Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Years ended December 31, 2004 and 2003

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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, 2004 and 2003 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, 2004 and 2003 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 11, 2005

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
(in thousands of dollars)

December 31, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Accounts receivable	$ 1,607	$ 1,983
Inventories	361	453
Prepaid expenses	789	759
Future income taxes (note 15)	-	98
	2,757	3,293
Assets held for sale (note 4)	21,421	-
Income-producing properties (note 5)	84,745	107,990
Investment (note 6)	2,077	2,190
Deferred costs, net of amortization	291	324
Future income taxes (note 15)	-	3,227
	$ 111,291	$ 117,024
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 10)	$ 3,989	$ 2,412
Liabilities of assets held for sale (note 4)	22,368	-
Demand loan (note 7)	7,750	3,000
Accounts payable and accrued liabilities	8,589	12,369
Deferred revenue	174	266
Mortgage payable (note 8)	362	17,140
Long-term debt (note 12)	470	486
Due to related parties (note 9)	9,660	5,306
Capital lease obligation (note 11)	91	266
Long-term demand loans (note 10)	50,102	71,854
	103,555	113,099
Deferred revenue	1,534	1,842
Capital lease obligation (note 11)	122	216
Mortgage payable (note 8)	12,407	-
Long-term debt (note 12)	2,117	2,663
	119,735	117,820
Shareholders' equity:		
Share capital (note 13)	29,868	29,868
Deficit	(38,312)	(30,664)
	(8,444)	(796)
	$ 111,291	$ 117,024

Future operations (note 1)
Subsequent event (note 10)
Commitments and contingencies (notes 6 and 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director
Peter Y.L. Eng

Director
Michael Chan

ALLIED HOTEL PROPERTIES INC.

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

Years ended December 31, 2004 and 2003

	2004	2003
Revenues:		
Rooms	$ 23,954	$ 20,732
Food and beverage	11,982	11,341
Other (note 17)	3,508	3,373
	39,444	35,446
Cost of sales:		
Rooms	7,585	6,585
Food and beverage	9,861	9,294
Other	1,254	1,044
	18,700	16,923
Gross profit	20,744	18,523
Operating expenses:		
Selling, general and administrative (note 17)	12,426	11,766
Management fees (note 17)	377	457
Taxes and insurance	2,824	2,993
Depreciation and amortization	2,301	2,769
	17,928	17,985
Operating income	2,816	538
Other expenses (income):		
Interest on demand loans and debt	4,409	4,749
Other interest (note 17)	896	737
Equity in loss (income) of investee	(9)	74
Gain on sale of income-producing property (note 14)	-	(4,913)
	5,296	647
Loss before income taxes and discontinued operations	(2,480)	(109)
Income taxes (recovery):		
Current	112	78
Future (note 15)	3,325	(324)
	3,437	(246)
Earnings (loss) from continuing operations	(5,917)	137
Loss from discontinued operations, net of income taxes (note 4)	(1,731)	(1,693)
Loss for the year	$ (7,648)	$ (1,556)
Basic and diluted loss per share (note 2(k))		
Continuing operations	$ (0.06)	$ -
Discontinued operations	(0.02)	(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, 2004 and 2003

	2004	2003
Deficit, beginning of year	$ 30,664	$ 29,108
Loss for the year	7,648	1,556
Deficit, end of year	$ 38,312	$ 30,664

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Cash Flows
(in thousands of dollars)

Years ended December 31, 2004 and 2003

		2004		2003
Cash provided by (used in):				
Operations:				
Earnings (loss) from continuing operations	$	(5,917)	$	137
Items not involving cash:				
Depreciation and amortization		2,301		2,769
Future income taxes		3,325		(324)
Equity in loss (income) of investee		(9)		74
Amortization of deferred revenue		(171)		(174)
Gain on sale of income-producing property		-		(4,913)
Unrealized foreign exchange gain		(85)		(362)
Funds from operations		(556)		(2,793)
Changes in non-cash operating working capital (note 16)		(898)		689
		(1,454)		(2,104)
Investments:				
Additions to income-producing properties		(317)		(227)
Net proceeds from sale of income-producing property		-		691
Distribution from equity accounted investee		122		313
		(195)		777
Financing:				
Proceeds from demand loan		4,750		3,000
Proceeds from long-term demand loans		-		3,000
Principal repayments on long-term debt		(476)		(490)
Principal repayments on long-term demand loans		(2,111)		(2,087)
Principal repayments on mortgage payable		(4,371)		(3,465)
Increase in due to related parties		4,353		4,287
Repayment of obligations under capital leases		(173)		(223)
		1,972		4,022
Increase in cash and cash equivalents from continuing operations		323		2,695
Discontinued operations (note 4)		(1,900)		(3,015)
Net decrease in cash equivalents during the year		(1,577)		(320)
Cash and cash equivalents, beginning of year		(2,412)		(2,092)
Cash and cash equivalents, end of year	$	(3,989)	$	(2,412)

