

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Nine months ended September 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

November 28, 2005

ALLIED HOTEL PROPERTIES INC.

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

	September 2005	December 2004
	Unaudited	Audited
Assets		
Current assets:		
Cash	\$ 1,246	\$ -
Accounts receivable	1,239	1,607
Inventories	269	361
Prepaid expenses	539	789
	<u>3,293</u>	<u>2,757</u>
Assets held for sale (note 3)	659	21,421
Income-producing properties	51,387	84,745
Investment	5,537	2,077
Deferred costs, net of amortization	100	291
	<u>\$ 60,976</u>	<u>\$ 111,291</u>

Liabilities and Shareholders' Deficiency

Current liabilities:		
Bank indebtedness	\$ -	\$ 3,989
Liabilities of assets held for sale (note 3)	135	22,368
Demand loan	4,750	7,750
Accounts payable and accrued liabilities	3,656	8,589
Deferred revenue	142	174
Mortgage payable	12,499	362
Long-term debt	207	470
Due to related parties	17,686	9,660
Capital lease obligation	135	91
Long-term demand loans	11,311	50,102
	<u>50,521</u>	<u>103,555</u>
Deferred revenue	1,007	1,534
Capital lease obligation	5	122
Mortgage payable	-	12,407
Long-term debt	1,256	2,117
	<u>52,789</u>	<u>119,735</u>
Shareholders' deficiency:		
Share capital	29,868	29,868
Deficit	(21,681)	(38,312)
	<u>8,187</u>	<u>(8,444)</u>
	<u>\$ 60,976</u>	<u>\$ 111,291</u>

Future operations (note 1)

Subsequent events (note 7)

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 September 30		Nine months ended September 30	
	2005	2004	2005	2004
Revenues:				
Rooms	\$ 7,414	\$ 7,464	\$ 19,266	\$ 18,553
Food and beverage	2,733	2,700	8,656	8,518
Other	661	882	2,014	2,509
	10,808	11,046	29,936	29,580
Cost of sales:				
Rooms	2,011	2,283	5,574	5,773
Food and beverage	2,265	2,323	7,085	7,080
Other	193	239	617	720
	4,469	4,845	13,276	13,573
Gross profit	6,339	6,201	16,660	16,007
Operating expenses:				
Selling, general and administrative	3,526	3,065	10,012	9,351
Management fees	26	88	173	324
Taxes and insurance	70	712	1,388	2,160
Depreciation and amortization	517	507	1,702	1,606
	4,139	4,372	13,275	13,441
Operating income	2,200	1,829	3,385	2,566
Other expenses (income):				
Interest on long-term demand loans and long-term debt	907	1,073	3,103	3,275
Interest – other	160	249	724	688
Equity in (income) loss of investee	(2,705)	(15)	(3,460)	44
	(1,638)	1,307	367	4,007
Income (loss) before income taxes	3,838	522	3,018	(1,441)
Income taxes (recovery):				
Current	(2)	36	(55)	86
Future	-	(7)	-	(99)
	(2)	29	(55)	(13)
Income (loss) from continuing operations	3,840	493	3,073	(1,428)
Income (loss) from discontinued operations, net of income taxes (note 3)	2,931	(283)	2,999	(1,058)
Net income (loss)	\$ 6,771	\$ 210	\$ 6,072	\$ (2,486)
Basic and diluted income (loss) per share				
Continuing operations	\$ 0.04	\$ 0.00	\$ 0.03	\$ (0.01)
Discontinued operations	0.03	(0.00)	0.03	(0.01)

See accompanying notes to unaudited consolidated financial statements

ALLIED HOTEL PROPERTIES INC.

