



Lakeview Hotel Real Estate  
Investment Trust

**ANNUAL INFORMATION FORM**

**May 3, 2007**

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
GLOSSARY .....3	RISK FACTORS ..... 24
FORWARD LOOKING STATEMENTS .....7	DISTRIBUTIONS ..... 28
THE TRUST.....8	HISTORY ..... 28
OPERATING TRUST .....8	DISTRIBUTION POLICY ..... 29
OPERATING PARTNERSHIP .....8	DESCRIPTION OF UNITS, CLASS T UNITS, CLASS V UNITS AND DEBENTURES OF THE TRUST..... 30
LICENSING PARTNERSHIP .....9	CLASS A UNITS..... 30
MANAGEMENT PARTNERSHIP .....9	CLASS V SPECIAL TRUST UNITS ..... 30
LMGP I .....9	CLASS T SPECIAL TRUST UNITS ..... 30
LMGP II .....9	DEBENTURES..... 31
OGP .....10	CONSTRAINTS..... 32
LAKEVIEW .....10	MARKET FOR SECURITIES ..... 32
DECLARATION OF TRUST .....11	TRADING SUMMARY ..... 32
GENERAL INFORMATION.....11	MANAGEMENT OF THE TRUST ..... 33
OPERATIONAL POLICIES AND RESTRICTIONS .....11	TRUSTEES AND OFFICERS ..... 33
PERMITTED INVESTMENTS.....12	OTHER POSITIONS HELD BY THE TRUSTEES AND OFFICERS ..... 33
TRUST UNITS .....14	REMUNERATION AND HOLDINGS OF TRUSTEES AND OFFICERS ..... 34
UNITHOLDER LIMITED LIABILITY .....14	SERVICES AGREEMENT ..... 35
ISSUANCE OF UNITS.....15	GOVERNANCE AND COMPENSATION COMMITTEE INFORMATION..... 36
CASH DISTRIBUTIONS .....15	AUDIT COMMITTEE INFORMATION..... 36
LIMITATIONS ON NON-RESIDENT UNITHOLDERS .....15	AUDIT COMMITTEE CHARTER..... 36
MEETINGS OF UNITHOLDERS.....15	COMPOSITION OF AUDIT COMMITTEE ..... 37
INFORMATION AND REPORTS.....16	AUDIT FEES ..... 37
TAKEOVER BIDS .....16	TAX FEES ..... 37
TRUSTEES .....16	ALL OTHER FEES ..... 37
AMENDMENTS TO THE DECLARATION OF TRUST.....18	CORPORATE CEASE TRADE ORDERS AND BANKRUPTCIES..... 37
TERM OF LAKEVIEW HOTEL REIT AND SALE OF SUBSTANTIALLY ALL OF ITS ASSETS .....18	PENALTIES OR SANCTIONS ..... 38
GENERAL DEVELOPMENT OF THE BUSINESS.....18	INDIVIDUAL BANKRUPTCIES..... 38
OVERVIEW .....18	CONFLICTS OF INTEREST ..... 38
PROPERTY ACQUISITIONS .....19	INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS..38
CAPITAL RESOURCES .....19	TRANSFER AGENT AND REGISTRAR ..... 39
DESCRIPTION OF THE BUSINESS.....19	MATERIAL CONTRACTS ..... 39
GENERAL .....19	INTERESTS OF EXPERTS ..... 39
DESCRIPTION OF PROPERTY ..... 22	NAME OF EXPERTS ..... 39
RECENT ACQUISITIONS..... 23	INTERESTS OF EXPERTS..... 39
PROPOSED TRANSACTIONS ..... 23	ADDITIONAL INFORMATION..... 39

## GLOSSARY

**“9% Debentures”** means the 5 year Subordinated Convertible 9% Debentures issued pursuant to a private placement on May 30, 2005. See “Description of Units, Class V Units, Class T Unit and Debentures of the Trust – Debentures”.

**“10% Debentures”** means the 5 year Subordinated Convertible 10% Debentures issued pursuant to a long form prospectus on April 15, 2004. See “Description of Units, Class V Units, Class T Unit and Debentures of the Trust – Debentures”.

**“9% Trust Indenture”** means the trust indenture between Lakeview Hotel REIT and the Registrar and Transfer Agent, as trustee, pursuant to which the 9% Debentures were issued.

**“10% Trust Indenture”** means the trust indenture between Lakeview Hotel REIT and the Registrar and Transfer Agent, as trustee, pursuant to which the 10% Debentures were issued.

**“Arrangement”** means the arrangement under section 192(3) of the CBCA involving Global Fortress Inc., Lakeview Hotel REIT, and the shareholders of Global Fortress Inc.

**“Bare Trustees”** or singularly a **“Bare Trustee”** means those certain corporations that hold title to the Hotel Properties on behalf of Lakeview Hotel REIT. See “Description of Property”.

**“Board”** means the board of Trustees of Lakeview Hotel REIT.

**“CBCA”** means the *Canada Business Corporations Act*, as amended, and the regulations promulgated thereunder.

**“Class V Units”** means the 500,000 Class V Special Trust Units in the capital of Lakeview Hotel REIT which entitle the holder thereof to similar rights that a holder of Units of Lakeview Hotel REIT is entitled to as a result of ownership of Units (excluding a right to any distribution or dividend declared payable on Units, and excluding any right to vote in respect of the election of Trustees) and which will automatically terminate on a proportionate basis upon due exchange of the Exchangeable Partnership Units, which Class V Units accompany the Exchangeable Partnership Units. The Trustees are obligated, pursuant to the Operating Partnership Agreement, to declare payable or allocate on the Class V Units certain specified distributions, dividends and allocations provided that the aggregate dividend, distribution or allocation so declared does not, when combined on a pre-tax basis with any corresponding distributions, dividends or allocations paid or declared by the Operating Partnership on the Exchangeable Partnership Units, exceed the amount of the dividend, distribution or allocation so paid or declared on the Units, and provided further that no such dividend, distribution or allocation may be declared or paid on the Class V Units unless at the same time a dividend, distribution or allocation is declared or paid on the Units. No distribution, dividend or allocation made in respect of Class V Units will have priority over distributions, dividends or allocations made in respect of Units.

**“Class T Unit”** means the one Class T Special Trust Unit in the capital of Lakeview Hotel REIT which provides to the holder thereof the right from time to time to appoint that number of Trustees equal to one-third of the total number of Trustees then holding office (see the definition of “Lakeview Nominee”), which provides no right to any distributions or dividends or any other economic interest in Lakeview Hotel REIT, nor the right to receive notice of or to vote at any meeting of Unitholders, and which will automatically terminate upon disposition by Lakeview of its direct or indirect interest in both the Management Partnership and the Licensing Partnership.

**“Debentures”** means collectively, the 9% Debentures and the 10% Debentures.

**“Declaration of Trust”** means the declaration of trust dated February 11, 2004 establishing Lakeview Hotel REIT. See “Declaration of Trust”.

**“Discounted Market Price”** means the last daily closing price of the Units before either the issuance of a news release or the filing of a “price reservations” form required to fix the price at which the securities are issued or deemed to be issued less any reduction authorized by the Trustees and as permitted by the TSXV.

**“Exchangeable Partnership Units”** means the 500,000 Class E partnership units issued by the Operating Partnership to LMGP I in exchange for a 49% interest in the Licensing Partnership, which are exchangeable on a one for one basis for Units at the option of the holder.

**“Fredericton Property”** means the property purchased as part of the Arrangement in Fredericton, New Brunswick.

**“GE Mortgages”** means the mortgages provided by the Bare Trustees at the direction of Lakeview Hotel REIT, in favour of GE Canada Equipment Financing G.P. as security for the money lent by GE Canada Equipment Financing G.P. pursuant to certain loan agreements between GE Canada Equipment Financing G.P., as lender, the respective Bare Trustees as borrower, and Lakeview Hotel REIT, the Operating Partnership, OGP, and the Bare Trustees, as guarantors.

**“Hotel Asset(s)”** means hotel and extended-stay properties, and commercial and office properties ancillary thereto.

**“Hotel Operations”** means the hotel operations beneficially owned by the Operating Partnership including all furniture, fixtures and equipment utilized therein and excluding the Hotel Properties

**“Hotel Properties”** means the land and buildings beneficially owned by Lakeview Hotel REIT through the Bare Trustees excluding all furniture, fixtures and equipment utilized therein.

**“Independent Trustees”** are those trustees of Lakeview Hotel REIT that are not the Lakeview Nominee, are not persons who are employees or senior officers of Lakeview Hotel REIT or of Lakeview, and who are otherwise independent of management of Lakeview Hotel REIT and are free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Trustee’s ability to act with a view to the best interests of Lakeview Hotel REIT other than interests and relationships arising from being a security holder.

**“Lakeview”** means Lakeview Management Inc.

**“Lakeview Flag”** means all of the trademarks, trade names, operating procedures and systems and related items and goodwill associated, as the case may be, with the “Flags” known as “Lakeview Inn & Suites”, “Lakeview Inns & Suites” and “Lakeview Resorts”.

**“Lakeview Hotel REIT”** or the **“Trust”** means Lakeview Hotel Real Estate Investment Trust, a closed-end mutual fund trust established under the laws of the Province of Manitoba on February 11, 2004. See “The Trust”.

**“Lakeview Inn & Suites”** and **“Lakeview Inns & Suites”** means the names, currently being registered as trademarks, for the individual hotels and the chain of hotels licensed by the Licensing Partnership.

**“Lakeview Nominees”** or singularly a **“Lakeview Nominee”** means the one-third of all Trustees that Lakeview is entitled to appoint provided that it holds the Class T Unit. See “The Trust”

**“License Agreements”** means the license agreements entered into among:

- (i) the Licensing Partnership, the Operating Partnership and Lakeview in respect of the Licensed Lakeview Properties beneficially owned by Lakeview Hotel REIT; and
- (ii) the Licensing Partnership and Lakeview in respect of the Licensed Lakeview Properties located in Bathurst, New Brunswick, Miramichi, New Brunswick, Bayers Lake, Nova Scotia, Brandon, Manitoba and Grand Forks, North Dakota.

“**Licensed Lakeview Properties**” means those certain hotels beneficially owned or operated by Lakeview, or Lakeview Hotel REIT and which are operating under the Lakeview Flag.

“**Licensing Partnership**” means Lakeview Flag Licensing General Partnership.

“**LMGP I**” means Lakeview Management G.P. I Inc., a corporation existing under the laws of Manitoba.

“**LMGP II**” means Lakeview Management G.P. II Inc., a corporation existing under the laws of Manitoba.

“**Management Partnership**” means Lakeview Flag Management General Partnership.

“**Net Income**” or “**Net Loss**” means the income or loss (including capital gains and capital losses) of Lakeview Hotel REIT, computed in accordance with Canadian generally accepted accounting principles.

“**OGP**” means Lakeview Flag Operating LP General Partner Inc., a corporation existing under the laws of Manitoba.

“**Operating Partnership**” means Lakeview Flag Operating Limited Partnership.

“**Operating Partnership Agreement**” means the limited partnership agreement among the Operating Trust, as limited partner, and LMGP I and OGP as general partners, that establishes the Operating Partnership.

“**Operating Partnership Loan 1**” means the loans in the aggregate principal amount of \$7,014,263 provided by Lakeview Hotel REIT to the Operating Partnership and bearing interest at rates ranging from 5% to 10% per annum.

“**Operating Partnership Loan 2**” means the loans in the aggregate principal amount of \$1,000,998 provided by the Operating Trust to the Operating Partnership and bearing interest at rates ranging from 5% to 10% per annum.

“**Operating Trust**” means Lakeview Hotel REIT Operating Trust.

“**Operating Trust Declaration of Trust**” means the declaration of trust dated February 11, 2004 establishing the Operating Trust.

“**Operating Trust Notes**” means the promissory notes in the aggregate principal amount of \$1,009,900 issued by the Operating Trust to Lakeview Hotel REIT and bearing interest at rates ranging from 1% to 5% per annum.

“**Operating Trust Units**” means the trust units of the Operating Trust issued to Lakeview Hotel REIT.

“**Policy 2.4**” means TSX Venture Exchange Policy 2.4 with respect to Capital Pool Companies.

“**Property Lease Agreements**” means the lease agreements, between Lakeview Hotel REIT and the Operating Partnership pursuant to which Lakeview Hotel REIT leases the Hotel Properties to the Operating Partnership.

“**Property Management Agreements**” means the property management agreements with respect to each of the Hotel Properties and the Hotel Operations between the Operating Partnership and the Management Partnership whereby the Management Partnership provides (through its nominees, namely: Lakeview and Lakeview Hotel REIT) property management services to the Operating Partnership in respect of each of the Hotel Properties and Hotel Operations.

“**Record Date**” means the date determined by Lakeview Hotel REIT for determining Unitholders entitled to receive notice of and to vote at meetings of Unitholders.

“**Registrar and Transfer Agent**” means CIBC Mellon Trust Company, the registrar and transfer agent for Lakeview Hotel REIT.

“**Senior Security**” means property specific conventional mortgage financing security and/or property specific vendor take back mortgage financing security.

“**Services Agreement**” means that certain agreement between Lakeview Hotel REIT and Lakeview whereby Lakeview is engaged to provide management services to Lakeview Hotel REIT.

“**Sub Franchise Agreement**” means the agreement between the Licensing Partnership and Lakeview whereby the Licensing Partnership grants to Lakeview a license to open, operate, license and franchise other persons and entities to open and operate hotels under a business system owned by the Licensing Partnership using the name “Lakeview Inn & Suites”, “Lakeview Inns & Suites” and “Lakeview Resorts” in Canada and the United States.

“**Subsidiary**” has the meaning ascribed thereto in the CBCA, modified to include trusts and partnerships where such definition refers to a body corporate.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended.

