2004 and 2003:

	2005	2004	2003
Average Daily Rate ("ADR")			
- Total operations	\$87.28	\$84.83	\$84.28
- Continuing operations	\$87.66	\$85.32	\$84.69
Occupancy			
- Total operations	58.1%	60.1%	58.5%
- Continuing operations	59.2%	61.6%	58.9%
Revenue Per Available Room ("RevPAR")			
- Total operations	\$50.69	\$50.95	\$49.27
- Continuing operations	\$51.91	\$52.60	\$49.87

THREE MONTHS ENDED MARCH 31, 2005 (Continuing Operations)

Hospitality Revenues

First quarter revenues from continuing operations increased \$0.3 million or 1.1% to \$30.1 million (2004 - \$29.7 million). Overall, relatively weak room revenues were offset by strong food and beverage and other revenues.

Room Revenues

First quarter room revenues decreased \$0.4 million or 2.0% to \$20.8 million (2004 - \$21.2 million), due to a decrease in occupancy to 59.2% (2004 - 61.6%), offset by a 2.7% increase in ADR to \$87.66 (2004 - \$85.32). The decline in occupancy is largely attributable to the Easter holiday, which adversely affects corporate travel, occurring in the first quarter of 2005 as opposed to the second quarter in 2004. As a result, RevPAR decreased 1.3%.

Food and Beverage Revenues

First quarter food and beverage revenues increased \$0.3 million or 6.0% to \$5.5 million (2004 - \$5.2 million), mainly due to the addition of food and beverage operations in two of our hotel properties which were previously leased to third parties.

Other Hospitality Revenues

First quarter other hospitality revenue increased \$0.4 million or 13.0% to \$3.8 million (2004 - \$3.4 million). The increase is due mainly to our management contract for Humphrey Hospitality Trust's 69 hotel properties, which commenced on August 1, 2004, and our management contract for the Wingate Inn Edmonton West, which commenced on January 1, 2005. We receive management fees based on the properties' gross revenue.

Hospitality Expenses

Hospitality expenses increased \$0.4 million or 1.8% to \$23.8 million (2004 - \$23.4 million) and were 79.0% (2004 - 78.5%) of hospitality revenues. Increased food and beverage operations, which have higher proportionate costs than room revenue, contributed to higher hospitality expenses. In addition, we incurred pre-operating costs related to a food and beverage operation leased to third parties in the first quarter of 2004.

Gross Margin

First quarter gross margin was relatively unchanged at \$6.3 million (2004 - \$6.4 million). Expressed as a percentage of revenues, gross margin decreased to 21.0% (2004 - 21.5%).

Other Expenses (Income)

Other expenses (income) increased \$0.8 million or 9.7% to \$9.3 million (2004 - \$8.5 million), attributable mainly to:

- An increase of \$0.2 million or 3.2% in interest on mortgages and other debt, attributable mainly to the issuance of \$35 million of debentures and redemption of \$22 million of debentures subsequent to the first quarter of 2004.
- A decrease of \$0.7 million in future income tax recovery to \$0.3 million (2004 - \$1.0 million). The decrease is attributable mainly to relative differences between the carrying value of assets and their corresponding tax basis.
- A \$0.4 million property impairment provision on the Super 8 Lethbridge hotel was recorded in the first quarter of 2005 as a result of our periodic review of the carrying value of our hotel properties.
- The above-mentioned increases were offset by a decrease in amortization of \$0.5 million or 13.1% to \$3.6 million (2004 - \$4.2 million).

Seasonality

The hospitality business is seasonal in nature. Our revenues and profitability are typically stronger in the second and third quarters, as compared to the first and fourth quarters.

NON-GAAP FINANCIAL MEASURES

This MD&A includes certain non-GAAP financial measures (measures that are not calculated or presented in accordance with GAAP). These measures are not recognized under GAAP and our method of calculation may not be comparable to measures presented by other entities. These measures should not be used as an alternative to net earnings (loss) determined in accordance with GAAP as an indicator of our performance. However, we believe these measures are useful in supplementing the reader's understanding of our performance.

The following non-GAAP financial measures have been included in this MD&A: Average Daily Rate, Occupancy, Revenue per Available Room, Cash Available for Distribution and Adjusted Cash Available for Distribution. These non-GAAP financial measures are key indicators commonly used within the hospitality industry or by Real Estate Investment Trusts.

Average Daily Rate, Occupancy and Revenue per Available Room

Occupancy measures guest room utilization and is calculated by dividing the number of guest rooms rented by the number of guest rooms available.

Average Daily Rate is calculated by dividing room revenues by the number of guest rooms rented.

Revenue per Available Room combines information about both pricing levels and occupancy, and is calculated by dividing room revenues by the number of rooms available.

Cash Available for Distribution

Cash available for distribution is calculated by adding non-cash expenses to earnings from continuing operations.

For the three months ended March 31, 2005, cash available for distribution from continuing operations decreased to \$0.5 million (2004 - \$0.9 million).

Adjusted Cash Available for Distribution

Adjusted cash available for distribution is calculated as cash available for distribution less distributions on redeemable units. It represents cash available to distribute to unitholders, as well as reserves for capital expenditures.

