



**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF OPERATIONS AND FINANCIAL CONDITION  
AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005**

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION FOR THE PERIOD ENDED JUNE 30, 2005

The following Management's Discussion and Analysis of Operations and Financial Condition ("MD&A") dated August 12, 2005, should be read in conjunction with the unaudited consolidated financial statements and notes of Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") for the six months ended June 30, 2005, the audited consolidated financial statements and accompanying notes for the years ended December 31, 2004 and 2003 and management's discussion and analysis thereon. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

### SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

(\$000's, except as otherwise noted)	Three Months Ended			Six Months Ended		
	June 30/05	June 30/04 (Restated)	Change %	June 30/05	June 30/04 (Restated)	Change %
Hospitality Revenue (from Continuing Operations)						
Rooms	26,403	25,320	4.3	47,161	46,503	1.4
Food and beverage	7,324	6,638	10.3	12,827	11,828	8.4
Other	4,271	3,663	16.6	8,085	7,037	14.9
Total	<u>37,998</u>	<u>35,621</u>	6.7	<u>68,073</u>	<u>65,368</u>	4.1
Gross Margin	<u>11,718</u>	<u>10,317</u>	13.6	<u>18,028</u>	<u>16,714</u>	7.9
	30.8%	29.0%		26.5%	25.6%	
Net Earnings (Loss)						
From continuing operations	2,528	339	645.7	(610)	(1,809)	(66.3)
From discontinued operations	(214)	(587)	(63.5)	(323)	(653)	(50.5)
	<u>2,314</u>	<u>(248)</u>		<u>(933)</u>	<u>(2,462)</u>	
Basic and Diluted Per Unit Net Earnings (Loss) (\$)						
From continuing operations	0.09	0.01	800.0	(0.04)	(0.09)	(55.5)
From discontinued operations	(0.01)	(0.02)	(50.0)	(0.01)	(0.03)	(66.7)
	<u>0.08</u>	<u>(0.01)</u>		<u>(0.05)</u>	<u>(0.12)</u>	
Cash Available for Distribution	<u>5,938</u>	<u>4,492</u>	32.2	<u>6,220</u>	<u>5,164</u>	20.4
Distributions Declared	<u>2,353</u>	<u>1,468</u>	60.3	<u>4,575</u>	<u>2,934</u>	55.9
Cash Distribution as a % of Cash Available	<u>40%</u>	<u>33%</u>	21.2	<u>74%</u>	<u>57%</u>	29.4
Basic Per Unit Cash Available For Distribution (\$)	<u>0.23</u>	<u>0.18</u>	25.4	<u>0.25</u>	<u>0.21</u>	17.1
Number of Units Outstanding (000's)	<u>27,469</u>	<u>24,794</u>				

The following table summarizes key performance operating indicators for the period ended June 30, 2005 and 2004:

	Three Months Ended			Six Months Ended		
	June 30/05	June 30/04	Change %	June 30/05	June 30/04	Change %
Average Daily Rate ("ADR")						
- Continuing Operations	\$94.29	\$91.63	2.9	\$91.23	\$88.64	2.9
- Total Operations	\$94.14	\$90.28	4.3	\$90.81	\$87.63	3.6
Occupancy						
- Continuing Operations	69.1%	68.6%	0.7	64.1%	65.1%	(1.5)
- Total Operations	68.1%	66.6%	2.3	62.8%	63.0%	(0.3)
Revenue Per Available Room ("RevPAR")						
- Continuing Operations	\$65.12	\$62.82	3.7	\$58.51	\$57.71	1.4
- Total Operations	\$64.13	\$60.13	6.7	\$57.01	\$55.17	3.3

### Seasonality

The hospitality business is seasonal in nature. Our revenue and profitability are typically stronger in the second and third quarters, as compared to the first and fourth quarters. The Board of Trustees sets cash distributions based on annual performance; as a result, actual distributions will not equal cash available for distribution in any one quarter.

### FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, including those in the Outlook section, relate to future periods commencing after June 30, 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. Royal Host does not undertake to update such forward-looking statements should our estimates or assumptions change, except as required by law. Additional information relating to Royal Host, including our Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

### THREE MONTHS ENDED JUNE 30, 2005 (Continuing Operations)

#### Hospitality Revenue

Revenue for the three months increased \$2.4 million or 6.7% to \$38.0 million (2004 - \$35.6 million). Overall, Royal Host delivered strong growth in all areas with room revenue being the single largest contribution.

#### Room Revenue

Room revenue for the three months increased \$1.1 million or 4.3% to \$26.4 million (2004 - \$25.3 million), a result of the 2.9% increase in ADR to \$94.29 (2004 - \$91.63) and increase in Occupancy of 0.7% to 69.1% (2004 - 68.6%).

#### Food and Beverage Revenue

Food and beverage revenue for the three months increased \$0.7 million or 10.3% to \$7.3 million (2004 - \$6.6 million), primarily due to the addition of food and beverage operations in two hotel properties, which were previously leased to third parties.