Cash and cash equivalents are defined as cash less bank indebtedness.
Supplementary information (note 16)

See accompanying notes to consolidated financial statements.

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, 2004 and 2003, the Company had a significant working capital deficiency. In addition, the Company had experienced losses and negative cash flow from operations in 2004 and 2003 and, based on management’s current projections, the Company will likely experience a cash flow deficiency in the 2005 fiscal year. Further, the Company is delinquent on property tax remittances for two of its income producing properties to the maximum extent permitted by the respective authorities.

The Company is subject to certain debt service ratio (“DSR”) and other covenants pertaining to long-term demand loans and liabilities of assets held for sale. At December 31, 2004 the Company was in breach of certain of its covenants (see note 10). The Company’s lenders are aware of these breaches. One DSR covenant violated at December 31, 2004 pertains to $57,230 of long-term demand loans, of which $18,863 is included in liabilities of assets held for sale on the balance sheet. All of these loans are due to the same lender (the “Lender”), and all of the Company’s income-producing properties secure the long-term demand loans and liabilities of assets held for sale, for which this DSR covenant has been violated (see note 10).

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, until January 31, 2005, in return for certain commitments from the Company. These commitments included 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. Based on management’s current projections, the Company believes it will be in compliance with the DSR covenant following these asset sales.

The Company has not met all conditions of the forbearance. However, subsequent to December 31, 2004, the majority shareholder sold one asset and advanced, primarily through an affiliated company (note 9), $4,647 to the Company to reduce bank indebtedness. The Lender agreed to provide limited re-advances up to $4,000 to the Company on the condition that the Company appoint a professional services firm (the “Advisor”) to assist in the negotiation of required asset sales, to monitor and report to the Lender the progress of asset sales and the status and restructuring of the Company’s business operations, and to monitor and report to the Lender on disbursements weekly. Further, the Company was required to appoint the Company’s Chief Financial Officer to the position of Chief Restructuring Officer to take charge of and oversee the management and operations of the Company, and to develop a restructuring plan. Since that time, the Company has been working with the Lender and the Advisor in respect of the above.

1. Future operations (continued):

There can be no assurance that the Company and its majority shareholder will successfully complete asset sales or otherwise satisfy the Lender's requirements in an amount or timeline acceptable to the Lender. The Company's ability to satisfy the Lender's requirements is dependant upon factors outside of the Company's direct control, and the Lender can demand repayment of all or a portion of amounts due at any time. Further, 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 or are demanded.

The application of the going concern basis of presentation 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. There is, primarily as a result of the conditions described above, doubt as to the appropriateness of the use of the going concern assumption. The accompanying consolidated financial statements have been prepared on a going concern basis notwithstanding these conditions. 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").

(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"); Harbourview Towers Enterprises Ltd. ("Harbourview"); Chateau Lacombe Hotel Ltd. ("CLHL"); and its 62% interest in Vancouver Airport Conference Resort Ltd. ("VACR"). 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.

2. Significant accounting policies (continued):

(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 loss. An impairment loss 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

Effective May 1, 2003 The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3475, dealing with Disposal of Long-lived Assets and Discontinued Operations ("Section 3475"). Section 3475 is prospective in application and is effective for disposal activities initiated by an enterprise's commitment to a plan on or after May 1, 2003. The definition of discontinued operations includes any disposal of a component of an entity as well as assets held for sale. The Company has prospectively applied Section 3475 in respect of one income-producing property identified as being held for sale and a discontinued operation in 2004. Refer to note 4 for detail of assets held for sale and discontinued operations.

(f) Investment:

The Company's investment 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.

