

QUARTERLY REPORT

FORM 51-901F

ISSUER DETAILS NAME OF ISSUER		FOR QUARTER ENDED	DATE OF REPORT Y M D	
Allied Hotel Properties Inc.		September 30, 2003	03	11 21
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	03 11 21
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Peter Y.L. Eng" (signed)	Peter Y.L. Eng	03 11 21

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

September 30, 2003

ALLIED HOTEL PROPERTIES INC.

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

	September 2003	December 2002
	Unaudited	Audited
Assets		
Current assets:		
Accounts receivable	\$ 3,551	\$ 1,740
Inventories	412	448
Prepaid expenses	733	628
Future income taxes	598	356
	<u>5,294</u>	<u>3,172</u>
Income-producing properties	109,122	110,676
Investments	2,784	2,577
Deferred costs, net of amortization	333	386
Future income taxes	2,645	2,645
	<u>\$ 120,178</u>	<u>\$ 119,456</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness	\$ 3,108	\$ 2,092
Accounts payable and accrued liabilities	11,799	11,995
Deferred gain (note 6)	4,881	4,222
Deferred revenue	267	267
Long-term debt (note 3)	17,745	22,788
Due to related parties	4,288	1,019
Capital lease obligation	311	386
Long-term demand loans (note 3)	75,660	71,788
	<u>118,059</u>	<u>114,557</u>
Deferred revenue	2,181	2,029
Long-term debt (note 3)	2,832	1,818
Capital lease obligation	260	292
	<u>123,332</u>	<u>118,696</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(33,022)	(29,108)
	<u>(3,154)</u>	<u>760</u>
	<u>\$ 120,178</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

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

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit

For the nine months ended September 30, 2003 and 2002

Expressed in thousands of dollars

	2003	2002
Deficit, beginning of period	\$ 29,108	\$ 19,533
Net loss	3,914	621
Deficit, end of period	\$ 33,022	\$ 20,154

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	
	2003	2002	2003	2002
Revenues:				
Rooms	\$ 9,016	\$ 10,749	\$ 21,305	\$ 25,306
Food and beverage	3,377	3,775	10,666	11,706
Other	1,127	1,124	3,229	3,441
	<u>13,520</u>	<u>15,648</u>	<u>35,200</u>	<u>40,453</u>
Cost of sales:				
Rooms	2,776	3,121	7,215	7,928
Food and beverage	3,075	3,375	9,310	10,181
Other	403	417	1,129	1,150
	<u>6,254</u>	<u>6,913</u>	<u>17,654</u>	<u>19,259</u>
Gross profit	7,266	8,735	17,546	21,194
Operating expenses:				
Selling, general and administrative	3,640	4,267	11,596	11,978
Management fees	226	303	595	775
Taxes and insurance	1,012	892	2,926	2,618
Depreciation and amortization	794	879	2,313	2,578
	<u>5,672</u>	<u>6,341</u>	<u>17,430</u>	<u>17,949</u>
Operating income	1,594	2,394	116	3,245
Other expenses / (income):				
Interest on long-term demand loans and debt	1,490	1,448	4,389	4,201
Interest – other	314	193	768	563
Settlement of management agreement (note 8)	(732)	–	(732)	–
Equity in income of investee	(46)	(143)	(207)	(254)
	<u>1,026</u>	<u>1,498</u>	<u>4,218</u>	<u>4,510</u>
Income (loss) before income tax and non-controlling interest	568	896	(4,102)	(1,265)
Income tax expense / (recovery):				
Current	20	21	54	63
Future	(110)	104	(242)	(221)
	<u>(90)</u>	<u>125</u>	<u>(188)</u>	<u>(158)</u>
Income (loss) before non-controlling interest	658	771	(3,914)	(1,107)
Non-controlling interest	–	(80)	–	(486)
Net income (loss)	\$ 658	\$ 851	\$ (3,914)	\$ (621)
Earnings (loss) per share, basic and fully diluted	\$ 0.01	\$ 0.01	\$ (0.04)	\$ (0.01)

Per share information (note 4)

