

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Nine months ended September 30, 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

November 22, 2004

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
September 30, 2004 and December 31, 2003
(in thousands of dollars)

	September 2004	December 2003
	Unaudited	Audited
Assets		
Current assets:		
Accounts receivable	\$ 3,402	\$ 1,983
Inventories	410	453
Prepaid expenses	692	759
Future income taxes	97	98
	<u>4,601</u>	<u>3,293</u>
Income-producing properties	105,955	107,990
Investment	2,024	2,190
Deferred costs, net of amortization	299	324
Future income taxes	3,328	3,227
	<u>\$ 116,207</u>	<u>\$ 117,024</u>
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Bank indebtedness	\$ 3,828	\$ 2,412
Demand loan (note 4)	7,750	3,000
Accounts payable and accrued liabilities	13,123	12,369
Deferred revenue	269	266
Mortgage payable (note 4)	12,857	17,140
Long-term debt	483	486
Due to related parties	7,601	5,306
Capital lease obligation	117	266
Long-term demand loans	69,350	71,854
	<u>115,378</u>	<u>113,099</u>
Deferred revenue	1,699	1,842
Long-term debt	2,274	2,663
Capital lease obligation	138	216
	<u>119,489</u>	<u>117,820</u>
Shareholders' deficiency:		
Share capital	29,868	29,868
Deficit	(33,150)	(30,664)
	<u>(3,282)</u>	<u>(796)</u>
	<u>\$ 116,207</u>	<u>\$ 117,024</u>

See accompanying notes to unaudited 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 Deficit

For the nine months ended September 30, 2004 and 2003

(in thousands of dollars)

	2004	2003
Deficit, beginning of period	\$ 30,664	\$ 29,108
Net loss	2,486	3,914
Deficit, end of period	\$ 33,150	\$ 33,022

See accompanying notes to unaudited consolidated financial statements

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Operations

(in thousands of dollars, except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Revenues:				
Rooms	\$ 9,957	\$ 9,016	\$ 24,526	\$ 21,305
Food and beverage	3,746	3,377	11,851	10,666
Other	1,123	1,127	3,241	3,229
	<u>14,826</u>	<u>13,520</u>	<u>39,618</u>	<u>35,200</u>
Cost of sales:				
Rooms	3,321	2,776	8,384	7,215
Food and beverage	3,360	3,075	10,047	9,310
Other	363	403	1,079	1,129
	<u>7,044</u>	<u>6,254</u>	<u>19,510</u>	<u>17,654</u>
Gross profit	7,782	7,266	20,108	17,546
Operating expenses:				
Selling, general and administrative	4,227	3,640	12,450	11,596
Management fees	88	226	324	595
Taxes and insurance	912	1,012	2,797	2,926
Depreciation and amortization	713	794	2,223	2,313
	<u>5,940</u>	<u>5,672</u>	<u>17,794</u>	<u>17,430</u>
Operating income	1,842	1,594	2,314	116
Other expenses / (income):				
Interest on long-term demand loans and debt	1,289	1,490	3,950	4,389
Interest – other	329	314	819	768
Settlement of management agreement	-	(732)	-	(732)
Equity in loss (income) of investee	(15)	(46)	44	(207)
	<u>1,603</u>	<u>1,026</u>	<u>4,813</u>	<u>4,218</u>
Income (loss) before income tax	239	568	(2,499)	(4,102)
Income tax expense / (recovery):				
Current	36	20	87	54
Future	(7)	(110)	(100)	(242)
	<u>29</u>	<u>(90)</u>	<u>(13)</u>	<u>(188)</u>
Net income (loss)	\$ 210	\$ 658	\$ (2,486)	\$ (3,914)
Earnings (loss) per share, basic and fully diluted	\$ 0.00	\$ 0.01	\$ (0.02)	\$ (0.04)

Per share information (note 5)

