

Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Years ended December 31, 2005 and 2004



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Allied Hotel Properties Inc. as at December 31, 2005 and 2004 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, 2005 and 2004 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

Chartered Accountants

Vancouver, Canada

March 3, 2006

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
(in thousands of dollars)

December 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,040	\$ -
Accounts receivable	1,263	1,607
Inventories	266	361
Prepaid expenses	588	789
	4,157	2,757
Assets held for sale (note 4)	246	21,421
Income-producing properties (note 5)	50,870	84,745
Investment (note 6)	-	2,077
Deferred costs, net of amortization	218	291
	\$ 55,491	\$ 111,291

Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Bank indebtedness	\$ -	\$ 3,989
Liabilities of assets held for sale (note 4)	142	22,368
Demand loan (note 7)	4,750	7,750
Accounts payable and accrued liabilities	3,223	8,589
Deferred revenue	143	174
Mortgage payable (note 8)	12,407	362
Long-term debt (note 11)	210	470
Due to related parties (note 9)	15,470	9,660
Capital lease obligation	9	91
Long-term demand loans (note 10)	11,860	50,102
	48,214	103,555
Deferred revenue	971	1,534
Capital lease obligation	4	122
Mortgage payable (note 8)	-	12,407
Future income taxes (note 14)	282	-
Long-term debt (note 11)	1,201	2,117
	50,672	119,735
Shareholders' equity (deficiency)		
Share capital (note 12)	29,868	29,868
Deficit	(25,049)	(38,312)
	4,819	(8,444)
	\$ 55,491	\$ 111,291

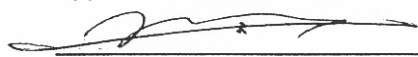
Future operations (note 1)

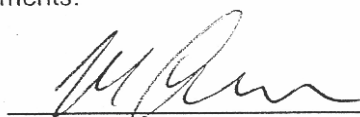
Subsequent event (notes 7, 8 and 20)

Commitments and contingencies (notes 6 and 17)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


Peter Y.L. Eng Director


Michael F. Chan Director

ALLIED HOTEL PROPERTIES INC.

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

Years ended December 31, 2005 and 2004

	2005	2004
Revenues:		
Rooms	\$ 23,353	\$ 23,954
Food and beverage	11,737	11,982
Other (note 16)	2,673	3,508
	<u>37,763</u>	<u>39,444</u>
Cost of sales:		
Rooms	6,840	7,585
Food and beverage	9,296	9,861
Other	773	1,254
	<u>16,909</u>	<u>18,700</u>
Gross profit	20,854	20,744
Operating expenses:		
Selling, general and administrative (note 16)	12,729	12,426
Management fees (note 16)	206	377
Taxes and insurance	1,833	2,824
Depreciation and amortization	2,203	2,301
	<u>16,971</u>	<u>17,928</u>
Operating income	3,883	2,816
Other expenses (income):		
Interest on demand loans and debt	3,625	4,409
Other interest (note 16)	963	896
Equity in income of investee	(2,477)	(9)
	<u>2,111</u>	<u>5,296</u>
Earnings (loss) before income taxes and discontinued operations	1,772	(2,480)
Income taxes (recovery):		
Current	(55)	112
Future (note 14)	282	3,325
	<u>227</u>	<u>3,437</u>
Earnings (loss) from continuing operations	1,545	(5,917)
Income (loss) from discontinued operations, net of income taxes (note 4)	3,359	(1,731)
Net income (loss)	\$ 4,904	\$ (7,648)
Basic and diluted income (loss) per share (note 2(k))		
Continuing operations	\$ 0.02	\$ (0.06)
Discontinued operations	0.03	(0.02)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Deficit
(in thousands of dollars)

Years ended December 31, 2005 and 2004

	2005	2004
Deficit, beginning of year	\$ (38,312)	\$ (30,664)
Deemed contribution by related party (note 13)	8,359	-
Net income (loss)	4,904	(7,648)
Deficit, end of year	\$ (25,049)	\$ (38,312)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Cash Flows
(in thousands of dollars)

Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Earnings (loss) from continuing operations	\$ 1,545	\$ (5,917)
Items not involving cash:		
Depreciation and amortization	2,203	2,301
Future income taxes	282	3,325
Equity in income of investee	(2,477)	(9)
Amortization of deferred revenue	(162)	(171)
Unrealized foreign exchange gain	-	(85)
Funds from operations	1,391	(556)
Changes in non-cash operating working capital (note 15)	(2,226)	(898)
	(835)	(1,454)
Investments:		
Additions to income-producing properties	(139)	(317)
Distribution from equity accounted investee	4,553	122
	4,414	(195)
Financing:		
Principal repayment on demand loan	(3,000)	-
Proceeds from demand loan	-	4,750
Proceeds from long-term demand loans	11,900	-
Principal repayments on long-term debt	(342)	(476)
Principal repayments on long-term demand loans	(11,907)	(2,111)
Principal repayments on mortgage payable	(362)	(4,371)
Increase in due to related parties	3,611	4,353
Deferred financing fees	(121)	-
Repayment of obligations under capital leases	(200)	(173)
	(421)	1,972
Increase in cash and cash equivalents from continuing operations	3,158	323
Bank indebtedness of Vancouver Hotel Property's operations on date of sale	564	-
	3,722	323
Discontinued operations (note 4)	2,307	(1,900)
Net increase (decrease) in cash and cash equivalents	6,029	(1,577)
Cash and cash equivalents, beginning of year	(3,989)	(2,412)
Cash and cash equivalents, end of year	\$ 2,040	\$ (3,989)

Cash and cash equivalents are defined as cash less bank indebtedness.
Supplementary information (note 15)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

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.

At December 31, 2005 and 2004, the Company had a significant working capital deficiency. In addition, the Company had experienced cumulative losses and negative cash flow from operations in 2005 and 2004.

The Company was subject to certain debt service ratio ("DSR") and other covenants pertaining to long-term demand loans and liabilities in respect of assets held for sale. The Company was in breach of certain of these covenants. One DSR covenant violated pertained to long-term demand loans, previously included in liabilities of assets held for sale on the balance sheet. All of these loans were due to the same lender (the "Lender").

The Company had received from the Lender an agreement to forbear from taking any action against the Company and to accept interest payments only without repayment of principal on long-term demand loans in return for certain commitments from the Company. These commitments included, amongst others, the listing for sale of one of the Company's income-producing properties and the requirement to sell two assets owned by the Company's majority shareholder, a guarantor of the related debts, with proceeds to be advanced to the Company to reduce outstanding bank indebtedness.

During 2005, the majority shareholder sold one asset and advanced, primarily through an affiliated company, \$4,647 to the Company to reduce bank indebtedness. The Company subsequently entered into an agreement to sell one of its income-producing properties (the "Vancouver Hotel Property") with the sale scheduled to close in August 2005. The Vancouver Hotel Property was then recorded as an asset held for sale. As part of the agreement with the purchaser, the Company's majority shareholder entered into an agreement to sell the parkade and lands adjacent to the Vancouver Hotel Property (also see note 4). The Company then entered into another agreement to sell the income-producing property previously identified as being held for sale (the "Richmond Hotel Property") with the sale scheduled to close in August 2005.

The Company completed the sale of the two above mentioned properties during the year ended December 31, 2005. The sale proceeds were sufficient to enable the Company to fully repay all secured debt registered against the properties, and to reduce a demand loan secured against another income-producing property owned by the Company. As a result of these sales, the Company is now in compliance with all DSR covenants.

As at December 31, 2005, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$15,470. 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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

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").

(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"); and Chateau Lacombe Hotel Ltd. ("CLHL"). In addition, the consolidated financial statements include the accounts and the results of operations of the wholly-owned subsidiary, Harbourview Towers Enterprises Ltd. ("Harbourview"), and the 62% owned subsidiary, Vancouver Airport Conference Resort Ltd. ("VACR"), up to the date of sale of the related income-producing properties during August 2005. All material intercompany transactions and balances have been eliminated.

