QUARTERLY REPORT

FORM 51-901F

ISSUER DETAILS NAME OF ISSUER	FOR QUARTER ENDED	DATE OF REPORT Y M D
Allied Hotel Properties Inc.	December 31, 2002	03 05 14

ISSUER'S ADDRESS
Suite 300 – 515 West Pender Street

CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.
Vancouver	B.C.	V6B 6H5	604-682-8131	604-669-5335

CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
John R. Ellen, C.A.	Chief Financial Officer	604-682-2533 x 160

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john_ellen@alliedhotels.com	www.alliedhotels.com

CERTIFICATE

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Peter Y.L. Eng" (signed)	Peter Y.L. Eng	03 05 14
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Ronald G. Erdman" (signed)	Ronald G. Erdman	03 05 14

Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Years ended December 31, 2002 and 2001

KPMG LLP
Chartered Accountants
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Vancouver BC V7Y 1K3
Canada

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Allied Hotel Properties Inc. as at December 31, 2002 and 2001 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

February 28, 2003, except as to note 9, which is as of April 16, 2003

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
December 31, 2002 and 2001
(in thousands of dollars)

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$ -	$ 179
Accounts receivable	1,740	2,281
Due from affiliated company	-	72
Inventories	448	482
Prepaid expenses	628	506
Future income taxes (note 12)	356	74
	3,172	3,594
Income-producing properties (note 5)	110,676	118,059
Investments (note 6)	2,577	916
Deferred costs, net of amortization	386	390
Future income taxes (note 12)	2,645	4,566
	$ 119,456	$ 127,525
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ 2,092	$ -
Accounts payable and accrued liabilities	11,995	12,749
Deferred gain (note 6)	4,222	-
Deferred revenue	267	254
Long-term debt (note 9)	22,788	3,532
Due to related parties (note 10)	1,019	-
Capital lease obligation (note 8)	386	444
Long-term demand loans (note 7)	71,788	-
	114,557	16,979
Deferred revenue	2,029	2,212
Capital lease obligation (note 8)	292	557
Long-term debt (note 9)	1,818	96,623
Non-controlling interest	-	819
	118,696	117,190
Shareholders' equity:		
Share capital (note 11)	29,868	29,868
Deficit	(29,108)	(19,533)
	760	10,335
	$ 119,456	$ 127,525

Future operations (note 1)
Commitments and contingencies (notes 6 and 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Peter Y.L. Eng" (signed) Director
Peter Y.L. Eng

"Ronald G. Erdman" (signed) Director
Ronald G. Erdman

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Operations
Years ended December 31, 2002 and 2001
(in thousands of dollars)

	2002	2001
Revenues:		
Rooms	$ 31,488	$ 46,352
Food and beverage	16,314	19,880
Other (note 14)	4,730	4,906
	52,532	71,138
Cost of sales:		
Rooms	10,128	14,842
Food and beverage	13,853	17,101
Other	1,645	1,774
	25,626	33,717
Gross profit	26,906	37,421
Operating expenses:		
Selling, general and administrative (note 14)	16,360	22,707
Management fees (note 14)	1,012	1,617
Taxes and insurance	3,574	4,787
Depreciation and amortization	3,392	5,458
	24,338	34,569
Operating income	2,568	2,852
Other expenses (income):		
Interest on long-term demand loans and debt	5,660	9,527
Other interest (note 14)	845	1,860
Equity in income of investees	(264)	(223)
Provision for diminution in value of income-producing property (note 2(e))	5,000	8,400
Gain on sale of income producing property (note 6(b))	-	(9,625)
Gain on sale of land held for resale	-	(152)
	11,241	9,787
Loss before income taxes and non-controlling interest	8,673	6,935
Income taxes:		
Current	83	172
Future (note 12)	1,638	1,444
	1,721	1,616
Loss before non-controlling interest	10,394	8,551
Non-controlling interest	(819)	(1,501)
Loss for the year	$ 9,575	$ 7,050
Basic and diluted loss per share (note 2(k))	$ 0.09	$ 0.07

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Deficit
Years ended December 31, 2002 and 2001
(in thousands of dollars)

		2002		2001
Deficit, beginning of year	$	19,533	$	18,937
Loss for the year		9,575		7,050
Deemed contribution by related party (note 4)		-		(4,250)
Deemed contribution by related party (note 2(b))		-		(2,204)
Deficit, end of year	$	29,108	$	19,533

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2002 and 2001
(in thousands of dollars)

