

QUARTERLY REPORT

FORM 51-901F

ISSUER DETAILS NAME OF ISSUER Allied Hotel Properties Inc.		FOR QUARTER ENDED December 31, 2003	DATE OF REPORT Y M D 04 05 11	
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 04 05 11
DIRECTOR'S SIGNATURE "Michael Chan" (signed)	PRINT FULL NAME Michael Chan	DATE OF REPORT Y M D 04 05 11

Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Years ended December 31, 2003 and 2002

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Allied Hotel Properties Inc. have been prepared by management and approved by the Board of Directors. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control through the Audit Committee. This committee reviews the consolidated financial statements and reports to the Board of Directors.

The Audit Committee meets with the external auditors, without management present at the election of the auditors, to discuss the results of the audit, the adequacy of internal accounting controls and financial reporting matters.

The Company's independent auditors, KPMG LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report follows.

Michael Chan (signed)
Michael Chan
President

John R. Ellen (signed)
John R. Ellen, CA
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Allied Hotel Properties Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 5, 2004, except as to notes 6 and 7, which are as of April 19, 2004

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets

December 31, 2003 and 2002
(in thousands of dollars)

	2003	2002
Assets		
Current assets:		
Accounts receivable	\$ 1,983	\$ 1,740
Inventories	453	448
Prepaid expenses	759	628
Future income taxes (note 15)	98	356
	3,293	3,172
Income-producing properties (note 4)	107,990	110,676
Investment (note 5)	2,190	2,577
Deferred costs, net of amortization	324	386
Future income taxes (note 15)	3,227	2,645
	\$ 117,024	\$ 119,456
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 9)	\$ 2,412	\$ 2,092
Demand loan (note 6)	3,000	-
Accounts payable and accrued liabilities	12,369	11,995
Deferred revenue	266	267
Mortgage payable (note 7)	17,140	20,605
Long-term debt (note 11)	486	2,183
Due to related parties (note 8)	5,306	1,019
Capital lease obligation (note 10)	266	386
Long-term demand loans (note 9)	71,854	71,788
Deferred gain	-	4,222
	113,099	114,557
Deferred revenue	1,842	2,029
Capital lease obligation (note 10)	216	292
Long-term debt (note 11)	2,663	1,818
	117,820	118,696
Shareholders' equity:		
Share capital (note 12)	29,868	29,868
Deficit	(30,664)	(29,108)
	(796)	760
	\$ 117,024	\$ 119,456

Future operations (note 1)

Commitments and contingencies (notes 5 and 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

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

Michael Chan (signed) Director
Michael Chan

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Operations

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

	2003	2002
Revenues:		
Rooms	\$ 27,403	\$ 31,488
Food and beverage	15,226	16,314
Other	4,383	4,730
	<u>47,012</u>	<u>52,532</u>
Cost of sales:		
Rooms	9,560	10,128
Food and beverage	12,948	13,853
Other	1,518	1,645
	<u>24,026</u>	<u>25,626</u>
Gross profit	22,986	26,906
Operating expenses:		
Selling, general and administrative (note 17)	15,745	16,360
Management fees (note 17)	729	1,012
Taxes and insurance	3,847	3,574
Depreciation and amortization	3,251	3,392
	<u>23,572</u>	<u>24,338</u>
Operating (loss) income	(586)	2,568
Other expenses (income):		
Interest on demand loans and debt	5,839	5,660
Other interest (note 17)	962	845
Equity in loss (income) of investee	74	(264)
Gain on sale of income-producing property (note 13)	(4,913)	-
Settlement of management agreement (note 14)	(740)	-
Provision for diminution in value of income-producing property (note 4)	-	5,000
	<u>1,222</u>	<u>11,241</u>
Loss before income taxes and non-controlling interest	1,808	8,673
Income taxes (recovery):		
Current	72	83
Future (note 15)	(324)	1,638
	<u>(252)</u>	<u>1,721</u>
Loss before non-controlling interest	1,556	10,394
Non-controlling interest (note 2(n))	-	(819)
Loss for the year	<u>\$ 1,556</u>	<u>\$ 9,575</u>
Basic and diluted loss per share (note 2(k))	<u>\$ 0.01</u>	<u>\$ 0.09</u>