(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 impairment. A provision for impairment is recognized when the carrying amount of a property is not recoverable and exceeds its fair 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	Straight-line	35 - 40 years
Furniture, fixtures and equipment	Straight-line	3 - 5 years
Equipment under capital lease	Straight-line	3 - 5 years

(f) Investment:

The Company's investments 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
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

2. Significant accounting policies (continued):

(g) Deferred costs:

Deferred costs include deferred licence fees and deferred financing fees. Deferred license fees relate to application fees paid to the franchisor of certain hotel properties, while deferred financing fees relate to the fees paid to a lender for re-financing a long-term demand loan. Deferred licence fees are being amortized on a straight-line basis over the terms of the franchise agreements. Deferred financing fees are being amortized on a straight-line basis over the term of the loan.

(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.

(i) Foreign currency:

Monetary items denominated in foreign currencies 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 2005 and 2004.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

2. Significant accounting policies (continued):

(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 income (loss) for the effects of non-cash items and changes in non-cash operating working capital balances.

(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, 2004 and up to the date of sale of the related income-producing property in August 2005, 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 had been allocated to and recorded by the Company, as the non-controlling interests had not guaranteed obligations nor committed to further financial support of VACR. Subsequent earnings of VACR would be allocated entirely to the Company until such previously absorbed losses were recovered. As at December 31, 2005, the Company has recorded \$2,800 (2004 - \$3,940) of losses otherwise attributable to non-controlling interests.

(o) Employee future benefits:

The Company matches contributions to a defined contribution pension plan to a maximum of 5% of salaries. Included in general and administrative expense is \$29 (2004 - \$40) in respect of the Company's contributions for 2005.

(p) Comparative figures:

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

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

3. Changes in accounting policies:

- (a) 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 has used the sinking fund method. Following the issuance of Section 1100 of The Canadian Institute of Chartered Accountants ("CICA") Handbook ("HB") 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 and amortization expense and net loss, including that classified as discontinued operations, for the year ended December 31, 2005 of \$1,206 (2004 - \$1,573).
- (b) Effective January 1, 2005, the Company adopted the CICA Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG-15") on a prospective basis. AcG-15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity ("VIE"). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both.

Prior to adopting AcG-15, the Company fully consolidated the VIE where the Company was considered to be the primary beneficiary under AcG-15, and consequently there was no material impact to the consolidated balance sheet or consolidated statement of operations upon adoption.

The Company has a variable interest in the entities which held the Company's 26.67% interest in the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (collectively the "Vancouver Airport Property"). These entities were deemed to be VIEs in accordance with AcG-15, but the Company was not deemed to be the primary beneficiary. Details relating to Vancouver Airport Property are disclosed in note 6.

4. Assets held for sale and discontinued operations:

As at December 31, 2004 the Company had identified the Richmond Hotel Property as being held for sale in accordance with CICA HB Section 3475. During 2005 the Company had identified the Vancouver Hotel Property as also being held for sale. The Company determined that the carrying value of these properties was less than their estimated fair value less costs to sell and, consequently, did not record an impairment loss.

During 2005 both the Richmond Hotel Property and the Vancouver Hotel Property were sold. The following tables set out the balance sheet, statements of income and cash flows associated with assets held for sale. The balance sheet at December 31, 2004 reflects the assets and liabilities of the Richmond Hotel Property only.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

4. Assets held for sale and discontinued operations (continued):

The statements of operations and cash flows for discontinued operations include the operations and cash flows of the Richmond Hotel Property up to the date of sale. Following the sale of the Vancouver Hotel Property, the Company will generate continuing cash flows as a result of management fees earned from a management contract between the Company and the new owner. This management contract is guaranteed to be for a period of no less than one year, until the new owner closes the hotel as part of the redevelopment of the adjacent site and upgrade to the hotel. The Company generates cash flows from its hotel operations from rooms, food and beverage and other hotel related activities. The management fees are not considered direct cash flows from the Vancouver Hotel Property principally because such cash flows are not generated directly from hotel operations. Under the terms of the management contract, the Company exercises significant influence over the Vancouver Hotel Property's operations and policies. Consequently, the statements of operations and cash flows of the Vancouver Hotel Property are accounted for as part of continuing operations.

