

**ROYAL HOST REAL ESTATE INVESTMENT TRUST**

**Consolidated Financial Statements**

**For the three months ended March 31, 1998**

*(unaudited)*

**ROYAL HOST REAL ESTATE INVESTMENT TRUST**  
**Consolidated Balance Sheet**  
**As at March 31, 1998**  
*\$000 (unaudited)*

	<b>As at</b>	
	<b>March 31</b>	<b>December 31</b>
	<b>1998</b>	<b>1997</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and short-term investments	6,058	17,699
Installment receipts receivable	48,566	47,724
Accounts and notes receivable	2,264	1,868
Other current assets	5,654	1,275
	<u>62,542</u>	<u>68,566</u>
<b>Capital Assets (Note 3)</b>	<b>124,072</b>	<b>117,141</b>
<b>Other Assets</b>	<u>265</u>	<u>699</u>
	<u><b>186,879</b></u>	<u><b>186,406</b></u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	4,686	4,536
Installment receipts term loans	50,600	50,600
Current portion of mortgages	5,363	5,201
Other current liabilities	709	1,049
	<u>61,358</u>	<u>61,386</u>
<b>Mortgages</b>	<b>13,590</b>	<b>11,834</b>
<b>Unitholders' Equity</b>	<u>111,931</u>	<u>113,186</u>
	<u><b>186,879</b></u>	<u><b>186,406</b></u>

*See accompanying Notes to Consolidated Financial Statements*

**ROYAL HOST REAL ESTATE INVESTMENT TRUST**  
**Consolidated Statement of Net Earnings and Distributable Cash**  
**For the three months ended March 31, 1998**  
*\$000 (unaudited)*

<b>Hotel Revenues</b>	
Rooms	6,063
Food and beverages	1,234
Lease and other hotel revenues	810
	<u><b>8,107</b></u>
<b>Hotel Expenses</b>	
Operating expenses	5,025
Management fees	345
Franchise expenses	362
	<u><b>5,732</b></u>
<b>Operating Income</b>	<u><b>2,375</b></u>
<b>Other (Income) and Expenses</b>	
Interest income	( 1,054 )
Interest on installment receipts term loans	842
Interest on mortgages	283
Trust administration	356
Depreciation and amortization	1,494
	<u><b>1,921</b></u>
<b>Net Earnings</b>	<b>454</b>
Addback: Depreciation and amortization	1,494
Deduct: Capital replacement reserve	( 241 )
<b>Distributable Cash</b>	<u><b>1,707</b></u>
<b>Distributable Cash per Unit (Note 2)</b>	<u><b>\$0.130</b></u>

*See accompanying Notes to Consolidated Financial Statements*

**ROYAL HOST REAL ESTATE INVESTMENT TRUST**  
**Consolidated Statement of Changes in Financial Position**  
**For the three months ended March 31, 1998**  
*\$000 (unaudited)*

**CASH PROVIDED BY (USED IN)**

**Operating Activities**

Net earnings	454
Add (deduct) non-cash items:	
Imputed interest on installment receipts receivable	( 842 )
Depreciation and amortization	1,494
Changes in non-cash working capital	( 599 )
	<u>507</u>

**Financing Activities**

Unit issue cost	( 4 )
Mortgages assumed on acquisition of hotel properties	3,201
Mortgage principal repayments	( 1,283 )
	<u>1,914</u>

**Investing Activities**

Acquisition of hotel properties	( 6,570 )
Acquisition deposits	( 3,973 )
Capital expenditures and development	( 1,446 )
Capital replacement reserve used for property and equipment	( 409 )
Other assets	41
	<u>( 12,357 )</u>

<b>Distribution to Unitholders</b>	<u>( 1,705 )</u>
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<b>Net Change in Cash</b>	<u>( 11,641 )</u>
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Cash and Short-term Investments, beginning of period	<u>17,699</u>
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<b>Cash and Short-term Investments, end of period</b>	<u><u>6,058</u></u>
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*See accompanying Notes to Consolidated Financial Statements*

# ROYAL HOST REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

As at March 31, 1998

(unaudited)

### 1. GENERAL INFORMATION

Royal Host Real Estate Investment Trust ("the REIT") was created pursuant to the Declaration of Trust dated August 27, 1997. The REIT is an unincorporated closed-end mutual fund trust established for the purpose of investing in hotel properties, under specified guidelines as defined under the Declaration of Trust.

### 2. PER UNIT COMPUTATION

Per unit computations are based on the number of trust units outstanding during the period—13,114,487 units. Earnings per unit for the REIT is \$0.035 for the three months ended March 31, 1998.

### 3. COMPARISON TO FORECAST

As part of the October 17, 1997 prospectus filed in connection with the initial public offering of the REIT, management prepared a forecast for each of the four quarters for the fiscal year ending December 31, 1998. A comparison has been made of the actual results for the three months ended March 31, 1998 with the forecast (adjusted to reflect the acquisition of the remaining 55% of The Grand Okangan Resort).

	\$000	
	Actual	Forecast
Operating income	2,375	2,541
Net earnings	454	457
Distributable cash	1,707	1,365
Weighted average number of shares outstanding	13,114	11,464
Distributable cash per unit ( <i>dollars</i> )	\$0.13	\$0.13

### 4. CAPITAL ASSETS

	\$000		
	Gross book value	Accumulated depreciation	Net book value
Land	14,490	-	14,490
Building	99,790	1,681	98,109
Furniture, fixtures, and equipment	9,298	756	8,542
Paving and other	755	6	749
	<b>124,333</b>	<b>2,443</b>	<b>121,890</b>
Properties under development	2,182	-	2,182
	<b>126,515</b>	<b>2,443</b>	<b>124,072</b>

**ROYAL HOST REAL ESTATE INVESTMENT TRUST**  
**Notes to Consolidated Financial Statements**  
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**5. SUBSEQUENT EVENTS**

**a) New Financing**

On May 7, 1998 the REIT raised gross proceeds of \$60 million through a private placement of 5.7 million Special Warrants at a fully paid price of \$10.50 each. Each Special Warrant is exchangeable for one unit of the REIT, such units being represented by Installment Receipts. An initial installment of \$6.50 per Special Warrant is payable upon closing with remaining \$4.00 due on November 2, 1998.

In addition, the REIT has entered into an agreement with underwriters to raise a further \$30 million through a public offering of Units, also represented by Installment Receipts, following the filing and acceptance of a prospectus. The combined proceeds of these two financing will be \$90 million and will be used to fund the REIT's hotel acquisition program.

**b) New Acquisitions**

As at May 28, 1998, the REIT had closed on four of the 29 recently announced hotel acquisitions in for a total price of approximately \$27 million. The REIT expects close on the remaining properties under contract by July 1998.