

QUARTERLY REPORT

FORM 51-901F

ISSUER DETAILS NAME OF ISSUER Allied Hotel Properties Inc.		FOR QUARTER ENDED June 30, 2003	DATE OF REPORT Y M D 03 08 20	
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 "Peter Y.L. Eng" (signed)	PRINT FULL NAME Peter Y.L. Eng	DATE OF REPORT Y M D 03 08 20
DIRECTOR'S SIGNATURE "Jack Austin" (signed)	PRINT FULL NAME Senator Jack Austin	DATE OF REPORT Y M D 03 08 20

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

June 30, 2003

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
June 30, 2003 and December 31, 2002
(in thousands of dollars)

	June 2003	December 2002
	Unaudited	Audited
Assets		
Current assets:		
Accounts receivable	\$ 2,277	\$ 1,740
Inventories	432	448
Prepaid expenses	468	628
Future income taxes	488	356
	<u>3,665</u>	<u>3,172</u>
Income-producing properties	109,808	110,676
Investments	2,738	2,577
Deferred costs, net of amortization	341	386
Future income taxes	2,645	2,645
	<u>\$ 119,197</u>	<u>\$ 119,456</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness	\$ 2,812	\$ 2,092
Accounts payable and accrued liabilities	11,719	11,995
Deferred gain (note 6)	4,881	4,222
Deferred revenue	267	267
Long-term debt (note 3)	22,382	22,788
Due to related parties	3,191	1,019
Capital lease obligation	409	386
Long-term demand loans (note 3)	73,415	71,788
	<u>119,076</u>	<u>114,557</u>
Deferred revenue	1,938	2,029
Long-term debt (note 3)	1,720	1,818
Capital lease obligation	275	292
	<u>123,009</u>	<u>118,696</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(33,680)	(29,108)
	<u>(3,812)</u>	<u>760</u>
	<u>\$ 119,197</u>	<u>\$ 119,456</u>

Future operations (note 1)
See accompanying notes to consolidated financial statements.

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

"Jack Austin" (signed) Director
Senator Jack Austin

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	
	2003	2002	2003	2002
Revenues:				
Rooms	\$ 6,901	\$ 8,960	\$ 12,289	\$ 14,557
Food and beverage	4,071	4,526	7,289	7,931
Other	1,076	1,085	2,102	2,317
	12,048	14,571	21,680	24,805
Cost of sales:				
Rooms	2,326	2,715	4,439	4,807
Food and beverage	3,291	3,626	6,235	6,806
Other	362	389	726	733
	5,979	6,730	11,400	12,346
Gross profit	6,069	7,841	10,280	12,459
Operating expenses:				
Selling, general and administrative	4,116	3,856	7,956	7,711
Management fees	185	346	369	472
Taxes and insurance	988	766	1,914	1,726
Depreciation and amortization	766	852	1,519	1,699
	6,055	5,820	11,758	11,608
Operating income (loss)	14	2,021	(1,478)	851
Other expenses (income):				
Interest on long-term demand loans and long-term debt	1,483	1,402	2,899	2,753
Interest – other	229	177	454	370
Equity in income of investee	(84)	(79)	(161)	(111)
	1,628	1,500	3,192	3,012
Income (loss) before income tax and non-controlling interest	(1,614)	521	(4,670)	(2,161)
Income tax expense (recovery):				
Current	14	9	34	42
Future	17	56	(132)	(325)
	31	65	(98)	(283)
Income (loss) before non-controlling interest	(1,645)	456	(4,572)	(1,878)
Non-controlling interest	-	71	-	406
Income (loss) for the period	\$ (1,645)	\$ 527	\$ (4,572)	\$ (1,472)
Basic and diluted income (loss) per share	\$ (0.02)	\$ 0.00	\$ (0.04)	\$ (0.01)

See accompanying notes to consolidated financial statements

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit
Six months ended June 30, 2003 and 2002
(in thousands of dollars)

		2003		2002
Net loss	\$	4,572	\$	1,472
Deficit, beginning of period		29,108		19,533
Deficit, end of period	\$	33,680	\$	21,005

