

Consolidated Financial Statements

**Lakeview Hotel Real Estate Investment Trust**

September 30, 2006

(Unaudited)

**LAKEVIEW HOTEL REAL ESTATE  
INVESTMENT TRUST**

Supplement to Consolidated Financial Statements  
for the Three Months and Nine Months ended September 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 nine months ended September 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

	September 30 2006 \$	December 31 2005 \$
		(audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	1,779,697	5,804,428
Reserve fund [note 9]	420,333	175,615
Deposits held in trust [note 15]	125,000	575,000
Accounts receivable	1,342,917	560,879
Inventory	20,070	22,998
Prepaid expenses	431,710	321,205
<b>Total current assets</b>	<b>4,119,727</b>	<b>7,460,125</b>
Deferred financing costs [note 3]	901,242	471,603
Franchise fees [note 4]	64,138	-
Income properties [notes 2 and 5]	65,011,596	21,930,314
Investment in Lakeview Flag Licensing General Partnership [note 6]	36,207	16,367
	<b>70,132,910</b>	<b>29,878,409</b>
<b>LIABILITIES AND UNITHOLDERS 'EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities [note 13]	1,631,711	558,621
Distributions payable	334,372	162,750
Loan payable [note 8]	250,000	-
Current portion of mortgages payable [note 9]	1,707,095	476,977
<b>Total current liabilities</b>	<b>3,923,178</b>	<b>1,198,348</b>
Convertible debentures [note 7]	2,720,636	4,735,597
Mortgages payable [notes 2 and 9]	38,399,206	11,532,980
<b>Total liabilities</b>	<b>45,043,020</b>	<b>17,466,925</b>
<b>Unitholders 'equity</b>	<b>25,089,890</b>	<b>12,411,484</b>
	<b>70,132,910</b>	<b>29,878,409</b>

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		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>REVENUE</b>				
Rooms	5,113,349	1,319,007	11,337,757	2,404,893
Food and beverage	190,667	209,643	571,933	276,043
Interest and miscellaneous	178,117	112,485	502,047	159,590
	<b>5,482,133</b>	<b>1,641,135</b>	<b>12,411,737</b>	<b>2,840,526</b>
<b>EXPENSES</b>				
Amortization				
Deferred financing costs	63,953	28,645	161,053	73,942
Franchise fees	4,325	-	6,843	-
Income properties	621,630	150,282	1,492,262	285,484
Food and beverage	127,736	132,074	371,921	174,615
General and administration [note 13]	909,077	279,800	2,316,065	543,095
Insurance	48,828	14,275	117,366	34,487
Interest – mortgage and debentures	783,138	345,185	2,130,455	817,714
Maintenance	89,059	17,915	193,051	43,587
Marketing [note 13]	257,147	70,052	493,996	130,134
Property taxes	168,583	58,420	431,848	150,066
Salaries and benefits	1,023,236	297,562	2,263,008	558,183
Supplies	108,136	37,239	254,616	73,116
Utilities	170,005	50,954	419,128	102,310
	<b>4,374,853</b>	<b>1,482,403</b>	<b>10,651,612</b>	<b>2,986,733</b>
Income (loss) before the following	1,107,280	158,732	1,760,125	(146,207)
Income from Lakeview Flag Licensing General Partnership [note 6]	113,350	51,038	244,260	124,242
<b>Net income (loss) for the period</b>	<b>1,220,630</b>	<b>209,770</b>	<b>2,004,385</b>	<b>(21,965)</b>
Basic and diluted income (loss) per Unit [note 12]	0.126	0.067	0.256	(0.011)

