

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Three months ended March 31, 2005 and 2004

ALLIED HOTEL PROPERTIES INC.

Under National Instrument 51-102, "*Continuous Disclosure Obligations*", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

Allied Hotel Properties Inc.'s external auditors, KPMG LLP, have not performed a review of these interim financial statements.

"Peter Y.L. Eng" (signed)

Peter Y.L. Eng
Chief Executive Officer

"John R. Ellen" (signed)

John R. Ellen, CA
Chief Financial Officer

May 30, 2005

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
March 31, 2005 and December 31, 2004
(in thousands of dollars)

| | March 2005 | December 2004 |
|---|------------|---------------|
| | Unaudited | Audited |
| Assets | | |
| Current assets: | | |
| Accounts receivable | \$ 1,265 | \$ 1,607 |
| Inventories | 344 | 361 |
| Prepaid expenses | 681 | 789 |
| | 2,290 | 2,757 |
| Assets held for sale (note 3) | 21,290 | 21,421 |
| Income-producing properties | 84,196 | 84,745 |
| Investment | 2,114 | 2,077 |
| Deferred costs, net of amortization | 283 | 291 |
| | \$ 110,173 | \$ 111,291 |
| Liabilities and Shareholders' Deficiency | | |
| Current liabilities: | | |
| Bank indebtedness | \$ 1,926 | \$ 3,989 |
| Liabilities of assets held for sale (note 3) | 22,270 | 22,368 |
| Demand loan | 7,750 | 7,750 |
| Accounts payable and accrued liabilities | 8,043 | 8,589 |
| Deferred revenue | 174 | 174 |
| Mortgage payable | 365 | 362 |
| Long-term debt | 472 | 470 |
| Due to related parties | 14,094 | 9,660 |
| Capital lease obligation | 176 | 91 |
| Long-term demand loans | 49,828 | 50,102 |
| | 105,098 | 103,555 |
| Deferred revenue | 1,490 | 1,534 |
| Capital lease obligation | 10 | 122 |
| Mortgage payable | 12,314 | 12,407 |
| Long-term debt | 1,997 | 2,117 |
| | 120,909 | 119,735 |
| Shareholders' deficiency: | | |
| Share capital | 29,868 | 29,868 |
| Deficit | (40,604) | (38,312) |
| | (10,736) | (8,444) |
| | \$ 110,173 | \$ 111,291 |

See accompanying notes to consolidated financial statements.

"Peter Y.L. Eng" (signed) _____ Director
Peter Y.L. Eng

"Michael Chan" (signed) _____ Director
Michael Chan

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Operations
 Three months ended March 31, 2005 and 2004
 (in thousands of dollars, except per share amounts)

| | 2005 | 2004 |
|---|--------------|--------------|
| Revenues: | | |
| Rooms | \$ 4,668 | \$ 4,568 |
| Food and beverage | 2,575 | 2,473 |
| Other | 637 | 851 |
| | <u>7,880</u> | <u>7,892</u> |
| Cost of sales: | | |
| Rooms | 1,595 | 1,549 |
| Food and beverage | 2,271 | 2,177 |
| Other | 206 | 253 |
| | <u>4,072</u> | <u>3,979</u> |
| Gross profit | 3,808 | 3,913 |
| Operating expenses: | | |
| Selling, general and administrative | 3,165 | 2,935 |
| Management fees | 59 | 121 |
| Taxes and insurance | 679 | 729 |
| Depreciation and amortization | 593 | 534 |
| | <u>4,496</u> | <u>4,319</u> |
| Operating loss | 688 | 406 |
| Other expenses (income): | | |
| Interest on long-term demand loans | 1,073 | 1,121 |
| Other interest | 266 | 213 |
| Equity in (income) loss of investee | (38) | 43 |
| | <u>1,301</u> | <u>1,377</u> |
| Loss before income taxes and discontinued operations | 1,989 | 1,783 |
| Income taxes: | | |
| Current | 24 | 18 |
| Future | - | 34 |
| | <u>24</u> | <u>52</u> |
| Loss from continuing operations | 2,013 | 1,835 |
| Loss from discontinued operations, net of income taxes (note 3) | 279 | 744 |
| Net loss | \$ 2,292 | \$ 2,579 |
| Basic and diluted loss per share (note 4) | | |
| Continuing operations | \$ (0.02) | \$ (0.02) |
| Discontinued operations | - | (0.01) |

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit
Three months ended March 31, 2005 and 2004
(in thousands of dollars)

| | | 2005 | | 2004 |
|------------------------------|----|--------|----|--------|
| Net loss | \$ | 2,292 | \$ | 2,579 |
| Deficit, beginning of period | | 38,312 | | 30,664 |
| Deficit, end of period | \$ | 40,604 | \$ | 33,243 |

