

Consolidated Financial Statements

Lakeview Hotel Real Estate Investment Trust

June 30, 2006

(Unaudited)

**LAKEVIEW HOTEL REAL ESTATE
INVESTMENT TRUST**

Supplement to Consolidated Financial Statements
for the Three Months and Six Months ended June 30, 2006 and 2005

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL
STATEMENTS**

Under National Instrument 51-109 Part 4 Subsection 4.3(3)(a), if an auditor has not performed a review of interim financial statements, the statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The unaudited interim financial statements of the Lakeview Hotel Real Estate Investment Trust for the three months and six months ended June 30, 2006 and 2005 were prepared by, and are the responsibility of, the Trust's management.

The Lakeview Hotel Real Estate Investment Trust's independent auditor did not perform a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED BALANCE SHEETS

Unaudited

| | June 30 2006 \$ | December 31 2005 \$ |
|---|-----------------------|---------------------------|
| | | (audited) |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 1,908,380 | 5,804,428 |
| Reserve fund [note 9] | 301,539 | 175,615 |
| Deposits held in trust | 25,000 | 575,000 |
| Accounts receivable | 1,241,583 | 560,879 |
| Inventory | 26,125 | 22,998 |
| Prepaid expenses | 450,212 | 321,205 |
| Total current assets | 3,952,839 | 7,460,125 |
| Deferred financing costs [note 3] | 965,195 | 471,603 |
| Franchise fees [note 4] | 68,463 | - |
| Income properties [notes 2 and 5] | 65,276,717 | 21,930,314 |
| Investment in Lakeview Flag Licensing General Partnership [note 6] | 28,697 | 16,367 |
| | 70,291,911 | 29,878,409 |
| LIABILITIES AND UNITHOLDERS 'EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities [note 13] | 1,371,169 | 558,621 |
| Distributions payable | 315,379 | 162,750 |
| Loan payable [note 8] | 780,000 | - |
| Current portion of mortgages payable [note 9] | 1,179,565 | 476,977 |
| Total current liabilities | 3,646,113 | 1,198,348 |
| Convertible debentures [note 7] | 3,835,327 | 4,735,597 |
| Mortgages payable [notes 2 and 9] | 39,167,898 | 11,532,980 |
| Total liabilities | 46,649,338 | 17,466,925 |
| Unitholders 'equity | 23,642,573 | 12,411,484 |
| | 70,291,911 | 29,878,409 |

See accompanying notes

On behalf of the Board of Trustees:

Trustee

Trustee

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

| Unaudited | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|-----------|
| | June 30 | | June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| REVENUE | | | | |
| Rooms | 3,666,731 | 667,656 | 6,224,408 | 1,085,886 |
| Food and beverage | 176,456 | 66,400 | 381,266 | 66,400 |
| Interest and miscellaneous | 176,221 | 37,525 | 323,930 | 47,105 |
| | 4,019,408 | 771,581 | 6,929,604 | 1,199,391 |
| EXPENSES | | | | |
| Amortization | | | | |
| Deferred financing costs | 55,713 | 23,848 | 97,100 | 45,297 |
| Franchise fees | 2,303 | - | 2,518 | - |
| Income properties | 513,986 | 84,037 | 870,632 | 135,202 |
| Food and beverage | 115,955 | 39,768 | 244,185 | 42,541 |
| General and administration <i>[note 13]</i> | 669,697 | 149,229 | 1,406,988 | 263,295 |
| Insurance | 40,287 | 10,939 | 68,538 | 20,212 |
| Interest – mortgage and debentures | 777,301 | 254,484 | 1,347,317 | 472,529 |
| Maintenance | 63,071 | 14,446 | 103,992 | 25,672 |
| Marketing <i>[note 13]</i> | 147,369 | 34,858 | 236,849 | 60,082 |
| Property taxes | 152,143 | 48,342 | 263,265 | 91,646 |
| Salaries and benefits | 770,615 | 155,999 | 1,239,772 | 260,621 |
| Supplies | 91,695 | 22,918 | 146,480 | 35,877 |
| Utilities | 128,058 | 26,867 | 249,123 | 51,356 |
| | 3,528,193 | 865,735 | 6,276,759 | 1,504,330 |
| Income (loss) before the following | 491,215 | (94,154) | 652,845 | (304,939) |
| Income from Lakeview Flag Licensing General Partnership <i>[note 6]</i> | 70,363 | 39,696 | 130,910 | 73,204 |
| Net income (loss) for the period | 561,578 | (54,458) | 783,755 | (231,735) |
| Basic and diluted income (loss) per Unit <i>[note 12]</i> | 0.068 | (0.038) | 0.114 | (0.177) |

See accompanying notes

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Unaudited

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | June 30 | | June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Unitholders' capital | | | | |
| Balance, beginning of period | 12,090,227 | 664,618 | 12,090,227 | 664,618 |
| Issuance of Units by private placement | 11,500,002 | 2,000,000 | 11,500,002 | 2,000,000 |
| Issuance of Units on exercise of Unit options | - | - | - | - |
| Issuance costs | (816,764) | (183,148) | (816,764) | (183,148) |
| Conversion of debentures | 1,346,203 | - | 1,346,203 | - |
| Balance, end of period | 24,119,668 | 2,481,470 | 24,119,668 | 2,481,470 |
| Equity portion of convertible debentures | | | | |
| Balance, beginning of period | 1,588,896 | 1,155,178 | 1,588,896 | 1,155,178 |
| Issuance of convertible debentures | - | 433,718 | - | 433,718 |
| Conversion of debentures | (319,599) | - | (319,599) | - |
| Balance, end of period | 1,269,297 | 1,588,896 | 1,269,297 | 1,588,896 |
| Contributed capital | | | | |
| Balance, beginning of period | 18,000 | 8,750 | 18,000 | 8,750 |
| Issuance of Unit options | 45,000 | - | 45,000 | - |
| Issuance of Units on exercise of Unit options | - | - | - | - |
| Balance, end of period | 63,000 | 8,750 | 63,000 | 8,750 |
| Accumulated earnings (deficit) | | | | |
| Balance, beginning of period | (7,087) | (625,411) | (229,264) | (448,134) |
| Net income (loss) for the period | 561,578 | (54,458) | 783,755 | (231,735) |
| Balance, end of period | 554,491 | (679,869) | 554,491 | (679,869) |
| Accumulated distributions | | | | |
| Balance, beginning of period | (1,544,625) | (235,000) | (1,056,375) | (176,250) |
| Distributions declared | (819,258) | (98,750) | (1,307,508) | (157,500) |
| Balance, end of period | (2,363,883) | (333,750) | (2,363,883) | (333,750) |
| Unitholders' equity, end of period | 23,642,573 | 3,065,497 | 23,642,573 | 3,065,497 |

