



**Lakeview Hotel Real Estate Investment Trust
Management Discussion and Analysis
for the six months ended
June 30, 2006**

August 28, 2006

Management's discussion and analysis of financial conditions and results of operations (MD&A) should be read in conjunction with the unaudited consolidated financial statements for the six months ended June 30, 2006. The consolidated financial statements for the six months ended June 30, 2006, have been prepared by and are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Lakeview Hotel REIT's independent auditors, Ernst & Young LLP have not conducted a review of these consolidated financial statements.

OVERVIEW AND PORTFOLIO SUMMARY

Lakeview Hotel Real Estate Investment Trust (Lakeview Hotel REIT) is an unincorporated closed-end mutual fund trust created pursuant to a Declaration of Trust dated February 11, 2004. The Qualifying Transaction was completed on April 15, 2004 through a private offering of Lakeview Hotel REIT units, a public offering of Lakeview Hotel REIT subordinate convertible debentures, and the acquisition of the Lakeview Inn & Suites - Fredericton hotel.

The eight hotels listed below were purchased subsequent to the acquisition of Lakeview Inn & Suites – Fredericton with the results of their operations included in the June 30, 2006 unaudited consolidated financial statements of Lakeview Hotel REIT.

Property	Date of Purchase	Date of Conversion to Lakeview Inns & Suites
Best Western Black Gold Inn – Drayton Valley	June 1, 2005	December 1, 2005
Ramada Limited & Suites - Hinton	November 4, 2005	November 4, 2005
Best Western Okotoks Lodge - Okotoks	January 6, 2006	July 1, 2006
Best Western Fort Inn & Suites – Fort Saskatchewan	January 13, 2006	July 1, 2006
Super 8 Toronto North - Vaughan	March 17, 2006	N/A
Super 8 Motel - Edson	April 7, 2006	April 7, 2006
Ramada Limited - Whitecourt	May 31, 2006	May 31, 2006
Holiday Inn Express & Suites – Sherwood Park	June 1, 2006	N/A

In addition to income earned from hotel operations Lakeview Hotel REIT also earns income from licensing fees charged to Lakeview Inn & Suites hotels which are owned by Lakeview Management Inc. (a unitholder of Lakeview Hotel REIT) and include hotels in Bathurst, New Brunswick; Brandon, Manitoba; Grand Forks, North Dakota; Halifax, Nova Scotia; and Miramichi, New Brunswick.

As at August 23, 2006, the following units of Lakeview Hotel REIT were issued and outstanding:

Class A Units	9,053,448
Class V Special Trust Units and Exchangeable Units	<u>500,000</u>
Total Units that participate pro rata in distribution	<u>9,553,448</u>
Class T Special Trust Unit (1)	<u><u>1</u></u>

(1) (1) The holder of the Class T Special Trust Unit has the right to appoint one-third of the total number of trustees. The Class T Special Trust Unit is non-voting, non-transferable and is not entitled to any distribution or economic interest in Lakeview Hotel REIT.

KEY PERFORMANCE MEASURES

Occupancy Percentage, Average Room Rate and RevPar are three important indicators used by the hotel industry in general to measure the performance of a hotel and compare performance to other hotel operations. The key performance measures for the Lakeview Hotel REIT are as follows:

	Three months ended June 30		Six months ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Occupancy Percentage ⁽¹⁾	72.19%	65.04%	72.21%	64.59%
Average Room Rate ⁽¹⁾	\$101.16	\$83.68	\$102.20	\$82.00
RevPar ⁽¹⁾	\$73.03	\$53.59	\$73.80	\$52.96
Rooms Occupied	36,247	5,736	60,905	11,457

Note (1): *Occupancy Percentage measures the level of hotel room utilization and is calculated by dividing the number of rooms rented for a given period by the number of rooms available for the period.*

Average Room Rate measures the average room price for all guest rooms by dividing total room revenues by the number of rooms rented.

RevPar (Revenue per available room) is calculated by multiplying the Occupancy Percentage by the Average Room Rate and is a measure of efficiency based on all available rooms regardless of whether they are occupied or not.

