

Consolidated Financial Statements of

ALLIED HOTEL PROPERTIES INC.

Years ended December 31, 2006 and 2005



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Allied Hotel Properties Inc. as at December 31, 2006 and 2005 and the consolidated statements earnings, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

March 2, 2007

ALLIED HOTEL PROPERTIES INC.


Consolidated Balance Sheets


December 31, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,072,689	\$ 2,039,975
Accounts receivable	1,965,105	1,262,545
Inventory	328,910	265,792
Prepaid expenses	202,035	588,353
	<u>4,568,739</u>	<u>4,156,665</u>
Income-producing properties (note 3)	49,319,839	50,870,391
Investment	1	1
Deferred costs, net of amortization	180,294	217,573
Future income taxes (note 12)	3,219,506	-
Assets held for sale (note 4)	-	246,099
	<u>\$ 57,288,379</u>	<u>\$ 55,490,729</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,681,184	\$ 3,223,204
Deferred revenue	146,981	143,400
Long-term debt (note 5)	215,496	210,355
Due to related parties (note 6)	14,042,099	15,470,459
Capital lease obligation	4,237	8,598
Long-term demand loans (note 7)	28,623,474	11,859,670
Liabilities of assets held for sale (note 4)	-	142,038
Demand loan (note 8)	-	4,750,000
Mortgage payable (note 9)	-	12,406,875
	<u>46,713,471</u>	<u>48,214,599</u>
Deferred revenue	823,619	970,607
Long-term debt (note 5)	985,307	1,200,803
Future income taxes (note 12)	-	281,968
Capital lease obligation	-	4,237
	<u>48,522,397</u>	<u>50,672,214</u>
Shareholders' equity:		
Share capital (note 10)	29,867,849	29,867,849
Deficit	(21,101,867)	(25,049,334)
	<u>8,765,982</u>	<u>4,818,515</u>
Commitments and contingencies (note 15)		
	<u>\$ 57,288,379</u>	<u>\$ 55,490,729</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


Peter Y.L. Eng Director


Michael F. Chan Director

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Earnings

Years ended December 31, 2006 and 2005

	2006	2005
Revenue:		
Rooms	\$ 17,937,503	\$ 23,352,775
Food and beverage	10,661,754	11,737,863
Other (note 14)	2,601,318	2,672,562
	<u>31,200,575</u>	<u>37,763,200</u>
Cost of sales:		
Rooms	5,261,481	6,840,267
Food and beverage	8,299,727	9,296,051
Other	548,324	773,164
	<u>14,109,532</u>	<u>16,909,482</u>
Gross profit	17,091,043	20,853,718
Operating expenses:		
Selling, general and administrative (note 14)	9,541,117	12,729,457
Management fees (note 14)	200,071	206,504
Taxes and insurance	1,812,303	1,832,764
Depreciation and amortization	1,776,046	2,202,667
	<u>13,329,537</u>	<u>16,971,392</u>
Operating income	3,761,506	3,882,326
Other expenses (income):		
Interest on demand loans and long-term debt	2,176,845	3,624,979
Other interest (note 14)	1,199,781	962,694
Equity in income of investee	-	(2,477,054)
	<u>3,376,626</u>	<u>2,110,619</u>
Earnings before income taxes and discontinued operations	384,880	1,771,707
Income tax expense (recovery):		
Current	(14,696)	(55,241)
Future (note 12)	(3,501,474)	281,968
	<u>(3,516,170)</u>	<u>226,727</u>
Earnings from continuing operations	3,901,050	1,544,980
Earnings from discontinued operations, net of income taxes (note 4)	46,417	3,358,752
Net earnings	<u>\$ 3,947,467</u>	<u>\$ 4,903,732</u>
Basic and diluted earnings per share (note 2(k))		
Continuing operations	\$ 0.04	\$ 0.02
Discontinued operations	0.00	0.03
Net earnings	<u>0.04</u>	<u>0.05</u>