See accompanying notes

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Unaudited | Three Months Ended | | Six Months Ended | |
|--|---------------------|--------------------|---------------------|--------------------|
| | June 30 | | June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | | |
| 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 | 61,562 | 49,387 | 126,334 | 90,825 |
| | 1,169,779 | 63,118 | 1,794,429 | (33,615) |
| Net change in non-cash working capital balances related to operations | (254,481) | (192,833) | 530,763 | (47,385) |
| Cash provided by (used in) operating activities | 915,298 | (129,715) | 2,325,192 | (81,000) |
| INVESTING ACTIVITIES | | | | |
| Acquisition of properties, cash consideration [note 2] | (22,095,252) | (7,628,948) | (43,983,682) | (7,628,948) |
| Additions to income properties | (158,113) | (2,500) | (187,701) | (15,542) |
| Increase in franchise fees | (60,642) | - | (70,981) | - |
| Distributions from Lakeview Flag Licensing General Partnership | 66,640 | 43,610 | 118,580 | 67,620 |
| Cash used in investing activities | (22,247,367) | (7,587,838) | (44,123,784) | (7,576,870) |
| FINANCING ACTIVITIES | | | | |
| Increase in deferred financing costs | (248,170) | (143,912) | (590,692) | (143,912) |
| Unitholders' distributions | | | | |
| Class A | (769,258) | (73,750) | (1,212,508) | (107,500) |
| Exchangeable Units | (50,000) | (25,000) | (95,000) | (50,000) |
| Proceeds from loan | - | - | 2,780,000 | - |
| Repayment of loan | (2,000,000) | - | (2,000,000) | - |
| Proceeds from mortgages | 13,865,000 | 4,550,000 | 31,935,000 | 4,550,000 |
| Repayment of mortgages | (660,482) | (29,485) | (3,597,494) | (58,341) |
| Proceeds of convertible debentures | - | 1,500,000 | - | 1,500,000 |
| Units issued by private placement | 11,500,002 | 2,000,000 | 11,500,002 | 2,000,000 |
| Cost of raising capital | (816,764) | (183,148) | (816,764) | (183,148) |
| Cash provided by financing activities | 20,820,328 | 7,594,705 | 37,902,544 | 7,507,099 |
| Net decrease in cash and cash equivalents during the period | (511,741) | (122,848) | (3,896,048) | (150,771) |
| Cash and cash equivalents, beginning of period | 2,420,121 | 484,544 | 5,804,428 | 512,467 |
| Cash and cash equivalents, end of period | 1,908,380 | 361,696 | 1,908,380 | 361,696 |
| Supplemental cash flow information | | | | |
| Cash paid for interest | 791,308 | 305,536 | 1,080,830 | 369,722 |

See accompanying notes

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and principles of consolidation

Lakeview Hotel Real Estate Investment Trust [“Lakeview Hotel REIT”] is a closed-end real estate investment trust that was created pursuant to the Declaration of Trust dated February 11, 2004. Lakeview Hotel REIT was established under the laws of the Province of Manitoba and the laws of Canada applicable therein. Lakeview Hotel REIT issued Trust Units pursuant to a Qualifying Transaction, including a Plan of Arrangement which was completed on April 15, 2004. The Qualifying Transaction consisted of a private offering of Lakeview Hotel REIT Units, a public offering of Lakeview Hotel REIT subordinate convertible debentures, the acquisition of the Lakeview Inn & Suites, Fredericton, New Brunswick [the “Initial Property”] and the acquisition of a 49% interest in the Lakeview Flag Licensing General Partnership and a 50% interest in the Lakeview Flag Management General Partnership as described below. The principal purpose of Lakeview Hotel REIT is to provide Unitholders with an opportunity to participate in a diversified portfolio of hotel and extended-stay properties, and commercial and office properties ancillary thereto, located throughout Canada and the United States.

The consolidated financial statements include the accounts of Lakeview Hotel REIT’s subsidiaries as follows: Lakeview Hotel REIT Operating Trust, Lakeview Flag Operating LP General Partner Inc., Lakeview Flag Operating Limited Partnership, 2330407 Manitoba Ltd., 1164656 Alberta Ltd., 1184720 Alberta Ltd., 1208406 Alberta Ltd., 1208417 Alberta Ltd., Vaughan Steeles Super 8 Ltd., 1227671 Alberta Ltd., 1236406 Alberta Ltd. and 1236412 Alberta Ltd.

The 50% interest in the Lakeview Flag Management General Partnership is proportionately consolidated as the partners jointly control this partnership. The 49% interest in the Lakeview Flag Licensing General Partnership is accounted for using the equity method. Transactions within the consolidated group are eliminated upon consolidation.

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared on a basis consistent with the December 31, 2005 audited financial statements and should be read in conjunction with the audited financial statements and notes thereto.

