

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Six months ended June 30, 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

August 11, 2005

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
June 30, 2005 and December 31, 2004
(in thousands of dollars)

	June 2005	December 2004
	Unaudited	Audited
Assets		
Current assets:		
Cash	\$ 392	\$ -
Accounts receivable	2,369	1,607
Inventories	267	361
Prepaid expenses	558	789
	<u>3,586</u>	<u>2,757</u>
Assets held for sale (note 3)	53,933	21,421
Income-producing properties	51,720	84,745
Investment	2,831	2,077
Deferred costs, net of amortization	103	291
	<u>\$ 112,173</u>	<u>\$ 111,291</u>

Liabilities and Shareholders' Deficiency

Current liabilities:		
Bank indebtedness	\$ -	\$ 3,989
Liabilities of assets held for sale (note 3)	66,998	22,368
Demand loan	7,750	7,750
Accounts payable and accrued liabilities	3,205	8,589
Deferred revenue	142	174
Mortgage payable	12,590	362
Long-term debt	207	470
Due to related parties	16,463	9,660
Capital lease obligation	151	91
Long-term demand loans	11,453	50,102
	<u>118,959</u>	<u>103,555</u>
Deferred revenue	1,043	1,534
Capital lease obligation	7	122
Mortgage payable	-	12,407
Long-term debt	1,307	2,117
	<u>121,316</u>	<u>119,735</u>
Shareholders' deficiency:		
Share capital	29,868	29,868
Deficit	(39,011)	(38,312)
	<u>(9,143)</u>	<u>(8,444)</u>
	<u>\$ 112,173</u>	<u>\$ 111,291</u>

See accompanying notes to unaudited consolidated financial statements.

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

"Michael Chan" (signed) _____ Director
Michael Chan

ALLIED HOTEL PROPERTIES INC.

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

	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Revenues:				
Rooms	\$ 7,184	\$ 6,521	\$ 11,852	\$ 11,089
Food and beverage	3,348	3,345	5,923	5,818
Other	716	776	1,353	1,627
	11,248	10,642	19,128	18,534
Cost of sales:				
Rooms	1,968	1,941	3,563	3,490
Food and beverage	2,549	2,580	4,820	4,757
Other	218	228	424	481
	4,735	4,749	8,807	8,728
Gross profit	6,513	5,893	10,321	9,806
Operating expenses:				
Selling, general and administrative	3,321	3,351	6,486	6,286
Management fees	88	115	147	236
Taxes and insurance	639	719	1,318	1,448
Depreciation and amortization	592	565	1,185	1,099
	4,640	4,750	9,136	9,069
Operating income	1,873	1,143	1,185	737
Other expenses (income):				
Interest on long-term demand loans and long-term debt	1,123	1,081	2,196	2,202
Interest – other	298	226	564	439
Equity in (income) loss of investee	(717)	16	(755)	59
	704	1,323	2,005	2,700
Income (loss) before income taxes	1,169	(180)	(820)	(1,963)
Income taxes (recovery):				
Current	(77)	32	(53)	50
Future	-	(126)	-	(92)
	(77)	(94)	(53)	(42)
Income (loss) from continuing operations	1,246	(86)	(767)	(1,921)
Income (loss) from discontinued operations, net of income taxes (note 3)	347	(31)	68	(775)
Net income (loss)	\$ 1,593	\$ (117)	\$ (699)	\$ (2,696)
Basic and diluted income (loss) per share				
Continuing operations	\$ 0.01	\$ (0.00)	\$ (0.01)	\$ (0.02)
Discontinued operations	0.00	(0.00)	0.00	(0.01)

See accompanying notes to unaudited consolidated financial statements

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit
Six months ended June 30, 2005 and 2004
(in thousands of dollars)

		2005		2004
Net loss	\$	699	\$	2,696
Deficit, beginning of period		38,312		30,664
Deficit, end of period	\$	39,011	\$	33,360

See accompanying notes to unaudited consolidated financial statements

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Cash Flows
(in thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Income (loss) from continuing operations	\$ 1,246	\$ (86)	\$ (767)	\$ (1,921)
Adjustments for:				
Depreciation and amortization	592	565	1,185	1,099
Future income taxes	–	(126)	–	(92)
Equity in (income) loss of investee	(717)	16	(755)	59
Amortization of deferred revenue	(43)	(43)	(86)	(85)
Funds from operations	1,078	326	(423)	(940)
Changes in non-cash operating working capital (note 5)	(958)	258	(1,037)	(132)
	120	584	(1,460)	(1,072)
Financing:				
Proceeds from demand loan	–	4,750	–	4,750
Principal repayments on long-term demand loans	(139)	(605)	(413)	(1,190)
Principal repayments on long-term debt	(120)	(86)	(239)	(202)
Principal repayments on mortgage payable	(90)	(4,087)	(179)	(4,196)
Due to related parties	2,369	(156)	6,803	2,372
Repayment of obligations under capital leases	(23)	(52)	(51)	(105)
	1,997	(236)	5,921	1,429
Investments:				
Additions to income-producing properties	(17)	(47)	(51)	(61)
	(17)	(47)	(51)	(61)
Increase in cash and cash equivalents from continuing operations	2,098	301	4,410	296
Discontinued operations (note 3)	218	(391)	(29)	(844)
	2,318	(90)	4,381	(548)
Cash and cash equivalents, beginning of period	(1,926)	(2,870)	(3,989)	(2,412)
Cash and cash equivalents, end of period	\$ 392	\$ (2,960)	\$ 392	\$ (2,960)

