Consolidated Financial Statements

Lakeview Hotel Real Estate Investment Trust

June 30, 2007
(Unaudited)

LAKEVIEW HOTEL REAL ESTATE INVESTMENT TRUST

Supplement to Consolidated Financial Statements
for the Three Months and Six Months ended June 30, 2007 and 2006

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, 2007 and 2006 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 2007 $	December 31 2006 $
		(audited)
ASSETS		
Current		
Cash and cash equivalents	**1,667,799**	11,231,601
Reserve fund *[note 3]*	**927,489**	622,779
Deposits held in trust	**-**	135,000
Accounts receivable	**2,173,614**	1,809,897
Inventory	**127,841**	65,124
Prepaid expenses	**927,378**	413,495
Total current assets	**5,824,121**	14,277,896
Deferred financing costs *[notes 1 and 4]*	**-**	753,845
Franchise fees, licenses and pre-opening costs *[note 5]*	**170,778**	146,993
Income properties *[notes 2, 6 and 10]*	**136,401,204**	81,098,672
Investment in Lakeview Flag Licensing General Partnership *[note 7]*	**47,743**	30,090
	142,443,846	96,307,496
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 14]*	**2,159,350**	1,597,751
Distributions payable	**702,269**	665,288
Loan payable *[note 9]*	**950,000**	250,000
Current portion of mortgages payable *[notes 1 and 10]*	**1,756,341**	1,011,987
Total current liabilities	**5,567,960**	3,525,026
Convertible debentures *[notes 1 and 8]*	**14,336,147**	2,573,860
Mortgages payable *[notes 1 and 10]*	**66,427,390**	35,817,528
Future income tax liability *[note 17]*	**1,184,100**	-
Total liabilities	**87,515,597**	41,916,414
Unitholders' equity	**54,928,249**	54,391,082
	142,443,846	96,307,496

See accompanying notes

On behalf of the Board of Trustees: *"Keith Levit"* Trustee *"Gary Coleman"* Trustee

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Unaudited	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
REVENUE				
Rooms	**5,400,496**	3,666,731	**11,204,415**	6,224,408
Food, beverage and gift shop	**950,650**	176,456	**1,893,261**	381,266
Interest and miscellaneous	**150,765**	176,221	**307,182**	323,930
	6,501,911	4,019,408	**13,404,858**	6,929,604
EXPENSES				
Amortization				
Deferred financing costs	-	55,713	-	97,100
Franchise fees, licenses and pre-opening costs	**4,949**	2,303	**9,899**	2,518
Income properties	**1,016,596**	513,986	**1,889,914**	870,632
Food, beverage and gift shop	**409,770**	115,955	**801,587**	244,185
General and administration *[note 14]*	**1,645,921**	669,697	**2,875,830**	1,406,988
Insurance	**55,789**	40,287	**109,079**	68,538
Interest – loan and other	**46,831**	69,023	**59,060**	89,906
Interest – mortgages and debentures	**921,815**	708,278	**1,612,790**	1,257,411
Maintenance	**135,960**	63,071	**264,532**	103,992
Marketing *[note 14]*	**383,177**	147,369	**703,233**	236,849
Property taxes	**347,465**	152,143	**583,030**	263,265
Salaries and benefits	**1,676,576**	770,615	**3,167,400**	1,239,772
Supplies	**204,349**	91,695	**347,913**	146,480
Utilities	**220,589**	128,058	**498,106**	249,123
	7,069,787	3,528,193	**12,922,373**	6,276,759
Income (loss) before the following	**(567,876)**	491,215	**482,485**	652,845
Income from Lakeview Flag Licensing General Partnership *[note 7]*	**114,737**	70,363	**233,253**	130,910
Income (loss) before income taxes	**(453,139)**	561,578	**715,738**	783,755
Future income tax expense *[note 17]*	**(1,184,100)**	-	**(1,184,100)**	-
Net income (loss) and comprehensive income (loss) for the period	**(1,637,239)**	561,578	**(468,362)**	783,755
Basic and diluted income (loss) per Unit *[note 13]*	**(0.086)**	0.068	**(0.025)**	0.114

