



 **ROYAL HOST™**
ANNUAL REPORT



BUILDING

ON OUR

FOUNDATION

2009



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What We Believe – Our Mission

To provide the highest sustainable value (distributions and capital gains) to investors by achieving industry-leading profits in hotel management, franchising and ownership, and in vacation ownership.

Who We Are and How We Succeed

Royal Host is a superior hotel owner, management and franchise company that is committed to enhancing its leadership in the hospitality and travel services industries through tightly focused strategic initiatives.

Royal Host experienced a year filled with success, disappointment and reassessment, and it emerged with a clear vision and strong sense of direction for growth during 2000 and beyond. During 1999 we:

Completed an extensive expansion and renovation program including:

- The Grand Okanagan Resort and Conference Centre (The Grand): an investment of \$22.4 million for the addition of 120 four-star guest rooms, a European-style spa, and a 21,000 square-foot, world-class casino;
- \$9 million to renovate the newly repositioned Hilton in London, Ontario and Travelodge Ottawa West. The renovations included state-of-the-art computerized reservation and front-desk systems and the creation of executive-style floors; and,
- \$14 million spent on renovations at other repositioned Travelodge and Royal Host hotels.

Completed the integration of the three separate operations (Royal Host REIT, Royal Host Corp., and Royal Host Vacations Inc.) into Royal Host Hotels and Resorts.

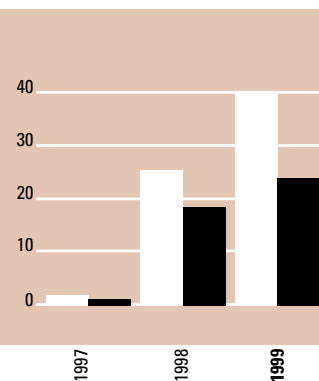
Selected by Hilton Corporation to brand Royal Host's upscale, 322-room hotel in London, Ontario, with the prestigious Hilton name, one of only nine hotels in Canada with that distinction.

Awarded hotel management contracts for 27 properties located in Alaska, Washington and Oregon.

Management demonstrated their confidence in Royal Host by contributing 21% of a \$10 million private placement.

Highlights of 1999

OPERATING RESULTS



Operating Income
 Cash Available for Distribution

FINANCIAL HIGHLIGHTS

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

	1999	1998	1997
Total Hospitality Revenues	129,570	78,012	5,369
Operating Income	39,978	24,925	1,421
Cash Available for Distribution	23,414	18,342	989
Per Unit Cash Available for Distribution (basic)	\$ 1.02	\$ 0.93	\$ 0.08
Capital Assets	347,300	334,911	117,141
Total Mortgages and Other Debt	156,604	139,509	67,635

Message to Our Unitholders



*Randy Royer
President and Chief Executive Officer
Royal Host*

During 1999 we reached a turning point in the history of Royal Host. With the support of the financial markets we had successfully acquired 36 hotels, a management company and an integrated vacation company. With the changes in the financial markets the focus moved inwardly for growth opportunities and value maximization.

Debt

At the time of writing, Royal Host is entering into the due diligence process to extend the maturity on a substantial portion of our existing debt due in 2000. There will be an increase in expense but it is not anticipated to have a significant impact on the bottom line after including the positive factors discussed below.

Industry

The industry continues to be strong, particularly in the leisure market which is an area of strength for Royal Host. With our property mix and the vacation services that Royal Host Vacations Inc. provides, we are well positioned to benefit from this growth.

Revenue Per Available Room ("RevPAR") increased by 5.8% in 1999. Management expects similar growth

in 2000. To put this number in perspective, consider the growth required to meet our distribution policy and set aside the 3% capital replacement reserve. Including the increased number of units in 2000 over 1999 (1,444,445 units), hospitality revenues would need to increase by 7% if they were the sole source of improvement in the bottom line. But our expected improvements go well beyond simple reliance on industry growth.

Accomplishments in 1999

We have significantly streamlined the decision-making infrastructure by fusing three independent operating entities into a single more efficient operation. The importance of this change to the organization and its ability to generate profit cannot be underestimated. The strengths of each of the three entities are now being focused on a single integrated objective of wealth creation under one integrated plan. This integration could only be achieved through the goodwill and complete commitment of the management team to Royal Host.

Capital investment was significant in 1999. Our total inventory increased by 156 rooms and other properties were retargeted: Hilton, London, Ontario, Travelodge Hotel Toronto Airport (Dixon Road), and

Travelodge Ottawa West. Financial results for these investments in 1999 were below expectations, but the first quarter results have shown significant improvement.

Part of the improvement has been a result of an increase in the commitment and attention by head office and property management; commitment to strategies at the hotels and attention to service levels; allowing the properties to drive Average Daily Room rates ("ADR") and better control costs.

Lastly, we made a major commitment in the establishment of the Royal Host marketing group. It has integrated the previously diverse sales and marketing functions into a well-focused, integrated and driven group. The benefits of this investment are being seen in the first part of 2000, with some properties achieving up to 23% increases in sales year over year.

What We Plan To Accomplish In 2000

Royal Host will continue to build on what we started in late 1999. The streamlining program will continue at head office and will be rolled out into the properties. Efficiencies on each line item will continue to be gained with head office support and sharing of information between properties.

To support this management structure we are investing in automated tools such as RMI (Royal Host integrated hotel management interface). This system facilitates communication, analysis, scheduling and forecasting.

We are extending our marketing reach, finding new ways to attract and retain customers. The goal of our "New Commerce Strategy" is to take us into a position of industry leadership as it relates to how customers choose hotels. The strengths of our vacation travel business give us a unique opportunity to pursue this strategy.

Each of the above will provide the component parts to bundle these services together in order to increase income from management contracts and from vacation and travel services. Achieving these goals will be assisted by having certain key assets, such as; successful management of all four property types (according to Smith Travel Research: luxury, mid-market, economy and budget); a central infrastructure from which efficiencies can be driven for new properties; and the largest vacation club in Canada.

We are extending our marketing reach, finding new ways to attract and retain customers.

While facilities and infrastructure are prerequisites, it's people who transform a "hotel" into "hospitality."

Human Capital

While facilities and infrastructure are prerequisites, it's people who transform a "hotel" into "hospitality" The ultimate measure, and the most important "driver," of success in our industry is the quality and training of the people who convert physical structures into pleasant experiences. The popular term is "human capital." We have long recognized that it's our employees who provide guests with superior travel experiences. These positive experiences translate into customer loyalty, revenue growth and attractive returns to unitholders.

The company's development programs are creating a loyal and motivated team of employees and management by matching the interests of individuals with new professional growth opportunities in the company. A strong base of hospitality skills, along with our commitment to our "human capital," will allow Royal Host to compete with and exceed the best hospitality management and travel service organizations.

As we head into the next millennium, Royal Host agrees with industry forecasters who predict many years of growth and stability in the hotel industry, both in Canada and the United States. Royal Host will continue to focus on building a stable foundation that will sustain growth and profitability.

This has been a year of challenge and reward, and it has been a success in large measure due to the loyalty of our customers, the dedication and expertise of our employees, the confidence of our unitholders and the guidance and support of our Board of Trustees. Thank you.



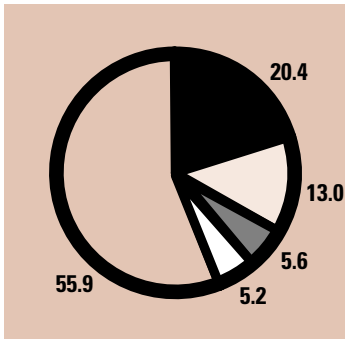
Randy B. Royer

President and Chief Executive Officer

April 14, 2000

Geographic Diversity

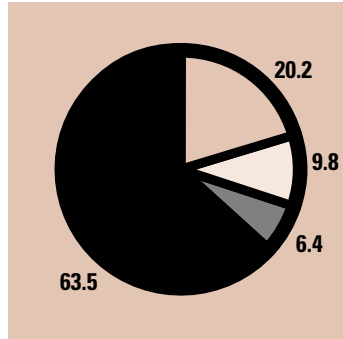
% INVESTMENT IN PROPERTIES, BY REGION



B.C. and N.W.T.
 Ontario
 Alberta
 Atlantic
 Prairies

Property Diversity

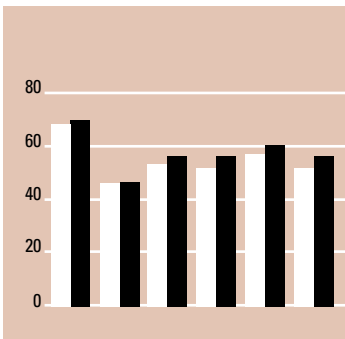
PROPERTY TYPE BY % INVESTMENT



Highrise, full service
 • The Grand
 • Hilton, London, Ontario
 • Chimo Hotel
 • Travelodge hotels and other properties
 Travelodge (lowrise)
 Country Inns (suites)
 Super 8

Royal Host Portfolio Analysis

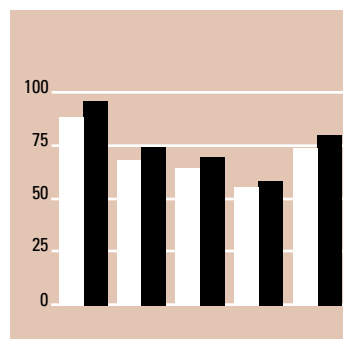
RevPAR BY REGION 1999 VERSUS 1998 (\$)



1998 RevPAR
 1999 same property RevPAR

1999 same property RevPAR grew in all geographic regions with the exception of a 0.6% decline in Alberta.

