



**Lakeview Hotel Real Estate Investment Trust  
Management Discussion and Analysis  
for the Year ended  
December 31, 2008**

April 28, 2009

Management's discussion and analysis of financial conditions and results of operations (MD&A) should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008. The consolidated financial statements for the year ended December 31, 2008, have been prepared by and are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

**OVERVIEW AND PORTFOLIO SUMMARY**

Lakeview Hotel Real Estate Investment Trust (Lakeview Hotel REIT) is an unincorporated closed-end mutual fund trust created pursuant to a Declaration of Trust dated February 11, 2004. The Qualifying Transaction was completed on April 15, 2004 through a private offering of Lakeview Hotel REIT units, a public offering of Lakeview Hotel REIT subordinate convertible debentures, and the acquisition of the Lakeview Inn & Suites - Fredericton hotel. Through December 31, 2008 Lakeview Hotel REIT had acquired 18 hotels including the Fredericton property.

The results of their operations are included in the December 31, 2008 audited consolidated financial statements of Lakeview Hotel REIT.

The table below provides details on the hotels owned by Lakeview Hotel REIT as of December 31, 2008.

<b>Property</b>	<b>Date of Purchase</b>	<b>Date of Conversion to Lakeview Brand</b>	<b>Number of Rooms</b>
Lakeview Inn & Suites – Fredericton, NB	April 15, 2004	April 15, 2004	98
Best Western Black Gold Inn – Drayton Valley, AB	June 1, 2005	December 1, 2005	91
Ramada Limited & Suites – Hinton, AB	November 4, 2005	November 4, 2005	55
Best Western Okotoks Lodge – Okotoks, AB	January 6, 2006	July 1, 2006	64
Best Western Fort Inn & Suites – Fort Saskatchewan, AB	January 13, 2006	July 1, 2006	70
Super 8 Toronto North – Vaughan, ON	March 17, 2006	N/A	85
Super 8 Motel – Edson, AB	April 7, 2006	April 7, 2006	45
Ramada Limited – Whitecourt, AB	May 31, 2006	May 31, 2006	50
Holiday Inn Express & Suites – Sherwood Park, AB	June 1, 2006	N/A	90
Ramada Limited – Fort St. John, BC	October 16, 2006 and November 10, 2006	October 16, 2006	73
Days Inn – Chetwynd, BC	October 24, 2006 and November 9, 2006	October 24, 2006	59
Lakeview Inn & Suites – Fort Nelson, BC	January 8, 2007	January 8, 2007	82
Lakeview Inn & Suites – Edson Airport West, AB	April 16, 2007	April 16, 2007	69
Holiday Inn Express & Suites – Brooks, AB	May 15, 2007	May 15, 2007	78
Residence Inn Marriott – Calgary, AB	June 22, 2007	June 22, 2007	120
Best Western – Slave Lake, AB	November 15, 2007	January 3, 2008	68
Four Points by Sheraton – Prince George, BC	April 3, 2008	N/A	74
Days Inn – Ottawa Airport, ON	August 1, 2008	N/A	81
<b>Total room count</b>			<b>1352</b>

In addition to income earned from hotel operations Lakeview Hotel REIT also earns income from licensing fees charged to certain Lakeview Inn & Suites hotels which are owned by Lakeview Management Inc. (a unitholder of Lakeview Hotel REIT) and include hotels in Bathurst, New Brunswick; Brandon, Manitoba; Grand Forks, North Dakota; Halifax, Nova Scotia; and Miramichi, New Brunswick. License fees are also earned from Lakeview Inn & Suites Tumbler Ridge, British Columbia, Lakeview Inn & Suites Hudson's Hope, British Columbia, and Lakeview Inn & Suites Fox Creek, Alberta.

As at April 28, 2009 the following units of Lakeview Hotel REIT were issued and outstanding:

Class A Units	19,057,806
Class V Special Trust Units and Exchangeable Units	<u>500,000</u>
Total Units that participate pro rata in distribution	<u>19,557,806</u>
Class T Special Trust Unit (1)	<u><u>1</u></u>

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

## HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2008

Highlights for the year ended December 31, 2008.

- Total number of properties owned by the REIT increased from 16 to 18.
- Total number of rooms owned by the REIT increased from 1,197 to 1,352.
- Total revenues increased from \$32,016,702 to \$40,748,341.
- Portfolio occupancy increased from 61.87% to 62.35%.
- Portfolio average room rate increased from \$113.93 to \$119.67.
- Portfolio RevPar increased from \$70.49 to \$74.62.
- Hotels acquired in 2008 in Prince George, BC and in Ottawa, ON continued Lakeview REIT's efforts to diversify its holdings out of locations dependent on natural gas drilling activity.

## KEY PERFORMANCE MEASURES

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

	Three months ended December 31		Twelve months ended December 31	
	2008	2007	2008	2007
Occupancy Percentage <sup>(1)</sup>	57.75%	58.56%	62.35%	61.87%
Average Room Rate <sup>(1)</sup>	\$121.57	\$113.46	\$119.67	\$113.93
RevPar <sup>(1)</sup>	\$70.20	\$66.44	\$74.62	\$70.49
Rooms Occupied	70,977	62,582	292,428	232,593

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

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

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

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

*supplement other information presented in understanding the performance of our hotels in a historical perspective.*

Average daily rates, occupancy and RevPar all increased for the year ended December 31, 2008 compared to the year ended December 31, 2007.

## RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three months and year ended December 31, 2008 compared to the results of operations for the comparable periods in 2007:

	Three months ended		Year ended	
	December 31		December 31	
	2008	2007	2008	2007
Hospitality Revenue				
Room	8,626,842	7,125,694	35,134,621	26,571,849
Food & Beverage	916,585	1,144,371	3,732,213	4,134,751
Other	568,111	396,211	1,881,507	1,310,102
Total Revenue	10,111,538	8,666,276	40,748,341	32,016,702
Expenses	11,542,946	9,232,691	43,003,769	31,026,291
Net Income (Loss) before future income tax expense	(1,431,408)	(566,415)	(2,255,428)	990,411
Basic and diluted income (loss) before income tax per unit	(0.074)	(0.029)	(0.117)	0.052
Future Income Tax (Expense) Recovery (1)	816,000	435,100	734,000	(734,000)
Net Income (loss)	(615,408)	(131,315)	(1,521,428)	256,411
Basic and Diluted Income (Loss) per Unit	(0.032)	(0.007)	(0.079)	0.014
Reconciliation to funds from Operations				
Add (deduct)				
Amortization of income properties	1,669,487	1,391,925	6,212,645	4,592,915
Amortization of franchise fees	12,435	12,534	48,534	34,969
Distributions from Lakeview Flag Licensing General Partnership	182,280	155,330	537,530	537,530
Income from Lakeview Flag Licensing General Partnership	(177,302)	(141,368)	(617,334)	(547,807)
Future income tax expense (recovery)	(816,000)	(435,100)	(734,000)	734,000
Funds from Operations	255,492	852,006	3,925,947	5,608,018
Basic and diluted funds from Operations per unit	0.013	0.044	0.204	0.296
Contributions to reserve account	(236,047)	(235,021)	(1,160,788)	(951,428)
Adjusted funds from Operations	19,445	616,985	2,765,159	4,656,590
Basic and diluted adjusted funds from Operations per unit	0.001	0.032	0.143	0.246
Reconciliation to distributable income				
Accretion on debt component of convertible debentures	245,109	138,403	846,657	382,613
Accretion of debentures	43,005		124,372	
Accretion of mortgages payable	51,764	43,265	204,192	137,188
Decretion of mortgages receivable	3554		6,879	-
Compensation costs of unit options	0		55,845	304,500
Distributable income	362,877	798,653	4,003,104	5,480,891
Basic and diluted distributable income per units	0.019	0.041	0.208	0.289
Distributions	1,092,879	2,121,564	7,458,352	8,351,629

1) *This is a non cash charge (recovery) to earnings relating to Lakeview Hotel REIT's timing differences between the accounting and tax basis of the assets and liabilities of the Trust. This change will have no impact on Lakeview Hotel REIT's cash flows or distributions.*

## OPERATING RESULTS REVIEW – THREE MONTHS ENDED DECEMBER 31, 2008

Room Revenue - For the quarter ended December 31, 2008 room revenue increased by \$1,501,148 from \$7,125,694 for the quarter ended December 31, 2007, to \$8,626,842. The reason for this increase is that the quarter ended December 31, 2008 included the operations of all eighteen hotels in Lakeview Hotel REIT whereas the room revenue for the quarter ended December 31, 2007 only included the operation of sixteen hotels in Lakeview Hotel REIT.

Food & Beverage and Gift Shop – Revenue is earned from restaurant facilities in the Lakeview Inn & Suites - Drayton Valley, the Lakeview Inn & Suites – Fort St. John, the Lakeview Inn & Suites, Fort Saskatchewan and the Four Points by Sheraton Prince George.

Other Income – The increase in Other Income for the quarter ended December 31, 2008 is due to the income from Lakeview Flag Licensing General Partnership. This income will continue to grow as more Lakeview Inns & Suites are added to the hotels owned by Lakeview Hotel REIT which increases the license fees charged. The 2008 fourth quarter results also include the operation of all eighteen hotels in Lakeview Hotel REIT as compared to only sixteen hotels for the 2007 fourth quarter period.

Expenses – Expenses for the fourth quarter of 2008 increased by \$2,310,255 from \$9,232,691 for the fourth quarter ended December 31, 2007 to \$11,542,946. This increase was made up primarily from a \$277,562 increase in amortization of income properties; a \$782,776 increase in mortgage and debenture interest; a \$377,555 increase in salaries and benefits; and a \$517,178 increase in general and administration expense.

Net Income (Loss) before future income tax expense - Net (loss) increased from a loss of \$566,415 for the fourth quarter ended December 31, 2007, to a loss of \$1,431,408 for the quarter ended December 31, 2008.

## **OPERATING RESULTS REVIEW – YEAR ENDED DECEMBER 31, 2008**

Room Revenue - For the year ended December 31, 2008 room revenue increased by \$8,562,772, from \$26,571,849 for the year ended December 31, 2007, to \$35,134,621. The increase can be attributed to primarily five properties. The Lakeview Signature Inn in Calgary operated for only 6 months in 2007 and had an increase in room revenues of \$2,192,962 in 2008 over 2007. The Four Points by Sheraton Prince George and the Days Inn Ottawa Airport were not in the REIT portfolio in of 2007. They had room revenues in 2008 of \$3,325,929. Lakeview Inn & Suites, Slave Lake only had 6 weeks of operation in 2007. The Slave Lake hotel contributed room revenue of \$1,968,245 for 2008 over 2007 revenue. The Lakeview Inn & Suites Fort Nelson is in the process of ramping up and had an increase in room revenues of \$780,224 in 2008.

Food & Beverage and Gift Shop – Revenue is earned from restaurant facilities in the Lakeview Inn & Suites - Drayton Valley, the Lakeview Inn & Suites – Fort St. John, Lakeview Inn & Suites, Fort Saskatchewan and Four Points by Sheraton Prince George.

Other Income – The increase in Other Income for the year ended December 31, 2008 is due to the income from Lakeview Flag Licensing General Partnership. This income will continue to grow as more Lakeview Inns & Suites are added to the hotels owned by Lakeview Hotel REIT which increases the license fees charged. The 2008 year end results also include the operation of all eighteen hotels in Lakeview Hotel REIT as compared to only sixteen hotels for the 2007 year period.

Expenses – Expenses for the year ended December 31, 2008 increased by \$11,977,478 from \$31,026,291 for the year ended December 31, 2007 to \$43,003,769. The largest components of this increase were a \$4,034,192 increase in mortgage and debenture interest; a \$2,389,944 increase in salaries and benefits; a \$1,619,730 increase in amortization of income properties; and a \$1,817,768 increase in general & administration expense.

Net Income (Loss) before future income tax expense - Net income (loss) decreased from income of \$990,411 for the year ended December 31, 2007, to a loss of (\$2,255,428) for the year ended December 31, 2008. This change can be attributed largely to the poorer performance of Lakeview Hotel REIT portfolio of hotels in the first half of 2008 relative to the first half of 2007 and to increases in amortization of income properties, general & administration expenses, mortgage and debenture interest, marketing expenses, and salaries & benefits.