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Cash Flows
Three months ended March 31, 2005 and 2004
(in thousands of dollars)

| | 2005 | 2004 |
|---|------------|------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Loss from continuing operations | \$ (2,013) | \$ (1,835) |
| Items not involving cash: | | |
| Depreciation and amortization | 593 | 534 |
| Future income taxes | - | 34 |
| Equity in (income) loss of investee | (38) | 43 |
| Amortization of deferred revenue | (43) | (42) |
| Funds from operations | (1,501) | (1,266) |
| Changes in non-cash operating working capital (note 5) | (79) | (390) |
| | (1,580) | (1,656) |
| Financing: | | |
| Principal repayments on mortgage payable | (89) | (109) |
| Principal repayments on long-term debt | (119) | (116) |
| Principal repayments on long-term demand loans | (274) | (585) |
| Repayment of obligations under capital leases | (28) | (53) |
| Increase in due to related parties | 4,434 | 2,528 |
| | 3,924 | 1,665 |
| Investments: | | |
| Additions to income-producing properties | (34) | (14) |
| | (34) | (14) |
| Increase (decrease) in cash and cash equivalents from continuing operations | 2,310 | (5) |
| Discontinued operations (note 3) | (247) | (453) |
| Net increase (decrease) in cash and cash equivalents during the period | 2,063 | (458) |
| Cash and cash equivalents, beginning of period | (3,989) | (2,412) |
| Cash and cash equivalents, end of period | \$ (1,926) | \$ (2,870) |

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

Supplemental information (note 5)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
Three months ended March 31, 2005 and 2004
(in thousands of dollars, except per share amounts)

1. Future operations:

Allied Hotel Properties Inc. (the "Company") was incorporated in 1982. The primary business activity of the Company is hotel and real estate acquisition, holding and management.

At March 31, 2005 and 2004, the Company had a significant working capital deficiency. In addition, the Company had experienced losses and negative cash flow from operations in 2005 and 2004 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 March 31, 2005 the Company was in breach of certain of its covenants. The Company's lenders are aware of these breaches. One DSR covenant violated at March 31, 2005 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.

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, during the three months ended March 31, 2005, the majority shareholder sold one asset and advanced, primarily through an affiliated company, \$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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004
(in thousands of dollars, except per share amounts)

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").

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, 2004 (the "Annual Financial Statements"). These interim financial statements follow the same accounting policies as the Annual Financial Statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004
(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

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.

3. Discontinued operations:

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. 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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004
(in thousands of dollars, except per share amounts)

3. Discontinued operations (continued):

Balance Sheet

| | March 31, 2005 | December 31, 2004 |
|---|-------------------|----------------------|
| Assets | | |
| Income-producing properties | \$ 20,423 | \$ 20,423 |
| Accounts receivable and other assets | 867 | 998 |
| Assets held for sale | \$ 21,290 | \$ 21,421 |
| Liabilities and Deficiency in Assets | | |
| Liabilities | | |
| Long-term demand loans | \$ 18,863 | \$ 18,863 |
| Accounts payable and other liabilities | 3,407 | 3,505 |
| Liabilities of assets held for sale | 22,270 | 22,368 |
| Deficiency in assets held for sale | (980) | (947) |
| | \$ 21,290 | \$ 21,421 |

Statements of Operations

| | 2005 | 2004 |
|--|----------|----------|
| Revenues | \$ 2,844 | \$ 2,557 |
| Cost of sales | 1,762 | 1,630 |
| Gross profit | 1,082 | 927 |
| Operating expenses | 1,105 | 1,406 |
| Operating loss | 23 | 479 |
| Interest expense | 256 | 265 |
| Loss before income taxes | 279 | 744 |
| Income taxes | - | - |
| Loss from discontinued operations, net of income taxes | \$ 279 | \$ 744 |

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Three months ended December 31, 2005 and 2004
(in thousands of dollars, except per share amounts)

3. Discontinued operations (continued):

Statements of Cash Flows

| | 2005 | 2004 |
|--|----------|----------|
| Cash provided by (used in): | | |
| Operations: | | |
| Loss from discontinued operations, net of income taxes | \$ (279) | \$ (744) |
| Items not involving cash: | | |
| Depreciation and amortization | - | 220 |
| Amortization of deferred revenue | (4) | (4) |
| Funds from discontinued operations | (283) | (528) |
| Changes in non-cash operating working capital | 38 | 341 |
| | (245) | (187) |
| Investments: | | |
| Additions to income-producing property | - | (7) |
| Financing: | | |
| Principal repayments on long-term demand loans | - | (224) |
| Repayment of obligations under capital leases | (2) | (35) |
| | (2) | (259) |
| Decrease in cash equivalents during the year | (247) | (453) |
| Funding by parent company | 247 | 453 |
| 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.

4. Per share information:

| | 2005 | 2004 |
|--|-------------|-------------|
| Weighted average number of common shares outstanding | 106,327,268 | 106,327,268 |

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
Three months ended March 31, 2005 and 2004
(in thousands of dollars, except per share amounts)

5. Supplementary cash flow information:

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

| | 2005 | 2004 |
|--|---------|----------|
| Accounts receivable | \$ 342 | \$ 251 |
| Inventories | 17 | 36 |
| Prepaid expenses | 108 | 1 |
| Accounts payable and accrued liabilities | (546) | (678) |
| | \$ (79) | \$ (390) |

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

| | 2005 | 2004 |
|---------------------------|----------|----------|
| Supplemental information: | | |
| Interest paid | \$ 1,549 | \$ 1,556 |
| Taxes paid | 48 | — |