



**Lakeview Hotel Real Estate Investment Trust
Management Discussion and Analysis
for the Three and Nine months ended September 30, 2010**

November 26, 2010

Management's discussion and analysis of financial conditions and results of operations (MD&A) should be read in conjunction with the unaudited consolidated financial statements for the nine months ended September 30, 2010. The consolidated financial statements for the nine months ended September 30, 2010, have been prepared by and are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Lakeview Hotel REIT's independent auditors, Ernst & Young, LLP, have not conducted a review of these consolidated financial statements.

OVERVIEW AND PORTFOLIO SUMMARY

Lakeview Hotel Real Estate Investment Trust (Lakeview Hotel REIT) is an unincorporated closed-end mutual fund trust created pursuant to a Declaration of Trust dated February 11, 2004. The Qualifying Transaction was completed on April 15, 2004 through a private offering of Lakeview Hotel REIT units, a public offering of Lakeview Hotel REIT subordinate convertible debentures, and the acquisition of the Lakeview Inn & Suites - Fredericton hotel. Through September 30, 2010 Lakeview Hotel REIT had acquired 18 hotels including the Fredericton property.

The results of their operations are included in the September 30, 2010 unaudited consolidated financial statements of Lakeview Hotel REIT.

The table below provides details on the hotels owned by Lakeview Hotel REIT as of September 30, 2010.

Property	Date of Purchase	Date of Conversion to Lakeview Inns & Suites	Number of Rooms
Lakeview Inn & Suites – Fredericton, NB	April 15, 2004	April 15, 2004	98
Best Western Black Gold Inn – Drayton Valley, AB	September 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	September 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	April 16, 2007	April 16, 2007	69
Holiday Inn Express & Suites - Brooks	May 15, 2007	May 15, 2007	78
Residence Inn Marriott - Calgary	September 22, 2007	September 22, 2007	120
Best Western – Slave Lake	November 15, 2007	January 3, 2009	68
Four Points by Sheraton – Prince George	April 3, 2008	N/A	74
Days Inn – Ottawa Airport	August 1, 2008	N/A	81
Total room count			1352

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.

As at November 26, 2010, 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.

OUTLOOK

Lakeview REIT has seen a slow and steady improvement in operating results since early in 2010. Revenues remain below the levels they were at when the market had peaked, but the reversal of the downward trend is encouraging and is expected to continue.

The potential exists for significantly improved operating results within the next 18 months. This is based on a combination of factors including overall improving market conditions and from several market specific developments. Market specific developments expected within the next 18 months include a major carbon-capture project near Whitecourt, Alberta; the Nipisi and Mitsue pipeline projects proximate to Slave Lake, Alberta; the Dokie wind project near Chetwynd, British Columbia; the North West Upgrading project which would benefit Lakeview REIT's properties in Sherwood Park and Fort Saskatchewan, Alberta; and anticipated increases in drilling activity in the Pembina Cardium formation which would benefit Drayton Valley and Edson, Alberta hotels.

Lakeview REIT's results are closely tied to natural gas prices which remain soft and it is unclear when gas pricing will improve. In 2011 the terms will be up on many of the mortgages on properties owned by Lakeview REIT. While Lakeview REIT believes it will be able to renew these mortgages as they come due, the cash flow of the REIT remains constrained and it is unclear what interest rates will be on the mortgage renewals.

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 September 30		Nine months ended September 30	
	2010	2009	2010	2009
Occupancy Percentage ⁽¹⁾	61.36%	54.47%	54.89%	55.66%
Average Room Rate ⁽¹⁾	\$115.93	\$118.65	\$115.27	\$118.67
RevPar ⁽¹⁾	\$71.13	\$64.63	\$63.27	\$66.05
Rooms Occupied	75,752	67,554	201,104	196,672

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 decreased, but occupancy and RevPar increased for the three months ended September 30, 2010 compared to the three months ended September 30, 2009.

RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three and nine months ended September 30, 2010 compared to the results of operations for the comparable periods in 2009:

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Hospitality Revenue				
Room	8,814,503	7,971,535	23,157,362	23,322,006
Food & Beverage	667,594	707,895	2,080,165	2,212,330
Other	362,568	353,354	1,124,322	1,364,955
Total Revenue	9,844,665	9,032,784	26,361,849	26,899,291
Expenses	12,192,071	10,562,138	32,694,039	32,149,120
Net Income (Loss) before future income tax expense	(2,347,406)	(1,529,354)	(6,332,190)	(5,249,829)
Basic and diluted income (loss) before income tax per unit	(0.120)	(0.078)	(0.324)	(0.270)
Future (Income Tax Expense) Recovery (1)	-	-	-	-
Net Income (Loss)	(2,347,406)	(1,529,354)	(6,332,190)	(5,249,829)
Basic and Diluted Income (Loss) per Unit	(0.120)	(0.078)	(0.324)	(0.270)
Reconciliation to funds from Operations				
Add (deduct)				
Amortization of income properties	1,636,127	1,670,341	4,993,624	5,013,603
Amortization of franchise fees and licenses	8,734	8,733	26,202	48,407
Provision for impairment of note receivable	1,396,062	-	1,396,062	-
Compensation Costs of Unit Options	124,000	-	124,000	-
Distributions from Lakeview Flag Licensing General Partnership	362,600	122,500	411,600	419,930
Income from Lakeview Flag Licensing General Partnership	(154,583)	(147,640)	(397,687)	(478,938)
Future income tax expense (recovery)	-	-	-	-
Funds from Operations (FFO)	1,025,534	124,580	221,611	(246,827)
Basic and diluted funds from Operations per unit	0.052	0.006	0.011	(0.013)
Contributions to reserve account	(232,505)	(219,061)	(570,879)	(602,260)
Adjusted funds from Operations (AFFO)	793,029	(94,481)	(349,268)	(849,087)
Basic and diluted adjusted funds from Operations per unit	0.041	(0.005)	(0.018)	(0.044)
Reconciliation to distributable income				
Accretion on debt component of convertible debentures	300,465	266,540	868,532	771,275
Accretion of debentures	51,717	46,543	151,150	136,028
Accretion of mortgages payable	63,143	55,330	190,138	159,992
Decretion of mortgages receivable	-	-	-	56,877
Loss on settlement of mortgages receivable	-	-	-	98,244
Distributable income	1,208,354	273,932	860,552	373,329
Basic and diluted distributable income per units	0.062	0.014	0.044	0.019
Distributions	0	0	0	192,748

Note (1) This is a non cash charge 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 SEPTEMBER 30, 2010

Room Revenue - For the three months ended September 30, 2010 room revenue increased by \$842,968, from \$7,971,535 for the three months ended September 30, 2009, to \$8,814,503. The increase is related to improving economic conditions and to general increases in resource activity which impacted many of the hotels owned by 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. Revenue decreased by \$40,301 from \$707,895 for the third quarter September 30, 2009 to \$667,594.

Other Income – Increased \$9,214 for the quarter ended September 30, 2010.

Expenses – Expenses for the third quarter of 2010 increased by \$1,629,933 from \$10,562,138 for the three months ended September 30, 2009 to \$12,192,071. The increase in expenses is mainly due to the \$1,396,062 impairment provision recorded for the entire note receivable and interest receivable for monies loaned through a mezzanine loan arrangement with an independent hotel developer and its related parties.

Net (Loss) before future income tax expense - Net (loss) increased from a loss of \$1,529,354 for the third quarter ended September 30, 2009, to a loss of \$2,347,406 for the quarter ended September 30, 2010. The increase in the loss is mainly due to the \$1,396,062 impairment provision recorded in expense.

OPERATING RESULTS REVIEW – NINE MONTHS ENDED SEPTEMBER 30, 2010

Room Revenue - For the nine months ended September 30, 2010 room revenue decreased by \$164,644 from \$23,322,006 for the nine months ended September 30, 2009, to \$23,157,362. The decrease is related to weak operating results in January and February of 2010 when compared to the results in the same period in 2009.

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. Revenue is lower in the nine month period of 2010 than the same period in 2009 due to the slowdown in business caused by the downturn in natural gas drilling activity.

Other Income – The decrease in Other Income for the nine months ended September 30, 2010 is due to a decrease in the ancillary revenue at the hotels and lower licensing revenue.

Expenses – Expenses for the nine months ended September 30, 2010 were \$32,694,039 compared to \$32,149,120 for the nine months ended September 30, 2009. The increase in expense of \$544,919 is due to a \$1,396,062 impairment provision recorded for the entire note receivable and interest receivable due from an independent hotel developer and its related parties. Otherwise, expenses for the period would have been lower than for the same period in 2009.

