

**QUARTERLY REPORT**  
**FORM 51-901F**

<b>ISSUER DETAILS</b> NAME OF ISSUER  Allied Hotel Properties Inc.		FOR QUARTER ENDED  June 30, 2001	DATE OF REPORT Y    M    D 01   08   15
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			
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**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  "Ronald G. Erdman" (signed)	PRINT FULL NAME  Ronald G. Erdman	DATE OF REPORT Y    M    D 01   08   15
DIRECTOR'S SIGNATURE  "Peter Y.L. Eng" (signed)	PRINT FULL NAME  Peter Y.L. Eng	DATE OF REPORT Y    M    D 01   08   15

Unaudited Interim Consolidated Financial Statements of

**ALLIED HOTEL PROPERTIES INC.**

June 30, 2001

# ALLIED HOTEL PROPERTIES INC.

## Unaudited Consolidated Balance Sheets

June 30, 2001 and December 31, 2000  
Expressed in thousands of dollars

	2001	2000
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,431	\$ 3,638
Accounts receivable	4,499	2,846
Inventories	711	799
Prepaid expenses	452	276
Land held for resale	-	11,326
Future income taxes	502	502
	<u>8,595</u>	<u>19,387</u>
Income-producing properties	172,234	174,432
Investments	1,420	1,319
Deferred costs, net of amortization	1,663	1,454
Future income taxes	7,221	6,433
	<u>\$ 191,133</u>	<u>\$ 203,025</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,933	\$ 15,441
Current portion of deferred revenue	134	216
Current portion of long-term debt	7,309	17,853
Current portion of capital lease obligation	487	482
Future income taxes	14	14
	<u>25,877</u>	<u>34,006</u>
Deferred revenue	1,732	1,799
Long-term debt	134,101	133,458
Capital lease obligation	822	894
Due to affiliated companies (note 3)	9,338	13,279
Future income taxes	3,605	3,605
Non-controlling interest	4,542	5,053
	<u>180,017</u>	<u>192,094</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(18,752)	(18,937)
	<u>11,116</u>	<u>10,931</u>
	<u>\$ 191,133</u>	<u>\$ 203,025</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, 2001 and 2000

Expressed in thousands of dollars

	2001	2000
Deficit, beginning of period As previously stated	\$ 18,937	\$ 12,874
Adjustment to reflect changes in accounting for income taxes	–	(2,536)
As restated	18,937	10,338
Deemed contribution by related party (note 3)	(4,250)	–
Net loss	4,065	4,762
Deficit, end of period	\$ 18,752	\$ 15,100

*See accompanying notes to consolidated financial statements*

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Operations

Expressed in thousands of dollars, except per share amounts

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
<b>Revenues:</b>				
Rooms	\$ 13,371	\$ 14,853	\$ 23,080	\$ 24,098
Food and beverage	5,413	5,698	10,060	10,012
Other	1,349	1,275	2,554	2,403
	20,133	21,826	35,694	36,513
<b>Cost of sales:</b>				
Rooms	4,093	4,344	7,626	7,887
Food and beverage	4,649	4,774	8,754	8,778
Other	464	410	835	790
	9,206	9,528	17,215	17,455
<b>Gross profit</b>	<b>10,927</b>	<b>12,298</b>	<b>18,479</b>	<b>19,058</b>
<b>Operating expenses:</b>				
Selling, general and administrative	5,730	6,110	11,689	11,454
Management fees	414	471	747	879
Taxes and insurance	1,190	1,661	2,520	2,998
Depreciation and amortization	1,418	1,183	2,813	2,690
	8,752	9,425	17,769	18,021
<b>Operating income</b>	<b>2,175</b>	<b>2,873</b>	<b>710</b>	<b>1,037</b>
<b>Other expenses / (income):</b>				
Interest on long-term debt	2,452	3,441	5,410	6,098
Interest – other	588	474	1,041	707
Equity in loss / (income) of investee	(65)	8	(101)	(9)
Gain on sale of land held for resale	(155)	–	(155)	–
	2,820	3,923	6,195	6,796
<b>Loss before income tax and non-controlling interest</b>	<b>645</b>	<b>1,050</b>	<b>5,485</b>	<b>5,759</b>
<b>Income tax expense / (recovery):</b>				
Current	58	93	111	182
Future (note 2)	(63)	11	(787)	(735)
	(5)	104	(676)	(553)
<b>Loss before non-controlling interest</b>	<b>640</b>	<b>1,154</b>	<b>4,809</b>	<b>5,206</b>
<b>Non-controlling interest</b>	<b>(176)</b>	<b>241</b>	<b>(744)</b>	<b>(444)</b>
<b>Net loss</b>	<b>\$ 464</b>	<b>\$ 1,395</b>	<b>\$ 4,065</b>	<b>\$ 4,762</b>
<b>Earnings (loss) per share, basic and fully diluted</b>	<b>\$ 0.00</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>

