

**QUARTERLY REPORT**

**FORM 51-901F**

<b>ISSUER DETAILS</b> NAME OF ISSUER Allied Hotel Properties Inc.		FOR QUARTER ENDED March 31, 2003	DATE OF REPORT Y M D 03 05 27	
ISSUER'S ADDRESS  Suite 300 – 515 West Pender Street				
CITY Vancouver	PROVINCE B.C.	POSTAL CODE V6B 6H5	ISSUER FAX NO. 604-682-8131	ISSUER TELEPHONE NO. 604-669-5335
CONTACT PERSON John R. Ellen, C.A.		CONTACT'S POSITION Chief Financial Officer		CONTACT TELEPHONE NO. 604-682-2533 x 160
CONTACT EMAIL ADDRESS john_ellen@alliedhotels.com		WEB SITE ADDRESS 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 "Peter Y.L. Eng" (signed)	PRINT FULL NAME Peter Y.L. Eng	DATE OF REPORT Y M D 03 05 27
DIRECTOR'S SIGNATURE "Ronald G. Erdman" (signed)	PRINT FULL NAME Ronald G. Erdman	DATE OF REPORT Y M D 03 05 27



Consolidated Financial Statements of

**ALLIED HOTEL PROPERTIES INC.**

March 31, 2003

# ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets  
March 31, 2003 and December 31, 2002  
(in thousands of dollars)

	March 2003	December 2002
	Unaudited	Audited
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 1,398	\$ 1,740
Inventories	422	448
Prepaid expenses	695	628
Future income taxes	505	356
	<u>3,020</u>	<u>3,172</u>
Income-producing properties	110,234	110,676
Investments	2,654	2,577
Deferred costs, net of amortization	349	386
Future income taxes	2,645	2,645
	<u>\$ 118,902</u>	<u>\$ 119,456</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 3,442	\$ 2,092
Accounts payable and accrued liabilities	12,602	11,995
Deferred gain (note 4)	4,881	4,222
Deferred revenue	267	267
Long-term debt (note 6)	22,590	22,788
Due to related parties	1,865	1,019
Capital lease obligation	386	386
Long-term demand loans	71,092	71,788
	<u>117,125</u>	<u>114,557</u>
Deferred revenue	1,983	2,029
Long-term debt	1,769	1,818
Capital lease obligation	192	292
	<u>121,069</u>	<u>118,696</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(32,035)	(29,108)
	<u>(2,167)</u>	<u>760</u>
	<u>\$ 118,902</u>	<u>\$ 119,456</u>

See accompanying notes to consolidated financial statements.

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

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

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Operations  
 Three months ended March 31, 2003 and 2002  
 (in thousands of dollars, except per share amounts)

	2003	2002
Revenues:		
Rooms	\$ 5,388	\$ 5,597
Food and beverage	3,218	3,405
Other	1,026	1,232
	<u>9,632</u>	<u>10,234</u>
Cost of sales:		
Rooms	2,113	2,092
Food and beverage	2,944	3,180
Other	364	344
	<u>5,421</u>	<u>5,616</u>
Gross profit	4,211	4,618
Operating expenses:		
Selling, general and administrative	3,840	3,855
Management fees	184	126
Taxes and insurance	926	960
Depreciation and amortization	753	847
	<u>5,703</u>	<u>5,788</u>
Operating loss	1,492	1,170
Other expenses (income):		
Interest on long-term demand loans	1,416	1,351
Other interest	225	193
Equity in income of investees	(77)	(32)
	<u>1,564</u>	<u>1,512</u>
Loss before income taxes and non-controlling interest	3,056	2,682
Income taxes (recovery):		
Current	20	33
Future	(149)	(381)
	<u>(129)</u>	<u>(348)</u>
Loss before non-controlling interest	2,927	2,334
Non-controlling interest	-	(335)
Net loss	\$ 2,927	\$ 1,999
Basic and diluted loss per share	\$0.03	\$0.02

See accompanying notes to consolidated financial statements.

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit  
Three months ended March 31, 2003 and 2002  
(in thousands of dollars)

		2003		2002
Net loss	\$	2,927	\$	1,999
Deficit, beginning of period		29,108		19,533
Deficit, end of period	\$	32,035	\$	21,532

*See accompanying notes to consolidated financial statements.*

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Cash Flows  
Three months ended March 31, 2003 and 2002  
(in thousands of dollars)

