

**QUARTERLY REPORT**

**FORM 51-901F**

<b>ISSUER DETAILS</b> NAME OF ISSUER		FOR QUARTER ENDED	DATE OF REPORT Y M D	
Allied Hotel Properties Inc.		June 30, 2002	02	08 15
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
"Ronald G. Erdman" (signed)	Ronald G. Erdman	02 08 15
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Peter Y.L. Eng" (signed)	Peter Y.L. Eng	02 08 15

Consolidated Financial Statements of

**ALLIED HOTEL PROPERTIES INC.**

June 30, 2002

# ALLIED HOTEL PROPERTIES INC.

## Unaudited Consolidated Balance Sheets

June 30, 2002 and December 31, 2001  
Expressed in thousands of dollars

	2002	2001
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ —	\$ 179
Accounts receivable	2,855	2,281
Due from affiliated company	—	72
Inventories	457	482
Prepaid expenses	737	506
Future income taxes	74	74
	<u>4,123</u>	<u>3,594</u>
Income-producing properties	116,918	118,059
Investments	2,629	916
Deferred costs, net of amortization	374	390
Future income taxes	4,891	4,566
	<u>\$ 128,935</u>	<u>\$ 127,525</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 2,292	\$ —
Accounts payable and accrued liabilities	12,918	12,749
Current portion of deferred revenue	3,250	254
Current portion of capital lease obligation	391	444
Long-term debt (note 2 (a))	98,263	3,532
	<u>117,114</u>	<u>16,979</u>
Deferred revenue	2,123	2,212
Long-term debt (note 2 (a))	—	96,623
Capital lease obligation	422	557
Non-controlling interest	413	819
	<u>120,072</u>	<u>117,190</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(21,005)	(19,533)
	<u>8,863</u>	<u>10,335</u>
	<u>\$ 128,935</u>	<u>\$ 127,525</u>

See accompanying notes to consolidated financial statements

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

(signed) "Ronald G. Erdman" Director

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit

For the six months ended June 30, 2002 and 2001

(in thousands of dollars)

	2002	2001
Deficit, beginning of period	\$ 19,533	\$ 18,937
Loss for the period	1,472	4,065
Deemed contribution by related party	–	(4,250)
Deficit, end of period	\$ 21,005	\$ 18,752

*See accompanying notes to consolidated financial statements*

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Operations  
(in thousands of dollars, except per share amounts)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Revenues:				
Rooms	\$ 8,960	\$ 13,371	\$ 14,557	\$ 23,080
Food and beverage	4,526	5,413	7,931	10,060
Other	1,085	1,349	2,317	2,554
	14,571	20,133	24,805	35,694
Cost of sales:				
Rooms	2,715	4,093	4,807	7,626
Food and beverage	3,626	4,649	6,806	8,754
Other	389	464	733	835
	6,730	9,206	12,346	17,215
Gross profit	7,841	10,927	12,459	18,479
Operating expenses:				
Selling, general and administrative	3,856	5,730	7,711	11,689
Management fees	346	414	472	747
Taxes and insurance	766	1,190	1,726	2,520
Depreciation and amortization	852	1,418	1,699	2,813
	5,820	8,752	11,608	17,769
Operating income	2,021	2,175	851	710
Other expenses / (income):				
Interest on long-term debt	1,402	2,452	2,753	5,410
Interest – other	177	588	370	1,041
Equity in income of investee	(79)	(65)	(111)	(101)
Gain on sale of land held for resale	–	(155)	–	(155)
	1,500	2,820	3,012	6,195
Income (loss) before income tax and non-controlling interest	521	(645)	(2,161)	(5,485)
Income tax expense / (recovery):				
Current	9	58	42	111
Future	56	(63)	(325)	(787)
	65	(5)	(283)	(676)
Income (loss) before non-controlling interest	456	(640)	(1,878)	(4,809)
Non-controlling interest	(71)	(176)	(406)	(744)
Income (loss) for the period	\$ 527	\$ (464)	\$ (1,472)	\$ (4,065)
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.04)