See accompanying notes

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2007 **$**	**2006** **$**	**2007** **$**	**2006** **$**
Unitholders' capital				
Balance, beginning of period	**57,097,038**	12,090,227	**55,901,339**	12,090,227
Issuance of Units by private placement	**-**	11,500,002	**-**	11,500,002
Issuance of Units on exercise of Unit options	**-**	-	**-**	-
Conversion of debentures	**1,519,032**	1,346,203	**2,714,731**	1,346,203
Issuance Costs	**-**	(816,764)	**-**	(816,764)
Balance, end of period	**58,616,070**	24,119,668	**58,616,070**	24,119,668
Equity portion of convertible debentures				
Balance, beginning of period	**529,231**	1,588,896	**823,836**	1,588,896
Issuance of convertible debentures *[note 8]*	**3,062,813**	-	**3,062,813**	-
Conversion of debentures	**(383,863)**	(319,599)	**(678,468)**	(319,599)
Issuance costs	**(213,693)**	-	**(213,693)**	**-**
Balance, end of period	2,**994,488**	1,269,297	**2,994,488**	1,269,297
Contributed capital				
Balance, beginning of period	**45,000**	18,000	**45,000**	18,000
Issuance of Unit options	**304,500**	45,000	**304,500**	45,000
Issuance of Units on exercise of Unit options	**-**	-	**-**	-
Balance, end of period	**349,500**	63,000	**349,500**	63,000
Accumulated earnings (deficit)				
Balance, beginning of period	**3,725,483**	(7,087)	**2,632,458**	(229,264)
Transitional adjustment on adoption of new accounting policy *[Note 1(l)]*	-	-	**(75,852)**	-
Net income (loss) for the period	**(1,637,239)**	561,578	**(468,362)**	783,755
Balance, end of period	2,**088,244**	554,491	**2,088,244**	554,491
Accumulated distributions				
Balance, beginning of period	**(7,029,265)**	(1,544,625)	**(5,011,551)**	(1,056,375)
Distributions declared	**(2,090,788)**	(819,258)	**(4,108,502)**	(1,307,508)
Balance, end of period	**(9,120,053)**	(2,363,883)	**(9,120,053)**	(2,363,883)
Unitholders' equity, end of period	**54,928,249**	23,642,573	**54,928,249**	23,642,573