## **Other Hospitality Revenue**

Other hospitality revenue for the three months increased \$0.6 million or 16.6% to \$4.3 million (2004 - \$3.7 million). Travelodge franchise fees and ongoing management fees continue to be strong. The largest factors in the increase is the Trust's contract to manage Supertel Hospitality's 69 hotel properties, which commenced on August 1, 2004, and the new management contract for the Wingate Inn Edmonton West, which commenced on January 1, 2005. Royal Host receives management fees based on the properties' gross revenue.

## **Hospitality Expenses**

Royal Host has committed particular attention to managing its costs, as reflected in the quarter as hospitality expenses decreased as a percentage of revenues to 69.2% (2004 - 71.0%). Overall, hospitality expenses increased \$1.0 million or 3.9% to \$26.3 million (2004 - \$25.3 million).

## **Gross Margin**

As a result of strong revenue growth in all areas of operations and success in managing hospitality expenses, gross margin for the three months ended to June increased \$1.4 million or 13.6% to \$11.7 million (2004 - \$10.3 million). Gross margin percentage increased to 30.8%, a 6.2% increase compared to the 2004 gross margin percentage of 29.0%. This overall improvement was realized despite an increase in food and beverage operations, which have higher proportionate costs than room revenue.

## **Other Expenses**

Other expenses decreased to \$9.2 million (2004 - \$10.0 million). This is attributable mainly to a \$0.6 million decrease in depreciation and amortization due to a number of assets being fully depreciated in 2005. Trust administration costs increased by \$0.2 million primarily due to non-recurring legal and executive search costs.

## **Net Earnings**

As a result of the strong revenue growth, improved gross margins, and overall decrease in other expenses, net earnings from continuing operations improved to \$2.5 million and net earnings from total operations increased to \$2.3 million. This compares to net earnings from continuing operations of \$0.3 million and a loss of \$0.2 million from total operations in 2004.

## **SIX MONTHS ENDED JUNE 30, 2005 (Continuing Operations)**

### **Hospitality Revenue**

As a result of the strong second quarter, revenue for the six months increased \$2.7 million or 4.1% to \$68.1 million (2004 - \$65.4 million). Increases were realized in all areas with improving room revenue being supplemented by very strong food and beverage and other hospitality revenue.

### **Room Revenue**

Room revenue for the six months increased \$0.7 million or 1.4% to \$47.2 million (2004 - \$46.5 million). This is due to a 2.9% increase in ADR to \$91.23 (2004 - \$88.64), which more than offset a 1.5% decrease in Occupancy to 64.1%.

### **Food and Beverage Revenue**

Food and beverage revenue for the six months increased by \$1.0 million or 8.4% to \$12.8 million (2004 - \$11.8 million), due to improving operations in a number of locations and the addition of food and beverage operations in two of our hotel properties, which were leased to third parties in the prior year.

## **Other Hospitality Revenue**

Other hospitality revenue for the six months was very solid, increasing \$1.0 million or 14.9% to \$8.1 million (2004 - \$7.0 million). Travelodge franchise fees continue to be strong and the large increase is primarily the result of the success of Royal Host's management of Supertel Hospitality's 69 hotel properties, which commenced on August 1, 2004, and the management contract for the Wingate Inn Edmonton West, which commenced on January 1, 2005.

## **Hospitality Expenses**

Hospitality expenses for the six months decreased as a percentage of revenue to 73.5% a decrease from 74.4% in the same period in 2004. Total hospitality expenses increased by \$1.4 million or 2.9% to \$50.0 million (2004 - \$48.7 million). Despite increased food and beverage revenues, which have higher proportionate costs than room revenue, 49% of the \$2.7 million increase in revenue that Royal Host realized in the period translated into gross margin. This reflects management's continuing focus on operations and the success of the operations managers.

## **Gross Margin**

Gross margin for the six months increased \$1.3 million or 7.9% to \$18.0 million (2004 - \$16.7 million). Gross margin percentage increased by 3.5% to 26.5% (2004 - 25.6%).

## **DISCONTINUED OPERATIONS**

For the three months ended June 30, 2005, revenue and gross margin from discontinued operations were \$0.2 million (2004 - \$1.4 million) and a negative \$0.2 million (2004 - \$nil). For the six months ended June 30, 2005, revenue and gross margin from discontinued operations were \$0.8 million (2004 - \$2.7 million) and a negative \$0.3 million (2004 - \$0.2 million loss), respectively.

On February 23, 2005, the Travelodge North York hotel was sold to a condominium developer. Under the agreement of purchase and sale, the Trust received \$10.8 million for its 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 is due when proceeds from construction financing are advanced on the condominium development. In addition, Royal Host 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 June 30, 2005, \$2.0 million of the subordinated vendor take-back mortgage was recognized and included in Long-term Notes Receivable. Cash proceeds received in the first quarter from the transaction were used to repay a \$5.5 million mortgage on the property and for general corporate purposes.

Royal Host has received an offer of \$3.1 million to purchase its 95-room hotel in Orillia, Ontario. Currently the Trust is working to complete the purchase and sale agreements.

## **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 Royal Host's financial performance. However, we believe these measures are useful in supplementing the reader's understanding of the Trust's performance.

