

Unaudited Consolidated Financial Statements of

**ALLIED HOTEL PROPERTIES INC.**

Six months ended June 30, 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

August 10, 2006

# ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets  
June 30, 2006 and December 31, 2005  
(in thousands of dollars)

	June 2006	December 2005
	Unaudited	Audited
<b>Assets</b>		
Current assets:		
Cash	\$ 1,362	\$ 2,040
Accounts receivable	1,622	1,263
Inventories	265	266
Prepaid expenses	170	588
	<u>3,419</u>	<u>4,157</u>
Assets held for sale (note 3)	–	246
Income-producing properties	50,289	50,870
Deferred costs, net of amortization	199	218
	<u>\$ 53,907</u>	<u>\$ 55,491</u>

## Liabilities and Shareholders' Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,252	\$ 3,223
Deferred revenue	145	143
Long-term debt	213	210
Due to related parties	14,280	15,470
Capital lease obligation	5	9
Long-term demand loans (note 4)	29,045	11,860
Liabilities of assets held for sale (note 3)	–	142
Demand loan	–	4,750
Mortgage payable	–	12,407
	<u>46,940</u>	<u>48,214</u>
Deferred revenue	897	971
Capital lease obligation	2	4
Future income taxes	282	282
Long-term debt	1,094	1,201
	<u>49,215</u>	<u>50,672</u>
Shareholders' deficiency:		
Share capital	29,868	29,868
Deficit	(25,176)	(25,049)
	<u>4,692</u>	<u>4,819</u>
	<u>\$ 53,907</u>	<u>\$ 55,491</u>

Future operations (note 1)

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 Operations  
(in thousands of dollars, except per share amounts)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Revenues:				
Rooms	\$ 4,832	\$ 7,184	\$ 8,594	\$ 11,852
Food and beverage	2,817	3,348	4,930	5,923
Other	689	716	1,268	1,353
	8,338	11,248	14,792	19,128
Cost of sales:				
Rooms	1,328	1,968	2,537	3,563
Food and beverage	2,130	2,549	3,907	4,820
Other	133	218	261	424
	3,591	4,735	6,705	8,807
Gross profit	4,747	6,513	8,087	10,321
Operating expenses:				
Selling, general and administrative	2,303	3,321	4,795	6,486
Management fees	53	88	100	147
Taxes and insurance	473	639	954	1,318
Depreciation and amortization	368	592	799	1,185
	3,197	4,640	6,648	9,136
Operating income	1,550	1,873	1,439	1,185
Other expenses (income):				
Interest on long-term demand loans and long-term debt	500	1,123	1,000	2,196
Interest – other	294	298	659	564
Equity in income of investee	–	(717)	–	(755)
	794	704	1,659	2,005
Income (loss) before income taxes	756	1,169	(220)	(820)
Income taxes (recovery):				
Current	(14)	(77)	(14)	(53)
Future	–	–	–	–
	(14)	(77)	(14)	(53)
Income (loss) from continuing operations	770	1,246	(206)	(767)
Income from discontinued operations, net of income taxes (note 3)	79	347	79	68
Net income (loss)	\$ 849	\$ 1,593	\$ (127)	\$ (699)
Basic and diluted income (loss) per share				
Continuing operations	\$ 0.01	\$ 0.01	\$ (0.00)	\$ (0.01)
Discontinued operations	0.00	0.00	0.00	0.00

See accompanying notes to unaudited consolidated financial statements

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit  
Six months ended June 30, 2006 and 2005  
(in thousands of dollars)

		2006		2005
Net loss	\$	127	\$	699
Deficit, beginning of period		25,049		38,312
Deficit, end of period	\$	25,176	\$	39,011

*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 June 30		Six months ended June 30	
	2006	2005	2006	2005
Cash provided by (used in):				
Operations:				
Income (loss) from continuing operations	\$ 770	\$ 1,246	\$ (206)	\$ (767)
Adjustments for:				
Depreciation and amortization	368	592	799	1,185
Amortization of deferred revenue	(36)	(43)	(72)	(86)
Equity in income of investee	–	(717)	–	(755)
Funds from operations	1,102	1,078	521	(423)
Changes in non-cash operating working capital (note 6)	(57)	(958)	89	(1,037)
	1,045	120	610	(1,460)
Financing:				
Principal repayment of demand loan	(4,750)	–	(4,750)	–
Proceeds from long-term demand loan	17,500	–	17,500	–
Principal repayments on long-term demand loans	(193)	(139)	(315)	(413)
Principal repayments on long-term debt	(53)	(120)	(104)	(239)
Principal repayments on mortgage payable	(12,313)	(90)	(12,407)	(179)
(Decrease) increase in due to related parties	(762)	2,369	(1,190)	6,803
Repayment of obligations under capital leases	(3)	(23)	(6)	(51)
	(574)	1,997	(1,272)	5,921
Investments:				
Additions to income-producing properties	(11)	(17)	(212)	(51)
Increase in deferred costs	13	–	13	–
	2	(17)	(199)	(51)
Increase in cash and cash equivalents from continuing operations	473	2,100	(861)	4,410
Discontinued operations	(15)	218	183	(29)
	458	2,318	(678)	4,381
Cash and cash equivalents, beginning of period	904	(1,926)	2,040	(3,989)
Cash and cash equivalents, end of period	\$ 1,362	\$ 392	\$ 1,362	\$ 392

See accompanying notes to unaudited consolidated financial statements

Supplemental information (note 6)

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Six months ended June 30, 2006 and 2005  
(in thousands of dollars, except per share amounts)

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## 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 June 30, 2006, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$14,280. 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 Unaudited Consolidated Financial Statements

Six months ended June 30, 2006 and 2005  
(in thousands of dollars, except per share amounts)

### 3. Assets held for sale and discontinued operations:

In 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

	June 30, 2006	December 31, 2005
<b>Assets</b>		
Accounts receivable and other assets	\$ –	\$ 246
Assets held for sale	\$ –	\$ 246
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ –	\$ 142
Liabilities of assets held for sale	–	142
Net assets	–	104
	\$ –	\$ 246

#### Statements of Operations

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Revenues	\$ –	\$ 3,896	\$ –	\$ 6,740
Cost of sales	–	2,139	–	3,901
Gross profit	–	1,757	–	2,839
Operating expenses (recovery)	(79)	1,152	(79)	2,257
Operating income	79	605	79	582
Interest expense	–	258	–	514
Income (loss) before income taxes	79	347	79	68
Income taxes	–	–	–	–
Income from discontinued operations, net of income taxes	\$ 79	\$ 347	\$ 79	\$ 68

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Six months ended June 30, 2006 and 2005  
(in thousands of dollars, except per share amounts)

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#### 4. Long-term demand loan:

A 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. At June 30, 2006 this credit facility had not been utilized.

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.

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:

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

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#### 5. Per share information:

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	2006	2005
Weighted average number of common shares outstanding	106,327,268	106,327,268

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# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Six months ended June 30, 2006 and 2005  
(in thousands of dollars, except per share amounts)

## 6. Supplementary cash flow information:

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

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Accounts receivable	\$ (527)	\$ (949)	\$ (359)	\$ (607)
Inventories	(24)	(41)	1	(24)
Prepaid expenses	305	48	418	156
Accounts payable and accrued liabilities	189	(16)	29	(562)
	\$ (57)	\$ (958)	\$ 89	\$ (1,037)

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

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Supplemental information:				
Interest paid	\$ 879	\$ 1,568	\$ 1,631	\$ 3,117
Taxes paid	–	71	–	119