These measures are not recognized under GAAP and the method we use in calculating these numbers may not be comparable to other companies. They should not be used as an alternative to net earnings (loss) determined in accordance with GAAP as an indicator of performance. These numbers can be used to supplement other information presented in understanding the performance of our hotels in a historical perspective.

The key performance measures have all increased for the three months and six months ended June 30, 2006 compared to the three months and six months ended June 30, 2005. The increase reflects the higher room rates and higher occupancies that are being generated by the hotels purchased in Alberta.

RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three month and six month periods ended June 30, 2006 to the results of operations for the comparable period in 2005:

	Three months ended June 30		Six months ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Hospitality Revenue				
Room	\$3,666,731	\$667,656	\$6,224,408	\$1,085,886
Food & Beverage	176,456	66,400	381,266	66,400
Other	<u>246,584</u>	<u>77,221</u>	<u>454,840</u>	<u>120,309</u>
Total Revenue	4,089,771	811,277	7,060,514	1,272,595
Expenses	<u>3,528,193</u>	<u>865,735</u>	<u>6,276,759</u>	<u>1,504,330</u>
Net Income (Loss)	<u>561,578</u>	<u>(54,458)</u>	<u>783,755</u>	<u>(231,735)</u>
Basic and Diluted Income (Loss)/Unit	<u>0.068</u>	<u>(0.038)</u>	<u>0.114</u>	<u>(0.177)</u>

OPERATING RESULTS REVIEW –THREE MONTHS ENDED JUNE 30, 2006

Room Revenue - For the second quarter of 2006 room revenue increased by \$2,999,075, from \$667,656 for the second quarter ended June 30, 2005 to \$3,666,731 for the second quarter ended June 30, 2006. The reason for this substantial increase is that the quarter ended June 30, 2006 included the operations of all nine hotels in Lakeview Hotel REIT whereas the room revenue for the second quarter ended June 30, 2005 only included the operation of the Lakeview Inn & Suites – Fredericton hotel and one month of operation of the Lakeview Inn & Suites – Drayton Valley.

Food & Beverage – The increase in Food & Beverage revenue is due to the Lakeview Inn & Suites - Drayton Valley having a restaurant facility and while the restaurant is leased, revenue is generated from food and beverage sales in the hotel lounge and from room service. Food & Beverage revenue was higher in the second quarter ended June 30, 2006 due to the fact that the hotel had only been operated for one month of the second quarter ended June 30, 2005 whereas the second quarter ended June 30, 2006 included three months of operation.

Other Income – The increase in Other Income for the second quarter ended June 30, 2006 is largely due to the additional revenue generated by the Lakeview Inn & Suites - Drayton Valley specifically related to VLT income and restaurant lease income due to the hotel including these three months of operation for the second quarter ended June 30, 2006 and only one month of operation for the second quarter ended June 30, 2005. The increase is also due to an increase in the income from Lakeview Flag Licensing General Partnership which will continue to grow as more Lakeview Inn & Suites are added to the hotels owned by Lakeview Hotel REIT which increases the license fees charged.

Expenses – Expenses for the second quarter of 2006 increased by \$2,662,458 from \$865,735 for the second quarter ended June 30, 2005 to \$3,528,193 for the second quarter ended June 30, 2006. The reason for this substantial increase is that the second quarter ended June 30, 2006 included the operations of all nine hotels in Lakeview Hotel REIT whereas the expenses for the second quarter ended June 30, 2005 only included the operations of the Lakeview Inn & Suites – Fredericton hotel and one month of operation of the Lakeview Inn & Suites – Drayton Valley. Expenses have increased proportionately based on the addition of the new hotels.

Net Income (Loss) - Net income increased from a loss of (\$54,458) for the second quarter ended June 30, 2005, to income of \$561,578 for the second quarter ended June 30, 2006. The increase in net income of \$616,036 can be attributed to properties acquired subsequent to June 30, 2005 as well as the inclusion of a full three months of operations of the Lakeview Inns & Suites – Drayton Valley.

OPERATING RESULTS REVIEW –SIX MONTHS ENDED JUNE 30, 2006

Room Revenue - Room revenue increased by \$5,138,522, from \$1,085,886 for the six months ended June 30, 2005, to \$6,224,408 for the six months ended June 30, 2006. The increase is related to an increase in the number of hotels owned by Lakeview Hotel REIT.