See accompanying notes to consolidated financial statements

# ALLIED HOTEL PROPERTIES INC.

## Unaudited Consolidated Statements of Cash Flows

(in thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Cash provided by (used in):				
Operations:				
Income (loss) for the period	\$ 527	\$ (464)	\$ (1,472)	\$ (4,065)
Adjustments for:				
Depreciation and amortization	852	1,418	1,699	2,813
Future income tax	56	(63)	(325)	(787)
Non-controlling interest	(71)	(176)	(406)	(744)
Equity in income of investee	(79)	(65)	(111)	(101)
Gain on sale of land held for resale	–	(155)	–	(155)
Amortization of deferred revenue	(45)	(32)	(274)	(148)
Funds from operations	1,240	463	(889)	(3,187)
Changes in non-cash operating working capital (note 4)	(1,244)	(1,071)	(611)	751
	(4)	(608)	(1,500)	(2,436)
Financing:				
Proceeds from long-term debt	–	–	–	10,000
Principal repayments on long-term debt	(925)	(10,247)	(1,893)	(19,901)
Due to affiliated companies	–	207	72	309
Payments received from non-controlling interest	–	111	–	233
Repayment of obligations under capital leases	(90)	(124)	(188)	(245)
	(1,015)	(10,053)	(2,009)	(9,604)
Investments:				
Additions to income-producing properties	(397)	(25)	(542)	(345)
Deposits received	85	–	1,580	–
Net proceeds from sale of land held for resale	–	11,481	–	11,481
Increase in deferred costs	–	(38)	–	(303)
	(312)	11,418	1,038	10,833
Increase (decrease) in cash and cash equivalents	(1,331)	757	(2,471)	(1,207)
Cash and cash equivalents, beginning of period	(961)	1,674	179	3,638
Cash and cash equivalents, end of period	\$ (2,292)	\$ 2,431	\$ (2,292)	\$ 2,431

See accompanying notes to consolidated financial statements

Supplemental information (note 4)

# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements  
Six months ended June 30, 2002 and 2001  
(in thousands of dollars, except per share amounts)

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## 1. Significant Accounting Policies

### a. General

The Company's accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP") and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

The Company's standards of financial disclosure in these interim financial statements are in accordance with the recommendations in The Canadian Institute of Chartered Accountants' ("CICA") standard on Interim Financial Statements. Certain note disclosures do not fully conform to Canadian GAAP disclosure requirements for annual financial statements, and these financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2001 (the "Annual Financial Statements"). These interim financial statements follow the same accounting policies as the Annual Financial Statements, except as described in Note 2.

### b. Cyclical Business

The nature of the hotel business is inherently cyclical such that, in prior years, approximately 60% of the Company's annual revenues were generated in the second and third quarters of the year. With a significant investment in income producing properties, the Company has high fixed costs, particularly for depreciation and interest expense. As a result, the first and fourth quarters have historically recorded lower net operating income than the second and third quarters. These seasonal factors should be considered when reviewing the Company's quarterly operating results.

## 2. Change of accounting policy:

### a. Long-term debt

In the first quarter of 2002, the Company adopted the recommendations of the CICA's 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.

# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements  
Six months ended June 30, 2002 and 2001  
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## 2. Change of 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 six months ended June 30, 2002 or June 30, 2001.