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Deficit

Years ended December 31, 2003 and 2002
(in thousands of dollars)

		2003		2002
Deficit, beginning of year	\$	29,108	\$	19,533
Loss for the year		1,556		9,575
Deficit, end of year	\$	30,664	\$	29,108

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002
(in thousands of dollars)

	2003	2002
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (1,556)	\$ (9,575)
Items not involving cash:		
Depreciation and amortization	3,251	3,392
Future income taxes	(324)	1,638
Equity in loss (income) of investee	74	(264)
Amortization of deferred revenue	(188)	(170)
Gain on sale of income-producing property	(4,913)	-
Unrealized foreign exchange gain	(363)	-
Provision for diminution in value of income-producing property	-	5,000
Non-controlling interest	-	(819)
Funds from operations	(4,019)	(798)
Changes in non-cash operating working capital (note 16)	(5)	(301)
	(4,024)	(1,099)
Investments:		
Additions to income-producing properties	(268)	(902)
Net proceeds from sale of income-producing property	692	2,730
Distribution from equity accounted investee	313	96
Increase in deferred costs	-	(30)
	737	1,894
Financing:		
Proceeds from demand loan	3,000	-
Proceeds from long-term demand loans	3,000	-
Principal repayments on long-term debt	(490)	(544)
Principal repayments on long-term demand loans	(2,933)	(2,767)
Principal repayments on mortgage payable	(3,465)	(450)
Increase in due to related parties	4,287	1,019
Repayment of obligations under capital leases	(432)	(396)
Decrease in due from affiliated company	-	72
	2,967	(3,066)
Decrease in cash and cash equivalents	(320)	(2,271)
Cash and cash equivalents, beginning of year	(2,092)	179
Cash and cash equivalents, end of year	\$ (2,412)	\$ (2,092)

Cash and cash equivalents are defined as cash less bank indebtedness.
Supplementary information (note 16)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 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 December 31, 2003 and 2002, the Company had a significant working capital deficiency. In addition, the Company has experienced losses and negative cash flow from operations in 2003 and 2002. Further, based on management's current projections, the Company will likely experience a significant cash flow deficiency in the 2004 fiscal year.

The Company is subject to certain debt service ratio ("DSR") and other covenants pertaining to long-term demand loans. At December 31, 2003 the Company was in breach of certain of its covenants (see note 9). The Company's lenders are aware of these breaches. Further, based on management's current projections, the Company believes it is unlikely that it will be in compliance throughout 2004 with the DSR covenant applicable to \$59,575 of long-term demand loans, unless it is modified. Although the Company expects the breached covenants to be modified, if they are not, such violations could result in a requirement to immediately repay a portion of the applicable long-term demand loans sufficient to bring the Company into compliance with the covenants, to sell certain income-producing properties, or to take other measures as determined by the lenders.

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 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 Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(b) Basis of presentation:

The consolidated financial statements include the accounts and results of operations of the Company; its principal wholly-owned subsidiaries; Allied Don Valley Hotel Inc. ("ADVHI"); Harbourview Towers Enterprises Ltd. ("Harbourview"); Chateau Lacombe Hotel Ltd. ("CLHL"); and its 62% interest in Vancouver Airport Conference Resort Ltd. ("VACR"). All material intercompany transactions and balances have been eliminated.

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel. The Company's interest in the results of the operations for the period from January 1, 2002 to February 28, 2002 has been accounted for using the equity method.

(c) Cash equivalents:

The Company considers all highly liquid investments with terms to maturity of three months or less when acquired to be cash equivalents.

(d) Inventories:

Inventories, which consist of food, beverage and supplies, are valued at the lower of cost, as determined on a first in, first out basis, and replacement cost.