## **NON GAAP FINANCIAL MEASURES**

Included in this MD&A are certain non GAAP financial measures, which are a measure of Lakeview Hotel REIT's historical or future financial performances that are not calculated or presented in accordance with GAAP. These measures may not be comparable to similar measures presented by other entities and include distributable income, funds from operations, and adjusted funds from operations.

### **DISTRIBUTABLE INCOME**

Distributable income is commonly used in the Real Estate Investment Trust industry to measure financial performance. Lakeview Hotel REIT calculates distributable income to reflect distributable cash which is defined in Lakeview Hotel REIT's Declaration of Trust as:

All revenues received or receivable including net realized capital gains and such other amounts as the Trust may receive from time to time, by the Trust in the applicable period adjusted for:

- i. Administrative and operational expenses and other obligations of the Trust,
- ii. Amounts which may be used for acquisitions or other business purposes,
- iii. Amounts required for replacement reserves, and
- iv. Such other amounts as the Trustees deem appropriate and necessary.

Distributable income is used by management to determine the level of distributions paid to unit holders and as a result is a useful supplemental measure of the Lakeview Hotel REIT's operating performance for investors.

Distributable income decreased by \$435,776 from \$798,653 for the quarter ended December 31, 2007 to \$362,877 for the quarter ended December 31, 2008 and decreased \$1,477,787 from \$5,480,891 from the year ended December 31, 2007 to \$4,003,104 for the year ended December 31, 2008.

## **FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS**

Funds from operations (FFO) is a standard industry wide measure of a real estate entity's operating performance. The Real Property Association of Canada defines FFO as net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from sales of depreciable real estate and extraordinary items, plus depreciation and amortization, plus future income taxes and after adjustment for equity accounted for entities, and non controlling interests.

FFO provides another useful measure of Lakeview Hotel REIT's performance as FFO excludes the effect of real estate amortization and gains and losses from sales of real estate, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance. Management believes that such a measure is useful in comparison of operating performance between periods and with other REITs. FFO, for the three months ended December 31, 2008, was \$255,492 compared to \$852,006 for the same period in 2007. For the year ended December 31, 2008, FFO was \$3,925,947 compared to \$5,608,018 in 2007.

Adjusted funds from operation (AFFO) has a further adjustment to funds from operations by taking into account the impact of capital requirements for Lakeview Hotel REIT and is calculated by deducting the contribution to the reserve account from FFO. AFFO decreased by \$597,540 from \$616,985 for the three months ended December 31, 2007 to \$19,445 for the three months ended December 31, 2008, AFFO decreased by \$1,891,431 from \$4,656,590 for the year ended December 31, 2007 to \$2,765,159 for the year ended December 31, 2008.

## **LIQUIDITY AND CASH FLOW**

At December 31, 2008 Lakeview Hotel REIT had cash and term deposits of \$1,751,665 and a balance in the reserve fund of \$545,824. Lakeview Hotel REIT's objective is to have sufficient liquidity to meet liabilities when due. Lakeview Hotel REIT monitors its cash balances and cash flows generated from operations to meet requirements. Lakeview Hotel REIT is in the final stages of completing the re-financing of the \$7,000,000 mortgage on the Days Inn – Ottawa Airport with long-term mortgages. Included in current liabilities is a \$4,200,000 demand loan from Lakeview Hotel REIT's primary mortgage lender. While the loan is due on demand, there is currently no indication that repayment will be demanded in 2009. Subsequent to year end, the Trustees announced a suspension of monthly distributions to Unitholders following the February 2009 distribution in order to preserve capital.

Based on its 2009 cash flow forecast, and available financing, management believes Lakeview Hotel REIT will be able to meet financial obligations as they come due.

Future expansion of Lakeview Hotel REIT will be financed through cash and term deposits on hand, the raising of capital by the sale of units, the issuance of convertible debentures, senior secured debentures, and through additional mortgage financing.

The following table reconciles net income (loss) to cash provided by operating activities for the year ended December 31, 2008 and 2007.

	Year ended December 31	
	2008	2007
Net income (loss) for the period	(1,521,428)	256,411
Add charges (deduct credits) to operations not requiring a current cash payment		
Amortization of income properties	6,212,645	4,592,915
Amortization of franchise fees, licenses, & pre-opening costs	48,534	34,969
Compensation costs of unit options	55,845	304,500
Income from Lakeview Flag Licensing General Partnership	(617,334)	(547,807)
Accretion on debt component of convertible debentures	846,657	382,613
Accretion of mortgages payable	204,192	137,188
Accretion of debentures	124,372	-
Decretion of mortgages receivable	6,879	-
Future income tax expense (recovery)	(734,000)	734,000
	4,626,362	5,894,789
Net change in non-cash working capital balances related to operations	1,000,865	530,864
Cash provided by operating activities	5,627,227	6,425,653

### **CASH PROVIDED BY OPERATING ACTIVITIES**

Cash provided by operating activities was \$5,627,227 for the year ended December 31, 2008 which decreased from \$6,425,653 cash provided by operating activities in the year ended December 31, 2007. The main reason for the decrease was the net loss realized in 2008.

### **CASH USED IN INVESTING ACTIVITIES**

For the year ended December 31, 2008 cash was used to purchase the Days Inn Ottawa Airport and the Four Points by Sheraton – Prince George for a cash consideration of \$13,841,391. Cash was also used for renovations to Lakeview Inn & Suites – Fort St. John and other existing hotels.

Cash was also used to fund a mezzanine loan arrangement in the amount of \$5,000,000 with an independent hotel developer and its related parties for a number of hotels in British Columbia and Alberta. The mortgages receivable earn interest at 12% per annum compounded and payable monthly. Payments of interest only are received on the mortgages. The principal is due no later than the maturity of the mortgages which is on the third anniversary of the date upon which the last advance under the loan was made. Lakeview Hotel REIT made its final advance of \$1,000,000 on August 1, 2008.