Food & Beverage – The increase in Food & Beverage revenue is related to six months of operations in Lakeview Inn & Suites – Drayton Valley in 2006 vs only one month of operations in the comparable period in 2005.

Other Income – The increase in Other Income for the six months ended June 30, 2006 is largely due to the additional revenue generated by the Lakeview Inn & Suites - Drayton Valley specifically related to VLT income and restaurant lease income. The increase is also due in part to an increase in the income from Lakeview Flag Licensing General Partnership.

Expenses – Expenses for the six months increased by \$4,772,429 from \$1,504,330 for the six months ended June 30, 2005 to \$6,276,759 for the six months ended June 30, 2006. The reason for this substantial increase relates to the increase in the number of hotels owned by Lakeview Hotel REIT in 2006.

Net Income (Loss) - Net income increased from a loss of (\$231,735) for the six months ended June 30, 2005, to income of \$783,755 for the six months ended June 30, 2006. The increase in net income of \$1,015,490 can be attributed to properties acquired subsequent to June 30, 2005 as well as the inclusion of a full three months of operations of the Lakeview Inns & Suites – Drayton Valley.

LIQUIDITY AND CASH FLOW

At June 30, 2006 Lakeview Hotel REIT had cash and term deposits of \$1,908,380 and a balance in the reserve fund of \$301,539. This cash balance and term deposits are sufficient to meet Lakeview Hotel REIT's foreseeable working capital requirements. The funds in the reserve account will be used for maintenance expenditures at the hotels.

Future expansion of the Lakeview Hotel REIT will be financed through the cash and term deposits on hand, the raising of capital by the sale of units, through additional mortgage financing and through credit facilities the REIT anticipates will be available to it.

Lakeview Management Inc. has agreed to subordinate their entitlement to distributions on the 675,000 Units currently held directly or indirectly by Lakeview Management Inc. to distributions to be made to all other Unitholders with respect to the first \$0.30 of distributions made per Unit per year for the three year period May 30, 2005 to May 30, 2008 arising out of the operations of the Lakeview Inn & Suites Fredericton, and the Black Gold Inn - Drayton Valley. In addition, Lakeview Management Inc. will not sell, assign, transfer or pledge the 675,000 Units during the three year period.

The table below reconciles net income to cash flow from operations for the three months and six months ended June 30, 2006 and 2005.

	Three months ended June 30		Six months ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income (loss) for the period	561,578	(54,458)	783,755	(231,735)
Add charges (deduct credits) to operations not requiring a current cash payment				
Amortization of income properties	513,986	84,037	870,632	135,202
Amortization of deferred financing costs	55,713	23,848	97,100	45,297
Amortization of franchise fees	2,303	-	2,518	-
Compensation costs of unit options	45,000	-	45,000	-
Income from Lakeview Flag Licensing General Partnership	(70,363)	(39,696)	(130,910)	(73,204)
Accretion on liability component of convertible debentures	<u>61,562</u>	<u>49,387</u>	<u>126,374</u>	<u>90,825</u>
	1,169,779	63,118	1,794,429	(33,615)
Net change in non-cash working capital balances related to operations	<u>(254,481)</u>	<u>(192,833)</u>	<u>530,763</u>	<u>(47,385)</u>
Cash provided by (used in) operating activities	<u>915,298</u>	<u>(129,715)</u>	<u>2,325,192</u>	<u>(81,000)</u>

CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities was \$915,298 in the three months ended June 30, 2006 which increased from \$129,715 cash used in operating activities in the three months ended June 30, 2005. The major reason for the increase in cash provided by operating activities is the change from a loss in 2005 to a profit in 2006, and the higher non-cash amortization charge for the 2006 period .

CASH USED IN INVESTING ACTIVITIES

During the three month period ended June 30, 2006 cash was used to purchase the Super 8 Motel – Edson, the Ramada Limited – Whitecourt and the Holiday Inn Express – Sherwood Park for a total of \$22,095,252.