“**Trust Indentures**” means collectively, the 9% Trust Indenture and the 10% Trust Indenture.

“**Trustees**” means the trustees of Lakeview Hotel REIT.

“**TSXV**” means the TSX Venture Exchange Inc.

“**TSXV Policy Manual**” means the TSX Venture Exchange Corporate Finance Manual.

“**Units**” or “**Class A Units**” means the Class A trust units in the capital of Lakeview Hotel REIT, which have the rights, privileges and restrictions set forth in the Declaration of Trust.

“**Unitholder**” means a registered holder of Units.

“**Unit Purchase Plan**” means the Lakeview Hotel REIT incentive option plan. See “Management of the Trust – Remuneration and Holdings of Trustees and Officers”.

## FORWARD-LOOKING STATEMENTS

Certain statements in this annual information form are “forward-looking” statements that reflect management’s expectations regarding the future growth, results of operations, performance, prospects and opportunities of Lakeview Hotel REIT. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Lakeview Hotel REIT, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact contained in this annual information form are forward-looking. When used in this annual information form, such statements include the use of such words as “may”, “will”, “intend”, “should”, “expect”, “believe”, “plan”, “anticipate”, “estimate”, “predict”, “potential”, “continue”, or the negative of these terms or other similar terminology. **Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved.** A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including but not limited to, the factors discussed under the heading *Risk Factors*. Although the forward-looking statements contained in this annual information form are based upon what management believes are reasonable assumptions, Lakeview Hotel REIT can not assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this annual information form, and Lakeview Hotel REIT does not assume any obligations to update or revise them to reflect new events or circumstances unless otherwise required by securities laws.

## THE TRUST

Lakeview Hotel REIT is an unincorporated closed-end mutual fund trust created under the laws of the Province of Manitoba by Declaration of Trust dated February 11, 2004. The head office of Lakeview Hotel REIT is located at 600-185 Carlton Street, Winnipeg, Manitoba.

The Declaration of Trust regulates the business affairs of Lakeview Hotel REIT and sets out the investment guidelines and operating policies of Lakeview Hotel REIT. See "Declaration of Trust."

Lakeview Hotel REIT is authorized to issue: (i) an unlimited number of Units; (ii) 500,000 Class V Units which entitle the holder to one vote per unit held at all meetings of Unitholders, but excluding the right to vote in respect of the election of Trustees. The Class V Units are exchangeable into Units; and (iii) one Class T Unit that provides the holder with the right to appoint one third of the Trustees then holding office. The Class T Unit is not transferable and is owned by Lakeview.

Lakeview Hotel REIT has Units listed on the TSXV under the symbol "LHR.UN". There are currently 18,570,581 Units listed on the TSXV.

Lakeview Hotel REIT currently has 187 10% Debentures outstanding pursuant to a previous public offering made by way of a long form prospectus and 520 9% Debentures outstanding pursuant to a private placement on May 30, 2005.

Lakeview Hotel REIT was formed on February 11, 2004 for the purpose of facilitating a qualifying transaction under TSXV Policy 2.4 by Global Fortress Inc., which was a former capital pool company on the TSXV. Global Fortress Inc. was incorporated under the CBCA on May 1, 2000 and completed its initial public offering of common shares on September 1, 2000. On April 15, 2004, Global Fortress Inc. completed its qualifying transaction which involved a plan of arrangement under the CBCA involving Global Fortress Inc., Lakeview Hotel REIT and the shareholders of Global Fortress Inc. The Arrangement resulted in former shareholders of Global Fortress Inc. receiving trust units of Lakeview Hotel REIT on a 10:1 basis. In connection with the qualifying transaction of Global Fortress Inc., Lakeview Hotel REIT completed a \$4,500,000 prospectus offering of 10% Debentures, completed a private placement to Lakeview which acquired 125,000 Units at a price of \$2.00 per Unit, completed the acquisition of the Fredericton Property and entered into license agreements with 5 other hotels. Subsequently, Lakeview Hotel REIT has purchased an additional 12 Hotel Operations for a total of 13.

Lakeview Hotel REIT is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Lakeview Hotel REIT qualifies as a "mutual fund trust", as defined in the Tax Act, although it is not a "mutual fund" as defined by applicable securities legislation.

The current focus of Lakeview Hotel REIT is on the acquisition of hotel properties, commercial and office properties ancillary to hotel properties and extended stay properties located across Canada. For additional information on the operations of Lakeview Hotel REIT see "Description of Business".

### OPERATING TRUST

Lakeview Hotel REIT Operating Trust (the "Operating Trust") is a limited purpose trust established pursuant to the laws of the Province of Manitoba by Declaration of Trust dated February 11, 2004. The principal office and centre of administration of the Operating Trust is located at 600-185 Carlton Street, Winnipeg, Manitoba. The Operating Trust is the limited partner of the Operating Partnership.

### OPERATING PARTNERSHIP

Lakeview Flag Operating Limited Partnership (the "Operating Partnership") was registered as a limited partnership under the laws of the Province of Manitoba on February 13, 2004. The limited partner of the

Operating Partnership is the Operating Trust, which has purchased 1,000 Class A limited partnership units of the Operating Partnership for consideration of \$1,000. LMGP I owns the Exchangeable Partnership Units which are exchangeable on a one for one basis for Units at the option of the holder. The Operating Trust is entitled to all net income of the Operating Partnership, less 0.2% payable to OGP and less 0.1% payable to LMGP I, and less amounts that may be payable to LMGP I pursuant to the Exchangeable Partnership Units (being payment from time to time of a cash distribution in an amount per Exchangeable Partnership Unit that is equal to or less than distributions declared payable by the Trustees to Unitholders). OGP is wholly-owned by the Operating Trust and LMGP I is wholly-owned by Lakeview. OGP and LMGP I are general partners and the Operating Trust is the limited partner.

The Operating Partnership leases the Hotel Properties from Lakeview Hotel REIT (through the Bare Trustees at the direction of Lakeview Hotel REIT) pursuant to the Property Lease Agreements and owns and operates the Hotel Operations.

#### **LICENSING PARTNERSHIP**

Lakeview Flag Licensing General Partnership (the "Licensing Partnership") was registered as a general partnership under the laws of the Province of Manitoba on February 13, 2004. The Operating Partnership owns a 49% ownership interest in the Licensing Partnership and LMGP II (wholly-owned by Lakeview) owns a 51% ownership interest. The Licensing Partnership owns a 100% interest in the Lakeview Flag. The Licensing Partnership does, pursuant to the Sub-franchise Agreement and the License Agreements, earn income through the payment to it of a license fee equal to 4% of gross room revenue received from the Licensed Lakeview Properties.

#### **MANAGEMENT PARTNERSHIP**

Lakeview Flag Management General Partnership (the "Management Partnership") was registered as a general partnership under the laws of the Province of Manitoba on February 13, 2004. The partners of the Management Partnership are LMGP II which owns a 50% ownership interest which entitles it to 75% of the gross management fee income (less its share of applicable Management Partnership expenses) earned by the Management Partnership, and the Operating Partnership, which owns a 50% ownership interest which entitles it to 25% of the gross management fee income (less its share of applicable Management Partnership expenses) earned by the Management Partnership. All expenses of the Management Partnership related to management of Hotel Assets are for the account of LMGP II and are paid from its 75% entitlement. The Management Partnership provides hotel management services to the hotels operated by the Operating Partnership pursuant to the Property Management Agreements and is compensated through a fee equal to 4% of gross revenues on full service hotel properties and 5% of gross revenues on limited service hotel properties (which are properties where food and beverage revenues comprise less than 33% of gross revenues).

#### **LMGP I**

Lakeview Management G.P. I Inc. ("LMGP I") was incorporated on December 9, 2003 pursuant to *The Corporations Act* (Manitoba). All of the issued and outstanding shares of LMGP I are owned by Lakeview. LMGP I is one of the general partners of the Operating Partnership along with OGP. The business of LMGP I is limited to acting as general partner of the Operating Partnership.

#### **LMGP II**

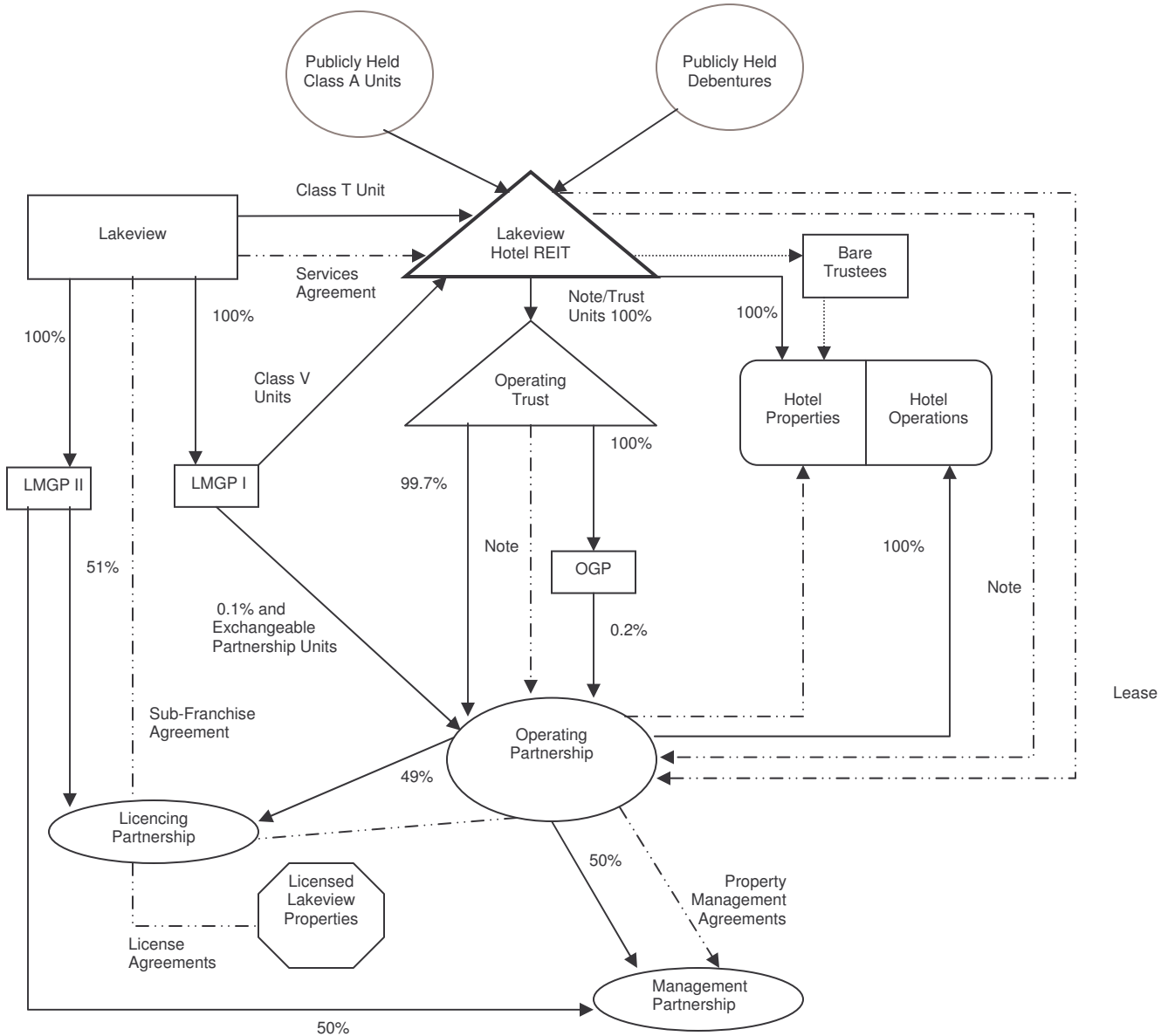
Lakeview Management G.P. II Inc. ("LMGP II") was incorporated on December 9, 2003 pursuant to *The Corporations Act* (Manitoba). All of the issued and outstanding shares of LMGP II are owned by Lakeview. LMGP II, as a general partner, along with the Operating Partnership, as a general partner, formed the Management Partnership with each holding a 50% interest therein.

**OGP**

Lakeview Flag Operating LP General Partner Inc. (“OGP”) was incorporated on February 13, 2004, pursuant to *The Corporations Act* (Manitoba). All of the issued and outstanding shares of OGP are owned by the Operating Trust. OGP along with LMGP I are the general partners of the Operating Partnership.

**LAKEVIEW**

Lakeview Management Inc. (“Lakeview”) was created by Articles of Amalgamation on October 1, 1999 pursuant to *The Corporations Act* (Manitoba). Prior to amalgamating, Lakeview has, through various predecessor companies, been in the property development and hotel management business for over 40 years. Lakeview, directly or indirectly, owns 180,000 Class A Units, the Class T Unit, five of the Licensed Lakeview Properties, the 500,000 Class V Units, the Exchangeable Units, all of the outstanding shares of LMGP I and all of the outstanding shares of LMGP II. Lakeview provides management and accounting services to Lakeview Hotel REIT pursuant to the Services Agreement. Pursuant to the Subfranchise Agreement the Licensing Partnership has granted to Lakeview a license to open, operate, license and franchise other persons and entities to open and operate hotels using the business system owned by the Licensing Partnership and using the names “Lakeview Inn & Suites”, “Lakeview Inns & Suites” and “Lakeview Resorts”.



1. The Licensing Partnership earns a 4% licensing fee pursuant to the License Agreements in respect of the Licensed Lakeview Properties. I
2. The Management Partnership charges a 4% or 5% (depending on the type of hotel) management fee, per hotel operated by the Operating Partnership.
3. The Management Partnership gross revenue is divided as to 75% to LMGP II and 25% to the Operating Partnership.