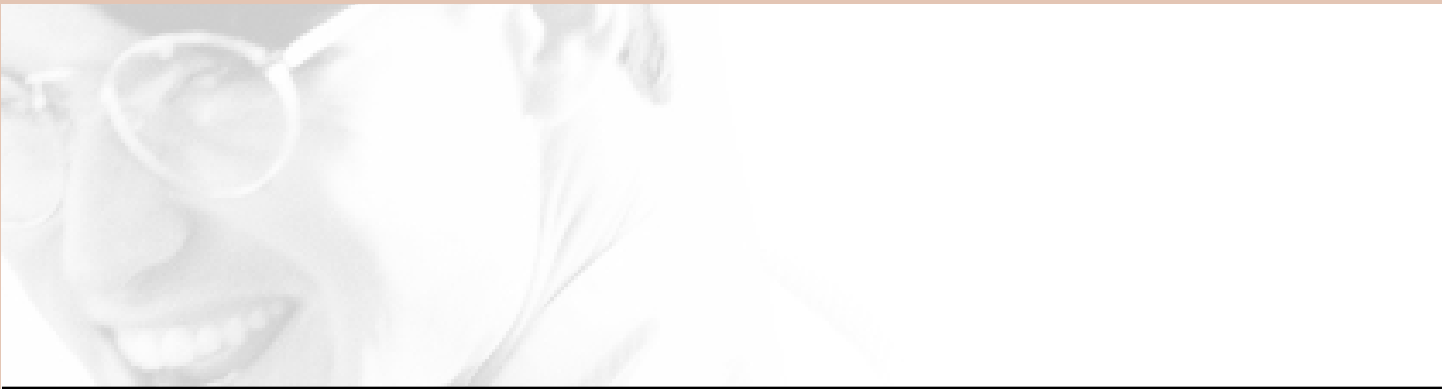
ADR BY PROPERTY TYPE 1999 VERSUS 1998 (\$)



1998 ADR
 1999 same property ADR

Programs in 1999, including renovation and repositioning of selected properties, has allowed Royal Host to drive ADR at all property types.

Royal Host provides both geographic and property diversity in its portfolio to manage risk.

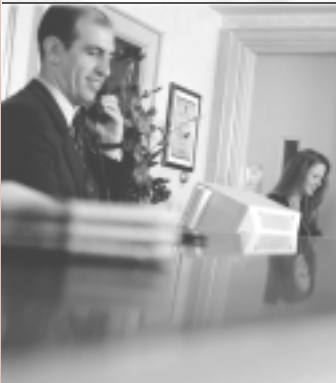


A Strong Foundation for Growth

In late 1999, Royal Host completed a review of its vision and growth strategies. The process helped us refocus on our considerable strengths, and renewed our determination to grow the company within its solid four-part foundation: market repositioning through property upgrading and expansion, hotel management, franchise development, and resorts and vacation properties.

The Royal Host management team's reputation for excellence has grown during the past 25 years. Given this considerable expertise, Royal Host has a strong management foundation to draw upon for future growth. By leveraging this experience, we intend to capitalize on the opportunities we have before us in the three major, and growing, sectors of our industry: hotel ownership and management, franchising and vacation ownership.

These sectors and the expertise of our people are a strong combination and foundation for growth in 2000 and beyond.



Royal Host provides superior accommodations and travel experiences.



Hilton, London, Ontario

Market Repositioning

In 1999, Royal Host completed an extensive, two-year \$45-million renovation program, preparing a number of hotel properties to target more attractive, and higher-margin, market segments. As part of the company's ongoing commitment to growth and to providing superior accommodations and travel experiences, a number of key income-generating properties were targeted for renovations.

Among them was The Grand, where \$22.4 million was invested over two years to add 120 four-star guest rooms and presidential suites, a 16,000 square-foot European-style spa, and a 21,000 square-foot, world-class casino. The expansion and renovation program was completed in 1999 and has prepared The Grand for the increasing demand for leisure vacations and exceptional travel experiences.

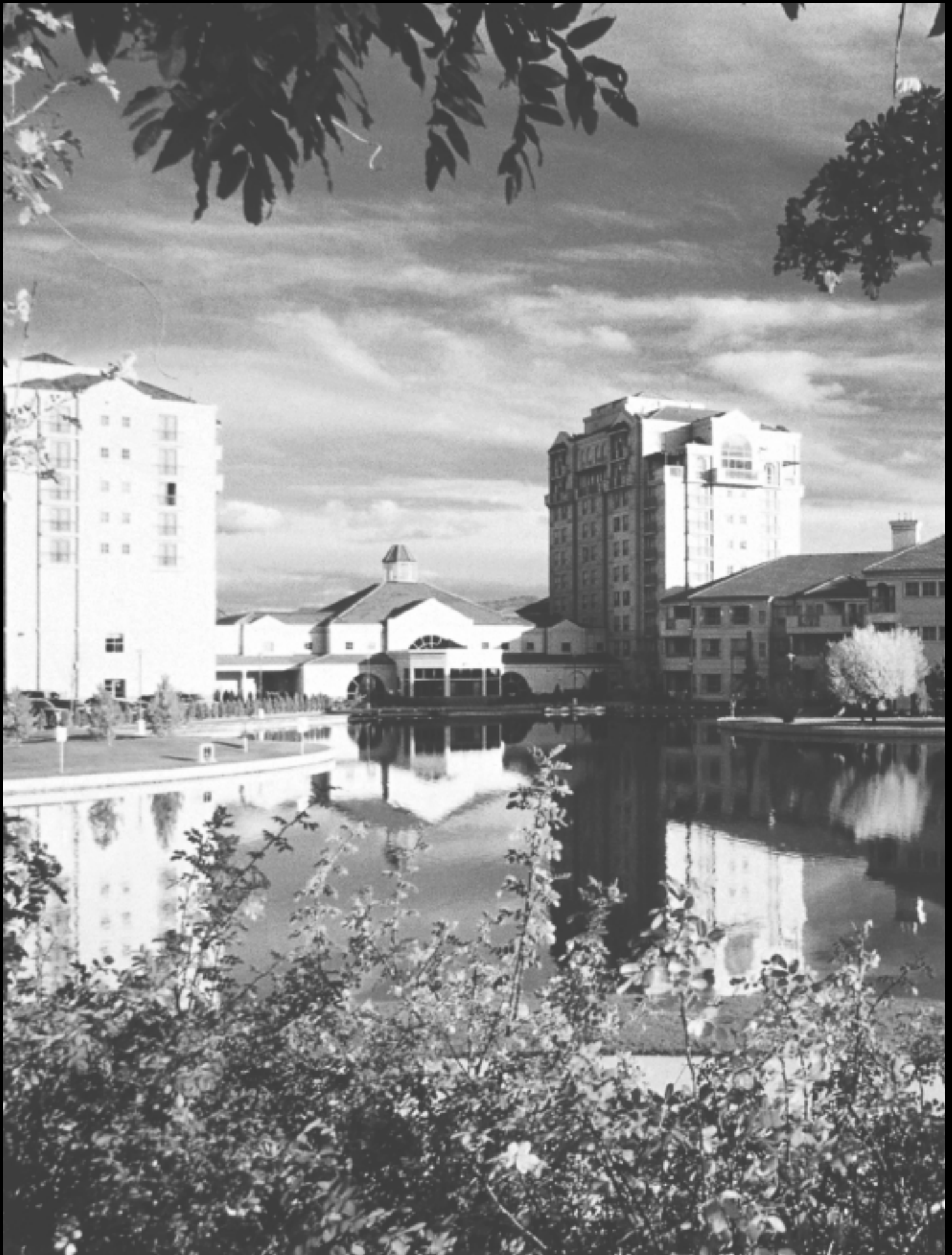
The program also included upgrading 12 properties that Royal Host added to its Travelodge Canada franchise in 1998. This included the flagship property, the Travelodge Hotel Toronto Airport (Dixon Road) that underwent \$1.75 million in renovations. The other renovated Travelodge properties included Thunder Bay (2), Chatham, Barrie, North Bay, Timmins, London, Burlington, Orillia, Ottawa, and Fort Nelson in British Columbia.

Other property renovations in 1999 ranged from improvements to lobbies and new room décor, to the makeover of entire hotel floors dedicated to business travelers. The renovation and expansion programs also included the addition of new technology such as electronic door locks for better security, and enhancements to the telecommunications services provided by the hotels' business centres to better meet the needs of travelers.



The Grand Okanagan Resort and Conference Centre, following renovations – Kelowna, B.C.





The Grand Okanagan Resort and Conference Centre – Royal Host's flagship property.



Holiday Inn (The Palace) – Edmonton, Alberta

1. The Business of Hotel Management

We take pride in our reputation for excellence in hotel management and this expertise continued to drive growth in this business segment in 1999. During 1999, Royal Host was awarded contracts to manage 27 properties in the United States, and in early 2000 received the hotel management contracts for two properties in Canada. We will continue to aggressively pursue additional hotel management opportunities in 2000, which offer attractive margins, significant growth potential and an opportunity to leverage our expertise.

Supporting this growth, in early 2000 Royal Host will begin implementing the RMI (Royal Host integrated hotel management interface) system. RMI is a leading edge computerized system that will enhance the operational efficiencies of our hotel management services by linking the front desk and accounting systems. RMI will provide detailed management information with real-time tracking of all aspects of facility operations, ranging from budgets and forecasts to room labour productivity, and food and beverage operations. The system will be implemented in phases starting in the spring of 2000.

In addition to RMI, during 1999, Royal Host undertook an ambitious program to develop and implement a sophisticated financial reporting system. The system was implemented first at the Calgary office and has since been rolled out to the majority of Royal Host

properties, with the remainder to come on line in early 2000.

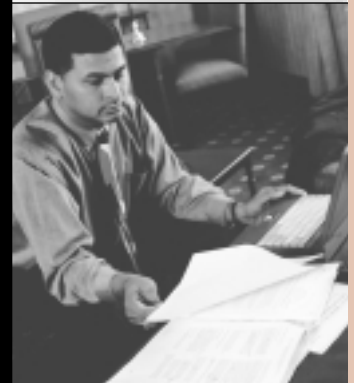
The system, which successfully addressed any Y2K issues, will maximize the ability of Royal Host personnel to promptly and efficiently access all of the detailed financial information required to effectively operate our hotels from a centralized database. This new system also adds to our strong market position in our growing hotel management business.

2. Master Franchisor – Travelodge Canada

Royal Host properties are affiliated with a number of franchises including Hilton, Holiday Inn, Howard Johnson and Super 8. Because of our role as Master Franchisor for Travelodge in Canada, we are able to derive additional benefits from our affiliations. The success of our association with Travelodge demonstrates our commitment to the ongoing growth and success of this brand in Canada. Today the number of properties under the Travelodge banner has grown to 83 nationwide.