Balance Sheet

	2005	2004
Assets		
Income-producing properties	\$ -	\$ 20,423
Accounts receivable and other assets	246	998
Assets held for sale	\$ 246	\$ 21,421
Liabilities and Net Assets (Deficiency in Assets)		
Liabilities		
Long-term demand loans	\$ -	\$ 18,863
Accounts payable and other liabilities	142	3,505
Liabilities of assets held for sale	142	22,368
Net assets (deficiency in assets)	104	(947)
	\$ 246	\$ 21,421

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

4. Assets held for sale and discontinued operations (continued):

Statements of operations

	2005	2004
Revenues	\$ 8,787	\$ 13,129
Cost of sales	5,030	8,003
Gross profit	3,757	5,126
Operating expenses	2,793	5,776
Operating income (loss)	964	(650)
Interest expense	(691)	(1,081)
Gain on sale of Richmond Hotel Property	3,077	-
Income (loss) before income taxes and non-controlling interest	3,350	(1,731)
Income tax recovery	9	-
Income (loss) from discontinued operations, net of income taxes	\$ 3,359	\$ (1,731)

Statements of cash flows

	2005	2004
Cash provided by (used in):		
Operations	\$ 1,080	\$ (1,031)
Investments	2,045	(12)
Financing	(85)	(857)
Increase (decrease) in cash equivalents	3,040	(1,900)
Cash of Richmond Hotel Property's operations on date of sale	(733)	-
	2,307	(1,900)
(Advanced to) funded by parent company	(2,307)	1,900
Change in cash equivalents	\$ -	\$ -

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

5. Income-producing properties:

2005	Cost	Accumulated depreciation	Net book value
Land	\$ 8,845	\$ -	\$ 8,845
Buildings	46,719	5,334	41,385
Furniture, fixtures and equipment	4,142	3,521	621
Equipment under capital lease	685	666	19
	\$ 60,391	\$ 9,521	\$ 50,870

2004	Cost	Accumulated depreciation	Net book value
Land	\$ 30,698	\$ -	\$ 30,698
Buildings	62,414	9,459	52,955
Furniture, fixtures and equipment	9,462	8,609	853
Equipment under capital lease	1,053	814	239
	\$ 103,627	\$ 18,882	\$ 84,745

6. Investment:

The investment represented the Company's interest in Vancouver Airport Property. Both properties comprising the Vancouver Airport Property were sold during 2005.

As part of the arrangements of this investment, the Company held a 26.67% interest in Allied Hotels (1992) Inc. ("1992 Inc.") and Allied Hotels (1992) Trust ("1992 Trust"). 1992 Inc. and 1992 Trust were the general partner and sole limited partner of Allied Hotels (1992) Limited Partnership ("1992 LP"), respectively. 1992 LP owned the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (described in these consolidated financial statements as the "Vancouver Airport Property"). The Company acquired its initial interest in these entities on April 30, 1998. The primary business was to earn rental income from the two properties.

The investment in 1992 Inc., 1992 Trust and 1992 LP, entities subject to significant influence, was accounted for by the equity method.