Lakeview Hotel REIT has been granted the option to purchase three hotel properties from the mezzanine loan borrowers at any time prior to the later of (a) the second anniversary on the date of which the last advance of mortgage funds was made under the loan to the owners or (b) the date the mortgages are repaid in full by the owners. The purchase price for the lands and hotel business upon exercise of the option will range from \$115,000 to \$130,000 per room/suite in the hotels. The purchase price will be reduced by any amounts owing to Lakeview Hotel REIT by the owners under the mortgages for each hotel purchased pursuant to the options. Prior to purchase, all three hotels have been licensed and are operating as Lakeview Inns & Suites and are paying license fees to Lakeview Flag Licensing General Partnership.

In 2007 cash was used to purchase five hotels for a total cash consideration of \$66,050,907.

### **CASH PROVIDED BY FINANCING ACTIVITIES**

For the year ended December 31, 2008 cash provided by financing activities was raised through a drawdown of the existing preapproved line of credit in the amount of \$4,200,000, the issuance of 8.125% secured debentures of \$9,394,879 (net of financing costs), and the issuance of 8.5% convertible debentures of \$9,206,806 (net of financing costs).

For the year ended December 31, 2007 cash provided by financing activities was primarily raised through the proceeds from mortgages of \$47,820,000 (secured by the hotels purchased) and the issuance of 6.5% convertible debentures of \$16,724,545 (net of financing costs).

## DISTRIBUTIONS

Effective September 1, 2005 the Trustees approved a change in the distribution policy from quarterly distributions of \$0.05 per unit to monthly distributions. Lakeview Hotel REIT paid monthly distributions of \$0.03 per unit to April 30, 2006. Effective for the May 31, 2006 distribution payment, the Trustees approved an increase in the regular monthly cash distribution from \$0.03 to \$0.0333 per unit. Effective for the Unitholders of record on November 30, 2006 and the distribution payable on December 29, 2006 the Trustees approved a further increase in the monthly distribution from \$0.0333 per unit to \$0.0367 per unit.

After careful review and assessment, the Board of Trustees determined that it was prudent and in the best interests of Unitholders to reduce the monthly distribution to \$0.01 per unit effective with the distribution payable December 31, 2008. On February 24, 2009 the Board of Trustees suspended further monthly distributions.

The following table reconciles cash provided by operating activities to distributable income:

	Year ended December 31	
	2008	2007
Cash provided by operating activities	5,627,227	6,425,653
Add (Deduct)		
Net change in non-cash working capital balances related to operations	(1,000,865)	(530,864)
Distributions from Lakeview Flag Licensing General Partnership	537,530	537,530
	<b>5,163,892</b>	6,432,319
Deduct		
Contribution to reserve fund	1,160,788	951,428
	<b>4,003,104</b>	5,480,891

For the year ended December 31, 2007 distributions of \$8,131,462 have been paid to the Class "A" unitholders and distributions of \$220,167 have been paid to the Class "E" unitholders (exchangeable units). For the year ended December 31, 2008, distributions of \$7,264,852 have been paid to the Class "A" unitholders and distributions of \$193,500 have been paid to the Class "E" unitholders (exchangeable units).

The following chart illustrates the cash provided by operating activities and distributable income that Lakeview Hotel REIT has generated relative to cash distributions paid to unitholders since the inception of the Trust in 2004 to the current period.

	Year ended December 31, 2008	Year ended December 31			Period ended Dec. 31, 2004(1)	Cumulative since inception
		2007	2006	2005		
Cash provided by operating activities	5,627,227	\$6,425,653	\$5,416,638	(51,513)	158,248	17,576,253
Distributable income	4,003,104	5,480,891	5,031,211	895,282	9,334	15,419,822
Cash distributions paid	7,458,352	8,351,629	3,955,176	880,125	176,250	20,821,532
Cash provided by operating activities in excess of (less than) cash distributions	(1,831,125)	(1,925,976)	1,461,462	(931,638)	(18,002)	(3,245,279)
Distributable income in excess of (less than) cash distributions	(3,455,248)	(2,870,738)	1,076,035	15,157	(166,916)	(5,401,710)

(1) For the period from February 11, 2004 to December 31, 2004

Although there are fluctuations in both distributable income and cash provided by operating activities as compared to cash distributions for the comparative periods, the total cash shortage from inception of Lakeview Hotel REIT to the current period is \$3,245,279 when cash distributions are compared to cash provided by operating activities and \$5,401,710 when cash distributions are compared to distributable income.

The shortage of cash provided by operating activities and distributable income as compared to cash distributions has been funded through the financing activities of Lakeview Hotel REIT, specifically from mortgage proceeds and the raising of capital. The main reason for the shortfall relates to a downturn in natural gas drilling activity in 2007 and 2008 which impacted many of the hotels owned by Lakeview Hotel REIT.

## SELECTED FINANCIAL INFORMATION

	Year ended December 31	
	2008	2007
Total Revenue	40,748,341	32,016,702
Net Income (loss) Before Future Income Tax Expenses	(2,255,428)	990,411
Basic and diluted income before tax per unit	(0.117)	0.052
Total Assets	171,577,503	152,602,359
Total Long-term Liabilities	110,896,445	95,210,322
Distribution declared per unit	0.39	0.44

Increases in total revenues and assets have occurred from the previous year due to the acquisition of two hotels subsequent to December 31, 2007. Declines in net income are primarily related to lower occupancies and subsequently lower margins in the Alberta and northern British Columbia hotels due to the slowdown in drilling activity for oil and gas in 2007 and 2008.