For the three months ended March 31, 2005, adjusted cash available for distribution from continuing operations decreased to \$0.2 million (2004 - \$0.8 million).

For the three months ended March 31, 2005, cash distributions declared were \$2.2 million (2004 - \$1.5 million).

Cash Available for Distribution and Adjusted Cash Available for Distribution (from Continuing Operations)

Three months ended March 31 (\$000's, except per unit amounts)	2005	2004
Loss from continuing operations	(2,962)	(2,055)
Add (deduct):		
Amortization of capital assets	3,363	3,992
Amortization of deferred financing fees	260	177
Property impairment provision	390	-
Future income tax recovery	(345)	(1,004)
Loss (gain) on foreign currency translation	87	(108)
Reduction in income tax liability	<u>(312)</u>	<u>(60)</u>
Cash available for distribution from continuing operations	481	942
Less: distributions on redeemable partnership units	<u>(284)</u>	<u>(189)</u>
Adjusted cash available for distribution from continuing operations	<u>197</u>	<u>753</u>
Basic per unit adjusted cash available for distribution from continuing operations (\$)	0.01	0.03
Diluted per unit adjusted cash available for distribution from continuing operations (\$)	0.01	0.02

BALANCE SHEET

Mortgage Receivable represents a \$3.8 million vendor take-back mortgage related to the sale of the Travelodge North York hotel. Long-term Notes Receivable and Other Assets includes a \$1.8 million subordinated vendor take-back mortgage related to the sale of the Travelodge North York hotel. The sale is described further in "Discontinued Operations".

The assets and liabilities of our discontinued operations have been separately classified in accordance with CICA Handbook Section 3475, Disposal of Long-lived Assets and Discontinued Operations. Comparative figures have been restated accordingly.

The Balance Sheet has also been restated due to changes in accounting policies, described further in this MD&A.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2005, cash and short-term investments were \$6.1 million and undrawn credit facilities were \$11.2 million. Additional borrowing capacity was \$118.5 million, based on a debt to gross book value of 32.1% as at March 31, 2005 and a maximum allowable debt to gross book value of 45%.

Restricted cash as at March 31, 2005 was \$8.5 million (December 31, 2004 - \$6.4 million). Restricted cash consists primarily of funds held by lenders pursuant to financing arrangements for future planned capital expenditures within the next twelve months. During the three months ended March 31, 2005, we added \$1.2 million to restricted cash in connection with the Grand Okanagan Resort and Conference Centre.

We consider these liquid resources, together with future cash flows, sufficient to fund our cash requirements over the next year.

Investing Activities

During the three months ended March 31, 2005, we spent \$1.4 million in capital expenditures (three months ended March 31, 2004 - \$1.5 million).

Restricted cash, described above, is available for funding hotel capital expenditures. A portion of the \$8.0 million capital expenditure planned for 2005 will be funded out of restricted cash.

Property under development was \$21.1 million as at March 31, 2005, an increase of \$3.6 million from \$17.4 million as at December 31, 2004. Property under development relates to the Royal Private Residence Club, a 67 unit luxury condominium development in which we are a joint venture partner, being developed adjacent to the Grand Okanagan Lakefront Resort and Conference Centre. As at March 31, 2005, 66% of the development's residence units have been sold. Construction of the development's first phase, a parkade, commenced in January 2004 and construction on the residence units commenced in May 2004. Effective January 1, 2005, we commenced consolidation of all of the joint venture's assets and liabilities in accordance with AcG-15. Prior thereto, we consolidated our proportionate share of the joint venture's assets and liabilities.

Financing Activities

On January 13, 2005, we replaced the \$25 million mortgage on the Grand Okanagan Resort and Conference Centre. The mortgage was originally scheduled to mature in August 2005 and was included in "Current portion of mortgages and other debt" as at December 31, 2004. The mortgage was increased to \$35 million for a five year term at a 7.5% fixed interest rate. The additional proceeds from the financing, net of expenses, were used for working capital and general corporate purposes.

Long-term debt obligations increased \$36.9 million to \$249.7 million (December 31, 2004 - \$212.8 million) due in part to the replacement financing described above. The current portion of mortgages and other debt has decreased from \$39.1 million to \$7.6 million.

As described further in "Subsequent Events", subsequent to March 31, 2005, we, together with a joint venture partner, finalized a \$28.0 million financing arrangement to fund the completion of the Royal Private Residence Club and commenced construction draws.

The following table identifies Royal Host's debt and contractual obligations by maturity.

Contractual Obligations

As at March 31, 2005 (\$000's)	Payments Due by Period			
	Total	Less than 1 year	1 - 3 years	4 - 5 years
Mortgages and other debt	159,504	7,600	29,180	122,724
Obligations under capital leases (including interest)	1,746	517	1,228	1
Obligations under operating leases	810	270	429	111
	<u>162,060</u>	<u>8,387</u>	<u>30,837</u>	<u>122,836</u>

With the replacement of the mortgage on the Grand Okanagan Resort and Conference Centre, we have no material debt maturities until the first quarter of 2007.