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

		2005		2004
Net income (loss)	\$	6,072	\$	(2,486)
Deemed contribution by related party (note 4)		10,559		-
Deficit, beginning of period		(38,312)		(30,664)
Deficit, end of period	\$	(21,681)	\$	(33,150)

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 September 30		Nine months ended September 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Income (loss) from continuing operations	\$ 3,840	\$ 493	\$ 3,073	\$ (1,428)
Adjustments for:				
Depreciation and amortization	517	507	1,702	1,606
Future income taxes	-	(7)	-	(99)
Equity in (income) loss of investee	(2,705)	(15)	(3,460)	44
Foreign exchange gain	-	(35)	-	(35)
Amortization of deferred revenue	(41)	(43)	(127)	(128)
Funds from operations	1,611	900	1,188	(40)
Changes in non-cash operating working capital (note 6)	(687)	365	(1,724)	(25)
	924	1,265	(536)	(65)
Financing:				
Proceeds from demand loan	-	-	-	4,750
Principal repayment of demand loan	(3,000)	-	(3,000)	-
Principal repayments on long-term demand loans	(142)	(617)	(555)	(1,807)
Principal repayments on long-term debt	(51)	(156)	(290)	(358)
Principal repayments on mortgage payable	(91)	(87)	(270)	(4,283)
Due to related parties	1,223	(77)	8,026	2,295
Repayment of obligations under capital leases	(20)	(45)	(71)	(150)
	(2,081)	(982)	3,840	447
Investments:				
Additions to income-producing properties	(109)	(119)	(160)	(180)
Distributions from equity accounted investee	-	122	-	122
	(109)	3	(160)	(58)
(Decrease) increase in cash and cash equivalents from continuing operations	(1,266)	286	3,144	324
Cash of income-producing properties' operations on date of sale	564	-	564	-
	(702)	(610)	3,708	(1,416)
Discontinued operations (note 3)	1,556	(896)	1,527	(1,740)
	854	(610)	5,235	(1,416)
Cash and cash equivalents, beginning of period	392	(3,218)	(3,989)	(2,412)
Cash and cash equivalents, end of period	\$ 1,246	\$ (3,828)	\$ 1,246	\$ (3,828)

See accompanying notes to unaudited consolidated financial statements

Supplemental information (note 6)

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Nine months ended September 30, 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 September 30, 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 of assets held for sale. The Company was in breach of certain of its 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 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.

During the three months ended June 30, 2005 the Company 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 a development site adjacent to the Vancouver Hotel Property (also see note 4).

In July 2005, the Company 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 has completed the sale of the two above-mentioned properties in the three months ended September 30, 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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements
Nine months ended September 30, 2005 and 2004
(in thousands of dollars, except per share amounts)

1. Future operations (continued):

As at September 30, 2005, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$17,686. The amounts are interest bearing and payable on demand. If the Company does not receive continuing financial support from its majority and minority shareholders in the form of these amounts payable, it may not be able to continue as a going concern and realize its assets and pay its liabilities as they fall due.

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 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 had identified the Richmond Hotel Property as being held for sale in accordance with Section 3475. As at June 30, 2005 the Company had identified a second income-producing property, the Vancouver Hotel Property, as being held for sale in accordance with Section 3475. 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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

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

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

During the three months ended September 30, 2005 both the Richmond Hotel Property and the Vancouver Hotel Property were sold, and the Company no longer has any properties identified as being held for sale. The following tables set forth the balance sheet, statements of income and cash flows associated with assets previously classified as assets held for sale. The balance sheet at December 31, 2004 reflects the assets and liabilities of the Richmond Hotel Property only.

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, being August 17, 2005. 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, 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

	September 30, 2005	December 31, 2004
Assets		
Income-producing properties	\$ -	\$ 20,423
Accounts receivable and other assets	659	998
Assets held for sale	\$ 659	\$ 21,421
Liabilities and Deficiency in Assets		
Long-term demand loans	\$ -	\$ 18,863
Accounts payable and other liabilities	135	3,505
Liabilities of assets held for sale	135	22,368
Net assets (deficiency) in discontinued operations	524	(947)
	\$ 659	\$ 21,421

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Nine months ended September 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 September 30		Nine months ended September 30	
	2005	2004	2005	2004
Revenues	\$ 2,047	\$ 3,780	\$ 8,787	\$ 10,039
Cost of sales	1,129	2,200	5,030	5,938
Gross profit	918	1,580	3,757	4,101
Operating expenses	536	1,567	2,793	4,353
Operating income (loss)	382	13	964	(252)
Interest expense	(177)	(296)	(691)	(806)
Gain on sale of Richmond Hotel Property	2,930	-	2,930	-
	2,753	(296)	2,239	(806)
Income (loss) before income taxes and non-controlling interest	3,135	(283)	3,203	(1,058)
Income tax recovery	9	-	9	-
Income (loss) before non-controlling interest	3,144	(283)	3,212	(1,058)
Non-controlling interest	213	-	213	-
Income (loss) from discontinued operations, net of income taxes	\$ 2,931	\$ 283	\$ 2,999	\$ (1,058)