## DECLARATION OF TRUST

### GENERAL INFORMATION

Lakeview Hotel REIT is a limited purpose trust and is restricted to:

- (a) acquiring, holding, maintaining, improving, leasing or managing any real property that is capital property of Lakeview Hotel REIT;
- (b) acquiring and holding the Operating Trust Notes and the Operating Trust Units;
- (c) investing in such securities or properties as may be approved from time to time by the Trustees, which may include the financing of hotel and resort property development;
- (d) issuing guarantees in respect of the obligations and indebtedness of any of its subsidiaries or affiliates and charging, pledging, hypothecating or granting any security interest, mortgage or encumbrance over or with respect to any or all of its property or assets in connection with any such guarantee;
- (e) disposing of any part of the assets of Lakeview Hotel REIT;
- (f) temporarily holding cash, short term investments and other investments for the purpose of paying the expenses and liabilities of Lakeview Hotel REIT, paying amounts payable by Lakeview Hotel REIT in connection with the redemption of any Units and making distributions to Unitholders; and
- (g) undertaking such other activities as shall be approved by the Trustees from time to time provided that such activity does not result in Lakeview Hotel REIT not being considered a "unit trust" or a "mutual fund trust" for purposes of the Tax Act.

### OPERATIONAL POLICIES AND RESTRICTIONS

The Trustees are obligated by the Declaration of Trust to operate the business and affairs of Lakeview Hotel REIT in accordance with, and not contrary to, the following operating policies:

- a) any written instrument creating an obligation which is or includes the granting by Lakeview Hotel REIT of a mortgage, or to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Unitholders, any written instrument which in the judgment of the Trustees is a material obligation, must, in each case, contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon and that resort will not be had to, nor will recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of Lakeview Hotel REIT, but that only property of Lakeview Hotel REIT or a specific portion thereof will be bound;
- b) Lakeview Hotel REIT may engage in construction or development activities in order to maintain its real property in good repair or to enhance the income-producing potential of properties in which Lakeview Hotel REIT has an interest;
- c) title to any real property must be held by and registered in the name of Lakeview Hotel REIT, the Trustees, a trustee for Lakeview Hotel REIT or in the name of a corporation or other entity wholly-

- owned, directly or indirectly, by Lakeview Hotel REIT, including as a bare trustee, or, directly or indirectly, by Lakeview Hotel REIT together with joint venturers;
- d) Lakeview Hotel REIT will not incur or assume any mortgage indebtedness if, after the incurring or assuming of the mortgage indebtedness, the total mortgage indebtedness of Lakeview Hotel REIT would be more than 75% of the appraised value of the assets of the Trust, determined as an aggregate of the Trust's most recently completed property (or other) appraisals, as applicable. For the purposes of this subsection, convertible debentures of Lakeview Hotel REIT do not constitute mortgage indebtedness;
  - e) Lakeview Hotel REIT will not directly or indirectly guarantee any indebtedness or liabilities of any person unless such guarantee: (i) is given in connection with or incidental to an investment that is otherwise permitted pursuant to the Declaration of Trust; and (ii) has been approved by a majority of the Independent Trustees. In addition, Lakeview Hotel REIT will not directly or indirectly guarantee any indebtedness or liabilities of any person if doing so would: (A) result in Lakeview Hotel REIT or any registered retirement savings plan, registered retirement income fund or deferred profit sharing plan being liable under the Tax Act to pay tax imposed as a result of holdings by Lakeview Hotel REIT of foreign property as defined in the Tax Act; (B) disqualify Lakeview Hotel REIT as a "mutual fund trust" within the meaning of the Tax Act; or (C) result in Lakeview Hotel REIT losing any status under the Tax Act that is otherwise beneficial to Lakeview Hotel REIT and its Unitholders;
  - f) Lakeview Hotel REIT will obtain an independent appraisal of each Hotel Asset that it intends to acquire, subject to the exercise of discretion by the Trustees where an appraisal is determined not to be necessary;
  - g) Lakeview Hotel REIT will obtain and maintain at all times insurance coverage in respect of potential liabilities of Lakeview Hotel REIT and the accidental loss of value of the assets of Lakeview Hotel REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties; and
  - h) Lakeview Hotel REIT will have obtained a Phase I environmental audit of all real property to be acquired by it conducted within four years prior to the date of acquisition and if the Phase I environmental audit report recommends a Phase II environmental audit be conducted, Lakeview Hotel REIT must have conducted a Phase II environmental audit, in each case by an independent and experienced environmental consultant; such audit as a condition to any acquisition, must be satisfactory to the Trustees. All new leases granted by Lakeview Hotel REIT must contain appropriate covenants from the lessee respecting environmental matters as determined by the Trustees from time to time. Notwithstanding the foregoing, a Phase I environmental audit of the Fredericton Property conducted within seven years prior to the date of acquisition is sufficient for purposes of complying with this policy.

For the purpose of the foregoing policies, the assets, liabilities and transactions of a corporation or other entity (including a partnership) wholly or partially owned by Lakeview Hotel REIT will be deemed to be those of Lakeview Hotel REIT on a proportionate interest basis. In addition, any references in the foregoing to investment in Hotel Assets or real property will be deemed to include an investment in a joint venture arrangement.

#### **PERMITTED INVESTMENTS**

The Declaration of Trust provides that the assets of Lakeview Hotel REIT may be invested only in accordance with the following guidelines, and Lakeview Hotel REIT shall not permit any subsidiary of Lakeview Hotel REIT to make investments contrary thereto:

- a) Lakeview Hotel REIT's activities will be limited to the direct or indirect ownership and development (but not the operation) of Hotel Assets, primarily in Canada and the United States, and such other investments and activities related or incidental thereto as are consistent with the investment restrictions and guidelines of Lakeview Hotel REIT and approval by a majority of the Trustees from time to time;
- b) all of Lakeview Hotel REIT's Hotel Assets and other real property investments shall be leased to, or managed by, a qualified operator;

- c) Lakeview Hotel REIT will not make any investment, take any action or omit to take any action that would result in Units not being units of a “mutual fund trust” within the meaning of the Tax Act, that would result in Units being disqualified for investment by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans, that would result in Lakeview Hotel REIT being liable under the Tax Act to pay a tax as a result of holdings by Lakeview Hotel REIT of foreign property as defined in the Tax Act or that would result in Units being foreign property for the purpose of the Tax Act;
- d) Lakeview Hotel REIT may invest in a joint venture arrangement only if:
- (i) the arrangement is one pursuant to which Lakeview Hotel REIT holds an interest in real property jointly or in common with others (“joint venturers”) either directly or through the ownership of securities of a corporation or other entity (a “joint venture entity”);
  - (ii) Lakeview Hotel REIT’s interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first offer or right of first refusal, if any, in favour of the joint venturers;
  - (iii) Lakeview Hotel REIT has a right of first offer or right of first refusal to buy the interests of the other joint venturers; and
  - (iv) the joint venture arrangement provides an appropriate buy-sell mechanism to enable a joint venturer to purchase the other joint venturers’ interests or to sell its interest;
- provided that, notwithstanding the foregoing, Lakeview Hotel REIT may from time to time enter into any joint venture arrangement which does not comply with any of subparagraphs (ii) through (iv) above if the Trustees determine that the investment is desirable for Lakeview Hotel REIT and is otherwise in compliance with the investment restrictions, the investment guidelines and the operating policies established in accordance with the Declaration of Trust and in effect at such time;
- e) Lakeview Hotel REIT will not purchase, sell, market or trade in currency or interest rate futures contracts otherwise than for hedging purposes where, for the purposes hereof, the term “hedging” will have the meaning ascribed thereto by National Instrument 81-102 adopted by the Canadian Securities Administrators, as amended from time to time;
- f) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province or of Canada, short-term government debt securities, receivables under installment receipt agreements or money market instruments of, or guaranteed by, a Schedule I Canadian bank maturing within one year from the date of issue or except as permitted pursuant to this policy, Lakeview Hotel REIT may not hold securities of (including making a loan to) another issuer unless either: (A) such securities derive their value, directly or indirectly, principally from the ownership or operation of Hotel Assets; or (B) the principal business of the issuer of the securities is the ownership or operation, directly or indirectly, of Hotel Assets (in each case as determined by the Trustees); or (C) the entity is a joint venture in which Lakeview Hotel REIT is directly or indirectly involved (including a partnership) or is an entity wholly-owned by Lakeview Hotel REIT, or is a Subsidiary. For certainty, Lakeview Hotel REIT may invest in the Operating Partnership Loan;
- g) Lakeview Hotel REIT will not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- h) Lakeview Hotel REIT will not invest in operating businesses unless such investment is incidental to a transaction: (i) where revenue will be derived, directly or indirectly, principally from Hotel Assets; or (ii) which principally involves the ownership, maintenance, improvement, leasing or management, directly or indirectly, of Hotel Assets (in each case as determined by the Trustees);
- i) Lakeview Hotel REIT may invest in raw land for development or other development projects for the purpose of: (i) renovating or expanding existing Hotel Assets; or (ii) developing new facilities which will, upon completion, be income-producing Hotel Assets. In furtherance of subparagraph (ii), without limiting the generality of subsection d) and notwithstanding the provisions of subsections j) and k) below, Lakeview Hotel REIT may invest in mortgages (including participating or convertible mortgages): (A) granted by an entity directly or indirectly wholly owned by Lakeview Hotel REIT or by Lakeview Hotel REIT with a joint venturer; (B) granted by a joint venturer; or (C) provided that Lakeview Hotel REIT has an option or a right to acquire an interest in the project or an entity which owns any such

- development project, in each case secured against the real property underlying any such development project and may continue to hold such mortgages following completion of the project;
- j) notwithstanding the provisions of subsection i) above and k) below, Lakeview Hotel REIT may invest in mortgages and mortgage bonds (including, with the consent of a majority of the Trustees, a participating or convertible mortgage) where: (i) the security therefore is income-producing real property which otherwise meets the general investment guidelines of Lakeview Hotel REIT adopted by the Trustees from time to time in accordance with the Declaration of Trust and the restrictions set out herein; and (ii) the mortgage is registered on title to the real property which is security therefore;
  - k) notwithstanding subsections i) and j) above, Lakeview Hotel REIT may invest in mortgages if Lakeview Hotel REIT intends to use the acquisition of the mortgages as a method of acquiring control of an income-producing Hotel Asset which would otherwise meet the investment guidelines of Lakeview Hotel REIT;
  - l) Lakeview Hotel REIT may not invest in or acquire securities of a Canadian real estate investment trust unless:
    - (i) the activities of the real estate investment trust are focused on acquiring, holding, maintaining, improving, leasing or managing primarily income-producing Hotel Assets; and
    - (ii) in the case of any proposed investment or acquisition which would result in Lakeview Hotel REIT owning beneficially more than 10% of the outstanding units of such real estate investment trust (the "acquired trust"), the investment is made for the purpose of subsequently effecting the merger or combination of the operations and assets of Lakeview Hotel REIT and the acquired trust or for otherwise ensuring that Lakeview Hotel REIT will control the business and operations of the acquired trust.

For the purpose of the foregoing guidelines (other than subsection c) above), the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by Lakeview Hotel REIT will be deemed to be those of Lakeview Hotel REIT on a proportionate interest basis. In addition, any references in the foregoing to investments in real property or Hotel Assets will be deemed to include an investment in a joint venture arrangement.

#### **TRUST UNITS**

The Trustees are authorized to issue an unlimited number of Class A Units, 500,000 Class V Units and one Class T Unit. Please see "Description of Capital Structure" for a more detailed description of each.

#### **UNITHOLDER LIMITED LIABILITY**

On June 16, 2005, *The Investment Trust Unitholders' Protection Act* (Manitoba) came into force. This legislation creates a statutory limitation on liability of beneficiaries of Manitoba income trusts such as Lakeview Hotel REIT. The legislation provides that a Unitholder will not be, as a beneficiary, liable for any act, default, obligation, or liability of Lakeview Hotel REIT.

In addition, the Declaration of Trust provides that no Unitholder will be subject to any liability in connection with Lakeview Hotel REIT or its obligations and affairs.

To the extent that the principles of relevant provincial, territorial and Canadian laws recognizing the limitation of liability of trust beneficiaries have not been definitively established with respect to trusts formed under the laws of one jurisdiction which have operations located in other jurisdictions and beneficiaries who are resident in other jurisdictions, it is possible that the statutory limitation described above may not be applicable to Unitholders or certain of them.

The Declaration of Trust provides that the Trustees and Lakeview Hotel REIT will make reasonable efforts to include a provision in all written instruments signed by or on behalf of Lakeview Hotel REIT to the effect that such obligation will not be binding upon Unitholders personally. In addition, the GE Mortgages provide that the

covenants and obligations of Lakeview Hotel REIT thereunder, and any liabilities arising in respect thereof, shall not be personally binding upon, nor shall any recourse or satisfaction be sought from any Unitholder.

#### **ISSUANCE OF UNITS**

The Declaration of Trust provides that Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. At the option of the Trustees, Units may be issued in satisfaction of any distribution of Lakeview Hotel REIT to Unitholders on a pro rata basis to the extent that Lakeview Hotel REIT does not have available cash to fund such distributions. The Declaration of Trust also provides that, unless the Trustees determine otherwise, immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation.

#### **CASH DISTRIBUTIONS**

The amount of cash to be distributed per Unit shall be equal to a pro rata share of all amounts received by Lakeview Hotel REIT in each applicable period including, without limitation, all amounts paid to Lakeview Hotel REIT by the Operating Partnership on account of the Property Lease Agreements, less: (i) administrative and operational expenses and other obligations of Lakeview Hotel REIT, (ii) amounts which may be used for acquisitions or other business purposes, (iii) amounts required for replacement reserves, (iv) amounts that may be payable on the Class V Units, and, (v) such other amounts as the Trustees deem appropriate and necessary.