## 3. Per share information:

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

## 4. Supplementary Cash Flow information:

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

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Accounts receivable	\$ (939)	\$ (1,322)	\$ (574)	\$ (1,653)
Inventories	(16)	(5)	25	88
Prepaid expenses	(169)	(121)	(231)	(176)
Accounts payable	(120)	377	169	2,492
	\$ (1,244)	\$ (1,071)	\$ (611)	\$ 751

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

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Supplemental information:				
Interest paid	\$ 1,542	\$ 3,747	\$ 2,936	\$ 7,663
Taxes paid	16	181	16	181
Non-cash investing and financing activities				
Acquisition of equipment under capital lease	-	24	-	178
Reduction in note payable to				

affiliated company

-

4,250

-

4,250

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# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements  
Six months ended June 30, 2002 and 2001  
(in thousands of dollars, except per share amounts)

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## **5. Deferred revenue:**

In February 2002, the owner of a two-thirds interest in the Holiday Inn Vancouver Downtown Hotel ("Holiday Inn") served notice of its intention to exercise an option to acquire the one-third interest owned by the Company. The Company received a deposit from the purchaser. The Company ceased to account for its one-third share in the net income or loss of the Holiday Inn effective February 2002 as the purchaser is entitled to all revenues and is responsible for all expenses beyond such date. The gain on sale of the property has been deferred pending receipt of the balance of the purchase price and the removal of the Company as guarantor of the indebtedness on the property.

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*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	02 08 15
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Ronald G. Erdman" (signed)	Ronald G. Erdman	02 08 15

**SCHEDULE B**  
**SUPPLEMENTARY INFORMATION**

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

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

Breakdown of General & Administrative Expenses  
for the periods ended June 30, 2002

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2 0 0 2</b>	<b>2 0 0 1</b>	<b>2 0 0 2</b>	<b>2 0 0 1</b>
	<b>\$ ('000)</b>	<b>\$ ('000)</b>	<b>\$ ('000)</b>	<b>\$ ('000)</b>
Administrative salaries	286	331	583	727
Directors' fees	15	15	33	30
Professional fees	77	181	154	323
Travel and entertainment	21	39	46	59
Capital tax	(10)	34	30	159
Charitable donations	1	-	5	15
Hotel administration	1,166	2,087	2,272	4,280
Maintenance	690	1,103	1,386	2,009
Sales and advertising	1,147	1,367	2,081	2,629
Utilities	463	558	1,121	1,458
	<b>\$ 3,856</b>	<b>\$ 5,730</b>	<b>\$ 7,711</b>	<b>\$ 11,689</b>

For the six month period ended June 30, 2002, the aggregate amount of expenditures made to parties not at arm's length was \$77,000. Of this, \$30,000 relates to consulting fees paid to a company controlled by a director of Allied Hotel Properties Inc. ("Allied"), and is included under Professional Fees above and \$47,000 relates to rent paid to a company which is a minority shareholder of Allied, and is included under Hotel Administration, above.

For the three month period ended June 30, 2002, the aggregate amount of expenditures made to parties not at arm's length was \$46,000. Of this, \$15,000 relates to consulting fees paid to a company controlled by a director of Allied, and is included under Professional Fees above and \$31,000 relates to rent paid to a company which is a minority shareholder of Allied, and is included under Hotel Administration, above.

*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:**

There were no options 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:	106,327,268

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

i. OPTIONS:

There were no options 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.

**d) List of directors and officers:**

Directors:

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

Tunku Razman Bin Tengku Shahariman resigned as a director effective June 24, 2002.

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 & Portfolio Strategy – Sam Ng  
Vice-president, Hotel Operations – Nash Rajan

## SCHEDULE C

### 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 six months ended June 30, 2002 and 2001 and the notes pertaining thereto.

#### RESULTS OF OPERATIONS

Operating revenues decreased to \$14.6 million for the six months ended June 30, 2002 from \$23.1 million for the six months ended June 30, 2001. As stated in the first quarter MD&A, the main cause for the decrease was the sale of two properties during 2001, the results of which were included in the first six months last year. Comparing revenues only from the properties owned in both periods shows a decline of 8% in room revenues for the six months to June 30<sup>th</sup>, resulting from weaker occupancy and average daily rate at the Company's properties.