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

### Cash Available from Operations and Cash Available for Distribution

(\$000's, except as otherwise noted)	Three Months Ended		Six Months Ended	
	June 30/05	June 30/04	June 30/05	June 30/04
Earnings (Loss) From Continuing Operations	2,528	339	(610)	(1,809)
Add (Deduct):				
Depreciation and Amortization	3,717	4,290	7,516	8,552
Property Impairment Provision	-	-	390	-
Future Income Taxes (Recovery)	(11)	68	(356)	(936)
Cash Available from Continuing Operations	6,234	4,697	6,940	5,807
Cash Available from Discontinued Operations	(202)	(16)	(342)	(265)
Cash Available from Operations	6,032	4,681	6,598	5,542
Less: Distributions on Redeemable Partnership Units	(94)	(189)	(378)	(378)
Cash Available for Distribution	5,938	4,492	6,220	5,164
Basic Per Unit Cash Available For Distribution (\$)	0.23	0.18	0.25	0.21
Diluted Per Unit Cash Available For Distribution (\$)	0.20	0.18	0.24	0.21

Cash available for distribution is calculated as cash available from operations less distributions on redeemable partnership units. It represents cash available to distribute to unitholders from total operations.

Cash available for distribution for the three months ended June 30, 2005 increased by 32.2% to \$5.9 million (2004 - \$4.5 million). Cash available for distribution for the six months ended June 30, 2005 increased by 20.4% to \$6.2 million (2004 - \$5.2 million). This is a direct result of a strong second quarter driven by an improvement in RevPAR and Occupancy, coupled with strong other revenue and improved gross margin.

For the three months ended June 30, 2005, cash distributions declared were \$2.4 million, a 60% increase (2004 - \$1.5 million). For the six months ended June 30, 2005, distributions declared were \$4.6 million or 74% of cash available for distribution, which compares to \$2.9 million declared in 2004 or 57% of cash available for distribution.

For the first six months of 2005, cash distributions have been maintained at \$.03 per unit per month as compared to \$.02 per unit per month in 2004.

### DISTRIBUTIONS TO UNITHOLDERS

Royal Host's Trustees approve distributions based on, among other things, projected cash flows, capital requirements, and working capital needs. In December 2004, as a direct result of the improved results, distributions per unit were increased from \$0.02 to \$0.03 per month, commencing in January 2005. Based on Royal Host's 2005 results to date and current outlook, the Trustees have approved an increase in distributions per unit to \$0.035 for unitholders of record on September 15 to be distributed on September 30.

Royal Host pays 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 month.

Assuming no significant deterioration in operating results from the level realized thus far in 2005, the Trust expects to be able to support the established level of cash distributions to unitholders, as well as meet capital expenditure and working capital requirements.

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2005, cash and short-term investments were \$8.0 million and undrawn credit facilities were \$12 million. In addition, subsequent to the quarter-end, the \$3.8 million vendor take-back mortgage is expected to be collected in the third quarter. Restricted cash as at June 30, 2005 was \$8.1 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 six months ended June 30, 2005, the Trust added \$1.0 million to restricted cash in connection with the Grand Okanagan Resort and Conference Centre, which will be used for planned capital expenditures.

These liquid resources, together with Royal Host's future cash flows, are more than sufficient to fund anticipated cash requirements over the next year.

### Financing Activities

On January 13, 2005, the Trust 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 the current portion of mortgages 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.

In April 2005, Royal Host, along with the joint venture partner in the Royal Private Residence Club, 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 are to be used to complete the project. During the period, \$3.4 million was drawn on the construction loan and \$8.0 million was drawn on the mezzanine loan.

Mortgages increased to \$168.9 million (December 31, 2004 - \$157.0 million) due in part to the replacement financing described above and offset by repayments of \$9.5 million. The current portion of mortgages and other debt has decreased to \$17.7 million (including \$11.4 million related to the Royal Private Residence Club) from \$39.1 million at December 31, 2004.

The Trust expects that the sale of units will be sufficient to repay all amounts related to the Royal Private Residence Club as they become due in 2006. The Trust has also arranged a contingency line of up to \$13 million from a US lender who specializes in resort funding should it be required.

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

The \$40 million 9.25% convertible debentures mature in March 2007; the \$35 million 7.9% convertible debentures mature in April 2009.

The following table identifies Royal Host's mortgage and lease obligations:

### Mortgages and Leases

As at June 30, 2005 (\$000's)	Payment Due by Period						
	Total	2006	2007	2008	2009	2010	Thereafter
Mortgages	168,913	17,715	4,239	21,163	3,790	25,074	96,932
Obligations Under Capital Leases (Including Interest)	1,544	591	471	406	76	-	-
Obligations Under Operating Leases	713	172	225	135	70	32	79
	<u>171,170</u>	<u>18,478</u>	<u>4,935</u>	<u>21,704</u>	<u>3,936</u>	<u>25,106</u>	<u>97,011</u>

## **Investing Activities**

During the three months ended June 30, 2005, Royal Host incurred \$1.4 million in capital expenditures (three months ended June 30, 2004 - \$0.9 million). During the six months ended June 30, 2005, the trust spent \$2.8 million on capital expenditures (six months ended June 30, 2004 - \$2.3 million).

Restricted cash, described above, is available for funding certain hotel capital expenditures. A portion of the capital expenditure planned for the balance of 2005 will be funded out of restricted cash. Some of the planned capital expenditures may not be completed until the first quarter of 2006.

