

Unaudited Consolidated Financial Statements of

**ALLIED HOTEL PROPERTIES INC.**

Nine months ended September 30, 2006 and 2005

# 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, 2006

# ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets  
September 30, 2006 and December 31, 2005  
(in thousands of dollars)

	September 2006 (Unaudited)	December 2005 (Audited)
<b>Assets</b>		
Current assets:		
Cash	\$ 1,358	\$ 2,040
Accounts receivable	1,451	1,263
Inventories	269	266
Prepaid expenses	179	588
	<u>3,257</u>	<u>4,157</u>
Assets held for sale (note 3)	–	246
Income-producing properties	49,740	50,870
Deferred costs, net of amortization	190	218
	<u>\$ 53,187</u>	<u>\$ 55,491</u>

## Liabilities and Shareholders' Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,792	\$ 3,223
Deferred revenue	146	143
Long-term debt	214	210
Due to related parties	13,909	15,470
Capital lease obligation	5	9
Long-term demand loans (note 4)	28,839	11,860
Liabilities of assets held for sale (note 3)	–	142
Demand loan	–	4,750
Mortgage payable	–	12,407
	<u>45,905</u>	<u>48,214</u>
Deferred revenue	861	971
Future income taxes	282	282
Long-term debt	1,040	1,201
Capital lease obligation	–	4
	<u>48,088</u>	<u>50,672</u>
Shareholders' deficiency:		
Share capital	29,868	29,868
Deficit	(24,769)	(25,049)
	<u>5,099</u>	<u>4,819</u>
	<u>\$ 53,187</u>	<u>\$ 55,491</u>

Future operations (note 1)

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	
	2006	2005	2006	2005
<b>Revenues:</b>				
Rooms	\$ 4,992	\$ 7,414	\$ 13,586	\$ 19,266
Food and beverage	2,474	2,733	7,404	8,656
Other	682	661	1,950	2,014
	8,148	10,808	22,940	29,936
<b>Cost of sales:</b>				
Rooms	1,378	2,011	3,915	5,574
Food and beverage	2,041	2,265	5,948	7,085
Other	138	193	399	617
	3,557	4,469	10,262	13,276
<b>Gross profit</b>	<b>4,591</b>	<b>6,339</b>	<b>12,678</b>	<b>16,660</b>
<b>Operating expenses:</b>				
Selling, general and administrative	2,341	3,526	6,983	10,012
Management fees	53	26	153	173
Taxes and insurance	463	70	1,417	1,388
Depreciation and amortization	529	517	1,328	1,702
	3,386	4,139	9,881	13,275
<b>Operating income</b>	<b>1,205</b>	<b>2,200</b>	<b>2,797</b>	<b>3,385</b>
<b>Other expenses (income):</b>				
Interest on long-term demand loans and long-term debt	506	907	1,659	3,103
Interest – other	281	160	940	724
Equity earnings of investee	-	(2,705)	-	(3,460)
	787	(1,638)	2,599	367
<b>Income from continuing operations before income taxes</b>	<b>418</b>	<b>3,838</b>	<b>198</b>	<b>3,018</b>
<b>Income taxes recovery:</b>				
Current	(1)	(2)	(15)	(55)
	(1)	(2)	(15)	(55)
<b>Income from continuing operations</b>	<b>419</b>	<b>3,840</b>	<b>213</b>	<b>3,073</b>
<b>Income (loss) from discontinued operations, net of income taxes (note 3)</b>	<b>(12)</b>	<b>2,931</b>	<b>67</b>	<b>2,999</b>
<b>Net income</b>	<b>\$ 407</b>	<b>\$ 6,771</b>	<b>\$ 280</b>	<b>\$ 6,072</b>
<b>Basic and diluted income (loss) per share</b>				
Continuing operations	\$ 0.00	\$ 0.04	\$ 0.00	\$ 0.03
Discontinued operations	(0.00)	0.03	0.00	0.03
Net income	0.00	0.06	0.00	0.06

See accompanying notes to unaudited consolidated financial statements

# ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Deficit  
Nine months ended September 30, 2006 and 2005  
(in thousands of dollars)

	2006	2005
Net income	\$ 280	\$ 6,072
Deemed contribution by related party	-	10,559
Deficit, beginning of period	(25,049)	(38,312)
Deficit, end of period	\$ (24,769)	\$ (21,681)

