Allied Hotel Properties Inc

01

Annual Report

Welcome

Allied Hotel Properties Inc. is a Canadian hotel company focused on the ownership of first class business hotels in major Canadian urban centres. While our primary goal is to maximize returns in the provision of hotel and hospitality services within the hotel portfolio, our ultimate responsibility is to our shareholders in the maximization of share value. This will be achieved by maintaining a diversified hotel property portfolio and engaging prudent asset management. The Company will strive to increase the property and management portfolio through development and acquisition, add value to the portfolio through upgrade and repositioning initiatives, and capitalize on the expansion potential available in the existing portfolio and in acquired properties.

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Highlights

2001 Financial Highlights

For the Year Ended December 31		2001	2000
Occupancy		**59.6%**	64.1%
Average Daily Rate	$	**112.77**	116.64
Revenue per Available Room	$	**67.15**	74.72
$ thousands			
Total Revenues	$	**71,138**	77,146
Loss for the Year		**7,050**	8,599
Loss per Share	$	**0.07**	0.08

Occupancy, average daily rate and revenue per available room figures are based on the hotel portfolio composition at December 31 for each of the years as if owned for the full years represented.

Hotel Portfolio at a Glance

PROPERTY	LOCATION	NUMBER OF ROOMS	PERCENTAGE INTEREST HELD
Crowne Plaza Hotel Georgia	Vancouver	313	100%
Crowne Plaza Chateau Lacombe	Edmonton	307	100%
Crowne Plaza Toronto Don Valley Hotel	Toronto	353	100%
Vancouver Airport Conference Resort	Richmond	438	62.0%
Holiday Inn Hotel & Suites Vancouver Downtown	Vancouver	245	33.3%
Delta Vancouver Airport	Richmond	415	26.7%
	TOTAL	**2,071**	

Message to Our Shareholders

Allied Hotel Properties Inc. has a solid focus on shareholder value through the ownership and management of first class business hotels in major urban centres. The Company is also striving to diversify its hotel portfolio through the acquisition of hotel properties in locations outside the Greater Vancouver area where the majority of it current properties are located.

The Company's financial results for 2001 are the reflection of a challenging economic environment and the repercussions of the events of September 11, 2001. In spite of these challenges, the financial position of the Company improved due to a substantial reduction in debt and corresponding reduction in interest expense which will become more evident in 2002.

The challenging business conditions were principally evident in Richmond, British Columbia, adjacent to the Vancouver International Airport, and Downtown Vancouver. At each of these locations, additional room supply in conjunction with the general economic factors affecting the North American economy negatively impacted occupancy in particular. Our property in Edmonton on the other hand posted a very solid year.

A number of specific actions were undertaken to address the challenges of 2001.

The former Delta Pacific Resort and Conference Centre was repositioned, effective January 1, 2002, as a dual-branded hotel under the Park Plaza and Ramada Plaza flags. The new arrangement includes a minimum annual cash flow guarantee. In addition, several property interests were sold, specifically the Granville Development Site, 66.7% of the Holiday Inn Vancouver Downtown and the Delta Vancouver Suites Hotel (to the Company's parent).

The impact of the foregoing has been to reduce debt from approximately $165 million at the beginning of the year to $100 million as at December 31, 2001. In conjunction with a decline in the prime rate of interest from 7.5% at the beginning of the year to 4.0% by year-end, the reduction of debt has had a very significant positive impact on the Company's cost of borrowing. Approximately 65% of the Company's long term debt at year-end was floating based on the prime rate of interest charged by the Company's principal banker. As a number of these changes occurred through the later part of the year, the full impact will really be most notable through 2002 relative to prior years.

Also, the addition of new hotel rooms in the Greater Vancouver hotel market is anticipated to be significantly reduced in the years ahead relative to the past several years. This factor, in conjunction with the substantial equity value in the hotel properties owned by the Company, provides confidence to management that the Company can move forward and add to both the hotel property portfolio and to shareholder value in the years ahead.

We wish to recognize and thank our many experienced employees for their ongoing dedication to the company. Much was again accomplished by our people during the year in regard to managing the various aspects of our business in a challenging environment.

We remain committed to providing all of our hotel guest the highest level of service and to working on behalf of our shareholders to maximize the long-term value of their investment in the Company.

Peter Y.L. Eng
Chairman

Ronald G. Erdman
President and Chief Executive Officer

The Year in Review

A YEAR OF CHALLENGE AND OPPORTUNITY

01

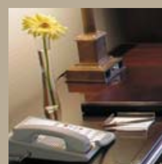
The Challenges

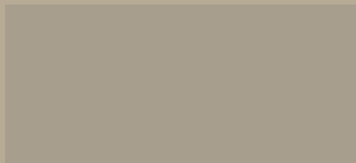
- The recession which impacted the U.S. economy early in the year affected the Canadian economy, resulting in a weaker economic climate and lower room-night demand beginning in the second quarter.
- The tragedy in the U.S. on September 11 had an additional financial impact on the hotel portfolio as the reduction in North American travel led to an immediate loss in room-night demand in an already weakened hotel market.
- Uncertainty in the hotel market requires hoteliers to make changes in reaction to the shift in demand. The challenge in making these changes results from the need to balance hotel operating expense reductions while maintaining the highest levels of guest service.

The Opportunities

- As a result of the slowing Canadian economy, interest rates declined very significantly. Bank prime rates fall from 7.5% at the beginning of the year to 4.0% by the end of the year, resulting in reductions in debt service costs that helped to offset weaker hotel operating performance during the year.
- The September 11th tragedy is not expected to have a long-term impact on the Canadian hotel market. It is anticipated that domestic travel will recover fairly rapidly as Canada is favourably viewed as a safe destination for leisure and business travel.
- The low value of the Canadian dollar relative to the U.S. dollar will continue to attract American visitors.
- As a result of the softening hotel market and difficulty in obtaining hotel financing over the last two years, there has been a general decrease in new room supply in Canada which will help to maintain and improve occupancies. This is particularly the case in Vancouver where the Company has a majority of its properties.
- Because of the low Canadian dollar and limited new room supply, there remains substantial room for improvement in Canadian room rates in the years ahead.