Property under development was \$26.7 million as at June 30, 2005, an increase of \$9.3 million from the \$17.4 million as at December 31, 2004. Property under development relates to the Royal Private Residence Club, a 70-unit luxury condominium development in which the Trust is the lead joint venture partner, which is being developed adjacent to the Grand Okanagan Lakefront Resort and Conference Centre. As at June 30, 2005, 70% of the development's residence units have been sold. Construction of the development's first phase, the parkade, was completed in 2005. Construction on the residence units commenced in May 2004 and is expected to be completed the first quarter of 2006.

## **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 has been restated to \$110.6 million (to reflect the reclassification of convertible debentures and related debt issuance costs). Equity has decreased to \$102.0 as at June 30, 2005, attributable to the net loss for the six months ended June 30, 2005 of \$0.9 million and distributions of \$5.0 million. In addition the Trust paid \$2.4 million in cash pursuant to the redemption of the redeemable partnership units (described below), resulting in a reduction of equity.

### **Normal Course Issuer Bid**

Royal Host initiated a Normal Course Issuer Bid, commencing December 21, 2004, to repurchase a maximum of 1.2 million of the Trust's issued and outstanding trust units. In the second quarter, 100,000 trust units were repurchased at an aggregate cost of \$541,000.

Subsequent to June 30, 2005, Royal Host initiated a Normal Course Issuer Bid, commencing July 15, 2005, to repurchase a maximum of \$2.0 million of our 9.25% subordinated unsecured convertible debentures. To date no debentures have been repurchased.

### **Redeemable Partnership Units**

During the six months ended June 30, 2005, 3,151,433 redeemable partnership units were redeemed by way of a combination of issuance of 2,706,682 Royal Host trust units and \$2,414,998 in cash. The partnership units were held by entities controlled by certain officers and trustees of Royal Host. As such, the redemption was a related party transaction and was recorded at the historical amount of \$27.5 million that the partnership units had been recorded in the financial statements. The redemption brings the total number of trust units outstanding to 27,468,787 as of June 30, 2005.

As at June 30, 2005 a total of 10 (2004 - 3,151,443) redeemable partnership units remained outstanding.

## **CHANGES IN ACCOUNTING POLICIES**

The financial statements for the six months ended June 30, 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 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, the Trust proportionately consolidated the Royal Private Residence Club 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 the majority of the Joint Venture’s expected residual returns. Accordingly, effective January 1, 2005, Royal Host is 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 as Interest on Convertible Debentures on the Consolidated Statements of Net Earnings (Loss).

As a result of the reclassification, other expenses for the three months ended June 30, 2004 increased by \$1.7 million, other expenses for the six months ended June 30, 2004 increased by \$3.2 million, and deferred debt issuance costs as at December 31, 2004 increased by \$2.3 million.

## **OFF BALANCE SHEET ARRANGEMENTS**

As at June 30, 2005, Royal Host had no undisclosed off balance sheet arrangements.

## **RISKS AND UNCERTAINTIES**

The Trust’s 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 Royal Host’s operations are described in detail in the MD&A and Annual Information Form for the year ended December 31, 2004.

## **OUTLOOK**

Royal Host intends to continue to focus on expansion within our areas of expertise, which may include acquiring Limited, Full and Focused Service hotels in Canada. The Trust made significant progress toward its goal of simplification by focusing on our core competencies of hotel ownership, management and franchising. As a result of the continued focus on cost control and profitable businesses, Royal Host 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 2006. The management contract with Supertel Hospitality is contributing to our profitability in 2005.

National demand in the hospitality industry is growing and is returning to 2000 levels. Pannell Kerr Forster Consulting Inc., a recognized industry consultant, is forecasting solid growth in ADR and steady Occupancy rates. The Trust anticipates continued recovery and are cautiously optimistic about the remainder of 2005.

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Consolidated Balance Sheets

in \$000's

*(unaudited)*

	As at	
	<u>June 30, 2005</u>	<u>December 31, 2004</u>
		(restated - Notes 2 and 3)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and short-term investments	8,000	8,707
Accounts and notes receivable	11,290	9,435
Mortgage receivable (Note 3)	3,800	-
Prepaid expenses	4,766	3,686
Inventories	3,059	2,993
Assets of discontinued operations (Note 3)	446	306
Property held for sale (Note 3)	2,704	2,704
Property under development (Note 4)	26,710	17,437
Future income taxes	2,086	1,004
	<u>62,861</u>	<u>46,272</u>
<b>Restricted cash</b>	8,084	6,380
<b>Long-term notes receivable</b> (Note 3)	2,339	466
<b>Assets of discontinued operations</b> (Note 3)	-	10,456
<b>Capital assets</b> (Note 5)	316,328	320,246
<b>Deferred debt issuance costs</b>	4,721	5,061
	<u>394,333</u>	<u>388,881</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	24,078	20,795
Equity distributions payable	827	561
Interest accrued on convertible debentures	1,702	1,686
Current portion of mortgages (Note 6)	17,715	39,083
Current portion of obligations under capital leases (Note 7)	491	563
Other liabilities	1,811	2,249
Liabilities of discontinued operations (Note 3)	201	546
	<u>46,825</u>	<u>65,483</u>
<b>Mortgages</b> (Note 6)	151,198	117,896
<b>Convertible debentures</b>	75,000	75,000
<b>Obligations under capital leases</b> (Note 7)	879	961
<b>Deferred revenue</b>	706	688
<b>Future income taxes</b>	8,756	8,329
	<u>283,364</u>	<u>268,357</u>
<b>Minority interest</b> (Note 4)	9,005	9,917
<b>Unitholders' equity</b> (Note 8)	101,964	110,607
	<u>394,333</u>	<u>388,881</u>