	2002	2001
Cash provided by (used in):		
Operations:		
Loss for the year	$ (9,575)	$ (7,050)
Items not involving cash:		
Depreciation and amortization	3,392	5,458
Provision for diminution in value of income-producing property	5,000	8,400
Future income taxes	1,638	1,444
Non-controlling interest	(819)	(1,501)
Equity income of investees	(264)	(223)
Amortization of deferred revenue	(170)	(172)
Gain on sale of income-producing property	-	(9,625)
Gain on sale of land held for resale	-	(152)
Amortization of deferred foreign exchange loss	-	225
Funds from operations	(798)	(3,196)
Changes in non-cash operating working capital (note 13)	(301)	806
	(1,099)	(2,390)
Investments:		
Additions to income-producing properties	(902)	(747)
Net proceeds from sale of income-producing property	2,730	7,927
Distribution from equity accounted investee	96	-
Net proceeds from sale of land held for resale	-	11,479
Increase in deferred costs	(30)	(136)
	1,894	18,523
Financing:		
Proceeds from long-term debt	-	10,000
Principal repayments on long-term debt	(994)	(24,733)
Principal repayments on long-term demand loans	(2,767)	-
Increase (decrease) in due to related parties	1,019	(4,387)
Decrease (increase) in due from affiliated company	72	(72)
Repayment of obligations under capital leases	(396)	(516)
Increase in deferred revenue	-	623
Payments received from non-controlling interest	-	285
	(3,066)	(18,800)
Cash of income-producing properties' operations on date of sale	-	(792)
Decrease in cash and cash equivalents	(2,271)	(3,459)
Cash and cash equivalents, beginning of year	179	3,638
Cash and cash equivalents, end of year	$ (2,092)	$ 179

Cash and cash equivalents are defined as cash less bank indebtedness.
Supplementary information (note 13)

See accompanying notes to consolidated financial statements.

1. Future 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.

The application of the going concern basis of presentation in accordance with Canadian generally accepted accounting principles assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements have been prepared on the going concern basis notwithstanding conditions which cast doubt on the Company's ability to continue in such a manner. At December 31, 2002, the Company had a working capital deficiency. In addition, the Company has experienced losses and negative cash flow from operations in 2002 and 2001. Further, based on management's current projections, the Company will likely experience a significant cash flow deficiency in the 2003 fiscal year.

The Company is subject to certain debt service ratio ("DSR") covenants pertaining to long-term demand loans (see note 7). At December 31, 2002 the Company was in compliance with such covenants. Based on management's current projections, the Company believes it is unlikely that it will remain in compliance with one of its financial covenants throughout 2003, unless it is modified. The Company's lender is aware of this potential breach of the DSR covenant. Although the Company expects the DSR covenant to be modified, if it is not, violation of the DSR covenant could result in a requirement to immediately repay a portion of the long-term demand loans sufficient to bring the Company into compliance with the DSR covenant.

Although the Company's majority shareholder has provided a pledge of continued financial support to the Company, there is no certainty such financial support will be sufficient to permit the Company to meet its liabilities and commitments as they become payable.

If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

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 Vancouver Airport Conference Resort Ltd. (formerly Allied Hotels Inc.) ("VACR"). All material intercompany transactions and balances have been eliminated.

(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(b) Basis of presentation (continued):

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 were 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 was accounted for using the equity method (note 6(b)).

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel. The Company's interest in the results of the operations for the period from January 1, 2002 to February 28, 2002 has been accounted for using the equity method (also see note 6(b)).

On December 27, 2001, the Company sold its 65.2% interest in Conference Plaza Hotel Enterprises Ltd. ("CPHEL"). The results of the operations and cash flows of CPHEL were included in the consolidated financial statements for the period ended December 27, 2001. As the sale was made to a related party, the difference of $2,204 between the consideration received and the carrying values of the net assets sold was 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) Income-producing properties:

Land, buildings, furniture, fixtures and equipment and equipment under capital lease are carried at the lower of cost less accumulated depreciation and net recoverable amount. For the year ended December 31, 2002 the Company recorded a provision of $5,000 (2001 - $8,400) 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.

2. Significant accounting policies (continued):

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(k) Per share information:

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

	2002	2001
Weighted average number of common shares outstanding	106,327,268	106,327,268

(l) Statements of cash flows:

The Company uses 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.

(m) 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.

(n) Comparative figures:

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

3. Change in accounting policy:

(a) Long-term debt/demand loans:

Effective January 1, 2002, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants (the “CICA”) Emerging Issues Committee Abstract of Issue Discussed entitled “Balance sheet classification of callable debt obligations and debt obligations expected to be refinanced” (”EIC-122”). EIC-122 requires debt obligations that, by their terms, are due on demand be classified as current liabilities in the balance sheet, even though liquidation of a portion of the obligation may not be expected to occur within one year. In accordance with EIC-122, the accounting treatment has been applied prospectively, and the balance sheet as at December 31, 2001 has not been restated.