CASH PROVIDED BY FINANCING ACTIVITIES

During the three month period ended June 30, 2006 cash provided by financing activities was raised through a number of different sources. The major sources of funding were the proceeds from mortgages of \$13,865,000 (secured by the three hotels purchased as well as cross collateralized by other Lakeview Hotel REIT properties), and the proceeds from the private placement of Class “A” trust units of \$10,683,238 (net of costs of raising capital).

DISTRIBUTIONS

Effective September 1, 2005 the Trustees approved a change in the distribution policy from quarterly distributions of \$0.05 per unit to monthly distributions. Lakeview Hotel REIT paid monthly distributions of \$0.03 per unit to April 30, 2006. Effective for the May 31, 2006 distribution payment the Trustees have approved an increase in the regular monthly cash distribution from \$0.03 to \$0.0333 per unit.

Distributable cash is calculated in accordance with the provisions of the Lakeview Hotel REIT Declaration of Trust as follows:

	Three months ended June 30		Six months ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Income (Loss) for the period	561,578	(54,458)	783,755	(231,735)
Add:				
Amortization expenses	572,002	107,885	970,250	180,499
Compensation costs of Unit Options	45,000	-	45,000	-
Interest expense on debt component of convertible debentures calculated at 18% effective interest rate	188,126	173,137	399,149	327,075
Distributions from Lakeview Flag Licensing General Partnership	66,640	43,610	118,580	67,620
Deduct:				
Interest payable at face value of convertible debentures	(126,564)	(123,750)	(272,815)	(236,250)
Income from Lakeview Flag Licensing General Partnership	<u>(70,363)</u>	<u>(39,696)</u>	<u>(130,910)</u>	<u>(73,204)</u>
	1,236,419	106,728	1,913,009	34,005
Deduct:				
Mortgage principal repayments	(160,482)	(29,485)	(270,501)	(58,341)
Contribution to reserve fund	<u>(91,712)</u>	<u>(22,896)</u>	<u>(173,128)</u>	<u>(45,792)</u>
Distributable cash available ⁽¹⁾	<u>984,225</u>	<u>54,347</u>	<u>1,469,380</u>	<u>(70,128)</u>
Add:				
Trust Expenses	49,181	35,041	91,394	71,072
Mortgage principal repayments	<u>160,482</u>	<u>29,485</u>	<u>270,501</u>	<u>58,341</u>
AFFO ⁽¹⁾	<u>1,193,888</u>	<u>118,873</u>	<u>1,831,275</u>	<u>59,285</u>
AFFO Payout Ratio ⁽¹⁾	<u>68.6%</u>	<u>83.0%</u>	<u>71.4%</u>	<u>N/A</u>

Note (1): *Distributable cash available, adjusted funds from operations (AFFO) and AFFO Payout Ratio are not standardized measures under GAAP and, therefore, may not be comparable to similarly titled measures used by other trusts.*

For the three month period ended June 30, 2005 distributions of \$73,750 have been paid to the Class "A" unitholders and distributions of \$25,000 have been paid to the Class "E" unitholders (exchangeable units). For the three month period ended June 30, 2006, distributions of \$769,258 have been paid to the Class "A" unitholders and distributions of \$50,000 have been paid to the Class "E" unitholders (exchangeable units).

For the six month period ended June 30, 2005 distributions of \$107,500 have been paid to the Class "A" unitholders and distributions of \$50,000 have been paid to the Class "E" unitholders (exchangeable units). For the six month period ended June 30, 2006, distributions of \$1,212,508 have been paid to the Class "A" unitholders and distributions of \$95,000 have been paid to the Class "E" unitholders (exchangeable units).

SELECTED FINANCIAL INFORMATION

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Total Revenue	\$4,019,408	\$771,581	\$6,929,604	\$1,199,391
Net Income (Loss)	561,578	(54,458)	783,755	(231,735)
Net Income (Loss) on a basic and diluted income (loss) per unit	0.068	(0.038)	0.114	(0.177)
Total Assets	70,291,911	16,627,554	70,291,911	16,627,554
Total Long-term Liabilities	43,003,225	12,818,726	43,003,225	12,818,726
Distribution declared per unit	\$0.10	\$0.05	\$0.19	\$0.10

Increases in balances have occurred from the previous year due to the acquisition of seven hotels subsequent to June 30, 2005.