*See accompanying Notes to the Consolidated Financial Statements*

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Consolidated Statements of Net Earnings (Loss)

in \$000's (except per unit amounts)

*(unaudited)*

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004 (restated - Notes 2 and 3)	June 30, 2005	June 30, 2004 (restated - Notes 2 and 3)
<b>Hospitality revenue</b>				
Rooms	26,403	25,320	47,161	46,503
Food and beverage	7,324	6,638	12,827	11,828
Other hospitality revenue	4,271	3,663	8,085	7,037
	<u>37,998</u>	<u>35,621</u>	<u>68,073</u>	<u>65,368</u>
<b>Hospitality expenses</b>	<u>26,280</u>	<u>25,304</u>	<u>50,045</u>	<u>48,654</u>
<b>Gross margin</b>	<u>11,718</u>	<u>10,317</u>	<u>18,028</u>	<u>16,714</u>
<b>Other expenses</b>				
Interest on mortgages and capital leases	3,240	3,520	6,569	6,999
Interest on convertible debentures	1,658	1,560	3,248	2,919
Depreciation and amortization	3,717	4,290	7,516	8,552
Trust administration	638	469	1,182	955
Future income taxes (recovery)	(11)	68	(356)	(936)
Capital and other taxes	52	17	106	88
(Gain) loss on foreign currency translation	(104)	54	(17)	(54)
Property impairment provision	-	-	390	-
	<u>9,190</u>	<u>9,978</u>	<u>18,638</u>	<u>18,523</u>
<b>Earnings (loss) from continuing operations</b>	<u>2,528</u>	<u>339</u>	<u>(610)</u>	<u>(1,809)</u>
<b>Loss from discontinued operations</b> (Note 3)	<u>(214)</u>	<u>(587)</u>	<u>(323)</u>	<u>(653)</u>
<b>Net earnings (loss)</b>	<u>2,314</u>	<u>(248)</u>	<u>(933)</u>	<u>(2,462)</u>
<b>Basic and diluted per unit net earnings (loss)</b> (Note 9)				
- from continuing operations	0.09	0.01	(0.04)	(0.09)
- from discontinued operations	(0.01)	(0.02)	(0.01)	(0.03)
	<u>0.08</u>	<u>(0.01)</u>	<u>(0.05)</u>	<u>(0.12)</u>

*See accompanying Notes to the Consolidated Financial Statements*

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Consolidated Statements of Cash Flows

in \$000's

*(unaudited)*

<b>CASH PROVIDED BY (USED IN):</b>	Three Months Ended		Six Months Ended	
	<b>June 30, 2005</b>	June 30, 2004	<b>June 30, 2005</b>	June 30, 2004
<b>Operating activities</b>				
Net earnings (loss)	2,314	(248)	(933)	(2,462)
Add: net loss from discontinued operations (Note 3)	214	587	323	653
Items not affecting cash:				
Depreciation and amortization	3,717	4,290	7,516	8,552
Future income taxes (recovery)	(11)	68	(356)	(936)
Property impairment provision	-	-	390	-
<b>Funds from continuing operations</b>	<b>6,234</b>	<b>4,697</b>	<b>6,940</b>	<b>5,807</b>
<b>Funds from discontinued operations</b>	<b>(202)</b>	<b>(708)</b>	<b>(342)</b>	<b>(957)</b>
Changes in non-cash working capital (Note 10)	2,474	672	(607)	(1,016)
	<b>8,506</b>	<b>4,661</b>	<b>5,991</b>	<b>3,834</b>
<b>Financing activities</b>				
Net additions to mortgages	12,403	100	22,403	5,750
Principal repayments on mortgages and capital leases	(3,188)	(6,909)	(10,898)	(8,600)
Issuance of convertible debentures, net of retirements	-	13,000	-	13,000
Financing issuance costs	(84)	(1,619)	(428)	(1,664)
Repurchase of trust units pursuant to normal course issuer bid	(541)	-	(541)	-
Redemption of redeemable partnership units	(2,415)	-	(2,415)	-
Equity distributions	(2,367)	(1,575)	(4,488)	(3,148)
	<b>3,808</b>	<b>2,997</b>	<b>3,633</b>	<b>5,338</b>
<b>Investing activities</b>				
Capital expenditures	(1,424)	(896)	(2,817)	(2,349)
Net cash from sale of properties	-	654	6,248	654
Property under development	(5,652)	(548)	(9,273)	(1,242)
Restricted cash	382	(325)	(1,704)	(691)
Long-term notes receivable	(685)	261	(1,873)	151
Minority interest in joint venture	(3,028)	-	(912)	-
	<b>(10,407)</b>	<b>(854)</b>	<b>(10,331)</b>	<b>(3,477)</b>
<b>Net change in cash and short-term investments</b>	<b>1,907</b>	<b>6,804</b>	<b>(707)</b>	<b>5,695</b>
<b>Cash and short-term investments, beginning of period</b>	<b>6,093</b>	<b>4,074</b>	<b>8,707</b>	<b>5,183</b>
<b>Cash and short-term investments, end of period</b>	<b>8,000</b>	<b>10,878</b>	<b>8,000</b>	<b>10,878</b>
<b>Cash interest paid</b>				
Mortgages and capital leases	3,126	3,156	6,517	4,670
Convertible debentures	1,383	-	3,233	1,850
	<b>4,509</b>	<b>3,156</b>	<b>9,750</b>	<b>6,520</b>