Royal Host's strong Travelodge operations have prepared the company to benefit from an intensifying of brand competition that will drive the quality of hotels. The Canadian Tourism Research Institute reports that only 40% of hotel rooms in large Canadian hotels have franchise affiliations. Of the total 36 hotels owned by Royal Host, 33 are branded and derive operational and financial benefits from these franchise affiliations.

Diversifying Revenue Streams



Royal Host properties meet the needs of business travelers.



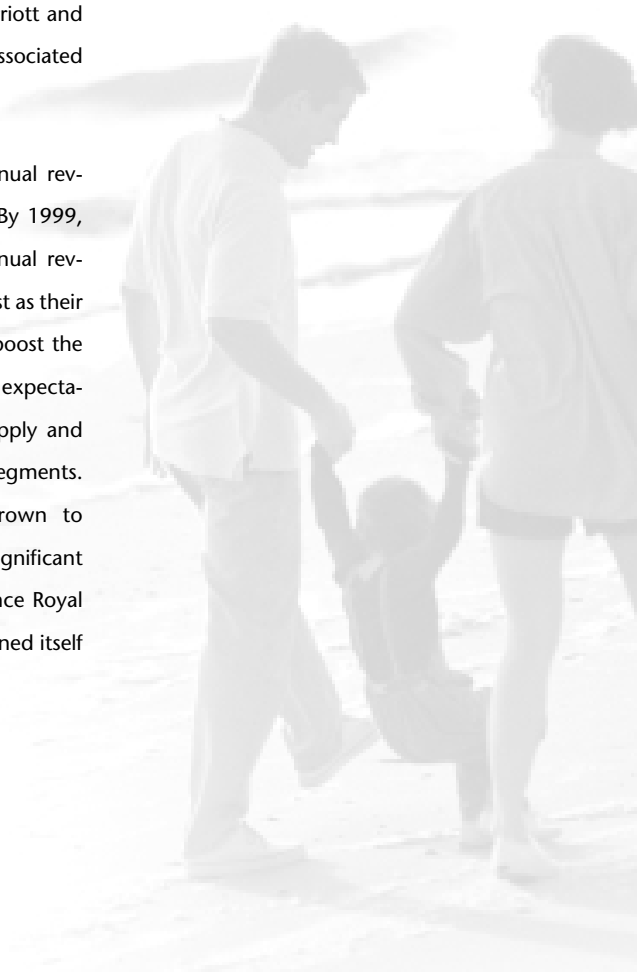
Royal Host provides safe and worry-free leisure experiences.

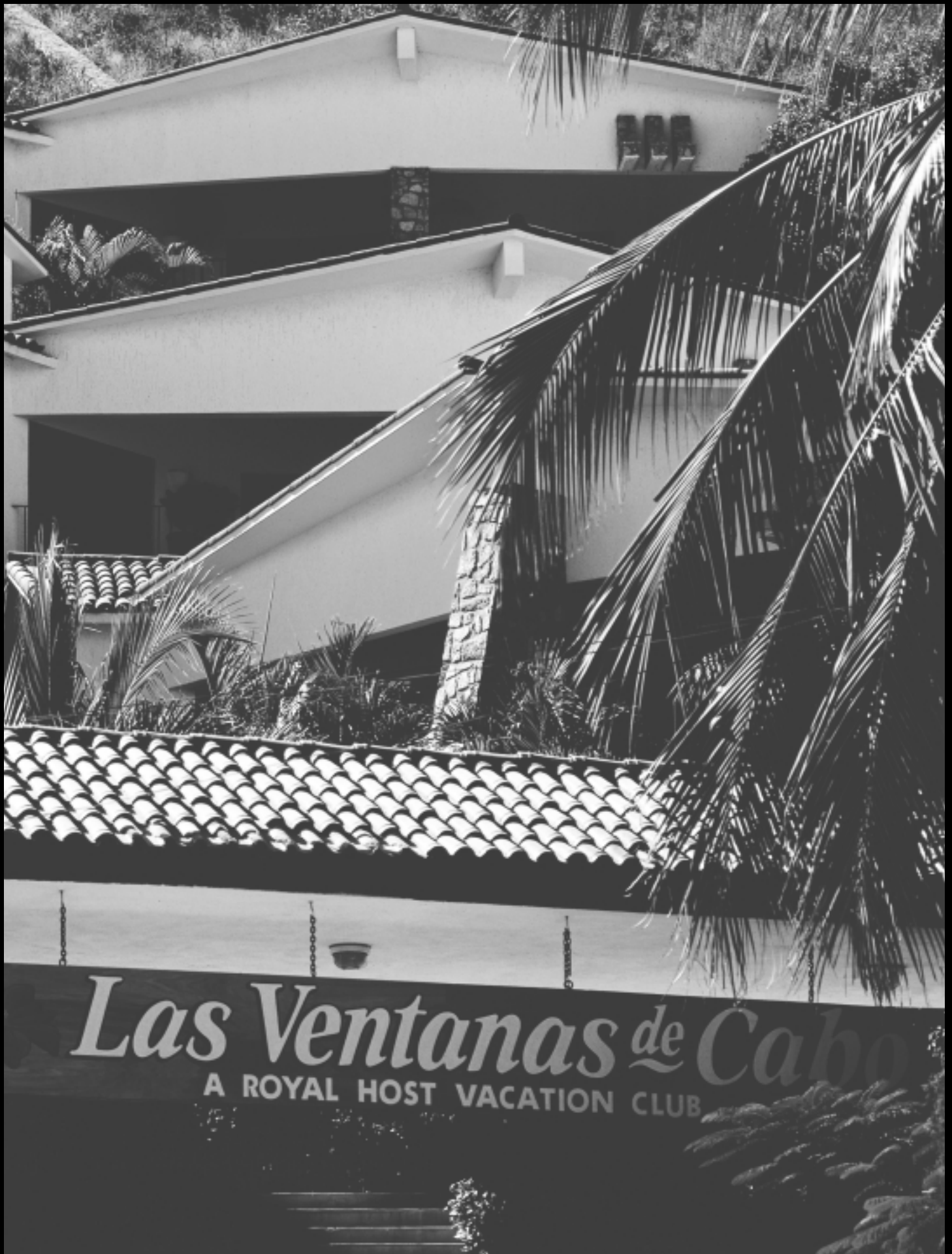
3. Responding to Growing Demand – Vacation Ownership

The timeshare business, also known as “vacation ownership,” has been described by industry observer Economics Research Associates of San Francisco as “the hottest segment of the resort industry,” (Financial Post, Friday, January 14, 2000). This, and other positive forecasts, have prompted some of the larger hotel brands to become major players in the vacation ownership business, including Marriott and Four Seasons, as well as companies in associated leisure sectors, such as Disney.

This business segment has experienced annual revenue increases of 14% a year since 1993. By 1999, driven mostly by aging Baby Boomers, annual revenue reached \$6 billion (U.S.) worldwide. Just as their faith in trusted brand names continues to boost the vacation ownership business, so are their expectations changing the nature of timeshare supply and sales, and indeed the nature of all hotel segments. Demand for vacation ownership has grown to the point where it now represents a significant competitor to the standard resort hotel. Since Royal Host anticipated this direction, it has positioned itself to benefit from these trends.

Royal Host Vacations Inc. (RVI), a wholly owned subsidiary of Royal Host REIT, markets vacation ownership programs in desirable resort locations; including The Grand in the Okanagan Valley, B.C. and Las Ventanas de Cabo in Cabo San Lucas, Mexico. With over 14,000 members, RVI is Canada’s largest vacation ownership program.





Las Ventanas de Cabo
A ROYAL HOST VACATION CLUB

Las Ventanas de Cabo – Cabo San Lucas, Mexico



The Banff Rocky Mountain Resort – Banff, Alberta



British Columbia

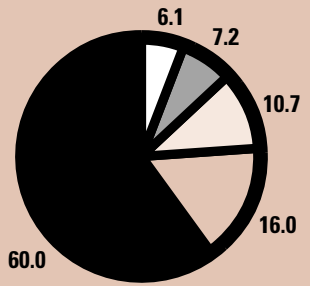
- Kelowna**
- The Grand Okanagan Resort .. ●
- Lake Okanagan (Houseboats).. ●
- Fort Nelson**
- Travelodge ● ●
- Sicamous**
- Shuswap Lake (Houseboats)... ●
- Squamish**
- Super 8 ●
- Alberta**
- Banff**
- Banff Rocky Mountain Resort .. ●
- Brooks**
- Super 8 ●
- Medicine Hat**
- Travelodge ● ●
- Lethbridge**
- Super 8 ● ●
- Travelodge El Rancho ● ●
- Red Deer**
- Super 8 ● ●
- Travelodge ● ●
- Stony Plain**
- Travelodge ● ●
- Fort McMurray**
- Super 8 ● ●
- Drayton Valley**
- Super 8 ● ●
- Edmonton**
- Holiday Inn (The Palace) ● ●
- Saskatchewan**
- Regina**
- Country Inn & Suites
- By Carlson ● ●
- Super 8 ● ●
- North Battleford**
- Super 8 ● ●
- Saskatoon**
- Country Inn & Suites
- By Carlson ● ●
- Manitoba**
- Winnipeg**
- Country Inn & Suites
- By Carlson ● ●
- Ontario**
- Thunder Bay**
- Travelodge ● ●
- Travelodge Hotel (Airlane) ● ●
- Timmins**
- Super 8 ● ●
- Travelodge ● ●