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	
	2003	2002	2003	2002
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ 658	\$ 851	\$ (3,914)	\$ (621)
Adjustments for:				
Depreciation and amortization	794	879	2,313	2,578
Future income tax	(110)	104	(242)	(221)
Non-controlling interest	–	(80)	–	(486)
Equity in income of investee	(46)	(143)	(207)	(254)
Foreign exchange gain	(300)	–	(300)	–
Amortization of deferred revenue	(57)	(44)	(148)	(318)
Funds from operations	939	1,567	(2,498)	678
Changes in non-cash operating working capital (note 5)	(1,439)	(1,966)	(2,076)	(2,577)
	(500)	(399)	(4,574)	(1,899)
Financing:				
Proceeds from long-term demand loans	–	–	6,000	–
Principal repayments on long-term demand loans	(755)	(674)	(2,128)	(2,074)
Principal repayments on long-term debt	(226)	(249)	(3,730)	(742)
Due to affiliated companies	1,085	–	2,888	72
Deferred revenue	300	–	300	–
Payments received from non-controlling interest	12	250	381	250
Repayment of obligations under capital leases	(112)	(85)	(342)	(273)
	304	(758)	3,369	(2,767)
Investments:				
Additions to income-producing properties	(100)	(198)	(470)	(740)
Deposits received	–	1,309	–	2,889
Proceeds from sale of investments	–	–	659	–
	(100)	1,111	189	2,149
Decrease in cash and cash equivalents	(296)	(46)	(1,016)	(2,517)
Cash and cash equivalents, beginning of period	(2,812)	(2,292)	(2,092)	179
Cash and cash equivalents, end of period	\$ (3,108)	\$ (2,338)	\$ (3,108)	\$ (2,338)

See accompanying notes to consolidated financial statements

Cash and cash equivalents are defined as cash less bank indebtedness

Supplemental information (note 5)

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements
Nine months ended September 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 September 30, 2003, the Company had a working capital deficiency. In addition, the Company has experienced losses and negative cash flow from operations in the nine months ended September 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 September 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
Nine months ended September 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.

Effective September 1, 2003 the Company refinanced a long-term debt facility of \$1,485 (US\$1,100) with the existing lender. The loan will continue to be repaid in equal monthly installments of US\$18 with the balance due in 2008. The outstanding balance of the loan will bear interest at 10% per annum.

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

ALLIED HOTEL PROPERTIES INC.

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

4. Per share information:

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

5. 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	
	2003	2002	2003	2002
Accounts receivable	\$ (1,274)	\$ (18)	\$ (1,811)	\$ (592)
Inventories	20	8	36	33
Prepaid expenses	(265)	(234)	(105)	(465)
Accounts payable and accrued liabilities	80	(1,722)	(196)	(1,553)
	\$ (1,439)	\$ (1,966)	\$ (2,076)	\$ (2,577)

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

	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Supplemental information:				
Interest paid	\$ 1,690	\$ 1,814	\$ 4,933	\$ 4,750
Taxes paid	42	-	43	16
Non-cash investing and financing activities:				
Acquisition of equipment under capital lease	-	38	239	38
Refinancing of long-term debt	1,485	-	18,973	-

ALLIED HOTEL PROPERTIES INC.

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

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 September 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 September 30, 2003 was \$14,628. 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 September 30, 2003 a deferred gain of \$4,881 was recorded in these financial statements.

Subsequent to the end of the period, registered title of the shares of the Holiday Inn was transferred to the purchaser. Concurrently with the registration, the Company was released from all guarantees in respect of the indebtedness of the Holiday Inn. A gain on sale of this investment will be recognized in the next quarter.

7. Guarantees:

Effective January 1, 2003 the Company adopted the provisions of the CICA's Accounting Guideline AcG-14, "Disclosure of Guarantees". As at September 30, 2003, in addition to the guarantee on the Holiday Inn referred to in note 6, the Company has unconditionally guaranteed the indebtedness of the Vancouver Airport Property, to a maximum amount of \$3,475.

8. Settlement of management agreement:

In 2001 the Company entered into a management agreement (the "Initial Agreement") with a third party manager to manage one of the Company's hotel properties. The Initial Agreement had an expiry date of December 31, 2015 and contained, inter alia, a minimum net operating income guarantee (the "NOI Guarantee"). In 2002 the net income from the hotel covered by the Initial Agreement fell below the NOI Guarantee.

Effective September 30, 2003 the Company entered into an Amended and Restated Management Agreement and certain ancillary agreements (collectively the "Amended Agreements") which had the effect of amending certain key terms of the Initial Agreement. In return for waiving any rights to claim under the NOI Guarantee, the Company received cash, preferred shares and a reversal of all accrued and unpaid management fees for 2002 and 2003.

After deducting legal and other professional fees related to the Amended Agreements, the Company realized a net gain of \$732, which has been recognized in these financial statements.

Pursuant to the terms of the Amended Agreement the Company served notice to the third party manager terminating them as manager of the hotel, effective January 31, 2004. Under the terms of the Amended Agreement, there are no other costs associated with this termination.