*See accompanying Notes to the Consolidated Financial Statements*

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## ROYAL HOST REAL ESTATE INVESTMENT TRUST

### Notes to the Consolidated Financial Statements

(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 of 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 six months ended June 30, 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 consolidated interim 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, whether that is contractually or by other financial interests in the entity.

Prior to 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 consolidates the Joint Venture. The 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.

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## ROYAL HOST REAL ESTATE INVESTMENT TRUST

### Notes to the Consolidated Financial Statements

(unaudited)

## 2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (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 Trust has applied the provisions of Section 3860 retroactively, with restatement of prior years presented. The amendments result in the Trust'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 convertible debentures" on the consolidated interim statements of net earnings (loss).

As a result of the reclassification, other expenses for the three months ended June 30, 2004 increased by \$1,709,000, other expenses for the six months ended June 30, 2004 increased by \$3,161,000, and deferred debt issuance costs as at December 31, 2004 increased by \$2,251,000.

As the associated interest expense was already included in the June 30, 2004 per unit net earnings (loss) calculations, this reclassification does not impact per unit earnings for the three months and six months ended June 30, 2004.

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

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 is due when the proceeds from construction financing are advanced on the condominium development, which is expected during the third quarter. Royal Host operated the property as a hotel for the 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"). The December 31, 2004 consolidated balance sheet and June 30, 2004 consolidated statement of net earnings (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. Accordingly, this property has been reflected as "property held for sale" and "assets and liabilities of discontinued operations" on the consolidated balance sheets.

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

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

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Notes to the Consolidated Financial Statements

*(unaudited)***3. PROPERTY HELD FOR SALE, DISPOSAL OF LONG-LIVED ASSETS, AND DISCONTINUED OPERATIONS (CONTINUED)**

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

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
<b>Hospitality revenue</b>				
Rooms	152	969	607	1,756
Food and beverage	1	376	169	727
Other hospitality revenue	10	104	37	203
	<u>163</u>	<u>1,449</u>	<u>813</u>	<u>2,686</u>
<b>Hospitality expenses</b>	<u>369</u>	<u>1,416</u>	<u>1,152</u>	<u>2,904</u>
<b>Gross margin</b>	<u>(206)</u>	<u>33</u>	<u>(339)</u>	<u>(218)</u>
<b>Other expenses</b>				
Interest on capital leases	1	2	2	5
Depreciation and amortization	7	147	80	306
Future income taxes (recovery)	(21)	122	(299)	(220)
Capital and other taxes	-	6	5	7
(Gain) loss on foreign currency translation	(5)	41	(4)	35
Property impairment provision	(4)	498	(21)	498
(Gain) loss on disposition	30	(196)	221	(196)
	<u>8</u>	<u>620</u>	<u>(16)</u>	<u>435</u>
<b>Loss from discontinued operations</b>	<u>(214)</u>	<u>(587)</u>	<u>(323)</u>	<u>(653)</u>

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## **ROYAL HOST REAL ESTATE INVESTMENT TRUST**

### Notes to the Consolidated Financial Statements

*(unaudited)*

#### **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 Centre in Kelowna, British Columbia for resale. Construction of the first phase of the project, a parkade, commenced in January 2004 and was completed in October 2004. Construction of the residence units commenced in May 2004. As the project is still in the development phase, no revenue has been recognized. All costs incurred have been capitalized to "property under development".

As stated in Note 2(a), Royal Host consolidates the joint venture. The \$9,005,000 (December 31, 2004 - \$9,917,000) minority interest in joint venture on the consolidated balance sheet as at June 30, 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 are to be used to complete the project. During the period, \$3.4 million was drawn on the construction loan and \$8.0 million was drawn on the mezzanine loan.

Royal Host has provided a completion, cost overrun and debt service deficiency guarantee on the \$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.

Included in property under development is \$141,335 in capitalized interest as at June 30, 2005 (December 31, 2004 - \$Nil).