(e) Income-producing properties:

Land, buildings, furniture, fixtures and equipment and equipment under capital lease are carried at cost less accumulated depreciation and provision for diminution in value or, effective January 1, 2003, impairment loss (note 3). An impairment loss is recognized when the carrying amount of a property is not recoverable and exceeds its fair market value. Depreciation is provided over the estimated useful lives of the assets, commencing the date the assets are available for use, as follows:

Asset	Basis	Estimated useful life
Buildings	Sinking fund	35 - 40 years
Furniture, fixtures and equipment	Straight-line	3 - 5 years
Equipment under capital lease	Straight-line	3 - 5 years

Under the sinking fund method, an annually increasing amount consisting of a fixed annual sum together with interest compounded at a rate of 5% per annum is charged to income over the estimated useful life of the building.

(f) Investment:

The Company's investment in entities subject to significant influence are accounted for in these financial statements by the equity method. Under the equity method, the original cost of the investment is adjusted for the Company's share of post-acquisition earnings or losses, less dividends.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(g) Deferred costs:

Deferred license and franchise fees relate to application fees paid to the franchisor of certain hotel properties. These fees are being amortized on a straight-line basis over the terms of the franchise agreements.

(h) Deferred revenue and revenue recognition:

Revenues from hotel and parking operations are recognized when services are provided. Franchise enhancement fees received from the franchisor are deferred and amortized over the term of the related franchise agreement. Revenues received in advance of satisfaction of these criteria are deferred until future periods.

(i) Foreign currency:

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Foreign exchange gains and losses are included in income.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recognized amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In determining estimates of recoverable amounts and fair values for its income-producing properties, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the carrying amounts could change and, potentially, by a material amount.

(k) Per share information:

Basic and diluted per share amounts have been calculated based on the weighted average number of shares outstanding during the year, being 106,327,268 common shares for both 2003 and 2002.

(l) Statements of cash flows:

The Company uses the indirect method of reporting cash flows, under which the net cash flow from operating activities is reported by adjusting net loss for the effects of non-cash items and changes in non-cash operating working capital balances.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(m) Future income taxes:

The Company uses the asset and liability method of accounting for incomes taxes. Under such method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date.

(n) Non-controlling interest:

At December 31, 2003 and 2002, the share of VACR losses attributable to the non-controlling interests exceeded their investment. All the excess and further losses applicable to the non-controlling interests have been allocated to and recorded by the Company, as the non-controlling interests have not guaranteed obligations nor committed to further financial support of VACR. Subsequent earnings of VACR will be allocated entirely to the Company until such previously absorbed losses are recovered. As at December 31, 2003, the Company has recorded \$2,621 (2002 - \$1,843) of losses otherwise attributable to non-controlling interests.

(o) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

3. Change in accounting policy:

Effective January 1, 2003 the Company prospectively adopted the provisions of Section 3063 of The Canadian Institute of Chartered Accountants ("CICA") Handbook, dealing with Impairment of Long-lived Assets ("Section 3063"). Under Section 3063 an impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Company determined, on adoption, that the carrying value of its long-lived assets did not exceed their recoverable amount and, consequently, the implementation of this new standard had no effect on the financial statements for the year ended December 31, 2003.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

4. Income-producing properties:

	2003		
	Cost	Accumulated depreciation	Net book value
Land	\$ 36,541	\$ -	\$ 36,541
Buildings	83,534	14,024	69,510
Furniture, fixtures and equipment	11,428	9,880	1,547
Equipment under capital lease	1,589	1,198	392
	\$ 133,092	\$ 25,102	\$ 107,990

	2002		
	Cost	Accumulated depreciation	Net book value
Land	\$ 36,541	\$ -	\$ 36,541
Buildings	83,570	13,017	70,553
Furniture, fixtures and equipment	12,755	9,601	3,154
Equipment under capital lease	2,330	1,902	428
	\$ 135,196	\$ 24,520	\$ 110,676

For the year ended December 31, 2002, the Company recorded a provision for diminution in the value of an income-producing property of \$5,000.

5. Investment:

The investment represents the Company's interest in the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (collectively the "Vancouver Airport Property").