Significant accounting policies

[a] Cash and cash equivalents

Cash and cash equivalents consist of cash and guaranteed investment certificates with maturities of less than 90 days and are readily convertible to cash.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

[b] Inventory

Inventory is recorded at the lower of cost on a first in, first out basis and net realizable value.

[c] Deferred financing costs

Deferred financing costs consist of costs incurred related to mortgage financing and to the offering of the debt component of convertible debentures. Deferred financing costs are stated at cost less accumulated amortization. Amortization is recorded using the straight-line method over the term to maturity of the related mortgages and convertible debentures.

[d] Franchise fees

Franchise fees include the application and initial fees associated with the transfer of membership of hotel franchises to Lakeview Hotel REIT. Franchise fees are stated at cost less accumulated amortization. Amortization is recorded using the straight-line method over the shorter of the term of the franchise agreement or the period over which management estimates the franchise will be retained.

[e] Income properties

Income properties include land, buildings, parking lot, signs and furniture, fixtures and equipment.

Income properties are stated at the lower of cost less accumulated amortization or estimated net recoverable amount. Impairment of income properties is recognized when an event or change in circumstances causes the asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Amortization is recorded as follows:

| | | |
|-----------------------------------|-------------|---------------|
| Buildings | 40 years | straight-line |
| Parking lot | 10 years | straight-line |
| Signs | 10 years | straight-line |
| Furniture, fixtures and equipment | 3 - 5 years | straight-line |

[f] Revenue recognition

Room revenue is recognized when the services are performed and collection is reasonably assured, which is generally on the night the rooms are rented.

Food and beverage revenue is recognized when the services are performed.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

[g] Related parties

During 2006 and 2005, Lakeview Hotel REIT had transactions with the following related parties:

| Related parties | Nature of relationship |
|--|-----------------------------------|
| Lakeview Management Inc. [“LMI”] | Unitholder and administrator |
| Free to Guest Movies Ltd. | A company related to a Unitholder |
| Lakeview Flag Licensing General Partnership | Equity investee |
| Lakeview Flag Management General Partnership | Joint venture investee |

[h] Income taxes

Lakeview Hotel REIT is an unincorporated closed-end real estate investment trust, governed by the laws of the Province of Manitoba. The Lakeview Hotel REIT is taxed as a “mutual fund trust” for income tax purposes. Pursuant to the Declaration of Trust, the Trustees of Lakeview Hotel REIT will make distributions or designate all taxable income earned, including the taxable part of net realized capital gains, by the Lakeview Hotel REIT to Unitholders. The Unitholders will include or deduct, as appropriate, such distributions and designations for income tax purposes. Accordingly, it is expected that the Lakeview Hotel REIT will not be subject to income taxes.

[i] Net earnings per unit

Net earnings per unit is based on the consolidated net income (loss) for the period divided by the weighted average number of units outstanding during the period. Diluted earnings per unit is computed in accordance with the treasury stock method and based on the weighted average number of units and dilutive unit equivalents.

[j] Stock-based compensation plan

Lakeview Hotel REIT has a unit purchase plan as described in note 11. The fair value method is used to determine the expense for stock-based awards granted to employees and non-employees. Under the fair value method, compensation cost is measured at fair value at the date of grant using the Black-Scholes option pricing model. The compensation expense is expensed over the vesting period with a corresponding credit to contributed surplus. Consideration paid on the exercise of unit options plus the amount of previously recognized expense is credited to unitholders’ capital when the options are exercised.

[k] Financial instruments

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

Financial instruments include cash and cash equivalents, reserve fund, deposits held in trust, accounts receivable, accounts payable and accrued liabilities, distributions payable, loan payable, convertible debentures and mortgages payable. It is management's opinion that Lakeview Hotel REIT is not exposed to significant currency or credit risks arising from these financial instruments. Lakeview Hotel REIT is exposed to interest risk as it relates to the loan and the mortgages with prime-based floating interest rates and the renewal or refinancing of its long-term debts as they become due. Unless otherwise stated, the book value of Lakeview Hotel REIT's financial assets and liabilities approximates their fair value.

[I] Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. ACQUISITION OF HOTELS

On June 1, 2005, Lakeview Hotel REIT acquired the Best Western Black Gold Inn located in Drayton Valley, Alberta. The hotel was subsequently converted to a Lakeview Inn & Suites on December 1, 2005. In addition, on November 4, 2005, the Lakeview Hotel REIT acquired the Ramada Limited and Suites located in Hinton, Alberta. This hotel was immediately converted to a Lakeview Inn & Suites. The acquisitions have been accounted for by the purchase method with the results of operations from the acquired hotels included in the Lakeview Hotel REIT's earnings from the date of their respective acquisitions. The assets and liabilities acquired at fair value were as follows:

| | 2005 | | |
|--|--|---|--------------|
| | Black Gold Inn - Drayton Valley | Lakeview Inn & Suites - Hinton | Total |
| | \$ | \$ | \$ |
| | | (audited) | |
| Land | 578,234 | 417,825 | 996,059 |
| Building | 6,914,756 | 5,588,402 | 12,503,158 |
| Furniture, fixtures and equipment | 1,100,000 | 1,000,000 | 2,100,000 |
| Prepaid expenses | 7,845 | 7,839 | 15,684 |
| Inventory | 13,672 | 5,000 | 18,672 |
| Accounts payable and accrued liabilities | (33,015) | - | (33,015) |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

| | | | |
|---|--------------------|------------------|--------------------|
| Mortgage payable –second [vendor take-back] [note 9] | (1,000,000) | - | (1,000,000) |
| | 7,581,492 | 7,019,066 | 14,600,558 |

Cash consideration for the purchase of the Black Gold Inn –Drayton Valley and Lakeview Inn & Suites – Hinton was financed by first mortgages on the respective properties [note 9] and proceeds from private placement of convertible debentures and Units [notes 7 and 10].