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Nine months ended September 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		Nine months ended	
	September 30		September 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Income (loss) from discontinued operations, net of income taxes	\$ 2,931	\$ (283)	\$ 2,999	\$ (1,058)
Items not involving cash:				
Depreciation and amortization	–	458	–	869
Gain on sale of Richmond Hotel Property	(2,930)	–	(2,930)	–
Non-controlling interest	213	–	213	–
Amortization of deferred revenue	(2)	(3)	(11)	(12)
Funds from discontinued operations	212	172	271	(201)
Changes in non-cash operating working capital	104	(871)	33	(810)
	316	(699)	304	(1,011)
Investments:				
Additions to income-producing property	(12)	(1)	(24)	(13)
Proceeds from sale of Richmond Hotel Property	2,065	–	2,065	–
	2,053	(1)	2,041	(13)
Financing:				
Principal repayments on long-term demand loans	–	(241)	–	(698)
Payment to non-controlling interest	(78)	–	(78)	–
Repayment of obligations under capital leases	(2)	45	(7)	(18)
	(80)	(196)	(85)	(716)
Increase (decrease) in cash equivalents during the period	2,289	(896)	2,260	(1,740)
Cash of Richmond Hotel Property's operations on date of sale	(733)	–	(733)	–
	1,556	–	1,527	–
(Advanced to) funded by parent company	(1,556)	896	(1,527)	1,740
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.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

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

4. Deemed contribution by related party:

Effective September 6, 2005 the Company sold its 100% interest in the Vancouver Hotel Property to Allied Holdings Ltd. ("Holdings"), the Company majority shareholder, at a nominal value. This sale was part of a larger transaction involving the sale of the Vancouver Hotel Property and the adjacent development site 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.

5. Per share information:

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

6. Supplementary cash flow information:

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

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Accounts receivable	\$ 5	\$ (1,258)	\$ (603)	\$ (1,007)
Inventories	9	(2)	(15)	34
Prepaid expenses	(42)	62	198	63
Accounts payable and accrued liabilities	(742)	1,563	(1,304)	885
	\$ (687)	\$ 365	\$ (1,724)	\$ (25)

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

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004

Supplemental information:

Interest paid	\$ 1,568	\$ 1,629	\$ 3,117	\$ 4,697
Taxes paid	71	-	119	2

Non-cash investing and financing activities:

Refinancing of demand loan	-	-	-	3,000
Refinancing of mortgage payable	-	-	-	13,000

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

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

6. Supplementary cash flow information (continued):

Carrying value of Vancouver Hotel Property's net assets at the date of sale:			
Bank overdraft	(564)		-
Non-cash working capital deficiency	(2,498)		-
Income-producing properties	31,837		-
Deferred costs	168		-
Long-term debt and demand loans	(39,070)		-
Deferred liabilities	(432)		-
<hr/>			
Deficiency in Vancouver Hotel Property's net assets at date of sale		\$ (10,559)	\$ -

7. Subsequent event:

Subsequent to the period end, the Company refinanced a loan facility related to one of its income producing properties. The facility was previously financed by two lenders, with a \$500 line of credit from one included in bank indebtedness, and a demand loan and lease facility from another included in long-term demand loans and capital lease obligations, respectively. The provider of the long-term demand loan has advanced a new demand line of credit of \$500 which was used to repay the existing line of credit, and a new demand loan of \$11,900 which was used to repay the existing demand loan and lease obligation and provide working capital for capital expenditures. The line of credit bears interest at a rate of prime plus 1.5% per annum. The demand loan bears interest at a fixed rate of 6.43% and is repayable in equal monthly blended instalments of principal and interest aggregating \$103 and due in 2010.

Principal repayments over the next five years are as follows:

2005		\$	39
2006			490
2007			523
2008			557
2009			594
Thereafter			9,697