Equity

As described under "Changes in Accounting Policies" below, convertible debentures have been reclassified from equity to liabilities. Equity as at December 31, 2004, originally reported at \$183.4 million and restated at \$108.4 million (to reflect the reclassification of convertible debentures), decreased to \$102.9 as at March 31, 2005. The decrease is attributable to the loss for the three months ended March 31, 2005 of \$3.1 million and distributions of \$2.5 million.

DISCONTINUED OPERATIONS

For the three months ended March 31, 2005, revenues and gross margin from discontinued operations were \$0.7 million (2004 - \$1.2 million) and (\$0.1 million) (2004 - \$0.3 million loss), respectively, and the loss on disposition was \$0.2 million (2004 - \$nil). Discontinued operations consist of the operations of the four properties discussed below.

On February 23, 2005, the Travelodge North York hotel was sold to a condominium developer. Under the agreement of purchase and sale, we received \$10.8 million for our 50% interest in the property. Payment was made by way of \$7.0 million in cash and a \$3.8 million vendor take-back mortgage. The vendor take-back mortgage is secured by the property, bears interest at 8.0% and has a 60-day term, which has been subsequently extended until proceeds from construction financing are advanced on the condominium development. In addition, we received a subordinated vendor take-back mortgage for a maximum of \$2.0 million to recover certain costs associated with closing the hotel. As at March 31, 2005, \$1.8 million of the subordinated vendor take-back mortgage was recognized and included in Long-term Notes Receivable and Other Assets, as was a corresponding recovery of costs included in Hospitality Expenses. Cash proceeds from the transaction were used to repay a \$5.5 million mortgage on the property and for general corporate purposes.

On May 28, 2004, we completed the sale of a marina and recreational vehicle facility in Oklahoma, USA, and on November 26, 2004, Royal Host completed the sale of a hotel property located in North Battleford, Saskatchewan.

We have also received an offer of \$3.1 million to purchase a 95-room hotel in Orillia, Ontario. We expect this sale to close prior to June 30, 2005.

NORMAL COURSE ISSUER BID

We initiated a Normal Course Issuer bid, commencing December 21, 2004, to repurchase a maximum of 1,200,000 of our issued and outstanding trust units. No trust units were repurchased during the three months ended March 31, 2005. In April 2005, 100,000 trust units were repurchased at an aggregate cost of \$537,700.

REDEEMABLE PARTNERSHIP UNITS

As at March 31, 2005 a total of 3,151,443 (2004 - 3,151,443) redeemable partnership units were outstanding. Holders of these redeemable units are entitled to receive distributions from Royal Host equivalent to the distributions paid to holders of Royal Host trust units.

Each partnership unit is redeemable by the holder for one Royal Host unit, or for cash based on the market value of Royal Host's trust units. We, in our sole discretion, may redeem the redeemable partnership units by way of issuance of new trust units or payment of cash.

On January 25, 2005, the holders of the redeemable units requested that we convert 3,151,433 units into cash or trust units of Royal Host. These units will be redeemed by way of a combination of issuance of trust units of Royal Host and cash.

SUBSEQUENT EVENTS

Subsequent to March 31, 2005, we, together with a joint venture partner, finalized a non-revolving \$28.0 million financing arrangement consisting of a \$20.0 million construction loan and an \$8.0 million mezzanine loan. Proceeds from this financing will be used to complete construction of the Royal Private Residence Club.

Subsequent to March 31, 2005, we also transferred beneficial ownership of a parcel of land adjacent to the Grand Okanagan Resort and Conference Centre to the Joint Venture, as described above under "Investing Activities", pursuant to an agreement between the parties.

OUTLOOK

National demand has returned to 2000 levels. We anticipate solid growth in ADR and modest growth in occupancy. We anticipate continued recovery and are cautiously optimistic about the remainder of 2005.

We have made significant progress toward our goal of simplification by focusing on our core competencies of hotel ownership, management and franchising. As a result of our continued focus on cost control and profitable businesses, we cancelled an unprofitable management contract, effective March 31, 2005, for 24 hotel properties in the Pacific Northwest, and disposed of the Travelodge North York hotel. Similarly, financing of the Royal Private Residence Club has been finalized, construction is well underway, and we anticipate exiting this non-core business in the near future. Our management contract with Humphrey Hospitality Trust is anticipated to contribute significantly to our profitability in 2005.

We intend to focus on expansion within our areas of expertise, which may include acquiring Limited, Full and Focused Service hotels in Canada. We intend to spend approximately \$8.0 million on capital expenditures in 2005. In the event that we are unable to complete certain capital projects in 2005, a portion of this \$8.0 million may be spent in 2006.

DISTRIBUTIONS TO UNITHOLDERS

Our Board of Trustees approves distributions periodically based on projected cash flows, capital requirements and working capital needs. In December 2004, the 2005 annual distribution per unit was increased from \$0.24 to \$0.36, commencing in January 2005.

We pay cash distributions on a monthly basis to unitholders of record on or about the fifteenth day of each month. Distributions are payable on or about the last business day of the following month.

Assuming no significant deterioration in operating results from the 2004 level, we expect to be able to support the current level of cash distributions to unitholders, as well as meet our capital expenditure and working capital requirements.