#### **LIMITATIONS ON NON-RESIDENT UNITHOLDERS**

The Declaration of Trust contains restrictions on the beneficial ownership of Units by Unitholders who are Non-Residents (as defined in the Declaration of Trust). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 49% of the Units then outstanding are, or may be, Non-Residents or that such a situation is imminent, Lakeview Hotel REIT may issue a public announcement thereof and shall direct the Registrar and Transfer Agent not to accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a Non-Resident. If, notwithstanding the foregoing, the Trustees determine that a majority of the Units are held by Non-Residents, Lakeview Hotel REIT may send a notice to Non-Resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as Lakeview Hotel REIT may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided Lakeview Hotel REIT with satisfactory evidence that they are not Non-Residents within such period, Lakeview Hotel REIT may on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale the affected holders shall cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Units.

#### **MEETINGS OF UNITHOLDERS**

The Declaration of Trust provides that meetings of Unitholders must be called and held for, among other matters, the election or removal of Trustees (except filling casual vacancies), the appointment or removal of the auditors of Lakeview Hotel REIT, the approval of amendments to the Declaration of Trust (except as described under "Amendments to the Declaration of Trust"), the sale of the assets of Lakeview Hotel REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization), the termination of Lakeview Hotel REIT and the direction of the Trustees as to the election of the directors or trustees of any subsidiary of Lakeview Hotel REIT. Meetings of Unitholders will be called and held annually for, among other things, the election of the Trustees, the appointment of auditors of Lakeview Hotel REIT and the direction of the Trustees as to the election of the directors or trustees of any subsidiary of Lakeview Hotel REIT. A resolution appointing

or removing a Trustee or the auditors of Lakeview Hotel REIT must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by at least 66 2/3% of the votes cast at a meeting of Unitholders called for such purpose.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 25% of the Units then outstanding by a written requisition. A requisition must, among other things, state in reasonable detail the matters proposed to be dealt with at the meeting.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 5% of the votes attaching to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

### **INFORMATION AND REPORTS**

Lakeview Hotel REIT will furnish to Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) a proxy form and an information circular containing information similar to that required to be provided to shareholders of a Canadian public corporation.

OGP, LMGP I and LMGP II have undertaken to provide Lakeview Hotel REIT with:

- a) a report of any material change which occurs in the affairs of the Operating Partnership, the Licensing Partnership or the Management Partnership in form and content that would be filed with the applicable regulatory authorities if the entity were a reporting issuer under applicable securities laws and stock exchange requirements;
- b) all financial statements that would be required to be filed with the applicable regulatory authorities as if the entity were a reporting issuer under applicable securities laws; and
- c) a copy of any other document that the entity would be required to file with the applicable regulatory authorities as if it were a reporting issuer under applicable securities laws and stock exchange requirements.

All such reports and statements will be provided to Lakeview Hotel REIT in a timely manner so as to permit Lakeview Hotel REIT to comply with the continuous disclosure requirements relating to reports, material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

### **TAKEOVER BIDS**

The Declaration of Trust contains provisions to the effect that if a takeover bid is made for the Units and not less than 90% of the Units (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the takeover bid on the terms offered by the offeror.

### **TRUSTEES**

The Declaration of Trust establishes a board of Trustees for the Trust comprised of not more than ten nor less than three members. Should the number of members be increased, Lakeview is entitled, for so long as it holds the Class T Unit, to appoint one-third of the members of the board of Trustees. Moreover, for so long as Lakeview holds the Class T Unit, the number of Trustees shall always be a number divisible by three (without

fractions). Other than the Lakeview Nominee (or Lakeview Nominees), Trustees shall be reappointed or replaced every year as may be determined by a majority of the votes cast at an annual meeting of the Unitholders. Persons who are Non-Residents are disqualified from being a Trustee. The Declaration of Trust provides that, subject to the terms and conditions thereof; the Trustees may, in respect of the trust assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the investments and conduct the affairs of Lakeview Hotel REIT. The Trustees are responsible for, among other things: (i) maintaining records and providing reports to Unitholders; (ii) supervising the activities of Lakeview Hotel REIT; (iii) managing the affairs of Lakeview Hotel REIT; (iv) voting in favour of Lakeview Hotel REIT's nominees to serve as directors or trustees of any subsidiaries of Lakeview Hotel REIT; (v) taking reasonable steps to ensure that the restrictions in the Declaration of Trust on Non-Resident ownership are met; and (vii) declaring distributions from Lakeview Hotel REIT to Unitholders.

A Trustee may resign upon written notice to Lakeview Hotel REIT and may be removed by a majority of the votes cast at a special meeting of the Unitholders and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the Trustees. No Lakeview Nominee is subject to removal by Unitholders.

A quorum of the Trustees, being the greater of two Trustees or a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees, a failure of the Unitholders to elect the required number of Trustees or a vacancy resulting from the retirement or removal of a Lakeview Nominee. In the absence of a quorum of the Trustees, or if the vacancy has arisen from a failure of the Unitholder to elect the required number of Trustees, the Trustees shall forthwith call a special meeting of Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Unitholder may call the meeting.

The Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of Lakeview Hotel REIT and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Trustees shall be entitled to indemnification from Lakeview Hotel REIT in respect of the exercise of their powers and the discharge of their duties in the absence of breach of their duties and standard of care. The duties and standard of care of the Trustees provided in the Declaration of Trust are similar to those imposed on a director of a corporation.

Except as expressly prohibited by law, the Trustees may grant or delegate certain of the Trustees' authority to effect the actual administration of the duties of the Trustees under the Declaration of Trust. The Trustees may grant broad discretion to a third party to administer and manage the day-to-day operations of Lakeview Hotel REIT, and to make executive decisions which conform to the general policies and general principles set forth in the Declaration of Trust or otherwise established by the Trustees.

The Trustees will be entitled to compensation for services rendered to Lakeview Hotel REIT in their capacities as Trustees. To date such compensation has been limited to participation in the Unit Purchase Plan. The Trustees are also entitled to be reimbursed for reasonable travel and other expenses properly incurred by them in attending meetings of the Trustees or committees thereof in connection with their services as Trustees.

Pursuant to the Declaration of Trust, a majority of the Trustees must be Independent Trustees.

In order to avoid conflicts of interest, the Declaration of Trust provides that certain decisions respecting the assets of Lakeview Hotel REIT must be made by the Independent Trustees. Pursuant to these provisions, the Independent Trustees will:

- (a) oversee compliance by the Trustees and any officer of Lakeview Hotel REIT with regard to the procedure to be followed, as set out in the Declaration of Trust, if Lakeview Hotel REIT is entering into a material contract or transaction with a Trustee or officer of Lakeview Hotel REIT or an entity of which a Trustee or officer of Lakeview Hotel REIT is a director or officer; and
- (b) oversee compliance with the related party transaction provisions in the Declaration of Trust and the TSXV Policy Manual.

The Trustees are to be kept informed of the operations of Lakeview Hotel REIT at regularly scheduled meetings of the Trustees and its committees and through reports and discussions with management on an ongoing basis.

#### **AMENDMENTS TO THE DECLARATION OF TRUST**

The Declaration of Trust may be amended or altered from time to time by at least 66 2/3% of the votes cast at a meeting of the Unitholders called for such purpose.

The Trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- a) for the purpose of ensuring continuing compliance with applicable laws (including the Tax Act), regulations, requirements or policies of any governmental or other authority having jurisdiction over the Trustees or over Lakeview Hotel REIT;
- b) deemed necessary or advisable to ensure that Lakeview Hotel REIT has not been established nor maintained primarily for the benefit of Non-Residents;
- c) which, in the opinion of the Trustees, provide additional protection for or benefit to the Unitholders;
- d) to remove any conflicts or inconsistencies in the Declaration of Trust or making corrections, including the correction or rectification of any ambiguities, defective provisions, errors, mistakes or omissions, which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders;
- e) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws; and
- f) correcting errors or inconsistencies between the Declaration of Trust and the Material Contracts (as such term is defined in the Declaration of Trust) which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders.

#### **TERM OF LAKEVIEW HOTEL REIT AND SALE OF SUBSTANTIALLY ALL OF ITS ASSETS**

Lakeview Hotel REIT has been established for an indefinite term. Pursuant to the Declaration of Trust, termination of Lakeview Hotel REIT or the sale or transfer of the assets of Lakeview Hotel REIT as an entirety or substantially as an entirety, except as part of an internal reorganization of the assets of Lakeview Hotel REIT requires approval by at least 75% of the votes cast at a meeting of the Unitholders (including votes cast by holders of Class V Units).

### **GENERAL DEVELOPMENT OF THE BUSINESS**

#### **OVERVIEW**

Lakeview Hotel REIT was formed on February 11, 2004 for the purpose of facilitating a qualifying transaction under TSXV Policy 2.4 by Global Fortress Inc., which was a former capital pool company on the TSXV. Global Fortress Inc. was incorporated under the CBCA on May 1, 2000 and completed its initial public offering of common shares on September 1, 2000. On April 15, 2004, Global Fortress Inc. completed its qualifying transaction which involved a plan of arrangement under the CBCA involving Global Fortress Inc., Lakeview Hotel REIT and the shareholders of Global Fortress Inc. The Arrangement resulted in former shareholders of Global Fortress Inc. receiving trust units of Lakeview Hotel REIT on a 10:1 basis. In connection with the qualifying transaction of Global Fortress Inc., Lakeview Hotel REIT completed a \$4,500,000 prospectus offering of 10% Debentures, completed a private placement to Lakeview which acquired 125,000 Units at a price of \$2.00 per Unit, completed the acquisition of the Fredericton Property and entered into license agreements with 5 other hotels. Subsequently, Lakeview Hotel REIT has purchased an additional 12 Hotel Operations for a total of 13.

Lakeview Hotel REIT receives income from ownership, management and licensing of hotel properties. The objective of Lakeview Hotel REIT is to provide Unitholders with stable and growing cash distributions through an investment in an expanding portfolio of hotel properties across Canada and the U.S.A..

## PROPERTY ACQUISITIONS

For a summary of all completed acquisitions of Lakeview Hotel REIT since its inception, see “Description of Property”.

## CAPITAL RESOURCES

Lakeview Hotel REIT has used convertible debenture and Unit offerings as the source of capital for the cash component of its hotel acquisitions. To date Lakeview Hotel REIT has completed six financings, raising a total of \$62,800,000, as summarized below:

Date	Amount	Terms	Security	Price
April 2004	\$4,500,000	Prospectus	10% Debentures	\$1,000
May 2005	\$2,000,000	Private Placement	Units	\$2.50
May 2005	\$1,500,000	Private Placement	9% Debentures	\$1,000
September 2005	\$10,350,000	Private Placement	Units	\$3.00
April 2006	\$11,500,002	Private Placement	Units	\$3.25
November 2006	\$32,000,000	Private Placement	Units	\$4.00

## DESCRIPTION OF THE BUSINESS

### GENERAL

#### *Business Objectives*

Lakeview Hotel REIT was established for the purposes of investing in a portfolio of hotel properties, commercial and office properties ancillary to hotel properties and extended stay properties located across Canada and the U.S.A. with the stated objectives of:

- 1) Providing Unitholders with stable and growing cash distributions, to the maximum extent possible, tax deferred; and
- 2) Maximizing Unit value through ongoing active management of the assets of Lakeview Hotel REIT, the acquisition of additional properties or interests therein and the financing of new hotel developments. Lakeview REIT focuses on investing in quality properties with strong operating histories in markets across Canada with the intention of ultimately producing a geographically diversified portfolio which will provide future ongoing cash flow and value growth opportunities for Unitholders.

To date the primary focus of Lakeview Hotel REIT has been hotel acquisitions in Alberta and northern British Columbia, providing Lakeview Hotel REIT with significant exposure in the region which currently enjoys the strongest economy in Canada. Eleven of the thirteen Lakeview Hotel REIT owned hotels are located in Alberta and northern British Columbia.

#### *Hotel Operations*

Lakeview Hotel REIT and Lakeview jointly manage the hotels owned by Lakeview Hotel REIT through a management partnership. Lakeview Hotel REIT receives 25% of the management fees generated by the management partnership. This joint management structure provides Lakeview Hotel REIT with an ongoing source of management fee revenue and lessens Lakeview Hotel REIT's requirements for employees and office space. Management and accounting services provided to Lakeview Hotel REIT by Lakeview include:

- Day to day supervision of and communication with the property manager;
- Ensuring compliance with franchise standards, policies and programs;
- Coordinating equipment and purchasing supplies when economies can be achieved or uniform specifications must be maintained;
- Coordination of maintenance programs at property level;
- Coordination of advertising, marketing and sales for individual properties or cooperatively for multiple properties when practical, which can lead to certain economies of scale;
- Administration of all accounting functions for the property;
- Communication with independent auditors, as required;
- Human resource management;
- Reporting to regulatory agencies on behalf of a given property, as required;
- Providing for operating and capital budgets in concert with the property manager;
- Providing for legal services (excluding litigation) for issues originating at property level. All external legal fees will be charged back to respective hotels as incurred;
- Negotiating comprehensive insurance coverage for the property;
- Negotiating equipment leases or rentals, as required; and
- All other matters normally associated with first class hotel management.

Lakeview, including its predecessor corporations, has over 40 years of experience in property development and hotel management and the skill and experience that Lakeview brings to Lakeview Hotel REIT is extensive. Since inception of the first company in 1964, Lakeview, its predecessor corporations and its affiliated companies have developed or acquired projects throughout North America with an estimated value of approximately two billion dollars in today's dollar equivalent.

Lakeview, its predecessor corporations or its affiliated companies have been involved in development and acquisition activities throughout much of Canada and in many areas in the United States. The company's capabilities extend over all phases of real estate development, property acquisition, financing, design and construction, and ongoing property management and provide Lakeview Hotel REIT with the specialized skills, knowledge and organizational depth necessary for effective property and asset management.