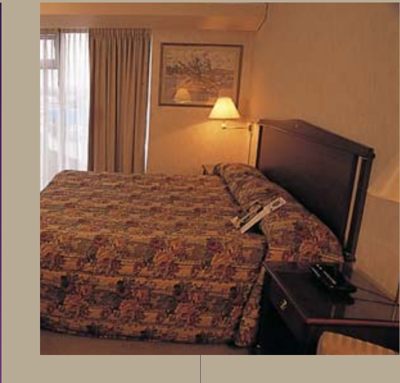
Hotel Portfolio





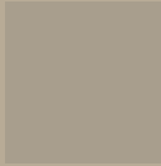
CROWNE PLAZA HOTEL GEORGIA

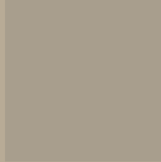
Originally built in 1927, the Crowne Plaza Hotel Georgia is a Vancouver heritage landmark, rich in history and grandeur. The hotel was completely restored to its former glory by the Company during 1998. The hotel received a City of Vancouver Heritage Award in recognition of the restoration of the ballroom, meeting rooms and main lobby. The hotel is located in the heart of downtown Vancouver, across from the Pacific Centre Mall and the Vancouver Art Gallery.



CROWNE PLAZA CHATEAU LACOMBE

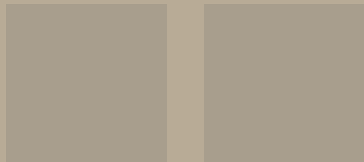
Located in downtown Edmonton, Alberta, the hotel offers excellent views over the Saskatchewan River Valley. Housed at the top of this unique round tower is La Ronde, Edmonton's only revolving restaurant. Renovated in 1992, it was re-branded as a Crowne Plaza hotel, the first in Western Canada.





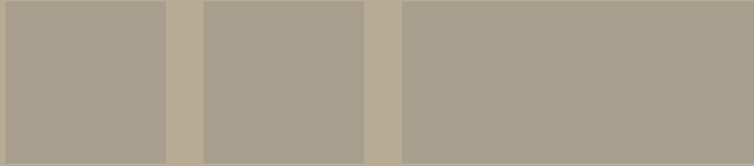
CROWNE PLAZA TORONTO DON VALLEY HOTEL

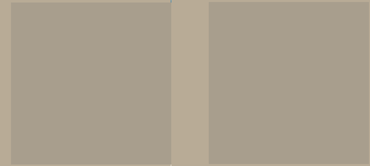
Among its many amenities, the hotel contains a comprehensive health club, together with both indoor and outdoor swimming pools. This hotel was completely renovated during 1999 and re-branded as a Crowne Plaza hotel. Situated on the winding Don Valley Ravine, it is located ten minutes from Downtown Toronto.



VANCOUVER AIRPORT CONFERENCE RESORT

Formerly known as the Delta Pacific Resort and Conference Centre, the property was re-branded effective January 1, 2002 under two flags, Ramada Plaza and Park Plaza. This hotel provides the most extensive conference and meeting facilities in the City of Richmond, a suburb of Vancouver, comprising approximately 26,000 square feet of convention space. In a resort setting, its amenities include three swimming pools, an indoor water slide, full fitness centre with four indoor tennis courts, two squash courts, a massage therapy clinic, whirlpool, and saunas.





HOLIDAY INN HOTEL AND SUITES VANCOUVER DOWNTOWN

Located near the British Columbia Law Courts and the Robson Street shopping district, the hotel continues to appeal to business and leisure travelers alike. The hotel also offers 18 tower suites that can be converted into 36 rooms, designed to accommodate the extended-stay market.

DELTA VANCOUVER AIRPORT

In addition to being ideally located as an airport hotel, the hotel offers a scenic setting overlooking the middle arm of the Fraser River. This hotel is leased to and managed by Delta Hotels Limited. The Lysander Office Building, which was acquired to control additional development lands, is situated directly adjacent to the hotel.

Management's Discussion and Analysis

Basis of Presentation

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 2001 and 2000 and the notes pertaining thereto.

Effective August 31, 2001, the Company sold a two-thirds interest in the Holiday Inn Hotel & Suites Vancouver Downtown (the "Holiday Inn"). The results of operations and cash flows of the Holiday Inn for the period then ended are included in the consolidated financial statements of the Company. The results of operations of Company's remaining one-third interest subsequent to August 31, 2001 is included in the Statement of Operations as Equity in Income of Investee.

Effective December 27, 2001, the Company sold its 65.2% interest in the Delta Vancouver Suites Hotel (the "DVS"). The results of operations and cash flows of the DVS for the period then ended are included in the consolidated financial statements of the Company.

Results of Operations

Operating revenues decreased 8% to $71.1 million for the year ended December 31, 2001 from $77.1 million for the year ended December 31, 2000. This decrease resulted from the sale of the Holiday Inn during the year, plus a modest decline in results in terms of both occupancy and average rate. This decline was particularly noticeable in the Greater Vancouver area, where four of the Company's six operating hotels were located. The tragic events of September 11th led to a rapid acceleration of the economic decline the Company had been experiencing since the end of the first quarter of 2001, and the unprecedented decline in business and leisure travel in the weeks following September 11th had a significant impact on hotel revenues and net income. However, it would be simplistic to blame September 11th for all of the problems facing the hospitality industry, as the impact of recession in the United States was also a major contributor.

Room revenues decreased 10% to $46.4 million during 2001, while cost of sales decreased by 11% over the same period. Gross profit on rooms remained constant at 68%. Food and beverage revenues decreased 4% to $19.9 million for the year. Gross profit of $37.4 million decreased by 8%, or $3.1 million, over 2000, while gross profit margin remained constant at 53%.

Excluding the results of the Holiday Inn from both 2001 and 2000, room revenues for the remaining hotel portfolio decreased 7%, from $44.0 million to $41.0 million, while gross profit on rooms remained constant at 67% in both years.

Selling, general and administrative expenses ("SG&A") increased 1% to $22.7 million in 2001. Excluding the Holiday Inn, SG&A increased 4%, reflecting significant increases in utility costs in conjunction with the maintenance of sales and marketing expense.

Taxes and insurance decreased by 16% to $4.8 million for 2001, or 10% to $4.4 million excluding the Holiday Inn. This decrease was achieved through successful appeals against property tax assessments in several of our properties. Several hotels renewed their insurance coverage near the end of the year, and all found rates to be considerably higher than in the previous year. The full effect of these increases will become apparent during 2002.

Total interest expense decreased by 15% to $11.4 million for 2001. This decrease reflects the sale of the Holiday Inn during the year, the repayment of $14.7 million of long-term debt, plus decreases in the prime lending rate which occurred towards the end of the year. With $64.7 million of long-term debt bearing interest at rates based on the prime lending rates, the Company is well positioned to benefit from reduced borrowing rates.