3. Change in accounting policy (continued):

(b) Stock-based compensation:

Effective January 1, 2002, the Company adopted the new recommendations of the CICA in respect of Stock-based Compensation and Other Stock-based Payments. Under this new standard, stock-based compensation awards that can be settled in cash or other assets should be valued at fair market value at the grant date of the award and treated as compensation expense in the period in which the award is granted. The Company had no stock options outstanding during the period and, consequently, the implementation of this standard had no effect on the financial statements for the years ended December 31, 2002 or December 31, 2001.

(c) Business combinations, goodwill, and other intangible assets:

Effective January 1, 2002, the Company adopted the provision of Sections 1581 and 3062 of the CICA Handbook, dealing with Business Combinations and Goodwill & Other Intangible Assets, respectively (“Section 1581” and “Section 3062”). Under Section 1581, intangible assets acquired in a business combination should be identified and recognized apart from goodwill when they arise from either contractual or other legal rights or they can be separated from the acquired enterprise and sold, transferred, licensed, rented or exchanged, either individually or with a group of related assets or liabilities. Under Section 3062, goodwill and intangible assets having indefinite lives are not amortized and are tested for impairment at least annually. Intangible assets with definite lives are amortized over their estimated useful lives. The Company had no unamortized goodwill and, consequently, the implementation of the new standards had no effect on the financial statements for the years ended December 31, 2002 or December 31, 2001.

4. 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 $6,702.

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 was credited to equity as a deemed contribution by related party.

(in thousands of dollars, except per share amounts)

5. Income-producing properties:

			2002
	Cost	Accumulated depreciation	Net book value
Land	$ 36,541	$ -	$ 36,541
Buildings	83,570	13,017	70,553
Furniture, fixtures and equipment	12,755	9,601	3,154
Equipment under capital lease	2,330	1,902	428
	$ 135,196	$ 24,520	$ 110,676

			2001
	Cost	Accumulated depreciation	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

6. Investments:

The Company’s investments and advances comprised the following:

	Percentage interest	2002	2001
Vancouver Airport Property:	26.67% (2001 - 26.67%)		
Interest, at carrying value		$ 2,220	$ 2,220
Share of earnings		357	212
Investment in Vancouver Airport Property		2,577	2,432
Holiday Inn Vancouver Downtown Hotel:	nil % (2001 - 33.33%)		
Interest, at carrying value		-	(1,441)
Share of earnings		-	(75)
Investment in Holiday Inn Vancouver Downtown Hotel		-	(1,516)
		$ 2,577	$ 916

(in thousands of dollars, 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 the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (collectively the "Vancouver Airport Property") thereby increasing its interest to 26.67%.

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

Summarized information of the Vancouver Airport Property is as follows:

	2002	2001
Current assets	$ 392	$ 118
Income-producing property	33,169	34,118
Other assets	3,720	3,612
	$ 37,281	$ 37,848
Long-term demand loans	$ 30,241	$ 31,401
Notes payable	5,500	5,500
Other current liabilities	558	481
Equity	982	466
	$ 37,281	$ 37,848
Revenue	$ 5,200	$ 5,275
Expenses	3,889	4,098
Net earnings	$ 1,311	$ 1,177

(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.

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel. As at December 31, 2002 the Company had not received all sale proceeds. Registered title of the shares of the Holiday Inn Vancouver Downtown Hotel has not been transferred to the purchaser. The Company continues to guarantee the bank indebtedness of the Holiday Inn Vancouver Downtown Hotel, the amount of which as at December 31, 2002 was $15,084 (see note 7). Consequently, the Company has not recognized a gain or loss on sale of its investment in the Holiday Inn Vancouver Downtown Hotel in these financial statements.

(in thousands of dollars, except per share amounts)

6. Investments (continued):

(b) Holiday Inn Vancouver Downtown Hotel (continued):

As at December 31, 2002 a deferred gain of $4,222 was recorded in these financial statements, calculated as follows:

Proceeds received to date	$	3,235
Negative carrying value of investment		1,492
		4,727
Commissions and other selling expenses		505
Deferred gain	$	4,222

7. Long-term demand loans:

		2002		2001
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 $483 (2001 - $471) and fully amortized in 2018	$	62,133	$	64,695
Demand loan bearing interest at 9% per annum, repayable in blended monthly payments of principal and interest of $90, due in 2006		9,655		9,860
	$	71,788	$	74,555

Effective January 1, 2002 the Company adopted new accounting standards relating to the balance sheet classification of long-term demand loans (see note 3(a)).