#### *Trust Operations*

Lakeview Hotel REIT has established a three member board of Trustees which is responsible for supervising the activities and managing the affairs of Lakeview Hotel REIT. To avoid any potential conflicts of interest and to ensure that there is an alignment of interests between the Trustees and Lakeview Hotel REIT, two-thirds of the Trustees must be independent from the management of Lakeview Hotel REIT.

The Trustees are responsible for, among other things:

- 1) Maintaining records and providing reports to Unitholders;
- 2) Supervising the activities of Lakeview Hotel REIT;
- 3) Managing the affairs of Lakeview Hotel REIT; and
- 4) Declaring distributions from Lakeview Hotel REIT to Unitholders.

The trust operation functions are provided by Lakeview under the terms of the Services Agreement. Lakeview provides such operating functions as overseeing Unit and debenture offerings; cash management; controlling the payment of debenture interest and distributions to Unitholders; identifying potential hotel acquisitions; conducting due diligence on potential acquisitions; maintaining all books and financial records of Lakeview Hotel REIT; preparation of financial statements, quarterly reports, and annual reports; maintaining the Lakeview Hotel REIT website; and all other day-to-day administrative functions related to Lakeview Hotel REIT. Lakeview has the collective skills and knowledge necessary to perform the functions required of it under the Services Agreement. As necessary, Lakeview retains accountants, lawyers, investment bankers, appraisers, trust companies, and other experts as necessary to assist in the performance of the trust operation functions.

### *Competitive and Economic Conditions*

Lakeview Hotel REIT has been focusing on acquiring hotel properties in Alberta and northern British Columbia. This area of Canada enjoys a robust economy, fueled by strong commodity prices. Historically high prices for oil and natural gas have led to a surge in exploration and development activity which has also significantly boosted output levels of related industries such as field services and transportation. While geographic diversification is a stated objective of Lakeview Hotel REIT, Management of Lakeview Hotel REIT, its institutional investors and professional advisors have felt the prevailing strength of the economic conditions in Alberta and northern British Columbia was a compelling reason to initially focus Lakeview Hotel REIT's acquisition activities in this region.

Lakeview Hotel REIT is establishing a presence of the Lakeview Inn & Suites brand in Alberta and northern British Columbia. Ten of the eleven Lakeview Hotel REIT properties in this region are branded as Lakeview Inns & Suites. As Lakeview Hotel REIT continues to acquire properties in this region, recognition of the Lakeview Inns & Suites brand increases which in turn adds value to all properties operating under the Lakeview banner.

Lakeview Inns & Suites competes in Alberta and British Columbia in the limited service hotel sector against such brands as Holiday Inn Express, Ramada Limited, Super 8, Best Western and Days Inn, as well as against smaller regional brands such as Nova and Pomeroy. To compete effectively against national brands, Lakeview Inns & Suites has established a brand loyalty program known as "Lakeview Perks". Under the Lakeview Perks program hotel patrons can earn points which can be redeemed for merchandise and hotel stays. Lakeview Inns & Suites offer guests an attractive amenity package which includes such items as free movie rentals, complementary continental breakfasts (except in locations with restaurants on site) and free wireless internet.

Increased levels of exploration, development and related activities in recent years has created a shortage of hotel room supply in many secondary and tertiary markets in Alberta and northern British Columbia. New supply is being added in many of these markets typically of better quality than existing older supply. To remain competitive in these circumstances it is imperative to have properties that are among the market leaders in their respective communities. Most properties owned by Lakeview Hotel REIT are leaders in their respective markets. In circumstances where properties are not market leaders, Lakeview Hotel REIT intends to make capital improvements to these properties, where necessary, to remain competitive.

### *Environmental Matters*

As part of its due diligence investigation on all potential property acquisitions, Lakeview Hotel REIT routinely includes an independent Phase I environmental site assessment to determine if there are any potential environmental issues. Phase II environmental site assessments are ordered as necessary. Remediation work is conducted if recommended in the site assessment.

Lakeview Hotel REIT is not aware of any environmental issues at any of its properties.

### *Employees*

Lakeview Hotel REIT does not have any employees. Lakeview Hotel REIT has entered into the Services Agreement with Lakeview. Pursuant to the Services Agreement, Lakeview provides the services of certain of its senior officers to Lakeview Hotel REIT. Specifically, Lakeview provides the services of its President, Mr. Keith Levit, its Executive Vice-President, Mr. Laurie Etkin, its Chief Financial Officer, Mr. Rudy Beyer, its Vice-President Finance, Mr. Avrum Senensky, its Vice-President of Operations, Mr. Chris Watt, and its Vice-President of Hotel Development, Mr. Henry Traa. Mr. Levit serves as Lakeview Hotel REIT's President, Mr. Etkin serves as Lakeview Hotel REIT's Executive Vice-President, Mr. Beyer serves as Lakeview Hotel REIT's Chief Financial Officer, Mr. Senensky serves in various capacities including investor relations, Mr. Watt serves as Lakeview Hotel REIT's Vice-President of Operations, and Mr. Traa serves as Lakeview Hotel REIT's Vice-President of Hotel Development. Each has agreed to devote the amount of time necessary to the proper management of Lakeview Hotel REIT.

*Bankruptcies*

Since the creation of Lakeview Hotel REIT on February 11, 2004, Lakeview Hotel REIT, its subsidiaries and its related parties have not been subject to any bankruptcies, receiverships, or similar proceedings.

*Reorganizations*

Since becoming a publicly traded entity there have not been any reorganizations of Lakeview Hotel REIT.

On March 29, 2007 the Minister of Finance tabled in the House of Commons a Bill that contained legislation to implement a previously announced proposal concerning the taxation of certain publicly traded trusts including income trusts. The Bill would apply to publicly traded trusts which existed prior to November 1, 2006 commencing with taxation years in 2011. There are certain circumstances where an existing trust may lose the tax relief in the interim periods before 2011. This may occur if a trust undergoes expansion beyond prescribed limits.

The Bill contemplates that a real estate investment trust which carries on Canadian hotel operations will not be a Qualifying REIT but would be considered a "specified investment flow-through trust or partnership (a "SIFT")". As a "SIFT" certain distributions will not be deductible in computing the "SIFT's" taxable income and these entities will be, in effect, taxed as corporations on the amount of the non-deductible distributions.

Management is reviewing, with its professional advisors, the potential impact of these proposed rule changes but it is not possible at this preliminary stage to provide any guidance as to what if anything can or will be done to reduce the tax effect of this legislation. The potential for a reorganization of Lakeview Hotel REIT to allow it to qualify as a Qualifying REIT will be one of the options that will be explored.

**DESCRIPTION OF PROPERTY**

The table below lists the properties that have been acquired to date by Lakeview Hotel REIT:

<b>Location</b>	<b>Current Flag</b>	<b>Rooms</b>	<b>Opened</b>	<b>Purchase Price*</b>	<b>Bare Trustee</b>	<b>Acquired</b>
<b>OWNED PROPERTIES</b>						
Fredericton, NB	Lakeview	98	1994	\$6,750,000	2330407 Manitoba Ltd.	Apr-04
Drayton Valley, AB	Lakeview	91	1980	\$8,550,000	1164656 Alberta Ltd.	Jun-05
Hinton, AB	Lakeview	55	1998	\$6,550,000	1184720 Alberta Ltd.	Nov-05
Okotoks, AB	Lakeview	64	1999	\$6,200,000	1208406 Alberta Ltd.	Jan-06
Fort Saskatchewan, AB	Lakeview	70	1999	\$7,350,000	1208417 Alberta Ltd.	Jan-06
Vaughan, ON	Super 8	85	1999	\$8,000,000	Vaughan Steeles Super 8 Ltd.	Mar-06
Edson, AB	Lakeview	45	1996	\$4,400,000	1227671 Alberta Ltd.	Apr-06
Whitcourt, AB	Lakeview	50	2001	\$5,400,000	1236406 Alberta Ltd.	May-06
Sherwood Park, AB	Holiday Inn Express	90	2005	\$11,800,000	1236412 Alberta Ltd.	Jun-06
Fort St. John, BC	Lakeview	73	1998	\$8,700,000	0760018 B.C. Ltd.	Oct-06

Chetwynd, BC	Lakeview	59	2006	\$7,138,500	0759566 B.C. Ltd.	Oct-06
Fort Nelson, BC	Lakeview	82	2007	\$9,645,314	0760024 B.C. Ltd.	Jan-07
Edson Airport West, AB	Lakeview	69	2007	\$7,800,000	1312258 Alberta Ltd.	Apr-07
<b>Sub-Total</b>		<b>931</b>		<b>\$98,283,814</b>		

**LICENSED LOCATIONS**

Grand Forks, ND	Lakeview	86	1989
Brandon, MB	Lakeview	66	1999
Halifax, NS	Lakeview	66	2000
Bathurst, NB	Lakeview	78	1991
Miramichi, NB	Lakeview	60	1993
<b>Sub-Total</b>		<b>356</b>	

**Total** **1287**

\* The purchase price excludes various acquisition costs and franchise termination fees.

**RECENT ACQUISITIONS**

On January 8, 2007 the Lakeview Hotel REIT acquired a newly constructed hotel located in Fort Nelson, British Columbia for net consideration of \$9,645,314 plus closing adjustments. The hotel was immediately flagged as a Lakeview Inn & Suites hotel. The cash consideration for this purchase was financed by proceeds from the private placement of Units on November 8, 2006.

On March 1, 2007, the Lakeview Hotel REIT acquired approximately 2/3 of an acre of land adjacent to its initial Lakeview Inn & Suites in Edson, Alberta for total consideration of \$350,000 plus closing adjustments. The Lakeview Hotel REIT intends to add up to 36 rooms to the Edson Property (as defined below). The cash consideration for this purchase was financed out of working capital.

Effective April 16, 2007, the Lakeview Hotel REIT acquired a newly constructed hotel located in Edson, Alberta for a purchase price of \$7,800,000 plus closing adjustments (the "Edson Property"). The hotel is flagged as a Lakeview Inn & Suites hotel. The cash consideration of this purchase was financed through the funding of previously registered but not yet funded GE Mortgages on Lakeview Hotel REIT's hotels in Fort St. John and Chetwynd, BC.

The Lakeview Hotel REIT continues to pursue other hotel acquisition opportunities which will be financed by a combination of mortgages, pre-approved line of credit, Unit and debenture offerings and working capital.

**PROPOSED TRANSACTIONS**

Subsequent to December 31, 2006 Lakeview Hotel REIT signed a purchase and sale agreement relative to the acquisition of a seventy-eight room limited service hotel in Brooks, Alberta for total consideration of \$10,400,000.

The acquisition is expected to close in May, 2007. The purchase price of this hotel is expected to be financed in part through a first mortgage loan, based on 60% of the purchase price of the hotel, bearing interest at a rate equal to the five year Government of Canada rate plus 2.1% and amortized over 20 years. The balance of the purchase price will be funded by way of a previously registered but not yet funded GE Capital mortgage on Lakeview Hotel REIT's hotel in Hinton, Alberta.

Subsequent to December 31, 2006 Lakeview Hotel REIT signed a purchase and sale agreement relative to the acquisition of a one hundred and twenty room limited service hotel in Alberta for total consideration of \$26,500,000.

The acquisition is expected to close in June, 2007. The purchase price of this hotel is expected to be financed through a first mortgage loan, based on 60% of the purchase price of the hotel, with the balance to be funded by the GE mortgages on the Fort Nelson and Edson Airport West properties.

## **RISK FACTORS**

Lakeview Hotel REIT's operations are subject to risks that could cause future operating results to differ significantly from its performance in the past. An event arising from one of the risks listed below could materially affect Lakeview Hotel REIT's business, prospects, financial condition, results of operations or cash flows. The following description of risks does not include all possible risks, and there may be other risks of which the Trust is not currently aware.

### **MARKET INFLUENCES**

The Trust is an unincorporated closed-end mutual fund trust and the Units are listed on the TSXV. There can be no assurance that an active public market for the Units will be sustained.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the amount paid by the Trust for the Hotel Assets, Hotel Operations and Hotel Properties.

One of the factors that may influence the market price of the Units is the annual yield on the Units. Accordingly, an increase in market interest rates may lead purchasers of Units to demand a higher annual yield which could adversely affect the market price of the Units. In addition, the market price for the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of Lakeview Hotel REIT.

### **REAL PROPERTY OWNERSHIP**

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets and various other factors.

Certain significant expenditures, including property taxes, maintenance costs, debt repayments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and the perceived desirability of such investments. Such liquidity may tend to limit Lakeview Hotel REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Trust were to be required to liquidate its real property investments, the proceeds might be significantly less than the aggregate carrying value of its properties.

Lakeview Hotel REIT will be subject to the risks associated with debt financing, including the risk that any indebtedness will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness.

### **THE HOTEL INDUSTRY**

Ownership of hotels and interests in the Operating Partnership, the Licensing Partnership and the Management Partnership subjects Lakeview Hotel REIT to the operating risks inherent in the hotel industry. These risks arise from a wide range of factors, including changes in general and local economic conditions, seasonal variations in cash flow, overbuilding in the hotel industry, varying levels of demand for rooms and related services, fluctuations in the price of equipment and supplies, changes in the availability and cost of labour, competition from other hotels, changes in travel patterns, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in governmental regulations that influence or determine wages, prices and construction and maintenance costs, changes in trends, technology and service requirements in the hotel industry, changes in interest rates, the availability of financing for operating or capital trends, and changes in

real estate and other taxes and other operating expenses. There can be no assurance that regulatory compliance or downturns or prolonged adverse conditions in the hotel industry or real estate or capital markets or national or local economies will not have a material adverse effect on results of operations or the value of Lakeview Hotel REIT's hotel portfolio.