The sale of the Company's Granville Street development site during the year resulted in a small gain, the property having been written down in 2000 in anticipation of the sale. The sale of a two-thirds interest in the Holiday Inn yielded a gain of $9.6 million, which is offset by a write-down of $8.4 million on the Company's hotel assets.

The loss for the year before non-controlling interest and income taxes was $6.9 million, compared to a loss of $10.8 million for the year ended December 31, 2000. Current and future taxes totaled $1.6 million, compared to a credit of $1.3 million in 2000. Together with a credit of $1.5 million to non-controlling interest, the net loss for the year was $7.1 million, compared to a net loss of $8.6 million for the year ended December 31, 2000. This reduction in net loss was primarily the result of the gain on sale of the Holiday Inn and the decrease in interest expense, noted above.

Management's Discussion and Analysis

Deficit for prior year has been restated to take into account a change in the agreed value of land acquired, as more fully explained in note 3 to the consolidated financial statements. The sale of the DVS during the year, as noted above, was to a related party. As a result, the gain on sale is recorded as a deemed contribution by related party and resulted in an increase of $2.2 million in equity.

The Company had negative funds from operations for the twelve months ended December 31, 2001 of $3.2 million or $0.03 per share, compared to $2.9 million of $0.03 per share in 2000. This cash shortfall was covered by the sale of the Company's land held for resale and the sale of the Holiday Inn.

Financial Position

Income-Producing Properties

The net book value of income-producing properties at December 31, 2001 was $118.1 million, compared to $174.4 million at December 31, 2000. The cost of these properties decreased to $134.2 million at December 31, 2001 from $187.3 million at December 31, 2000, a decrease of $53.1 million. Of this decrease, $49.4 million represents the Holiday Inn and DVS which are no longer included in the consolidated statements at December 31, 2001, while a further $4.2 million represents the portion of the write-down of $8.4 million attributable to land cost. The net result is that the cost of the remaining income-producing properties increased $1.0 million over the year. With no material property acquisitions or renovations in the year, this represents minor additions to furniture, fixtures and equipment at each property on an on-going basis.

The acquisition of the Company's initial hotel portfolio in April 1998 was, for accounting purposes, treated as a related party transaction. Canadian generally accepted accounting principles require that the properties acquired be reflected in the balance sheet at the book value of the seller. In certain instances this is significantly less than management's estimate of the fair market value of the property.

Investments

As described above, the Company sold a two-thirds interest in the Holiday Inn, effective August 31, 2001. Subsequent to that date the assets and liabilities of the Holiday Inn were no longer included in the consolidated financial statements of the Company. The cost of the Company's remaining one-third interest is now included under Investments in the balance sheet. Subsequent to the year-end the purchaser of the two-thirds interest exercised an option to acquire the remaining one-third interest. 50% of the purchase price has been received, with the balance due no later than September 30, 2002.

Working Capital

The Company has a net working capital deficiency at the year-end of $13.4 million, an improvement of $1.2 million from a deficiency of $14.6 million from December 31, 2000. In the hospitality industry it is common practice for customers to pay by cash or credit card, resulting in relatively low accounts receivable balances. On the other hand, hotel operating supplies are purchased on credit and are more frequently carried on account through each month end. At the year-end, the net difference between accounts receivable and accounts payable was $10.5 million. Management believes that this represents a prudent use of the Company's available cash reserves.

Debt

Total current and long-term debt decreased by $51.1 million, from $151.3 million at December 31, 2000 to $100.2 million at December 31, 2001. Of the decrease, $36.6 million relates to the two properties sold during the year, leaving a net decrease of $14.7 million after foreign exchange adjustments. This net decrease represents $24.7 million of debt repaid during the year, less a new facility of $10.0 million which was drawn down during the year. Repayments were funded from the proceeds of sale of the land held for resale and of the Holiday Inn.

The Company has unconditionally guaranteed the indebtedness of the Vancouver Airport Property, to a maximum amount of $3.5 million, in proportion to its 26.67% interest in this property.

The Company has unconditionally guaranteed the indebtedness of the Holiday Inn. At December 31, 2001, the indebtedness of the Holiday Inn amounted to $15.7 million.

Due from / to Affiliated Companies

At December 31, 2000, the Company owed its major shareholder, Allied Holdings Ltd. ("Holdings") $13.0 million. During the year a retroactive adjustment of $4.2 million was made to the value of a promissory note issued by the Company to Holdings in 1998 as partial payment for the

Management's Discussion and Analysis

acquisition of the Crowne Plaza Hotel Georgia. Principal repayments of $1.7 million were made during the year and the Company sold its 65.2% interest in the DVS to Holdings for net proceeds of $7.1 million. The result of these transactions was that the opening balance due to Holdings was fully repaid, and a small balance (less than $0.1 million) was due from Holdings at the year-end. This was repaid to the Company shortly after the year-end.

Liquidity and Capital Resources

The Company's cash flows for 2001 and 2000 are summarized as follows:

$ thousands		2001	2000	Change
Cash flow (used for) provided by operations	$	**(2,390)**	2,053	(4,443)
Cash flow (used for) provided by financing activities		**(18,800)**	1,978	(20,778)
Cash flow provided by (used for) investing activities		**18,523**	(1,341)	19,864
Cash of properties sold during the year		**(792)**	—	(792)
Increase (decrease) in cash	$	**(3,459)**	2,690	(6,149)

In the normal course of business the Company has capital requirements to repay the principal portion of debt and to finance capital expenditures in its hotel properties. In the long term these requirements must be funded from operations or new capital such as equity or increased borrowings. In 2001, operations absorbed $2.4 million whilst $19.4 million (net) was provided from the sale of assets.

A total of $3.5 million (2001 – $17.9 million) of principal repayments on long-term debt become due during 2002. In addition the Company has a credit facility of $4.0 million (of which $2.0 million was utilized at the year-end) which must be repaid during 2002. The Company intends to repay this debt from cash flow from operations and the expected sale of the remaining one-third share in the Holiday Inn.

The Company does not have any plans for major renovations at any of its properties during 2002.

Risk Management

The Company faces several areas of risk. These are summarized below, along with management's approach to mitigating these risks.

Hospitality Industry

The Company's hotel properties are subject to the normal operating risks common to the hotel industry, including seasonal and cyclical business fluctuations.