Net (Loss) before future income tax expense - Net (loss) increased from a loss of \$5,249,829 for the nine months ended September 30, 2009, to a loss of \$6,332,190 for the nine months ended September 30, 2010. This change can be attributed largely to the reduction in revenues related to the poor performance of the Alberta and northern British Columbia hotels for the first half of the year located in the natural gas regions as well as the \$1,396,062 impairment provision recorded in expenses.

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 increased by \$934,422 from \$273,932 for the three months ended September 30, 2009 to \$1,208,354 for the three months ended September 30, 2010. Distributable income increased by \$487,223 from \$373,329 for the nine months ended September 30, 2009 to \$860,552 for the nine months ended September 30, 2010.

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 September 30, 2010, was \$1,025,534 compared to \$124,580 for the same period in 2009. FFO for the nine months ended September 30, 2010 was \$221,611 compared to (\$246,827) for the same period in 2009.

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. Adjusted funds from operations increased by \$887,510 from (\$94,481) for the three months ended September 30, 2009 to \$793,029 for the three months ended September 30, 2010. FFO increased by \$499,819 from (\$849,087) for the nine months ended September 30, 2009 to (\$349,268) for the nine months ended September 30, 2010.

LIQUIDITY AND CASH FLOW

At September 30, 2010 Lakeview Hotel REIT had cash of \$1,459,871 and a balance in the reserve fund of \$260,332. 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. 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 within the next year.

The agreements for the mortgages with the primary lender 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. In November 2009, Lakeview Hotel REIT entered into an "Escrow Agreement" with the lender whereby it transferred \$2,500,000 to be held in trust with an escrow agent in favour of the lender. As at December 31, 2009, Lakeview Hotel REIT was not in compliance with the FCCR requirements for eleven of the hotel properties. As a result, and since the mortgages with the primary lender are cross collateralized by each of the underlying properties, repayment of the mortgages can be demanded at any time. Accordingly, mortgages of \$76,502,178 have all been classified as current liabilities as at September 30, 2010.

During 2008 Lakeview Hotel REIT had advanced amounts under a mezzanine loan arrangement with an independent hotel developer and its related parties for three hotels in British Columbia and Alberta. The amounts were registered as mortgages and classified as mortgages receivable. The mortgages receivable earned interest at 12% per annum compounded and payable monthly. Payments of interest only were received on the mortgages. The principal was due no later than the

maturity of the mortgages, which was 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. During 2009, \$3,628,882 was collected on the mortgages receivable and a further \$98,244 was forgiven on settlement as described below.

During 2009, all mortgage charges were discharged and a promissory note was taken back for the balance owing of \$1,272,874. The note receivable bears interest at 12% per annum, and was to be repaid by blended monthly payments of \$50,000 from August 31, 2009 to June 30, 2010, and a final payment of \$841,764 on July 31, 2010. As at September 30, 2010, \$37,271 was collected on the note receivable and the interest receivable balance that has accrued to September 30, 2010 is \$160,459. The borrowers have been in default of their monthly payments since September, 2009.

The note receivable is collateralized by a transfer of land located at Tumbler Ridge, British Columbia owned by the borrowers, second and/or third charges against other lands owned by the borrowers and corporate and personal guarantees from the borrowers. On August 11, 2010, Lakeview Hotel REIT was informed that D. Manning & Associates was appointed Receiver-Manager over the assets on the Tumbler Ridge land by way of a joint appointment made by the Business Development Bank of Canada and Concentra Financial Services Associations, holders of first mortgage security on the Tumbler Ridge assets. Subsequent to September 30, 2010, Lakeview Hotel REIT learned that the Tumbler Ridge property is to be listed for sale. Management believes that there are significant uncertainties as to the final proceeds once a sale is actually concluded. Therefore, after payment to the holders of the first mortgage security, it is uncertain as to whether Lakeview Hotel REIT will be able to recover any of the note receivable or interest receivable outstanding at September 30, 2010 from the proceeds of the sale of the Tumbler Ridge property, or from any of the other collateral. Accordingly, Lakeview Hotel REIT recorded a provision for impairment of note receivable for the entire \$1,235,603 note receivable and \$160,459 of interest receivable at September 30, 2010.

Based on its cash flow forecast, available financing, the potential for further deferral of payment of fees to related parties and cooperation of its major lender, management believes Lakeview Hotel REIT will be able to meet financial obligations as they come due.

Should there be a future expansion of Lakeview Hotel REIT, it may 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 table below reconciles net (loss) to cash provided by operating activities for the three and nine months ended September 30, 2010 and 2009.