On January 6, 2006 and January 13, 2006 respectively, the Lakeview Hotel REIT acquired the Best Western Okotoks Lodge located in Okotoks, Alberta and the Best Western Fort Inn & Suites located in Fort Saskatchewan, Alberta. Both hotels have been converted to Lakeview Inn & Suites hotels on July 1, 2006. In addition, on March 17, 2006, the Lakeview Hotel REIT acquired the Super 8 located in Vaughan, Ontario. Management estimates that the Super 8 will be converted to a Lakeview Inn & Suites within two years from acquisition. These acquisitions have been accounted for by the purchase method with the results of operations from the acquired hotels included in the Lakeview Hotel REIT's earnings from the date of their respective acquisitions. The assets and liabilities acquired at fair value were as follows:

**Three Months Ended
March 31
2006**

| | Best Western - Okotoks | Best Western - Fort Saskatchewan | Super 8 - Toronto North | Total |
|--------------------------------------|-----------------------------------|---|--|-------------------|
| | \$ | \$ | \$ | \$ |
| Land | 1,250,224 | 1,007,291 | 1,424,393 | 3,681,908 |
| Building | 4,315,291 | 6,084,037 | 6,061,927 | 16,461,255 |
| Parking lot | - | - | 202,064 | 202,064 |
| Furniture, fixtures and equipment | 680,000 | 310,000 | 553,288 | 1,543,288 |
| Accounts receivable | 320 | 8,810 | - | 9,130 |
| Prepaid expenses | 5,446 | - | 3,285 | 8,731 |
| Inventory | - | - | 500 | 500 |
| Accounts payable | (643) | (13,496) | (2,036) | (16,175) |
| | 6,250,638 | 7,396,642 | 8,243,421 | 21,890,701 |

The cash consideration for these purchases was financed by a combination of first mortgages [note 9], a Pre-Approved Line of Credit [note 8] and working capital.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

On April 7, 2006 and May 31, 2006 respectively, the Lakeview Hotel Reit acquired the Super 8 Motel located in Edson, Alberta and the Ramada Limited located in Whitecourt, Alberta. Both hotels were immediately converted to Lakeview Inn & Suites hotels. In addition, on June 1, 2006, the Lakeview Hotel Reit acquired the Holiday Inn Express located in Sherwood Park, Alberta. Management estimates that the Holiday Inn Express will be converted to a Lakeview Inn & Suites within five years from acquisition. These acquisitions have been accounted for by the purchase method with the results of operations from the acquired hotels included in the Lakeview Hotel Reit's earnings from the date of their respective acquisitions. The assets and liabilities acquired at fair value were as follows:

| | Three Months Ended | | | |
|--------------------------------------|-------------------------------------|--|---|-------------------|
| | June 30 | | | |
| | 2006 | | | |
| | Lakeview Inn & Suites - Edson | Lakeview Inn & Suites - Whitecourt | Holiday Inn Express - Sherwood Park | Total |
| | \$ | \$ | \$ | \$ |
| Land | 411,957 | 527,507 | 954,111 | 1,893,575 |
| Building | 3,866,063 | 4,694,815 | 10,186,366 | 18,747,244 |
| Furniture, fixtures and equipment | 350,000 | 450,000 | 700,000 | 1,500,000 |
| Prepaid expenses | 2,031 | - | 1,215 | 3,246 |
| Inventory | - | 2,694 | - | 2,694 |
| Accounts payable | (8,684) | (17,300) | (27,794) | (53,778) |
| | 4,621,367 | 5,657,716 | 11,813,898 | 22,092,981 |

The cash consideration for these purchases was financed by a combination of first mortgages [note 9] and proceeds from the issuance of Class A Units in the private placement of April 27, 2006 [note 10].

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

3. DEFERRED FINANCING COSTS

| | June 30 2006 \$ | December 31 2005 \$ |
|-------------------------------|-----------------------|---------------------------|
| | | (audited) |
| Cost | 1,234,157 | 643,465 |
| Less accumulated amortization | (268,962) | (171,862) |
| | 965,195 | 471,603 |

4. FRANCHISE FEES

| | June 30 2006 \$ | December 31 2005 \$ |
|-------------------------------|-----------------------|---------------------------|
| | | (audited) |
| Cost | 70,981 | - |
| Less accumulated amortization | (2,518) | - |
| | 68,463 | - |

5. INCOME PROPERTIES

| | <u>June 30, 2006</u> | | | <u>December 31, 2005</u> (audited) | | |
|---|----------------------|-----------------------------------|-------------------------|---------------------------------------|-----------------------------------|-------------------------|
| | Cost \$ | Accumulated amortization \$ | Net book value \$ | Cost \$ | Accumulated amortization \$ | Net book value \$ |
| Land | 7,297,864 | - | 7,297,864 | 1,722,381 | - | 1,722,381 |
| Buildings | 53,644,026 | 827,644 | 52,816,382 | 18,375,603 | 374,927 | 18,000,676 |
| Parking lot | 202,064 | 5,894 | 196,170 | - | - | - |
| Signs | 39,917 | 543 | 39,374 | - | - | - |
| Furniture, fixtures and equipment | 5,589,761 | 662,834 | 4,926,927 | 2,458,613 | 251,356 | 2,207,257 |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

| | | | | | |
|------------|-----------|------------|------------|---------|------------|
| 66,773,632 | 1,496,915 | 65,276,717 | 22,556,597 | 626,283 | 21,930,314 |
|------------|-----------|------------|------------|---------|------------|