## SUMMARY OF QUARTERLY RESULTS

	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07
Hospitality Revenue								
Rooms	8,626,842	10,223,940	8,321,629	7,962,210	7,125,694	\$8,241,740	\$5,400,496	\$5,803,919
Food, Beverage & Gift Shop	916,585	771,880	939,012	1,104,736	1,144,371	1,097,119	950,650	942,611
Other	568,111	491,404	433,826	388,166	396,211	373,456	265,502	274,933
Total Revenue	10,111,538	11,487,224	9,694,467	9,455,112	8,666,276	9,712,315	6,616,648	7,021,463
Expenses	11,542,946	11,343,464	10,400,633	9,716,726	9,232,691	8,871,227	7,069,787	5,852,586
Net Income (Loss) before future income tax expense	(1,431,408)	143,760	(706,166)	(261,614)	(566,415)	841,088	(453,139)	1,168,877
Basic and Diluted Income (Loss) before Tax per unit	(0.074)	0.007	(0.037)	(0.014)	(0.029)	0.044	(0.024)	0.064
Future Income Tax (Expense) Recovery	816,000	(86,000)	-	4,000	435,100	15,000	(1,184,100)	-
Net Income (Loss)	(615,408)	57,760	(706,166)	(257,614)	(131,315)	856,088	(1,637,239)	1,168,877
Basic and Diluted Income (Loss) per Unit	(0.032)	0.003	(0.037)	(0.013)	(0.007)	0.044	(0.086)	0.064
Occupancy Percentage <sup>(1)</sup>	57.75%	69.39%	59.89%	62.46%	58.56%	67.06%	55.54%	66.78%
Average Room Rate <sup>(1)</sup>	\$121.57	\$120.61	\$120.20	\$115.98	\$113.46	\$117.49	\$110.26	\$111.77
RevPar <sup>(1)</sup>	\$70.20	\$83.69	\$71.97	\$72.44	\$66.44	\$78.80	\$61.24	\$74.63

Note (1):

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

## OUTLOOK

Lakeview Hotel REIT had been anticipating stronger operating results in 2008 than in 2007 attributable in part to improving natural gas prices which were expected to lead to increased drilling activity and demand for accommodations. It had been expected that the stronger results would occur primarily in the second half of 2008 and going forward Lakeview Hotel REIT had been anticipating stronger results from its properties in northeastern British Columbia and the shale gas developments in the region. The Lakeview Inn & Suites Fort Nelson is expected to benefit from ongoing development of shale gas finds in the Horn River Basin. Lakeview Hotel REIT is also highly leveraged to the Montney shale formation with hotels owned in Fort St. John and Chetwynd and with options to purchase hotels in Tumbler Ridge and Hudson's Hope. All hotels in or proximate to the Montney shale formation are expected to benefit from the labour intensive activities surrounding the recovery of shale gases when drilling activities increase.

While stronger results were anticipated, they have not materialized. Constraints in the credit market, weakness in the economy and weak commodity prices have resulted in further declines in activity levels. It is difficult to predict when increased levels of activity will occur. As a result, and after careful review and assessment, the Board of Trustees determined that it was prudent and in the best interests of Unitholders to reduce the monthly distributions to \$0.01 effective with the distribution payable December 31, 2008. On February 24, 2009 based on continued weakness in commodity driven markets, the Board of Trustees suspended further monthly distributions. Lakeview will continue to focus on prudent fiscal management for the benefit of its Unitholders. Lakeview Hotel REIT has also taken steps to both balance its portfolio and to reduce the risk associated with the ramping up of new properties. These steps should lead to more stable operating results going forward. Lakeview Hotel REIT's latest acquisitions in Calgary and Slave Lake, Alberta; in Prince George, British Columbia; and in Ottawa, Ontario have reduced its overall dependence on gas drilling activity. While Lakeview Hotel REIT remains confident in and committed to markets benefiting from gas drilling activities, there is currently a lack of visibility as to when improvements in gas markets may occur. Additionally, improvements will vary from market to market. The competitive profile of some markets and the nature of the gas in these markets (eg: deep vs hollow vs shale) will impact the ability of the Lakeview Hotel REIT hotels in these markets to recover.

## RELATED PARTY TRANSACTIONS

Lakeview Hotel REIT recorded the following transactions with related parties during the year ended December 31, 2008:

1. Marketing expenses in the amount of \$394,930 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2008. The marketing expense is currently calculated at 1.5% of gross room revenue of the hotel and is paid on a monthly basis. Effective January 1, 2009 the marketing expense will be decreased to 1% of room revenue of the hotel.

Accounting fees in the amount of \$530,879 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2008. The fee is prorated based on an annual fee of \$30,000 per hotel owned by Lakeview Hotel REIT during the year. The fee is subject to annual increases related to changes in the consumer price index in the province where each hotel is located.

Reservation fees in the amount of \$394,930 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2008. The reservation fee which is charged at 1.5% of room revenue, provides Lakeview Hotel REIT access to the reservation system maintained by Lakeview Management Inc.

A development fee was paid to Lakeview Management Inc. for the development services provided in the renovations to the Lakeview Signature Suites – Calgary and Lakeview Inn & Suites – Fort St. John hotels. The amount of the fee charged was \$35,549 which is based on 5% of the total renovation costs.

Accrued payables as at December 31, 2008 related to the above charges were \$136,923.

2. License fees for the year ended December 31, 2008 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$1,053,858 of which 51% or \$537,467 is paid to Lakeview Management Inc. The license fees are charged based on 4% of gross room revenue for the period. Lakeview Hotel REIT has a 49% interest in Lakeview Flag Licensing General Partnership and Lakeview Management Inc. has a 51% interest.

At December 31, 2008 accrued payables related to the above were \$156,226, which amount was subsequently paid.

3. Management fees for the year ended December 31, 2008 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of \$1,895,736 of which 75% or \$1,421,802 was paid to Lakeview Management Inc. The management fees are charged based on 5% of gross revenue for limited service hotels and 4% for full service hotels. Lakeview Hotel REIT and Lakeview Management Inc. each has a 50% interest in the Lakeview Flag Management General Partnership, however, Lakeview Management Inc receives 75% of the fees less expenses and Lakeview Hotel REIT receives 25% of the fees.

At December 31, 2008 accrued payables related to the above were \$237,068. This amount was subsequently paid.

4. A movie rental fee in the amount of \$160,704 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the year ended December 31, 2008. Free to Guest Movies Ltd. is a company related to Lakeview Management Inc. through common control.
5. XYZ Design Inc. is a company that is related to Lakeview Management Inc. due to control by related parties. The services of this company are used to provide design consultation and professional services with respect to renovations of purchased hotels. For the year ended December 31, 2008 XYZ Design Inc. charged \$55,838 in fees to Lakeview Hotel REIT.
6. Keith Levit Photography is a business that is related to Lakeview Management Inc. through common control. The services of this business were used to supply artwork for new hotels purchased. For the year ended December 31, 2008 a total of \$22,695 was paid to Keith Levit Photography for those services.