Approximately 60% of the Company's annual revenues are generated in the second and third quarters. Management of the individual hotel properties are aware of the seasonal nature of their own markets, and sales initiatives are planned to offset times of low demand as required. These seasonal factors should be considered when reviewing the Company's quarterly operating results.

The hotel industry has, historically, been subject to significant economic cycles. Industry reports indicate that the hotel industry in Canada is operating in a weak economic environment, although performance indicators suggest a recovery is underway. A stronger market which should allow for continued improvements in the occupancy levels and average room rates at the Company's properties. Economic risk can be further mitigated by limiting reliance on one particular market, a policy actively pursued by management during the year through the divestment of interests in two of its five properties in the Greater Vancouver area.

Interest Rate Risk

Interest rate volatility in the marketplace cannot be predicted with certainty. At December 31, 2000, 75% of the Company's long-term debt was charged interest at rates based on the bank's prime rate, which may be subject to change at short notice. At December 31, 2001 this exposure had been reduced to 65% through the repayment of floating rate loans on sale of assets, and the refinancing of a facility from floating to fixed rate. Increases in the bank's prime rate

Management's Discussion and Analysis

would have a negative impact on the Company's future operating results by virtue of higher interest expense. The Company generally has the right to convert floating rate debt to fixed rate debt at its option, which helps mitigate the impact of prospective increases in the bank's prime rate.

Labour Risk

As at December 31, 2001, the Company employed 788 full and part-time employees at its properties. Approximately 79% of the Company's employees are represented by labour unions. Labour relations with these unions are governed by four collective agreements which expire at various times between May 31, 2002 and June 30, 2003.

During the summer of 2000 a strike by members of the Hotel, Restaurant and Culinary Employees, Bartenders Union, Local 40 severely impacted two of the Company's hotel properties in the Greater Vancouver market. While the employees returned to work at the end of July 2000 the effects of the strike had a longer-term effect on hotel business and operations.

There can be no assurance that the Company will not experience further job action including strikes and / or labour stoppages, or any other type of conflict with unions and employees, which could have a material adverse effect on the Company's business, operating results and financial condition.

The Company believes its labour relations are good and management does not anticipate any events which may significantly impact the day-to-day operations of its hotel properties.

Environmental Risk

Under various federal and provincial laws and regulations, a current or previous owner of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances that could be located on, in or under such property. Such laws and regulations may impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. The costs of any required remediation or removal of these substances could be material and the liability of an owner as to any property is generally not limited under such laws and regulations and could exceed the property's value and the aggregate assets of the owner.

The presence of hazardous or toxic substances, or the failure to remediate such substances properly, may also adversely affect the owner's ability to sell the property, or to borrow using the property as collateral. In connection with the ownership and operation of its properties the Company could be liable for these remediation costs, as well as other costs such as governmental fines or compensation for personal injury. As a result, the presence, with or without the Company's knowledge, of hazardous or toxic substances at any property owned by the Company could have an adverse effect on the Company's business, operating results and financial condition.

The Company conducts Phase I environmental assessments and, where indicated, Phase II environmental assessments on any property it is considering acquiring prior to acquisition. The results of these assessments have disclosed no material remediation or other expenditure requirements. Minor mitigation and remediation measures have been performed. The assessments did disclose the presence of asbestos at four properties acquired by the Company. The reports concluded that no remedial action would be required unless renovations were undertaken that would disturb the asbestos. The Company has no plans to renovate the relevant properties at present, and if any renovations are made they will be conducted in compliance with applicable environmental regulations.

Management's Responsibility for Financial Reporting

The consolidated financial statements of Allied Hotel Properties Inc. have been prepared by management and approved by the Board of Directors. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are properly safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control through the Audit Committee. This Committee reviews the consolidated financial statements and reports to the Board of Directors.

The Committee meets with the external auditors, without management present at the election of the auditor, to discuss the results of the audit, the adequacy of internal accounting controls and financial reporting matters.

The Company's independent auditors, KPMG LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report follows.

Ronald G. Erdman
President and Chief
Executive Officer

John R. Ellen, CA
Vice-President and
Chief Financial Officer

Auditors' Report to The Shareholders

We have audited the consolidated balance sheets of Allied Hotel Properties Inc. as at December 31, 2001 and 2000 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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 the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Vancouver, Canada
February 22, 2002

Consolidated Balance Sheets

December 31, 2001 and 2000		$ thousands	2001	2000
Assets				
CURRENT ASSETS:	Cash and cash equivalents	$	**179**	3,638
	Accounts receivable		**2,281**	2,846
	Due from affiliated company **(note 4)**		**72**	—
	Inventories		**482**	799
	Prepaid expenses		**506**	276
	Future income taxes **(note 12)**		**74**	488
	Land held for resale		**—**	11,326
			3,594	19,373
Income-producing properties **(note 5)**			**118,059**	174,432
Investments **(note 6)**			**916**	1,319
Deferred costs, net of amortization **(note 7)**			**390**	1,454
Future income taxes **(note 12)**			**4,566**	2,828
			127,525	199,406
Liabilities and Shareholders' Equity				
CURRENT LIABILITIES:	Accounts payable and accrued liabilities		**12,749**	15,441
	Current portion of deferred revenue		**254**	216
	Current portion of long-term debt		**3,532**	17,853
	Current portion of capital lease obligation		**444**	482
			16,979	33,992
Deferred revenue			**2,212**	1,799
Long-term debt **(note 8)**			**96,623**	133,458
Capital lease obligation **(note 9)**			**557**	894
Due to affiliated companies **(note 10)**			**—**	13,279
Non-controlling interest			**819**	5,053
			117,190	188,475
SHAREHOLDERS' EQUITY:	Share capital **(note 11)**		**29,868**	29,868
	Deficit		**(19,533)**	(18,937)
			10,335	10,931
		$	**127,525**	199,406

Commitments and contingencies (notes 6 and 15)

Subsequent event (note 6(b))

See accompanying notes to consolidated financial statements.