The Company was not deemed to be the primary beneficiary of 1992 Inc. since it does not absorb a majority of the entity's expected losses. The Company was not deemed to be the primary beneficiary of 1992 Trust and 1992 LP because the exposure to losses for the Company from the variable interests would be nominal.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

6. Investment (continued):

The Company's investment and advances comprised the following:

	% interest	2005	2004
Vancouver Airport Property:	26.67% (2004 - 26.67%)		
Opening investment and advances		\$ 2,076	\$ 2,190
Share of earnings		2,477	9
Distributions		(4,553)	(122)
Closing investment and advances		\$ -	\$ 2,077

Summarized information of the Vancouver Airport Property is as follows:

	2005	2004
Current assets	\$ 4,245	\$ 199
Income-producing property	-	31,338
Other assets	54	1,506
	\$ 4,299	\$ 33,043
Long-term demand loans	\$ -	\$ 27,822
Notes payable	469	5,500
Other liabilities	3,830	642
Deficiency	-	(921)
	\$ 4,299	\$ 33,043
Revenue	\$ 2,142	\$ 3,716
Gain on sale of income-producing properties	15,304	-
Expenses	(5,396)	(3,683)
Net earnings	\$ 12,050	\$ 33

The Company had unconditionally guaranteed one of the long-term demand loans of Vancouver Airport Property, to a maximum amount of \$3,475, and had provided a proportionate liability debt service agreement as security for all of the Vancouver Airport Property's long-term demand loans. The guarantee and proportionate debt service agreement were cancelled during 2005 upon repayment of the long-term demand loans.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

7. Demand loan:

	2005	2004
Demand loan bearing interest at prime plus 2.5% per annum, with interest only payable monthly in arrears, and principal due April 1, 2006	\$ 4,750	\$ 7,750

The demand loan is secured by a mortgage of \$25,000 creating a second fixed financial charge over an 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 \$7,750 plus interest. Holdings is the Company's parent company.

Under the terms of the facility letter governing the demand loan, the earnings before interest, taxes, depreciation, and amortization ("EBITDA") of the related hotel property is required to be not less than 1.20 times debt service for any twelve month period ending on or after January 1, 2005. At January 1, 2005 the Company was in breach of this covenant, and remained in breach until the sale of two income-producing properties was completed and associated debt repaid, in August 2005. Since that time the Company has been in compliance with this covenant.

Subsequent to the year-end, the Company refinanced this demand loan (note 20).

8. Mortgage payable:

	2005	2004
Mortgage payable bearing interest at 7.0% (2004 - 6.8%) per annum, repayable in blended monthly installments of \$102 (2004 - \$101), and due April 1, 2006	\$ 12,407	\$ 12,769
Current portion	12,407	362
	\$ -	\$ 12,407

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. In addition to interest, fees of \$318 are payable annually.

Subsequent to the year-end, the Company refinanced this mortgage payable (note 20).

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

9. Due to related parties:

	2005	2004
Holdings	\$ 8,629	\$ 7,376
Allied Pacific Properties and Hotels Ltd. ("APP")	6,841	1,508
Minority shareholders of VACR	-	485
Vancouver Airport Property	-	291
	\$ 15,470	\$ 9,660

The amount due to Holdings is unsecured, due on demand and bears interest at 9.0% per annum (2004 - prime plus 0.75% per annum).

The amount due to APP, a minority shareholder of the Company, is secured by a general security agreement, is due on demand and bears interest at prime plus 0.75% per annum.

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

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

10. Long-term demand loans:

	2005	2004
Demand loan with monthly blended payments of principal and interest of \$103 based on a 15 year amortization period and interest rate of 6.43% per annum, due November 1, 2010	\$ 11,860	\$ -
Demand loans repayable as disclosed below and fully amortized in 2018	-	38,367
Demand loan bearing interest at 9% per annum, repayable in blended monthly payments of principal and interest of \$90	-	9,185
Demand loan bearing interest at prime plus 2.5%, with equal monthly instalments of principal of \$25 and interest on the declining balance	-	2,550
	\$ 11,860	\$ 50,102

The \$11,860 fixed rate demand loan is secured by a mortgage of \$13,000 creating a first fixed charge over an income-producing property; assignment of rents; and a guarantee executed by the Company. This loan replaced the demand loans of \$9,185 and \$2,550 as at December 31, 2004, which were secured under the same terms and conditions except that Holdings previously guaranteed the loans.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
(in thousands of dollars, except per share amounts)

Years ended December 31, 2005 and 2004

10. Long-term demand loans (continued):

Under the terms of the facility letter governing this demand loan, as amended, CLHL is subject to certain covenants including a minimum DSR ratio, maximum debt to tangible net worth ratio ("TNW"). At December 31, 2005, CLHL is in compliance with the DSR and the TNW.