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Notes to the Consolidated Financial Statements

*(unaudited)***5. CAPITAL ASSETS**

	<i>(in \$000's)</i>		
	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b>June 30, 2005</b>			
Buildings	310,084	58,237	251,847
Land	38,815	-	38,815
Furniture, fixtures, and equipment	45,293	35,950	9,343
Paving and other	1,635	724	911
	<u>395,827</u>	<u>94,911</u>	<u>300,916</u>
Intangible assets:			
Franchise rights and management contracts	27,414	16,166	11,248
Customer lists and intellectual capital	7,270	7,045	225
Capital assets under development	3,939	-	3,939
	<u>434,450</u>	<u>118,122</u>	<u>316,328</u>

	<i>(in \$000's)</i>		
	<u>Gross Book Value</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b>December 31, 2004</b>			
Buildings	309,113	53,966	255,147
Land	38,644	-	38,644
Furniture, fixtures, and equipment	44,660	34,248	10,412
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 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>

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Notes to the Consolidated Financial Statements

*(unaudited)***6. MORTGAGES**

	<i>(in \$000's)</i>	
	<u>June 30, 2005</u>	<u>December 31, 2004</u>
Mortgages secured by hotel properties	<b>168,913</b>	156,979
Less: current portion	<b>17,715</b>	39,083
	<b><u>151,198</u></b>	<u>117,896</u>

Principal repayments required for the years ending June 30:

	<u><i>(in \$000's)</i></u>
2006	17,715
2007	4,239
2008	21,163
2009	3,790
2010	25,074
Subsequent	<u>96,932</u>
	<u>168,913</u>

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

Debt issuance costs are deferred and amortized over the term of the related debt. For the six months ended June 30, 2005, \$768,000 was included in amortization (2004 - \$305,000).

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Notes to the Consolidated Financial Statements

*(unaudited)***7. 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 future minimum lease payments under capital leases as at June 30, 2005 are as follows:

	<i>(in \$000's)</i>	
	<u>June 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Present value of future minimum lease payments	<b>1,370</b>	1,524
Less: current portion of principal payments	<b>491</b>	563
	<b>879</b>	961

Total repayments required for the years ending June 30:

	<u><i>(in \$000's)</i></u>
2006	591
2007	471
2008	406
2009	76
Future minimum lease payments	<u>1,544</u>
Less: amounts representing interest	<u>174</u>
Present value of future minimum lease payments	<u>1,370</u>

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Notes to the Consolidated Financial Statements

*(unaudited)***8. UNITHOLDERS' EQUITY**

	<i>(in \$000's)</i>	
	<b>June 30, 2005</b>	December 31, 2004
<b>Balance, beginning of period, as previously reported</b>		93,366
Prior period adjustment (Note 2(b))		1,183
<b>Balance, beginning of period, restated</b>	<b>83,107</b>	94,549
Net loss (2004 restated - Note 2(b))	<b>(933)</b>	(5,197)
Issuance of trust units and contributed surplus pursuant to redemption of redeemable partnership units	<b>25,085</b>	-
Issuance of trust units pursuant to distribution reinvestment plan	<b>198</b>	309
Employee loans pursuant to employee unit purchase program	<b>1</b>	17
Equity financing issue costs	-	(1,607)
Restatement of debenture financing issue costs (Note 2(b))	-	1,664
Trust units cancelled pursuant to normal course issuer bid, net of contributed surplus of \$360,000	<b>(541)</b>	-
Equity distributions		
Trust units	<b>(4,575)</b>	(5,872)
Redeemable partnership units	<b>(378)</b>	(756)
	<b>101,964</b>	83,107
Convertible equity		
Redeemable partnership units	-	27,500
	<b>101,964</b>	110,607
<b>Balance, end of period</b>	<b>101,964</b>	110,607
<b>(a) Unit capital</b>	Number of Units	<i>(in \$000's)</i>
<b>Balance, December 31, 2003</b>	24,762,344	223,537
Issuance of trust units pursuant to distribution reinvestment plan	62,598	309
<b>Balance, December 31, 2004</b>	24,824,942	223,846
Issuance of trust units pursuant to distribution reinvestment plan	37,163	198
Trust units cancelled pursuant to normal course issuer bid	(100,000)	(901)
Issuance of trust units pursuant to redemption of redeemable partnership units (Note 8(b))	2,706,682	24,387
<b>Balance, June 30, 2005</b>	<b>27,468,787</b>	<b>247,530</b>

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 \$142,909,000 at June 30, 2005 (December 31, 2004 - \$137,023,000).

Commencing on December 21, 2004, Royal Host initiated a normal course issuer bid to repurchase a maximum of 1.2 million of its issued and outstanding trust units. In April 2005, 100,000 Royal Host trust units were repurchased at an aggregate cost of \$541,000.

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## **ROYAL HOST REAL ESTATE INVESTMENT TRUST**

### Notes to the Consolidated Financial Statements

*(unaudited)*

#### **8. UNITHOLDERS' EQUITY (CONTINUED)**

##### **(b) Redeemable Partnership Units**

During the period, 3,151,433 redeemable partnership units were redeemed by way of a combination of issuance of 2,706,682 Royal Host trust units and \$2,414,998 in cash. The redeemable partnership units were held by entities controlled by certain officers and trustees of Royal Host. As such, the redemption of the redeemable partnership units was a related party transaction and was recorded at the historical amount of the redeemable partnership units in the financial statements. The trust units issued on the redemption have been recorded to unit capital and contributed surplus. The net carrying value of the redeemable partnership units of \$25.1 million, being \$27.5 million net of cash of \$2.4 million, has been recorded to unit capital in the amount of \$24.4 million with the balance of \$0.7 million being recorded to contributed surplus.