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Deficit

Years ended December 31, 2006 and 2005

	2006	2005
Deficit, beginning of year	\$ (25,049,334)	\$ (38,311,745)
Net earnings	3,947,467	4,903,732
Deemed contribution by related party (note 11)	-	8,358,679
Deficit, end of year	\$ (21,101,867)	\$ (25,049,334)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Earnings from continuing operations	\$ 3,901,050	\$ 1,544,980
Items not involving cash:		
Depreciation and amortization	1,776,046	2,202,667
Amortization of deferred bank loan fees	25,000	4,167
Future income taxes	(3,501,474)	281,968
Amortization of deferred revenue	(143,407)	(162,476)
Equity in income of investee	-	(2,477,054)
Funds from operations	2,057,215	1,394,252
Changes in non-cash operating working capital (note 13)	78,620	(2,227,401)
	2,135,835	(833,149)
Financing:		
Proceeds from long-term demand loans	17,500,000	11,900,000
Principal repayments on long-term demand loans	(736,196)	(11,906,590)
Principal repayment on demand loan	(4,750,000)	(3,000,000)
Principal repayments on long-term debt	(210,355)	(342,105)
Principal repayments on mortgage payable	(12,406,875)	(361,866)
(Decrease) increase in due to related parties	(1,428,360)	3,610,851
Repayment of obligations under capital leases	(8,598)	(198,915)
Deferred financing fees	-	(125,000)
	(2,040,384)	(419,458)
Investments:		
Additions to income-producing properties	(213,215)	(139,006)
Distribution from equity accounted investee	-	4,553,460
	(213,215)	4,414,454
Increase (decrease) in cash and cash equivalents from continuing operations	(117,764)	3,157,680
Bank indebtedness of Vancouver Hotel Property's operations on date of sale	-	564,524
	(117,764)	3,722,204
Cash provided by discontinued operations	150,478	2,307,174
Increase in cash and cash equivalents	32,714	6,029,378
Cash and cash equivalents, beginning of year	2,039,975	(3,989,403)
Cash and cash equivalents, end of year	\$ 2,072,689	\$ 2,039,975

Supplementary information (note 13)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

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 December 31, 2006, the Company's liabilities included amounts due to the majority shareholder and a minority shareholder totaling \$14,042,099. 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).

(b) Basis of presentation:

The consolidated financial statements include the accounts and results of operations of the Company; its principal wholly-owned subsidiaries; Allied Don Valley Hotel Inc. (ADVHI) and Chateau Lacombe Hotel Ltd. (CLHL).

In addition, the 2005 consolidated financial statements include the accounts and the results of operations of the wholly-owned subsidiary, Harbourview Towers Enterprises Ltd. (Harbourview), and the 62% owned subsidiary, Vancouver Airport Conference Resort Ltd. (VACR), up to the date of sale of the related income-producing properties, during August 2005.

All material intercompany transactions and balances have been eliminated.

(c) Cash and cash equivalents:

Cash and cash equivalents are defined as cash less cheques issued in excess of deposits on hand.

The Company considers all highly liquid investments with terms to maturity of three months or less when acquired to be cash equivalents.

(d) Inventory:

Inventory, which consists of food, beverage and supplies, is valued at the lower of cost, as determined on a first in, first out basis, and replacement cost.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(e) Income-producing properties:

Land, buildings, furniture, fixtures and equipment and equipment under capital lease are carried at cost less accumulated depreciation and provision for impairment. A provision for impairment is recognized when the carrying amount of a property is not recoverable and exceeds its fair value. Depreciation is provided over the estimated useful lives of the assets, commencing the date the assets are available for use, as follows:

Asset	Basis	Estimated useful life
Buildings	Straight-line	35 - 40 years
Furniture, fixtures and equipment	Straight-line	3 - 5 years
Equipment under capital lease	Straight-line	3 - 5 years

(f) Investment:

The Company's investments in entities subject to significant influence are accounted for in these financial statements by the equity method. Under the equity method, the original cost of the investment is adjusted for the Company's share of post-acquisition earnings or losses, less dividends.

(g) Deferred costs:

Deferred costs include deferred licence fees and deferred financing fees. Deferred license fees relate to application fees paid to the franchisor of certain hotel properties, while deferred financing fees relate to the fees paid to a lender for re-financing a long-term demand loan. Deferred licence fees are being amortized on a straight-line basis over the terms of the franchise agreements. Deferred financing fees are being amortized on a straight-line basis over the term of the loan.

(h) Deferred revenue and revenue recognition:

Revenues from hotel and parking operations are recognized when services are provided. Franchise enhancement fees received from the franchisor are deferred and amortized over the term of the related franchise agreement.

(i) Foreign currency:

Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Foreign exchange gains and losses are included in income.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recognized amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In determining estimates of recoverable amounts and fair values for its income-producing properties, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the carrying amounts could change and, potentially, by a material amount.

(k) Per share information:

Basic and diluted per share amounts have been calculated based on the weighted average number of shares outstanding during the year, being 106,327,268 common shares for both 2006 and 2005.