Director
Peter Y.L. Eng

Director
Ronald G. Erdman

Consolidated Statements of Operations

Years ended December 31, 2001 and 2000	$ thousands, except per share amounts		2001	2000
REVENUES:	Rooms	$	**46,352**	51,470
	Food and beverage		**19,880**	20,721
	Other **(note 14)**		**4,906**	4,955
			71,138	77,146
COST OF SALES:	Rooms		**14,842**	16,657
	Food and beverage		**17,101**	18,347
	Other		**1,774**	1,557
			33,717	36,561
Gross profit			**37,421**	40,585
OPERATING EXPENSES:	Selling, general and administrative **(note 14)**		**22,707**	22,601
	Management fees **(note 14)**		**1,617**	1,731
	Taxes and insurance		**4,787**	5,713
	Depreciation and amortization		**5,458**	5,506
			34,569	35,551
Operating income			**2,852**	5,034
OTHER EXPENSES (INCOME):	Interest on long term debt		**9,527**	11,304
	Other interest **(note 14)**		**1,860**	2,054
	Equity in loss (income) of investees		**(223)**	40
	Provision for diminution in value of income-producing property **(note 2(f))**		**8,400**	—
	Gain on sale of income-producing property **(note 6(b))**		**(9,625)**	—
	Gain on sale of land held for resale		**(152)**	—
	Provision for diminution in value of land held for resale		**—**	2,474
			9,787	15,872
Loss before income taxes and non-controlling interest			**6,935**	10,838
INCOME TAXES (RECOVERY):	Current		**172**	(44)
	Future **(note 12)**		**1,444**	(1,264)
			1,616	(1,308)
Loss before non-controlling interest			**8,551**	9,530
Non-controlling interest			**(1,501)**	(931)
Loss for the year			**7,050**	8,599
Basic and diluted loss per share **(note 2(l))**		$	**0.07**	0.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Deficit

Years ended December 31, 2001 and 2000	$ thousands	2001	2000
Deficit, beginning of year	$	**18,937**	10,338
Loss for the year		**7,050**	8,599
Deemed contribution by related party **(note 3)**		**(4,250)**	—
Deemed contribution by related party **(note 2(b))**		**(2,204)**	—
Deficit, end of year	$	**19,533**	18,937

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000		$ thousands	**2001**	2000
CASH PROVIDED BY (USED IN):				
OPERATIONS:	Loss for the year	$	**(7,050)**	(8,599)
	ITEMS NOT INVOLVING CASH:			
	Depreciation and amortization		**5,458**	5,506
	Gain on sale of income-producing property		**(9,625)**	—
	Gain on sale of land held for resale		**(152)**	—
	Future income taxes		**1,444**	(1,264)
	Non-controlling interest		**(1,501)**	(931)
	Equity in (income) loss of investees		**(223)**	40
	Amortization of deferred revenue		**(172)**	(227)
	Amortization of deferred foreign exchange loss		**225**	55
	Provision for diminution in value of income-producing property		**8,400**	—
	Provision for diminution in value of land held for resale		**—**	2,474
	Funds from operations		**(3,196)**	(2,946)
	Changes in non-cash operating working capital **(note 13)**		**806**	4,999
			(2,390)	2,053
INVESTMENTS:	Additions to income-producing properties		**(747)**	(1,044)
	Net proceeds from sale of income-producing property		**7,927**	—
	Net proceeds from sale of land held for resale		**11,479**	—
	Increase in deferred costs		**(136)**	(297)
			18,523	(1,341)
FINANCING:	Proceeds from long-term debt		**10,000**	2,400
	Principal repayments on long-term debt		**(24,733)**	(7,272)
	(Decrease) increase in due to affiliated companies		**(4,387)**	7,000
	Increase in due from affiliated companies		**(72)**	—
	Repayment of obligations under capital leases		**(516)**	(371)
	Increase in deferred revenue		**623**	82
	Payments received from non-controlling interest		**285**	139
			(18,800)	1,978
Cash of income-producing properties' operations on date of sale			**(792)**	—
Increase (decrease) in cash and cash equivalents			**(3,459)**	2,690
Cash and cash equivalents, beginning of year			**3,638**	948
Cash and cash equivalents, end of year		$	**179**	3,638

Cash and cash equivalents are defined as cash less bank indebtedness.

Supplementary information (note 13)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

$ thousands, except per share amounts

1. Operations:

Allied Hotel Properties Inc. (the "Company"), was incorporated in 1982. The primary business activity of the Company is hotel and real estate acquisition, holding and management.

2. Significant accounting policies:

(A) GENERAL:

The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

(B) BASIS OF PRESENTATION:

The consolidated financial statements include the accounts and results of operations of the Company; its principal wholly-owned subsidiaries; Allied Don Valley Hotel Inc. ("ADVHI"); Harbourview Towers Enterprises Ltd. ("Harbourview"); Chateau Lacombe Hotel Ltd. ("CLHL"); and its 62% interest in Allied Hotels Inc. ("AHI"). All material intercompany transactions and balances have been eliminated.

On August 31, 2001, the Company sold a two-thirds interest in 1110 Howe Holdings Inc. ("Holiday Inn Vancouver Downtown Hotel"). The results of operations and cash flows of the Holiday Inn Vancouver Downtown Hotel are included in the consolidated financial statements for the period ended August 31, 2001. Thereafter, the remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel has been accounted for using the equity method (note 6(b)).

On December 27, 2001, the Company sold its 65.2% in Conference Plaza Hotel Enterprises Ltd. ("CPHEL"). The results of the operations and cash flows of CPHEL are included in the consolidated financial statements for the period ended December 27, 2001. As the sale was made to a related party, the difference between the consideration received and the carrying values of the net assets sold has been credited to equity as a deemed contribution by related party.

(C) CASH EQUIVALENTS:

The Company considers all highly liquid investments with terms to maturity of three months or less when acquired to be cash equivalents.

(D) INVENTORIES:

Inventories, which consist of food, beverage and supplies, are valued at the lower of cost, as determined on a first in, first out basis, and replacement cost.

(E) LAND HELD FOR RESALE:

Land held for resale is recorded at the lower of cost and net realizable value. Land held for resale which is acquired with the intent, on acquisition, of selling the property within the next business cycle is classified as a current asset. Related long-term debt is classified as a current liability.

(F) INCOME-PRODUCING PROPERTIES:

Land, buildings, furniture, fixtures and equipment and equipment under capital lease are carried at the lower of cost and net recoverable amount. For the year ended December 31, 2001 the Company has recorded a provision of $8,400 (2000 – nil) for diminution in the value of an income-producing property. Depreciation is provided over the estimated useful lives of the assets, commencing the date the assets are available for use, as follows:

Asset	Basis	Estimated Useful Life
Buildings	Sinking fund	35 – 40 years
Furniture, fixtures and equipment	Straight-line	3 – 5 years
Equipment under capital lease	Straight-line	3 – 5 years

Under the sinking fund method, an annually increasing amount consisting of a fixed annual sum together with interest compounded at a rate of 5% per annum is charged to income over the estimated useful life of the building.