	2003	2002
Cash provided by (used in):		
Operations:		
Net loss	\$ (2,927)	\$ (1,999)
Items not involving cash:		
Depreciation and amortization	753	847
Future income taxes	(149)	(381)
Non-controlling interest	-	(335)
Equity in income of investees	(77)	(32)
Amortization of deferred revenue	(46)	(229)
Funds from operations	(2,446)	(2,129)
Changes in non-cash operating working capital (note 3)	908	633
	(1,538)	(1,496)
Financing:		
Principal repayments on long-term debt	(247)	(255)
Principal repayments on long-term demand loans	(696)	(713)
Repayment of obligations under capital leases	(100)	(98)
Payments received from affiliated company	590	72
Payments received from non-controlling interest	256	-
	(197)	(994)
Investments:		
Additions to income-producing properties	(274)	(145)
Proceeds from sale of investments	659	-
Deposits received	-	1,495
	385	1,350
Decrease in cash and cash equivalents	(1,350)	(1,140)
Cash and cash equivalents, beginning of period	(2,092)	179
Cash and cash equivalents, end of period	\$ (3,442)	\$ (961)

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

Supplemental information (note 3)

See accompanying notes to consolidated financial statements.

# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements  
Three months ended March 31, 2003 and 2002  
(in thousands of dollars, except per share amounts)

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## 1. 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 ("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, 2002 (the "Annual Financial Statements"). These interim financial statements follow the same accounting policies as the Annual Financial Statements.

### 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 are 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. Per share information:

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

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# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements  
Three months ended March 31, 2002 and 2001  
(in thousands of dollars, except per share amounts)

### 3. Supplementary cash flow information:

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

	2002	2001
Accounts receivable	\$ 342	\$ 365
Inventories	26	41
Prepaid expenses	(67)	(62)
Accounts payable and accrued liabilities	607	289
	\$ 908	\$ 633

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

	2001	2000
Supplemental information:		
Interest paid	\$ 1,538	\$ 1,394
Taxes paid	—	—
Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	—	—

### 4. Deferred gain:

Effective February 28, 2002 the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel ("Holiday Inn"). As at March 31, 2003, registered title of the shares of the Holiday Inn had not been transferred to the purchaser. The Company continues to guarantee the bank indebtedness of the Holiday Inn, the amount of which as at March 31, 2003 was \$14,900. Consequently, the Company has not recognized a gain or loss on sale of its investment in the Holiday Inn in these financial statements. As at March 31, 2003 a deferred gain of \$4,881 was recorded in these financial statements.

### 5. Guarantees:

Effective January 1, 2003 the Company adopted the provisions of the CICA's Accounting Guideline AcG-14, "Disclosure of Guarantees". As at March 31, 2003, in addition to the guarantee on the Holiday Inn referred to in note 4, the Company has unconditionally guaranteed the indebtedness of the Vancouver Airport Property, to a maximum amount of \$3,475.

# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended March 31, 2002 and 2001

(in thousands of dollars, except per share amounts)

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## **6. Subsequent event:**

Effective April 1, 2003 the Company entered into an agreement with the lender of \$20,488 of long-term debt to refinance \$17,488, repayable in blended monthly installments of \$132, bearing interest at a rate of 6.8%, with principal due April 1, 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 April 1, 2004.

**QUARTERLY REPORT**

**FORM 51-901F**

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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 27
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Ronald G. Erdman" (signed)	Ronald G. Erdman	03 05 27

**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 first quarter ended March 31, 2003

	<b>2 0 0 3</b>	<b>2 0 0 2</b>
	<b>\$ ('000)</b>	<b>\$ ('000)</b>
Administrative salaries	300	297
Directors' fees	12	18
Charitable donations	-	4
Professional fees	149	77
Provincial capital taxes	16	40
Travel and entertainment	16	25
General	84	-
Hotel administration	949	1,106
Maintenance	683	696
Sales and advertising	986	934
Utilities	645	658
	<b>\$ 3,840</b>	<b>\$ 3,855</b>

For the three month period ended March 31, 2002, the aggregate amount of expenditures made to parties not at arm's length was \$58,000 (2002 - \$31,000). Of this, \$37,000 (\$15,000) 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 \$21,000 (\$2002 - \$16,000) 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:**

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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  
Tunku Razman Bin Tengku Shahariman  
Andrew E. Saxton  
Edward Woo

Effective April 29, 2003 Andrew E. Saxton resigned as a director of the Company.

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

#### 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.

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 for the years ended December 31, 2002 and 2001, 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 January 1, 2003, the Company adopted the provisions of Accounting guideline AcG-14, "Disclosure of Guarantees".

##### RESULTS OF OPERATIONS

Operating revenues decreased 6% to \$9.6 million for the three months ended March 31, 2003 from \$10.2 million for the three months ended March 31, 2002. Room revenues decreased over the same period by \$0.2 million, from \$5.6 million in 2002 to \$5.4 million in 2003. Occupancy for the three months to March 31, 2003, at 45.0%, was down marginally from 45.9% in 2002, while average daily rate fell from \$96.11 in 2002 to \$94.35 in 2003. Concerns over the impending attack on Iraq led many business and leisure travellers to put plans on hold, and the Company's properties competed for the reduced number of guests by pricing rooms aggressively.