See accompanying notes

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited	Three Months Ended June 30		Six Months Ended June 30	
	2007 **$**	**2006** **$**	**2007** **$**	**2006** **$**
OPERATING ACTIVITIES				
Net income (loss) for the period	**(1,637,239)**	561,578	**(468,362)**	783,755
Add charges (deduct credits) to operations not requiring a current cash payment				
Amortization of income properties	**1,016,596**	513,986	**1,889,914**	870,632
Amortization of deferred financing costs	**-**	55,713	**-**	97,100
Amortization of franchise fees, licenses and pre-opening costs	**4,949**	2,303	**9,899**	2,518
Compensation costs of Unit options	**304,500**	45,000	**304,500**	45,000
Income from Lakeview Flag Licensing General Partnership	**(114,737)**	(70,363)	**(233,253)**	(130,910)
Accretion on debt component of convertible debentures	**64,054**	61,562	**106,090**	126,334
Accretion of mortgages	**29,146**	-	**53,475**	-
Future income tax expense	**1,184,100**	-	**1,184,100**	-
	851,369	1,169,779	**2,846,363**	1,794,429
Net change in non-cash working capital balances related to operations	**(447,496)**	(254,481)	**(539,793)**	530,763
Cash provided by operating activities	**403,873**	915,298	**2,306,570**	2,325,192
INVESTING ACTIVITIES				
Acquisition of income properties, cash consideration *[note 2]*	**(45,492,961)**	(22,095,252)	**(55,689,077)**	(43,983,682)
Additions to income properties	**(740,886)**	(158,113)	**(1,475,024)**	(187,701)
Increase in franchise fees, licenses and pre-opening costs	**(33,684)**	(60,642)	**(33,684)**	(70,981)
Distributions from Lakeview Flag Licensing General Partnership	**129,850**	66,640	**215,600**	118,580
Cash used in investing activities	**(46,137,681)**	(22,247,367)	**(56,982,185)**	(44,123,784)
FINANCING ACTIVITIES				
Increase in deferred financing costs	**-**	(248,170)	-	(590,692)
Unitholders' distributions				
Class A	**(2,035,738)**	(769,258)	**(3,998,435)**	(1,212,508)
Exchangeable Units	**(55,050)**	(50,000)	**(110,067)**	(95,000)
Proceeds from loan	**1,750,000**	-	**2,500,000**	2,780,000
Repayment of loan	**(1,800,000)**	(2,000,000)	**(1,800,000)**	(2,000,000)
Proceeds from mortgages	**32,670,000**	13,865,000	**32,670,000**	31,935,000
Repayment of mortgages	**(272,995)**	(660,482)	**(511,342)**	(3,597,494)
Increase in mortgage financing costs	**(374,098)**	-	**(382,480)**	-
Proceeds of convertible debentures	**18,000,000**	-	**18,000,000**	-
Increase in convertible debenture financing costs	**(1,255,863)**	-	**(1,255,863)**	-
Units issued by private placement	**-**	11,500,002	**-**	11,500,002
Cost of raising capital	**-**	(816,764)	**-**	(816,764)
Cash provided by financing activities	**46,626,256**	20,820,328	**45,111,813**	37,902,544
Net increase (decrease) in cash and cash equivalents during the period	**892,448**	(511,741)	**(9,563,802)**	(3,896,048)
Cash and cash equivalents, beginning of period	**775,351**	2,420,121	**11,231,601**	5,804,428
Cash and cash equivalents, end of period	**1,667,799**	1,908,380	**1,667,799**	1,908,380
Supplemental cash flow information				
Cash paid for interest	**783,646**	791,308	**1,383,964**	1,080,830

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007
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., 1236412 Alberta Ltd., 0759566 B.C. Ltd., 0760018 B.C. Ltd., 0760024 B.C. Ltd., 1312258 Alberta Ltd., 1317639 Alberta Ltd. and 1323785 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.

Significant accounting policies

These unaudited consolidated interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. They have also been prepared on a basis consistent with the December 31, 2006 audited financial statements with the exception of the change in accounting policy noted in [l] below and should be read in conjunction with the audited financial statements and notes thereto.

[a] Cash and cash equivalents

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

[b] Inventory

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

[c] Franchise fees, licenses and pre-opening costs

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.

Licenses include the costs associated with the purchase of the right to continue operation of existing video lottery terminals. Licenses are stated at cost less accumulated amortization. Amortization is recorded using the straight-line method over five years.

Pre-opening costs were incurred with respect to the opening of the Local Heroes restaurant at the Lakeview Inn & Suites – Fort Saskatchewan on June 15, 2007 and include training, travel and salaries. Pre-opening costs are stated at cost less accumulated amortization. Amortization is recorded using the straight-line method over three years.

[d] Income properties

Income properties include land, buildings, parking lots, 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 lots	10 years	straight-line
Signs	10 years	straight-line
Furniture, fixtures and equipment	3 - 5 years	straight-line

[e] 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.

[f] Related parties

During 2007 and 2006, 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 LMI
Lakeview Flag Licensing General Partnership	Equity investee
Lakeview Flag Management General Partnership	Joint venture investee
XYZ Design Inc.	A company related to LMI
Keith Levit Photography	A business owned by the President and Trustee

[g] Lakeview Perks Loyalty Program

In 2006, LMI introduced the Lakeview Perks Loyalty Program. Members of the Lakeview Perks Loyalty Program earn points based on their spending at Lakeview Inn & Suites hotels and Lakeview Resorts. Points can be redeemed for hotel stays at participating hotels or other services or merchandise. The future redemption liability is included in accounts payable and accrued liabilities and is estimated based on points awarded and management’s assessment of anticipated point redemptions and point value.

