

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

<b>ISSUER DETAILS</b> NAME OF ISSUER  Allied Hotel Properties Inc.		FOR QUARTER ENDED  September 30, 2001	DATE OF REPORT Y    M    D 01   11   08
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   11   08
DIRECTOR'S SIGNATURE  "Peter Y.L. Eng" (signed)	PRINT FULL NAME  Peter Y.L. Eng	DATE OF REPORT Y    M    D 01   11   08

Unaudited Interim Consolidated Financial Statements of

**ALLIED HOTEL PROPERTIES INC.**

September 30, 2001

# ALLIED HOTEL PROPERTIES INC.

## Unaudited Consolidated Balance Sheets

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

	2001	2000
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,679	\$ 3,638
Accounts receivable	4,649	2,846
Inventories	550	799
Prepaid expenses	338	276
Land held for resale	-	11,326
Future income taxes	502	502
	<u>8,718</u>	<u>19,387</u>
Income-producing properties	159,095	174,432
Investments and advances (note 4)	888	1,319
Deferred costs, net of amortization	809	1,454
Future income taxes	6,171	6,433
	<u>6,171</u>	<u>6,433</u>
	<u>\$ 175,681</u>	<u>\$ 203,025</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,635	\$ 15,441
Current portion of deferred revenue	178	216
Current portion of long-term debt	3,957	17,853
Current portion of capital lease obligation	435	482
Future income taxes	14	14
	<u>18,219</u>	<u>34,006</u>
Deferred revenue	2,256	1,799
Long-term debt	117,750	133,458
Capital lease obligation	704	894
Due to affiliated companies (note 3)	8,633	13,279
Future income taxes	2,985	3,605
Non-controlling interest	4,358	5,053
	<u>154,905</u>	<u>192,094</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(9,092)	(18,937)
	<u>20,776</u>	<u>10,931</u>
	<u>\$ 175,681</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 nine months ended September 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 (income) loss	(5,595)	4,203
Deficit, end of period	\$ 9,092	\$ 14,541

*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 September 30		Nine months ended September 30	
	2001	2000	2001	2000
<b>Revenues:</b>				
Rooms	\$ 15,939	\$ 17,302	\$ 39,019	\$ 41,399
Food and beverage	4,605	4,823	14,665	14,835
Other	1,337	1,219	3,891	3,623
	<u>21,881</u>	<u>23,344</u>	<u>57,575</u>	<u>59,857</u>
<b>Cost of sales:</b>				
Rooms	4,419	4,661	12,045	12,548
Food and beverage	4,230	4,386	12,984	13,164
Other	483	395	1,318	1,185
	<u>9,132</u>	<u>9,442</u>	<u>26,347</u>	<u>26,897</u>
<b>Gross profit</b>	<b>12,749</b>	<b>13,902</b>	<b>31,228</b>	<b>32,960</b>
<b>Operating expenses:</b>				
Selling, general and administrative	5,733	5,991	17,422	17,445
Management fees	867	377	1,614	1,255
Taxes and insurance	1,185	1,392	3,705	4,390
Depreciation and amortization	1,417	1,334	4,230	4,024
	<u>9,202</u>	<u>9,094</u>	<u>26,971</u>	<u>27,114</u>
<b>Operating income</b>	<b>3,547</b>	<b>4,808</b>	<b>4,257</b>	<b>5,846</b>
<b>Other expenses / (income):</b>				
Interest on long-term debt	2,307	2,991	7,717	9,089
Interest – other	532	674	1,573	1,381
Equity in (income) loss of investee	(94)	29	(195)	21
Gain on sale of income producing property	(9,792)	–	(9,792)	–
Gain on sale of land held for resale	2	–	(153)	–
	<u>(7,045)</u>	<u>3,694</u>	<u>(850)</u>	<u>10,491</u>
<b>Income (loss) before income tax and non-controlling interest</b>	<b>10,592</b>	<b>1,114</b>	<b>5,107</b>	<b>(4,645)</b>
<b>Income tax expense / (recovery):</b>				
Current	50	68	161	250
Future (note 2)	1,066	542	279	(193)
	<u>1,116</u>	<u>610</u>	<u>440</u>	<u>57</u>
<b>Income (loss) before non-controlling interest</b>	<b>9,476</b>	<b>504</b>	<b>4,667</b>	<b>(4,702)</b>
<b>Non-controlling interest</b>	<b>(184)</b>	<b>(55)</b>	<b>(928)</b>	<b>(499)</b>
<b>Net income (loss)</b>	<b>\$ 9,660</b>	<b>\$ 559</b>	<b>\$ 5,595</b>	<b>\$ (4,203)</b>
<b>Earnings (loss) per share, basic and fully diluted</b>	<b>\$ 0.09</b>	<b>\$ 0.01</b>	<b>\$ 0.05</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 September 30		Nine months ended September 30	
	2001	2000	2001	2000
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ 9,660	\$ 559	\$ 5,595	\$ (4,203)
Adjustments for:				
Depreciation and amortization	1,417	1,334	4,230	4,024
Future income tax	1,066	542	279	(193)
Non-controlling interest	(184)	(55)	(928)	(499)
Equity in (income) loss of investee	(94)	29	(195)	21
Gain on sale of income producing property	(9,792)	–	(9,792)	–
Gain on sale of land held for resale	2	–	(153)	–
Amortization of deferred revenue	(55)	(33)	(203)	(195)
Funds from operations	2,020	2,376	(1,167)	(1,045)
Changes in non-cash operating working capital (note 7)	(2,338)	(1,060)	(1,587)	2,027
	(318)	1,316	(2,754)	982
Financing:				
Proceeds from long-term debt	–	–	10,000	–
Principal repayments on long-term debt	(3,825)	(1,873)	(23,726)	(5,768)
Due to affiliated companies	(2,333)	(863)	(2,024)	5,138
Issuance of share capital	–	–	–	189
Deferred revenue	623	–	623	–
Payments received from non-controlling interest	–	–	233	–
Repayment of obligations under capital leases	(125)	(111)	(370)	(267)
	(5,660)	(2,847)	(15,264)	(708)
Investments:				
Additions to income-producing properties	(189)	(239)	(534)	(527)
Net proceeds from income producing property	6,605	–	6,605	–
Net proceeds from sale of land held for resale	(2)	–	11,479	–
Deferred costs	(36)	(11)	(339)	(22)
	6,378	(250)	17,211	(549)
Cash in investment now accounted for using equity method	(152)	–	(152)	–
Increase (decrease) in cash and cash equivalents	248	(1,781)	(959)	(275)
Cash and cash equivalents, beginning of period	2,431	2,454	3,638	948
Cash and cash equivalents, end of period	\$ 2,679	\$ 673	\$ 2,679	\$ 673