While the Company's Crowne Plaza property in Edmonton, Alberta experienced a minor increase in room revenues in the first quarter of 2003 compared to 2002, all other properties experienced declines over the first three months.

Despite controlling costs during this period of declining room rates, gross margins on room revenues fell from 63% in 2002 to 61% in 2003. Gross profit fell by \$0.4 million from \$4.6 million in 2002, while gross profit margin fell marginally from 45% to 44%.

Selling, general and administrative expenses (“SG&A”) remained unchanged at \$3.8 million, as savings in personnel were offset by previously negotiated increases in pay scales for certain other workers.

With approximately two-thirds of our debt financed at floating rates, the Company was negatively impacted by increases in borrowing rates which came into effect in the first quarter of 2003. Total interest expense increased from \$1.5 million in the first three months of 2002 to \$1.6 million in 2003 as a result of higher interest rates.

The loss for the three months before non-controlling interest and income taxes was \$3.1 million compared to a loss of \$2.7 million for the three months ended March 31, 2002.

Current and future taxes resulted in a recovery of \$0.1 million, compared to a recovery of \$0.3 million in 2002. With no credit for non-controlling interest in the quarter (2002 – credit of \$0.3 million), the net loss for the period was \$2.9 million compared to a net loss of \$2.0 million for the three months ended March 31, 2002.

The Company had a cash deficiency from operations for the three months ended March 31, 2003 of \$1.5 million or \$0.01 per share, an increase of a few thousand dollars over the first quarter of 2002.

## **FINANCIAL POSITION**

### ***Income-Producing Properties***

The net book value of income-producing properties at March 31, 2003 was \$110.2 million, compared to \$110.7 million at December 31, 2002. Of this decrease, \$0.7 million represents depreciation, offset by additions of \$0.2 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

At March 31, 2003, the investment of \$2.7 million represents the Company’s 26.67% interest in the Delta Vancouver Airport Hotel and adjacent Lysander Office Building, on which income of \$0.1 million was earned during the quarter.

### ***Working Capital***

As discussed in the consolidated financial statements for the years ended December 31, 2002 and 2001, 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 end of the quarter of \$114.1 million compared to a deficiency of \$111.4 million at December 31, 2002. Excluding debt obligations which are not expected to mature within the next 12 months and the deferred gain, the working capital deficiency at March 31, 2003 would have been \$41.0 million compared to \$38.2 million at December 31, 2002. Included in the \$41.0 million is long-term debt of \$20.5 million maturing in the next twelve months, which the Company intends to refinance.

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 quarter-end, the net difference between accounts receivable and accounts payable was \$11.2 million (2002 year-end - \$10.3 million).

### ***Debt***

Total long-term demand loans and long-term debt decreased by \$0.9 million, from \$96.4 million at December 31, 2002 to \$95.5 million at March 31, 2003. This decrease represents the normal principal repayments included in the Company's monthly blended payments to its lenders.

Subsequent to the quarter-end the Company refinanced \$20.5 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 Vancouver Downtown Hotel ("Holiday Inn"). At March 31, 2003, the indebtedness of the Holiday Inn amounted to \$14.9 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 and a gain of approximately \$4.8 million recognized.

### **Due to Related Parties**

At December 31, 2002 the Company owed Allied Holdings Ltd. ("Holdings"), the Company's major shareholder, \$0.8 million. During the first quarter Holdings advanced a further \$0.6 million, with an additional \$0.3 million being received from the non-controlling interest. As outlined above, 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 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 the first quarter of 2003, operations absorbed \$1.5 million, virtually unchanged from the first quarter of 2002. Repayments of long-term demand loans, long-term debt and capital leases absorbed an additional \$1.0 million (2002 - \$1.1 million). These negative cash flows were covered in part by drawing on the Company's existing borrowing capacity and in part from advances from Holdings and the non-controlling interest.

A total of \$25.4 million of principal repayments on long-term demand loans and long-term debt becomes due in the next twelve months. 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 \$3.9 million was utilized at the quarter-end) which must be repaid during 2003. The Company intends to repay this debt from cash flow from operations and possible assets restructuring.

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.

The first quarter of 2003 coincided with the outbreak of severe acute respiratory syndrome ("SARS") in China. While the effect of SARS on hotel occupancies was only felt towards the end of the first quarter of 2003, the travel advisory issued by the World Health Organization in April advising against travel to Toronto has had a significant effect on hotel occupancy rates across Canada, with the greatest impact being felt in Toronto where the Company owns one hotel.

### ***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 March 31, 2003. 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 March 31, 2003, the Company employed approximately 800 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.