See accompanying notes to unaudited consolidated financial statements

Supplemental information (note 5)

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 June 30, 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, excluding proceeds from asset sales. 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 June 30, 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 June 30, 2005 pertains to \$57,099 of long-term demand loans, which 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

Six months ended June 30, 2005 and 2004
(in thousands of dollars, except per share amounts)

1. Future operations (continued):

During the quarter ended June 30, 2005 the Company entered into an agreement to sell one of its income-producing properties (the "Vancouver Hotel Property"). The Vancouver Hotel Property had not previously been identified as being held for sale. As part of the agreement with the purchaser, the Company's majority shareholder has entered into an agreement to sell a development site adjacent to the Vancouver Hotel Property. Both of these sales are scheduled to close on August 31, 2005, and the purchaser has paid a non-refundable deposit of \$2,000. The sale of the Vancouver Property will enable the Company to repay associated long-term demand loans of \$38,236 to the Lender.

Subsequent to June 30, 2005, the Company entered into an agreement to sell the income-producing property previously identified as being held for sale (the "Richmond Hotel Property"). The sale of the Richmond Hotel Property is scheduled to close on August 17, 2005 and will enable the Company to repay associated long-term demand loans of \$18,863 to the Lender.

While there can be no assurance that the Company and its majority shareholder will successfully complete the asset sales referred to above, the Company believes that completion of these two pending transactions will enable it to satisfy all of the Lender's requirements. 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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Six months ended June 30, 2005 and 2004
(in thousands of dollars, except per share amounts)

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.

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. Assets held for sale and 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 the Richmond Hotel Property as being held for sale in accordance with Section 3475. As at June 30, 2005 the Company identified a second income-producing property, the Vancouver Hotel Property, as being held for sale in accordance with Section 3475. The Company has determined that the carrying value of these properties is less than their 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. The balance sheet as at June 30, 2005 comprises both the Richmond Hotel Property and the Vancouver Hotel Property, whereas the balance sheet at December 31, 2004 comprises only the Richmond Property. Of the income-producing property balance of \$52,343 at June 30, 2005, \$20,434 relates to the Richmond Property and \$31,909 to the Vancouver Property.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Six months ended June 30, 2005 and 2004
(in thousands of dollars, except per share amounts)

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

The statements of operations and cash flows comprise only the operations and cash flows of the Richmond Hotel Property. Subsequent to the sale of the Vancouver Hotel Property, it is expected that the Company will generate continuing cash flows as a result of management fees earned from a management contract between the Company and the prospective 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, and it is anticipated that it may continue for up to two years. 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 expected terms of the management contract, the Company will exercise 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

	June 30, 2005	December 31, 2004
Assets		
Income-producing properties	\$ 52,343	\$ 20,423
Accounts receivable and other assets	1,590	998
Assets held for sale	\$ 53,933	\$ 21,421
Liabilities and Deficiency in Assets		
Liabilities		
Long-term demand loans	\$ 57,099	\$ 18,863
Accounts payable and other liabilities	9,899	3,505
Liabilities of assets held for sale	66,998	22,368
Deficiency in assets held for sale	(13,065)	(947)
	\$ 53,933	\$ 21,421

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Six months ended June 30, 2005 and 2004
(in thousands of dollars, except per share amounts)

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

Statements of Operations

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenues	\$ 3,896	\$ 3,702	\$ 6,740	\$ 6,259
Cost of sales	2,139	2,108	3,901	3,738
Gross profit	1,757	1,594	2,839	2,521
Operating expenses	1,152	1,380	2,257	2,786
Operating income (loss)	605	214	582	(265)
Interest expense	258	245	514	510
Income (loss) before income taxes	347	(31)	68	(775)
Income taxes	-	-	-	-
Income (loss) from discontinued operations, net of income taxes	\$ 347	\$ (31)	\$ 68	\$ (775)

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Six months ended June 30, 2005 and 2004
(in thousands of dollars, except per share amounts)

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

Statements of Cash Flows

	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Income (loss) from discontinued operations, net of income taxes	\$ 347	\$ (31)	\$ 68	\$ (775)
Items not involving cash:				
Depreciation and amortization	-	191	-	411
Amortization of deferred revenue	(5)	(5)	(9)	(9)
Funds from discontinued operations	342	155	59	(373)
Changes in non-cash operating working capital	(109)	(280)	(71)	61
	233	(125)	(12)	(312)
Investments:				
Additions to income-producing property	(12)	(5)	(12)	(12)
Financing:				
Principal repayments on long-term demand loans	-	(233)	-	(457)
Repayment of obligations under capital leases	(3)	(28)	(5)	(63)
	(3)	(261)	(5)	(520)
Decrease in cash equivalents during the year	218	(391)	(29)	(844)
(Advanced to) funded by parent company	(218)	391	29	844
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

Six months ended June 30, 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:

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Accounts receivable	\$ (949)	\$ (734)	\$ (607)	\$ (483)
Inventories	(41)	(21)	(24)	15
Prepaid expenses	48	68	156	69
Accounts payable and accrued liabilities	(16)	945	(562)	267
	\$ (958)	\$ 258	\$ (1,037)	\$ (132)

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

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Supplemental information:				
Interest paid	\$ 1,568	\$ 1,512	\$ 3,117	\$ 3,068
Taxes paid	71	2	119	2
Non-cash investing and financing activities:				
Refinancing of demand loan	-	3,000	-	3,000
Refinancing of mortgage payable	-	13,000	-	13,000