The hotel industry is highly competitive. Lakeview Hotel REIT competes with other national and international limited and full-service hotel companies. Hotels owned by Lakeview Hotel REIT also compete with various regional and local hotels. A number of Lakeview Hotel REIT's competitors are larger, operate more hotels, have substantially greater financial and other resources and are more widely recognized in the U.S.A. and Canada than Lakeview Hotel REIT. In addition, some of Lakeview Hotel REIT's competitors operate or may in the future develop hotel properties that have locations superior to those of Lakeview Hotel REIT's hotels. Competitive factors in the hotel industry include room rates, quality of accommodations, name recognition, service levels and convenience of location. There can be no assurance that demographic, geographic or other changes in markets in which Lakeview Hotel REIT's hotels are located will not adversely affect the convenience or desirability of certain of Lakeview Hotel REIT's hotels. Furthermore, there can be no assurance that new or existing competitors will not significantly reduce room rates or offer greater conveniences, services or amenities or significantly expand or improve facilities in markets in which Lakeview Hotel REIT's hotels compete, thereby adversely affecting Lakeview Hotel REIT's results of operations and the value of its hotel portfolio.

#### **STAFFING**

Lakeview Hotel REIT is operating in a competitive labour market in Alberta and northern British Columbia. The difficulty in retaining qualified hotel staffing could potentially impact on the results of Lakeview Hotel REIT and the value of its hotel portfolio.

#### **AVAILABILITY OF CASH FLOW**

Because of items such as principal repayments and capital expenditures, cash may not be available for distributions. The Trust may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

Hotel properties require continuing renovation, refurbishment and capital improvements to remain competitive. While Lakeview Hotel REIT believes that it will have adequate financial resources to fund such renovations, refurbishments and improvements, there can be no assurance that such funding will be available when required.

#### **RISKS ASSOCIATED WITH DEBT FINANCING**

As a result of incurring debt, the Trust is subject to a number of risks associated with debt financing, including the risk that cash flow from operations will be insufficient to meet required payments of principal and interest; the risk that, to the extent that the Trust maintains floating rate indebtedness, interest rates will fluctuate; and risks resulting from the fact that the agreements governing loan and credit facilities contain covenants imposing certain limitations on the Trust's ability to acquire and dispose of assets.

There can be no assurance that the Trust will be able to repay or refinance existing indebtedness and any other indebtedness when it matures or that the terms of such refinancings will be favourable. The Trust's leverage may have important consequences. For example, the Trust's ability to obtain additional financing for acquisitions, working capital, capital expenditures or other purposes, if necessary, may be impaired or such financing may not be available on favourable terms. A substantial decrease in operating cash flow or an increase in expenses could make it difficult for the Trust to meet applicable debt service requirements and force the Trust to modify its operations. The Trust may have higher levels of debt than some of its competitors, placing it at a competitive disadvantage.

#### **AVAILABILITY OF GROWTH OPPORTUNITIES**

There can be no assurance that Lakeview Hotel REIT will be able to acquire assets on an accretive basis or that distributions to Unitholders will increase.

## **ASSUMPTIONS OF MANAGEMENT**

Lakeview Hotel REIT's plan of operation is based, in part, upon a financial plan prepared by management which is based on assumptions concerning future events which management consider to be reasonable in the circumstances, but which are inherently subject to uncertainty and variation which may be material. There can be no assurance that the development and implementation of Lakeview Hotel REIT's proposed business plan will be successfully completed or completed as planned. There is absolutely no representation that any of Lakeview Hotel REIT's plans will be realized in whole or in part.

## **GENERAL UNINSURED LOSSES**

Lakeview Hotel REIT will carry comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, Lakeview Hotel REIT could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but Lakeview Hotel REIT would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

## **CURRENCY FLUCTUATIONS**

The rising relative cost of the Canadian dollar to the U.S. dollar could impact inbound U.S. travel demand to Canada, and conversely, the cheaper relative cost of U.S. lodging may increase outbound Canadian travel.

## **ENVIRONMENTAL MATTERS**

As an owner of real property, Lakeview Hotel REIT will be subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that Lakeview Hotel REIT could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remedy such substances or locations, if any, could adversely affect Lakeview Hotel REIT's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against Lakeview Hotel REIT. Lakeview Hotel REIT is not aware of any non-compliance with environmental laws at the Hotel Properties. Lakeview Hotel REIT is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any pending or threatened claims relating to environmental conditions at its properties.

## **UNITHOLDER LIABILITY**

On June 16, 2005, *The Investment Trust Unitholders' Protection Act* (Manitoba) came into force. This legislation creates a statutory limitation on the liability of beneficiaries of Manitoba income trusts such as Lakeview Hotel REIT. The legislation provides that a Unitholder will not be, as a beneficiary, liable for any act, default, obligation, or liability of Lakeview Hotel REIT.

To the extent that the principles of relevant provincial, territorial and Canadian laws recognizing the limitation of liability of trust beneficiaries have not been definitively established with respect to trusts formed under the laws of one jurisdiction which have operations located in other jurisdictions and beneficiaries who are resident in other jurisdictions, it is possible that the statutory limitation described above may not be applicable to Unitholders or certain of them. See also "Declaration of Trust – Unitholder Liability".

## **POTENTIAL CONFLICTS OF INTEREST**

Lakeview Hotel REIT may be subject to various conflicts of interest because of the fact that Lakeview and its affiliates, and their respective directors, officers and associates, as well as the Trustees and management of Lakeview Hotel REIT, are or may be engaged in a wide range of real estate, hotel ownership and other business activities. Lakeview Hotel REIT may become involved in transactions that conflict with the interests of the foregoing. The Trustees, management of Lakeview Hotel REIT and associates or affiliates of Lakeview may

from time to time deal with persons, firms, institutions or corporations with which Lakeview Hotel REIT may be dealing, or which may be seeking investments similar to those desired by Lakeview Hotel REIT. The interests of these persons could conflict with those of Lakeview Hotel REIT. In addition, from time to time, these persons may be competing with Lakeview Hotel REIT for available investment opportunities. Any decisions regarding the enforcement by Lakeview Hotel REIT of the terms of any agreement entered into by Lakeview Hotel REIT with a Trustee who is not an Independent Trustee, or with an associate of a non-Independent Trustee, must be made by a majority of the Independent Trustees. The non-Independent Trustees may attempt to influence the Independent Trustees in this regard. The Declaration of Trust contains "conflicts of interest" provisions requiring Trustees to disclose material interests in material contracts and transactions and refrain from voting.

#### **CHANGES IN LEGISLATION AND INVESTMENT ELIGIBILITY**

There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. Units will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans if Lakeview Hotel REIT is no longer qualified as a mutual fund trust or as a registered investment. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

On March 29, 2007, the Minister of Finance (Canada) released draft legislation (the "Proposals") to implement changes, originally announced on October 31, 2006, regarding the taxation of certain income of certain listed Canadian trusts ("SIFT trusts") and partnerships. It is possible that there will be changes to the Proposals before enactment.

The definition of a "SIFT trust" excludes a trust that is a "real estate investment trust" that satisfies a number of conditions. As presently drafted, Lakeview Hotel REIT will not meet all of these conditions and will, therefore, be a SIFT trust.

Pursuant to the Proposals, a trust that would have been a SIFT trust on October 31, 2006 had the Proposal been in force on that date will, commencing in the 2011 taxation year, be subject to a tax at the rate of 31.5% (comparable to the projected combined federal and provincial corporate income tax rate in 2011) on certain income that is distributed to its unitholders. Such distributions will be treated as taxable dividends from a taxable Canadian corporation. They will be eligible for the enhanced dividend gross-up and tax credit when paid to an individual resident in Canada.

The deferral of the new tax to 2011 will be denied so that the new tax will apply commencing in the taxation year in which a SIFT trust has any "undue expansion" of its equity as set out in guidelines issued by the Department of Finance on December 15, 2006 as they may be amended. Under those guidelines, an "undue expansion" will not be considered to occur as a result of issuances of new equity (which includes debt convertible into units), in a year before 2011, of an amount that each year does not exceed the greater of \$50 million and a "safe harbour" amount. The safe harbour amount is based on a percentage of the SIFT trust's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of the SIFT trust's issued and outstanding publicly-traded units but not including debt, options or other interests convertible into units). For the period from November 1, 2006 to the end of 2007, the guidelines provide that the safe harbour will be 40% of the October 31, 2006 benchmark. In each of 2008, 2009 and 2010, the safe harbour will be 20% of that benchmark.

Unless changed, the Proposals could, commencing 2011, impact the level of cash distributions that would otherwise be made by Lakeview Hotel REIT and the taxation of such distributions to holders of Units. The likely effect of the Proposals on the market for Units and the ability of Lakeview Hotel REIT to finance future acquisitions through the issue of Units or other securities is unclear. Lakeview Hotel REIT will closely monitor any changes to the Proposals and, in consultation with its professional advisors, may consider restructuring its affairs in light of the Proposals as finally enacted.

#### **BRAND CONCENTRATION**

Lakeview Hotel REIT is subject to potential risks associated with the concentration of its hotels under a limited number of brands. A negative image or other adverse event that becomes associated with the "Lakeview"

brand could adversely affect the Trust's Hotel Operations and Licensed Lakeview Properties operated under that brand. It may also decrease the market for hotels that want to license the "Lakeview" brand.

#### **DILUTION**

The number of Units that Lakeview Hotel REIT is authorized to issue is unlimited. The Trustees have the discretion to grant options to acquire Units under the Unit Purchase Plan. Holders of Debentures have the right to convert the Debentures into Units on the terms described herein. Any issuance of Units will have a dilutive effect on the percentage ownership of the existing Unitholders.

#### **RELIANCE ON KEY PERSONNEL**

The management of Lakeview Hotel REIT depends on the services of certain key personnel, including its President, Keith Levit. The loss of the services of any key personnel could have an adverse effect on Lakeview Hotel REIT.

#### **TAX DEFERRED PORTION OF DISTRIBUTION**

The extent to which distributions will be tax deferred in the future will depend on the extent that the Trust can shelter its taxable income by claiming capital cost allowance.

### **DISTRIBUTIONS**

#### **HISTORY**

The following table sets out cash distributions made to the Unitholders of Lakeview Hotel REIT since its inception in 2004:

#### **DISTRIBUTION HISTORY**

<b>2004</b>			
Record Date	Payment Date	Distribution Per Unit	Year to Date Distributions
30-Jun-04	30-Jul-04	\$0.050	\$0.050
30-Sep-04	29-Oct-04	\$0.050	\$0.100
31-Dec-04	31-Jan-05	\$0.050	\$0.150
<b>2005</b>			
Record Date	Payment Date	Distribution Per Unit	Year to Date Distributions
31-Mar-05	29-Apr-05	\$0.050	\$0.050
30-Jun-05	29-Jul-05	\$0.050	\$0.100
31-Aug-05	30-Sep-05	\$0.050	\$0.150
30-Sep-05	31-Oct-05	\$0.025	\$0.175
31-Oct-05	30-Nov-05	\$0.030	\$0.205
30-Nov-05	30-Dec-05	\$0.030	\$0.235
31-Dec-05	31-Jan-06	\$0.030	\$0.265
<b>2006</b>			
		Distribution	Year to Date

Record Date	Payment Date	Per Unit	Distributions
31-Jan-06	28-Feb-06	\$0.030	\$0.030
28-Feb-06	31-Mar-06	\$0.030	\$0.060
31-Mar-06	28-Apr-06	\$0.030	\$0.090
18-Apr-06	31-May-06	\$0.0333	\$0.123
31-May-06	30-Jun-06	\$0.0333	\$0.157
30-Jun-06	31-Jul-06	\$0.0333	\$0.190
31-Jul-06	31-Aug-06	\$0.0333	\$0.223
31-Aug-06	29-Sep-06	\$0.0333	\$0.257
29-Sep-06	31-Oct-06	\$0.0333	\$0.290
31-Oct-06	30-Nov-06	\$0.0333	\$0.323
30-Nov-06	29-Dec-06	\$0.0367	\$0.360
29-Dec-06	31-Jan-07	\$0.0367	\$0.397

### 2007

Record Date	Payment Date	Distribution Per Unit	Year to Date Distributions
31-Jan-07	28-Feb-07	\$0.0367	\$0.037
28-Feb-07	30-Mar-07	\$0.0367	\$0.073
30-Mar-07	30-Apr-07	\$0.0367	\$0.110
30-Apr-07	31-May-07	\$0.0367	\$0.147

### DISTRIBUTION POLICY

The amount of cash that is distributed per Unit is equal to a pro rata share of all amounts received by Lakeview Hotel REIT in each applicable period including, without limitation, all amounts paid to Lakeview Hotel REIT by the Operating Partnership, less (i) administrative and operational expenses and other obligations of Lakeview Hotel REIT; (ii) amounts which may be used for acquisitions and other business purposes; (iii) amounts required for replacement reserves; (iv) amounts that may be payable on the Class V Units; and (v) such other amounts that the Trustees deem appropriate and necessary.

The Trustees initially made quarterly cash distributions but began making monthly distributions in September, 2005. Distributions are made to Unitholders of record on the last business day of each month with distributions paid on or before the last day of the following month. Distributions are currently \$0.0367 per Class A Unit per month. The amount and the frequency of the distributions may be changed at the discretion of the Trustees.

Lakeview has agreed to subordinate, for a period of three years from May 30, 2005 to May 29, 2008, its entitlement to distributions on the 675,000 Units owned, directly or indirectly, by Lakeview to the distributions to be made to all other Unitholders with respect to the first \$0.30 of distributions made per Unit per year: such \$0.30 per Unit distribution being comprised of combined projected annual cash flow of \$2,030,937 before debt service from Lakeview Hotel REIT's hotels in Fredericton, New Brunswick, and Drayton Valley, Alberta, less \$110,000 to cover Lakeview Hotel REIT's operating expenses and also less \$50,564 to account for the surplus of funds projected to be available above the \$0.30 per Unit distribution level. In addition, Lakeview will not sell, assign, transfer or pledge the 675,000 Units that it owns during the aforementioned three year period.