CHANGES IN ACCOUNTING POLICIES

The financial statements for the three months ended March 31, 2005 have been prepared in accordance with accounting policies described in our financial statements for the year ended December 31, 2004, except as follows:

Consolidation of Variable Interest Entities

In November 2003, the CICA issued Accounting Guideline 15 "Consolidation of Variable Interest Entities" ("AcG-15"), effective for fiscal years beginning after November 1, 2004. The objective of AcG-15 is to improve financial reporting by companies involved with variable interest entities. AcG-15 provides guidance related to identifying variable interest entities and determining whether such the assets, liabilities and results of activities of the entity should be consolidated. AcG-15 requires an enterprise to consolidate a variable interest entity when the enterprise is the primary beneficiary of the entity, the enterprise absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

Prior to the issuance of AcG-15, an enterprise generally consolidated an entity when the enterprise had a controlling financial interest in the entity through ownership of a majority voting interest.

Prior to the adoption of AcG-15, we proportionately consolidated the Royal Private Residence Club Joint Venture. However, the Joint Venture is a variable interest entity as we absorb a majority of the Joint Venture's expected losses and receive the majority of the Joint Venture's expected residual returns. Accordingly, effective January 1, 2005, we are now consolidating the joint venture.

Equity Settled Obligations

In November 2003, the CICA amended Section 3860 "Financial Instruments – Disclosure and Presentation" requiring that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own equity instruments to be presented as liabilities. The amendments to Section 3860 are effective for fiscal years beginning on or after November 1, 2004. We have applied the provisions of Section 3860 retroactively, and have restated prior years' comparatives. The amendments result in our convertible debentures being classified as a liability on the Consolidated Balance Sheets and the associated interest expense correspondingly being classified with Interest on Mortgages and Other Debt on the Consolidated Interim Statements of Net Loss.

As a result of this reclassification, the Statements of Net Loss for the three months ended March 31, 2004 have been restated as follows:

Three months ended March 31, 2004
(\$000's, except per unit amounts)

	As previously Reported	Adjustment to reflect convertible debentures as debt	As currently reported
Hospitality revenues	29,747		29,747
Hospitality expenses	<u>23,350</u>		<u>23,350</u>
Gross margin	6,397		6,397
Other expenses (income)	<u>7,094</u>	1,358	<u>8,452</u>
Loss from continuing operations	(697)		(2,055)
Earnings (loss) from discontinued operations	<u>(66)</u>		<u>(66)</u>
Net loss	<u><u>(763)</u></u>		<u><u>(2,121)</u></u>
Basic per unit net loss			
- from continuing operations	(0.09)		(0.09)
- from discontinued operations	-		-
Diluted per unit net loss			
- from continuing operations	(0.10)		(0.10)
- from discontinued operations	-		-

OFF BALANCE SHEET ARRANGEMENTS

As at March 31, 2005, we had no undisclosed off balance sheet arrangements.

RISKS AND UNCERTAINTIES

Our business is subject to various risks and uncertainties that occur in the normal course of business that could adversely affect our cash flow and our ability to make distributions to unitholders. These risks include general economic risks, operating risks, competitive risks, environmental risks and development risks amongst others.

These risks and uncertainties facing our operations are described in detail in our MD&A and Annual Information Form for the year ended December 31, 2004.

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

	As At	
	March 31, 2005	December 31, 2004
ASSETS		(Restated - Notes 2 and 3)
Current Assets		
Cash and short-term investments	6,093	8,707
Accounts and notes receivable	13,840	9,435
Mortgage receivable (Note 3)	3,800	-
Deposits and prepaid expenses	3,699	3,686
Inventories	2,991	2,993
Property held for sale (Note 3)	2,704	2,704
Property under development (Note 4)	21,058	17,437
Future income taxes	2,151	1,004
Assets of discontinued operations (Note 3)	221	306
	56,557	46,272
Restricted Cash (Note 5)	8,466	6,380
Capital Assets (Note 6)	318,296	320,246
Assets of Discontinued Operations (Note 3)	-	10,456
Long-term Notes Receivable and Other Assets (Note 3)	4,548	3,276
	387,867	386,630
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	22,790	22,481
Current portion of mortgages and other debt (Note 7)	7,600	39,083
Current portion of obligations under capital leases (Note 8)	432	563
Distributions payable	840	561
Other current liabilities	1,762	2,249
Liabilities of discontinued operations (Note 3)	1,867	546
	35,291	65,483
Mortgages and Other Debt (Note 7)	151,904	117,896
Obligations Under Capital Leases (Note 8)	1,110	961
Convertible Debentures (Note 9)	75,000	75,000
Future Income Taxes	8,852	8,329
Deferred Revenue	795	688
Minority Interest in Joint Venture (Note 4)	12,033	9,917
	284,985	278,274
Equity (Note 10)	102,882	108,356
	387,867	386,630

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Interim Statements of Net Loss
For the three months ended March 31, 2005 and March 31, 2004
\$000's
(unaudited)