See accompanying notes to consolidated financial statements

# ALLIED HOTEL PROPERTIES INC.

## Unaudited Consolidated Statements of Cash Flows

Expressed in thousands of dollars

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Cash provided by (used in):				
Operations:				
Net (loss)	\$ (464)	\$ (1,395)	\$ (4,065)	\$ (4,762)
Adjustments for:				
Depreciation and amortization	1,418	1,183	2,813	2,690
Future income tax	(63)	11	(787)	(735)
Non-controlling interest	(176)	241	(744)	(444)
Equity in (income) loss of investee	(65)	8	(101)	(9)
Gain on sale of land held for resale	(155)	–	(155)	–
Amortization of deferred revenue	(32)	(34)	(148)	(161)
Funds from operations	463	14	(3,187)	(3,421)
Changes in non-cash operating working capital (note 7)				
	(1,071)	1,503	751	3,087
	(608)	1,517	(2,436)	(334)
Financing:				
Proceeds from long-term debt	–	–	10,000	–
Principal repayments on long-term debt	(10,247)	(1,805)	(19,901)	(3,895)
Due to affiliated companies	207	1,488	309	6,001
Issuance of share capital	–	189	–	189
Payments received from non-controlling interest	111	–	233	–
Repayment of obligations under capital leases	(124)	(145)	(245)	(156)
	(10,053)	(273)	(9,604)	2,139
Investments:				
Additions to income-producing properties	(25)	(74)	(345)	(288)
Net proceeds from sale of land held for resale	11,481	–	11,481	–
Increase in deferred costs	(38)	30	(303)	(11)
	11,418	(44)	10,833	(299)
Increase (decrease) in cash and cash equivalents				
	757	1,200	(1,207)	1,506
Cash and cash equivalents, beginning of period				
	1,674	1,254	3,638	948
Cash and cash equivalents, end of period				
	\$ 2,431	\$ 2,454	\$ 2,431	\$ 2,454

See accompanying notes to consolidated financial statements

Per share information (note 6)  
Supplemental information (note 7)

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

June 30, 2001

Expressed 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") new 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, 2000 (the "Annual Financial Statements"). These interim financial statements follow the same accounting policies as the Annual Financial Statements.

### b. Per share information

Effective January 1, 2001, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to Section 3500 ("Earnings Per Share") of the CICA Handbook. Under this new standard the dilutive effect of stock options is determined using the treasury stock method instead of the imputed earnings approach (note 6). All earnings per share results for the prior period have been restated. The changes have had no impact on the current or prior periods.

### c. 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.

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

June 30, 2001

Expressed in thousands of dollars, except per share amounts

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## 2. Restatement of prior period statements

### *Future income taxes*

In the first quarter of 2000 the Company adopted the provisions of Section 3465 of the CICA Handbook, Income Taxes ("Section 3465"). A Future Tax Asset was recognized for each subsidiary company reporting a loss, resulting in a credit to Future Income Tax expense in the Statement of Operations of \$2,577 for the six months ended June 30, 2000 (\$478 for the three months then ended). Upon subsequent review it was determined that a valuation allowance should be taken against the Future Tax Asset in certain subsidiary companies. The comparative statements for the second quarter 2000 have therefore been restated by recalculating the Future Tax Asset in the Balance Sheet and the Future Tax credit in the Statement of Operations, on the same basis as that used in the Company's Annual Financial Statements. The result of this restatement is to increase the loss previously reported for the six months ended June 30, 2000 by \$1,842 and to increase the loss previously reported for the three months then ended by \$489.