- Sudbury**
- Super 8 ● ●
- Thornbury**
- Royal Harbour Resort ● ●
- Concord**
- Super 8 – Vaughan ● ●
- Orillia**
- Travelodge Hotel Orillia ● ●
- North Bay**
- Travelodge Lakeshore..... ● ●
- Barrie**
- Travelodge ● ●
- Travelodge Barrie on Bayfield.. ● ●
- Windsor**
- Travelodge Windsor
- Ambassador Bridge ● ●
- London**
- Hilton, London, Ontario..... ● ●
- Travelodge London South ● ●
- Chatham**
- Travelodge ● ●
- Burlington**
- Travelodge Hotel Burlington
- on the Lake ● ●
- Woodstock**
- Super 8 ● ●
- Oakville**
- Holiday Inn ● ●
- Toronto**
- Travelodge Hotel Toronto
- Airport (Dixon Road) ● ●
- Triumph Howard Johnson*..... ● ●
- Ottawa**
- Chimo Hotel ● ●
- Travelodge Ottawa West ● ●
- New Brunswick**
- Moncton**
- Country Inn & Suites
- By Carlson ● ●
- Saint John**
- Country Inn & Suites
- By Carlson ● ●
- Nova Scotia**
- Dartmouth**
- Country Inn & Suites
- By Carlson ● ●
- New Glasgow**
- Country Inn & Suites
- By Carlson ● ●

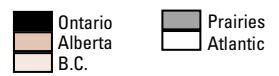
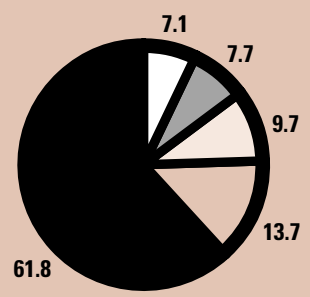
- Northwest Territories**
- Yellowknife**
- Yellowknife Inn..... ● ●
- Mexico**
- Cabo San Lucas**
- Las Ventanas de Cabo ● ●
- Oklahoma**
- Lake Eufaula**
- Evergreen Marina
- (Houseboats) ● ●
- Florida**
- St. John's River**
- Holly Bluff Marina
- (Houseboats) ● ●
- Alaska**
- Anchorage** ● ●
- Fairbanks** ● ●
- Juneau** ● ●
- Ketchikan** ● ●
- Washington**
- Bremerton** ● ●
- Ellensburg** ● ●
- Federal Way** ● ●
- Ferndale** ● ●
- Kelso** ● ●
- Kennewick** ● ●
- Lacey** ● ●
- Moses Lake** ● ●
- Port Angeles** ● ●
- Sea-Tac** ● ●
- Walla Walla** ● ●
- Yakima** ● ●
- Oregon**
- Ashland** ● ●
- Bend** ● ●
- Corvallis** ● ●
- Grants Pass** ● ●
- Klamath Falls** ● ●
- Portland** ● ●
- Redmond** ● ●
- Roseburg** ● ●
- Salem** ● ●
- Wilsonville** ● ●
- Woodburn** ● ●

Royal Host Portfolio

% OF ROOMS BY REGION




1999, % OF ROOM REVENUE BY REGION



Owned
 Third-Party Management Contracts
 Franchised NOTE: An additional 65 Travelodge franchised properties are not included in this list.

*50% joint venture



Royal Host Q&A

Royal Host
was the first
Canadian REIT
to effectively
internalize
management.

What is a DRIP (distribution reinvestment program) and does Royal Host have a DRIP program?

A distribution reinvestment program (DRIP) allows unitholders to automatically reinvest their distributions in additional Royal Host units without incurring transaction fees. Royal Host is developing documentation regarding the DRIP program that will be made available to unitholders in 2000.

How are Royal Host units purchased?

Are there a minimum number of units that need to be purchased?

There is no minimum number of Royal Host units that need to be purchased. Royal Host units can be purchased through any licensed brokerage or trading institution. Royal Host units trade on the Toronto Stock Exchange under the symbol RYL.UN.

How often does Royal Host pay distributions?

There are 12 distributions paid each year. The record date is generally set for the last business day of the month and the distribution is paid in the middle of the next month.

What are the 1999 distribution allocations expected to be with regards to return of capital versus taxable income on distributions?

As announced in March 2000, distributions paid are 31.6% taxable for 1999 with the remaining 68.4% being a tax deferred return of capital.

In general, how is Royal Host performing?

Royal Host met its 1999 financial forecast of per unit cash available for distribution of \$1.02 and has experienced improved operations in the first quarter of 2000.

What does it mean to internalize management?

In October 1998, Royal Host REIT purchased the businesses of Royco Hotels & Resorts Ltd. and RVI Holiday Limited Partnership. Royal Host was the first Canadian REIT to effectively internalize management. This means that fees paid out for the management and franchise application of existing and future hotel properties are retained inside the REIT and not paid out to third-party hotel management companies. This internalization of management has also allowed Royal Host to diversify its business mix.

What was the impact of the attempted acquisition of CHIP on the Royal Host financial results?

Royal Host incurred a non-recurring charge of \$2.2 million or \$0.11 per unit (basic) as a result of its attempted acquisition of CHIP.

Does Royal Host have a presence in the United States?

During 1999, Royal Host was awarded management contracts for 27 properties located in Alaska, Washington and Oregon. This has increased the amount of interest from U.S. investors.

What is Average Daily Room rate (ADR) and do economic cycles effect ADR?

The ADR is the amount paid for a hotel room per night on an average basis. A change in the supply of hotel properties rather than economic cycles results in changes to the ADR. If there are changes in hotel demand and/or supply, ADR rates will respond to those changes.

What influences new supply in the hotel industry in Canada?

The profitability of hotel ownership in Canada has constrained hotel supply. Previously, the lack of capital offered by the markets was also a factor. However, over the last year, profitability in the industry has improved. While market investment in the hotel industry continues to be limited, more money is now available to upgrade and expand existing properties.

What is a Real Estate Investment Trust (REIT)?

REITs were established to provide an investment vehicle that enables investors to pool their capital for the purpose of owning income-producing properties. Similar to other investment trusts, Royal Host pays regular distributions to investors at an established rate. These distributions have two components; a return of capital and taxable income from earnings.

How does Royal Host differentiate itself from other REITs?

In 1998, Royal Host REIT purchased the businesses of Royco Hotels & Resorts Ltd. and RVI Holiday Limited Partnership. In doing this, Royal Host became the first Canadian REIT to internalize management, a move that ensures the bottom line focus of the management company is in line with the interests of unitholders. An internalized REIT management is also better able to create brand awareness and consumer loyalty thereby improving the return for unitholders. It also allows Royal Host to diversify its revenue streams.

What is the Royal Host portfolio?

Royal Host owns 36 hotels, manages 74 properties and franchises 83 locations in the United States and Canada. Of the 36 owned properties, the majority are branded based on a detailed analysis of their characteristics and ability to meet the needs of travelers in that specific location. In addition to the branded properties, Royal Host also owns two independent hotels and one luxury resort that are well established under their present identities.

An internalized REIT management is better able to create brand awareness and consumer loyalty...

Management Discussion and Analysis



*Peter Sikora
Chief Financial Officer
Royal Host*

Royal Host Real Estate Investment Trust ("Royal Host" or the "Trust") is an unincorporated "closed-end" trust governed by the laws of the Province of Alberta and constituted pursuant to a Declaration of Trust dated August 27, 1997.

Overview of Business

Throughout 1999, Royal Host emphasized consistent themes in its quarterly reports to unitholders:

- focusing on maximizing the potential of the existing hotel portfolio;
- diversifying revenue by expanding the business mix; and,
- reviewing and evaluating new growth opportunities.

Core Business

Whereas 1998 was a year of acquisition, 1999 was a year of investment in our people and our hotel properties. The impact of this investment was demonstrated in the overall growth in revenues and cash available for distribution. This was the first full year of owning and operating the entire 36-hotel portfolio. We implemented efficient management processes in the new hotels, merged operations, trained hotel managers and developed economies of scale. Furthermore, we completed extensive hotel expansion and renovation programs on budget and repositioned 14 properties, making it possible to drive up room rates and improve hospitality revenues. Hospitality revenues are now beginning to reflect this long-term investment in our foundation of capital assets.

Expanding the Business Mix

In late 1998, Royal Host acquired Royco Hotels & Resorts Ltd. ("Royco") and its affiliate RVI Holiday Limited Partnership ("RVI"), beginning a process that expanded and diversified the business mix. With these acquisitions, Royal Host now owns a hotel management company with over 25 years of hospitality experience, as well as the Travelodge master franchise for Canada and the largest vacation ownership program in the country. These businesses offer new revenue streams that provide significant potential for future growth. Royal Host is now unique among Canadian hotel REITs due to the diversification of its business mix.

New Growth Opportunities

Management's goal for the future includes enhancing unitholder value by maximizing core strengths. We have developed a management system that links the front office system with the accounting system to provide comprehensive and timely information to hotel managers. This will enable them to better control costs and monitor revenues at the hotels, consequently driving profitability. With this management system, we will be in a better position to pursue additional hotel management opportunities with hotel owners throughout North America. We successfully took over the management of 27 hotels in the northwestern United States, primarily on the basis of our hotel management expertise.

Results of Operations

The acquisitions of both the hotels and the management businesses in 1998 by Royal Host had a pervasive impact on the financial results when comparing 1999 and 1998.

During 1998, Royal Host acquired 18 hotels and doubled the number of owned properties to 36. Hospitality revenues and expenses substantially increased in 1999 versus 1998, largely due to the growth in the portfolio and to the continuing improvement in the hotels' performance.

With the acquisition of the hotel management company, the Travelodge master franchise for Canada and a vacation ownership program, other hospitality revenues increased from 3% of total hospitality revenues in 1998 to 12% in 1999.

Cash Available for Distribution

Year over year, cash available for distribution improved 28% in 1999, to \$23,414,000 from the 1998 pre-reserve amount of \$18,342,000. Basic per unit cash available for distribution increased to \$1.02 (1999) compared to \$0.93 in the prior year.

In 1999, Royal Host unitholders received distributions of \$1.14 per unit or total cash distributions of \$21,883,000. At an average trading price for the year of \$6.99 per unit, these distributions resulted in a yield of 16.3%. These distributions were only 31.6% taxable in 1999, with the remaining 68.4% being a

tax deferred return of capital. While the hospitality industry can be highly seasonal, Royal Host maintains stable distributions to its unitholders throughout the year.