	Three Months Ended	
	March 31, 2005	March 31, 2004
		(Restated - Notes 2 and 3)
Hospitality Revenues		
Rooms	20,758	21,183
Food and beverage	5,503	5,190
Other hospitality revenues	3,814	3,374
	30,075	29,747
Hospitality Expenses	23,765	23,350
Gross Margin	6,310	6,397
Other Expenses (Income)		
Interest on mortgages and other debt	5,008	4,853
Amortization	3,623	4,169
Trust administration	544	486
Property impairment provision	390	-
Future income tax recovery	(345)	(1,004)
Interest income	(89)	(15)
Loss (gain) on foreign currency translation	87	(108)
Capital and other taxes	54	71
	9,272	8,452
Loss from continuing operations	(2,962)	(2,055)
Loss from discontinued operations, net of tax (Note 3)	(109)	(66)
Net loss	(3,071)	(2,121)
Basic per unit net loss (Note 11)		
- from continuing operations	(0.13)	(0.09)
- from discontinued operations	(0.01)	-
	(0.14)	(0.09)
Diluted per unit net loss (Note 11)		
- from continuing operations	(0.13)	(0.10)
- from discontinued operations	(0.01)	-
	(0.14)	(0.10)

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Interim Statements of Cash Flows
For the three months ended March 31, 2005 and March 31, 2004
\$000's
(unaudited)

	Three Months Ended	
	March 31, 2005	March 31, 2004
		(Restated - Notes 2 and 3)
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net loss	(3,071)	(2,121)
Less: Net loss on discontinued operations (Note 3)	109	66
Items not affecting cash:		
Amortization of capital assets	3,363	3,992
Amortization of deferred finance costs	260	177
Future income tax recovery	(345)	(1,004)
Property impairment provision	390	-
Funds from continuing operations	706	1,110
Funds from discontinued operations	(140)	(248)
Change in non-cash working capital:		
(Increase) decrease in accounts and notes receivable	(4,405)	1,197
Decrease (increase) in deposits and prepaid expenses	(13)	(863)
Decrease in inventories	2	268
Increase (decrease) in accounts payable and accrued liabilities	309	(1,662)
Decrease in other current liabilities and deferred revenue	(383)	(220)
Change in non-cash working capital of discontinued operations	1,406	150
Cash flows from operating activities	(2,518)	(268)
Financing Activities		
Additions to mortgages and other debt	10,000	5,650
Principal repayments on mortgages, other debt and capital leases	(7,704)	(1,695)
Equity distributions (Note 10(b))	(2,124)	(1,573)
Unit issue costs	-	(45)
	172	2,337
Investing Activities		
Net cash from sale of property	6,248	-
Property under development	(3,621)	(6,655)
Minority interest in joint venture	2,116	5,594
Restricted cash (Note 5)	(2,086)	(930)
Increase in long-term notes receivable and other assets	(1,532)	(122)
Capital expenditures	(1,393)	(1,537)
	(268)	(3,650)
Net Change in Cash and Short-term Investments	(2,614)	(1,581)
Cash and Short-term Investments, beginning of period	8,707	5,183
Cash and Short-term Investments, end of period	6,093	3,602

See accompanying Notes to Consolidated Interim Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at March 31, 2005 and March 31, 2004
(unaudited)

1. GENERAL INFORMATION

Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") was created pursuant to the Declaration of Trust dated August 27, 1997. Royal Host is an unincorporated open-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 Royal Host's consolidated financial statements for the year ended December 31, 2004, except as stated in Note 2, and include all adjustments necessary to present fairly the results for the interim period. Certain information and disclosure included in the year-end consolidated financial statements has been condensed or omitted. In the opinion of Management, all adjustments considered necessary for fair presentation have been included in these consolidated interim financial statements. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005 due to the seasonal nature of operations. These financial statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2004.

2. CHANGES IN ACCOUNTING POLICIES

a) Variable Interest Entities

In November 2003, the CICA issued Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG-15"), effective for fiscal years beginning after November 1, 2004. The objective of AcG-15 is to improve financial reporting by companies involved with variable interest entities. AcG-15 provides guidance related to identifying variable interest entities and determining whether such assets, liabilities and results of activities of the entity should be consolidated. AcG-15 requires an enterprise to consolidate a variable interest entity when the enterprise is the primary beneficiary of the entity, meaning that the enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

Prior to the issuance of AcG-15, an enterprise generally consolidated an entity when the enterprise had a controlling financial interest in the entity through ownership of a majority voting interest.

Prior to the adoption of AcG-15, Royal Host proportionately consolidated the Royal Private Residence Club Joint Venture ("the Joint Venture"). However, the Joint Venture is a variable interest entity as Royal Host absorbs a majority of the Joint Venture's expected losses and receives a majority of the Joint Venture's expected residual returns. Therefore, effective January 1, 2005, Royal Host is now consolidating the Joint Venture. The interim consolidated balance sheet as at December 31, 2004 has been restated to include all of the Joint Venture's assets and liabilities. In particular, property under development has been restated from \$6,870,000 to \$17,437,000, current assets have been restated from \$36,856,000 to \$46,272,000, current liabilities have been restated from \$65,181,000 to \$65,483,000 and minority interest in joint venture has been restated from \$Nil to \$9,917,000.

b) Liabilities and Equity

In November 2003, the CICA amended Section 3860, Financial Instruments – Disclosure and Presentation, to require that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. The amendments to Section 3860 are effective for fiscal years beginning on or after November 1, 2004. The Company has applied the provisions of Section 3860 retroactively, with restatement of prior years presented. The amendments result in the Company's convertible debentures being classified as a liability on the Consolidated Interim Balance Sheets and the associated interest expense correspondingly being classified as Interest on Mortgages and Other Debt on the Consolidated Interim Statements of Net Loss.