The Company's investment and advances comprised the following:

	% interest	2003	2002
Vancouver Airport Property:	26.67% (2002 – 26.67%)		
Opening investment and advances		\$ 2,577	\$ 2,433
Share of (loss) earnings		(74)	239
Distributions		(313)	(95)
Closing investment and advances		\$ 2,190	\$ 2,577

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

5. Investment (continued):

Summarized information of the Vancouver Airport Property is as follows:

	2003	2002
Current assets	\$ 593	\$ 392
Income-producing property	32,234	33,169
Other assets	2,032	3,720
	\$ 34,859	\$ 37,281
Long-term demand loans	\$ 29,093	\$ 30,241
Notes payable	5,500	5,500
Other current liabilities	1,220	558
(Deficit) equity	(954)	982
	\$ 34,859	\$ 37,281
Revenue	\$ 5,118	\$ 5,200
Expenses	5,397	3,889
Net (loss) earnings	\$ (279)	\$ 1,311

The Company has unconditionally guaranteed one of the long-term demand loans of the Vancouver Airport Property, to a maximum amount of \$3,475, and has provided a proportionate liability debt service agreement as security for all of the Vancouver Airport Property's long-term demand loans.

The Company would be required to perform under the guarantee if the lender demanded accelerated or immediate repayment of amounts due and the guaranteed party was unable to meet the demands. The maximum payment the Company could be required to make under the guarantee is equal to \$3,475. The Company would be required to perform under the debt service agreement if the Vancouver Airport Property was unable to make regular monthly contractual payments of amounts due. The maximum payment the Company could be required to make under the debt service agreement is equal to its proportionate interest in the Vancouver Airport Property, 26.67%, multiplied by the cumulative shortfall of amounts paid to contractual debt service payments due. There are no recourse provisions that would enable the Company to recover amounts paid from other parties, and the Company does not hold or have access to any collateral to be applied against amounts paid. The Company expects the guarantee and the debt service agreement to be in effect until the related indebtedness is paid in full or to a sufficient extent that the lender permits release.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

6. Demand loan:

	2003	2002
Demand loan bearing interest at prime plus 2% per annum, with interest only payable monthly in arrears, and principal due April 1, 2004.	\$ 3,000	\$ -

The demand loan is secured by a mortgage of \$3,000 creating a second fixed financial charge over certain income-producing property; a general security agreement; assignment of rents, and guarantees executed by the Company, Allied Holdings Ltd. ("Holdings") and a significant shareholder of Holdings, limited to \$3,000 plus interest. Holdings is the Company's parent company.

Effective April 1, 2004 the Company entered into an agreement with the lender of the \$3,000 demand loan to provide a new demand loan facility (the "new facility") of \$7,750. An amount of \$3,000 of this new facility was used to repay the existing demand loan and a further \$3,994 was advanced to the lender of the mortgage payable (note 7) as part of a refinancing of that facility. Interest on the new facility is payable monthly at a rate of prime plus 2.5% per annum, with the principal due April 1, 2007, or earlier under certain conditions in the facility and subject to the lender's right to commence amortization at any time.

7. Mortgage payable:

	2003	2002
Mortgage payable bearing interest at 6.8% (2002 - 6.625%) per annum, repayable in blended monthly instalments of \$132 (2002 - \$153), and due April 1, 2004.	\$ 17,140	\$ 20,605

The mortgage payable is secured by a mortgage in the amount of \$22,375 creating a first fixed financial charge over an income-producing property, assignment of rents, and guarantees of the Company and Holdings.

Effective April 1, 2004 the Company entered into an agreement with the lender to refinance \$13,000, repayable in blended monthly instalments of \$ 101, bearing interest at a rate of 6.8% per annum for the first year and 4.25% above one-year Canadian bond yields for the second year, with the principal due April 1, 2006.

Taking into account the refinancing referred to above, principal repayments over the next three years are as follows:

2004	\$	4,369
2005		363
2006		12,408

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

8. Due to related parties:

	2003	2002
Holdings	\$ 4,428	\$ 764
Minority shareholders of VACR	600	255
Vancouver Airport Property	278	-
	\$ 5,306	\$ 1,019

The amount due to Holdings is unsecured, due on demand and bears interest at prime plus 0.75% per annum.