**DESCRIPTION OF UNITS, CLASS T UNITS,  
CLASS V UNITS AND DEBENTURES OF THE TRUST**

**CLASS A UNITS**

The Declaration of Trust authorizes the Trustees, in their discretion and from time to time, to issue an unlimited number of Class A Units. A summary of the rights, terms and restriction applicable to the Units follows.

An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit represents an equal fractional undivided beneficial interest in any distribution from Lakeview Hotel REIT, and in any net assets of Lakeview Hotel REIT in the event of termination or winding-up. All Units have equal rights and privileges. Each Unit is transferable, entitles the holder thereof to participate equally in distributions, including the distributions of net income and net realized capital gains of Lakeview Hotel REIT and distributions on liquidation, is fully paid and non-assessable and entitles the holder thereof to one vote at all meetings of Unitholders for each Unit held. See “Distribution Policy” for greater detail regarding distributions made by Lakeview Hotel REIT.

The Units do not represent a traditional investment and should not be viewed by investors as “shares” in Lakeview Hotel REIT. As holders of Units, the Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. The market price of the Units will be sensitive to a variety of market conditions including, but not limited to, interest rates, the distributions generated by the entities in which Lakeview Hotel REIT holds investments, and the ability of Lakeview Hotel REIT to acquire additional assets. Changes in market conditions may adversely affect the trading of the Units.

The Trust may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

A Unitholder will not have the right at any time to require the Trust to purchase such Unitholder’s Units.

**CLASS V SPECIAL TRUST UNITS**

The Trustees are authorized to issue 500,000 Class V Special Trust Units (the “Class V Units”). The Class V Units entitle the holder thereof to one vote per unit held at all meetings of Unitholders, but excluding the right to vote in respect of the election of Trustees. The Class V Units do not entitle the holder to any distribution or dividend declared payable on the Class A Units. The Trustees have an ability to declare payable on the Class V Units distributions or dividends provided the aggregate dividend or distribution so declared does not, when combined on a pre-tax basis with any corresponding distributions paid on the Exchangeable Partnership Units, exceed the amount of the dividend or distribution so declared on the Class A Units, and provided further that no such dividend or distribution may be declared or paid on the Class V Units, unless at the same time a dividend or distribution is declared or paid on the Class A Units. The Class V Units do not provide any interest in any net assets of Lakeview Hotel REIT in the event of termination or winding-up. The Class V Units automatically terminate on a proportionate basis upon due exchange of Exchangeable Partnership Units.

**CLASS T SPECIAL TRUST UNITS:**

The Trustees are authorized to issue one Class T Special Trust Unit (the “Class T Unit”). The Class T Unit provides to the holder thereof the right from time to time to appoint that number of Trustees equal to one-third of the total number of Trustees then holding office. The Class T Unit provides no right to receive notice of or to vote at any meeting of Unitholders. The Class T Unit will automatically terminate upon disposition by Lakeview of its direct or indirect interest in both the Management Partnership and the Licensing Partnership or if Lakeview otherwise ceases to be a participant in the management and licensing of the hotel properties that comprise the Lakeview Hotel REIT portfolio.

## DEBENTURES

The following is a summary of certain attributes and characteristics applicable to both the 9% Debentures and the 10% Debentures. The following does not purport to be complete and for full particulars, reference should be made to the Trust Indentures.

### *General*

The aggregate principal amount of the 9% Debentures was issued under and secured by the 9% Trust Indenture, and the aggregate principal amount of the 10% Debentures was issued under and secured by the 10% Trust Indenture (together with the 9% Trust Indenture the "Trust Indentures"), both entered into between Lakeview Hotel REIT and the indenture trustee, being CIBC Mellon Trust Company (the "Indenture Trustee"). The Debentures were issued at an issue price of \$1,000 per Debenture.

### *Covenant*

The Debentures are a direct obligation of Lakeview Hotel REIT and Lakeview Hotel REIT has covenanted to pay principal and interest thereon when due.

### *Realization*

The Indenture Trustee is required to realize against assets charged by the Trust Indentures (the "Trust Assets") prior to commencing to enforce the covenant of Lakeview Hotel REIT to pay principal and interest.

### *Interest*

The 9% Debentures bear interest at the rate of 9% per annum calculated semi-annually not in advance. The 10% Debentures bear interest at the rate of 10% per annum calculated semi-annually not in advance. Interest on the Debentures is payable semi-annually.

### *Redemption*

The Debentures are repayable on their respective maturity dates (as defined in the 9% Trust Indenture and 10% Trust Indenture respectively) at par plus any accrued and unpaid interest in cash, or, at the option of Lakeview Hotel REIT, in Units (based on a Unit conversion price equal to 95% of the weighted trading average of the Units on the TSXV, or other applicable exchange, during the preceding 20 trading day period), or in any combination thereof.

### *Conversion*

The 10% Debentures are convertible into Units at the option of the holder at a price of \$2.50 per Unit at any time during the third year after the date of issue, at a price of \$3.00 per Unit in the fourth year after the date of issue and at a price of \$3.50 per Unit during the fifth year after the date of issue. There are currently 187 10% Debentures outstanding.

The 9% Debentures are convertible into Units at the option of the holder at a price of \$2.90 per Unit at any time after the date of issue. There are currently 520 9% Debentures outstanding.

### *Security*

The Debentures are secured, subject only to Senior Security and permitted encumbrances and to the reservation of the last day of the term of any lease, under the Trust Indentures by a first floating charge to and in favour of the Indenture Trustee on the undertaking and all the property and assets of Lakeview Hotel REIT for the time being, both present and future, including, without limiting the generality of the foregoing, all real, personal, movable and immovable property now owned or hereafter acquired by Lakeview Hotel REIT and all its present and future revenues, incomes, moneys, rights, franchises, materials, supplies, book debts, accounts receivable, negotiable and non-negotiable instruments, judgments, securities, choses in action, lands, interest

in lands and all other property and things of value of every kind and nature, tangible or intangible, legal or equitable of which Lakeview Hotel REIT may be possessed or to which it may be entitled or which may be acquired by Lakeview Hotel REIT.

The Debentures shall rank senior to the Units and will be subordinate only to Senior Security. Any subsequent debentures issued by Lakeview Hotel REIT shall rank *pari passu* with the Debentures.

#### *Sale*

The Trust Indentures contain provisions whereby Lakeview Hotel REIT is permitted to sell, transfer or assign in the ordinary course of business assets owned by it or any part or parts thereof or an interest therein without any consent or approval of the Debentureholders or the Indenture Trustee.

#### *Defeasance*

The Trust Indentures each stipulate that if (i) Lakeview Hotel REIT pays the Debentureholders the principal and interest on the Debentures and all other sums payable by Lakeview Hotel REIT under the Trust Indenture, (ii) keeps, performs and observes its covenants in the Debentures and in the Trust Indentures, and (iii) requests in writing that its covenants and the security interest created by the Trust Indenture become null and void; then the covenants of Lakeview Hotel REIT and the security interest will cease and become null and void, and the assets will revert to Lakeview Hotel REIT without the necessity of any release, acquittance, reconvergence, re-entry or other act or formality whatsoever.

#### **CONSTRAINTS**

Certain provisions of the Tax Act require that Lakeview Hotel REIT not be established nor maintained primarily for the benefit of Non-Residents. Accordingly, in order to comply with such provisions, the Declaration of Trust contains restrictions on the beneficial ownership of Units by Unitholders who are Non-Residents. Please see "Declaration of Trust – Limitations on Non-Resident Unitholders".

### **MARKET FOR SECURITIES**

#### **TRADING SUMMARY**

The Units of Lakeview Hotel REIT were listed and posted for trading on the TSXV commencing on April 23, 2004 under the symbol LHR.UN. The trading price range and volume for the Units on the TSXV during the 2006 fiscal year and year to date 2007 are set out below.

The previously issued Debentures are not listed on any stock exchange.

#### *Fiscal 2006*

Month	Volume	Price Ranges	
		High	Low
January	69,453	3.25	2.65
February	30,870	3.50	2.70
March	38,100	3.55	3.10
April	31,300	3.50	3.25
May	320,860	3.50	3.20
June	77,600	3.50	3.03
July	194,700	3.50	3.00
August	43,920	4.00	3.25
September	513,540	4.25	3.85
October	817,300	4.25	3.90
November	398,190	4.50	3.69
December	309,420	4.50	4.01

*Trading Summary year to date – 2007*

January	428,150	4.60	4.06
February	104,300	5.15	4.40
March	1,099,860	4.80	4.15
April	678,627	4.45	4.05

**MANAGEMENT OF THE TRUST****TRUSTEES AND OFFICERS**

The name and municipality of residence, office held with Lakeview Hotel REIT and principal occupation of each of the Trustees and Officers of Lakeview Hotel REIT for the last five years are as follows:

<b>Name, Position Held and Municipality of Residence</b>	<b>Principal Occupation During Last Five (5) Years</b>	<b>Number, Type and Percentage of Units, controlled directly or indirectly, as at the date of this Annual Information Form</b>
Keith Levit, Trustee & President Winnipeg, Manitoba (1)(2)(4)	President, Lakeview Management Inc.	180,000 (5) 500,000 (6) 1 (7)
Gary Coleman, Trustee Winnipeg, Manitoba (1)(3)(4)	President and CEO, Big Freight Systems	105,000 (5)
Oliver Plett, Trustee Winnipeg, Manitoba (1)(3)(4)	Currently, Mr. Plett pursues a variety of personal business interests.	60,000 (5)
Rudy Beyer, Chief Financial Officer, Winnipeg, Manitoba	Chief Financial Officer, Lakeview Management Inc.	Nil
Laurie Etkin, Executive Vice President, Winnipeg, Manitoba	Executive Vice President, Lakeview Management Inc.	Nil
Avrum Senensky, Investor Relations, Winnipeg, Manitoba	Vice President Finance, Lakeview Management Inc.	5,000 (5)

**Notes:**

- (1) Member of the Governance and Compensation Committee.
- (2) Appointed as the Lakeview Nominee. See "Declaration of Trust – Elections of Trustees".
- (3) Independent Trustee.
- (4) Member of the Audit Committee.
- (5) Class A Units.
- (6) Class V Units.
- (7) Class T Units.

All of the Trustees have held their position since the inception of Lakeview Hotel REIT on April 15, 2004.

The Declaration of Trust provides that each Trustee shall hold office until the next annual meeting of Unitholders and until his/her successor has been elected and qualified to serve as Trustee. Mr. Levit is the Lakeview Nominee who is elected annually by Lakeview which owns the Class T Unit.

**OTHER POSITIONS HELD BY TRUSTEES AND OFFICERS**

The Trustees and Officers of Lakeview Hotel REIT who currently hold positions with other reporting issuers are as noted in the table below.

<b>Name</b>	<b>Name of Reporting Issuer</b>	<b>Position Held</b>
Gary Coleman	Huntingdon REIT Industrial Growth Income Corp.	Trustee, Secretary Director, President
Oliver Plett	First National Alarmcap Income Fund	Trustee

## REMUNERATION AND HOLDINGS OF TRUSTEES AND OFFICERS

### *Trustees*

The Trustees are entitled to receive such reasonable compensation for their services as trustees as the Trustees may determine from time to time provided that the compensation for services provided as a Trustee shall only be by way of issuance of options to acquire Units pursuant to the Unit Purchase Plan.

Pursuant to the Unit Purchase Plan, the Trust may grant options to the Trustees, a director of an affiliate of the Trust, a senior officer of the Trust or affiliate of the Trust, an employee of the Trust or affiliate of the Trust, management company employees of the Trust or affiliate of the Trust and consultants retained by the Trust or affiliate of the Trust, including investor relations consultants. Currently, the maximum number of Units reserved for issuance under the Unit Purchase Plan is limited to a maximum of 10% of the total number of issued and outstanding Units. The Trustees have approved an amendment to the Unit Purchase Plan such that the aggregate number of Units reserved for issuance under the Plan shall not exceed five percent (5%) of the total number of issued and outstanding Units. The Trustees will be seeking Unitholders' approval of the amendment at the Trust's annual and special meeting of Unitholders scheduled for June 12, 2007. The Trustees are able to set the exercise price at the time that an option is granted under the Unit Purchase Plan, which exercise price shall not be less than the Discounted Market Price which means the last daily closing price of the Units before either the issuance of the news release or the filing of a price reservations form required to fix the price at which the securities are issued or deemed to be issued less any reduction authorized by the Trustees and as permitted by the TSX. The options will have a maximum term of five years from the date of grant and are subject to certain other terms and conditions.

On April 15, 2004, Lakeview Hotel REIT granted the following options at the exercise price set out below:

	<b><u># of Options</u></b>	<b><u>Price</u></b>
Gary Coleman	15,000	\$2.00
Oliver Plett	10,000	\$2.00
Lakeview	50,000	\$1.00

On July 13, 2005, Lakeview Hotel REIT granted the following options at the exercise price set out:

	<b><u># of Options</u></b>	<b><u>Price</u></b>
Keith Levit	5,000	\$1.92
Gary Coleman	10,000	\$1.92
Oliver Plett	10,000	\$1.92

On June 20, 2006, Lakeview Hotel REIT granted the following options at the exercise price set out:

	<b><u># of Options</u></b>	<b><u>Price</u></b>
Keith Levit	12,500	\$3.25
Gary Coleman	12,500	\$3.25
Oliver Plett	12,500	\$3.25
Rudy Beyer	5,000	\$3.25
Laurie Etkin	5,000	\$3.25
Avrum Senensky	5,000	\$3.25
Chris Watt	5,000	\$3.25

Henry Traa	5,000	\$3.25
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The Trustees are also entitled to receive such reasonable compensation for services rendered to the Trust, either directly or indirectly, in any other capacity, aside from that of Trustee. Such services may include, without limitation, services as an officer of the Trust, legal, accounting or other professional services, or services as a broker, agent or underwriter, whether performed by a Trustee or any person affiliated with such Trustee.