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To reflect the reclassification of the convertible debentures as a liability, certain items of the Consolidated Interim Statements of Net Loss for the three months ended March 31, 2004 have been restated as follows:

Three Months Ended March 31, 2004

	<u>As Previously Reported</u>	<u>Adjustment to Reflect Convertible Debentures as Debt</u>	<u>As Currently Reported</u>
Hospitality Revenues	29,747		29,747
Hospitality Expenses	<u>23,350</u>		<u>23,350</u>
Gross Margin	6,397		6,397
Other Expenses	<u>7,094</u>	1,358	<u>8,452</u>
Operating loss from continuing operations	(697)		(2,055)
Operating loss from discontinued operations	<u>(66)</u>		<u>(66)</u>
Net loss	<u><u>(763)</u></u>		<u><u>(2,121)</u></u>
Basic per unit net loss			
- from continuing operations	(0.09)		(0.09)
- from discontinued operations	0.00		0.00
Diluted per unit net loss			
- from continuing operations	(0.10)		(0.10)
- from discontinued operations	0.00		0.00

3. PROPERTY HELD FOR SALE, DISPOSAL OF LONG-LIVED ASSETS, AND DISCONTINUED OPERATIONS

On May 28, 2004, the Trust completed the sale of a marina and recreational vehicle facility in Oklahoma, USA for \$1.2 million.

On November 26, 2004 the Trust completed the sale of a hotel property located in North Battleford, Saskatchewan for \$1.2 million.

On February 23, 2005, Royal Host completed the sale of its 50% interest in a hotel property located in Toronto, Ontario to a condominium developer. The property was sold for proceeds of \$10.8 million consisting of \$7.0 million cash and a \$3.8 million vendor take-back ("VTB") mortgage. The VTB mortgage is secured by the property, bears interest at 8.0% and has a 60-day term, which has been subsequently extended until proceeds from construction financing are advanced on the condominium development. Royal Host operated the property as a hotel for a period subsequent to the closing date in order to wind-up the hotel operations. Royal Host was entitled to all operating revenues and funded all operating and closing costs during the wind-up period. The net cost of the winding up of the business, to a maximum of \$2.0 million, is to be reimbursed to Royal Host in the form of a non-interest bearing, 18-month VTB mortgage (included in Long-term Notes Receivable and Other Assets). The December 31, 2004 consolidated balance sheet and March 31, 2004 consolidated interim statements of net loss have been restated to reflect these discontinued operations.

The Trust has received an offer to purchase of \$3.1 million for a 95-room hotel property in Ontario. The expected completion date of this transaction is prior to June 30, 2005.

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The following table sets forth the results of operations associated with the above noted long-lived assets, separately reported as discontinued operations for the current and prior periods.

	<i>(in \$000's)</i>	
	Three Months Ended	
	March 31, 2005	March 31, 2004
Hospitality Revenues		
Rooms	455	787
Food and beverage	168	351
Other hospitality revenues	27	99
	650	1,237
Hospitality Expenses	783	1,488
Gross Margin	(133)	(251)
Other Expenses		
Amortization	73	159
Capital and other taxes	5	1
Interest on mortgages and other debt	1	3
Loss (gain) on foreign currency translation	1	(6)
	80	157
Operating loss from discontinued operations before income taxes	(213)	(408)
Future income tax recovery	(278)	(342)
Operating earnings (loss) from discontinued operations	65	(66)
Loss on disposition	(191)	-
Property impairment	17	-
Net loss from discontinued operations	(109)	(66)

4. PROPERTY UNDER DEVELOPMENT

A subsidiary of Royal Host is participating in a joint venture to develop the Royal Private Residence Club on a portion of the property at the Grand Okanagan Lakefront Resort and Conference Center in Kelowna, British Columbia for resale. Property under development reflects the costs incurred to date to develop the property. Construction of the first phase of the project, a parkade, commenced in January 2004 and was completed in October 2004. Construction on the residence units commenced in May 2004. All costs incurred have been capitalized to property under development.

As the project is still in the development phase during the first quarter of 2005, no revenue has been recognized. Revenue from the sale of land or property is recorded on closing or, where sold by way of an agreement of purchase and sale, when the agreement is duly executed and delivered. Profit from the sale of land or property is recorded on closing or, where sold by way of an agreement of purchase and sale, when the collection of the sale proceeds is reasonably assured and all other material conditions are met. As a joint venture participant, Royal Host is subject to the normal development risks associated with property development activity.

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As stated in Note 2a), Royal Host consolidates the results of this joint venture. The \$12,033,000 (2004 - \$9,917,000) minority interest in joint venture on the interim consolidated balance sheet as at March 31, 2005 represents the portion of net assets of the joint venture not owned by Royal Host.

In April 2005, Royal Host, along with its joint venture partner, entered into a non-revolving \$28.0 million financing arrangement consisting of a \$20.0 million construction loan and an \$8.0 million mezzanine loan. The loan proceeds will be used to complete the project.