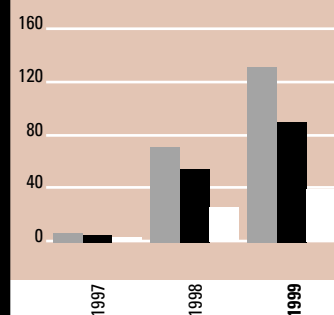
Revenues, Average Daily Room Rates and Revenue Per Available Room

Royal Host derives its revenues from the following activities: ownership of hotel properties, management contracts, franchise fees and vacation ownership sales. Total revenues increased 66% in 1999, from \$78,012,000 in 1998 to \$129,570,000. The table below demonstrates the diversification of our revenue streams as a percentage of total hospitality revenues.

Revenue Category	1999	1998
Room revenue	64%	69%
Food & beverage sales	17%	19%
Other hotel revenues, including tenant leases, telephone services and other hotel services	7%	9%
Management, franchise and vacation ownership revenues	12%	3%
Total hospitality revenues	100%	100%

HOSPITALITY REVENUES AND EXPENSES

(in \$Millions)



Hospitality Revenues
 Hospitality Expenses
 Operating Income

RevPAR increased by 5.8%... consistent with... the Canadian hotel industry.

Hotel Statistics: Same Property Analysis

Not all hotels were owned by Royal Host for the full year in 1998, but all 36 hotels were owned for the full year in 1999. It is important to compare the same portfolio and time periods due to the high seasonality experienced by the hotel industry. The first quarter is traditionally the weakest of the year, whereas the second and third quarters tend to generate the strongest results of the year. Royal Host used same property analysis to adjust for the fact that 18 hotels were not included in the first quarter results in 1998. To illustrate "same property analysis," if a hotel was acquired on May 1, 1998, hotel statistics were compared for May 1 to December 31, 1999 versus 1998.

In 1999, same property revenue per available room ("RevPAR") increased 5.8%, from \$52.22 in 1998 to \$55.25, consistent with the growth for the year across the Canadian hotel industry according to Pannell Kerr Forster Consulting Inc. (*Trends in the Canadian Hotel Industry – Highlights for the Year 1999*). Royal Host increased ADR and RevPAR by the following methods: we repositioned and subsequently expanded and renovated our hotels, making them more desirable to travelers; and, we introduced improved yield management techniques at all of our hotels.

Hotel Statistics

For the year ended December 31,	1999	1998	% change
36 Hotel Portfolio			
ADR	\$ 80.54	\$ 73.34	9.8%
Occupancy %	66.6%	71.3%	(4.7%)
RevPAR	\$ 53.66	\$ 52.22	2.8%
Total available room nights (000's)	1,614	1,053	
Same property analysis			
RevPAR	\$ 55.25	\$ 52.22	5.8%
Total available room nights (000's)	1,105	1,053	

Note: In the same property analysis, 1999 included the addition of 120 rooms at The Grand.

Lease and Other Hospitality Revenues

Lease and other hospitality revenues increased by \$15,244,000 in 1999 versus 1998, primarily for three reasons:

- with the completion of the expansion at The Grand in June 1999, Royal Host began to earn revenues from the casino lease and other new tenant leases;
- acquisition of the vacation ownership business provided additional revenues;
- in March 1999, Royal Host commenced the management of 27 hotels in Oregon, Washington and Alaska for a third party; and,
- the hotels acquired in 1998 generated greater revenues from other services.

Operating Income

Operating income improved from \$24,925,000 in 1998 to \$39,978,000 in 1999, an increase of 60.4%. While the income increased, operating margins changed from 31.9% in 1998 to 30.9% in 1999, largely due to the acquisition of the vacation ownership business which had lower margins than our other businesses.

Other Expenses

Royal Host recorded a \$2,200,000 non-recurring charge against income in the year, relating to the Canadian Hotel Income Properties REIT acquisition attempt. Without this non-recurring charge, per unit cash available for distribution would have been \$1.13 in 1999.

Interest expense increased \$6,424,000 in 1999 compared to 1998 due to the increase in debt which was used to acquire additional hotel properties in 1998, and the increase of the prime rate of interest in 1999. Depreciation expense also increased in 1999, by \$10,598,000. Again, the purchase of the hotels in 1998 heavily impacted this expense. Also, \$29 million of capital additions began to depreciate when the capital projects were completed in 1999.

Capital Structure and Liquidity

As part of the Trust Indenture, Royal Host is required to maintain debt levels at less than 40% of Total Assets plus Accumulated Depreciation. As at December 31, 1999, the Royal Host debt ratio was 39%.

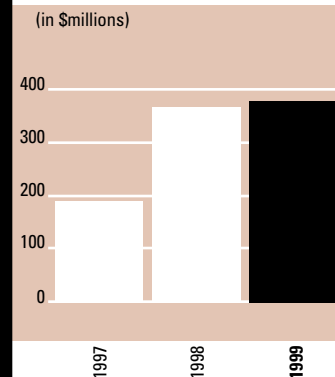
Royal Host has negotiated an extension on its debt with its major lender on substantially the same terms as currently in place with the lender. We have also begun the due diligence process with other lenders which will allow us to lock in longer term interest rates on a substantial portion of our current debt.

In September, Royal Host completed a \$10 million private placement in which company management subscribed to 21% of the trust units issued. The private placement consisted of 1,435,530 trust units issued at a weighted-average market price of \$6.97 per unit.

In accordance with an earnout provision in the 1998 purchase of the Royco and RVI businesses, 1,444,445 redeemable partnership units were issued effective January 1, 2000 as additional proceeds of purchase. Net income from the Royco and RVI businesses exceeded the threshold required under the original purchase agreement.

TOTAL ASSETS

(in \$millions)



Over the past two years, Royal Host invested \$45 million in its hotel assets.

Assets

Hotel Assets and Capital Expenditure Program

In total, over the past two years, Royal Host invested \$45 million in its hotel assets. Capital projects added 120 four-star guest rooms, as well as a European-style spa and a 21,000 square-foot, world-class casino (that was leased to a tenant) at The Grand. Renovations and upgrades were also completed at the Hilton, London, Ontario, Travelodge Hotel Toronto Airport (Dixon Road) and Travelodge Ottawa West, including state-of-the-art computerized reservation and front-desk systems and the creation of executive-style floors. Royal Host completed these projects on budget.

Further capital expenditures of \$2.4 million are budgeted at several hotel properties as part of Royal Host's ongoing commitment to maintain the quality of its hotels.

In the past two years, significant resources were directed at addressing potential Y2K issues. All necessary Y2K conversions were completed in 1999 and Royal Host experienced no business interruptions on December 31st or thereafter.

Other Assets

Other assets consisted of long-term notes receivable relating to vacation ownership and deferred financing fees that were capitalized and amortized over the life of the underlying mortgages and other debt.

Actual Results Versus Revised Forecast

On October 19, 1999, Royal Host issued a revised forecast for its 1999 earnings. Actual results for the year ended December 31, 1999 were compared to this forecast. Actual per unit cash available for distribution was \$1.02 (basic), consistent with forecast.

According to "Trends in the Canadian Hotel Industry – Highlights for the Year 1999," published by Pannell Kerr Forster Consulting Inc., December 1999 saw "... a decrease of 5.4% in occupancy... over the same month in 1998." December and January, 2000 results were significantly lower than expectations across the continent as travel patterns were disrupted because of Y2K travel concerns. Royal Host experienced a decline of \$1.4 million or 1.6% in actual room revenue versus forecast, as well as lower actual RevPAR, as a result of these travel disruptions.

For the year ended December 31, 1999 (\$000)	Actual	Revised Forecast
Average Daily Room Rate	\$ 80.54	\$ 80.76
Occupancy	66.6%	67.7%
Revenue per Available Room	\$ 53.66	\$ 54.70
Hospitality Revenues		
Rooms	83,079	84,437
Food and beverage	21,873	21,862
Lease and other hospitality revenues	24,618	21,866
	129,570	128,165
Hospitality Expenses		
	89,592	87,148
Operating Income	39,978	41,017
Other (Income) and Expenses		
Interest income	(477)	(477)
Interest on mortgages and other debt	11,899	12,665
Trust administration	2,332	2,504
Capital and other taxes	610	800
Non-recurring acquisition costs	2,200	2,200
Depreciation and amortization	20,678	18,663
	37,242	36,355
Net Earnings	2,736	4,662
Add: Depreciation and amortization	20,678	18,663
Cash Available for Distribution	23,414	23,325
Net Earnings per Unit		
Basic	(0.05)	0.05
Fully diluted	Anti-dilutive	Anti-dilutive
Per Unit Cash Available for Distribution		
Basic	1.02	1.02
Fully diluted	0.94	0.95

Comparison of Actual versus Revised Forecast

Consolidated Statements of Net Earnings and Cash Available for Distribution



*Travelodge Hotel Toronto Airport
(Dixon Road)*

Lease and other hospitality revenues improved over forecast by \$2,752,000 or 13% primarily due to the vacation ownership sales at The Grand which exceeded expectations. Revenues from the U.S. management contracts were higher than forecast.

Operating expenses were \$2,444,000 above forecast for 1999, partly due to stronger vacation ownership sales, which typically generate lower profit margins. Some operating expenses were also higher due to the delay in realizing various operating efficiencies in certain hotel properties.

As a result of the differences discussed above, operating income declined from the forecast of \$41,017,000 to \$39,978,000, a 2.5% difference. While these operating margins were within the acceptable industry range, management feels that they represent a significant opportunity to improve Royal Host's cashflows.

When taken together, interest and depreciation expense were 4% or \$1,249,000 greater than forecast. A portion of the difference between actual expenses and forecast related to certain costs that were classified on a different basis for forecast purposes. Also, interest expense was higher than forecast,

due to the increase in the prime rate in the fourth quarter of 1999. Depreciation expense was higher than expected because of the completion of \$29 million of new capital additions that began to depreciate.

Risks and Uncertainties

Royal Host REIT is subject to various risks in the normal course of business that could adversely affect the Trust's ability to make distributions to unitholders.

Seasonality

The hotel industry is seasonal in nature. Generally, hotel revenues are greater in the second and third quarters than in the first and fourth quarters of the calendar year. This seasonality causes quarterly fluctuations in revenues and profits and must be taken into account when reviewing and evaluating the Royal Host quarterly results and monthly distributions. Royal Host manages cashflows throughout the year to ensure that sufficient cash is available to meet all obligations during periods of weaker results.