6. INVESTMENT IN LAKEVIEW FLAG LICENSING GENERAL PARTNERSHIP

On April 15, 2004, Lakeview Hotel REIT indirectly acquired a 49% interest in Lakeview Flag Licensing General Partnership with nominal initial capitalization of \$49 and issuance of the Lakeview Flag Operating Limited Partnership Class E Units [exchangeable into 500,000 Units, the ‘Exchangeable Units’] and 500,000 Class V Special Trust Units and 1 Class T Special Trust Unit of Lakeview Hotel REIT. The principal purpose of the Lakeview Flag Licensing General Partnership is to hold the trademarks, trade names, operating procedures, systems, related items and goodwill associated therewith of the hotel flags known as ‘Lakeview Inn & Suites’ and ‘Lakeview Resorts’ [‘Lakeview Flag’]. Although the exchange amount was \$1,000,000, the transaction was recorded at the carrying value of \$1 in accordance with Canadian generally accepted accounting principles applicable to related party transactions because the 49% interest in Lakeview Flag Licensing General Partnership was acquired from a company controlled by certain Unitholders of Lakeview Hotel REIT and the exchange amount was not supported by independent evidence.

Lakeview Flag Licensing General Partnership earns income, pursuant to the Sub-franchise Agreement and the License Agreements with the respective hotels, through the payment to it of a license fee equal to 4% of gross room revenue received from the following Lakeview Inn & Suites hotels which are owned by LMI and located as follows:

Bathurst, New Brunswick [Canada]
Brandon, Manitoba [Canada]
Grand Forks, North Dakota [United States of America]
Halifax, Nova Scotia [Canada]
Miramichi, New Brunswick [Canada]

In addition, pursuant to the Sub-franchise Agreement and License Agreement, Lakeview Flag Licensing General Partnership earns a license fee of 4% of gross room revenue from each Lakeview Hotel Reit property that has been converted to a Lakeview Inn & Suites hotel. The license fees are earned effective as of the date of conversion.

Gross room revenue is the gross income resulting from all room sales made to customers or guests of the respective hotels and does not include any sales tax which is collected and remitted to the appropriate tax authority by the hotels.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

Investment in Lakeview Flag Licensing General Partnership:

| | Six Months Ended June 30 2006 \$ | Year Ended December 31 2005 \$ |
|---------------------------------|--|--|
| | | (audited) |
| Investment, beginning of period | 16,367 | 9,279 |
| Equity income | 130,910 | 170,258 |
| Distribution received | (118,580) | (163,170) |
| Investment, end of period | 28,697 | 16,367 |

7. CONVERTIBLE DEBENTURES

On April 15, 2004, under the public offering, the Lakeview Hotel REIT issued \$4,500,000 of subordinate convertible debentures.

The convertible debentures bear interest at 10%, mature in five years from date of issue and are subordinate only to property specific conventional mortgage financing and any vendor take-back mortgage financing. The convertible debentures are convertible by the holder at any time during the third year after the date of issue at the following conversion price per Unit: \$2.50 in year three; \$3.00 in year four; and \$3.50 in year five. At any time after three years from the issue date, Lakeview Hotel REIT has the right to redeem all, but not less than all, convertible debentures at par plus accrued interest. On maturity, the convertible debentures are repayable 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 average of the trading price of the Units during the preceding 20 trading day period], or in any other combination thereof.

During the three month period ended June 30, 2006, \$1,245,000 of the convertible debentures issued April 15, 2004 were converted at a price of \$2.50 into 498,000 Class A Units.

On May 30, 2005, under a private offering, the Lakeview Hotel REIT issued \$1,500,000 of subordinate convertible debentures.

The convertible debentures bear interest at 9%, mature in five years from date of issue and are subordinate only to property specific conventional mortgage financing and any vendor take-back mortgage financing. The convertible debentures are convertible by the holder at any time after the date of issue at \$2.90 per Unit.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

The following allocation of the convertible debentures to debt and equity components is based on an estimated cost of borrowing without conversion option at 18% per annum.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

| | Debt \$ | Equity \$ | Total \$ |
|---|------------------|--------------------------------|------------------------------------|
| Issue date – April 15, 2004 | 3,344,822 | 1,155,178 | 4,500,000 |
| Issue date – May 30, 2005 | 1,066,282 | 433,718 | 1,500,000 |
| | 4,411,104 | 1,588,896 | 6,000,000 |
| | | June 30 2006 \$ | December 31 2005 \$ |
| | | | (audited) |
| Debt component at issue date | | 4,411,104 | 4,411,104 |
| Accretion of debt component of convertible debentures | | 445,824 | 324,493 |
| Conversion of debentures | | (1,021,601) | - |
| | | 3,835,327 | 4,735,597 |

The debt portion of the convertible debentures is accounted for as a liability. The accretion of the debt component, which increases the debt component from the initial carrying amount, is included in interest expense.

8. LOAN PAYABLE

| | June 30 2006 \$ | December 31 2005 \$ |
|---|-----------------------|---------------------------|
| | | (audited) |
| Loan payable, bearing interest at the Canadian dollar bankers' acceptance rate plus 5% floating per annum, due on demand, collateralized by first mortgages on certain hotels of the Lakeview Hotel REIT. The effective interest rate is 8.96%. | 780,000 | - |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