The Company has available a \$500 (2004 - \$700) demand revolving operating loan which bears interest at prime plus 1.5% (2004 - 0.75%) per annum and is secured on the same terms as the \$11,860 long-term demand loan. This loan facility was not drawn upon as at December 31, 2005.

The \$38,367 floating rate demand loan was secured by mortgages of \$120,000 creating first fixed charges over two of the Company's income-producing properties; a mortgage of \$24,000 creating a second fixed 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 \$520 executed by two significant shareholders of Holdings; and a personal guarantee limited to \$13,500 executed by a significant shareholder of Holdings.

Interest on the loan as at December 31, 2004 was 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. This loan was repaid during the year ended December 31, 2005 as a result of the sale of the Vancouver Hotel Property.

Under the terms of the facility letters governing the Company's \$38,367 floating rate demand loans and the \$18,863 demand loans (see note 4), EBITDA of three income-producing properties was required to be not less than 1.20 times debt service for any twelve month period. At December 31, 2004 the Company was in breach of this covenant, and remained in breach until the loan was repaid during the year ended December 31, 2005.

Notwithstanding the classification of the long-term demand loan as a current liability, the Company continues to 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:

2006	\$	490
2007		523
2008		557
2009		594
2010		9,696
	\$	11,860

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11. Long-term debt:

	2005	2004
Notes payable of which \$972 (2004 - \$1,128) is non-interest bearing and the remainder bears interest at 9% per annum. The notes are secured by certain furniture, fixtures, and equipment and require monthly principal and interest payments aggregating \$20, due in 2012	\$ 1,411	\$ 1,616
Note payable (2004 - US \$807) bearing interest at 10% per annum and secured by a guarantee by Holdings. Equal principal payments of US \$18 and interest on the unpaid portion were due monthly	-	971
	1,411	2,587
Current portion	210	470
	\$ 1,201	\$ 2,117

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

2006	\$ 210
2007	216
2008	221
2009	227
2010	234
Thereafter	303
	\$ 1,411

12. Share capital:

(a) Authorized:

The authorized capital of the Company at December 31, 2005 and 2004 consisted of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2005 and 2004	106,326,268	\$ 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, 2005 and 2004, there were no options outstanding to acquire common shares in the Company.

13. Deemed Contribution:

Effective August 2005, the Company sold its 100% interest in the Vancouver Hotel Property to Holdings, at a nominal value. The sale was part of a larger transaction involving the sale of the Vancouver Hotel Property and the adjacent parkade and lands owned by Holdings. As the sale of the Vancouver Hotel Property was made to a related party, the difference between the consideration received and the deficiency in the carrying values of the net assets sold has been credited to equity as a deemed contribution by related party. The transaction has been recorded at the carrying amount.

Subsequent to September 30, 2005, the Company and Holdings agreed to reduce the net amount of obligations assumed by Holdings in the amount of \$2,200 thus resulting in a decrease to deemed contribution. Accordingly, deemed contribution has been reduced from \$10,559, the amount reported in the Company's unaudited consolidated statements for the nine months end September 30, 2005, to \$8,359 in these consolidated financial statements.

