

Unaudited Consolidated Financial Statements of

**ALLIED HOTEL PROPERTIES INC.**

Three months ended March 31, 2004 and 2003

# ALLIED HOTEL PROPERTIES INC.

Under National Instrument 51-102, "*Continuous Disclosure Obligations*", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

Allied Hotel Properties Inc.'s external auditors, KPMG LLP, have not performed a review of these interim financial statements.

"Peter Y.L. Eng" (signed)

Peter Y.L. Eng  
Chief Executive Officer

"John R. Ellen" (signed)

John R. Ellen, CA  
Chief Financial Officer

May 25, 2004

# ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets  
 March 31, 2004 and December 31, 2003  
 (in thousands of dollars)

	March 2004	December 2003
	Unaudited	Audited
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 1,637	\$ 1,983
Inventories	397	453
Prepaid expenses	833	759
Future income taxes	98	98
	<u>2,965</u>	<u>3,293</u>
Income-producing properties	107,265	107,990
Investment	2,147	2,190
Deferred costs, net of amortization	316	324
Future income taxes	3,193	3,227
	<u>3,193</u>	<u>3,227</u>
	<u>\$ 115,886</u>	<u>\$ 117,024</u>

## Liabilities and Shareholders' Deficiency

Current liabilities:		
Bank indebtedness	\$ 2,870	\$ 2,412
Demand loan	3,000	3,000
Accounts payable and accrued liabilities	11,993	12,369
Deferred revenue	266	266
Mortgage payable	17,030	17,140
Long-term debt	486	486
Due to related parties	7,834	5,306
Capital lease obligation	208	266
Long-term demand loans	71,046	71,854
	<u>114,733</u>	<u>113,099</u>
Deferred revenue	1,795	1,842
Long-term debt	2,547	2,663
Capital lease obligation	186	216
	<u>119,261</u>	<u>117,820</u>
Shareholders' deficiency:		
Share capital	29,868	29,868
Deficit	(33,243)	(30,664)
	<u>(3,375)</u>	<u>(796)</u>
	<u>\$ 115,886</u>	<u>\$ 117,024</u>

Subsequent event (note 5)

See accompanying notes to consolidated financial statements.

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

"Michael Chan" (signed) \_\_\_\_\_ Director  
 Michael Chan

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Operations  
Three months ended March 31, 2004 and 2003  
(in thousands of dollars, except per share amounts)

	2004	2003
Revenues:		
Rooms	\$ 5,993	\$ 5,388
Food and beverage	3,377	3,218
Other	1,079	1,026
	<u>10,449</u>	<u>9,632</u>
Cost of sales:		
Rooms	2,248	2,113
Food and beverage	2,987	2,944
Other	374	364
	<u>5,609</u>	<u>5,421</u>
Gross profit	4,840	4,211
Operating expenses:		
Selling, general and administrative	3,903	3,840
Management fees	121	184
Taxes and insurance	947	926
Depreciation and amortization	755	753
	<u>5,726</u>	<u>5,703</u>
Operating loss	886	1,492
Other expenses (income):		
Interest on long-term demand loans	1,360	1,416
Other interest	240	225
Equity in loss (income) of investee	43	(77)
	<u>1,643</u>	<u>1,564</u>
Loss before income taxes	2,529	3,056
Income taxes (recovery):		
Current	16	20
Future	34	(149)
	<u>50</u>	<u>(129)</u>
Net loss	\$ 2,579	\$ 2,927
Basic and diluted loss per share (note 3)	\$0.02	\$0.03

See accompanying notes to consolidated financial statements.

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit  
Three months ended March 31, 2004 and 2003  
(in thousands of dollars)

		2004		2003
Net loss	\$	2,579	\$	2,927
Deficit, beginning of period		30,664		29,108
Deficit, end of period	\$	33,243	\$	32,035

*See accompanying notes to consolidated financial statements.*

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Cash Flows  
Three months ended March 31, 2004 and 2003  
(in thousands of dollars)

	2004	2003
Cash provided by (used in):		
Operations:		
Net loss	\$ (2,579)	\$ (2,927)
Items not involving cash:		
Depreciation and amortization	755	753
Future income taxes	34	(149)
Equity in loss (income) of investee	43	(77)
Amortization of deferred revenue	(47)	(46)
Funds from operations	(1,794)	(2,446)
Changes in non-cash operating working capital (note 4)	(48)	908
	(1,842)	(1,538)
Financing:		
Principal repayments on mortgage payable	(110)	(117)
Principal repayments on long-term debt	(116)	(130)
Principal repayments on long-term demand loans	(808)	(696)
Repayment of obligations under capital leases	(88)	(100)
Increase in due to related parties	2,528	846
	1,406	(197)
Investments:		
Additions to income-producing properties	(22)	(274)
Proceeds from sale of investments	—	659
	(22)	385
Decrease in cash and cash equivalents	(458)	(1,350)
Cash and cash equivalents, beginning of period	(2,412)	(2,092)
Cash and cash equivalents, end of period	\$ (2,870)	\$ (3,442)

Cash and cash equivalents are defined as cash less bank indebtedness.

Supplemental information (note 4)

See accompanying notes to consolidated financial statements.

# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements  
Three months ended March 31, 2004 and 2003  
(in thousands of dollars, except per share amounts)

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## 1. 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.

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, 2003 (the "Annual Financial Statements"). These interim financial statements follow the same accounting policies as the Annual Financial Statements, except for note 2.

### 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.

## 2. Change in accounting policy:

Effective January 1, 2004, the Company changed its accounting policy with respect to the basis of calculating depreciation on buildings within income-producing properties. The Company had used the sinking fund method. Following the issuance of Section 1100 of The Canadian Institute of Chartered Accountants Handbook the sinking fund method is no longer acceptable under GAAP. Accordingly, effective January 1, 2004, the Company calculates depreciation of buildings using the straight-line method. The change in accounting policy has been applied prospectively and has resulted in an increase to depreciation expense and net loss of \$362 for the three months ended March 31, 2004.

## 3. Per share information:

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

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# ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements  
Three months ended March 31, 2004 and 2003  
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## 4. Supplementary cash flow information:

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

	2004	2003
Accounts receivable	\$ 346	\$ 342
Inventories	56	26
Prepaid expenses	(74)	(67)
Accounts payable and accrued liabilities	(376)	607
	\$ (48)	\$ 908

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

	2004	2003
Supplemental information:		
Interest paid	\$ 1,556	\$ 1,538
Taxes paid	—	—
Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	—	—

## 5. Subsequent event:

Effective April 1, 2004 the Company entered into an agreement with the lender of the mortgage payable to refinance \$13,000, repayable in blended monthly installments 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 principal due April 1, 2006. Concurrent with this refinancing the Company refinanced the demand loan of \$3,000 with a new facility of \$7,750 on which interest only is payable monthly at a rate of prime plus 2.5% per annum, with the principal due April 1, 2007. Proceeds from the new demand loan facility were used to pay down the mortgage payable and to pay loan fees associated with both refinancings.