#### **7. Services Agreement:**

Lakeview Hotel REIT has entered into a services agreement (the "Services Agreement") with Lakeview Management Inc. Pursuant to that agreement, Lakeview Management Inc. provides the services of certain of its senior officers to Lakeview Hotel REIT. Specifically, Lakeview Management Inc. provides the services of its President, Mr. Keith Levit, its Executive Vice-President, Mr. Laurie Etkin, its Chief Financial Officer, Mr. Rudy Beyer, and its Vice-President Finance, Mr. Avrum Senensky. Mr. Levit serves as Lakeview Hotel REIT's President, Mr. Etkin serves as Lakeview Hotel REIT's Executive Vice-President, Mr. Beyer serves as Lakeview Hotel REIT's Chief Financial Officer, and Mr. Senensky serves in various capacities including financial analyst and investor relations. Each has agreed to devote the amount of time necessary to the proper management of Lakeview Hotel REIT.

Effective October 1, 2006, Lakeview Management Inc. began charging 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. Asset management fees for the year ended December 31, 2008 were charged in the amount of \$459,897.

The Services Agreement provides that Lakeview Management Inc.'s remuneration may only be varied at the discretion of the Governance and Compensation Committee of the Trustees. Lakeview Management Inc. also provides Lakeview Hotel REIT with support services consisting of certain accounting and human resource services, office space and equipment use and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of Lakeview Hotel REIT. The initial term of the Services Agreement was for five years, expiring on April 14, 2009, and has been renewed until April 14, 2014.

#### **8. Hotel Management Agreements**

Pursuant to the Property Management Agreement, Lakeview Management Inc. and Lakeview Hotel REIT jointly manage the Lakeview Hotel REIT hotels through the Lakeview Flag Management General Partnership. Lakeview Management G.P. II Inc. (a wholly owned subsidiary of Lakeview Management Inc.) receives an allocation of Lakeview Flag Management General Partnership's income equivalent to a management fee of 3.75% of gross annual revenues for each limited service hotel and 3% of gross annual revenues for each full service hotel (less the share of applicable Lakeview Flag Management General Partnership expenses). Lakeview Hotel REIT receives an equivalent of 1.25% of gross annual revenue for limited service hotels and 1% of gross annual revenue for full service hotels. Lakeview Management Inc. is initially paid \$30,000 per hotel for accounting services subject to annual increases related to changes in the consumer price index in the province each hotel is located in.

The management fees charged by the Lakeview Flag Management General Partnership and the accounting fees charged by Lakeview Management Inc. include all services such as Managerial Services, Pre-opening and Initial Training and

Accounting Services. The joint management structure is designed to ultimately provide Lakeview Hotel REIT with an ongoing source of management fee revenue and to lessen Lakeview Hotel REIT's requirements for employees and office space. The initial term of each individual Hotel Management Agreement is 50 years.

## **9. License Agreements**

Pursuant to the License Agreements, Lakeview Management Inc. and Lakeview Hotel REIT jointly license certain hotel properties through Lakeview Flag Licensing General Partnership. An individual license agreement has been entered into with each of the Lakeview branded hotels owned by Lakeview Hotel REIT. Income is also earned through the payment of a license fee equal to 4% of gross room revenue (the "Continuing License Fee") received from the following hotels which are owned by Lakeview Management Inc. and are located as follows: (i) Lakeview Inn & Suites - Miramichi, New Brunswick, (ii) Lakeview Inn & Suites - Brandon, Manitoba, (iii) Lakeview Inn & Suites - Bathurst, New Brunswick, (iv) Lakeview Inn & Suites - Halifax, Nova Scotia, (v) Lakeview Inn & Suites - Grand Forks, North Dakota. Lakeview Management Inc. and Lakeview Hotel REIT have entered into a licensing and management arrangement with an independent hotel developer and its related parties for a number of hotels in British Columbia and Alberta. (See Note 4 of the December 31, 2008 audited consolidated financial statements.) License fees of 4% of gross room revenue are also earned from the Lakeview Inn & Suites – Tumbler Ridge and the Lakeview Inn & Suites – Hudson's Hope, both located in British Columbia, and the Lakeview Inn & Suites – Fox Creek located in Alberta.

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

The License Agreements also provide that each Lakeview branded hotel in Lakeview Hotel REIT will pay a Marketing Fee equal to 1.5% of gross room revenue which will be used by Lakeview Management Inc. for all expenses relating to the advertising, marketing and promotion of Lakeview Inns & Suites and Lakeview Resorts including but not limited to production costs, costs to purchase media time and space, publications costs, costs for national or regional directories of Lakeview Inn & Suites and Lakeview Resorts, salaries, long distance telephone charges, travel costs, office supplies and other administrative costs. Effective January 1, 2009 the marketing expense was decreased to 1% of gross room revenue of the hotel. The initial term of each individual License Agreement is 50 years.

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

## **SIGNIFICANT ACCOUNTING POLICIES**

Note 1 to Lakeview Hotel REIT's audited consolidated financial statements for the year ended December 31, 2008 summarizes Lakeview Hotel REIT's significant accounting policies.

## **CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – PRESENTATION AND DISCLOSURE**

The Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation". These new standards have been adopted by Lakeview Hotel REIT effective January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 replaced Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward the presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how the entity manages those risks.

## **FUTURE CHANGES TO CANADIAN GAAP**

Goodwill and intangible assets.

The CICA has issued a new accounting standard, Section 3064, "Goodwill and Intangible Assets", which establish new standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Section 1000, "Financial Statement Concepts" was also amended to provide consistency with Section 3064. The new and amended standards will be effective for the REIT's 2009 fiscal year. These new standards are not expected to have a material impact on Lakeview Hotel REIT's 2009 financial statements.

Business combinations, consolidated financial statements and non-controlling interests.