SUMMARY OF QUARTERLY RESULTS

	<u>Q2-06</u>	<u>Q1-06</u>	<u>Q4-05</u>	<u>Q3-05</u>	<u>Q2-05</u>	<u>Q1-05</u>	<u>Q4-04</u>	<u>Q3-04</u>
Hospitality Revenue								
Rooms	\$3,666,731	\$2,557,677	\$1,496,921	\$1,319,007	\$667,656	\$418,230	\$420,596	\$671,945
Food & Beverage	176,456	204,810	246,239	209,643	66,400	-	-	-
Other	<u>246,584</u>	<u>208,256</u>	<u>210,911</u>	<u>163,523</u>	<u>77,221</u>	<u>43,088</u>	<u>48,369</u>	<u>68,287</u>
Total Revenue	4,089,771	2,970,743	1,954,071	1,692,173	811,277	461,318	468,965	740,232
Expenses	<u>3,528,193</u>	<u>2,748,566</u>	<u>1,713,236</u>	<u>1,482,403</u>	<u>865,735</u>	<u>638,595</u>	<u>653,659</u>	<u>713,596</u>
Net Income (Loss)	<u>561,578</u>	<u>222,177</u>	<u>240,835</u>	<u>209,770</u>	<u>(54,458)</u>	<u>(177,277)</u>	<u>(184,694)</u>	<u>26,636</u>
Basic and Diluted Income (Loss) per Unit	<u>0.068</u>	<u>0.041</u>	<u>0.044</u>	<u>0.067</u>	<u>(0.038)</u>	<u>(0.151)</u>	<u>(0.157)</u>	<u>0.023</u>
Occupancy Percentage ⁽¹⁾	72.19%	70.53%	79.46%	85.03%	68.5%	59.02%	57.3%	82.8%
Average Room Rate ⁽¹⁾	\$101.16	\$100.86	\$100.40	\$88.73	\$83.04	\$80.13	\$80.52	\$89.03

Note (1):

Performance Indicators and Measures: - Occupancy Percentage, Average Room Rate and RevPar are three important indicators used by the hotel industry in general to measure the performance of a hotel and compare performance to other hotel operations.

Occupancy Percentage measures the level of hotel room utilization and is calculated by dividing the number of rooms rented for a given period by the number of rooms available for the period.

Average Room Rate measures the average room price for all guest rooms by dividing total room revenues by the number of rooms rented.

RevPar (Revenue per available room) is calculated by multiplying the Occupancy Percentage by the Average Room Rate and is a measure of efficiency based on all available rooms regardless of whether they are occupied or not.

These measures are not recognized under GAAP and the method we use in calculating these numbers may not be comparable to other companies. They should not be used as an alternative to net earnings (loss)

determined in accordance with GAAP as an indicator of performance. These numbers can be used to supplement other information presented in understanding the performance of our hotels in a historical perspective.

A review of the quarterly results show that the second quarter of 2006 was the fourth consecutive quarter that net income was generated. The addition of hotels has resulted in a more consistent cash flow for Lakeview Hotel REIT and has helped to reduce the seasonal nature of the results of operations.

OUTLOOK

Lakeview Hotel REIT will continue its growth through the acquisition of hotels and will attempt to increase cash flow through the implementation of proper management practices at the hotels it acquires. The primary focus of Lakeview Hotel REIT has been hotel acquisitions in the province of Alberta. Including hotels purchased in 2006, seven of the first nine Lakeview Hotel REIT owned hotels are located in Alberta.

RELATED PARTY TRANSACTIONS

Lakeview Hotel REIT recorded the following transactions with related parties during the three months ended June 30, 2006:

1. At June 30, 2006, Lakeview Hotel REIT had accrued the June accounting fees, reservation fee and marketing fee in the amount of \$48,585 which was payable to Lakeview Management Inc. - a Unitholder of Lakeview Hotel REIT.

Marketing expenses in the amount of \$20,641 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended June 30, 2006. The marketing expense is calculated at 1% of room revenue of the hotel and is paid on a monthly basis.

Accounting fees in the amount of \$57,195 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended June 30, 2006. The fee is prorated based on an annual fee of \$30,000 per hotel owned by Lakeview Hotel REIT during the year.