For the three months ended June 30<sup>th</sup> the decline in room revenue was only \$0.1 million compared to the prior period. The economic decline which resulted in lower room revenues started to have an effect on the Company towards the end of the first quarter 2001, and continued through the fall, exacerbated by the events of September 11<sup>th</sup>. Second quarter 2002 room revenues almost back to the levels of last year (on a comparative property basis). Food and beverage revenues in the second quarter were ahead of the same period last year (on a comparative property basis), although they remain behind last year for the six month period.

The hospitality industry experiences both cyclical and seasonal fluctuations in business levels. The seasonal nature of the industry traditionally results in higher occupancies and average rates in the second quarter of the year compared to the first quarter. In 2001, occupancy levels increased by 7% (on a comparative basis) from the first to the second quarter, while in 2002 the increase was 19%. RevPAR (revenue per available room) increased by \$16.09 from the first to the second quarters last year, compared to an increase of \$25.71 in 2002. This significantly greater increase in RevPAR in 2002 compared to 2001 suggests that an economic recovery may be underway, from which the Company would stand to benefit.

Gross profit of \$12.5 million for the six month period ended June 30, 2002 decreased by \$6.0 million from 2001 as a result of having fewer properties, while the gross profit margin at 50% decreased marginally from 52% in the prior year as a result of having a relatively higher proportion of food and beverage revenue, which returns a lower gross profit margin than room revenues. Gross profit margin on room revenues was 67%, unchanged from 2001.

Operating expenses of \$11.6 million for the six month period ended June 30, 2002 decreased from \$17.8 million for 2001, in line with decreased revenues. On a comparable basis, operating expenses at the remaining properties were reduced by \$1.8 million, or 13%, as a result of cost control measures implemented at the Company's properties.

Interest on long-term debt decreased by 49% to \$2.8 million for the six months to June 30 2002 as a result of a significant reduction in debt following the sale of two properties, combined with lower interest rates in the first six months of 2002 compared with 2001. Other interest has also been reduced significantly following repayment of all indebtedness to the Company's major shareholder at the end of 2001.

The loss for the period before non-controlling interest and income taxes was \$2.1 million, compared to a loss of \$5.5 million for the six months ended June 30, 2001. For the three months ended June 30, 2002 the Company recorded income of \$0.5 million, compared to a loss of \$0.6 million for the same period last year. This loss for the six month period is in line with historical performance and is consistent with the prior year.

## **FINANCIAL POSITION**

### **Income-Producing Properties**

The net book value of income-producing properties at June 30, 2002 was \$116.9 million, compared to \$118.0 million at December 31, 2001. The decrease relates to the depreciation expense charged against property during the period. Minor additions to furniture, fixtures and equipment occur at each property on an on-going basis.

The acquisition of the Company's initial hotel portfolio 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.

### **Working Capital**

The Company has a net working capital deficiency at the end of the quarter of \$113.0 million as a result of reclassifying all long-term debt as a current liability, in accordance with a change in accounting policy explained in note 2 to the interim financial statements. Excluding long-term debt, the working capital deficiency was \$14.7 million, an increase from \$9.9 million at December 31, 2001 and virtually unchanged from the end of the 1<sup>st</sup> quarter. Included in current liabilities at the end of the quarter is \$3.3 million of deferred revenue relating to the sale of the Company's one-third interest in the Holiday Inn Vancouver Downtown Hotel. This will be recorded as income when the balance of the purchase price is received.

### **Debt**

Total long-term debt decreased by \$1.9 million, from \$100.2 million at December 31, 2001 to \$98.3 million at June 30, 2002, reflecting regular scheduled monthly debt repayments. This represents a significant reduction from the position 18 months ago, when the Company had long-term debt of \$164.6 million.

Approximately 65% of the Company's long-term debt bears interest at floating rates, based on the bank prime lending rate. While current rates are significantly lower than at the same time last year, the rates have been increasing in the last quarter. The Company regularly reviews this exposure to fluctuating interest rates, and believes that it continues to be in the Company's interest to finance a significant portion of its long-term debt through floating rates loans.

### **Investor Relations**

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