(l) Statements of cash flows:

The Company uses the indirect method of reporting cash flows, under which the net cash flow from operating activities is reported by adjusting net earnings for the effects of non-cash items and changes in non-cash operating working capital balances.

(m) Future income taxes:

The Company uses the asset and liability method of accounting for incomes taxes. Under such method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date.

(n) Employee future benefits:

The Company matches contributions to a defined contribution pension plan to a maximum of 5% of salaries. Included in general and administrative expense is \$28,508 (2005 - \$28,698) in respect of the Company's contributions for 2006.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(o) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

(p) Consolidation of variable interest entities:

Effective January 1, 2005, the Company adopted the CICA Accounting Guideline 15, Consolidation of Variable Interest Entities (AcG-15) on a prospective basis. AcG-15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity (VIE). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both.

The Company has a variable interest in the entities which held the Company's 26.67% interest in the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (collectively the Vancouver Airport Property). These entities were deemed to be VIEs in accordance with AcG-15, but the Company was not deemed to be the primary beneficiary.

3. Income-producing properties:

2006	Cost	Accumulated depreciation	Net book value
Land	\$ 8,845,836	\$ -	\$ 8,845,836
Buildings	46,718,753	6,804,642	39,914,111
Furniture, fixtures and equipment	5,025,364	4,474,220	551,144
Equipment under capital lease	14,580	5,832	8,748
	\$ 60,604,533	\$ 11,284,694	\$ 49,319,839

2005	Cost	Accumulated depreciation	Net book value
Land	\$ 8,845,836	\$ -	\$ 8,845,836
Buildings	46,718,753	5,334,043	41,384,710
Furniture, fixtures and equipment	4,728,770	4,107,456	621,314
Equipment under capital lease	97,960	79,429	18,531
	\$ 60,391,319	\$ 9,520,928	\$ 50,870,391

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

4. 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 out the balance sheet and statements of earnings associated with assets held for sale and discontinued operations

Balance Sheet

	2006	2005
Assets		
Accounts receivable and other assets	\$ -	\$ 246,099
Assets held for sale	\$ -	\$ 246,099

Liabilities and Net Assets

Liabilities

Accounts payable and other liabilities	\$ -	\$ 142,038
Liabilities of assets held for sale	-	142,038
Net assets	-	104,061
	\$ -	\$ 246,099

Statements of Earnings

	2006	2005
Revenue	\$ -	\$ 8,786,548
Cost of sales	-	5,029,870
Gross profit	-	3,756,678
Operating expenses (recovery)	(46,417)	2,792,751
Operating earnings	(46,417)	963,927
Interest expense	-	(691,142)
Gain on sale of Richmond Hotel Property	-	3,077,167
Earnings before income taxes and non-controlling interest	46,417	3,349,952
Income tax recovery	-	8,800
Earnings from discontinued operations, net of income taxes	\$ 46,417	\$ 3,358,752

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

5. Long-term debt:

	2006	2005
Notes payable of which \$816,667 (2005 - \$972,222) is non-interest bearing and the remainder bears interest at 9% per annum. The notes are secured by certain furniture, fixtures, and equipment and require monthly principal and interest payments aggregating \$20,366, due in 2012	\$ 1,200,803	\$ 1,411,158
Current portion	215,496	210,355
	<u>\$ 985,307</u>	<u>\$ 1,200,803</u>

Principal repayments over the next five years and thereafter are as follows:

2007	\$ 215,496
2008	221,119
2009	227,269
2010	233,996
2011	241,355
Thereafter	61,568
	<u>\$ 1,200,803</u>

6. Due to related parties:

	2006	2005
Allied Pacific Properties and Hotels Ltd. (APP)	\$ 8,023,579	\$ 6,840,982
Allied Holdings Ltd. (Holdings)	6,018,520	8,629,477
	<u>\$ 14,042,099</u>	<u>\$ 15,470,459</u>

The amount due to APP, a minority shareholder of the Company, is secured by a general security agreement, is due on demand and bears interest at prime plus 0.75% per annum.

The amount due to Holdings, the Company's parent, is unsecured, due on demand and bears interest at 9.0% per annum (2005 - 9.0% per annum).