Reservation fees in the amount of \$30,960 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended June 30, 2006. The reservation fee is charged at 1.5% of room revenue, which provides for access by Lakeview Hotel REIT to the reservation system maintained by Lakeview Management Inc.

2. At June 30, 2006 Lakeview Hotel REIT owed Lakeview Flag Licensing General Partnership license fees for the month of June in the amount of \$39,652, which were subsequently paid. Lakeview Hotel REIT has a 49% interest in Lakeview Flag Licensing General Partnership.

License fees for the three months ended June 30, 2006 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$82,562. The license fees are charged based on 4% of gross room revenue for the period.

3. At June 30, 2006 Lakeview Hotel REIT owed Lakeview Flag Management General Partnership management fees for the month of June in the amount of \$71,100 which were subsequently paid. Lakeview Hotel REIT has a 50% interest in the Lakeview Flag Management General Partnership.

Management fees for the three months ended June 30, 2006 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of \$149,323. The management fees are charged based on 5% of gross revenue.

4. A movie rental fee in the amount of \$16,531 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the three months ended June 30, 2006. The fee is charged based on a rental fee of \$924 per month per hotel. Free to Guest Movies Ltd. is a company related to Lakeview Management Inc. through common control.

5. Services Agreement:

Lakeview Hotel REIT has entered into a services agreement (the 'Services Agreement') with Lakeview Management Inc. Pursuant to that agreement, Lakeview Management Inc. provides the services of certain of its senior officers to Lakeview Hotel REIT. Specifically, Lakeview Management Inc. provides the services of its President, Mr. Keith Levit, its Executive Vice-President, Mr. Laurie Etkin, and its Chief Financial Officer, Mr. Rudy Beyer. Mr. Levit serves as Lakeview Hotel REIT's President, Mr. Etkin serves as Lakeview Hotel REIT's Executive Vice-President and Mr. Beyer serves as Lakeview Hotel REIT's Chief Financial Officer, and each has agreed to devote the amount of time necessary to the proper management of Lakeview Hotel REIT.

Pursuant to the Services Agreement, Lakeview Hotel REIT agreed to remunerate Lakeview Management Inc. initially on the basis of the issuance of options to acquire 50,000 Units at \$1.00 per Unit exercisable upon issuance and expiring three years after Closing of the Qualifying Transaction. The options were all exercised at Closing. As the scope of the services required by Lakeview Hotel REIT expands over time, the remuneration provision of the Services Agreement will be modified to reflect remuneration commensurate with customary, comparable market fees. In August, 2006, the Governance and Compensation Committee of the Board of Trustees of the Trust determined that the remuneration of Lakeview Management Inc., pursuant to the Services Agreement, should be modified to reflect customary comparable market asset management fees.

Effective October 1, 2006, Lakeview Management Inc. will charge an asset management fee based on 0.3% of the Net Book Value of Income Properties. The fee will be paid monthly on the last day of every month and will be based on the Net Book Value of Income Properties at the end of the previous month.

The Services Agreement provides that Lakeview Management Inc.'s remuneration may only be varied at the discretion of the Governance and Compensation Committee of the Trustees. Lakeview Management Inc. 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. The initial term of the Services Agreement is five years, expiring on April 15, 2009.

6. Hotel Management Agreements

Pursuant to the Hotel Management Agreements, Lakeview Management Inc. and Lakeview Hotel REIT will jointly manage the Lakeview Hotel REIT hotels through the Lakeview Flag Management General Partnership. Lakeview Management G.P. II Inc. (a wholly owned subsidiary of Lakeview Management Inc.) will receive an allocation of Lakeview Flag Management General Partnership's income equivalent to a management fee of 3.75% of gross annual revenues (less the share of applicable Lakeview Flag Management General partnership expenses) for each limited service hotel and Lakeview Management Inc. will initially be paid \$30,000.00 per hotel for accounting services subject to increases related to changes in the consumer price index in the province each hotel is located in.

The management fees to be charged by the Lakeview Flag Management General Partnership and the accounting fees charged by Lakeview Management Inc. will include all services such as Managerial Services, Pre-opening and Initial Training and Accounting Services. The joint management structure is designed to ultimately provide Lakeview Hotel REIT with an ongoing source of management fee revenue and to lessen Lakeview Hotel REIT's requirements for employees and office space. The initial term of these agreements is 50 years.