9. MORTGAGES PAYABLE

| | June 30 2006 \$ | December 31 2005 \$ |
|---|-----------------------|---------------------------|
| | | (audited) |
| [a] Mortgage payable, bearing interest at 8.81% per annum, due August 1, 2018, collateralized by a first charge on the Initial Property, an assignment of the insurance policy on the property, an assignment of room revenue of the Initial Property and an assignment of material agreements. Repaid in full in 2006 with proceeds from mortgage (g) | - | 2,858,447 |
| [b] Mortgage payable, bearing interest at prime plus 1.25% per annum, due on demand, collateralized by a first charge on the property of the Black Gold Inn - Drayton Valley, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and a guarantee by both the Lakeview Flag Operating Limited Partnership and the Lakeview Hotel REIT. The effective interest rate is 6.77% (2005 – 6.19%) | 4,439,916 | 4,481,058 |
| [c] Mortgage payable, bearing interest at 5.5% per annum, due June 1, 2007, collateralized by a second ranking charge on the property of the Black Gold Inn - Drayton Valley and an assignment of the insurance policy on the property second behind the first mortgage holder | 500,000 | 1,000,000 |
| [d] Mortgage payable, bearing interest at prime plus 1.5% per annum, due on demand, collateralized by a first charge on the property of the Lakeview Inn & Suites - Hinton, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and a guarantee by both the Lakeview Flag Operating Limited Partnership and the Lakeview Hotel REIT. The effective interest rate is 7.02% (2005 – 6.35%) | 3,605,163 | 3,670,452 |
| [e] Mortgage payable, bearing interest at 5.98% per annum, due February 1, 2011, collateralized by a first charge on the property of the Best Western – Okotoks, an assignment of the insurance policy on the property, an | | |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

| | | |
|---|-------------------|------------|
| assignment of rents and leases of the property and an assignment of material contracts and agreements | 3,994,463 | - |
| [f] Mortgage payable, bearing interest at 5.93% per annum, due February 1, 2011, collateralized by a first charge on the property of the Best Western –Fort Saskatchewan, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements | 4,638,496 | - |
| [g] Mortgage payable, bearing interest at 6.17% per annum, due March 1, 2011, collateralized by a first charge on the Initial Property, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements | 4,133,147 | - |
| [h] Mortgage payable, bearing interest at 6.22% per annum, due April 1, 2011, collateralized by a first charge on the property of the Super 8 – Toronto North, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements | 5,177,808 | - |
| [i] Mortgage payable, bearing interest at 6.24% per annum, due May 1, 2011, collateralized by a first charge on the property of the Lakeview Inn & Suites – Edson, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements | 3,068,470 | - |
| [j] Mortgage payable, bearing interest at 6.36% per annum, due July 1, 2011, collateralized by a first charge on the property of the Lakeview Inn & Suites – Whitecourt, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements | 3,120,000 | - |
| [k] Mortgage payable, bearing interest at 6.27% per annum, due June 1, 2011, collateralized by a first charge on the property of the Holiday Inn Express –Sherwood Park, an assignment of the insurance policy on the property, an assignment of rents and leases of the property and an assignment of material contracts and agreements | 7,670,000 | - |
| | 40,347,463 | 12,009,957 |
| Less current portion | 1,179,565 | 476,977 |
| | 39,167,898 | 11,532,980 |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

Although mortgages [b] and [d] are due on demand, the lender has agreed, notwithstanding the repayment terms in the May 25, 2005 and September 19, 2005 commitment letters respectively, to not demand repayment of the principal until June 1, 2008 and November 1, 2008 respectively, as long as all scheduled payments are made and no other events of default occur.

Mortgage [c] requires interest only payments monthly with principal due on June 1, 2007.

Mortgages [e], [f], [g], [h], [i], [j] and [k] are cross collateralized by each of the underlying properties stated therein.

Estimated future principal repayments over the next five years and thereafter are as follows:

| | \$ |
|-------------------|-------------------|
| Remainder of 2006 | 577,004 |
| 2007 | 1,724,811 |
| 2008 | 8,466,926 |
| 2009 | 991,276 |
| 2010 | 1,053,335 |
| Thereafter | 27,534,111 |
| | <u>40,347,463</u> |

The fair value of the mortgages approximates their carrying value.

Up until March 1, 2006, the date mortgage (a) was repaid in full, the mortgage lender had required the Initial Property, pursuant to a Deposit Trust Agreement, to reserve funds in a trust account for on-going capital repairs, replacements and/or improvements of the Initial Property including but not limited to the regular repair, replacement and maintenance of the furniture, fixtures and equipment. Under the terms of the Deposit Trust Agreement, the Initial Property was required to make monthly deposits into the trust account during the term of the mortgage equal to 4% of estimated annual room revenue divided by twelve [12]. Reserve funds were available for current repairs and maintenance subject to the approval by the mortgage lender.

Pursuant to the Hotel Management Agreements, the Lakeview Hotel REIT properties are required to reserve funds in a separate account for on-going capital repairs, replacements and/or improvements of the property including but not limited to the regular repair, replacement and maintenance of the furniture, fixtures and equipment. Under the terms of the Hotel Management Agreements, the properties are required to make monthly deposits into the reserve account equal to not less than 2% of monthly gross revenue.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

| | Six Months Ended June 30 2006 \$ | Year Ended December 31 2005 \$ |
|-----------------------------------|---|---|
| | | (audited) |
| Reserve fund, beginning of period | 175,615 | 107,630 |
| Contributions | 173,128 | 144,115 |
| Distributions | (47,204) | (76,130) |
| Reserve fund, end of period | 301,539 | 175,615 |

10. UNITHOLDERS' CAPITAL

| | Class A Units \$ | Class V Special Trust Units and Exchangeable Units \$ | Class T Special Trust Units \$ | Total Unitholders' capital \$ |
|--|------------------------|---|---|--|
| Balance, December 31, 2004 | 664,617 | 1 | - | 664,618 |
| Issuance of Units in private placement – May 30, 2005 | 2,000,000 | - | - | 2,000,000 |
| Issuance of Units in private placement – September 2, 2005 | 10,350,000 | - | - | 10,350,000 |
| Issuance costs | (924,391) | - | - | (924,391) |
| Balance, December 31, 2005 (audited) | 12,090,226 | 1 | - | 12,090,227 |
| Issuance of Units in private placement – April 27, 2006 | 11,500,002 | - | - | 11,500,002 |
| Issuance costs | (816,764) | - | - | (816,764) |
| Conversion of debentures [note 7] | 1,346,203 | - | - | 1,346,203 |
| Balance, June 30, 2006 | 24,119,667 | 1 | - | 24,119,668 |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