(G) INVESTMENTS:

The Company's investments in entities subject to significant influence are accounted for in these financial statements by the equity method. Under the equity method, the original cost of the investment is adjusted for the Company's share of post-acquisition earnings or losses, less dividends.

(H) DEFERRED COSTS:

Deferred license and franchise fees relate to application fees paid to the franchisor of certain hotel properties. These fees are being amortized on a straight-line basis over the terms of the franchise agreements.

Deferred pre-opening costs include salaries, sales and marketing and other general and administrative costs, net of incidental revenue. These costs are being amortized on a straight-line basis over a term of five years.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

$ thousands, except per share amounts

(I) DEFERRED REVENUE AND REVENUE RECOGNITION:

Revenues from hotel and parking operations are recognized when services are provided. Franchise enhancement fees received from the franchisor are deferred and amortized over the term of the related franchise agreement. Revenues received in advance of satisfaction of these criteria are deferred until future periods.

(J) FOREIGN CURRENCY:

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Foreign exchange gains and losses are included in income.

(K) USE OF ESTIMATES:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recognized amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In determining estimates of net recoverable amounts for its income-producing properties, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated net recoverable amounts could change and, potentially, by a material amount.

(L) PER SHARE INFORMATION:

Effective January 1, 2001, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to earnings per share. After giving retroactive application of the new standard and recalculating the earnings per share amounts of the prior period, the previously reported amounts are unchanged.

Basic per share amounts have been calculated based on the weighted average number of shares outstanding during the year.

	2001	2000
Weighted average number of common shares outstanding	**106,327,268**	106,246,099

(M) STATEMENTS OF CASH FLOWS:

The Company has adopted the indirect method of reporting cash flows, under which the net cash flow from operating activities is reported by adjusting net earnings for the effects of non-cash items and net changes in non-cash working capital balances.

(N) FUTURE INCOME TAXES:

The Company uses the asset and liability method of accounting for incomes taxes. Under such method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statements carrying amounts of existing assets and liabilities and their respective taxes bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date.

(O) COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

3. Deemed contribution by related party:

Effective April 30, 1998, the Company acquired a 90% undivided interest in the business assets related to the Crowne Plaza Hotel Georgia. The acquisition was, for accounting purposes, considered to be a related party transaction as the predecessor owner of the property and the Company were subject to common control. On acquisition, the property was recorded at the carrying value in the predecessor owners' accounts with the difference between the consideration given and the carrying values of the net assets acquired reflected in equity. This transaction resulted, inter alia, in a promissory note issued by the Company at $5,650 in favour of the affiliated company and a deemed distribution to related parties of $6,703.

In May 2001, and further to certain events contemplated in the original purchase agreement, the value assigned to the 90% undivided interest in the business assets related to the Crowne Plaza Hotel Georgia was reduced by $4,250, and the promissory note issued on acquisition was reduced accordingly. The amount of $4,250 has been credited to equity as a deemed contribution by related party.

4. Due from affiliated company:

The amount due from Allied Holdings Ltd. ("Holdings"), the ultimate parent company, is unsecured, due on demand and bears interest at a rate of prime plus 0.75% per annum.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 **$ thousands, except per share amounts**

5. Income-producing properties:

		Cost	Accumulated depreciation	**2001** Net book value
Land	$	**36,541**	**—**	**36,541**
Buildings		**83,368**	**7,131**	**76,237**
Furniture, fixtures and equipment		**12,056**	**7,457**	**4,599**
Equipment under capital lease		**2,256**	**1,574**	**682**
	$	**134,221**	**16,162**	**118,059**

		Cost	Accumulated depreciation	2000 Net book value
Land	$	50,310	—	50,310
Buildings		116,570	2,924	113,646
Furniture, fixtures and equipment		18,259	8,841	9,418
Equipment under capital lease		2,156	1,098	1,058
	$	187,295	12,863	174,432

6. Investments:

The Company's investments and advances comprised the following:

		% interest	**2001**	2000
Vancouver Airport Property:		26.67%		
INTEREST, AT CARRYING VALUE				
Beginning of year	$		**1,405**	1,405
Acquired during year			**815**	—
End of year			**2,220**	1,405
SHARE OF EARNINGS				
Beginning of year			**(86)**	(46)
Net income (loss)			**298**	(40)
End of year			**212**	(86)
Investment in Vancouver Airport Property			**2,432**	1,319
Holiday Inn Vancouver Downtown Hotel:		33.33%		
INTEREST, AT CARRYING VALUE				
Beginning of year			**—**	—
Acquired during year			**(1,441)**	—
End of year			**(1,441)**	—
SHARE OF EARNINGS				
Beginning of year			**—**	—
Net loss			**(75)**	—
End of year			**(75)**	—
Investment in Holiday Inn Vancouver Downtown Hotel			**(1,516)**	—
	$		**916**	1,319

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 **$ thousands, except per share amounts**

6. Investments (continued):

(A) VANCOUVER AIRPORT PROPERTY:

In the third quarter of 2001, the Company acquired an additional 3.03% interest in Allied Hotels (1992) Inc. ("Allied (92)"), and Allied Hotels (1992) Trust ("Allied (92) Trust"), thereby increasing its interest to 26.67% in each. Allied (92) and Allied (92) Trust together are the owners of the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (collectively the "Vancouver Airport Property").

In the third quarter of 2001, Allied (92) completed a restructuring, the effect of which was to reclassify certain amounts of share capital as notes payable. A portion of the Company's investment in Allied (92), which was previously represented by ownership of common shares, is now represented by ownership of a note receivable. This restructuring by Allied (92) does not change the substance of the Company's investment therein, and the note receivable continues to be classified as an investment.

The Company has unconditionally guaranteed the indebtedness of Vancouver Airport Property, to a maximum amount of $3,475.

Summarized information of the Vancouver Airport Property is as follows:

		2001	2000
Current assets	$	**118**	51
Income-producing property		**34,118**	35,132
Other assets		**3,612**	2,400
		37,848	37,583
Current liabilities		**1,512**	1,342
Long-term debt		**30,370**	31,453
Notes payable		**5,500**	—
Equity		**466**	4,788
		37,848	37,583
Revenue		**5,275**	4,991
Expenses		**4,098**	5,160
Net income (loss)	$	**1,177**	(169)

(B) HOLIDAY INN VANCOUVER DOWNTOWN HOTEL:

Effective August 31, 2001, the Company sold a two-thirds interest in the Holiday Inn Vancouver Downtown Hotel resulting in a gain of $9,625. Prior to that date, the results of operations and cash flows of the Holiday Inn Vancouver Downtown Hotel were included in the consolidated financial statements. Subsequent to that date, the Company's one-third interest in the results of operations is accounted for as an equity accounted investee.