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

7. Long-term demand loans:

	2006	2005
Demand loan with monthly blended payments of principal and interest of \$103,220 based on a 15 year amortization period and interest rate of 6.43% per annum, due November 1, 2010	\$ 11,369,273	\$11,859,670
Demand loan with monthly blended payments of principal and interest of \$130,476 based on a 20 year amortization period and interest rate of the bank's prime lending rate plus 1.0% per annum, due April 1, 2026	17,254,201	-
	<u>\$ 28,623,474</u>	<u>\$ 11,859,670</u>

The \$11,369,273 fixed rate demand loan is secured by a mortgage of \$13,000,000 creating a first fixed charge over an income-producing property; assignment of rents; and a guarantee executed by the Company.

Under the terms of the facility letter governing this demand loan CLHL is subject to certain covenants including a minimum debt service ratio (DSR) and maximum debt to tangible net worth ratio (TNW). At December 31, 2006, CLHL is in compliance with the DSR and the TNW.

The \$17,254,201 floating rate demand loan is secured by a first fixed \$25,000,000 charge over an income-producing property; assignment of rents; a general security agreement; a guarantee limited to \$18,750,000 of the indebtedness; and a personal guarantee limited to \$3,750,000 executed by a significant shareholder of Holdings.

Under the terms of the facility letter governing the Company's floating rate demand loan, ADVHI is required to maintain a DSR of not less than 1.4, tested annually. Further, ADVHI is required to expend no less than \$250,000 and no more than \$600,000 on capital expenditures at the hotel on an annual basis (Capex covenant). At December 31, 2006, ADVHI is in compliance with the DSR and the Capex covenant.

The Company has available demand revolving operating loan facilities of \$500,000 and \$1,250,000 from its two lenders, which facilities bear interest at prime plus 1.5% and prime plus 1.0%, respectively. These loan facilities were not drawn upon at December 31, 2006.

Notwithstanding the classification of the long-term demand loan as a current liability, the Company continues to 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 and thereafter:

2007	\$ 892,455
2008	952,802
2009	1,019,374
2010	10,150,340
2011	488,668
Thereafter	15,118,836
	<u>\$ 28,623,474</u>

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

8. Demand loan:

	2006	2005
Demand loan bearing interest at prime plus 2.5% per annum, with interest only payable monthly in arrears, and principal repaid April 1, 2006	\$ -	\$ 4,750,000

The demand loan was secured by a mortgage of \$25,000,000 creating a second fixed financial charge over an income-producing property; a general security agreement; assignment of rents, and guarantees executed by the Company, Holdings and a significant shareholder of Holdings, limited to \$7,750,000 plus interest.

9. Mortgage payable:

	2006	2005
Mortgage payable bearing interest at 7.0% per annum, repayable in blended monthly installments of \$102,418 repaid April 1, 2006	\$ -	\$ 12,406,875
Current portion	-	12,406,875
	\$ -	\$ -

The mortgage payable was secured by a mortgage in the amount of \$22,375,000 creating a first fixed financial charge over an income-producing property, assignment of rents, and guarantees of the Company and Holdings.

10. Share capital:

	Number of shares	Amount
(a) Authorized: The authorized capital of the Company at December 31, 2006 and 2005 consisted of an unlimited number of common shares without par value.		
(b) Issued and outstanding: Balance, December 31, 2006, 2005 and 2004	106,327,268	\$ 29,867,849

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

10. Share capital (continued):

(c) Stock options:

An amount of 10,000,000 common shares have been reserved for issuance under the terms of a stock option plan (the Plan). The terms of options granted under the Plan may be fixed by the board of directors at the time such options are granted. At December 31, 2006 and 2005, there were no options outstanding to acquire common shares in the Company.

11. Deemed Contribution:

Effective August 2005, the Company sold its 100% interest in the Vancouver Hotel Property to Holdings, at a nominal value. The sale was part of a larger transaction involving the sale of the Vancouver Hotel Property and the adjacent parkade and lands 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.

12. Income taxes:

(a) Income tax expense, including current and future portions, varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating 31.87% (2005 - 35.12%) to earnings before income taxes and discontinued operations, as shown in the following table:

	2006	2005
Basic rate applied to income before income taxes	\$ 137,482	\$ 622,223
Change in valuation allowance for continuing operations	(3,809,140)	886,446
Large corporations tax	(14,696)	(55,241)
Other permanent differences and reconciling items	(652,268)	(433,563)
Effect of income tax rate changes	822,452	82,029
Income tax expense deducted against equity earnings	-	(525,007)
Permanent difference relating to non-taxable distribution from investee	-	(350,160)
Income tax expense	\$ (3,516,170)	\$ 226,727

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

12. Income taxes (continued):

- (b) The tax effects of temporary differences that give rise to significant portions of future tax assets and future tax liabilities, including those relating to discontinued operations, at December 31, 2006 are presented below:

	2006	2005
Future tax assets:		
Non-capital loss carry forwards	\$ 2,296,802	\$ 3,537,448
Share issue and financing costs	835,824	592,137
Income-producing properties	3,486,736	3,076,962
Deferred revenue	288,173	389,457
Investments and distributions receivable	-	13,524
Capital lease obligations	-	3,637
	6,907,535	7,613,165
Future tax liabilities:		
Income-producing properties	(1,701,920)	(2,077,352)
Deferred costs	(53,531)	(76,063)
	(1,755,451)	(2,153,415)
	5,152,084	5,459,750
Valuation allowance	(1,932,578)	(5,741,718)
Net future non-current tax assets (liabilities)	\$ 3,219,506	\$ (281,968)

- (c) At December 31, 2006, the Company has non-capital losses of approximately \$7,735,000 (2005 - \$10,119,000) able to be carried forward to reduce income taxes otherwise payable in future years within the carry forward periods, subject to the acquisition of control provisions of the Income Tax Act (Canada). No future income tax benefit on \$4,583,000 (2005 - \$10,119,000) of these losses, or temporary differences on assets and liabilities of the Company of approximately \$1,926,000 (2005 - \$6,305,000), has been recognized in the financial statements.

13. Supplemental cash flow information:

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

	2006	2005
Accounts receivable	\$ (702,560)	\$ (626,573)
Inventory	(63,118)	(11,915)
Prepaid expenses	386,318	147,744
Accounts payable and accrued liabilities	457,980	(1,736,657)
	\$ 78,620	\$ (2,227,401)

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

13. Supplemental cash flow information (continued):

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

	2006	2005
Supplementary information:		
Interest paid	\$ 1,237,040	\$ 5,201,357
Taxes paid	-	142,879
Carrying value of the Vancouver Hotel Property's net assets at the date of sale:		
Bank indebtedness	\$ -	\$ (564,524)
Non-cash working capital deficiency	-	(2,497,744)
Income-producing properties	-	31,837,452
Other assets	-	168,389
Long-term debt and demand loans	-	(39,070,292)
Capital lease	-	(1,127)
Deferred revenue	-	(430,833)
Net carrying value of income-producing properties sold during the year	\$ -	\$(10,558,679)

14. Related party transactions:

In addition to note 6, the Company had the following transactions with related parties during the year:

	2006	2005
Interest expense:		
Holdings (note 6)	\$ 716,901	\$ 420,776
APP (note 6)	482,859	306,571
Rent expense:		
APP	38,747	42,069
Management fee income:		
Vancouver Airport Property	-	32,522

Interest expense is included in other interest. Rent expense is recorded as selling, general and administrative expense. Management fee income is recorded as other income.

Rooms, food and beverage and other revenues include revenue totaling nil (2005 - \$94,035) from a company in which a director of the Company is a director and major shareholder. Revenues from discontinued operations include nil (2005 - \$149,355) from this company.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

15. Commitments and contingencies:

- (a) The Company has entered into franchise agreements to operate two hotels under international brands. Under these agreements the Company is charged certain amounts based on a percentage of gross room revenue, as defined, for royalties, marketing and reservations. In addition, the Company is charged a monthly fee per room for other services provided.
- (b) The Company has entered into management agreements with a third party manager, to operate the parkades of certain income-producing properties for management fees based on a percentage of revenues of the parkades, and incentive fees as defined in the agreements.

16. Financial instruments:

- (a) Fair value:

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt, due to related parties, capital lease obligation and long-term demand loans. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and capital lease obligation approximate their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of long-term debt and long-term demand loans is based on management estimates for mortgages which are determined by discounting cash flows required under the mortgages at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair values of the Company's long-term debt and long-term demand loans as at December 31, 2006 are not significantly different than their carrying values.

The fair value of the amount due to related parties has not been determined as the Company does not believe that it is practicable to determine such fair value with sufficient reliability due to the related party nature of the asset and the absence of a readily available secondary market for such financial instruments.

- (b) Interest rate risk:

As described in notes 6 and 7, certain amounts due to related parties and one of the Company's long-term demand loans bear interest at floating rates. Fluctuations in interest rates will impact the cost of financing incurred in the future.

- (c) Credit risk:

Due to the nature of the hotel business, the Company does not face any significant credit risk and there are no concentrations of credit risk.

17. Segment disclosures:

Management has determined that the Company's operating segments consist of the various hotel operations which form a single reportable segment, hotel operations.