See accompanying notes to consolidated financial statements

Per share information (note 7)  
Supplemental information (note 8)

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

September 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 7). 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

September 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 \$2,069 for the nine months ended September 30, 2000 (\$508 expense 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 third 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 nine months ended September 30, 2000 by \$1,876 and to decrease the income previously reported for the three months then ended by \$34.

## 3. Deemed contribution by related party

Effective April 30, 1998, the Company acquired a 90% undivided interest in the Crowne Plaza Hotel Georgia at the carrying value in the predecessor owners' accounts. In May 2001, the value assigned to the 90% undivided interest in the Crowne Plaza Hotel Georgia was reduced by \$4,250, and the promissory note issued on acquisition has been reduced accordingly.

## 4. Investments and advances:

In the third quarter of 2001 the Company sold a two-thirds interest in 1110 Howe Holdings Inc. ("1110 Howe") and 1110 Howe Holdings Trust ("1110 Trust"). 1110 Howe and 1110 Trust together are the owners of the Holiday Inn Vancouver Downtown Hotel. Effective August 31, 2001 the assets, liabilities, results of operations and cash flows from that property were no longer consolidated into the financial statements of the Company. The Company's remaining one-third interest in the property is now accounted for as an investment using the equity method.

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

September 30, 2001

Expressed in thousands of dollars, except per share amounts

## 4. Investments and advances (cont'd):

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

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

At September 30, 2001 the Company's investments and advances comprised the following:

	% interest	2001	2000
Delta Vancouver Airport Hotel:	26.67%		
Interest, at carrying value			
Beginning of period		\$ 1,405	\$ 1,405
Acquired during period		815	—
End of period		2,220	1,405
Share of earnings			
Beginning of period		(86)	(46)
Net income		147	(40)
End of period		61	(86)
Investment in Delta Vancouver Airport Hotel		2,281	1,319
Holiday Inn Vancouver Downtown Hotel:	33.33%		
Interest, at carrying value			
Beginning of period		—	—
Acquired during period		(1,442)	—
End of period		(1,442)	—
Share of earnings			
Beginning of period		—	—
Net income (loss)		49	—
End of period		49	—
Investment in Holiday Inn Vancouver Downtown Hotel		(1,393)	—
		\$ 888	\$ 1,319

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

September 30, 2001

Expressed in thousands of dollars, except per share amounts

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## 5. 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.

## 6. 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	(300,000)	0.80	—	—
Outstanding, September 30	8,400,000	\$ 0.80	8,700,000	\$ 0.80
Exercisable, September 30	3,200,000	\$ 0.80	1,740,000	\$ 0.80

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Interim Consolidated Financial Statements

September 30, 2001

Expressed in thousands of dollars, except per share amounts

## 7. Per share information:

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Weighted average number of common shares outstanding	106,327,268	106,327,628	106,327,268	106,231,330
Net income (loss) per share, basic and fully diluted	\$ 0.09	\$ 0.01	\$ 0.05	\$ (0.04)
Funds from operations per share, basic and fully diluted	0.02	0.02	(0.01)	(0.01)

## 8. Supplementary Cash Flow Information:

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

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Accounts receivable	\$ (599)	\$ (1,420)	\$ (2,252)	\$ (3,257)
Inventories	33	11	121	(67)
Prepaid expenses	58	102	(118)	(153)
Accounts payable	(1,830)	247	662	5,504
	\$ (2,338)	\$ (1,060)	\$ (1,587)	\$ 2,027

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

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Supplemental information:				
Interest paid	\$ 3,058	\$ 3,781	\$ 10,721	\$ 10,708
Taxes paid	9	52	190	113
Non-cash investing and financing activities				
Acquisition of equipment under capital lease	24	152	202	34
Reduction in note payable to affiliated company (note 3)	-	-	4,250	-