See accompanying notes

## Lakeview Hotel Real Estate Investment Trust

### CONSOLIDATED STATEMENTS OF UNITHOLDERS 'EQUITY

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Unitholders ' capital</b>				
Balance, beginning of period	24,119,668	2,481,470	12,090,227	664,618
Issuance of Units by private placement	-	10,350,000	11,500,002	12,350,000
Issuance of Units on exercise of Unit options	57,850	-	57,850	-
Issuance costs	-	(741,243)	(816,764)	(924,391)
Conversion of debentures	1,550,882	-	2,897,085	-
Balance, end of period	25,728,400	12,090,227	25,728,400	12,090,227
<b>Equity portion of convertible debentures</b>				
Balance, beginning of period	1,269,297	1,588,896	1,588,896	1,155,178
Issuance of convertible debentures	-	-	-	433,718
Conversion of debentures	(388,985)	-	(708,584)	-
Balance, end of period	880,312	1,588,896	880,312	1,588,896
<b>Contributed capital</b>				
Balance, beginning of period	63,000	8,750	18,000	8,750
Issuance of Unit options	-	9,250	45,000	9,250
Issuance of Units on exercise of Unit options	(9,050)	-	(9,050)	-
Balance, end of period	53,950	18,000	53,950	18,000
<b>Accumulated earnings (deficit)</b>				
Balance, beginning of period	554,491	(679,869)	(229,264)	(448,134)
Net income (loss) for the period	1,220,630	209,770	2,004,385	(21,965)
Balance, end of period	1,775,121	(470,099)	1,775,121	(470,099)
<b>Accumulated distributions</b>				
Balance, beginning of period	(2,363,883)	(333,750)	(1,056,375)	(176,250)
Distributions declared	(984,010)	(234,375)	(2,291,518)	(391,875)
Balance, end of period	(3,347,893)	(568,125)	(3,347,893)	(568,125)
<b>Unitholders ' equity, end of period</b>	<b>25,089,890</b>	<b>12,658,899</b>	<b>25,089,890</b>	<b>12,658,899</b>

See accompanying notes

Lakeview Hotel Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	1,220,630	209,770	2,004,385	(21,965)
Add charges (deduct credits) to operations not requiring a current cash payment				
Amortization of income properties	621,630	150,282	1,492,262	285,484
Amortization of deferred financing costs	63,953	28,645	161,053	73,942
Amortization of franchise fees	4,325	-	6,843	-
Compensation costs of Unit options	-	9,250	45,000	9,250
Income from Lakeview Flag Licensing General Partnership	(113,350)	(51,038)	(244,260)	(124,242)
Accretion on liability component of convertible debentures	47,206	59,687	173,540	150,512
	1,844,394	406,596	3,638,823	372,981
Net change in non-cash working capital balances related to operations	(16,036)	(3,338,433)	514,727	(3,385,818)
<b>Cash provided by (used in) operating activities</b>	<b>1,828,358</b>	<b>(2,931,837)</b>	<b>4,153,550</b>	<b>(3,012,837)</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of properties, cash consideration [note 2]	-	-	(43,983,682)	(7,628,948)
Additions to income properties	(356,509)	(20,695)	(544,210)	(36,237)
Increase in franchise fees	-	-	(70,981)	-
Distributions from Lakeview Flag Licensing General Partnership	105,840	49,980	224,420	117,600
<b>Cash provided by (used in) investing activities</b>	<b>(250,669)</b>	<b>29,285</b>	<b>(44,374,453)</b>	<b>(7,547,585)</b>
<b>FINANCING ACTIVITIES</b>				
Increase in deferred financing costs	-	-	(590,692)	(143,912)
Unitholders' distributions				
Class A	(934,010)	(196,875)	(2,146,518)	(304,375)
Exchangeable Units	(50,000)	(37,500)	(145,000)	(87,500)
Proceeds from loan	-	-	2,780,000	-
Repayment of loan	(530,000)	-	(2,530,000)	-
Proceeds from mortgages	-	-	31,935,000	4,550,000
Repayment of mortgages	(241,162)	(70,783)	(3,838,656)	(129,124)
Proceeds of convertible debentures	-	-	-	1,500,000
Units issued by private placement	-	10,350,000	11,500,002	12,350,000
Cost of raising capital	-	(741,243)	(816,764)	(924,391)
Issuance of Units on exercise of Unit options	48,800	-	48,800	-
<b>Cash provided by (used in) financing activities</b>	<b>(1,706,372)</b>	<b>9,303,599</b>	<b>36,196,172</b>	<b>16,810,698</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>(128,683)</b>	<b>6,401,047</b>	<b>(4,024,731)</b>	<b>6,250,276</b>
Cash and cash equivalents, beginning of period	1,908,380	361,696	5,804,428	512,467
Cash and cash equivalents, end of period	1,779,697	6,762,743	1,779,697	6,762,743
<b>Supplemental cash flow information</b>				
Cash paid for interest	698,875	130,019	1,779,705	499,741

*See accompanying notes*

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 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

September 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

September 30, 2006

Unaudited

#### [g] Related parties

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

<b>Related parties</b>	<b>Nature of relationship</b>
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

September 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.