Access to Capital Markets

In 2000, Royal Host is extending the maturity on a significant portion of its debt. Therefore there is exposure to interest rate risk, based on the timing of the completion of any negotiations.

Economic Conditions

Hotel performance is affected by supply of hotel properties in Canada. This is dependent on current and expected growth of the economy, as well as business and consumer confidence. While these factors are external and uncontrollable, Royal Host operates to minimize their impact by adopting the following strategies:

- diversifying its existing hotel portfolio geographically across market segments thus lowering its exposure to regional economic variations;
- acquiring properties in desirable locations where the acquisition costs are below replacement values;
- acquiring properties with a history of stable cash-flows that are at or above the Royal Host expected rate of return; and,
- diversifying its sources of revenues by acquiring hotel management contracts and vacation ownership business.

Operating Risk

In addition to uncertainty relating to the overall economic environment, Royal Host faces normal operating risks associated with the hotel business. These risks include increases in operating costs due to inflation and other factors, significant dependence on business travelers and tourism, increases in energy costs and other expenses of travel, and adverse effects of general and local economic conditions. To mitigate these risks, Royal Host has developed strategies focusing on:

- ensuring consumer satisfaction through proactive rather than reactive measures. Royal Host ensures that staff at its hotels are well trained to focus on guest satisfaction and improvement of their existing product to encourage higher occupancy levels than its local competitors;
- building a broad and varied customer base, thereby reducing economic dependence on specific guest segments;
- maintaining a high quality product by ensuring that its hotels are renovated as needed and maintained at or above industry standard;
- developing a specific sales program designed to attract a wide variety of customer segments, including innovative marketing concepts to attract new customers and a growing focus on e-business as a means to reach a broad customer base; and,
- providing overall direction to ensure that all operating units are functioning within the parameters of Royal Host's objectives.

Competition

The majority of the Royal Host hotels are located in areas with competing properties. The number of competitive hotel properties in a particular area can have a material adverse effect on occupancy and ADR of the hotels or at hotel properties acquired in the future. New, competing hotels may be opened in the Royal Host markets, which could materially and adversely affect hotel operations.

The hotel industry is seasonal in nature. This seasonality causes quarterly fluctuations in revenues and profits.

...2000 is a year during which we will build on our foundation.

Environmental Risk

Under various federal, provincial and local laws and regulations, Royal Host may be liable for the costs of removal or remediation of certain hazardous or toxic substances on any of its properties.

Environmental legislation in Canada has undergone major revisions that have resulted in environmental standards, compliance and public consciousness being more stringent. The Royal Host hotel portfolio is not subject to a high level of environmental risk. However, Royal Host takes this risk seriously and, under the current investment guidelines, all properties being acquired must have environmental audits conducted by an independent consultant.

Operational Opportunities for 2000

In 1999, Royal Host undertook an extensive business planning process that identified opportunities for continued improvement of results. The upcoming year will be a time to strengthen our foundations by restructuring our costs, improving efficiencies and economies of scale and enhancing our industry-leading management tools. These tools will be implemented into existing hotel properties to provide improved and timely information to the hotel managers. With our management system, we will be in a better position to pursue additional hotel management opportunities with hotel owners throughout North America. Royal Host also expects future revenue growth from management, franchise and vacation ownership based on the success of the acquired businesses.

As a result, 2000 is a year during which we will build on our foundation in two ways. Within our core business of hotel ownership and management, we will focus on cost control and operational efficiencies with the goal of improving operating margins and ultimately cash available for distribution to unitholders. We will also undertake initiatives for new business and focus on pushing the management team to leverage off our existing core strengths.

Management of Royal Host Real Estate Investment Trust ("Royal Host") is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, Royal Host recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further ensures the quality of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies.

The Board of Trustees discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, the majority of which is composed of trustees who are unrelated to Royal Host. This committee meets with management and with the Royal Host independent auditors to review Royal Host annual financial performance and to discuss audit, internal control, accounting policies and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Trustees.

The financial statements have been audited by Deloitte & Touche LLP, who were appointed by the unitholders at the last Annual General Meeting of Unitholders. Their report is presented herein.



Randy B. Royer
President and Chief Executive Officer
Calgary, Canada
March 21, 2000



Peter Sikora
Chief Financial Officer

Management's Responsibility for Financial Information

Auditors' Report

To the Unitholders of Royal Host Real Estate Investment Trust

We have audited the consolidated balance sheets of Royal Host Real Estate Investment Trust ("Royal Host") as at December 31, 1999 and 1998, and the consolidated statements of net earnings and cash available for distribution and cash flows for the years then ended. These financial statements are the responsibility of Royal Host management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of Royal Host as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Canada
March 21, 2000

As at December 31 (\$000)	1999	1998
Assets		
Current Assets		
Cash and short-term investments	7,291	14,642
Accounts and notes receivable	8,055	5,485
Other current assets	3,720	2,904
	19,066	23,031
Capital Assets (Note 4)	347,300	334,911
Long-term Notes Receivable and Other Assets	4,180	4,680
	370,546	362,622
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	12,812	11,510
Current portion of mortgages and other debt (Note 5)	115,547	62,490
Other current liabilities	3,503	1,669
	131,862	75,669
Mortgages and Other Debt (Note 5)	41,057	77,019
Deferred Revenue (Note 2d)	1,446	855
Equity (Note 6)	196,181	209,079
	370,546	362,622

Consolidated Balance Sheets

Approved on behalf of the Board of Trustees:



Trustee



Trustee

See accompanying Notes to Consolidated Financial Statements

 ROYAL HOST™

**Consolidated
Statements
of Net
Earnings
and
Cash Available for
Distribution**

For the years ended December 31, 1999 and December 31, 1998 (\$000)	1999	1998
Hospitality Revenues		
Rooms	83,079	54,067
Food and beverage	21,873	14,571
Lease and other hospitality revenues (Note 8)	24,618	9,374
	129,570	78,012
Hospitality Expenses	89,592	53,087
Operating Income	39,978	24,925
Other (Income) and Expenses		
Interest income	(477)	(4,379)
Interest on installment receipts term loans	–	3,464
Interest on mortgages and other debt	11,899	5,475
Trust administration	2,332	1,700
Capital and other taxes	610	323
Non-recurring acquisition costs (Note 9)	2,200	–
Depreciation and amortization	20,678	10,080
	37,242	16,663
Net Earnings (Note 3)	2,736	8,262
Add: Depreciation and amortization	20,678	10,080
Cash Available for Distribution * (Note 3)	23,414	18,342

* Before amounts relating to reserves, see Note 3

For the years ended December 31, 1999 and December 31, 1998 (\$000)	1999	1998
Cash Provided By (Used In)		
Operating Activities		
Net earnings	2,736	8,262
Items not affecting cash		
Imputed interest on installment receipts receivable	–	(3,464)
Depreciation and amortization	20,678	10,080
Cash flows from operations	23,414	14,878
Increase in accounts and notes receivable	(2,570)	(3,617)
Increase in other current assets	(816)	(1,629)
Increase in accounts payable and accrued liabilities	1,302	6,974
Increase in other current liabilities	1,834	620
Other changes in non-cash working capital	–	801
	23,164	18,027
Financing Activities		
Additions to mortgages and other debt	84,122	–
Principal repayments on mortgages and other debt	(69,411)	(2,210)
Issuance of trust units	10,006	–
Issuance of trust units under distribution reinvestment plan	17	–
Unit issue costs	(68)	(5,134)
Issuance of Special Warrants	–	59,420
Installment receipts receivable	–	50,600
Installment receipts term loans repayment	–	(50,600)
	24,666	52,076
Investing Activities		
Acquisition of hotel properties, net of mortgages and other debt assumed or financed (Note 7)	–	(30,208)
Acquisition of Royco and RVI businesses and related assets, net of redeemable partnership units issued (Note 7)	–	(8,339)
Capital expenditures and capital replacement reserve	(29,321)	(15,707)
Increase in long-term notes receivable and other assets	(862)	(3,604)
Increase in deferred revenue	591	855
	(29,592)	(57,003)
Equity Distributions	(25,589)	(16,157)
Net Change in Cash and Short-term Investments	(7,351)	(3,057)
Cash and Short-term Investments, beginning of year	14,642	17,699
Cash and Short-term Investments, end of year	7,291	14,642
Supplemental disclosure		
Capital taxes paid	134	–
Interest paid	12,640	5,504

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

 ROYAL HOST™

Notes to Consolidated Financial Statements

As at December 31,
1999 and 1998

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 closed-end mutual fund trust established for the purpose of investing in hotel properties and hospitality businesses, under specified guidelines as defined under the Declaration of Trust.

2. Significant Accounting Policies

a) Basis of Accounting

The Royal Host accounting policies and standards of financial disclosure are in accordance with generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the reported period. Actual results could differ from those estimates.

c) Principles of Consolidation

These consolidated financial statements include the accounts of Royal Host and its wholly-owned subsidiaries, and the accounts of all partnerships and joint ventures to the extent of the Royal Host proportionate interest in their respective assets, liabilities, revenues, expenses and cash flows. All significant inter-company transactions and balances have been eliminated.

d) Revenue Recognition

Revenue is recognized upon performance of hotel and related services, and delivery of food and beverages. Revenue from prepaid vacations is recorded when the purchaser has complied with all major conditions of the sale, including the payment of the full purchase price or the arrangement of appropriate financing. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable which is estimated to be uncollectible. Certain portions of timeshare revenue are deferred until earned by Royal Host.

e) Capital Assets

Hotel properties are stated at the lower of net book value or net recoverable amount. The net recoverable amount represents the undiscounted projected future net cashflow generated from the property throughout its useful life, including its residual value, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Hotel properties are depreciated using the straight-line method over their estimated useful lives of 25 years.

Maintenance and repair costs are expensed against operations as incurred, while significant improvements, replacements and major renovations are capitalized to hotel properties. Furniture, equipment and certain improvements are depreciated on a straight-line basis over periods up to ten years.

Properties under development consist of properties under construction and are recorded at the lower of cost, including pre-development expenditures, and net recoverable amount.

A capital replacement fund, of approximately 3% of gross hotel revenues, has been established to ensure that funds are set aside for on-going capital maintenance and purchases in the hotel properties. From time to time, the trustees may update the capital reserve replacement policy at their discretion.