7. License Agreements

Pursuant to the License Agreements, Lakeview Management Inc. and Lakeview Hotel REIT will jointly license certain hotel properties through Lakeview Flag Licensing General Partnership. An individual license agreement has been entered into with each of the hotels listed below. Income will be earned through the payment of a license fee equal to 4% of gross room revenue (the "Continuing License Fee") received from the following hotels which are owned by Lakeview Management Inc. and are located as follows: (i) Lakeview Inn & Suites - Miramichi, New Brunswick, (ii) Lakeview Inn & Suites - Brandon, Manitoba, (iii) Lakeview Inn & Suites - Bathurst, New Brunswick, (iv) Lakeview Inn & Suites - Halifax, Nova Scotia, (v) Lakeview Inn & Suites - Grand Forks, North Dakota. A 4% license fee was charged on the gross room revenue of Lakeview Inn & Suites-Fredericton hotel, and effective December 1, 2005, for the Lakeview Inn & Suites - Drayton Valley, and November 4, 2005, for the Lakeview Inn & Suites, Hinton. Effective April 7, 2006 the Lakeview Inn & Suites - Edson and effective May 31, 2006 Lakeview Inn & Suites - Whitecourt were charged a 4% license fee, and effective July 1, 2006 the Best Western Okotoks Lodge and the Best Western Fort Inn & Suites will be converted to Lakeview Inn & Suites hotels and will be charged a 4% license fee from that date.

In addition to the 4% Continuing License Fee, the License Agreements provide for the payment by Lakeview Hotel REIT to Lakeview Management Inc. of a reservation fee equal to 1.5% of gross room revenue which provides for access of the hotels to the online reservation system.

The License Agreements also provide that Lakeview Hotel REIT will pay a Marketing Fee equal to 1% of gross room revenue which will be used by Lakeview Management Inc. for all expenses relating to the advertising, marketing and promotion of Lakeview Inns & Suites and Lakeview Resorts and the Reservation System including but not limited to production costs, costs to purchase media time and space, publications costs, costs for national or regional directories of Lakeview Inn & Suites and Lakeview Resorts, salaries, long distance telephone charges, travel costs, office supplies and other administrative costs. The term of each License Agreement is 50 years.

All transactions are in the normal course of operations and are recorded at exchange value.

SUBSEQUENT EVENT

In August, 2006, the Governance and Compensation Committee of the Board of Trustees of the Trust determined that the remuneration of Lakeview Management Inc., pursuant to the Services Agreement, should be modified to reflect customary comparable market asset management fees.

Effective October 1, 2006, Lakeview Management Inc. will charge an asset management fee based on 0.3% of the Net Book Value of Income Properties. The fee will be paid monthly on the last day of every month and will be based on the Net Book Value of Income Properties at the end of the previous month.

PROPOSED TRANSACTIONS

Lakeview Hotel REIT has a signed purchase and sale agreement to acquire its first hotel property in British Columbia. This property, located in proximity to the Alberta border, will be an excellent fit with the network of hotels Lakeview Hotel REIT has established in the Province of Alberta.

Subsequent to June 30, 2006 Lakeview Hotel REIT signed a letter of intent to acquire a second property in British Columbia. This property is also located in proximity to the Alberta border.

The purchase price for these hotels is expected to be financed through a first mortgage loan based on 65% of the purchase price of the above hotels, bearing interest at fixed rates equal to the 5 year Government of Canada, plus 2.1% and amortized over 20 years. The balance of the purchase price will be satisfied from working capital and from other facilities available to Lakeview Hotel REIT.

DISCLOSURE CONTROLS & PROCEDURES

The Chief Executive Officer and the Chief Financial Officer, together with other management, as at June 30, 2006, have concluded, based upon their evaluation of Disclosure Controls and Procedures, that Lakeview Hotel REIT's Disclosure Controls and Procedures were adequate and effective to provide reasonable assurance that material information relating to Lakeview Hotel REIT (and its subsidiary entities) would have been made known to them.