#### [1] 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:

	<b>2005</b>		
	<b>(audited)</b>		
	<b>Black Gold Inn - Drayton Valley</b>	<b>Lakeview Inn &amp; Suites - Hinton</b>	<b>Total</b>
	\$	\$	\$
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

September 30, 2006

Unaudited

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

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**

	Lakeview Inn & Suites - Okotoks \$	Lakeview Inn & Suites –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)
	<b>6,250,638</b>	<b>7,396,642</b>	<b>8,243,421</b>	<b>21,890,701</b>

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

September 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)
	<b>4,621,367</b>	<b>5,657,716</b>	<b>11,813,898</b>	<b>22,092,981</b>

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].

No hotels were acquired during the three-month period ended September 30, 2006.

Lakeview Hotel Real Estate Investment Trust

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2006  
Unaudited

**3. DEFERRED FINANCING COSTS**

	September 30 2006 \$	December 31 2005 \$
		(audited)
Cost	1,234,157	643,465
Less accumulated amortization	(332,915)	(171,862)
	<b>901,242</b>	<b>471,603</b>

**4. FRANCHISE FEES**

	September 30 2006 \$	December 31 2005 \$
		(audited)
Cost	70,981	-
Less accumulated amortization	(6,843)	-
	<b>64,138</b>	<b>-</b>

**5. INCOME PROPERTIES**

	<u>September 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	53,811,301	1,162,544	52,648,757	18,375,603	374,927	18,000,676
Parking lot	204,402	11,023	193,379	-	-	-
Signs	130,606	3,470	127,136	-	-	-
Furniture, fixtures and equipment	5,685,968	941,508	4,744,460	2,458,613	251,356	2,207,257

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Unaudited

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67,130,141	2,118,545	65,011,596	22,556,597	626,283	21,930,314
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#### 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

September 30, 2006  
Unaudited

Investment in Lakeview Flag Licensing General Partnership:

	<b>Nine Months Ended September 30 2006 \$</b>	<b>Year Ended December 31 2005 \$</b>
		(audited)
Investment, beginning of period	<b>16,367</b>	9,279
Equity income	<b>244,260</b>	170,258
Distribution received	<b>(224,420)</b>	(163,170)
Investment, end of period	<b>36,207</b>	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 period April 16, 2006 to September 30, 2006, \$2,107,000 of the convertible debentures issued April 15, 2004 were converted at a price of \$2.50 into 842,800 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.

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006  
Unaudited

During 2006, \$580,000 of the convertible debentures issued May 30, 2005 were converted at a price of \$2.90 into 199,990 Class A Units.

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.

	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
	<b>4,411,104</b>	<b>1,588,896</b>	<b>6,000,000</b>

	September 30 2006 \$	December 31 2005 \$
		(audited)
Debt component at issue date	4,411,104	4,411,104
Accretion of debt component of convertible debentures	498,033	324,493
Conversion of debentures	(2,188,501)	-
	<b>2,720,636</b>	<b>4,735,597</b>

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

	September 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 9.12%.	<b>250,000</b>	-

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Unaudited

#### 9. MORTGAGES PAYABLE

	September 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 6.93% (2005 – 6.19%)	4,427,124	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 7.18% (2005 – 6.35%)	3,578,386	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 Lakeview Inn & Suites – Okotoks, an assignment of the insurance policy on the property, an		

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Unaudited

assignment of rents and leases of the property and an assignment of material contracts and agreements	<b>3,967,349</b>	-
[f] Mortgage payable, bearing interest at 5.93% per annum, due February 1, 2011, collateralized by a first charge on the property of the Lakeview Inn & Suites – 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	<b>4,606,832</b>	-
[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	<b>4,105,883</b>	-
[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	<b>5,144,092</b>	-
[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	<b>3,048,679</b>	-
[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	<b>3,106,899</b>	-
[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	<b>7,621,057</b>	-
	<b>40,106,301</b>	12,009,957
Less current portion	<b>1,707,095</b>	476,977