See accompanying notes to unaudited consolidated financial statements

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Cash Flows

(in thousands of dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2004	2003	2004	2003
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ 210	\$ 658	\$ (2,486)	\$ (3,914)
Adjustments for:				
Depreciation and amortization	713	794	2,223	2,313
Future income tax	(7)	(110)	(100)	(242)
Equity in (income) loss of investee	(15)	(46)	44	(207)
Foreign exchange gain	(35)	(300)	(35)	(300)
Amortization of deferred revenue	(47)	(57)	(140)	(148)
Funds from operations	819	939	(494)	(2,498)
Changes in non-cash operating working capital (note 6)	(523)	(1,439)	(555)	(2,076)
	296	(500)	(1,049)	(4,574)
Financing:				
Proceeds from long-term demand loans	–	–	4,750	6,000
Principal repayments on long-term demand loans	(858)	(755)	(2,504)	(2,128)
Principal repayments on long-term debt	(155)	(120)	(357)	(372)
Principal repayments on mortgage payable	(86)	(106)	(4,283)	(3,358)
(Repayments to) advances from affiliated companies	(77)	1,097	2,295	3,269
Deferred revenue received	–	300	–	300
Repayment of obligations under capital leases	(59)	(112)	(227)	(342)
	(1,235)	304	(326)	3,369
Investments:				
Additions to income-producing properties	(51)	(100)	(163)	(470)
Distribution from equity accounted investee	122	–	122	–
Proceeds from sale of investments	–	–	–	659
	71	(100)	(41)	189
Decrease in cash and cash equivalents	(868)	(296)	(1,416)	(1,016)
Cash and cash equivalents, beginning of period	(2,960)	(2,812)	(2,412)	(2,092)
Cash and cash equivalents, end of period	\$ (3,828)	\$ (3,108)	\$ (3,828)	\$ (3,108)

See accompanying notes to unaudited consolidated financial statements

Cash and cash equivalents are defined as cash less bank indebtedness

Supplemental information (note 6)

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements
Nine months ended September 30, 2004 and 2003
(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, 2004 and December 31, 2003, the Company had a significant working capital deficiency. In addition, the Company has experienced losses and negative cash flow from operations in the nine months ended September 30, 2004 and 2003. Further, based on management's current projections, the Company will likely experience a significant cash flow deficiency through the balance of the 2004 fiscal year and into the first quarter of 2005.

The Company is subject to certain debt service ratio ("DSR") and other covenants pertaining to long-term demand loans. At September 30, 2004 the Company was in breach of one of its DSR covenants applicable to \$57.5 million of long-term demand loans. The Company's lender is aware of this breach and has agreed to forebear from taking any action against the Company until January 31, 2005 in return for certain commitments from the Company. Key among these is an agreement to dispose of one of the Company's assets, with net proceeds to be used to reduce 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 that the shareholder will be able to perform under its pledge, nor that such financial support, if forthcoming, 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 to 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, 2004 and 2003
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2. Significant accounting policies (cont'd):

a. General (cont'd)

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 that described in note 3.

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 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.

3. 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 CICA 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 \$1,086 for the nine months ended September 30, 2004 (\$362 for the three months ended September 30, 2004).

4. Demand loan and mortgage payable:

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.

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements
 Nine months ended September 30, 2004 and 2003
 (in thousands of dollars, except per share amounts)

5. Per share information:

	2004	2003
Weighted average number of common shares outstanding	106,327,268	106,327,268

6. 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	
	2004	2003	2004	2003
Accounts receivable	\$ (403)	\$ (1,274)	\$ (1,419)	\$ (1,811)
Inventories	17	20	43	36
Prepaid expenses	45	(265)	67	(105)
Accounts payable and accrued liabilities	(182)	80	754	(196)
	\$ (523)	\$ (1,439)	\$ (555)	\$ (2,076)

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

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Supplemental information:				
Interest paid	\$ 1,629	\$ 1,690	\$ 4,697	\$ 4,933
Taxes paid	-	42	2	43
Non-cash investing and financing activities:				
Acquisition of equipment under capital lease	-	-	-	239
Refinancing of demand loan	-	-	3,000	-
Refinancing of mortgage payable	-	-	13,000	17,448