The Company has unconditionally guaranteed the indebtedness of the Holiday Inn Vancouver Downtown Hotel. At December 31, 2001, the indebtedness of Holiday Inn Vancouver Downtown Hotel amounted to $15,708.

Subsequent to the year end, the purchaser of the two-thirds interest in the Holiday Inn Vancouver Downtown Hotel served notice on the Company of its intention to exercise an option to acquire the remaining one-third interest. The transaction will result in a gain on sale which will be recognized in 2002 when the proceeds are received.

7. Deferred costs:

		2001	2000
License and franchise fees	$	**390**	424
Deposits		**—**	680
Pre-opening costs		**—**	253
Foreign exchange loss		**—**	97
	$	**390**	1,454

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

$ thousands, except per share amounts

8. Long-term debt:

	2001	2000
Demand loans bearing interest at rates ranging from prime plus 0.75% to prime plus 1% per annum, repayable in equal monthly blended instalments of principal and interest aggregating $471 (2000 – $967) and due in 2003.	**64,695**	108,076
Mortgage payable bearing interest at 6.625% per annum, repayable in blended monthly instalments of $153 (2000 – $153), secured by a first charge on a property and due in 2003.	**21,055**	21,486
Demand loan bearing interest at 9% per annum, repayable in blended monthly payments of principal and interest of $90, due March 1, 2006.	**9,860**	—
Note payable in the amount of $2,336 (US$1,467) (2000 – $2,537 (US$1,687)) bearing interest at 10% per annum. Equal principal payments of US$18 (2000 – US$18) and interest on the unpaid portion are due monthly, with the balance due in 2003.	**2,336**	2,537
Notes payable of which $1,594 (2000 – $1,750) is non-interest bearing and the remainder bears interest at 9% per annum. The notes require monthly principal and interest payments aggregating $20, due in 2012.	**2,209**	2,400
Bank loan, bearing interest at 7.615% per annum, secured by a first charge on a property.	**—**	11,812
Mortgage payable, bearing interest at prime plus 2% per annum, secured by land held for resale.	**—**	5,000
	100,155	151,311
Less: current portion	**3,532**	17,853
$	**96,623**	133,458

Interest on the demand loans is calculated, at the Company's option, at either a rate ranging from the bank's prime to the bank's prime rate plus 0.75% to 1% per annum or a rate based on the bank's fixed cost of funds plus 1.6% to 2.25% per annum.

The floating rate demand loans are secured by four mortgages aggregating $154,000 creating a first fixed financial charge over certain income-producing properties; unlimited guarantees executed by the Company; a debt service agreement executed by Holdings and ReUnion Properties Inc. ("ReUnion") limiting each to 50% of certain floating rate demand loans totalling $64,695; a guarantee executed by Holdings and ReUnion limiting each to $40,892 of the indebtedness; hypothecation and pledge by ReUnion of its shares of the Company; and personal guarantees limited to $5,512 executed by two significant shareholders of Holdings. Holdings and ReUnion are related to the Company by virtue of common control.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

$ thousands, except per share amounts

8. Long-term debt (continued):

Under the terms of the facility letter governing two of the demand loans, the net operating income of three hotels and the net operating income after primary debt service of a fourth hotel, is required to be not less than 1.10 times debt service for any twelve month period ending on or after November 30, 2001, and not less than 1.20 times debt service for any twelve month period ending on or after December 31, 2002.

The fixed rate demand loan is secured by a mortgage aggregating $10,000 creating a first fixed financial charge over certain income-producing properties; a guarantee executed by the Company; and a guarantee by Holdings.

The Company has available $700 in overdraft credit facilities which bear interest at prime plus 0.75% over a period beyond one year. In addition, the Company has available $4,000 in overdraft credit facilities which bear interest at prime plus 1% and is repayable by August 31, 2002. At December 31, 2001, the Company had utilized $2,037 of this facility.

Although certain of the long-term debt is repayable on demand, under the loan agreements the Company is required to make periodic payments over a period beyond one year. Consequently, the loans are classified as long-term liabilities.

Principal repayments over the next five years are as follows:

Years ending December 31:		
2002	$	3,532
2003		85,363
2004		445
2005		475
2006		9,127

9. Capital lease obligation:

The future minimum lease payments under capital lease obligations are as follows:

Years ending December 31:		
2002	$	523
2003		348
2004		227
2005		37
2006		2
Total minimum lease payments		1,137
Amount representing interest ranging from 9.0% to 13.8%		136
		1,001
Current portion		444
	$	557

10. Due to affiliated companies:

		2001	2000
DUE TO:			
Holdings	$	—	12,978
Delta Hotels Limited ("Delta")		—	150
Other		—	151
	$	—	13,279

The amount due to Holdings was unsecured, due on demand, and bore interest at a rate of prime plus 0.75% per annum.

Delta was the manager of two of the Company's hotels. Amounts due to Delta and other amounts due to affiliated companies were unsecured, due on demand and non-interest bearing.

11. Share capital:

(A) AUTHORIZED:

The authorized capital of the Company at December 31, 2001 consisted of an unlimited number of common shares without par value.

(B) ISSUED AND OUTSTANDING:

	Number of shares		Amount
Balance, December 31, 2001 and 2000	106,327,268	$	29,868

(C) STOCK OPTIONS:

The Company's stock option plan was cancelled during the year, with the consent of the optionees. At December 31, 2001, there were no options outstanding entitling anyone to acquire common shares in the Company.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 **$ thousands, except per share amounts**

11. Share capital (continued):

(C) STOCK OPTIONS:

The following table summarizes the status of the stock option plans:

	2001 Stock options outstanding	**2001 Weighted average exercise price**	2000 Stock options outstanding	2000 Weighted average exercise price
Outstanding, January 1	**8,700,000**	**$ 0.80**	8,700,000	$ 0.80
Granted	**—**	**—**	—	—
Exercised	**—**	**—**	—	—
Cancelled	**(8,700,000)**	**0.80**	—	—
Outstanding, December 31	**—**	**—**	8,700,000	0.80
Exercisable, December 31	**—**	**$ —**	1,740,000	$ 0.80