Notes to Consolidated Financial Statements

Goodwill comprises the unamortized balance of the excess of the Royal Host acquisition cost over the fair value of the identifiable net assets of Royco Hotels & Resorts ("Royco") and R.V.I. Holiday Limited Partnership ("RVI"). Goodwill is amortized on a straight-line basis over periods between five and 15 years.

Goodwill is regularly evaluated by comparing future net cash flows against the book value of goodwill to assess the recoverability of goodwill. Any permanent impairment would be written down in the period identified and charged against earnings.

f) Capitalized Costs

Costs associated with the acquisition of the hotel properties are capitalized to the respective hotel property. These costs typically include realty agents, property transfer taxes, legal, environmental studies, engineering, and other direct expenses.

The cost of hotel properties under development includes all expenditures incurred in connection with the activities of acquiring, developing and constructing these properties. These expenditures consist of all direct costs including debt interest and general and administrative.

g) Inventory

Inventory consists of food, beverages, china, silverware, glassware, linen and general supplies. These items are stated at lower of cost or net replacement value, and are determined on a first-in, first-out basis.

h) Financing Costs

Debt financing costs are deferred and amortized on a straight-line basis over the terms of the related loans.

i) Income Taxes

Royal Host is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute all taxable income directly earned by Royal Host to its unitholders and to deduct such distributions and designations for income tax purposes.

j) Unit Option Plan

Royal Host has a unit option plan as described in Note 6d. No compensation expense is recognized for the plan when options are granted. Consideration received on exercise of options is credited to unitholders' equity.

3. Per Unit Computations

There were 20,267,412 trust units outstanding as at December 31, 1999. Per unit computations are based on the weighted average number of trust units outstanding for the year, after adjusting the net earnings and cash available for distribution for payments on the convertible debenture of \$1,760,000 (1998 - \$487,000) and payments on the redeemable partnership units of \$1,946,000 (1998 - nil).

For the years ended December 31,	1999		1998	
	Basic	Fully diluted	Basic	Fully diluted (after reserve)
Net earnings (loss) per unit	(0.05)	anti-dilutive	0.46	0.46
Per unit cash available for distribution	1.02	0.94	0.93	0.92
Weighted average number of trust units (000s)	19,251	25,319	16,857	17,509

Per unit computations are based on the weighted average number of trust units outstanding during the year of 19,251,185 units (1998 - 16,856,638 units).

Notes to Consolidated Financial Statements

Under the Royal Host capital replacement reserve policy, 3% of total hotel revenue is deducted from cash available for distribution to allow for the upkeep and renovation of the hotel properties. This policy may be amended from time to time at the discretion of the trustees. On this basis, the reserve provided for the year ended December 31, 1999 would have been \$3,434,000. As Royal Host spent approximately \$29 million in 1999 to renovate and reposition the hotel properties, the trustees have determined that no reserve will be provided for 1999. The previous reserve of \$692,000 to March 31, 1999 has been applied to current year capital programs. Cash available for distribution at December 31, 1999 was reduced by a capital replacement reserve amount of \$nil (1998 - \$2,197,000) with a per unit impact of \$nil (1998 - \$0.13 per unit on a basic basis).

4. Capital Assets

(\$000)	Gross book value	Accumulated depreciation and amortization	Net book value
1999			
Land	37,303	–	37,303
Building	270,267	17,107	253,160
Furniture, fixtures, and equipment	33,123	8,334	24,789
Paving and other	1,167	65	1,102
	341,860	25,506	316,354
Properties under development	1,475	–	1,475
Goodwill	34,276	4,805	29,471
	377,611	30,311	347,300
1998			
Land	37,334	–	37,334
Building	242,211	6,945	235,266
Furniture, fixtures, and equipment	22,410	3,101	19,309
Paving and other	1,094	30	1,064
	303,049	10,076	292,973
Properties under development	8,615	–	8,615
Goodwill	34,276	953	33,323
	345,940	11,029	334,911

All hotel properties are wholly-owned by Royal Host except for one hotel property, which is jointly owned by Royal Host and the vendor. Pursuant to the Exchange Agreement dated September 11, 1998, the vendor has an option to exchange its 50% ownership interest for units of Royal Host. The valuation of such exchange is to be determined based on a specified capitalization rate and the units of Royal Host are to be priced based on a 20 day weighted average trading price per unit. This calculation is taken into consideration in the fully diluted per unit calculations in Note 3.

For discussion of capital replacement reserves in 1999 and 1998, see Note 3.

Properties under development include interest expense capitalized of \$637,000 (1998 - \$167,000). The Royal Host commitment to complete properties under development is estimated at \$2.4 million.

5. Mortgages and Other Debt

(\$000)	1999	1998
Mortgages and other debt secured by hotel properties	156,604	139,509
Less: Current portion	115,547	62,490
	41,057	77,019

Mortgages and other debt bear interest at rates ranging from 7.05% to 12.0% (1998 - 6.95% to 12.0%) with a weighted average year end rate of 8.33% (1998 - 8.44%) and mature between 2000 and 2007. The mortgages and other debt are secured by fixed charges over specified hotel properties.

Financing charges are deferred and amortized over the term of the related debt. In 1999, \$1,362,000 was included in amortization (\$420,000 in 1998).

Royal Host intends to refinance approximately \$115 million of the mortgages and other debt due in 2000.

Principal repayments are as follows:

Years ending December 31 (\$000)

2000	115,547
2001	34,421
2002	2,056
2003	1,982
2004	891
Subsequent	1,707
	156,604

6. Equity

(\$000)	1999	1998
Equity balance, beginning of year	159,579	113,186
Net earnings	2,736	8,262
Issuance of trust units under private placement	10,006	—
Issuance of trust units under distribution reinvestment plan	17	—
Issuance of Special Warrants	—	59,420
Unit issue costs	(68)	(5,132)
Equity distributions on:		
Trust units	(21,883)	(15,670)
Redeemable partnership units	(1,946)	—
Interest on convertible debenture	(1,760)	(487)
	146,681	159,579
Convertible Equity		
Redeemable partnership units	27,500	27,500
Convertible debenture	22,000	22,000
	49,500	49,500
Equity balance, end of year	196,181	209,079

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

a) Unit Capital

	Number of units	(\$000)
Issued on October 31, 1997	11,000,000	107,024
Issued on November 27, 1997	1,650,000	16,054
Issued on December 11, 1997	464,487	4,644
Balance, December 31, 1997	13,114,487	127,722
Issuance of Special Warrants (subsequently converted)	5,715,000	59,420
Balance, December 31, 1998	18,829,487	187,142
Issuance of trust units under private placement	1,435,530	10,006
Issuance of trust units under distribution reinvestment plan	2,395	17
Balance, December 31, 1999	20,267,412	197,165

On October 31, 1997, Royal Host issued 11,000,000 units at \$10.00 per unit for cash consideration of \$66 million and installment receipts receivable of \$44 million. A further 1,650,000 units were issued on November 27, 1997 at \$10.00 per unit for \$9.9 million in cash and \$6.6 million in installment receipts receivable. Under the terms of the initial offering, the \$4.00 per unit installment receipts receivable were due on October 31, 1998 and accordingly, were discounted and imputed interest of \$3,422,000 was deducted from unitholders' capital.

An additional 464,487 units were issued at \$10.00 per unit on December 11, 1997 as part of the consideration pursuant to a property acquisition.

On May 7, 1998, Royal Host raised gross proceeds of \$60 million through a private placement of 5,715,000 Special Warrants at a fully paid price of \$10.50 each. Each Special Warrant was exchangeable for one unit of Royal Host, represented by Installment Receipts. An initial installment of \$6.50 per Special Warrant was payable upon closing, with the remaining \$4.00 paid on November 2, 1998. Accordingly, the installment receipts receivable were discounted and imputed interest of \$580,000 was deducted from unitholders' capital. On August 7, 1998, the Special Warrants were exchanged for units of Royal Host. All installment receipts receivable were realized on November 2, 1998.

On September 16, 1999, Royal Host conducted a private placement consisting of 1,435,530 units issued at a weighted average unit price of \$6.97 for total proceeds of \$10,006,000.

b) Distributions to Unitholders

Pursuant to the Royal Host Declaration of Trust, the Trust regularly makes distributions to its unitholders based on net income determined in accordance with the Income Tax Act (Canada) and adjusted by adding back depreciation and amortization, interest expense on installment receipts term loans (net of imputed installment receipt interest income), and excluding capital gains and losses on disposition of properties and funds contributed to the capital reserve.

Cash available for distribution for the period ended December 31, 1999 was \$23,414,000 (1998, after reserve - \$16,145,000) and distributions to unitholders aggregated \$21,883,000 (1998 - \$15,670,000) for the same period.

c) Distribution Reinvestment Plan

Royal Host has established a Distribution Reinvestment Plan that is administered by its transfer agent and has reserved 500,000 units for issue under this Plan.

d) Unit Options

Royal Host has reserved 1,883,000 units under its unit option plan. As at December 31, 1999, Royal Host has unit options outstanding to certain directors, employees and consultants to purchase an aggregated total of 990,000 units

(1998 - 1,017,500 units), ranging from \$10.00 to \$10.50 per unit (in 1999, the weighted average exercise price is \$10.03). These options expire on October 31, 2007 and on March 22, 2008. During 1999, no options were issued or exercised, and 27,500 units, with an exercise price of \$10.00, expired.

e) Redeemable Partnership Units

As consideration for the purchase of the Royco and RVI businesses, 1,706,998 redeemable partnership units were issued by a partnership managed by a wholly-owned subsidiary of Royal Host. A further 1,444,445 redeemable partnership units were issued effective January 1, 2000, pursuant to a clause in the purchase agreement requiring a minimum level of earnings in the period following the acquisition, which was met by the businesses.

Holder of redeemable partnership units ("Holder") are entitled to receive distributions from the partnership equivalent to the distributions paid by Royal Host to its unitholders, commencing on January 1, 1999. Each partnership unit is redeemable by the Holder after January 1, 2000 at a cash price equal to the market value of a Royal Host unit, or at the option of Royal Host and subject to regulatory approval, one Royal Host unit or a combination thereof.

