

ROYAL HOST REAL ESTATE INVESTMENT TRUST

Consolidated Interim Financial Statements

For the six months ended June 30, 1998

(unaudited)

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheet
As at June 30, 1998
\$000 (unaudited)

	<u>As at</u>	
	<u>June 30</u> <u>1998</u>	<u>December 31</u> <u>1997</u>
ASSETS		
Current Assets		
Cash and short-term investments	4,365	17,699
Installment receipts receivable	71,643	47,724
Accounts and notes receivable	3,223	1,868
Other current assets	3,943	1,275
	<u>83,174</u>	<u>68,566</u>
Capital Assets (Note 4)	218,610	117,141
Other Assets	<u>5,581</u>	<u>699</u>
	<u>307,365</u>	<u>186,406</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	7,312	4,536
Installment receipts term loans	50,600	50,600
Current portion of mortgages and other debt	12,519	5,201
Other current liabilities	953	1,049
	<u>71,384</u>	<u>61,386</u>
Mortgages and other debt	70,528	11,834
Unitholders' Equity	<u>165,453</u>	<u>113,186</u>
	<u>307,365</u>	<u>186,406</u>

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statement of Net Earnings and Distributable Cash
For the six months ended June 30, 1998
\$000 (unaudited)

Hotel Revenues

Rooms	16,124
Food and beverages	4,068
Lease and other hotel revenues	2,435
	<u>22,627</u>

Hotel Expenses

Operating expenses	13,982
Management fees	719
Franchise expenses	855
	<u>15,556</u>

Operating Income

7,071

Other (Income) and Expenses

Interest income	(2,083)
Interest on installment receipts term loans	1,693
Interest on mortgages	1,017
Trust administration	881
Depreciation and amortization	2,907
	<u>4,415</u>

Net Earnings

2,656

Addback: Depreciation and amortization

2,907

Deduct: Capital replacement reserve

(674)

Distributable Cash

4,889

Distributable Cash per Unit (Note 2)

- basic	\$ 0.37
- fully diluted	\$ 0.33

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Consolidated Statement of Changes in Financial Position
For the six months ended June 30, 1998
\$000 (unaudited)

CASH PROVIDED BY (USED IN)

Operating Activities

Net earnings	2,656
Add (deduct) non-cash items:	
Imputed interest on installment receipts receivable	(1,693)
Depreciation and amortization	2,907
Changes in non-cash working capital	101
	<u>3,971</u>

Financing Activities

Issuance of Special Warrants	37,148
Subscription of trust units under Special Warrant indenture	22,226
Receivable from Special Warrant holders	(22,226)
Cost of issuance	(4,994)
Debt financing and mortgages assumed on acquisition	67,426
Debt and mortgage principal repayments	(1,413)
	<u>98,167</u>

Investing Activities

Acquisition of hotel properties	(94,917)
Acquisition deposits	(1,140)
Capital expenditures and development	(8,788)
Capital replacement reserve used for property and equipment	(674)
Other assets	(5,184)
	<u>(110,703)</u>

Distribution to Unitholders (4,769)

Net Change in Cash (13,334)

Cash and Short-term Investments, beginning of period 17,699

Cash and Short-term Investments, end of period 4,365

See accompanying Notes to Consolidated Financial Statements

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at June 30, 1998
(unaudited)

1. GENERAL INFORMATION

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

2. PER UNIT COMPUTATION

Basic per unit computations are based on the number of trust units outstanding during the period—13,114,487 units. Fully diluted per unit computation assumes the units issuable on exercise of the Special Warrants were outstanding from May 7, 1998. Basic earnings per unit for Royal Host is \$0.20 and \$0.18 on a fully diluted basis for the six months ended June 30, 1998.

3. COMPARISON TO REVISED FORECAST

As part of the Prospectus filed on July 29, 1998 to qualify the distribution of 5,715,000 units issuable by Royal Host, management prepared a revised forecast for each of the quarters ending June 30, September 30 and December 31, 1998, and for the year ending December 31, 1998. A comparison has been made of the actual results for the six months ended June 30, 1998 with the forecast and no material variances were noted.

	<i>\$000</i>	
	Actual	Forecast
Occupancy	71.9%	72.2%
ADR	\$68.70	\$68.70
RevPar	\$49.40	\$49.90
Hotel revenues	22,627	22,809
Hotel expenses	15,556	15,689
Operating income	7,071	7,120
Net earnings	2,656	2,618
Distributable cash	4,889	4,936
Weighted average number of shares – <i>fully diluted</i>	14,820	14,820
Distributable cash per unit (<i>dollars</i>) – <i>fully diluted</i>	\$ 0.33	\$ 0.33

ROYAL HOST REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Interim Financial Statements
As at June 30, 1998
(unaudited)

1. CAPITAL ASSETS

	<i>\$000</i>			1997
	1998		Net book Value	
	Gross book value	Accumulated depreciation		
Land	28,907	-	28,907	14,490
Building	173,631	3,001	170,630	91,718
Furniture, fixtures, and equipment	15,186	2,602	12,584	8,937
Paving and other	832	3	829	1,576
	218,556	5,606	212,950	116,721
Properties under development	5,660	-	5,660	420
	224,216	5,606	218,610	117,141

1. SUBSEQUENT EVENTS

a) New Financing

On May 7, 1998 Royal Host raised gross proceeds of \$60 million through a private placement of 5,715,000 million Special Warrants at a fully paid price of \$10.50 each. Each Special Warrant is exchangeable for one unit of Royal Host, 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.

On July 31, 1998, Royal Host received receipts from the securities commissions of each province in Canada for its final prospectus dated July 29, 1998, qualifying the distribution of 5,715,000 trust units issuable upon the exercise of the outstanding Special Warrants .

b) New Acquisitions

On July 3, 1998 Royal Host purchased the Holiday Inn in Oakville, Ontario and the Sundial Inn in Orillia, Ontario for an aggregated total of \$ 18.9 million. Consideration was paid in cash and an assumption of \$ 4.0 million of existing debt.