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	
	2003	2002	2003	2002
Cash provided by (used in):				
Operations:				
Income (loss) for the period	\$ (1,645)	\$ 527	\$ (4,572)	\$ (1,472)
Adjustments for:				
Depreciation and amortization	766	852	1,519	1,699
Future income tax	17	56	(132)	(325)
Non-controlling interest	—	(71)	—	(406)
Equity in income of investee	(84)	(79)	(161)	(111)
Amortization of deferred revenue	(45)	(45)	(91)	(274)
Funds from operations	(991)	1,240	(3,437)	(889)
Changes in non-cash operating working capital (note 3)	(1,545)	(1,244)	(637)	(611)
	(2,536)	(4)	(4,074)	(1,500)
Financing:				
Proceeds from long-term demand loans	6,000	—	6,000	—
Principal repayments on long-term demand loans	(677)	(678)	(1,373)	(1,400)
Principal repayments on long-term debt	(3,257)	(247)	(3,504)	(493)
Due to affiliated companies	1,213	—	1,803	72
Payments received from non-controlling interest	113	—	369	—
Repayment of obligations under capital leases	(130)	(90)	(230)	(188)
	3,262	(1,015)	3,065	(2,009)
Investments:				
Additions to income-producing properties	(96)	(397)	(370)	(542)
Deposits received	—	85	—	1,580
Net proceeds from sale of investments	—	—	659	—
	(96)	(312)	289	1,038
Increase (decrease) in cash and cash equivalents	630	(1,331)	(720)	(2,471)
Cash and cash equivalents, beginning of period	(3,442)	(961)	(2,092)	179
Cash and cash equivalents, end of period	\$ (2,812)	\$ (2,292)	\$ (2,812)	\$ (2,292)

See accompanying notes to consolidated financial statements

Supplemental information (note 5)

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements
Six months ended June 30, 2003 and 2002
(in thousands of dollars, except per share amounts)

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 June 30, 2003, the Company had a working capital deficiency. In addition, the Company has experienced losses and negative cash flow from operations in the six months ended June 30, 2003 and in the years ended December 31, 2002 and 2001. Further, based on management's current projections, the Company will likely experience a significant cash flow deficiency in the balance of the 2003 fiscal year.

The Company is subject to certain debt service ratio ("DSR") covenants pertaining to long-term demand loans (see note 3). At December 31, 2002 the Company was in compliance with such covenants. At June 30, 2003 the Company was no longer in compliance with such covenants, and the Company's lender is aware of this covenant violation. Although the lender has not insisted on immediate rectification of this breach, the covenant violation could result in a requirement for the Company to take appropriate action to bring the Company into compliance with the covenants, including the potential requirement to immediately repay a portion of the long-term demand loans.

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 ("GAAP") and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements
Six months ended June 30, 2003 and 2002
(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

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.

3. Long-term demand loans / long-term debt:

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 long-term demand 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.

In June 2003 the Company arranged additional long-term demand loan financing of \$3,000 from an existing lender, the proceeds of which were used to provide additional working capital to the Company. The loan bears interest at a rate of prime plus 2.5% per annum, with fixed monthly principal repayments of \$25. The loan matures in February 2006, concurrent with the existing facility from the same lender.

As detailed in note 1, the Company was in breach of certain DSR covenants at June 30, 2003.

4. Per share information:

	2003	2002
Weighted average number of common shares outstanding	106,327,268	106,327,268

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements
Six months ended June 30, 2003 and 2002
(in thousands of dollars, except per share amounts)

5. 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	
	2003	2002	2003	2002
Accounts receivable	\$ (879)	\$ (939)	\$ (537)	\$ (574)
Inventories	(10)	(16)	16	25
Prepaid expenses	227	(169)	160	(231)
Accounts payable	(883)	(120)	(276)	169
	\$ (1,545)	\$ (1,244)	\$ (637)	\$ (611)

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

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Supplemental information:				
Interest paid	\$ 1,705	\$ 1,542	\$ 3,243	\$ 2,936
Taxes paid	1	16	1	16
Non-cash investing and financing activities:				
Acquisition of equipment under capital lease	239	-	239	-
Refinancing of long-term debt	17,488	-	17,488	-

6. 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 June 30, 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 June 30, 2003 was \$14,700. 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 June 30, 2003 a deferred gain of \$4,881 was recorded in these financial statements.

7. Guarantees:

Effective January 1, 2003 the Company adopted the provisions of the CICA's Accounting Guideline AcG-14, "Disclosure of Guarantees". As at June 30, 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.