The CICA has issued new accounting standards, Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements” and Section 1602, “Non controlling Interests” which establish new standards for consolidated financial statements and business combinations. The definition of a business is expanded and described as in integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. Net assets, non-controlling interests and goodwill acquired in a business combination will be recorded at fair value. Non-controlling interests will be reported as a component of equity. In addition, acquisition costs will be expensed when incurred. The new and amended standards will be effective for the Lakeview Hotel REIT’s 2011 fiscal year. The objective of these new Sections is to harmonize Canadian GAAP with International Financial Reporting Standards. When these standards are adopted by Lakeview Hotel REIT, acquisition costs will be expensed through the income statement. Other impacts of these standards are still being assessed.

#### International Financial Reporting Standards (“IFRS”)

In 2005, the Accounting Standards Board (AcSB) announced that the accounting standards in Canada are to converge with IFRS. On February 13, 2008, the CICA had confirmed that the use of IFRS will be required by January 1, 2011, with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed. Lakeview Hotel REIT has begun assessing the adoption of IFRS for 2011, by beginning its assessment of the key accounting differences between Canadian GAAP and IFRS as it relates to the accounting policies of Lakeview Hotel REIT.

### CAPITAL RESOURCES AND CAPITAL EXPENDITURES

The primary first mortgage lender of Lakeview Hotel REIT, namely GE Capital Solutions, has provided a Pre-Approved Line of Credit (PAL) up to a value of \$5,780,000 with various properties taken as security. The pre-approved line bears interest at the Canadian Dollar Banker’s Acceptance rate plus 4.25% to 5% floating per annum, is on a demand basis and the payments are interest only and paid monthly. As at December 31, 2008, \$4,200,000 of the available PAL had been used to purchase the Days Inn hotel in Ottawa, Ontario. GE Capital Solutions has informed Lakeview Hotel REIT that at this time further draws on the pre-approved line of credit have been put on hold until further notice.

At December 31, 2008 Lakeview Hotel REIT had a reserve fund of \$545,824 made up as follows:

Reserve Fund December 31, 2007	\$1,237,214
Contributions during the year	1,160,788
Distributions during the year	(1,852,178)
Reserve Fund December 31, 2008	<u>545,824</u>

During 2008, included in the distribution of the reserve fund was an amount of \$720,000 withdrawn to fund operations. This amount was the allocations to reserve fund in the current year and prior years that was in excess of the 2% of monthly gross revenue requirement.

It is expected that the reserve fund plus the monthly contribution will be sufficient to fund maintenance expenditures required during the year for these hotels. As new hotels are acquired the need for maintenance expenditures is assessed and quantified.

Under two offerings, Lakeview Hotel REIT issued \$4,500,000 of Series A 10% subordinate convertible debentures on April 15, 2004 and issued an additional \$1,500,000 of Series B 9% subordinate convertible debentures on May 30, 2005. As at December 31, 2008, \$4,223,000 of the Series A debentures were converted at a price of \$2.50 into 1,689,200 Class A units and \$175,000 of the Series A debentures were converted at a price of \$3.00 into 58,331 Class A units. As well, \$1,460,000 of the Series B debentures issued May 30, 2005 were converted at a price of \$2.90 resulting in the issuance of 503,430 Class A Units of Lakeview Hotel REIT.

On June 20, 2007, under a public offering, Lakeview Hotel REIT issued \$18,000,000 of Series C subordinate convertible redeemable debentures bearing interest at 6.5% maturing on June 30, 2012. The Series C debentures are convertible by the holder at any time after the date of issue at \$5.55 per unit.

On March 28, 2008 Lakeview Hotel REIT, through a public offering issued \$10,250,000 Series A Senior Secured Debentures (the “Debentures”). The debentures mature on June 20, 2012 and bear interest at an annual rate of 8.125% payable monthly, in cash, with the first payment occurring on April 30, 2008. The debentures are redeemable in full from time to time at

Lakeview Hotel REIT's sole option on not less than 30 days' prior written notice, at a price to equal 110% of the principal amount plus accrued and unpaid interest up to, but excluding the date of redemption.

On May 8, 2008 under a public offering, Lakeview Hotel REIT issued \$10,000,000 of Series D Convertible, Redeemable Subordinated Debentures. The debentures bear interest at 8.5%, mature May 31, 2013, and are subordinate only to property specific conventional mortgage financing, any vendor take-back mortgage financing and the Series A Senior Secured debentures issued March 28, 2008. The debentures are convertible by the holder at any time prior to maturity at \$3.75 per unit. On maturity the debentures are repayable at par plus any accrued and unpaid interest in cash. From May 8, 2008 to December 31, 2008 \$20,000 of the debentures were converted at a price of \$3.75 into 5,333 Class A units.

## MORTGAGES PAYABLE

The long-term mortgage agreements contain financial covenants that require each individual hotel property, pledged as security for these mortgages, to maintain a minimum 1.30 Fixed Charge Coverage Ratio ("FCCR"), calculated on an annual basis, as defined in the mortgage agreements. As at December 31, 2008, Lakeview Hotel REIT was not in compliance with the FCCR requirements for six of the hotel properties. In addition, based on management's forecast, Lakeview Hotel REIT is not expected to meet the FCCR requirement for these six hotel properties at December 31, 2009. Subsequent to year end, Lakeview Hotel REIT obtained an agreement from its lender to forbear its rights and remedies as a result of the FCCR covenant breach at December 31, 2008 and the expected FCCR covenant breach at December 31, 2009. Accordingly the mortgages payable are classified as long-term liabilities in these financial statements. As conditions for the lender's agreement, two letters of credit of \$1,250,000 each are to be provided in favor of the mortgage lender that it can draw upon in the event of default. In addition, a forbearance fee of \$350,000 is to be paid by Lakeview Hotel REIT.

Management is in the final stages of completing the refinancing of the \$7,000,000 mortgage on the Days Inn – Ottawa Airport with long-term mortgages. Should Lakeview Hotel REIT be unable to complete the refinancing or renew the mortgage with the current lender, the current lender has the right to commence action to take ownership of the hotel property of Days Inn – Ottawa Airport.

