

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Three months ended March 31, 2006 and 2005

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, 2006

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
March 31, 2006 and December 31, 2005
(in thousands of dollars)

	March 2006	December 2005
	Unaudited	Audited
Assets		
Current assets:		
Cash and cash equivalents	\$ 904	\$ 2,040
Accounts receivable	1,095	1,263
Inventories	241	266
Prepaid expenses	475	588
	<u>2,715</u>	<u>4,157</u>
Assets held for sale (note 3)	85	246
Income-producing properties	50,650	50,870
Deferred costs, net of amortization	208	218
	<u>\$ 53,658</u>	<u>\$ 55,491</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Liabilities of assets held for sale (note 3)	\$ 179	\$ 142
Demand loan	4,750	4,750
Accounts payable and accrued liabilities	3,063	3,223
Deferred revenue	144	143
Mortgage payable	12,313	12,407
Long-term debt	212	210
Due to related parties	15,042	15,470
Capital lease obligation	7	9
Long-term demand loans	11,738	11,860
	<u>47,448</u>	<u>48,214</u>
Deferred revenue	934	971
Future income taxes	282	282
Capital lease obligation	3	4
Long-term debt	1,148	1,201
	<u>49,815</u>	<u>50,672</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(26,025)	(25,049)
	<u>3,843</u>	<u>4,819</u>
	<u>\$ 53,658</u>	<u>\$ 55,491</u>

Future operations (note 1)
Subsequent event (note 6)
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, 2006 and 2005
 (in thousands of dollars, except per share amounts)

	2006	2005
Revenues:		
Rooms	\$ 3,762	\$ 4,668
Food and beverage	2,113	2,575
Other	579	637
	<u>6,454</u>	<u>7,880</u>
Cost of sales:		
Rooms	1,209	1,595
Food and beverage	1,777	2,271
Other	128	206
	<u>3,114</u>	<u>4,072</u>
Gross profit	3,340	3,808
Operating expenses:		
Selling, general and administrative	2,492	3,165
Management fees	47	59
Taxes and insurance	481	679
Depreciation and amortization	431	593
	<u>3,451</u>	<u>4,496</u>
Operating loss	111	688
Other expenses (income):		
Interest on long-term demand loans	500	1,073
Other interest	365	266
Equity in income of investee	-	(38)
	<u>865</u>	<u>1,301</u>
Loss before income taxes and discontinued operations	976	1,989
Income taxes:		
Current	-	24
Future	-	-
	<u>-</u>	<u>24</u>
Loss from continuing operations	976	2,013
Loss from discontinued operations, net of income taxes (note 3)	-	279
Net loss	\$ 976	\$ 2,292
Basic and diluted loss per share (note 4)		
Continuing operations	\$ (0.01)	\$ (0.02)
Discontinued operations	-	-

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit
Three months ended March 31, 2006 and 2005
(in thousands of dollars)

		2006		2005
Net loss	\$	976	\$	2,292
Deficit, beginning of period		25,049		38,312
Deficit, end of period	\$	26,025	\$	40,604

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Cash Flows
 Three months ended March 31, 2006 and 2005
 (in thousands of dollars)

	2006	2005
Cash provided by (used in):		
Operations:		
Loss from continuing operations	\$ (976)	\$ (2,013)
Items not involving cash:		
Depreciation and amortization	431	593
Equity in income of investee	-	(38)
Amortization of deferred revenue	(36)	(43)
<u>Funds from operations</u>	<u>(581)</u>	<u>(1,501)</u>
<u>Changes in non-cash operating working capital (note 5)</u>	<u>146</u>	<u>(79)</u>
	(435)	(1,580)
Financing:		
Principal repayments on mortgage payable	(94)	(89)
Principal repayments on long-term debt	(51)	(119)
Principal repayments on long-term demand loans	(122)	(274)
Repayment of obligations under capital leases	(3)	(28)
<u>(Decrease) increase in due to related parties</u>	<u>(428)</u>	<u>4,434</u>
	(698)	3,924
Investments:		
<u>Additions to income-producing properties</u>	<u>(201)</u>	<u>(34)</u>
	(201)	(34)
(Decrease) increase in cash and cash equivalents from continuing operations	(1,334)	2,310
<u>Discontinued operations</u>	<u>198</u>	<u>(247)</u>
Net (decrease) increase in cash and cash equivalents	(1,136)	2,063
<u>Cash and cash equivalents, beginning of period</u>	<u>2,040</u>	<u>(3,989)</u>
<u>Cash and cash equivalents, end of period</u>	<u>\$ 904</u>	<u>\$ (1,926)</u>

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

Supplemental information (note 5)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
Three months ended March 31, 2006 and 2005
(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.

As at March 31, 2006, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$15,042. The amounts are interest bearing and payable on demand. The future operations of the Company are contingent upon securing continued support from these shareholders in respect to the amounts owed and the continued achievement of profitable operations.

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").

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, 2005 (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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended March 31, 2006 and 2005
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3. Discontinued operations:

As at March 31, 2005 the Company had identified one income-producing property as being held for sale, the operations of which were classified as discontinued operations. The income-producing property was sold in the third quarter of 2005. The following tables set forth the balance sheet and statement of income associated with assets held for sale and discontinued operations.

Balance Sheet

	March 31, 2006	December 31, 2005
Assets		
Accounts receivable and other assets	\$ 85	\$ 246
Assets held for sale	\$ 85	\$ 246
Liabilities and Deficiency in Assets		
Liabilities		
Accounts payable and other liabilities	\$ 179	\$ 142
Liabilities of assets held for sale	179	142
(Deficiency in) excess of assets held for sale	(94)	104
	\$ 85	\$ 246

Statements of Operations

Three months ended March 31

	2006	2005
Revenues	\$ -	\$ 2,844
Cost of sales	-	1,762
Gross profit	-	1,082
Operating expenses	-	1,105
Operating loss	-	23
Interest expense	-	256
Loss before income taxes	-	279
Income taxes	-	-
Loss from discontinued operations, net of income taxes	\$ -	\$ 279

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended December 31, 2006 and 2005
(in thousands of dollars, except per share amounts)

4. Per share information:

	2006	2005
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:

	2006	2005
Accounts receivable	\$ 168	\$ 342
Inventories	25	17
Prepaid expenses	113	108
Accounts payable and accrued liabilities	(160)	(546)
	\$ 146	\$ (79)

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

	2006	2005
Supplemental information:		
Interest paid	\$ 752	\$ 1,549
Taxes paid	-	48

6. Subsequent event:

During the period ended March 31, 2006, the Company entered into an agreement with a lender to refinance the demand loan and the mortgage payable. The new long-term demand loan facility of \$17,500 was drawn down on April 1, 2006 and was used to fully repay the existing demand loan and the mortgage payable, along with fees payable to the lender of the mortgage payable and to the new lender.

In addition to the long-term demand loan, the lender also provided a revolving credit facility of \$1,250 to be used for working capital requirements.

This new facility of \$18,750 is secured by a mortgage of \$25,000 creating a first fixed financial charge over one of the Company's income-producing properties; assignment of rents; a general security agreement executed by the Company; and a guarantee from a significant shareholder of the Company's parent limited to \$3,750 plus interest.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

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6. Subsequent event (continued):

Notwithstanding the classification of this new long-term demand loan as a current liability, the Company will make monthly repayments of interest and principal, based on amortization schedules extending beyond one year. Assuming the lender does not demand immediate repayment, the Company anticipates making the following principal repayments over the next five years on this new loan:

2006	\$	291
2007		461
2008		492
2009		524
2010		560
Thereafter		15,172
	\$	17,500