## 3. Deemed contribution by related party

Effective April 30, 1998, the Company acquired a 90% undivided interest in the business assets related to the Crowne Plaza Hotel Georgia. The acquisition was, for accounting purposes, considered to be a related party transaction as the predecessor owner of the property and the Company were subject to common control. On acquisition, the property was recorded at the carrying value in the predecessor owners' accounts with the difference between the consideration given and the carrying values of the net assets acquired reflected in equity. This transaction resulted, inter alia, in a promissory note issued by the Company of \$5,650,000 in favour of the affiliated company and a deemed distribution to related parties of \$6,702,629.

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 \$4,250,000, and the promissory note issued on acquisition has been reduced accordingly.

## 4. Long-term debt:

In the first quarter of 2001 the Company refinanced a portion of its long-term debt secured by one of its hotel properties. \$8,000 of floating rate debt was refinanced through a new facility of \$10,000, with interest fixed at 9% for a five year term. Principal repayments of long-term debt over the next five years as disclosed in the Annual Financial Statements reflected this refinancing.

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

June 30, 2001

Expressed in thousands of dollars, except per share amounts

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## 5. Stock options:

The Company has a stock option plan ("the Plan") providing for the issuance of up to 10,600,000 options to purchase common shares. The Plan provides that options have a maximum term of ten years and be exercisable at a price not less than fair market value of the shares at the time of the grant.

During 1999, the Company granted 8,700,000 options to purchase common shares, exercisable at \$0.80 per share. 20% of these options vested on each of January 1, 2000 and January 1, 2001. The remaining 60% will vest in equal parts on January 1 of each of the next three years. The options expire on December 31, 2004. No options were exercised during the period.

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

	2001 stock options outstanding	Weighted average exercise price	2000 stock options outstanding	Weighted average exercise price
Outstanding, January 1	8,700,000	\$ 0.80	8,700,000	\$ 0.80
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	(180,000)	0.80	—	—
Outstanding, June 30	8,520,000	\$ 0.80	8,700,000	\$ 0.80
Exercisable, June 30	3,480,000	\$ 0.80	1,740,000	\$ 0.80

On March 31, 2001 an employee holding options to purchase 300,000 common shares left the Company. Under the terms of the Plan, unvested options are cancelled immediately upon cessation of employment. The former employee has 180 days following cessation of employment in which to exercise any vested options. As of the date of these financial statements no options had been exercised.

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

June 30, 2001

Expressed in thousands of dollars, except per share amounts

## 6. Per share information:

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Weighted average number of Common shares outstanding	106,327,268	106,218,448	106,327,268	106,182,834
Net loss per share, basic and fully diluted	\$ 0.00	\$ 0.01	\$ 0.04	\$ 0.04
Funds from operations per share, basic and fully diluted	0.00	0.00	0.03	0.03

## 7. 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	
	2001	2000	2001	2000
Accounts receivable	\$ (1,322)	\$ (2,631)	\$ (1,653)	\$ (1,837)
Inventories	(5)	(118)	88	(78)
Prepaid expenses	(121)	(351)	(176)	(255)
Accounts payable	377	4,603	2,492	5,257
	\$ (1,071)	\$ 1,503	\$ 751	\$ 3,087

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

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Supplemental information:				
Interest paid	\$ 3,747	\$ 5,883	\$ 7,663	\$ 9,296
Taxes paid	181	92	181	127
Non-cash investing and financing activities				
Acquisition of equipment under capital lease	24	152	178	34
Reduction in note payable to affiliated company (note 3)	4,250	–	4,250	–

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

June 30, 2001

Expressed in thousands of dollars, except per share amounts

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## **8. Subsequent event:**

During the quarter ended June 30, 2001, the Company entered into an unconditional agreement to sell a two-thirds interest in one of its hotel properties for cash of \$8,000 and assumption of debt. The Company has received a deposit of \$1,000 as partial payment, with the balance due September 30, 2001, or earlier at the purchaser's option.