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006  
Unaudited

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<b>38,399,206</b>	11,532,980
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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	294,536
2007	1,726,659
2008	8,506,383
2009	991,276
2010	1,053,335
Thereafter	27,534,112
	<hr/> <b>40,106,301</b>

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

**Lakeview Hotel Real Estate Investment Trust**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2006  
Unaudited

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

September 30, 2006  
Unaudited

	Nine Months Ended September 30 2006 \$	Year Ended December 31 2005 \$ (audited)
Reserve fund, beginning of period	175,615	107,630
Contributions	300,371	144,115
Distributions	(55,653)	(76,130)
Reserve fund, end of period	<b>420,333</b>	175,615

10. UNITHOLDERS' CAPITAL

	Class A Units \$	Class V Special Trust Units and Exchangeable Units \$	Class T Special Trust Units \$	Total Unitholders' capital \$
<b>Balance, December 31, 2004</b>	<b>664,617</b>	<b>1</b>	-	<b>664,618</b>
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)
<b>Balance, December 31, 2005</b> (audited)	<b>12,090,226</b>	<b>1</b>	-	<b>12,090,227</b>
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]	2,897,085	-	-	2,897,085
Issuance of Units on exercise of Unit options	57,850	-	-	57,850
<b>Balance, September 30, 2006</b>	<b>25,728,399</b>	<b>1</b>	-	<b>25,728,400</b>

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 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 #
<b>Balance, December 31, 2004</b>	<b>675,000</b>	<b>500,000</b>	<b>1</b>
Issuance of Units in private placement – May 30, 2005	800,000	-	-
Issuance of Units in private placement – September 2, 2005	3,450,000	-	-
<b>Balance, December 31, 2005</b> (audited)	<b>4,925,000</b>	<b>500,000</b>	<b>1</b>
Issuance of Units in private placement – April 27, 2006	3,538,462	-	-
Conversion of debentures [note 7]	1,042,790	-	-
Issuance of Units on exercise of Unit options	25,000	-	-
<b>Balance, September 30, 2006</b>	<b>9,531,252</b>	<b>500,000</b>	<b>1</b>

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.

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006  
Unaudited

- 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.

#### 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 September 30, 2006 and September 30, 2005 respectively, distributions of \$0.10 and \$0.075 per Class A Unit and per Exchangeable Unit were declared, totalling \$984,010 and \$234,375.

For the nine-month periods ended September 30, 2006 and September 30, 2005 respectively, distributions of \$0.29 and \$0.175 per Class A Unit and per Exchangeable Unit were declared, totalling \$2,291,518 and \$391,875.

#### 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

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006  
Unaudited

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.

#### 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:

**Lakeview Hotel Real Estate Investment Trust**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2006  
Unaudited

	<b>Nine Months Ended September 30 2006</b>		<b>Year Ended December 31 2005</b>	
			(audited)	
	<b>Number of options</b>	<b>Weighted average exercise price \$</b>	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
Unit options outstanding, beginning of period	<b>50,000</b>	<b>1.96</b>	25,000	2.00
Unit options granted	<b>62,500</b>	<b>3.25</b>	25,000	1.92
Unit options exercised	<b>(25,000)</b>	<b>1.95</b>	-	-
Unit options outstanding, end of period	<b>87,500</b>	<b>2.88</b>	50,000	1.96
Range of exercise price of Unit options outstanding, end of period	-	<b>1.92 to 3.25</b>	-	1.92 to 2.00
Unit options vested, end of period	<b>87,500</b>	<b>2.88</b>	50,000	1.96
Expiry date	<b>2009 to 2011</b>		2009 to 2010	

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

	<b>2006 Options (issued June 20)</b>	<b>2005 Options (issued July 13)</b>
		(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:

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006  
Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Weighted average Units	9,699,205	3,125,000	7,814,902	1,913,889

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:

	September 30 2006 \$	December 31 2005 \$
Accounts payable and accrued liabilities to		(audited)
LMI	56,850	20,692
Lakeview Flag Licensing General Partnership [note 6]	53,328	20,568
Lakeview Flag Management General Partnership [note 14]	71,113	23,949