Management will adjust the estimated liability based on redemption experience and additional points awarded and such adjustments will be recorded in the results of operations.

[h] Income taxes

In June 2007, the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded income trusts classified as Specified Investment Flow-Throughs [“SIFT”], which include a real estate investment trust (“REIT”) that carries on Canadian hotel operations, effective January 1, 2011. Prior to June 2007, Lakeview Hotel REIT estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate. Under the legislation, Lakeview Hotel REIT now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.5%. Temporary differences reversing before 2011 will still give rise to nil future income taxes.

While Lakeview Hotel REIT believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management’s estimate of the future income tax liability.

The amount and timing of reversals of temporary differences will also depend on Lakeview Hotel REIT’s future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect Lakeview Hotel REIT’s estimate of the future tax liability.

[i] Net income (loss) per unit

Net income (loss) 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 income (loss) 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 12. 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] 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.

[l] Change in accounting policy

Effective January 1, 2007, Lakeview Hotel REIT adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 Comprehensive income, Section 3855 Financial Instruments – Recognition and Measurement and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments, as well as the recognition of a transition adjustment. The comparative interim consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

Section 3855 Financial Instruments – Recognition and Measurement sets out the standards for the recognition and measurement of financial assets and financial liabilities. The standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

Lakeview Hotel REIT has made the following classifications:

- Cash and cash equivalents, reserve fund and deposits held in trust are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in Net Income.

- Accounts receivable are classified as “loans and receivables” and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, distributions payable, loan payable, convertible debentures and mortgages payable are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

For periods prior to January 1, 2007 Lakeview Hotel REIT deferred and amortized financing costs on a straight-line basis over the term of the debt. Commencing January 1, 2007, financing costs are no longer classified as assets on the balance sheet or amortized over the term of the debt. CICA Handbook Section 3855, *“Financial Instruments – Recognition and Measurement”* prescribes that under the effective interest method, financing costs must be applied against the debt to which they relate. Over the term of the debt the long-term liability will increase to the face value of the debt, with the accretion being included in interest on mortgages or interest on convertible debentures on the consolidated statement of net income (loss) and comprehensive income (loss).

The adoption of these new accounting standards on January 1, 2007 has resulted in an adjustment to certain opening financial statement accounts. Prior periods’ statements have not been restated for the adoption of these new accounting policies. As a result of adopting these standards as at January 1, 2007 deferred financing costs decreased from $753,845 to $nil. Mortgages decreased from $36,829,515 to $36,354,078, convertible debentures decreased from $2,573,860 to $2,371,303 and accumulated earnings decreased by $75,852.

2. ACQUISITION OF HOTELS

In 2007 and 2006, Lakeview Hotel REIT acquired certain hotels. 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:

2007	**Acquisition date**	**Land** $	**Building** $	**Parking lot** $	**Furniture, fixtures and equipment** $	**Working capital** $	**Cash consider-ation** $
Alberta							
Lakeview Inn & Suites – Edson Airport West	2007-04-16	**605,944**	**6,645,185**	**-**	**600,000**	**(2,042)**	**7,849,087**
Lakeview Inn & Suites – Brooks	2007-05-15	**795,974**	**9,445,562**	**-**	**600,000**	**(14,414)**	**10,827,122**
Lakeview Signature Inn - Calgary	2007-06-22	**2,690,246**	**22,098,577**	**181,074**	**1,850,338**	**(6,941)**	**26,813,294**
British Columbia							
Lakeview Inn & Suites – Fort Nelson	2007-01-08	**762,955**	**8,794,332**	**-**	**647,235**	**(4,948)**	**10,199,574**
		4,855,119	**46,983,656**	**181,074**	**3,697,573**	**(28,345)**	**55,689,077**

Cash consideration for the purchase of the hotels in 2007 was financed by a combination of proceeds from the private placement of Class A Units on November 8, 2006 *[note 11]*, first mortgages *[note 10]*, the Pre-Approved Line of Credit *[note 9]*, proceeds from a public offering of convertible debentures on June 20, 2007 *[note 8]* and working capital.