As at June 30, 2005, a total of 10 (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.

##### **(c) Unit Options**

Royal Host has reserved 1,883,000 units under its unit option plan. As at June 30, 2005, Royal Host has unit options outstanding to certain board members, employees, and consultants to purchase an aggregate of 137,500 units (December 31, 2004 - 137,500 units) at an exercise price of \$10.00 per unit (December 31, 2004 - \$10.00). All unit options were issued prior to 1999 and were fully vested and exercisable at June 30, 2005 and December 31, 2004. The options currently outstanding expire on October 31, 2007.

During the six months ended June 30, 2005 and 2004, no options were issued or exercised and no options expired (December 31, 2004 - Nil).

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## ROYAL HOST REAL ESTATE INVESTMENT TRUST

### Notes to the Consolidated Financial Statements

(unaudited)

#### 9. PER UNIT CALCULATIONS

There were 27,468,787 trust units outstanding as at June 30, 2005 (June 30, 2004 - 24,793,785). Per unit computations are based on the weighted average number of trust units outstanding for the period, after adjusting the net loss for distributions on the redeemable partnership units of \$378,000 (June 30, 2004 - \$378,000).

The diluted earnings (loss) per unit are the same as the basic amounts presented as all items that can result in units being issued are anti-dilutive for both the three and six months ended June 30, 2005 and 2004.

##### For the three months ended June 30, 2005:

	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Net earnings - continuing operations	2,528		
Less: distributions on redeemable partnership units	(94)		
Basic earnings - continuing operations	<u>2,434</u>		0.09
Basic loss - discontinued operations	(214)		<u>(0.01)</u>
Basic earnings - total operations	<u>2,220</u>	<u>25,894</u>	<u>0.08</u>

##### For the three months ended June 30, 2004:

(restated - Notes 2 and 3)

	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Net earnings - continuing operations	339		
Less: distributions on redeemable partnership units	(189)		
Basic earnings - continuing operations	<u>150</u>		0.01
Basic loss - discontinued operations	(587)		<u>(0.02)</u>
Basic loss - total operations	<u>(437)</u>	<u>24,566</u>	<u>(0.01)</u>

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Notes to the Consolidated Financial Statements

*(unaudited)***9. PER UNIT CALCULATIONS (CONTINUED)****For the six months ended June 30, 2005:**

	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Net earnings - continuing operations	<b>(610)</b>		
Less: distributions on redeemable partnership units	<b>(378)</b>		
Basic earnings - continuing operations	<b>(988)</b>		<b>(0.04)</b>
Basic loss - discontinued operations	<b>(323)</b>		<b>(0.01)</b>
Basic earnings - total operations	<b>(1,311)</b>	<b>25,257</b>	<b>(0.05)</b>

**For the six months ended June 30, 2004:**

(restated - Notes 2 and 3)

	<u>(in \$000's)</u>	<u>Weighted Average Units (in 000's)</u>	<u>Per Unit (\$)</u>
Net earnings - continuing operations	(1,809)		
Less: distributions on redeemable partnership units	(378)		
Basic earnings - continuing operations	(2,187)		(0.09)
Basic loss - discontinued operations	(653)		(0.03)
Basic loss - total operations	(2,840)	24,558	(0.12)

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**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

## Notes to the Consolidated Financial Statements

*(unaudited)***10. CHANGES IN NON-CASH WORKING CAPITAL**

	Three Months Ended		Six Months Ended	
	<i>(in \$000's)</i>		<i>(in \$000's)</i>	
	<b>June 30,</b>	June 30,	<b>June 30,</b>	June 30,
	<b>2005</b>	2004	<b>2005</b>	2004
<b>(Increase) decrease in:</b>				
Accounts and notes receivable	<b>2,550</b>	(288)	<b>(1,855)</b>	323
Prepaid expenses	<b>(1,067)</b>	(1,134)	<b>(1,080)</b>	(1,965)
Inventories	<b>(68)</b>	25	<b>(66)</b>	155
Assets of discontinued operations	<b>(225)</b>	-	<b>(140)</b>	-
	<b>1,190</b>	(1,397)	<b>(3,141)</b>	(1,487)
<b>Increase (decrease) in:</b>				
Accounts payable and accrued liabilities	<b>2,713</b>	492	<b>3,283</b>	37
Interest accrued on convertible debentures	<b>277</b>	1,463	<b>16</b>	539
Other liabilities	<b>49</b>	257	<b>(438)</b>	163
Deferred revenue	<b>(89)</b>	(143)	<b>18</b>	(268)
Liabilities of discontinued operations	<b>(1,666)</b>	-	<b>(345)</b>	-
	<b>1,284</b>	2,069	<b>2,534</b>	471
	<b>2,474</b>	672	<b>(607)</b>	(1,016)

**11. SUBSEQUENT EVENT**

Commencing on July 15, 2005, Royal Host initiated a normal course issuer bid to repurchase up to \$2,000,000 in principal of its issued and outstanding 9.25% convertible debentures. To date, Royal Host has not repurchased any of the debentures.

**12. COMPARATIVE FIGURES**

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

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