

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Three months ended March 31, 2007 and 2006

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 29, 2007

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
March 31, 2007 and December 31, 2006
(in thousands of dollars)

	March 2007	December 2006
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,336	\$ 2,073
Accounts receivable	1,137	1,965
Inventories	331	329
Prepaid expenses	223	202
	<u>3,027</u>	<u>4,569</u>
Income-producing properties	48,886	49,320
Future income taxes	3,320	3,219
Deferred costs, net of amortization	171	180
	<u>\$ 55,404</u>	<u>\$ 57,288</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,887	\$ 3,681
Deferred revenue	148	147
Long-term debt	217	216
Due to related parties	13,436	14,042
Capital lease obligation	3	4
Long-term demand loans	28,399	28,623
	<u>45,090</u>	<u>46,713</u>
Deferred revenue	786	824
Long-term debt	931	985
	<u>46,807</u>	<u>48,522</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(21,271)	(21,101)
	<u>8,597</u>	<u>8,766</u>
	<u>\$ 55,404</u>	<u>\$ 57,288</u>

Operations (note 1)
Subsequent event (note 6)
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 and Comprehensive Income and Deficit
 Three months ended March 31, 2007 and 2006
 (in thousands of dollars, except per share amounts)

	2007	2006
Revenues:		
Rooms	\$ 4,032	\$ 3,762
Food and beverage	2,320	2,113
Other	516	579
	<u>6,868</u>	<u>6,454</u>
Cost of sales:		
Rooms	1,224	1,209
Food and beverage	1,917	1,777
Other	142	128
	<u>3,283</u>	<u>3,114</u>
Gross profit	3,585	3,340
Operating expenses:		
Selling, general and administrative	2,146	2,492
Management fees	44	47
Taxes and insurance	462	481
Depreciation and amortization	436	431
	<u>3,088</u>	<u>3,451</u>
Operating income (loss)	497	(111)
Other expenses (income):		
Interest on long-term demand loans	491	500
Other interest	272	365
	<u>763</u>	<u>865</u>
Loss before income taxes and discontinued operations	266	976
Income taxes:		
Current	-	-
Future	(101)	-
	<u>(101)</u>	<u>-</u>
Loss from continuing operations	165	976
Loss from discontinued operations, net of income taxes	5	-
Net loss and comprehensive income for the period	\$ 170	\$ 976
Deficit, beginning of period	21,101	25,049
Deficit, end of period	<u>\$ 21,271</u>	<u>\$ 26,025</u>
Basic and diluted loss per share (note 4)		
Continuing operations	\$ (0.00)	\$ (0.01)
Discontinued operations	0.00	-

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Unaudited Consolidated Statements of Cash Flows
Three months ended March 31, 2007 and 2006
(in thousands of dollars)

	2007	2006
Cash provided by (used in):		
Operations:		
Loss from continuing operations	\$ (165)	\$ (976)
Items not involving cash:		
Depreciation and amortization	436	431
Future income tax	(101)	-
Amortization of deferred bank fees	8	-
Amortization of deferred revenue	(37)	(36)
Funds from operations	141	(581)
Changes in non-cash operating working capital (note 5)	11	146
	152	(435)
Financing:		
Principal repayments on long-term demand loans	(224)	(122)
Principal repayments on long-term debt	(53)	(51)
Principal repayments on mortgage payable	-	(94)
Repayment of obligations under capital leases	(1)	(3)
Decrease in due to related parties	(606)	(428)
	(884)	(698)
Investments:		
Additions to income-producing properties	-	(201)
	-	(201)
Decrease in cash and cash equivalents from continuing operations	(732)	(1,334)
Discontinued operations	(5)	198
Net decrease in cash and cash equivalents	(737)	(1,136)
Cash and cash equivalents, beginning of period	2,073	2,040
Cash and cash equivalents, end of period	\$ 1,336	\$ 904

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, 2007 and 2006
(in thousands of dollars, except per share amounts)

1. 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 March 31, 2007, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$13,436. 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 Consolidated Financial Statements

Three months ended March 31, 2007 and 2006
(in thousands of dollars, except per share amounts)

3. Change in accounting policy:

Effective January 1, 2007, the Company retroactively adopted the provisions of Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3861, "Financial Instruments – Disclosure and Presentation" and Section 3865, "Hedges" of the CICA Handbook.

These new Handbook sections collectively provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. All financial assets and derivative financial instruments, except for those financial assets classified as held-to-maturity or loans and receivables, are measured at their fair value. Financial liabilities are measured at their fair values when they are classified as held for trading purposes. Otherwise, they are measured at amortized cost. Section 1530 also establishes standards for reporting and displaying comprehensive income.

The Company has reviewed the impact of these new standards and determined they do not have a significant impact on the consolidated financial statements in the current or prior periods.

4. Per share information:

	2007	2006
Weighted average number of common shares outstanding	106,327,268	106,327,268

5. Supplementary cash flow information:

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

	2007	2006
Accounts receivable	\$ 828	\$ 168
Inventories	(2)	25
Prepaid expenses	(21)	113
Accounts payable and accrued liabilities	(794)	(160)
	\$ 11	\$ 146

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

	2007	2006
Supplemental information:		
Interest paid	\$ 756	\$ 752