(g) Deferred costs:

Deferred license and franchise fees relate to application fees paid to the franchisor of certain hotel properties. These fees are being amortized on a straight-line basis over the terms of the franchise agreements.

(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. Amounts received in advance of satisfaction of these criteria are deferred until future periods.

2. Significant accounting policies (continued):

(i) Foreign currency:

Monetary items denominated in foreign currency 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 2004 and 2003.

(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 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.

2. Significant accounting policies (continued):

(n) Non-controlling interest:

At December 31, 2004 and 2003, 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 have been allocated to and recorded by the Company, as the non-controlling interests have not guaranteed obligations nor committed to further financial support of VACR. Subsequent earnings of VACR will be allocated entirely to the Company until such previously absorbed losses are recovered. As at December 31, 2004, the Company has recorded $3,940 (2003 - $2,620) 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 $40 (2003 - $48) in respect of the Company's contributions for 2004.

(p) Comparative figures:

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

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 has 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 and amortization expense and net loss, including that classified as discontinued operations, of $1,573 for the year ended December 31, 2004.

4. Discontinued operations:

As at December 31, 2004 the Company identified one income-producing property as being held for sale in accordance with Section 3475. The Company has determined that the carrying value of this property is less than its estimated fair value less costs to sell and, consequently, has not recorded an impairment loss.

The following tables set forth the balance sheet, statements of income and cash flows associated with assets classified as assets held for sale.

(in thousands of dollars, except per share amounts)

4. Discontinued operations (continued):

Balance Sheet

	December 31, 2004
Assets	
Income-producing properties	$ 20,423
Accounts receivable and other assets	998
Assets held for sale	$ 21,421
Liabilities and Deficiency in Assets	
Liabilities	
Long-term demand loans	$ 18,863
Accounts payable and other liabilities	3,505
Liabilities of assets held for sale	22,368
Deficiency in assets held for sale	(947)
	$ 21,421

Interest, debt service requirements, and security related to the long-term demand loans are under the same terms as those of the $38,367 floating rate long-term demand loans disclosed in note 10.

Statements of Operations

	2004	2003
Revenues	$ 13,129	$ 11,566
Cost of sales	8,003	7,102
Gross profit	5,126	4,464
Operating expenses	5,776	5,588
Operating loss	650	1,124
Other expenses (income):		
Interest expense	1,081	1,314
Settlement of management agreement	-	(740)
	1,081	574
Loss before income taxes	1,731	1,698
Income taxes (recovery)	-	(5)
Loss from discontinued operations, net of income taxes	$ 1,731	$ 1,693

(in thousands of dollars, except per share amounts)

4. Discontinued operations (continued):

Statements of Cash Flows

	2004	2003
Cash provided by (used in):		
Operations:		
Loss from discontinued operations, net of income taxes	$ (1,731)	$ (1,693)
Items not involving cash:		
Depreciation and amortization	884	482
Amortization of deferred revenue	(16)	(15)
Funds from discontinued operations	(863)	(1,226)
Changes in non-cash operating working capital	(168)	(694)
	(1,031)	(1,920)
Investments:		
Additions to income-producing property	(12)	(40)
Financing:		
Principal repayments on long-term demand loans	(778)	(846)
Repayment of obligations under capital leases	(79)	(209)
	(857)	(1,055)
Decrease in cash equivalents during the year	(1,900)	(3,015)
Funding by parent company	1,900	3,015
Change in cash equivalents during the year	-	-
Cash equivalents, beginning of year	-	-
Cash equivalents, end of year	$ -	$ -

Cash equivalents are defined as cash less bank indebtedness.

5. Income-producing properties:

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

2003	Cost	Accumulated depreciation	Net book value
Land	$ 36,541	$ -	$ 36,541
Buildings	83,534	14,024	69,510
Furniture, fixtures and equipment	11,428	9,880	1,548
Equipment under capital lease	1,589	1,198	391
	$ 133,092	$ 25,102	$ 107,990

(in thousands of dollars, except per share amounts)

6. Investment:

The investment represents the Company's interest in the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (collectively the "Vancouver Airport Property").