The amounts due to minority shareholders of VACR are unsecured, due on demand and bear interest at prime plus 3.0% per annum.

The amount due to Vancouver Airport Property is unsecured, due on demand and bears interest at prime plus 0.75% per annum.

9. Long-term demand loans:

	2003	2002
Demand loans repayable in equal monthly blended instalments of principal and interest aggregating \$478 (2002 - \$483) and fully amortized in 2018.	\$ 59,575	\$ 62,133
Demand loan bearing interest at 9% per annum, repayable in blended monthly payments of principal and interest of \$90 (2002 - \$90), due in 2006.	9,429	9,655
Demand loan bearing interest at prime plus 2.5%, with equal monthly installments of principal of \$25 and interest on the declining balance, due May 31, 2004.	2,850	-
	\$ 71,854	\$ 71,788

Interest on the floating rate demand loans of \$59,575 is calculated, at the Company's option, at either a rate ranging from the bank's prime rate plus 0.75% to 1% per annum or a rate based on the bank's fixed cost of funds plus 2.25% to 2.50% per annum.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

9. Long-term demand loans (continued):

The \$59,575 floating rate demand loans are secured by mortgages of \$120,000 creating a first fixed financial charge over two of the Company's income-producing properties; a mortgage of \$24,000 creating a second fixed financial charge over a third income-producing property; assignment of rents; unlimited guarantees, debt service agreement and general security agreement executed by the Company; a debt service agreement executed by Holdings; a guarantee executed by Holdings limited to \$81,784 of the indebtedness; personal guarantees limited to \$2,088 executed by two significant shareholders of Holdings; and a personal guarantee limited to \$13,500 executed by a significant shareholder of Holdings.

Under the terms of the facility letters governing the Company's \$59,575 floating rate demand loans, the earnings before interest, taxes, depreciation, and amortization ("EBITDA") of three hotels is required to be not less than 1.20 times debt service for any twelve month period ending on or after October 31, 2003. At December 31, 2003 the Company was in breach of this covenant and based on management's current projections, the Company believes it is unlikely that it will be in compliance with this covenant throughout the 2004 fiscal year.

The \$2,850 floating rate demand loan and the fixed rate demand loan are secured by a mortgage aggregating \$13,000 creating a first fixed financial charge over certain income-producing properties; assignment of rents; a guarantee executed by the Company; and a guarantee by Holdings.

Under the terms of the facility letter governing these demand loans, as amended, the EBITDA of the hotel operated by CLHL is required to be not less than 1.2 times debt service for the twelve month period ended December 31, 2003, 1.25 times debt service for the twelve month period ending December 31, 2004 and 1.3 times debt service for the twelve month period ending December 31, 2005. Further, CLHL is required to maintain a debt to tangible net worth ratio, as defined, of 2.5 to 1. Prior to amendments to the original facility letter, CLHL was in violation of both covenants, however, as amended, CLHL is in compliance with the debt to tangible net worth covenant. Based on management's current projections, the Company believes CLHL will be in compliance with these covenants at December 31, 2004, the next measurement date.

The Company has available \$700 in overdraft credit facilities which bear interest at prime plus 0.75% are repayable on demand, and are secured on the same terms as the long-term demand loans. In addition, the Company has available \$4,000 in overdraft credit facilities which bear interest at prime plus 1%, are due on demand, and are secured on the same terms as the \$59,575 long-term demand loans. At December 31, 2003, the Company had utilized \$3,960 of this facility.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

9. Long-term demand loans (continued):

Notwithstanding the classification of long-term demand loans as a current liability, the Company continues to make monthly repayments of interest and principal, based on amortization schedules extending beyond one year. Assuming lenders do not demand immediate repayment of long-term demand loans, the Company anticipates making the following principal repayments over the next five years and thereafter:

2004	\$	6,133
2005		3,455
2006		12,257
2007		3,505
2008		3,677
Thereafter		42,827
	\$	71,854

10. Capital lease obligation:

The future minimum lease payments under capital lease obligations are as follows:

2004	\$	295
2005		110
2006		121
Total minimum lease payments		526
Amount representing interest ranging from 7.3% to 13.8%		44
		482
Current portion		266
	\$	216

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

11. Long-term debt:

	2003	2002
Note payable in the amount of \$1,331 (US\$1,027) (2002 - \$1,985 (US\$1,246)) bearing interest at 10% per annum and secured by a guarantee by Holdings. Equal principal payments of US\$18 (2002 - US\$18) and interest on the unpaid portion are due monthly, with the balance due in 2008.	\$ 1,331	\$ 1,986
Notes payable of which \$1,283 (2002 - \$1,438) is non-interest bearing and the remainder bears interest at 9% per annum. The notes require monthly principal and interest payments aggregating \$20, due in 2012.	1,818	2,015
	3,149	4,001
Current portion	486	2,183
	\$ 2,663	\$ 1,818

Principal repayments over the next five years and thereafter are as follows:

2004	\$	486
2005		491
2006		496
2007		501
2008		411
Thereafter		764
	\$	3,149

12. Share capital:

(a) Authorized:

The authorized capital of the Company at December 31, 2003 and 2002 consisted of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2003 and 2002	106,327,268	\$ 29,868

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12. Share capital (continued):

(c) Stock Options:

An amount of 10,000,000 common shares have been reserved for issuance under the terms of a stock option plan (the "Plan"). The terms of options granted under the Plan may be fixed by the board of directors at the time such options are granted. At December 31, 2003 and 2002, there were no options outstanding to acquire common shares in the Company.

13. Gain on sale of income-producing property:

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel (the "Holiday Inn"). As at December 31, 2002, the Company had not received all sale proceeds and continued to guarantee the bank indebtedness of the Holiday Inn. Consequently, the Company had not recognized a gain or loss on sale of its investment in the Holiday Inn as at December 31, 2002.

During 2003 the Company received the balance of the sale proceeds and was released from all obligations pertaining to bank indebtedness of the Holiday Inn, and a gain of \$4,913 was recorded in these financial statements, calculated as follows:

Proceeds	\$	3,926
Negative carrying value of investment		1,492
		<hr/> 5,418
Commissions and other selling expenses		505
		<hr/> Gain on sale of income-producing property
	\$	4,913

14. 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 its hotel properties. The Initial Agreement had an expiry date of December 31, 2015 and contained, inter alia, a minimum EBITDA guarantee (the "NOI Guarantee"). In 2002, the net income from the hotel covered by the Initial Agreement was below the amount of 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. The Company subsequently terminated the Amended Agreements on October 30, 2003.

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14. Settlement of management agreement (continued):

After deducting legal and other professional fees related to the Amended Agreements, the Company realized a net gain of \$740 which has been recognized in these financial statements. Due to uncertainty of realization of the redemption value of preferred shares, no value has been ascribed to them in the calculation of the gain on settlement of management agreement.

15. Income taxes:

(a) Income tax expense, including current and future portions, varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating 37.26% (2002 – 39.62%) to loss before income taxes and non-controlling interest, as shown in the following table:

	2003	2002
Basic rate applied to loss before income taxes and non-controlling interest	\$ (674)	\$ (3,436)
Change in valuation allowance	1,206	1,996
Permanent difference relating to gain on sale of income- producing property	(920)	(23)
Recognition of previously unrecorded temporary differences	149	2,786
Effect of income tax rate changes	(104)	315
Large corporations tax	72	83
Other permanent differences	19	-
Income tax (recovery) expense	\$ (252)	\$ 1,721

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15. Income taxes (continued):

- (b) The tax effects of temporary differences that give rise to significant portions of future tax assets and future tax liabilities at December 31, 2003 are presented below:

	2003	2002
Future tax assets:		
Non-capital loss carry forwards	\$ 7,095	\$ 5,677
Share issue and financing costs	994	993
Income-producing properties	6,814	5,792
Investments and distributions receivable	139	739
Deferred revenues	711	1,479
Capital lease obligations	113	116
Other	15	-
Long-term obligations	-	65
	15,881	14,861
Future tax liabilities:		
Deferred costs	(53)	(23)
Other	(20)	(33)
Capital lease obligation	(99)	-
Long-term debt	(26)	-
Investments	-	(162)
Accounts payable	-	(490)
	(198)	(708)
	15,683	14,153
Less: valuation allowance	(12,358)	(11,152)
Net future tax assets	\$ 3,325	\$ 3,001
Classified as:		
Future income tax assets		
Current	\$ 98	\$ 356
Non-current	3,227	2,645
	\$ 3,325	\$ 3,001

- (c) At December 31, 2003, the Company has non-capital losses of approximately \$20,020 (2002 - \$16,143) able to be carried forward to reduce income taxes otherwise payable until the year ending December 31, 2009. No future income tax benefit on \$18,015 (2002 - \$10,286) of these losses, or temporary differences on assets and liabilities of the Company of approximately \$16,895 (2002 - \$21,423), has been recognized in the financial statements.

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16. Supplementary information:

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

	2003	2002
Accounts receivable	\$ (243)	\$ 541
Inventories	(5)	34
Prepaid expenses	(131)	(122)
Accounts payable and accrued liabilities	374	(754)
	\$ (5)	\$ (301)

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

	2003	2002
Supplementary information:		
Interest paid	\$ 6,517	\$ 6,279
Taxes paid	75	16
Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	236	73

17. Related party transactions:

In addition to note 8, the Company had the following transactions with related parties during the year:

	2003	2002
Management fee income:		
Vancouver Airport Property Holdings	\$ 87	\$ 84
	101	99
Rental income:		
Holdings	330	137
Consulting fees:		
Director	69	101
Rent expense:		
New World Equities Inc. ("New World")	63	61
Interest expense:		
Holdings	131	-

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17. Related party transactions (continued):

New World is related by virtue of common control by Holdings, the ultimate parent company.

Interest expense is included in other interest. Consulting fees and rent expense are recorded as selling, general and administrative expense. Management fee income and rental income are recorded as other income.

Rooms, food and beverage and other revenues include revenue totaling \$259 from a company in which a director of the Company is a director and major shareholder. Of this amount, \$94 is included in accounts receivable at December 31, 2003.

18. Commitments and contingencies:

- (a) The Company has entered into franchise agreements to operate four hotels under international brands. Under these agreements the Company is charged certain amounts based on a percentage of gross room revenue, as defined, for royalties, marketing and reservations. In addition, the Company is charged a monthly fee per room for other services provided.
- (b) The Company has entered into a management agreement with a third party manager, to operate an income-producing property for management fees of 1.5% of gross revenue of the property. This agreement expires June 15, 2004.

19. Financial instruments:

- (a) Fair value:

The Company's financial instruments include accounts receivable, bank indebtedness, demand loan, accounts payable and accrued liabilities, mortgage payable, long-term debt, due to related parties, capital lease obligation and long-term demand loans. The carrying values of accounts receivable, bank indebtedness, demand loan, accounts payable and accrued liabilities, mortgage payable and capital lease obligation approximate their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of long-term debt and long-term demand loans is based on management estimates for mortgages which are determined by discounting cash flows required under the mortgages at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair values of the Company's long-term debt and long-term demand loans as at December 31, 2003 are not significantly different than their carrying values.

The fair value of the amount due to related parties has not been determined as the Company does not believe that it is practicable to determine such fair value with sufficient reliability due to the related party nature of the asset and the absence of a readily available secondary market for such financial instruments.

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19. Financial instruments (continued):

(b) Interest rate risk:

As described in notes 6, 8 and 9, the Company's demand loan, due to related parties and long-term demand loans bear interest at floating rates. Further, as disclosed in note 7, a mortgage payable matures in 2004. Fluctuations in interest rates will impact the cost of financing incurred in the future.

(c) Credit risk:

Due to the nature of the hotel business, the Company does not face any significant credit risk and there are no concentrations of credit risk.

20. Segment disclosures:

Management has determined that the Company's operating segments consist of the various hotel operations which form a single reportable segment, hotel operations.