Estimated future principal repayments over the next five years and thereafter, based on the repayment schedules of the mortgages are as follows:

	\$
2009	9,362,752
2010	2,513,112
2011	29,087,884
2012	30,460,243
2013	4,743,265
Thereafter	11,892,725
Total principal outstanding	88,059,981
Financing costs	(1,097,242)
Accretion of mortgages	399,545
	<u>87,362,284</u>

## PROPOSED TAX CHANGE TO THE INCOME TRUST RULES

On March 29, 2007 the Minister of Finance tabled in the House of Commons a Bill that contained legislation to implement a previously announced proposal concerning the taxation of certain publicly traded trusts including income trusts. The Bill would apply to publicly traded trusts which existed prior to November 1, 2006 commencing with taxation years in 2011. There are certain circumstances where an existing trust may lose the tax relief in the interim periods before 2011. This may occur at this time if a trust undergoes expansion beyond prescribed limits. Lakeview Hotel REIT has no plans to expand beyond those prescribed limits.

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

On June 22, 2007, Bill C-52 was substantially enacted which will result in a 28% tax to be applied to distributions for Lakeview Hotel REIT in the 2011 taxation year. As a result of this bill Lakeview Hotel REIT was required to record future income tax expense and its future tax liability. The future income tax adjustment represents Lakeview Hotel REIT's taxable temporary differences which are expected to reverse after 2010.

## OFF -BALANCE SHEET ARRANGEMENTS

As at December 31, 2008 Lakeview Hotel REIT had no undisclosed Off-Balance Sheet Arrangements.

## RISKS AND UNCERTAINTIES

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

### MARKET INFLUENCES

The Units, and other listed securities of Lakeview Hotel REIT may be subject to wide fluctuations in response to variations in operating results, the gain or loss of significant properties, market conditions in the industry, as well as general economic conditions or other risk factors set out herein. There can be no assurance that an active public market for the Units or the other listed securities of Lakeview Hotel REIT will be sustained.

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

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

### REAL PROPERTY OWNERSHIP

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

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

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

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

### THE HOTEL INDUSTRY

Ownership of hotels and interests in the Operating Partnership, the Licensing Partnership and the Management Partnership subjects Lakeview Hotel REIT to the operating risks inherent in the hotel industry. These risks arise from a wide range of factors, including changes in general and local economic conditions, seasonal variations in cash flow, overbuilding in the hotel industry, varying levels of demand for rooms and related services, fluctuations in the price of equipment and supplies, changes in the availability and cost of labour, competition from other hotels, changes in travel patterns, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in governmental regulations that influence or determine wages, prices and construction and maintenance costs, changes in trends, technology and service requirements in the hotel industry, changes in interest rates, the availability of financing for operating or capital trends, and changes in real estate and other taxes and other operating expenses. There can be no assurance that regulatory compliance or downturns or prolonged adverse conditions in the hotel industry or real estate or capital markets or national or local economies will not have a material adverse effect on results of operations or the value of Lakeview Hotel REIT's hotel portfolio.

The hotel industry is highly competitive. Lakeview Hotel REIT competes with other national and international limited and full-service hotel companies. Hotels owned by Lakeview Hotel REIT also compete with various regional and local hotels. A number of Lakeview Hotel REIT's competitors are larger, operate more hotels, have substantially greater financial and other

resources and are more widely recognized in the USA and Canada than Lakeview Hotel REIT. In addition, some of Lakeview Hotel REIT's competitors operate or may in the future develop hotel properties that have locations superior to those of Lakeview Hotel REIT's hotels. Competitive factors in the hotel industry include room rates, quality of accommodations, name recognition, service levels and convenience of location. There can be no assurance that demographic, geographic or other changes in markets in the Lakeview Hotel REIT's hotels are located will not adversely affect the convenience or desirability of certain of Lakeview Hotel REIT's hotels. Furthermore, there can be no assurance that new or existing competitors will not significantly reduce room rates or offer greater conveniences, services or amenities or significantly expand or improve facilities in markets in which Lakeview Hotel REIT's hotels compete, thereby adversely affecting Lakeview Hotel REIT's results of operations and the value of its hotel portfolio.

## **STAFFING**

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

## **AVAILABILITY OF CASH FLOW**

Because items such as principal repayments and capital expenditures may be required, cash may not be available for distributions.

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

## **RISK ASSOCIATED WITH DEBT FINANCING**

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

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

## **AVAILABILITY OF GROWTH OPPORTUNITIES**

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

## **ASSUMPTIONS OF MANagements**

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

## **ENVIRONMENTAL MATTERS**

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

## **UNITHOLDER LIABILITY**

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

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

## **INVESTMENT CONCENTRATION**

The hotels currently in Lakeview Hotel REIT’s portfolio are concentrated in Alberta and northern British Columbia. As a result, the financial performance of Lakeview Hotel REIT and its ability to pay distributions will be significantly dependent on economic and market conditions in those regions. There can be no assurance that Lakeview Hotel REIT can or will diversify its hotel portfolio by acquiring hotels in other regions.

## **BRAND CONCENTRATION**

Lakeview Hotel REIT is subject to potential risks associated with the concentration of its hotels under a limited number of brands. A negative image or other adverse event that becomes associated with the “Lakeview” brand could adversely affect the Trust’s Hotel Operations and Licensed Lakeview Properties operated under that brand. It may also decrease the market for hotels that want to license the “Lakeview” brand.

## **DEPENDENCE ON NATURAL RESOURCES INDUSTRIES**

Lakeview Hotel REIT is significantly dependent on the oil and gas industries in Alberta, and on the mining and lumber industries in British Columbia. A downturn in the market for the raw materials produced by these industries or a change in commodity prices has had and could continue to have a significant material adverse effect on Lakeview Hotel REIT’s business.

## **RELATIONSHIP WITH LAKEVIEW**

The financial performance of Lakeview Hotel REIT will depend in part of the performance of Lakeview as the provider of management and accounting services to Lakeview Hotel REIT pursuant to the Services Agreement.

## **FORWARD-LOOKING STATEMENTS**

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

## **ADDITIONAL INFORMATION**

Additional information relating to Lakeview Hotel REIT, including all public filings, is available at [www.sedar.com](http://www.sedar.com).