Interest on the floating rate 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 2.25% to 2.50% per annum.

The floating rate demand loans are secured by four mortgages aggregating $144,000 creating a first fixed financial charge over certain income-producing properties; unlimited guarantees executed by the Company; a debt service agreement executed by Allied Holdings Ltd. ("Holdings") and ReUnion Properties Inc. ("ReUnion") limiting each to 50% of certain floating rate demand loans totalling $62,133; 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; personal guarantees limited to $4,302 executed by two significant shareholders of Holdings; and a personal guarantee limited to $13,500 executed by a significant shareholder. Holdings and ReUnion are related to the Company by virtue of common control.

(in thousands of dollars, except per share amounts)

7. Long-term demand loans (continued):

Under the terms of the facility letters governing the Company's floating rate demand loans, the net operating incomes of three hotels and the Holiday Inn Vancouver Downtown Hotel, is required to be not less than 1.00 times debt service for any twelve month period ending on or after December 31, 2002, not less than 1.10 times debt service for any twelve month period ending on or after April 30, 2003 and not less than 1.20 times debt service for any twelve month period ending on or after October 31, 2003.

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. Under the terms of the facility letter governing the Company's fixed rate demand loan, the net operating income of the hotel operated by CLHL is required to be not less than 1.3 times debt service for any twelve month period.

The Company has available $700 in overdraft credit facilities which bear interest at prime plus 0.75% repayable 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%. At December 31, 2002, the Company had utilized $3,705 of this facility.

Notwithstanding the application of EIC-122 (see note 3(a)) the Company continues to make monthly repayments of interest and principal, based on an amortization schedule extending beyond one year. Assuming lenders do not demand immediate repayment of long-term demand loans, the Company anticipates making the following principal repayments over the next five years:

2003	$ 2,822
2004	2,983
2005	3,153
2006	11,953
2007	3,202
Thereafter	47,675
	$ 71,788

(in thousands of dollars, except per share amounts)

8. Capital lease obligation:

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

2003	$	433
2004		244
2005		59
2006		9
Total minimum lease payments		745
Amount representing interest ranging from 9.1% to 13.8%		67
		678
Current portion		386
	$	292

9. Long-term debt:

		2002		2001
Mortgage payable bearing interest at 6.625% per annum, repayable in blended monthly instalments of $153 (2001 - $153), secured by a first charge on a property and due in 2003	$	20,605	$	21,055
Note payable in the amount of $1,985 (US$1,246) (2001 - $2,336 (US$1,467)) bearing interest at 10% per annum. Equal principal payments of US$18 (2001 - US$18) and interest on the unpaid portion are due monthly, with the balance due in 2003		1,986		2,336
Notes payable of which $1,438 (2001 - $1,594) 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		2,015		2,209
Demand loans - see note 7		-		64,695
Demand loan - see note 7		-		9,860
		24,606		100,155
Current portion		22,788		3,532
	$	1,818	$	96,623

Effective January 1, 2002 the Company adopted new accounting standards relating to the balance sheet classification of long-term debt (see note 3(a)).

(in thousands of dollars, except per share amounts)

9. Long-term debt (continued):

Effective April 1, 2003 the Company entered into an agreement with the lender of the $20,605 mortgage payable to refinance $17,500, repayable in blended monthly instalments of $132, bearing interest at a rate of 6.8% per annum, with the principal due in 2004. Concurrent with this refinancing the Company arranged a new loan of $3,000 on which interest only is payable monthly at a rate of prime plus 2% per annum, with the principal due in 2004.

Taking into account the refinancing referred to above, principal repayments over the next five years are as follows:

2003	$	2,638
2004		20,352
2005		205
2006		210
2007		215

10. Due to related parties:

		2002		2001
Holdings	$	764	$	-
Minority shareholders of VACR		255		-
	$	1,019	$	-

The amount due to Holdings, the ultimate parent company, is unsecured, due on demand and bears interest at prime plus 0.75% per annum.

The amounts due to minority shareholders of VACR are unsecured, due on demand and bear interest at prime plus 3.0% per annum.

11. Share capital:

(a) Authorized:

The authorized capital of the Company at December 31, 2002 consisted of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of shares		Amount
Balance, December 31, 2002 and 2001	106,327,268	$	29,868

(in thousands of dollars, except per share amounts)

11. Share capital (continued):

(c) Stock options:

During 2001 the Company's stock option plan was cancelled with the consent of the optionees. At the Company's annual general meeting in June 2002 the shareholders approved a new stock option plan (the "new plan"). An amount of 10,000,000 common shares have been reserved for issuance under the terms of the new plan. The terms of options granted under the new plan may be fixed by the board of directors at the time such options are granted. At December 31, 2002, there were no options outstanding to acquire common shares in the Company.