The Company's investment and advances comprised the following:

	% interest	2004	2003
Vancouver Airport Property:	26.67% (2003 - 26.67%)		
Opening investment and advances		$ 2,190	$ 2,577
Share of earnings (loss)		9	(74)
Distributions		(122)	(313)
Closing investment and advances		$ 2,077	$ 2,190

Summarized information of the Vancouver Airport Property is as follows:

	2004	2003
Current assets	$ 199	$ 593
Income-producing property	31,338	32,234
Other assets	1,506	2,032
	$ 33,043	$ 34,859
Long-term demand loans	$ 27,822	$ 29,093
Notes payable	5,500	5,500
Other liabilities	642	1,220
Deficit	(921)	(954)
	$ 33,043	$ 34,859
Revenue	$ 3,716	$ 5,118
Expenses	3,683	5,397
Net earnings (loss)	$ 33	$ (279)

The Company has unconditionally guaranteed one of the long-term demand loans of the Vancouver Airport Property, to a maximum amount of $3,475, and has provided a proportionate liability debt service agreement as security for all of the Vancouver Airport Property's long-term demand loans.

The Company would be required to perform under the guarantee if the lender demanded accelerated or immediate repayment of amounts due and the guaranteed party was unable to meet the demands. The maximum payment the Company could be required to make under the guarantee is equal to $3,475. The Company would be required to perform under the debt service agreement if the Vancouver Airport Property was unable to make regular monthly contractual payments of amounts due. The maximum payment the Company could be required to make under the debt service agreement is equal to its proportionate interest in the Vancouver Airport Property, 26.67%, multiplied by the cumulative shortfall of amounts paid to contractual debt service payments due.

(in thousands of dollars, except per share amounts)

6. Investment (continued):

There are no recourse provisions that would enable the Company to recover amounts paid from other parties, and the Company does not hold or have access to any collateral to be applied against amounts paid. The Company expects the guarantee and the debt service agreement to be in effect until the related indebtedness is paid in full or to a sufficient extent that the lender permits release.

7. Demand loan:

	2004	2003
Demand loan bearing interest at prime plus 2.5% per annum, with interest only payable monthly in arrears, and principal due April 1, 2006 (2003 - April 1, 2004)	$ 7,750	$ 3,000

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 of $7,750, 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. Based on management’s current projections, the Company believes it will be in compliance with this covenant throughout the 2005 fiscal year.

8. Mortgage payable:

	2004	2003
Mortgage payable bearing interest at 6.8% (2003 - 6.8%) per annum, repayable in blended monthly installments of $101 (2003 - $132), and due April 1, 2006 (2003 - April 1, 2004).	$ 12,769	$ 17,140
Current portion	362	17,140
	$ 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.

Effective April 1, 2005 the interest rate applicable to the mortgage payable will increase to 7.0%, and the blended monthly installments will increase to $102. In addition to interest, fees of $318 are payable annually.

(in thousands of dollars, except per share amounts)

8. Mortgage payable (continued):

Principal repayments over the next two years are as follows:

2005	$	362
2006		12,407
	$	12,769

9. Due to related parties:

		2004		2003
Holdings	$	7,376	$	4,428
Allied Pacific Properties and Hotels Ltd. (“APP”)		1,508		-
Minority shareholders of VACR		485		600
Vancouver Airport Property		291		278
	$	9,660	$	5,306

The amount due to Holdings is unsecured, due on demand and bears interest at 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. Subsequent to the year-end APP advanced an additional $4,490 on the same terms and conditions, which was used to repay overdraft credit facilities (note 10).

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

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

10. Long-term demand loans:

		2004		2003
Demand loans repayable as disclosed below (2003 - equal monthly blended installments of principal and interest aggregating $478) and fully amortized in 2018	$	38,367	$	59,575
Demand loan bearing interest at 9% per annum, repayable in blended monthly payments of principal and interest of $90 (2003 - $90), due March 1, 2006		9,185		9,429
Demand loan bearing interest at prime plus 2.5%, with equal monthly instalments of principal of $25 and interest on the declining balance, due May 31, 2005		2,550		2,850
	$	50,102	$	71,854

10. Long-term demand loans (continued):

Interest on the floating rate demand loans of $38,367 (2003 - $59,575) is 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.

The $38,367 (2003 - $59,575) floating rate demand loans are secured by mortgages of $120,000 creating a first fixed financial charge over two of the Company's income-producing properties; a mortgage of $24,000 creating a second fixed financial 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.