14. 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 35.12% (2004 - 35.44%) to earnings (loss) before income taxes and discontinued operations, as shown in the following table:

	2005	2004
Basic rate applied to income (loss) before income taxes	\$ 622	\$ (879)
Change in valuation allowance for continuing operations	887	4,156
Large corporations tax	(55)	112
Income tax expense deducted against equity earnings	(525)	-
Permanent difference relating to non-taxable distribution from investee	(350)	-
Other permanent differences and reconciling items	(434)	48
Effect of income tax rate changes	82	-
Income tax expense	\$ 227	\$ 3,437

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14. Income taxes (continued):

- (b) The tax effects of temporary differences that give rise to significant portions of future tax assets and future tax liabilities, including those relating to discontinued operations, at December 31, 2005 are presented below:

	2005	2004
Future tax assets:		
Non-capital loss carry forwards	\$ 3,537	\$ 8,037
Share issue and financing costs	592	925
Income-producing properties	3,077	9,834
Investments and distributions receivable	14	191
Deferred revenues	389	645
Capital lease obligations	4	76
	7,613	19,708
Future tax liabilities:		
Income-producing properties	(2,077)	(2,506)
Deferred costs	(76)	(41)
Long-term debt	-	(34)
	(2,153)	(2,581)
	5,460	17,127
Valuation allowance	(5,742)	(17,127)
Net future non-current tax liabilities	\$ (282)	\$ -

- (c) At December 31, 2005, the Company has non-capital losses of approximately \$10,119 (2004 - \$22,628) able to be carried forward to reduce income taxes otherwise payable in future years within the carry forward periods, subject to the acquisition of control provisions of the Income Tax Act (Canada). No future income tax benefit on \$10,119 (2004 - \$18,492) of these losses, or temporary differences on assets and liabilities of the Company of approximately \$6,305 (2004 - \$29,881), has been recognized in the financial statements.

15. Supplementary information:

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

	2005	2004
Accounts receivable	\$ (625)	\$ (303)
Inventories	(12)	(11)
Prepaid expenses	148	(102)
Accounts payable and accrued liabilities	(1,737)	(482)
	\$ (2,226)	\$ (898)

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15. Supplementary information (continued):

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

	2005	2004
Supplementary information:		
Interest paid	\$ 5,201	\$ 6,608
Taxes paid	143	74
Non-cash investing and financing activities:		
Reduction of obligations assumed by Holdings (note 13)	2,200	-
Acquisition of equipment under capital lease	-	15
Carrying value of the Vancouver Hotel Property's net assets at the date of sale:		
Bank indebtedness	\$ (564)	\$ -
Non-cash working capital deficiency	(2,498)	-
Income-producing properties	31,837	-
Other assets	168	-
Long-term debt and demand loans	(39,070)	-
Capital lease	(1)	-
Deferred revenue	(431)	-
Net carrying value of income-producing properties sold during the year	\$ (10,559)	\$ -

16. Related party transactions:

In addition to note 9, the Company had the following transactions with related parties during the year:

	2005	2004
Interest expense:		
Holdings	\$ 421	\$ 315
APP	307	8
Rent expense:		
APP	42	77
Management fee income:		
Vancouver Airport Property	32	60
Holdings	-	115
Rental income:		
Holdings	-	83

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

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

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16. Related party transactions (continued):

Rooms, food and beverage and other revenues include revenue totaling \$94 (2004 - \$103) from a company in which a director of the Company is a director and major shareholder. Revenues from discontinued operations include \$149 (2004 - \$167) from this company.

17. Commitments and contingencies:

- (a) The Company has entered into franchise agreements to operate two 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 management agreements with a third party manager, to operate the parkades of certain income-producing properties for management fees based on a percentage of revenues of the parkades, and incentive fees as defined in the agreements.

18. Financial instruments:

- (a) Fair value:

The Company's financial instruments include cash and cash equivalents, accounts receivable, 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 cash and cash equivalents, accounts receivable, 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, 2005 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.

- (b) Interest rate risk:

As described in notes 7 and 9, the Company's demand loan and certain amounts due to related parties bear interest at floating rates. 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.

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19. 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.

20. Subsequent event:

Subsequent to the year-end, the Company entered into an agreement with a lender to refinance the demand loan (note 7) and the mortgage payable (note 8). The new long-term demand loan facility of \$17,500 will be drawn down on April 1, 2006 and will be 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 will also provide a revolving credit facility of \$1,250 to be used for working capital requirements.

This new facility of \$18,750 will be 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 Holdings limited to \$3,750 plus interest.