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

	2002		2001	
	Stock options outstanding	Weighted average exercise price	Stock options outstanding	Weighted average exercise price
Outstanding, January 1	-	$ -	8,700,000	$ 0.80
Granted or exercised	-	-	-	-
Cancelled	-	-	(8,700,000)	0.80
Outstanding, December 31	-	$ -	-	$ -

12. Income taxes:

(a) Income tax expense, including current and future portions, varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating 39.62% (2001 - 44.60%) to loss before income taxes and non-controlling interest, as shown in the following table:

	2002	2001
Basic rate applied to loss before income taxes and non-controlling interest	$ (3,436)	$ (3,093)
Change in valuation allowance	1,996	4,880
Permanent difference relating to gain on sale of income-producing property	(23)	(2,919)
Recognition of previously unrecorded temporary differences	2,786	2,459
Effect of income tax rate changes	315	196
Large corporations tax	83	93
Income tax expense	$ 1,721	$ 1,616

(in thousands of dollars, except per share amounts)

12. Income taxes (continued):

(b) The tax effects of temporary differences that give rise to significant portions of future tax assets and future tax liabilities at December 31, 2002 are presented below:

	2002	2001
Future tax assets:		
Non-capital loss carry forwards	$ 5,677	$ 4,907
Share issue and financing costs	993	823
Income-producing properties	6,554	6,507
Long-term obligations	759	902
Other	170	656
Total gross future tax assets	14,153	13,795
Valuation allowance	(11,152)	(9,155)
Net future tax assets	$ 3,001	$ 4,640
Classified as:		
Future income tax assets		
Current	$ 356	$ 74
Non-current	2,645	4,566
	$ 3,001	$ 4,640

(c) At December 31, 2002, the Company has non-capital losses of approximately $16,143 (2001 - $13,782) able to be carried forward to reduce income taxes otherwise payable until the year ending December 31, 2009. No future income tax benefit on $10,286 (2001 - $7,232) of these losses, or temporary differences of approximately $21,423 (2001 - $18,486), has been recognized in the financial statements.

(in thousands of dollars, except per share amounts)

13. Supplementary information:

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

	2002	2001
Accounts receivable	$ 541	$ (271)
Inventories	34	95
Prepaid expenses	(122)	(319)
Accounts payable and accrued liabilities	(754)	1,301
	$ (301)	$ 806

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

	2002	2001
Supplementary information:		
Interest paid	$ 6,279	$ 11,201
Taxes paid	16	295
Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	73	239
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)
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)

(in thousands of dollars, except per share amounts)

14. Related party transactions:

In addition to notes 2(b) and 10, the Company had the following transactions with related parties during the year:

	2002	2001
Management fee income:		
Vancouver Airport Property	$ 84	$ -
No. 230 Seabright Holdings Ltd. ("Seabright")	99	-
Holiday Inn Vancouver Downtown Hotel	361	-
Rental income:		
Holdings	137	-
Consulting fees:		
Director	101	60
Rent expense:		
New World Equities Inc. ("New World")	61	77
Interest expense:		
Holdings	-	695
Loan guarantee fees:		
Holdings, or its directors	-	106

New World and Seabright are 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 and rental income are 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.

15. Commitments and contingencies (continued):

(c) The Company has entered into a management agreement with a third party manager 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, bank indebtedness, accounts payable and accrued liabilities, due to related parties, long-term debt, capital lease obligations and long-term demand loans. The carrying values of cash and cash equivalents, accounts receivable, due from affiliated company, bank indebtedness, accounts payable and accrued liabilities, due to related parties 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 and long-term demand loans 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, 2002 is not significantly different than its carrying value.

(b) Interest rate risk:

As described in note 7, a substantial portion of the Company's long-term demand loans bears interest at floating rates. Further, as disclosed in note 9, a mortgage payable in the amount of $20,605 was re-financed in the 2003 fiscal year. Fluctuations in interest 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.