2006	**Acquisition date**	**Land** $	**Building** $	**Parking lot** $	**Furniture, fixtures and equipment** $	**Working capital** $	**Cash consider-ation** $
Alberta							
Lakeview Inn & Suites – Okotoks *****	2006-01-06	1,253,772	4,327,535	—	680,000	4,482	6,265,789
Lakeview Inn & Suites – Fort Saskatchewan *****	2006-01-13	1,007,686	6,086,424	—	310,000	(4,686)	7,399,424
Lakeview Inn & Suites – Edson	2006-04-07	413,076	3,876,568	—	350,000	(6,653)	4,632,991
Lakeview Inn & Suites – Whitecourt	2006-05-31	528,341	4,702,231	—	450,000	(14,606)	5,665,966
Holiday Inn Express – Sherwood Park **	2006-06-01	954,199	10,187,302	—	700,000	(26,579)	11,814,922
British Columbia							
Lakeview Inn & Suites - Chetwynd	2006-10-24 and 2006-11-09	519,350	6,517,629	—	476,150	14,235	7,527,364
Lakeview Inn & Suites - Fort St. John ****	2006-10-16 and 2006-11-10	709,204	7,516,100	—	872,050	38,275	9,135,629
Ontario							
Super 8 - Toronto North ***	2006-03-17	1,427,622	6,076,832	202,561	553,288	1,749	8,262,052
		6,813,250	49,290,621	202,561	4,391,488	6,217	60,704,137

** Management estimates conversion to Lakeview Inn & Suites within five years from acquisition.
*** Management estimates conversion to Lakeview Inn & Suites within two years from acquisition.
**** Includes the Fogg n'Suds Restaurant.
***** Converted to Lakeview Inn & Suites hotels on July 1, 2006.

Cash consideration for the purchase of the hotels in 2006 was financed by a combination of first mortgages *[note 10],* the Pre-Approved Line of Credit *[note 9],* proceeds from private placement of Units on April 27 and November 8, 2006 *[note 11]* and working capital.

3. RESERVE FUND

Pursuant to the Hotel Management Agreements with Lakeview Flag Management General Partnership, 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.

Up until March 1, 2006, the date the mortgage on the Initial Property 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.

	Six Months Ended June 30 2007 $	**Year Ended December 31 2006** $
		(audited)
Reserve fund, beginning of period	**622,779**	175,615
Allocations to reserve fund	**409,397**	567,710
Use of reserve fund	**(104,687)**	(120,546)
Reserve fund, end of period	**927,489**	622,779

4. DEFERRED FINANCING COSTS

	June 30 2007 $	**December 31 2006** $
		(audited)
Cost	**-**	1,168,497
Less accumulated amortization	**-**	(414,652)
	-	753,845

5. FRANCHISE FEES, LICENSES AND PRE-OPENING COSTS

	June 30 2007 $	**December 31 2006** $
		(audited)
Cost	**192,365**	158,681
Less accumulated amortization	**(21,587)**	(11,688)
	170,778	146,993

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007
Unaudited

6. INCOME PROPERTIES

	June 30, 2007			December 31, 2006 (audited)		
	Cost $	**Accumulated amortization** $	**Net book value** $	**Cost** $	**Accumulated amortization** $	**Net book value** $
Land	**13,754,995**	**-**	**13,754,995**	8,535,631	-	8,535,631
Buildings	**115,363,092**	**2,594,240**	**112,768,852**	67,936,961	1,557,159	66,379,802
Parking lots	**385,973**	**26,831**	**359,142**	204,899	16,134	188,765
Signs	**235,869**	**23,800**	**212,069**	154,144	6,995	147,149
Furniture, fixtures and equipment	**11,415,883**	**2,109,737**	**9,306,146**	7,131,731	1,284,406	5,847,325
	141,155,812	**4,754,608**	**136,401,204**	83,963,366	2,864,694	81,098,672