Under the terms of the facility letters governing the Company's $38,367 floating rate demand loans and the $18,863 demand loans included in liabilities of assets held for sale (note 4), the earnings before interest, taxes, depreciation, and amortization ("EBITDA") of three income-producing properties is 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. Based on management's current projections, the Company believes it will be in violation of this covenant until the asset sales described in note 1 occur.

The $2,550 floating rate demand loan and the fixed rate demand loan are secured by a mortgage aggregating $13,000 creating a first fixed financial charge over an income-producing property; assignment of rents; a guarantee executed by the Company; and a guarantee by Holdings.

Under the terms of the facility letter governing these demand loans, as amended, CLHL is subject to certain covenants including a minimum DSR ratio, maximum debt to tangible net worth ratio ("TNW"), and certain other terms of credit. At December 31, 2004, CLHL is in compliance with the DSR and the TNW, but in violation of certain other terms constituting events of default.

The Company has available $700 in overdraft credit facilities which bear interest at prime plus 0.75%, are repayable on demand, and are secured on the same terms as the $38,367 long-term demand loans and $18,863 long-term demand loans included in liabilities of assets held for sale. In addition, the Company has available limited re-advances up to $4,000 in overdraft credit facilities which bear interest at prime plus 1%, are due on demand, and are secured on the same terms as the $38,367 long-term demand loans and $18,963 long-term demand loans included in liabilities of assets held for sale. At December 31, 2004, the Company had largely utilized of this facility. Subsequent to the year-end the outstanding balance of the facility was repaid using funds advanced by APP (note 9). A new facility of $4,000 was made available by the same lender, as described in note 1.

(in thousands of dollars, except per share amounts)

10. Long-term demand loans (continued):

During 2004, an additional $300 demand loan facility was granted to the Company to finance capital improvements to an income-producing property, to be secured in the same manner as the $2,500 floating rate demand loan and the fixed rate demand loan. The Company did not draw down any amounts on this facility during the year. The loan facility will bear interest at prime plus 2.5% per annum.

Notwithstanding the classification of long-term demand loans as a current liability, the Company continues to make monthly repayments of interest and principal on $11,735 of its long-term demand loans, based on amortization schedules extending beyond one year. Assuming lenders do not demand immediate repayment of long-term demand loans, the Company anticipates making the following principal repayments over the next five years and thereafter on those loans:

2005	$ 569
2006	9,216
2007	300
2008	300
2009	300
Thereafter	1,050
	$ 11,735

As described in note 1, the lender of the $38,367 long-term demand loan has agreed to accept interest payments only without repayment of principal in return for certain commitments from the Company, one of which is to sell certain assets and reduce outstanding bank indebtedness. As it is not possible to predict at this time the net proceeds to be received from such sales, nor the timing of receipt of such proceeds, the Company is unable to anticipate the amount of principal repayments over the next five years on the $38,367 long-term demand loan.

11. Capital lease obligation:

The future minimum lease payments under capital lease obligations are as follows:

2005	$ 105
2006	119
2007	5
Total minimum lease payments	229
Amount representing interest ranging from 7.3% to 13.8%	16
	213
Current portion	91
	$ 122

(in thousands of dollars, except per share amounts)

12. Long-term debt:

	2004	2003
Note payable in the amount of $971 (US $807) (2003 - $1,331 (US $1,027)) bearing interest at 10% per annum and secured by a guarantee by Holdings. Equal principal payments of US $18 (2003 - US $18) and interest on the unpaid portion are due monthly, with the balance due in 2008	$ 971	$ 1,331
Notes payable of which $1,128 (2003 - $1,283) 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	1,616	1,818
	2,587	3,149
Current portion	470	486
	$ 2,117	$ 2,663

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

2005	$ 470
2006	475
2007	480
2008	398
2009	227
Thereafter	537
	$ 2,587

13. Share capital:

(a) Authorized:

The authorized capital of the Company at December 31, 2004 and 2003 consisted of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2004 and 2003	106,327,268	$ 29,868

(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, 2004 and 2003, there were no options outstanding to acquire common shares in the Company.