QUARTERLY REPORT

FORM 51-901F

ISSUER DETAILS NAME OF ISSUER	FOR QUARTER ENDED		DATE OF REPORT Y M D
Allied Hotel Properties Inc.	December 31, 2002		03 05 14

ISSUER'S ADDRESS				
Suite 300 – 515 West Pender Street				
CITY	**PROVINCE**	**POSTAL CODE**	**ISSUER FAX NO.**	**ISSUER TELEPHONE NO.**
Vancouver	B.C.	V6B 6H5	604-682-8131	604-669-5335

CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
John R. Ellen, C.A.	Chief Financial Officer	604-682-2533 x 160

CONTACT EMAIL ADDRESS	WEB SITE ADDRESS
john_ellen@alliedhotels.com	www.alliedhotels.com

CERTIFICATE

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Peter Y.L. Eng" (signed)	Peter Y.L. Eng	03 05 14
DIRECTOR'S SIGNATURE	**PRINT FULL NAME**	**DATE OF REPORT Y M D**
"Ronald G. Erdman" (signed)	Ronald G. Erdman	03 05 14

SCHEDULE B
SUPPLEMENTARY INFORMATION

The supplementary information set out below is to be provided when not included in the Company's audited consolidated financial statements contained in Schedule A.

1. For the current fiscal year-to-date:

Breakdown of General & Administrative Expenses
for the year ended December 31, 2002

	2 0 0 2 **$ ('000)**
Administrative salaries	1,114
Director's fees	62
General	806
Professional fees	579
Capital tax	71
Travel and entertainment	115
Hotel administration	4,267
Maintenance	2,940
Sales and advertising	4,161
Utilities	2,245
	$ 16,360

For the twelve month period ended December 31, 2002, the aggregate amount of expenditures made to parties not at arm's length was $299.

2. For the quarter under review:

a) Summary of securities issued during the quarter:

No securities were issued during the quarter.

b) Summary of options granted during the quarter:

No options were granted during the quarter.

SCHEDULE B
SUPPLEMENTARY INFORMATION (CONT'D)

3. As at the end of the quarter:

a) Particulars of authorized capital and summary of shares issued and outstanding:

Authorized: Unlimited number of common shares without par value

Issued and outstanding, end of quarter 106,327,268

b) Summary of options, warrants and convertible securities outstanding:

I. OPTIONS:

No options were outstanding at the end of the quarter.

II. WARRANTS AND CONVERTIBLE SECURITIES:

No warrants or convertible securities were outstanding at the end of the quarter.

c) Total number of shares in escrow or subject to a pooling agreement:

No shares were held in escrow or subject to pooling agreement at the end of the quarter.

SCHEDULE B
SUPPLEMENTARY INFORMATION (CONT'D)

3. As at the end of the quarter:

d) List of directors and officers:

Directors:
Senator Jack Austin
Anthony Eng
Peter Eng
Ronald G. Erdman
Dato' Ng Eng Tee
Tuan Syed Abu Bakar Bin Syed Mohsin Almohdzar
Andrew E. Saxton
Edward Woo

Andrew E. Saxton resigned as a director effective April 29, 2003

Officers:
President and Chief Executive Officer – Ronald G. Erdman
Vice-President and Chief Financial Officer – John R. Ellen
Vice-President, Corporate Development and Secretary – Michael Chan
Vice-President, Development and Portfolio Strategy – Sam Ng
Vice-President, Hotel Operations – Nash Rajan

SCHEDULE C

MANAGEMENT'S DISCUSSION AND ANALYSIS

VISION, CORE BUSINESS AND STRATEGY

The Company is a hotel ownership and management company focused on first class hotels in major urban centres. Although the Company strives to maximize returns in the provision of hotel and hospitality services within the hotel portfolio, our main responsibility is to our shareholders in regard to the maximization of share value.

In the past two years, the Company has pursued a strategy of strengthening its balance sheet through the sale of assets and the retirement of debt.

The Company ensures it has the capability to successfully carry out its chosen strategy through a variety of means. Senior management has many years experience in the hospitality and finance sectors. Hotels are branded with internationally recognized brands which bring with them first class reservation systems. All of the Company's properties are situated in prime urban markets.

As discussed below, under liquidity and capital resources, and as outlined in note 1 to the consolidated financial statements, management expects the Company to experience a significant cash flow deficiency in 2003. Although the Company's majority shareholder has provided a pledge of continued financial support to the Company, there is no certainty such financial support will be sufficient to permit the Company to meet its liabilities and commitments as they become payable.

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, 2002 and 2001 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 for the year ended December 31, 2001. The results of operations of the Company's remaining one-third interest was accounted for using the equity method. Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn.

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 for the year ended December 31, 2001.

Effective January 1, 2002, the Company adopted new accounting recommendations relating to the balance sheet classification of callable debt obligations (see note 3 (a) to the consolidated financial statements). These new recommendations require debt obligations that, by their terms, are due on demand, be classified as current liabilities even though liquidation of a portion of the obligation may not be expected to occur within one year. In compliance with this new recommendation we have classified certain loans as "Long-term demand loans" in the December 31, 2002 balance sheet. Loans which do not contain demand clauses in their terms remain as "Long-term debt". In accordance with the new recommendation, we have not restated the balance sheet at December 31, 2001. One effect of this change is to show a large percentage of the Company's debt as being currently due. Note 7 to the consolidated financial statements shows the actual principal repayments the Company expects to make in each of the next five years.