5. RESTRICTED CASH

Restricted cash consists primarily of funds held by lenders pursuant to financing arrangements for future planned capital expenditures within the next twelve months.

6. CAPITAL ASSETS

	<i>(in \$000's)</i>		
	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
March 31, 2005			
Buildings	310,055	56,224	253,831
Land	38,815	-	38,815
Furniture, fixtures and equipment	37,736	31,014	6,722
Furniture, fixtures and equipment under capital leases	7,462	4,168	3,294
Paving and other	1,625	712	913
	<u>395,693</u>	<u>92,118</u>	<u>303,575</u>
Intangible assets			
Franchise rights and management contracts	27,414	15,674	11,740
Customer lists and intellectual and human capital	7,270	7,008	262
Capital assets under development	2,719	-	2,719
	<u>433,096</u>	<u>114,800</u>	<u>318,296</u>

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	<i>(in \$000's)</i>		
	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
December 31, 2004			
Buildings	309,113	53,966	255,147
Land	38,644	-	38,644
Furniture, fixtures and equipment	37,604	30,343	7,261
Furniture, fixtures and equipment under capital leases	7,056	3,905	3,151
Paving and other	1,320	460	860
	<u>393,737</u>	<u>88,674</u>	<u>305,063</u>
Intangible assets			
Franchise rights and management contracts	27,414	15,278	12,136
Customer lists and intellectual and human capital	7,270	6,970	300
Capital assets under development	2,747	-	2,747
	<u>431,168</u>	<u>110,922</u>	<u>320,246</u>

7. MORTGAGES AND OTHER DEBT

	<i>(in \$000's)</i>	
	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Mortgages and other debt secured by hotel properties	159,504	156,979
Less current portion	7,600	39,083
Long-term obligations	<u>151,904</u>	<u>117,896</u>
Principal repayments required for the years ending March 31:		
2005	7,600	
2006	4,135	
2007	21,330	
2008	3,715	
2009	25,181	
Subsequent	97,543	
	<u>159,504</u>	
Supplementary Information:	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Cash interest paid in the periods ended	3,767	3,364

On January 13, 2005, Royal Host completed the early replacement of mortgage debt on the Grand Okanagan Lakefront Resort and Conference Center. The existing \$25.0 million mortgage, which was originally scheduled to mature in August 2005, has been increased to \$35.0 million for a five-year term with a 7.50% fixed interest rate. The additional proceeds will be utilized for working capital and general corporate purposes.

Financing charges are deferred and amortized over the term of the related debt. For the three months ended March 31, 2005, \$260,000 was included in amortization (2004 - \$177,000).

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8. OBLIGATIONS UNDER CAPITAL LEASES

Royal Host has entered into various capital lease obligations to acquire computers and furniture, fixtures and equipment. The present values of minimum lease payments under capital leases as of March 31, 2005 are as follows:

	<i>(in \$000's)</i>	
	March 31, 2005	December 31, 2004
Present value of future minimum lease payments	1,542	1,524
Less current portion	432	563
Long-term obligations	1,110	961
Years ending March 31		
2005	517	
2006	527	
2007	428	
2008	273	
2009	1	
Future minimum lease payments	1,746	
Amounts representing interest	204	
Present value of future minimum lease payments	1,542	

9. CONVERTIBLE DEBENTURES

i) 9.25% Convertible Unsecured Subordinated Debentures

The \$40.0 million of convertible debentures bear interest at 9.25% per annum, payable semi-annually in arrears on March 1 and September 1 in each year commencing September 1, 2002.

On redemption or at maturity on March 1, 2007, Royal Host has the option to repay the debentures in either cash or in equivalent trust units of Royal Host. The number of trust units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the trust units. The term "current market price" is defined as the weighted average trading price of the trust units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of maturity.

The debentures are not redeemable on or before March 1, 2005. Thereafter, the debentures will be redeemable, in whole at any time or in part from time to time, at the option of Royal Host on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$7.00 per trust unit.

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

ii) 7.90% Convertible Unsecured Subordinated Debentures, Series A

In April, 2004, Royal Host issued \$35.0 million of convertible unsecured subordinated debentures. These debentures bear interest at 7.90% per annum, payable semi-annually in arrears on April 30 and October 31 in each year commencing October 31, 2004.

The Series A debentures may not be redeemed by Royal Host prior to the maturity date. At maturity on April 30, 2009, Royal Host has the option to repay the debentures in either cash or in equivalent trust units of Royal Host. The number of trust units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the trust units. The term "current market price" is

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defined as the weighted average trading price of the trust units on the TSX for the twenty (20) consecutive trading days ending on the fifth (5) trading day preceding the date of maturity.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$6.00 per trust unit at any time from the date of issue to close of business on the day prior to the maturity date, April 30, 2009.