Under certain circumstances, including a change of control ("Trigger Event"), the Holder has the right to redeem the partnership units for cash proceeds of \$27.5 million. If the Trigger Event occurs after the issuance of the additional redeemable units but prior to January 1, 2004, then the Holder may redeem the then outstanding redeemable partnership units for cash, at the greater of \$9.00 per unit or the market price of the Royal Host units. Change in control is defined as ownership by any one entity or a group of related entities of more than 20% of the outstanding units of Royal Host.

For accounting purposes, the redeemable partnership units have equity characteristics and accordingly, they have been accounted for as such.

f) Convertible Debenture

The convertible debenture bears interest at 8% per annum and is payable monthly, at Royal Host's option, in either cash or in equivalent units of Royal Host. In addition, upon maturity in 2003, Royal Host has the option to repay the debenture in either cash or in equivalent units of Royal Host.

Based on certain conditions, the debenture is convertible at \$10.00 per trust unit to August 31, 2001 or \$11.00 per trust unit for the period from September 1, 2001 to August 31, 2003.

For accounting purposes, the debenture has equity characteristics and accordingly, it is accounted for as such.

7. Acquisitions

Between March 1998 and September 1998, Royal Host acquired 17 hotel properties in Ontario and one in Alberta, encompassing over 2,800 guest rooms, from various vendors for an aggregated purchase price of \$174,664,000. Consideration paid consisted of cash and debt assumed or financed.

Effective October 1, 1998, Royal Host indirectly acquired the businesses of its hotel manager, Royco and its affiliate, RVI, through a partnership managed by a wholly-owned subsidiary of Royal Host. Consideration for the transaction consisted of \$7.5 million cash plus 1,706,998 redeemable partnership units. A further 1,444,445 redeemable partnership units were issued effective January 1, 2000, pursuant to a clause in the purchase agreement requiring a minimum level of earnings in the period following the acquisition, which was met by the businesses.

As the officers of Royal Host collectively held a minority interest and are directors of Royco and RVI, the terms of the acquisition were reviewed and approved by a committee of independent members of the Board of Trustees, based on a market appraisal conducted by a leading independent consulting firm.

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The acquisitions were accounted for by the purchase method and details are as follows:

(\$000)	Hotel Properties	Royco and RVI
Net assets acquired:		
Working capital	560	27
Hotel properties	174,104	–
Furniture, equipment and other assets of Royco and RVI	–	3,764
Goodwill	–	34,276
Mortgages and other debt assumed or financed	(122,456)	(2,228)
	52,208	35,839
Consideration:		
Convertible debenture	22,000	–
Redeemable partnership units	–	27,500
Cash	30,208	8,339
	52,208	35,839

8. Lease and Other Hospitality Revenues

Lease and other hospitality revenues include rental income of \$2,015,000 (1998 - \$2,015,000) from one hotel property that is leased to the previous owner for a fixed fee of \$2,015,000 per annum. The lease is renewable at the option of the tenant for a further three additional five-year terms commencing October 31, 2002 at an amount equal to the base lease adjusted by the consumer price index. The lease may be terminated if the property is sold by Royal Host upon due notice along with payment of a penalty calculated in accordance with the lease agreement.

9. Non-Recurring Acquisition Costs

In 1999, Royal Host recorded a \$2,200,000 (\$0.11 per unit, basic) non-recurring charge against income, relating to the Canadian Hotel Income Properties REIT acquisition attempt.

10. Franchise Agreements

Under the terms of the hotel franchise agreements expiring at various dates commencing May 1, 2001 through to September 12, 2015, annual payments for franchise expenses (including fees, reservation and advertising services) are due for 18 of the 36 hotels (27 of the 36 hotels in 1998). In 1999, nine hotels were converted to the Travelodge brand for which Royal Host is the master franchisor in Canada. The franchise royalties are computed based upon percentages of defined revenues and amounted to \$1,495,000 for the year (1998 - \$2,115,000).

11. Related Party Transactions

Hotel Management Agreements

Prior to the acquisition of Royco, Royal Host was party to a hotel management contract with Royco for each hotel property. Accordingly, for the nine months ended September 30, 1998, Royal Host paid Royco management fees of \$1,567,000.

12. Operating Leases

Certain property and equipment are leased under operating lease agreements expiring at varying intervals. The following is a five-year schedule for future minimum rental payments required under these leases as at December 31, 1999:

Notes to Consolidated Financial Statements

Years ending December 31 (\$000)

2000	1,375
2001	1,204
2002	933
2003	619
2004	303
	4,434

13. Risk Management

Royal Host's key financial risk exposures include credit risks arising from receivables from corporate accounts and amounts owed by purchasers of prepaid vacations, and interest rate risk arising from fluctuations in interest rates.

Credit risks are minimized, as amounts due from any one debtor are not significant and routine credit assessments are carried out prior to credit being granted. The amounts receivable are from prepaid vacation owners and are secured by the prepaid vacations purchased.

Interest rate risk is continually monitored and managed through limiting the amount of variable rate debt as well as the total amount of debt. In 1999, the amount of variable rate debt aggregated \$99,627,000 or 63% of the Royal Host total debt portfolio as at December 31, 1999 (\$90,300,000 or 65% of the Royal Host total debt portfolio as at December 31, 1998). Variable rates range from prime to prime plus 3% (prime to prime plus 1.75% at December 31, 1998).

14. Fair Values

Current assets and liabilities approximate their carrying values at December 31, 1999 due to their short-term nature. The fair values of the non-current portion of mortgages and other debt, and convertible equity instruments are as follow:

(\$000)	Carrying values	Fair values
Mortgages and other debt	41,057	36,943
Redeemable partnership units and convertible debenture	49,500	46,205

Fair value estimates are made at a specific point in time based on relevant market information. These are estimates and involve uncertainties and matters of significant judgment and cannot be determined with precision. Changes in assumptions and estimates could significantly affect fair values.

15. Subsequent Events

Royal Host has negotiated a three-month extension on its debt with its major lender on substantially the same terms as currently in place with the lender.

16. Reclassification

Certain prior year's figures have been reclassified to conform with the presentation adopted for 1999.

Board of Trustees



Clockwise: Greg Royer, Randy Royer, Terry Royer – building on our foundation.

Randy Royer ⁽¹⁾

Randy Royer is the President and Chief Executive officer of Royal Host. Randy was a driving force behind the creation and launch of the Royal Host REIT. Randy has over 20 years of experience in hotel planning, development and construction and hotel portfolio asset management across Canada and the United States. He has taken 30 hotels from market identification and site selection through market and financial analysis, to design, construction and turnover to the operator. Randy's hotel business experience ranges from the development of budget properties to the master planning of a 50-acre city-centre, lakefront resort community.

Peter Sikora, MBA ⁽²⁾

Peter Sikora is the Chief Financial Officer of Royal Host Hotels and Resorts. Peter has over 15 years of planning, development, finance and hotel portfolio asset management experience in the hotel industry. He previously held management positions with a Canadian chartered bank.

Chairman – Ron Ghitter, Q.C. ^{(1) (2) (3) (4)}

Mr. Ghitter is President of Ron Ghitter Property Consultants Ltd. He is a successful lawyer, business executive and consultant, and has served on a number of corporate boards of directors. He has more than 25 years of experience in real estate development law and is a former Executive Vice President Development for Trizec Corporation. Mr. Ghitter is widely known and respected for his contribution to public service, including seven years as a member of the Senate of Canada.

Executive Vice Chairman – Terry Royer, MBA

Terry Royer is the Executive Vice Chairman of Royal Host Hotels and Resorts. He has guided Royal Host from inception to becoming one of Canada's leading international hotel management and franchising companies. Terry has more than 25 years of experience in the hotel business. He has a reputation as a leader and an innovator having guided, Relax Hotels and Resorts, Canada's first economy hotel chain, from inception to prominence.

Dennis Hearn, FCA ^{(3) (4)}

Mr. Hearn is Chairman, MAG International Communications Ltd. He is the former Chairman, President and Chief Executive Officer of Forte Inc. and Group Managing Director and Deputy Chief Executive of Forte plc, a major worldwide hospitality company. Earlier in his career, Mr. Hearn was an Executive Director of consulting and supermarket companies. He is a chartered accountant, formerly in private practice with Peat Marwick Mitchell & Co.

Alvin G. Poettcker ^{(1) (2) (3) (4)}

Mr. Poettcker is Chief Executive Officer, UBC Properties Inc. From 1984 to 1996, he served as president at several real estate companies, including Redekop Properties Inc., Bentall Development Inc., one of Western Canada's largest property and development companies, and Barbican Properties Inc., a company specializing in residential development and workouts of distressed income properties.

Gordon Pridham ⁽⁴⁾

Mr. Pridham is Vice Chairman and Managing Director, Investment Banking, for Research Capital Corporation. He has more than 18 years experience in Canadian and international financial services, and has managed the Investment Banking Group at Midland Doherty, and Deutsche Morgan Grenfell. He has led many of the significant public real estate financing and advisory agreements in recent years.

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Investment Committee

⁽³⁾ Member of the Compensation Committee

⁽⁴⁾ Member of the Governance Committee

Officers of Royal Host REIT

Randy B. Royer

President and Chief Executive Officer

Peter Sikora

Vice President and Chief Financial Officer

Corporate Office

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Auditors

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700 Second Street SW
Calgary, Alberta
T2P 0S7

**Registrar and
Transfer Agent**

The Trust Company
of Bank of Montreal
"B" Level North
129 Saint Jacques Street
Montreal, Quebec
H2Y 1L6

**Distribution
Reinvestment Plan**

Unitholders are invited to participate in our Distribution Reinvestment Plan, whereby monthly distributions are automatically reinvested in Royal Host units. The plan is available to all Canadian residents who are registered unitholders. For information, please contact our Registrar and Transfer Agent.

Annual General Meeting

The annual general meeting of unitholders will be held on June 8, 2000 at 10:00 a.m. in the Metropolitan Center, Strand/Tivoli Room, 333 Fourth Avenue SW, Calgary, Alberta.

Stock Exchange Listing

Royal Host units trade on The Toronto Stock Exchange under the symbol RYL.UN

**Unitholder
Information**



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