*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	
	2006	2005	2006	2005
Cash provided by (used in):				
Operations:				
Income from continuing operations	\$ 419	\$ 3,840	\$ 213	\$ 3,073
Adjustments for:				
Depreciation and amortization	529	517	1,328	1,702
Amortization of deferred bank loan fees	6	–	19	–
Equity earnings of investee	–	(2,705)	–	(3,460)
Amortization of deferred revenue	(35)	(41)	(107)	(127)
Funds from operations	919	1,611	1,453	1,188
Changes in non-cash operating working capital (note 6)	(302)	(687)	(213)	(1,724)
	617	924	1,240	(536)
Financing:				
Proceeds from long-term demand loan	–	–	17,500	–
Principal repayments on long-term demand loans	(206)	(142)	(521)	(555)
Principal repayment of demand loan	–	(3,000)	(4,750)	(3,000)
Principal repayments on long-term debt	(53)	(51)	(157)	(290)
Principal repayments on mortgage payable	–	(91)	(12,407)	(270)
Due to related parties	(371)	1,223	(1,561)	8,026
Repayment of obligations under capital leases	(2)	(20)	(8)	(71)
	(632)	(2,081)	(1,904)	3840
Investments:				
Additions to income-producing properties	23	(109)	(189)	(160)
	23	(109)	(189)	(160)
Increase (decrease) in cash and cash equivalents from continuing operations	8	(1,266)	(853)	3,144
Cash of income-producing properties' operations on date of sale	–	564	–	564
	8	(702)	(853)	3,708
Discontinued operations	(12)	1,556	171	1,527
	(4)	854	(682)	5,235
Cash and cash equivalents, beginning of period	1,362	392	2,040	(3,989)
Cash and cash equivalents, end of period	\$ 1,358	\$ 1,246	\$ 1,358	\$ 1,246

See accompanying notes to unaudited consolidated financial statements

Supplemental information (note 6)

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Nine months ended September 30, 2006 and 2005  
(in thousands of dollars, except per share amounts)

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## 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.

As at September 30, 2006, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$13,909. The amounts are interest bearing and payable on demand. The future operations of the Company are contingent upon securing continued support from these shareholders in respect to the amounts owed and the continued achievement of profitable operations.

## 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, 2005 (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.

# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Nine months ended September 30, 2006 and 2005  
(in thousands of dollars, except per share amounts)

### 3. Assets held for sale and discontinued operations:

In 2005 the Company had identified one income-producing property as being held for sale, the operations of which were classified as discontinued operations. The income-producing property was sold in the third quarter of 2005. The following tables set forth the balance sheet and statement of income associated with assets held for sale and discontinued operations.

#### Balance Sheet

	September 30, 2006	December 31, 2005
<b>Assets</b>		
Accounts receivable and other assets	\$ –	\$ 246
Assets held for sale	\$ –	\$ 246
<b>Liabilities and Net Assets</b>		
Accounts payable and other liabilities	\$ –	\$ 142
Liabilities of assets held for sale	–	142
Net assets	–	104
	\$ –	\$ 246

#### Statements of Operations

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Revenues	\$ –	\$ 2,047	\$ –	\$ 8,787
Cost of sales	–	1,129	–	5,030
Gross profit	–	918	–	3,757
Operating expenses (recovery)	12	536	(67)	2,793
Operating income (loss)	(12)	382	67	964
Interest expense	–	(177)	–	(691)
Gain on sale of Richmond Hotel Property	–	2,930	–	2,930
	–	2,753	–	2,239
Income (loss) before income taxes and non-controlling interest	(12)	3,135	67	3,203
Income tax recovery	–	9	–	9
Income (loss) before non-controlling interest	(12)	3,144	67	3,212
Non-controlling interest	–	213	–	213
Income (loss) from discontinued operations, net of income taxes	\$ (12)	\$ 2,931	\$ 67	\$ 2,999



# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Nine months ended September 30, 2006 and 2005  
(in thousands of dollars, except per share amounts)

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#### 4. Long-term demand loan:

A new long-term demand loan facility of \$17,500 was drawn down on April 1, 2006 and was used to fully repay the existing demand loan and the mortgage payable, along with fees payable to the lender of the mortgage payable and to the new lender.

In addition to the long-term demand loan, the lender also provided a revolving credit facility of \$1,250 to be used for working capital requirements. At September 30, 2006 this credit facility had not been utilized.

This new facility of \$18,750 is secured by a mortgage of \$25,000 creating a first fixed financial charge over one of the Company's income-producing properties; assignment of rents; a general security agreement executed by the Company; and a guarantee from a significant shareholder of the Company's parent limited to \$3,750 plus interest.

Notwithstanding the classification of this new long-term demand loan as a current liability, the Company will make monthly repayments of interest and principal, based on amortization schedules extending beyond one year. Assuming the lender does not demand immediate repayment, the Company anticipates making the following principal repayments over the next five years on this new loan:

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2006	\$	291
2007		461
2008		492
2009		524
2010		560
Thereafter		15,172
	\$	17,500

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#### 5. Per share information:

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	2006	2005
Weighted average number of common shares outstanding	106,327,268	106,327,268

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# ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Nine months ended September 30, 2006 and 2005  
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## 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	
	2006	2005	2006	2005
Accounts receivable	\$ 171	\$ 5	\$ (188)	\$ (603)
Inventories	(4)	9	(3)	(15)
Prepaid expenses	(9)	42	409	198
Accounts payable and accrued liabilities	(460)	(743)	(431)	(1,304)
	\$ (302)	\$ (687)	\$ (213)	\$ (1,724)

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

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Supplemental information:				
Interest paid	\$ 790	\$ 1,568	\$ 2,561	\$ 3,117
Taxes paid	-	71	-	119