Effective March 1, 2007, the Lakeview Hotel REIT acquired approximately 2/3 of an acre of land adjacent to the Lakeview Inn & Suites in Edson, Alberta for total consideration including closing adjustments of $364,244. The Lakeview Hotel REIT intends to add up to 36 rooms to the Edson property. The cash consideration for this purchase was financed out of working capital.

7. 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.

Investment in Lakeview Flag Licensing General Partnership:

	Six Months Ended June 30 2007 $	**Year Ended December 31 2006** $
		(audited)
Investment, beginning of period	**30,090**	16,367
Equity income	**233,253**	353,293
Distribution received	**(215,600)**	(339,570)
Investment, end of period	**47,743**	30,090

8. 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 six month period ended June 30, 2007, $1,896,000 of the convertible debentures issued April 15, 2004 were converted at a price of $2.50 into 758,400 Class A Units and $150,000 of the convertible debentures were converted at a price of $3.00 into 49,998 Class A Units.

During the period April 16, 2006 to December 31, 2006, $2,327,000 of the same convertible debentures were converted at a price of $2.50 into 930,800 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.

During the six month period ended June 30, 2007, $530,000 of the convertible debentures issued May 30, 2005 were converted at a price of $2.90 into 182,755 Class A Units.

During 2006, $580,000 of the same convertible debentures were converted at a price of $2.90 into 199,990 Class A Units.

On June 20, 2007, under a public offering, the Lakeview Hotel REIT issued $18,000,000 of Series C subordinate convertible redeemable debentures.

The convertible debentures bear interest at 6.5%, mature June 30, 2012 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 $5.55 per Unit.

At any time after three years from the issue date but prior to four years from the date of issue, Lakeview Hotel REIT has the right to redeem all, but not less than all, convertible debentures at par plus accrued interest provided that the volume-weighted average trading price of the Units during a 20 consecutive trading day period ending five trading days before notice of redemption is given is not less than 125% of the conversion price. 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.

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 for the debentures issued April 15, 2004 and May 30, 2005 and an estimated cost of borrowing without conversion option at 11% per annum for the debentures issued June 20, 2007.

	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**
Issue-date – June 20, 2007	**14,937,187**	**3,062,813**	**18,000,000**
	19,348,291	**4,651,709**	**24,000,000**

	June 30 2007 $	December 31 2006 $
		(audited)
Debt component at issue date	**19,348,291**	4,411,104
Financing costs	**(1,606,496)**	-
Accretion of debt component of convertible debentures	**1,005,385**	537,526
Conversion of debentures	**(4,411,033)**	(2,374,770)
	14,336,147	2,573,860

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.

9. LOAN PAYABLE

	June 30 2007 $	December 31 2006 $
		(audited)
Loan payable	**950,000**	250,000

As at June 30, 2007, the Lakeview Hotel REIT has available a Pre-Approved Line of Credit of up to $5,780,000. The loan payable bears interest at the Canadian dollar bankers' acceptance rate plus 5% floating per annum, due on demand, collateralized by first mortgages on certain income properties. The effective interest rate was 9.32% in 2007 and 9.17% in 2006.

10. MORTGAGES PAYABLE

	June 30 2007 $	December 31 2006 $
		(audited)
Mortgages payable, bearing interest at 5.93% to 6.74% per annum, due February 1, 2011 to July 1, 2014, collateralized by first charges on certain income properties, an assignment of the insurance policy on the income properties, an assignment of rents and leases of the income properties and an assignment of material contracts and agreements. The mortgages are cross-collateralized by each of the underlying properties	**68,183,731**	36,829,515
Less current portion	**1,756,341**	1,011,987
	66,427,390	35,817,528

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

	$
Remainder of 2007	855,713
2008	1,829,384
2009	1,945,446
2010	2,068,882
2011	28,614,991
Thereafter	33,673,757
Total principal outstanding	68,988,173
Financing costs	(916,082)
Accretion of mortgages	111,640
	68,183,731

The fair value of the mortgages approximates their carrying value.