Units issued during 2006 and 2005 are summarized as follows:

| | Class A Units # | Class V Special Trust Units and Exchangeable Units # | Class T Special Trust Units # |
|---|-----------------------|--|--|
| Balance, December 31, 2004 | 675,000 | 500,000 | 1 |
| Issuance of Units in private placement – May 30, 2005 | 800,000 | - | - |
| Issuance of Units in private placement – September 2, 2005 | 3,450,000 | - | - |
| Balance, December 31, 2005 (audited) | 4,925,000 | 500,000 | 1 |
| Issuance of Units in private placement – April 27, 2006 | 3,538,462 | - | - |
| Conversion of debentures [note 7] | 498,000 | - | - |
| Balance, June 30, 2006 | 8,961,462 | 500,000 | 1 |

The beneficial interest in the Lakeview Hotel REIT is divided into interests of one class and of equal value, referred to as Class A Units, of unlimited number. All Class A Units participate pro rata in any distribution declared on Class A Units and have one vote per Unit.

Exchangeable Units were issued by Lakeview Flag Operating Limited Partnership [note 6]. The Exchangeable Units are exchangeable into 500,000 Class A Units of Lakeview Hotel REIT at the option of the holder. The Exchangeable Units entitle the holders to cash distributions equivalent to the amount of cash distributions that would be allocated to 500,000 Class A Units. In addition, the following were issued in conjunction with the issuance of the Exchangeable Units:

- 500,000 Class V Special Trust Units, one vote per Unit, excluding the right to vote in respect of the election of Trustees, no entitlement to any distribution declared payable on Class A Units, except as declared by Trustees subject to certain restrictions, cancelled proportionately upon exchange of securities exchangeable into Class A Units.
- One Class T Special Trust Unit, non-transferable, non-voting, right to appoint one-third of the total number of Trustees, no right to any distributions or economic interest in Lakeview Hotel REIT.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

In connection with the private placement of Units in May, 2005, LMI agreed to subordinate its entitlement to the first \$0.30 per Unit per year of distributions on the Units and Exchangeable Units it owns, directly or indirectly, to the distributions to be made to all other Unitholders for a period of three years ending May 30, 2008.

Unit options

Pursuant to a Services Agreement between Lakeview Hotel REIT and LMI, LMI has been engaged as the administrator of Lakeview Hotel REIT, to administer the affairs of the Lakeview Hotel REIT on a day-to-day basis and perform the record keeping and reporting functions of the Trustees. The initial term of the Services Agreement is 5 years expiring on April 14, 2009. In consideration, Lakeview Hotel REIT issued to LMI, at the inception of the agreement, options to acquire 50,000 Units, fully vested and exercisable upon issuance at \$1.00 per Unit. LMI exercised its options concurrently with the closing of the Qualifying Transaction.

Distributions to Unitholders

For the three-month periods ended June 30, 2006 and June 30, 2005 respectively, distributions of \$0.10 and \$0.05 per Class A Unit and per Exchangeable Unit were declared, totalling \$819,258 and \$98,750.

For the six-month periods ended June 30, 2006 and June 30, 2005 respectively, distributions of \$0.19 and \$0.10 per Class A Unit and per Exchangeable Unit were declared, totalling \$1,307,508 and \$157,500.

Distribution policy

The following is a summary of the Lakeview Hotel REIT distribution policy, the full provisions of which are contained in the Declaration of Trust.

Subject to the obligations of the Trustees in respect of the Class V Units, the Trustees may, on or before each Distribution Record Date, and shall on or before the December 31 Distribution Record Date, declare payable, to the Unitholders of record on such Distribution Record Date, all or any part of the Distributable Cash of the Trust for the Distribution Period ending on such Distribution Record Date determined in accordance with the Declaration of Trust, and the proportionate share of each Unit of the amount so payable shall be determined by dividing such amount by the number of Units outstanding on that Distribution Record Date. Each Unitholder's share thereof shall be equal to the proportionate share per Unit multiplied by the number of Units owned of record by the Unitholder on that Distribution Record Date and shall be paid to each such Unitholder on the Distribution Payment Date next following the Distribution Record Date.

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

“Distributable Cash of the Trust” for the period ending on a Distribution Record Date shall be the amount calculated, for the period commencing immediately following the preceding Distribution Record Date and ending on such Distribution Record Date [each, a “Distribution Period”], as all revenues received or receivable, including net realized capital gains and such other amounts as Lakeview Hotel REIT may receive from time to time in the applicable period, less:

- [a] Administrative and operational expenses and other obligations;
- [b] Amounts which may be used for acquisitions or other business purposes;
- [c] Amounts required for replacement reserves;
- [d] Amounts that may be payable on the Class V Units; and
- [e] Such other amounts as the Trustees deem appropriate and necessary.

Items of income or expense not provided for above shall be included in such calculation on such basis as may be considered appropriate by the Trustees.

11. UNIT PURCHASE PLAN

The Trustees have established a Unit Purchase Plan to provide incentives to Trustees, management and other participants to carry out the business of Lakeview Hotel REIT. The aggregate number of Units reserved for issuance under this plan shall not exceed ten percent (10%) of the total number of issued and outstanding units.