(in thousands of dollars, except per share amounts)

14. Gain on sale of income-producing property:

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel (the "Holiday Inn"). As at December 31, 2002, the Company had not received all sale proceeds and continued to guarantee the bank indebtedness of the Holiday Inn. Consequently, the Company had not recognized a gain or loss on sale of its investment in the Holiday Inn as at December 31, 2002.

During 2003 the Company received the balance of the sale proceeds and was released from all obligations pertaining to bank indebtedness of the Holiday Inn, and a gain of $4,913 was recorded in these financial statements, calculated as follows:

Proceeds	$	3,926
Negative carrying value of investment		1,492
		5,418
Commissions and other selling expenses		505
Gain on sale of income-producing property	$	4,913

15. 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 35.44% (2003 - 37.26%) to loss before income taxes, as shown in the following table:

		2004		2003
Basic rate applied to loss before income taxes	$	(1,492)	$	(669)
Change in valuation allowance		4,769		1,206
Recognition of previously unrecorded temporary differences		13		149
Large corporations tax		112		78
Other permanent differences		35		13
Permanent difference relating to gain on sale of income-producing property		-		(919)
Effect of income tax rate changes		-		(104)
Income tax expense (recovery)	$	3,437	$	(246)

(in thousands of dollars, except per share amounts)

15. 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, 2004 are presented below:

	2004	2003
Future tax assets:		
Non-capital loss carry forwards	$ 8,020	$ 7,095
Share issue and financing costs	925	994
Income-producing properties	9,834	9,341
Investments and distributions receivable	191	139
Deferred revenues	645	711
Capital lease obligations	76	113
Other	17	15
	19,708	18,408
Future tax liabilities:		
Deferred costs	(41)	(53)
Income-producing properties	(2,506)	(2,627)
Long-term debt	(34)	(26)
Other	-	(20)
	(2,581)	(2,726)
	17,127	15,682
Valuation allowance	(17,127)	(12,357)
Net future tax assets	$ -	$ 3,325
Classified as:		
Future income tax assets:		
Current	$ -	$ 98
Non-current	-	3,227
	$ -	$ 3,325

(c) At December 31, 2004, the Company has non-capital losses of approximately $22,628 (2003 - $20,020) able to be carried forward to reduce income taxes otherwise payable in future years within the carry forward periods. No future income tax benefit on $18,492 (2003 - $18,015) of these losses, or temporary differences on assets and liabilities of the Company of approximately $29,881 (2003 - $23,995), has been recognized in the financial statements.

(in thousands of dollars, except per share amounts)

16. Supplementary information:

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

	2004	2003
Accounts receivable	$ (303)	$ (119)
Inventories	(11)	1
Prepaid expenses	(102)	(178)
Accounts payable and accrued liabilities	(482)	985
	$ (898)	$ 689

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

	2004	2003
Supplementary information:		
Interest paid	$ 6,608	$ 6,517
Taxes paid	74	75
Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	15	236

17. Related party transactions:

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

	2004	2003
Management fee income:		
Vancouver Airport Property	$ 60	$ 87
Holdings	115	101
APP	8	-
Rental income:		
Holdings	83	330
Consulting fees:		
Director	-	69
Rent expense:		
APP	77	63
Interest expense:		
Holdings	315	131

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

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

17. Related party transactions (continued):

Rooms, food and beverage and other revenues include revenue totaling $103 (2003 - $171) from a company in which a director of the Company is a director and major shareholder. Of this amount, $19 (2003 - $94) is included in accounts receivable at December 31, 2004. Revenues from discontinued operations include $167 (2003 - $88) from this company.

18. Commitments and contingencies:

(a) The Company has entered into franchise agreements to operate four 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 a management agreement with a third party manager, to operate an income-producing property for management fees of 1.25% of gross revenue of the property. This agreement expires June 15, 2005.

(c) 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.

(d) Operating lease commitments:

The Company is committed to make annual payments of $48 per year until 2009 under operating lease commitments.

19. Financial instruments:

(a) Fair value:

The Company's financial instruments include accounts receivable, bank indebtedness, 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 accounts receivable, bank indebtedness, 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, 2004 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.

19. Financial instruments (continued):

(b) Interest rate risk:

As described in notes 4, 7, 9 and 10, the Company's long-term demand loan included in liabilities of assets held for sale, demand loan, due to related parties and certain long-term demand loans 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.

20. 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.