11. UNITHOLDERS' CAPITAL

	Class A Units $	**Class V Special Trust Units and Exchangeable Units** $	**Class T Special Trust Units** $	**Total Unitholders' capital** $
Balance, December 31, 2005	12,090,226	1	-	12,090,227
Issuance of Units in private placement – April 27, 2006	11,500,002	-	-	11,500,002
Issuance of Units in private placement – November 8, 2006	32,000,000	-	-	32,000,000
Issuance costs	(2,944,720)	-	-	(2,944,720)
Conversion of debentures *[note 8]*	3,139,830	-	-	3,139,830
Issuance of Units on exercise of Unit options	116,000	-	-	116,000
Balance, December 31, 2006 (audited)	55,901,338	1	-	55,901,339
Conversion of debentures *[note 8]*	**2,714,731**	**-**	**-**	**2,714,731**
Balance, June 30, 2007	**58,616,069**	**1**	-	**58,616,070**

Units issued during 2007 and 2006 are summarized as follows:

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Unaudited

	Class A Units #	Class V Special Trust Units and Exchangeable Units #	Class T Special Trust Units #
Balance, December 31, 2005	4,925,000	500,000	1
Issuance of Units in private placement – April 27, 2006	3,538,462	-	-
Issuance of Units in private placement – November 8, 2006	8,000,000	-	-
Conversion of debentures *[note 8]*	1,130,790	-	-
Issuance of Units on exercise of Unit options	50,000	-	-
Balance, December 31, 2006 (audited)	17,644,252	500,000	1
Conversion of debentures *[note 8]*	**991,153**	**-**	**-**
Balance, June 30, 2007	**18,635,405**	**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 7]*. 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.

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.

Distributions to Unitholders

For the three-month periods ended June 30, 2007 and 2006 respectively, distributions of $0.11 and $0.10 per Class A Unit and per Exchangeable Unit were declared, totalling $2,090,788 and $819,258.

For the six-month periods ended June 30, 2007 and 2006 respectively, distributions of $0.22 and $0.19 per class A Unit and per Exchangeable Unit were declared, totalling $4,108,502 and $1,307,508.

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.

"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.

12. 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 five percent (5%) 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 2007		**Year Ended December 31 2006** (audited)	
	Number of options	**Weighted average exercise price** $	**Number of options**	**Weighted average exercise price** $
Unit options outstanding, beginning of period	**62,500**	**3.25**	50,000	1.96
Unit options granted	**175,000**	**4.62**	62,500	3.25
Unit options exercised	**-**	**-**	(50,000)	1.96
Unit options outstanding, end of period	**237,500**	**4.26**	62,500	3.25
Range of exercise price of Unit options outstanding, end of period	-	**3.25 to 4.62**	-	3.25
Unit options vested, end of period	**237,500**	**4.26**	62,500	3.25
Expiry date	**2011 to 2012**		2011	

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

	2007 Options	**2006 Options** (audited)
Distribution yield	**8.8%**	11.4%
Expected volatility	**52.7%**	60.8%
Risk-free interest rate	**4.8%**	4.3%
Estimated compensation costs	**$304,500**	$45,000

The compensation costs were expensed at the date of grant.

13. 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**	
	2007	**2006**	**2007**	**2006**
Weighted average Units	**18,939,039**	8,273,532	**18,597,808**	6,857,135

The effect of the options under the Unit Purchase Plan issued to certain Trustees *[note 12]* and conversion of the convertible debentures *[note 8]* are not presented as they would have an anti-dilutive effect on the income (loss) per Unit.