	Three Months Ended September 30		Nine Months Ended September 30	
	2006 \$	2005 \$	2006 \$	2005 \$
Marketing expenses paid to				
Free to Guest Movies Ltd.	25,108	2,772	48,367	8,386
LMI	38,316	6,510	76,869	15,569
Accounting fees paid to				
LMI [included in general and administration expense]	67,958	15,000	162,687	32,500

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Unaudited

Reservation fees paid to LMI [included in general and administration expense]	<b>57,474</b>	9,764	<b>115,304</b>	23,353
License fees paid to Lakeview Flag Licensing General Partnership [included in general and administration expense <i>[note 6]</i> ]	<b>153,264</b>	26,038	<b>307,477</b>	62,275
Management fees paid to Lakeview Flag Management General Partnership [included in general and administration expense <i>[note 14]</i> ]	<b>204,688</b>	60,979	<b>463,380</b>	105,498

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

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 Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006  
Unaudited

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

	September 30 2006 \$	December 31 2005 \$ (audited)
Assets – current	23,758	8,136
Liabilities – current	1,341	521

	Three Months Ended September 30		Nine Months Ended September 30	
	2006 \$	2005 \$	2006 \$	2005 \$
Revenue	68,263	20,331	154,522	35,171
Expenses	9	7	220	412
Net income	68,254	20,324	154,302	34,759

	Three Months Ended September 30		Nine Months Ended September 30	
	2006 \$	2005 \$	2006 \$	2005 \$
Cash provided by operating activities	68,041	18,969	139,402	29,223
Cash used in financing activities	(68,000)	(18,950)	(139,500)	(29,200)
Increase (decrease) in cash	41	19	(98)	23

#### 15. SUBSEQUENT EVENTS

- a) 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. began to charge an asset management fee based on 0.3% of the Net Book Value of Income Properties. The fee will be paid monthly

## Lakeview Hotel Real Estate Investment Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Unaudited

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.

- b) Subsequent to September 30, 2006, \$146,000 of the convertible debentures issued April 15, 2004 [note 7] were converted at a price of \$2.50 into 58,400 Class A Units.
- c) On November 8, 2006, the Lakeview Hotel REIT issued, under a private placement, 8,000,000 Class A Units at a price of \$4.00 per Unit. Total gross proceeds were \$32,000,000 before offering costs of approximately \$2,140,000.
- d) On October 13, 2006, the Lakeview Hotel REIT received an additional \$2,000,000 under the Pre-Approved Line of Credit [note 8].
- e) On November 15, 2006, with proceeds from the private placement in (c) above, the Lakeview Hotel REIT fully repaid mortgages (c) and (d) in Note 9.
- f) Effective October 16, 2006, the Lakeview Hotel REIT acquired the business only of the Ramada Limited hotel and the Fogg n' Suds restaurant located in Fort St. John, British Columbia for total consideration of \$815,000 plus closing adjustments. The hotel was immediately converted to and operated as a Lakeview Inn & Suites hotel as of this date. On November 10, 2006, the land and building were also acquired for total consideration of \$7,875,000 plus closing adjustments. As at September 30, 2006, a deposit of \$100,000 had been made against the purchase price. The cash consideration for this purchase was financed by a combination of proceeds from the private placement in (c) above and the additional funding under the Pre-Approved Line of Credit in (d) above.
- g) Effective October 24, 2006, the Lakeview Hotel REIT acquired the business only of the Days Inn hotel located in Chetwynd, British Columbia for total consideration of \$445,000 plus closing adjustments. The hotel was immediately converted to and operated as a Lakeview Inn & Suites hotel as of this date. On November 9, 2006, the land and building were also acquired for total consideration of \$6,693,500 plus closing adjustments. As at September 30, 2006, a deposit of \$25,000 had been made against the purchase price. The cash consideration for this purchase was financed by a combination of proceeds from the private placement in (c) above and the additional funding under the Pre-Approved Line of Credit in (d) above.
- h) On September 26, 2006, the Lakeview Hotel REIT signed a Letter of Intent relating to the acquisition of a hotel currently under construction in Fort Nelson, British Columbia for total consideration of \$10,045,000. The acquisition is expected to close during the first quarter of 2007.