CHANGES IN ACCOUNTING POLICIES

The financial statements for the three months ended June 30, 2006 have been prepared in accordance with the accounting policies discussed in the consolidated financial statements for the year ended December 31, 2005.

CAPITAL RESOURCES AND CAPITAL EXPENDITURES

The first mortgage lender on the following hotels: Best Western Okotoks Lodge, Best Western Fort Inn & Suites, Lakeview Inn & Suites - Fredericton, and the Super 8 Motel in Vaughan provided a pre-approved line of credit (PAL) up to the difference between 75% of appraised value of the properties taken under security and the amount of the first mortgages on the properties plus any secondary debt placed on the properties and this amount will be available in the form of a revolving acquisition line. The interest rate on the pre-approved line is equal to the annual rate of interest applicable to a one month Canadian Dollar Banker's Acceptance plus 5%. The loan term is five years on a demand basis and the payments are interest only and paid monthly. As at June 30, 2006 \$2,000,000 was available to the REIT through the pre-approved line.

At June 30, 2006 Lakeview Hotel REIT had a reserve fund of \$301,539 made up as follows:

Reserve Fund December 31, 2005	\$175,612
Contributions	173,828
Distributions	(47,204)
	\$301,539

It is expected that the reserve fund plus the monthly contribution of 4% of monthly room revenue for the Fredericton hotel, and the monthly contribution of 3% of monthly room revenue for all other hotels will be sufficient to fund maintenance expenditures required for the year for these hotels. As new hotels are acquired the need for maintenance expenditures is assessed and quantified. It is expected that renovation expenditures of about \$150,000 will be spent in the Best Western Fort Inn & Suites hotel. The cash required for these expenditures will be financed through working capital and the reserve fund for that hotel. Pool area renovations to the Super 8 – Toronto North hotel are close to completion. The vendor of the hotel has contributed a certain portion of the anticipated expenses.

Under two offerings the Lakeview Hotel REIT issued \$4,500,000 of 10% subordinate convertible debentures on April 15, 2004 and issued an additional \$1,500,000 of 9% subordinate convertible debentures on May 30, 2005. As at June 30, 2006, \$1,245,000 of the first series of debentures were converted, resulting in the issuance of 498,000 Class "A" units of Lakeview Hotel REIT.

Subsequent to June 30, 2006, \$161,000 of the convertible debentures issued April 15, 2004 were converted at a price of \$2.50 per unit into 64,400 Class A units.

Also subsequent to June 30, 2006, \$80,000 of the convertible debentures issued May 30, 2005 were converted at a price of \$2.90 per unit into 27,586 Class A units.

OFF -BALANCE SHEET ARRANGEMENTS

As at June 30, 2006 Lakeview Hotel REIT had no undisclosed Off-Balance Sheet Arrangements.

FINANCIAL INSTRUMENTS

The Lakeview Hotel REIT is not exposed to significant currency or credit risks. The REIT is exposed to interest risk as it relates to two of the mortgages with prime-based floating interest rates, the pre-approved line of credit loan, and the renewal and refinancing of all of its mortgages as they become due.

RISKS AND UNCERTAINTIES

The main area of expansion of the Lakeview Hotel REIT is currently the Alberta market. The REIT has been able to take advantage of the strong Alberta economy with the major reason for this strength relating to the increased activity in the oil and gas industry. This has resulted in a very strong hotel market in the area due to a shortage of supply relating to the demand for hotel rooms, especially in the northern communities where oil and gas reserves are being discovered.

If there is a slowdown in the Alberta economy this will have an effect on the demand for hotel rooms.

FORWARD-LOOKING STATEMENTS

This Management Discussion and Analysis may contain forward-looking statements including those in the Outlook section which reflect our expectations regarding the future growth, results of operations, performance and business prospects, and opportunities of the Lakeview Hotel REIT. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including the effects, as well as changes in national and local business conditions, levels of travel in hotel market areas, political conditions and events, competitive pressures and changes in government policy or regulations. Although the forward-looking statements contained in this MD&A are based on what we believe to be reasonable assumptions, we cannot assure readers that actual results will be consistent with these forward-looking statements.

ADDITIONAL INFORMATION

Additional information relating to Lakeview Hotel REIT, including all public filings, is available at www.sedar.com.