RESULTS OF OPERATIONS

Operating revenues decreased 26% to $52.5 million for the year ended December 31, 2002 from $71.1 million for the year ended December 31, 2001. This decrease resulted primarily from the sale of the Holiday Inn and DVS during the year. Excluding the results of the two properties sold during 2001, consolidated revenues decreased 4.5% for the four hotel properties controlled by the Company. The Company's Crowne Plaza property in Edmonton, Alberta experienced a minor decrease in revenues in 2002 due to the 2001 results having included business relating to the World Track and Field Championships which were staged there for three weeks in August. Excluding that exceptional period in August 2001, revenues for the Crowne Plaza property in Edmonton in 2002 were ahead of 2001. The Company's other Crowne Plaza hotels, located in Toronto, Ontario and Vancouver, B.C. both experienced increases in revenues in 2002 over 2001. These improvements were more than offset by declines at the dual branded Park Plaza / Ramada Plaza property, situated in Richmond, B.C. This property had been rebranded at the end of 2001 and the market was slow to respond to the rebranding.

On a comparable-property basis, room revenues decreased 5.5% to $31.5 million in 2002. With over 515,000 room nights available across the Company's portfolio, the number of rooms sold increased by 508 over 2001. The fall in revenues was caused entirely by a lower average rate, which fell from $112.38 in 2001 to $105.97 in 2002, resulting in a decrease in Revenue per available room ("RevPAR") of $3.59 to $61.14, this being the key performance measure in the hospitality industry. The events of September 11th, followed by a general downturn in the North American economy, led hotels to compete for guests by reducing rates. While we were successful in maintaining our occupancy levels, revenues suffered as a result. The Company's hotels were able to control costs during this period of declining room rates, resulting in gross margins on room revenues remaining unchanged at 68%.

While gross profit of $26.9 million was a significant reduction from $37.4 million in 2001, the primary cause of this fall was the reduction from six to four hotel properties that are controlled by the Company. On a comparable-property basis, gross profit fell by only $1.1 million from $28.0 million in 2001, while gross profit margin remained constant at 51%.

Selling, general and administrative expenses ("SG&A") decreased 28% to $16.4 million in 2002. Excluding the Holiday Inn and DVS, SG&A still decreased by over 10% as a result of cost control measures implemented at the hotels and head office.

Taxes and insurance decreased to $3.6 million for 2002, representing an overall decrease of 25%. This represents a decline of 4% excluding the Holiday Inn and DVS from the 2001 expense. This decrease was achieved through successful appeals against property tax assessments on several of our properties, reflecting the assessor's acceptance of the difficult times facing the hospitality industry.

With approximately two-thirds of our debt financed at floating rates, the Company was well positioned to benefit from reduced borrowing rates which came into effect towards the end of 2001. Total interest expense decreased from $11.4 million in 2001 to $6.5 million as a result of lower rates and a lower debt burden following the sales of the Holiday Inn and DVS.

In 2001 the sale of a two-thirds interest in the Holiday Inn yielded a gain of $9.6 million, which was offset by a write-down of $8.4 million on one of the Company's hotel assets. In 2002, the Company sold its remaining one-third interest in the Holiday Inn, resulting in a further gain of $4.2 million. As the Company continues to guarantee the bank indebtedness of the Holiday Inn this has been recorded in the financial statements as a deferred gain. In 2002 the Company wrote-down the carrying value of one of its hotel assets by $5.0 million.

The loss for the year before non-controlling interest and income taxes and before the capital dispositions and write-downs referred to in the preceeding paragraph was $3.7 million compared to a loss of $8.2 million for the year ended December 31, 2001.

Current and future taxes totaled $1.7 million, compared to $1.6 million in 2001. Together with a credit of $0.8 million for non-controlling interest, the net loss for the year was $9.6 million compared to a net loss of $7.1 million for the year ended December 31, 2001.

The Company had a cash deficiency from operations for the year ended December 31, 2002 of $1.1 million or $0.01 per share, compared to $2.4 million of $0.02 per share in 2001.

FINANCIAL POSITION

Income-Producing Properties

The net book value of income-producing properties at December 31, 2002 was $110.7 million, compared to $118.1 million at December 31, 2001. Of this decrease, $5.0 million represents the write-down of one of the hotel assets, while a further $3.4 million represents depreciation, offset by additions of $1.0 million.

