

Unaudited Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Six months ended June 30, 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

August 13, 2007

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets
June 30, 2007 and December 31, 2006
(in thousands of dollars)

	June 2007	December 2006
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,989	\$ 2,073
Accounts receivable	1,459	1,965
Inventories	289	329
Prepaid expenses	225	202
	<u>3,962</u>	<u>4,569</u>
Income-producing properties	48,481	49,320
Future income taxes	3,131	3,219
Deferred costs, net of amortization	79	180
	<u>\$ 55,653</u>	<u>\$ 57,288</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,905	\$ 3,681
Deferred revenue	149	147
Long-term debt	218	215
Due to related parties	13,608	14,042
Capital lease obligation	2	4
Long-term demand loans	28,099	28,624
	<u>44,981</u>	<u>46,713</u>
Deferred revenue	749	825
Long-term debt	875	985
	<u>46,605</u>	<u>48,523</u>
Shareholders' equity:		
Share capital	29,868	29,868
Deficit	(20,820)	(21,103)
	<u>9,048</u>	<u>8,765</u>
	<u>\$ 55,653</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
(in thousands of dollars, except per share amounts)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Revenues:				
Rooms	\$ 4,818	\$ 4,832	\$ 8,850	\$ 8,594
Food and beverage	2,961	2,817	5,281	4,930
Other	645	689	1,161	1,268
	8,424	8,338	15,292	14,792
Cost of sales:				
Rooms	1,385	1,328	2,609	2,537
Food and beverage	2,228	2,130	4,145	3,907
Other	254	133	396	261
	3,867	3,591	7,150	6,705
Gross profit	4,557	4,747	8,142	8,087
Operating expenses:				
Selling, general and administrative	2,263	2,303	4,409	4,795
Management fees	60	53	104	100
Taxes and insurance	436	473	898	954
Depreciation and amortization	438	368	874	799
	3,197	3,197	6,285	6,648
Operating income	1,360	1,550	1,857	1,439
Other expenses:				
Interest on long-term demand loans and long-term debt	494	500	985	1,000
Interest – other	259	294	531	659
	753	794	1,516	1,659
Income (loss) before income taxes and discontinued operations	607	756	341	(220)
Income taxes:				
Current	–	(14)	–	(14)
Future	189	–	88	–
	189	(14)	88	(14)
Income (loss) from continuing operations	418	770	253	(206)
Income from discontinued operations, net of income taxes	35	79	30	79
Net income (loss) and comprehensive income for the period	453	849	283	(127)
Deficit, beginning of period	21,273	26,025	21,103	25,049
Deficit, end of period	\$ 20,820	\$ 25,176	\$ 20,820	\$ 25,176
Basic and diluted income (loss) per share				
Continuing operations	\$ 0.00	\$ 0.01	\$ 0.00	\$ (0.00)
Discontinued operations	0.00	0.00	0.00	0.00

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	
	2007	2006	2007	2006
Cash provided by (used in):				
Operations:				
Income (loss) from continuing operations	\$ 418	\$ 770	\$ 253	\$ (206)
Adjustments for:				
Depreciation and amortization	438	368	874	799
Amortization of deferred bank fees	4	–	12	–
Amortization of deferred revenue	(37)	(36)	(74)	(72)
Future income tax	189	–	88	–
Funds from operations	1,012	1,102	1,153	521
Changes in non-cash operating working capital (note 5)	(264)	(57)	(253)	89
	748	1,045	900	610
Financing:				
Principal repayments on long-term demand loans	(218)	(193)	(442)	(315)
Principal repayments on long-term debt	(54)	(53)	(107)	(104)
Increase (decrease) in due to related parties	172	(762)	(434)	(1,190)
Repayment of obligations under capital leases	(1)	(3)	(2)	(6)
Principal repayment of demand loan	–	(4,750)	–	(4,750)
Proceeds from long-term demand loan	–	17,500	–	17,500
Principal repayments on mortgage payable	–	(12,313)	–	(12,407)
	(101)	(574)	(985)	(1,272)
Investments:				
Additions to income-producing properties	(29)	(11)	(29)	(212)
Increase in deferred costs	–	13	–	13
	(29)	2	(29)	(199)
Increase in cash and cash equivalents from continuing operations	618	473	(114)	(861)
Discontinued operations	35	(15)	30	183
	653	458	(84)	(678)
Cash and cash equivalents, beginning of period	1,336	904	2,073	2,040
Cash and cash equivalents, end of period	\$ 1,989	\$ 1,362	\$ 1,989	\$ 1,362

See accompanying notes to unaudited consolidated financial statements

Supplemental information (note 5)

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

Six months ended June 30, 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 June 30, 2007, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$13,608. 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, 2006 (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

Six months ended June 30, 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

ALLIED HOTEL PROPERTIES INC.

Notes to Unaudited Consolidated Financial Statements

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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	
	2007	2006	2007	2006
Accounts receivable	\$ (322)	\$ (527)	\$ 506	\$ (359)
Inventories	42	(24)	40	1
Prepaid expenses	(2)	305	(23)	418
Accounts payable and accrued liabilities	18	189	(776)	29
	\$ (264)	\$ (57)	\$ (253)	\$ 89

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

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Supplemental information:				
Interest paid	\$ 748	\$ 879	\$ 1,504	\$ 1,631

6. Subsequent event:

Subsequent to the end of the period the Company completed the sub-division of land which it owns in Toronto into three legal parcels. One of the Company's income-producing properties is situated on one of the newly created parcels of land, and the Company has retained ownership of this property.

The Company sold a 50% undivided interest in a second parcel of land to a third-party as part of a series of transactions relating to a joint venture project (the "Joint Venture") to develop a 34 storey high rise condominium tower on the lands. The Company received a non-interest bearing mortgage on the land as consideration for the sale. Repayment of the mortgage will occur once the development has been completed and sold and all priority charges on the lands have been discharged. The Company will not recognize any gain on sale of the land until such time as receipt of the proceeds becomes reasonably assured.

Under the terms of the Joint Venture Agreement the Company had an option to participate in a development planned for the third parcel of land, or to sell its interest in the land to its Joint Venture partner and have no further interest in any development. The Company decided to sell the land for proceeds of \$1.0 million, resulting in a minor gain on sale which will be recognized in the financial statements for the nine months ending September 30, 2007. The funds received by the Company were used to reduce debt due to related parties.