The Unit options outstanding and exercisable under the Unit Purchase Plan are summarized as follows:

| | Six Months Ended June 30 2006 | | Year Ended December 31 2005 (audited) | |
|---|--|---|--|---|
| | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Unit options outstanding, beginning of period | 50,000 | 1.96 | 25,000 | 2.00 |
| Unit options granted | 62,500 | 3.25 | 25,000 | 1.92 |
| Unit options exercised | - | - | - | - |
| Unit options outstanding, end of period | 112,500 | 2.68 | 50,000 | 1.96 |
| Range of exercise price of Unit options | | | | |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

| | | | | |
|------------------------------------|--------------|--------------|--------------|--------------|
| outstanding, end of period | - | 1.92 to 3.25 | - | 1.92 to 2.00 |
| Unit options vested, end of period | 112,500 | 2.68 | 50,000 | 1.96 |
| Expiry date | 2009 to 2011 | | 2009 to 2010 | |

The fair values of the options were estimated using the Black-Scholes option pricing model with the following assumptions and results.

| | 2006 Options (issued June 20) | 2005 Options (issued July 13) (audited) |
|------------------------------|-------------------------------------|--|
| Distribution yield | 11.4% | 13.0% |
| Expected volatility | 60.8% | 51.4% |
| Risk-free interest rate | 4.3% | 3.4% |
| Estimated compensation costs | \$45,000 | \$9,250 |

The compensation costs were expensed at the date of grant.

12. BASIC AND DILUTED INCOME (LOSS) PER UNIT

The basic and diluted income (loss) per Unit is calculated based on the following:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------------|-------------------------------|-----------|-----------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Weighted average Units | 8,273,532 | 1,441,667 | 6,857,135 | 1,308,333 |

The effect of the options under the Unit Purchase Plan issued to certain Trustees [note 11] and conversion of the convertible debentures [note 7] are not presented as they would have an anti-dilutive effect on the income (loss) per Unit.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in these consolidated financial statements, during the normal course of business, Lakeview Hotel REIT had the following transactions and balances recorded at their exchange value with related parties:

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

| | June 30 2006 | December 31 2005 |
|---|-------------------------|-----------------------------|
| | \$ | \$ |
| | | (audited) |
| Accounts payable and accrued liabilities to | | |
| LMI | 48,585 | 20,692 |
| Lakeview Flag Licensing General Partnership <i>[note 6]</i> | 39,652 | 20,568 |
| Lakeview Flag Management General Partnership <i>[note 14]</i> | 71,100 | 23,949 |

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---------------------------------------|-------------|-------------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Marketing expenses paid to | | | | |
| Free to Guest Movies Ltd. | 16,531 | 2,772 | 23,259 | 5,614 |
| LMI | 20,641 | 4,877 | 38,553 | 9,059 |
| Accounting fees paid to | | | | |
| LMI [included in general and administration expense] | 57,195 | 10,000 | 94,729 | 17,500 |
| Reservation fees paid to | | | | |
| LMI [included in general and administration expense] | 30,960 | 7,316 | 57,830 | 13,589 |
| License fees paid to | | | | |
| Lakeview Flag Licensing General Partnership [included in general and administration expense <i>[note 6]</i>] | 82,562 | 19,508 | 154,213 | 36,237 |
| Management fees paid to | | | | |
| Lakeview Flag Management General Partnership [included in general and administration expense <i>[note 14]</i>] | 149,323 | 28,556 | 258,692 | 44,519 |

Under the License Agreement *[note 6]*, the following annual fees are paid by Lakeview Hotel REIT to LMI for accounting services, marketing services and access to the on-line reservation system.

| | |
|-----------------|------------------------------|
| Accounting fee | \$30,000 per annum per hotel |
| Reservation fee | 1.5% of gross room revenue |
| Marketing fee | 1% of gross room revenue |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Unaudited

The reservation and marketing fees are paid to LMI when properties have been converted to Lakeview Inn & Suites hotels.

The accounting fee shall be increased annually by the year over year increase in the Consumer Price Index for the province in which the hotel is located.

Gross room revenue is defined in note 6.

14. INVESTMENT IN LAKEVIEW FLAG MANAGEMENT GENERAL PARTNERSHIP

Lakeview Hotel REIT indirectly acquired a 50% interest in the Lakeview Flag Management General Partnership with initial nominal capitalization of \$50, entitling it to 25% of Lakeview Flag Management General Partnership's net income.

Pursuant to a Property Management Agreement, Lakeview Flag Management General Partnership provides hotel management services to each Lakeview Hotel REIT property for a fee equal to 5% of gross revenue. Gross revenue includes all income derived from the properties and their operations.

Lakeview Hotel REIT's 25% share of the assets, liabilities, revenues, expenses and cash flows are as follows:

| | June 30 2006 | | December 31 2005 | |
|-----------------------|---------------------------------------|-------------|-------------------------------------|-------------|
| | \$ | | \$ | |
| | | | (audited) | |
| Assets – current | 23,713 | | 8,136 | |
| Liabilities – current | 1,550 | | 521 | |
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | | \$ | |
| Revenue | 49,796 | 9,519 | 86,259 | 14,840 |
| Expenses | 203 | 399 | 211 | 405 |

Lakeview Hotel Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006
Unaudited

| Net income | 49,593 | 9,120 | 86,048 | 14,435 |
|---------------------------------------|-------------------------------|---------|-----------------------------|----------|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Cash provided by operating activities | 41,784 | 5,650 | 71,361 | 10,254 |
| Cash used in financing activities | (42,000) | (5,650) | (71,500) | (10,250) |
| Increase (decrease) in cash | (216) | - | (139) | 4 |

15. SUBSEQUENT EVENTS

Subsequent to June 30, 2006, \$161,000 of the convertible debentures issued April 15, 2004 [note 7] were converted at a price of \$2.50 into 64,400 Class A Units.

Also subsequent to June 30, 2006, \$80,000 of the convertible debentures issued May 30, 2005 [note 7] were converted at a price of \$2.90 into 27,586 Class A Units.

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.