14. 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:

	June 30 2007 $	**December 31 2006** $
		(audited)
Accounts payable and accrued liabilities to		
LMI	**94,177**	59,580
Lakeview Flag Licensing General Partnership *[note 7]*	**77,256**	44,043
Lakeview Flag Management General Partnership *[note 15]*	**103,421**	64,580
XYZ Design Inc.	**375**	-

	Three Months Ended June 30		**Six Months Ended June 30**	
	2007 $	**2006** $	**2007** $	**2006** $
Marketing expenses paid to				
Free to Guest Movies Ltd.	**42,645**	16,531	**81,470**	23,259
LMI	**41,616**	20,641	**88,343**	38,553
Included in general and administration expense				
Accounting fees paid to				
LMI	**101,743**	57,195	**192,698**	94,729
Asset management fees paid to				
LMI	**74,867**	-	**140,644**	-
Reservation fees paid to				
LMI	**62,468**	30,960	**132,557**	57,830
License fees paid to				
Lakeview Flag Licensing General Partnership *[note 7]*	**166,608**	82,562	**353,517**	154,213
Management fees paid to				
Lakeview Flag Management General Partnership *[note 15]*	**235,400**	149,323	**484,218**	258,692
Professional fees paid to				
XYZ Design Inc.	**2,711**	-	**5,336**	-
Capitalized to income properties				
Professional fees paid to				
XYZ Design Inc.	**12,603**	-	**19,780**	-
Keith Levit Photography	**8,825**	-	**8,825**	-

Under the License Agreement *[note 7],* 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
[Gross room revenue is defined in note 7]	

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.

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.

Effective October 1, 2006, LMI began to charge an asset management fee based on 0.3% of the net book value of income properties. The fee is paid monthly on the last day of every month and is based on the net book value of income properties at the end of the previous month.

15. 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 limited service Lakeview Hotel REIT property for a fee equal to 5% of gross revenue and to each full service Lakeview Hotel REIT property for a fee equal to 4% 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 2007 $	**December 31 2006** $
		(audited)
Assets – current	**34,586**	24,532
Liabilities – current	**1,950**	1,379

	Three Months Ended June 30		**Six Months Ended June 30**	
	2007 $	**2006** $	**2007** $	**2006** $
Revenue	**78,552**	49,796	**161,537**	86,259
Expenses	**11**	203	**54**	211
Net income	**78,541**	49,593	**161,483**	86,048
Cash flows				
Cash provided by operating activities	**88,175**	41,784	**150,875**	71,361
Cash used in financing activities	**(88,250)**	(42,000)	**(152,000)**	(71,500)
Decrease in cash	**(75)**	(216)	**(1,125)**	(139)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 payable 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.

Management's involvement in operations helps identify risks and variations from expectations. The Lakeview Hotel REIT does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management considers the avoidance of undue concentrations of risk. The Trust manages the risks, as follows:

- Fluctuations in interest rate creates a cash flow risk which is minimized by obtaining long term mortgages. There is a risk that interest rates will fluctuate subsequent to the date the Trust commits to a fixed interest rate with the lender. Obtaining long-term mortgages with fixed interest rates minimizes cash flow risk. The Declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties. As at June 30, 2007, the total of mortgage loans payable is 48.3% (2006 – 43.9%) of the total estimated current value of income properties.

17. INCOME TAXES

Based on its assets and liabilities as at June 30, 2007, Lakeview Hotel REIT has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. Lakeview Hotel REIT estimates that approximately $3,759,048 net taxable temporary differences will reverse after January 1, 2011, resulting in an additional $1,184,100 future income tax liability. The taxable temporary differences related principally to Lakeview Hotel REIT's income properties.

As the legislation gives rise to a change in Lakeview Hotel REIT's estimated future income tax liability in the period, the recognition of the additional liability is accounted for prospectively in the period and an additional $1,184,100 of future income tax expense has been recorded for the period.