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 discussed earlier, the Company sold a two-thirds interest in the Holiday Inn during the 2001 fiscal year, with the balance sold in 2002. At December 31, 2002, the investment of $2.6 million represents the Company's 26.67% interest in the Delta Vancouver Airport Hotel and adjacent Lysander Office Building, on which income of $0.4 million was earned during the year.

Working Capital

As discussed earlier, the Company adopted a new accounting policy regarding the presentation of certain debt obligations. One effect of this change is to present a large percentage of the Company's debt as a current liability. As a result, the Company had a net working capital deficiency at the year-end of $111.4 million compared to a deficiency of $13.4 million at December 31, 2001. Excluding debt obligations which are not expected to mature within the next 12 months, long-term debt which has been refinanced subsequent to the year-end and the deferred gain referred to above, the working capital deficiency at December 31, 2002 would have been $18.0 million. 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 $10.3 million (2001 - $10.5 million).

Debt

Total long-term demand loans and long-term debt decreased by $3.8 million, from $100.2 million at December 31, 2001 to $96.4 million at December 31, 2002. This decrease represents the normal principal repayments included in the Company's monthly blended payments to its lenders.

Subsequent to the year-end the Company refinanced $20.6 million of debt secured against one of its hotel properties. The term of the refinancing is for a period of one year.

The Company has unconditionally guaranteed a portion of the indebtedness related to the Lysander Office Building, 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, 2002, the indebtedness of the Holiday Inn amounted to $15.1 million. The new owner of the Holiday Inn is scheduled to refinance this loan by June 30, 2003, at which point the Company's guarantee would be discharged.

Due from / to Affiliated Companies

At December 31, 2001, less than $0.1 million was due from Allied Holdings Ltd. ("Holdings"), the Company's major shareholder. At December 31, 2002 the Company owed Holdings $0.8 million. The increase in this loan consists of advances which were received from Holdings during the year. As outlined in note 1 to the consolidated financial statements, based on management's projections, the Company will likely experience a significant cash flow deficiency in the 2003 fiscal year. Holdings has provided a pledge of continued financial support to the Company to bridge this anticipated deficiency.

Liquidity and Capital Resources

The Company's cash flows for 2002 and 2001 are summarized as follows:

	2002	2001	Change
	(thousands of dollars)		
Cash flow used for operations	(1,099)	(2,390)	1,291
Cash flow used for financing activities	(3,066)	(18,800)	15,734
Cash flow provided by investing activities	1,894	18,523	(16,629)
Cash of properties sold during the year	-	(792)	792
Increase (decrease) in cash	(2,271)	(3,459)	1,188

The Company has normal course requirements for capital to assist in the repayment of 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, from new capital such as equity or increased borrowings, or from the sale of assets. In 2002, operations absorbed $1.1 million, an improvement from the $2.4 million absorbed in 2001. The sale of assets provided $2.7 million in 2002, a reduction from $19.4 million in 2001.

A total of $25.6 million (2002 - $3.5 million) of principal repayments on long-term demand loans and long-term debt becomes due during 2003. Of this, the Company refinanced $20.5 million effective April 1, 2003. In addition, the Company has a credit facility of $4.0 million (of which $3.7 million was utilized at the year-end) which must be repaid during 2003. The Company intends to repay this debt from cash flow from operations and the expected sale of one of its income-producing properties.

As detailed in note 1 to the consolidated financial statements, and as discussed earlier, management projects the Company will experience a significant cash flow deficiency in 2003. Although Holdings has provided a pledge of continued financial support to the Company, there is no certainty such financial support will be sufficient to permit the Company to meet its liabilities and commitments as they become payable.

The Company does not have any plans for major renovations at any of its properties during 2003.

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. Such recovery may be delayed due to world events, such as the American-led war in Iraq. A stronger market 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 through the divestment of interests in two of its five properties in the Greater Vancouver area during 2001.

At the time of writing the world is gripped with concern over sudden acute respiratory syndrome ("SARS"). People are understandably concerned about the risk of contracting SARS while travelling, and our properties have reported cancellations of tour groups as a direct result. For example, in early April a major medical conference in Toronto was cancelled, resulting in the loss of tens of thousands of room nights for the city.

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. By 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. The split between fixed and floating rate borrowings remains at approximately 35% / 65% at December 31, 2002. Increases in the bank's prime rate 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, 2002, the Company employed 812 full and part-time employees at its properties. Approximately 80% 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 February 1, 2003 and May 31, 2006. For the contract which expired February 1, 2003 negotiations are ongoing and a three year agreement is expected to be concluded in due course.

In the summer of 2000, the Company experienced a strike at one of its hotel properties, which had a significant impact on 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.

Investor Relations

There were no investor relations activities undertaken on behalf of the Company in the quarter.