12. Income taxes:

(A) Income tax expense (recovery), including current and future portions, varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating 44.60% (2000 – 45.62%) to loss before income taxes and non-controlling interest, as shown in the following table:

		2001	2000
Basic rate applied to loss before income taxes and non-controlling interest	$	**(3,093)**	(4,945)
Change in valuation allowance		**4,880**	2,337
Permanent difference relating to gain on sale of income-producing property		**(2,919)**	—
Reversal of temporary differences		**2,459**	902
Adjustment for enacted and substantively enacted changes in tax rates		**196**	511
Large corporations tax		**93**	187
Benefits of losses carried back to prior years		**—**	(300)
Income tax expense (recovery)	$	**1,616**	(1,308)

(B) The tax effects of temporary differences that give rise to significant portions of future tax assets and future tax liabilities at December 31, 2001 are presented below:

			2001	2000
Future tax assets:	Non-capital loss carry forwards	$	**4,907**	5,574
	Share issue and financing costs		**823**	1,044
	Income-producing properties		**7,237**	3,174
	Land held for resale		**—**	502
	Long-term obligations		**902**	863
	Other		**754**	140
Total gross future tax assets			**14,623**	11,297
Valuation allowance			**(9,155)**	(4,362)
Future tax assets, net of valuation allowance		$	**5,468**	6,935

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 **$ thousands, except per share amounts**

12. Income taxes (continued):

			2001	2000
FUTURE TAX LIABILITIES:	Income-producing properties	$	**730**	3,337
	Deferred costs		**6**	260
	Other		**92**	22
Gross future tax liabilities			**828**	3,619
Net future tax assets		$	**4,640**	3,316
CLASSIFIED AS:	Future income tax assets			
	Current		**74**	488
	Non-current		**4,566**	2,828
		$	**4,640**	3,316

(C) At December 31, 2001, the Company has non-capital losses of approximately $10,556 (2000 – $13,729) able to be carried forward to reduce income taxes otherwise payable until the year ending December 31, 2008. No future income tax benefit on $4,005 (2000 – $6,600) of these losses, or temporary differences of approximately $10,086 (2000 – $4,150), has been recognized in the financial statements.

13. Supplementary information:

Changes in non-cash operating working capital consist of the following:

		2001	2000
Accounts receivable	$	**(271)**	(15)
Inventories		**95**	234
Prepaid expenses		**(319)**	174
Accounts payable and accrued liabilities		**1,301**	4,606
	$	**806**	4,999

Supplementary disclosures related to the statements of cash flows consist of the following:

			2001	2000
SUPPLEMENTARY INFORMATION:				
	Interest paid	$	**11,201**	12,376
	Taxes paid		**295**	170
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
	Acquisition of equipment under capital lease		**239**	172
	Reduction in note payable to affiliated company		**4,250**	—
CARRYING VALUE OF CPHEL AND HOLIDAY INN VANCOUVER DOWNTOWN HOTEL'S NET ASSETS AT THE DATE OF SALE:				
	Cash		**792**	—
	Non-cash working capital deficiency		**(2,847)**	—
	Income-producing properties		**43,655**	—
	Other assets		**133**	—
	Long-term debt		**(36,649)**	—
	Future income taxes		**(2,767)**	—
	Due to affiliated companies		**(4,642)**	—
	Non-controlling interest		**(3,018)**	—
		$	**(5,343)**	—

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

$ thousands, except per share amounts

13. Supplementary information (continued):

	2001	2000
One-third interest in Holiday Inn Vancouver Downtown Hotel retained, at carrying value	$ **1,441**	—
Net carrying value of income-producing properties sold during the year	**(3,902)**	—
Issuance of common shares in connection with an acquisition	$ **—**	189

14. Related party transactions:

In addition to note 2(b), the Company had the following transactions with related parties during the year:

	2001	2000
INTEREST EXPENSE:		
Holdings	$ **695**	698
LOAN GUARANTEE FEES:		
Holdings, or its directors	**106**	293
MANAGEMENT FEE INCOME:		
Allied (92)	**—**	70
RENT EXPENSE:		
New World Equities Inc. ("New World")	**77**	69
CONSULTING FEES:		
Director	**60**	60

New World is related by virtue of common control by Holdings, the ultimate parent company. Interest expense is included in other interest. Loan guarantee fees, rent expense and consulting fees are recorded as selling, general and administrative expense. Management fee income is recorded as other income.

15. Commitments and contingencies:

(A) The Company has entered into franchise agreements to operate four hotels under international brands. Under these agreements the Company is charged certain amounts based on a percentage of gross room revenue, as defined, for royalties, marketing and reservations. In addition, the Company is charged a monthly fee per room for other services provided.

(B) The Company has entered into management agreements with a third party manager, to operate an income-producing property for management fees aggregating approximately $31 per month. This agreement expires February 28, 2003.

(C) The Company has entered into a management agreement with Northwest Lodging International (Canada) Inc. under which the Company is charged amounts based on percentage of hotel gross revenue, as defined, and certain incentive fees based on hotel operating performance. Under these agreements, the Company is also charged for marketing and reservation expenses. The agreement expires on December 31, 2015.

16. Financial instruments:

(A) FAIR VALUE:

The Company's financial instruments include cash and cash equivalents, accounts receivable, due from affiliated company, accounts payable and accrued liabilities, long-term debt and capital lease obligations. The carrying values of cash and cash equivalents, accounts receivable, due from affiliated company, accounts payable and accrued liabilities and capital lease obligations approximate their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of long-term debt is based on management estimates for mortgages which are determined by discounting cash flows required under the mortgages at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair value of the Company's long-term debt as at December 31, 2001 is not significantly different than its carrying value.

(B) INTEREST RATE RISK:

As described in note 8, a substantial portion of the Company's long-term debt bears interest at floating rates. Fluctuations in these rates will impact the cost of financing incurred in the future.

(C) CREDIT RISK:

Due to the nature of the hotel business, the Company does not face any significant credit risk and there are no concentrations of credit risk.

17. Segment disclosures:

Management has determined that the Company's operating segments consist of the various hotel operations which form a single reportable segment, hotel operations.

Corporate Information

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Annual Meeting of Shareholders
Tuesday, June 11, 2002 10:00 a.m
The Queen Anne Room, Crowne Plaza Hotel Georgia

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Ronald G. Erdman (2)
President and Chief Executive Officer

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Designed and produced by parallelvancouver

Allied Hotel Properties Inc

Printed in Canada