The Trust has not made any direct cash payments or directly remunerated its Trustees in the financial year ended December 31, 2006. The Trust does not pay any pension benefits to or on behalf of the Trustees or the Officers of the Trust.

#### *Officers*

The officers of Lakeview Hotel REIT are remunerated through Lakeview, with the only exception being the options issued to those Officers as set out above.

Lakeview Hotel REIT also pays Lakeview for acting as the asset and property manager of Lakeview Hotel REIT and certain licensing fees. See "The Trust - Lakeview".

#### *Summary*

In total, as of the date hereof, the Trustees and Officers of Lakeview Hotel REIT, as a group, beneficially own or exercise control or direction over 850,000 Units (including the 500,000 Class V Units) or approximately 4.46% of the issued Units. In addition, this group holds options to acquire an aggregate of 62,500 Units of Lakeview Hotel REIT.

#### **SERVICES AGREEMENT**

Lakeview Hotel REIT entered into the Services Agreement with Lakeview on April 15, 2004 for an initial term of 5 years. Pursuant to the Services Agreement, Lakeview provides the services of certain of its senior officers to Lakeview Hotel REIT. Specifically, Lakeview provides the services of the following individuals in the capacity described beside their respective names:

- Keith Levit – President;
- Laurie Etkin – Executive Vice-President;
- Rudy Beyer – Chief Financial Officer;
- Avrum Senensky – Investor Relations
- Chris Watt – Vice-President of Operations
- Henry Traa – Vice-President of Hotel Development

Each of the above referenced individuals has agreed to devote the amount of time necessary to the proper management of Lakeview Hotel REIT. Lakeview also provides Lakeview Hotel REIT with support services, consisting of certain accounting and human resource services, office space and equipment use and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of Lakeview Hotel REIT.

Pursuant to the Services Agreement, Lakeview Hotel REIT will remunerate Lakeview as follows:

- (a) Lakeview Hotel REIT initially provided to Lakeview an option to acquire 50,000 Units of the Trust at \$1.00 per Unit, such options already having been exercised by Lakeview.
- (b) As the scope of the management services which are required by Lakeview Hotel REIT expands over time, the remuneration to Lakeview will be modified to reflect customary comparable market fees;
- (c) Lakeview's remuneration may only be varied at the discretion of the Governance and Compensation Committee of the Board (See "Governance and Compensation Committee Information"); and

- (d) Lakeview Hotel REIT will reimburse Lakeview for all third party and out of pocket costs which are reasonably incurred by Lakeview on behalf of Lakeview Hotel REIT.

Effective October 1, 2006, the Governance and Compensation Committee approved the payment to Lakeview of an asset management fee based on 0.3% of net book value of income properties.

At any time on 30 days notice to Lakeview and in the event that Lakeview Hotel REIT internalizes the services provided under the Services Agreement, Lakeview Hotel REIT may terminate the Services Agreement or modify it to terminate the services of any of the individuals noted above (or their replacement) or to vary the support services provided.

### **GOVERNANCE AND COMPENSATION COMMITTEE INFORMATION**

Lakeview Hotel REIT has a Governance and Compensation Committee composed of all three Trustees. All the members of the Governance and Compensation Committee are Independent Trustees other than Keith Levit who is the Lakeview Nominee. The Governance and Compensation Committee is responsible for negotiating and finalizing and otherwise dealing with all employment, consulting or other compensation agreements between Lakeview Hotel REIT and any Trustee or senior officer of Lakeview Hotel REIT or between any affiliate of Lakeview Hotel REIT and any Trustee or senior officer of Lakeview Hotel REIT and for administering the Unit Purchase Plan.

Subject to the delegation to the Governance and Compensation Committee of such other responsibilities as are determined by the Trustees from time to time and subject to such changes in its form and function as may be mandated by any relevant regulatory authorities, the Governance and Compensation Committee shall, among other things:

- (a) review the charters of the Board of Trustees (the "Board") and its committees and recommend such amendments to those charters as are necessary or desirable;
- (b) monitor requests from Trustees or committees of the Board for the engagement of special advisors from time to time;
- (c) prepare and recommend to the Board annually the disclosure of governance practices required to be included in Lakeview Hotel REIT's public disclosure;
- (d) assess the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual trustees;
- (e) monitor and review the other committees of the Board and whether their duties are being discharged adequately;
- (f) review and determine executive compensation packages for the senior officers of Lakeview Hotel REIT;
- (g) make recommendations to the Board with respect to succession planning for senior management of Lakeview Hotel REIT;
- (h) review and make recommendations with respect to Trustees' compensation;
- (i) review the size and composition of the Board and consider nominees for Trustees;
- (j) oversee the disclosure practices of Lakeview Hotel REIT in accordance with the Disclosure Policy of Lakeview Hotel REIT; and
- (k) administer the Disclosure Policy of Lakeview Hotel REIT and the Code of Business Conduct of Lakeview Hotel REIT.

### **AUDIT COMMITTEE INFORMATION**

#### **AUDIT COMMITTEE CHARTER**

Pursuant to the Declaration of Trust, the Trustees are required to have an audit committee consisting of at least three Trustees (the "Audit Committee"). Subject to the delegation to the Audit Committee of such other responsibilities as are determined by the Trustees from time to time and subject to such changes in its form and function as may be mandated by any relevant regulatory authorities, the Audit Committee shall, among other things:

- (a) oversee the work of the external auditors of Lakeview Hotel REIT;

- (b) monitor the internal control system of Lakeview Hotel REIT;
- (c) review the financial statements, prospectuses, management discussions and analysis and all public disclosures containing audited or unaudited financial information before release and prior to Trustees' approval;
- (d) recommend the appointment of external auditors of Lakeview Hotel REIT and their compensation;
- (e) review with external auditors and management of Lakeview Hotel REIT their assessment of the internal controls of Lakeview Hotel REIT;
- (f) pre-approve all non-audit services to be provided to Lakeview Hotel REIT;
- (g) review risk management policies and procedures of Lakeview Hotel REIT;
- (h) review any significant transactions outside Lakeview Hotel REIT's ordinary course of business;
- (i) review all material pending litigation; and
- (j) assess Lakeview Hotel REIT's financial and accounting personnel.

The external auditors of Lakeview Hotel REIT are entitled to receive notice of every meeting of the Audit Committee and, at the expense of Lakeview Hotel REIT, to attend and be heard thereat, and, if so requested by a member of the Audit Committee, shall attend any meeting of the Audit Committee held during the term of office of the external auditors.

#### **COMPOSITION OF AUDIT COMMITTEE**

The Audit Committee must be comprised of a minimum of three Trustees, a majority of whom must be Independent Trustees. Currently, the Audit Committee is comprised of Keith Levit, Gary Coleman and Oliver Plett, the latter two being Independent Trustees. Gary Coleman is the Chair of the Audit Committee. All of the members of the Audit Committee are financially literate as noted below:

Gary Coleman has been the President for 15 years and Chairman for 16 years, of Big Freight Systems, an international trucking firm. Mr. Coleman graduated from the Business Administration Program at Red River College.

Mr. Plett was founder of Westfield Industries Ltd., a farm implements company, and is now a trustee of First National Alarmcap Income Fund.

Mr. Levit has been either President, Vice President or a director of Lakeview since 1985. Mr. Levit graduated from the University of Manitoba with a Bachelor of Commerce (Honours) Degree and from Southern Methodist University with a Master of Science Degree in Real Estate and Regional Science.

#### **AUDIT FEES**

The Trust expects to continue to retain its current external auditor, Ernst & Young LLP, Chartered Accountants, to provide advisory and consulting services. The aggregate fees billed by Lakeview Hotel REIT's external auditor for audit services in each of the last two fiscal years are \$64,000 in 2006 and \$51,000 in 2005.

#### **TAX FEES**

The aggregate fees billed by Lakeview Hotel REIT's external auditors in each of the last two fiscal years for professional services for tax compliance, tax advice, and tax planning are \$15,625 in 2006 and \$15,000 in 2005.

#### **ALL OTHER FEES**

The aggregate fees billed by Lakeview Hotel REIT's external auditors in each of the last two fiscal years for all professional services are as set out above.

#### **CORPORATE CEASE TRADE ORDERS AND BANKRUPTCIES**

Other than as set out in the following sentence, no current Trustee, Officer or promoter of Lakeview Hotel REIT is, or has been within the ten years prior to the date of this Annual Information Form, a director, officer or

promoter of any other company that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemptions for a period of more than 30 consecutive days, or was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangements or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person. Mr. Jack Levit, CEO of Lakeview and an insider of Lakeview Hotel REIT, was the subject of a cease trade order of the Manitoba Securities Commission issued in December, 1994, for a five-year term which expired in December, 1999, whereby he was precluded from relying upon the registration exemptions provided by subsections 19 (1), 19 (2) and 19 (3) of *The Securities Act* (Manitoba) subject to the ability to apply to the Director of The Manitoba Securities Commission for an exemption in any particular circumstance where it was not contrary to the public interest to do so. The order pertained to a real estate development promoted in 1987.

#### **PENALTIES OR SANCTIONS**

No current Trustee, Officer or promoter of Lakeview Hotel REIT has, within the ten years preceding the date hereof, been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion or management of a publicly traded company, or theft or fraud.

#### **INDIVIDUAL BANKRUPTCIES**

No current or proposed Trustee, Officer or promoter of Lakeview Hotel REIT is, or has, within the ten years preceding the date hereof, been declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

#### **CONFLICTS OF INTEREST**

Keith Levit, a Trustee of Lakeview Hotel REIT, is also President and director of Lakeview. Pursuant to each of the Services Agreement and the Property Management Agreement with Lakeview, Lakeview receives compensation from Lakeview Hotel REIT. Additional conflicts of interest may arise as a result of the current Trustees and Officers of Lakeview Hotel REIT also holding positions as directors and/or officers of other companies, including Lakeview.

Lakeview has granted Lakeview Hotel REIT a right of first refusal to acquire certain hotels developed by Lakeview outside of the current Lakeview Hotel REIT portfolio.

Lakeview receives development fees from Lakeview Hotel REIT to assist with renovating, or assisting with special projects in connection with, hotel properties beneficially owned by Lakeview Hotel REIT.

XYZ Design Inc. is a company that is related to Lakeview due to control by a related party. The services of this company are used to provide design consultation and professional services with respect to renovations of purchased hotels. For the year ended December 31, 2006 a total of \$4,100.00 was paid to XYZ Design Inc. for those services.

#### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Lakeview owns Class A Units, has control over Class V Units through its ownership of LMGP I, and owns the Class T Unit entitling it to nominate one third of the Trustees of the Trust. Lakeview earns fees from the Trust pursuant to the Services Agreement with the Trust. The Trust indirectly owns 49% of the Licensing Partnership and the Licensing Partnership earns fees through the Subfranchise Agreement and the Licensing Agreements. Lakeview also indirectly owns or has an interest in the Management Partnership that has a Property Management Agreement with the Operating Partnership. There a number of contracts that have been entered into between or among Lakeview Hotel REIT, related entities and subsidiaries; see "The Trust" for a diagram outlining the various relationships. See Notes 7 and 15 to the audited annual financial statements of the Trust

for the year ended December 31, 2006 for a more detailed description of the fees payable to the Trust. See "Additional Information" for the location of the agreements referred to in this paragraph.

### **TRANSFER AGENT AND REGISTRAR**

The registrar and transfer agent for the Units is CIBC Mellon Trust Company at its principal office in Calgary, Alberta.

### **MATERIAL CONTRACTS**

The following are the only material contracts entered into after January 1, 2002 and that are still in effect, other than contracts entered into in the ordinary course of business, by Lakeview Hotel REIT which are material to Lakeview Hotel REIT:

- (a) the Declaration of Trust;
- (b) the Services Agreement; and
- (c) the Trust Indentures.

### **INTERESTS OF EXPERTS**

#### **NAMES OF EXPERTS**

The following experts have prepared or certified a statement, report or valuation described or included in a continuous disclosure filing made by Lakeview Hotel REIT during, the previous fiscal year ended December 31, 2006 and for the period from January 1, 2007 to the date hereof.

#### *Auditors*

Ernst & Young LLP, Winnipeg, Manitoba

#### *Legal Counsel*

Fillmore Riley LLP, Winnipeg, Manitoba

#### **INTERESTS OF EXPERTS**

To the knowledge of Lakeview Hotel REIT, the partners and associates of Fillmore Riley LLP, do not beneficially own, directly or indirectly, any Units or Debentures.

To the knowledge of Lakeview Hotel REIT, the partners and associates of Ernst & Young LLP do not beneficially own, directly or indirectly, any Units or Debentures.

### **ADDITIONAL INFORMATION**

A copy of the Annual Information Form, or any documents incorporated by reference (or deemed to be incorporated by reference) in the Annual Information Form, the audited financial statements of Lakeview Hotel REIT for the year ended December 31, 2006 and the management discussion and analysis are available at [www.sedar.com](http://www.sedar.com) or may be obtained upon request to Lakeview Hotel REIT, 600-185 Carlton Street, Winnipeg, Manitoba. A copy of the 2006 Annual Report of Lakeview Hotel REIT, including the audited financial statements of Lakeview Hotel REIT for the year ended December 31, 2006 is also available on the website of Lakeview Hotel REIT at [www.lakeviewreit.com](http://www.lakeviewreit.com).

Additional Information concerning the Officers and the Trustees of Lakeview Hotel REIT is contained in the management information circular dated April 18, 2007 in respect of Lakeview Hotel REIT's annual and special meeting of Unitholders scheduled for June 12, 2007.