10. EQUITY

	<i>(in \$000's)</i>	
	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Balance, beginning of period	80,856	93,366
Net loss (2004 restated - Note 2b)	(3,071)	(4,601)
Issuance of trust units pursuant to distribution reinvestment plan	100	309
Employee loans pursuant to employee unit purchase program	3	17
Equity financing issue costs	-	(1,607)
Equity distributions		
Trust units	(2,222)	(5,872)
Redeemable partnership units	(284)	(756)
	<u>75,382</u>	<u>80,856</u>
Convertible Equity		
Redeemable partnership units	<u>27,500</u>	<u>27,500</u>
Balance, end of period	<u>102,882</u>	<u>108,356</u>

a) Unit Capital

	<u>Number of units</u>	<u><i>(in \$000's)</i></u>
Balance, December 31, 2003	24,762,344	223,537
Issuance of trust units pursuant to distribution reinvestment plan	62,598	309
Balance, December 31, 2004	<u>24,824,942</u>	<u>223,846</u>
Issuance of trust units pursuant to distribution reinvestment plan	19,382	100
Balance, March 31, 2005	<u>24,844,324</u>	<u>223,946</u>

As is common with Real Estate Investment Trusts and other income trusts, Royal Host distributes cash in excess of the net earnings, resulting in an accumulated deficit, which amounts to \$148,564,000 at March 31, 2005 (December 31, 2004 - \$142,990,000).

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b) Distributions to Unitholders

For the three months ended March 31, 2005 distributions declared to Unitholders, excluding distributions on redeemable partnership units, aggregated \$2,222,000 (December 31, 2004 - \$5,872,000). The distributions to holders of redeemable partnership units for the three months ended March 31, 2005 aggregated \$284,000 (December 31, 2004 – \$756,000).

c) Unit Options

Royal Host has reserved 1,883,000 units under its unit option plan. As at March 31, 2005, Royal Host has unit options outstanding to certain board members, employees and consultants to purchase an aggregate total of 137,500 units (December 31, 2004 – 137,500 units), at an exercise price of \$10.00 per unit (December 31, 2004 - weighted average exercise price of \$10.03). All unit options were issued prior to 1999 and were fully vested and exercisable at March 31, 2005 and December 31, 2004. The options currently outstanding expire on October 31, 2007. During 2005 and 2004, no options were issued or exercised and no options expired in the three months ended March 31, 2005 (December 31, 2004 – nil). As per agreements signed April 21, 2004, 715,000 options held by board members and executives of Royal Host were cancelled and terminated by agreement of the Board of Trustees. Of these cancelled unit options, 660,000 options were to expire October 31, 2007 and 55,000 options were to expire on March 23, 2008.

d) Redeemable Partnership Units

As at March 31, 2005 a total of 3,151,443 (2004 - 3,151,443) redeemable partnership units were outstanding. Holders of these redeemable units are entitled to receive distributions from Royal Host equivalent to the distributions paid to holders of Royal Host trust units. In addition, each partnership unit is redeemable by the holders, for one Royal Host unit or for cash based on the market value of Royal Host's trust units. Royal Host, in its sole discretion, may redeem the redeemable partnership units by way of issuance of trust units of Royal Host or payment of cash.

On January 25, 2005, the holders of the redeemable units requested that Royal Host convert the 3,151,433 units into cash or trust units of Royal Host. These units will be redeemed by way of a combination of issuance of Royal Host trust units and cash.

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11. PER UNIT COMPUTATIONS

There were 24,844,324 trust units outstanding as at March 31, 2005 (March 31, 2004 – 24,778,002). Per unit computations are based on the weighted average number of trust units outstanding for the period, after adjusting the net loss for payments on the redeemable partnership units of \$284,000 (March 31, 2004 - \$189,000).

For the three months ended:	March 31, 2005			March 31, 2004		
	(\$000's)	Weighted Average Units (000's)	Per Unit (\$)	(\$000's)	Weighted Average Units (000's)	Per Unit (\$)
Loss						
Net loss - continuing operations	(2,962)			(2,055)		
Less:						
Distributions on redeemable partnership units	(284)			(189)		
Basic loss - continuing operations	(3,246)	24,614	(0.13)	(2,244)	24,550	(0.09)
Basic loss - discontinued operations	(109)		(0.01)	(66)		0.00
Basic loss - total operations	(3,355)	24,614	(0.14)	(2,310)	24,550	(0.09)
Unit options		138			852	
Unit options repurchased		(259)			(1,689)	
Diluted loss - total operations	(3,355)	24,493	(0.14)	(2,310)	23,713	(0.10)
Diluted loss - discontinued operations	(109)	24,493	(0.01)	(66)	23,713	0.00
Diluted loss - continuing operations	(3,246)	24,493	(0.13)	(2,244)	23,713	(0.10)

12. GUARANTEES

Pursuant to the loan agreement described in Note 4, Royal Host has provided a completion, cost overrun and debt service deficiency guarantee on a \$20.0 million construction loan, a specific guarantee of the payment of notes receivable from certain limited partners and a guarantee on an \$8.0 million mezzanine loan.

13. SUBSEQUENT EVENTS

In April 2005, Royal Host transferred beneficial ownership of a parcel of land adjacent to the Grand Okanagan Lakefront Resort and Conference Center to the Joint Venture described in Note 4 at a deemed value of \$1.9 million.

Royal Host initiated a Normal Course Issuer bid, commencing December 21, 2004, to repurchase a maximum of 1,200,000 of its issued and outstanding trust units. No trust units were repurchased during the three months ended March 31, 2005. In April 2005, 100,000 trust units were repurchased at an aggregate cost of \$537,700.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted for 2005.