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Net (loss) for the period	(2,347,406)	(1,529,354)	(6,332,190)	(5,249,829)
Add charges (deduct credits) to operations not involving cash				
Amortization of income properties	1,636,127	1,670,341	4,993,624	5,013,603
Amortization of franchise fees and licenses	8,734	8,733	26,202	48,407
Provision for impairment of note receivable	1,396,062	-	1,396,062	-
Compensation costs of unit options	124,000	-	124,000	-
Income from Lakeview Flag Licensing General Partnership	(154,583)	(147,640)	(397,687)	(478,938)
Accretion on debt component of convertible debentures	300,465	266,540	868,532	771,275
Future income tax expense (recovery)	-	-	-	-
Accretion of mortgages payable	63,143	55,330	190,138	159,992
Accretion of debentures	51,717	46,543	151,150	136,028
Decretion of mortgages receivable	-	-	-	56,877
Loss on settlement of mortgages receivable	-	-	-	98,244
	1,078,259	370,493	1,019,831	555,659
Net change in non-cash working capital balances related to operations	48,032	927,798	1,016,162	316,953
Cash provided by operating activities	1,126,291	1,298,291	2,035,993	872,612

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Cash provided by operating activities was \$1,126,291 for the three months ended September 30, 2010 which decreased from \$1,298,291 cash provided by operating activities in the three months ended September 30, 2009. The decrease in cash

provided by operating activities is mostly as a result of the decrease in the non-cash working capital balances related to operations.

CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES

In 2010 cash was used for renovations to hotels.

In 2009 cash was used for renovations and capital additions to hotels. \$1,974,915 was collected on the mortgages receivable.

CASH PROVIDED BY FINANCING ACTIVITIES

During 2010 and 2009 no cash was raised through financing activities.

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 the Unitholders to reduce the monthly distributions 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:

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Cash provided by operating activities	1,126,291	1,298,291	2,035,993	872,612
Add (Deduct)				
Net change in non-cash working capital balances related to operations	(48,032)	(927,798)	(1,016,162)	(316,953)
Distributions from Lakeview Flag Licensing General Partnership	362,600	122,500	411,600	419,930
	1,440,859	492,993	1,431,431	975,589
Deduct:				
Contribution to reserve fund	(232,505)	(219,061)	(570,879)	(602,260)
Distributable Income	1,208,354	273,932	860,552	373,329

For the three months ended September 30, 2010 and 2009, no distributions were paid to the Class "A" unitholders or to the Class "E" unitholders (exchangeable units).

For the nine months ended September 30, 2010 no distributions were paid to the Class 'A' unitholders or Class 'E' unitholders (exchangeable units). For the nine months ended September 30, 2009, distributions of \$187,748 have been paid to the Class "A" unitholders and distributions of \$5,000 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.

	Nine months ended September 30, 2010	Year ended December 31					Period ended Dec. 31, 2004(1)	Cumulative since inception
		2009	2008	2007	2006	2005		
Cash flows from operating activities	2,035,993	1,421,731	5,627,227	\$6,425,653	\$5,416,638	(51,513)	158,248	21,033,977
Distributable income	860,552	(635,472)	4,003,104	5,480,891	5,031,211	895,282	9,334	15,644,902
Cash distributions paid	-	192,748	7,458,352	8,351,629	3,955,176	880,125	176,250	21,014,280
Cash flow from operating activities in excess of (less than) cash distributions	2,035,993	1,228,983	(1,831,125)	(1,925,976)	1,461,462	(931,638)	(18,002)	19,697
Distributable income in excess of (less than) cash distributions	860,552	(828,220)	(3,455,248)	(2,870,738)	1,076,035	15,157	(166,916)	(5,369,378)

Note (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 excess from inception of Lakeview Hotel REIT to the current period is \$19,697 when cash distributions are compared to cash provided by operating activities and (\$5,369,378) when cash distributions are compared to distributable income.

The shortage of distributable income as compared to cash distributions paid has been funded through the financing activities of Lakeview Hotel REIT specifically from mortgage proceeds and the raising of capital.

SELECTED FINANCIAL INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Total Revenue	9,844,665	9,032,784	26,361,849	26,899,291
Net (loss) Before Future Income Tax Expenses	(2,347,406)	(1,529,354)	(6,332,190)	(5,249,829)
Basic and diluted income before tax per unit	(0.120)	(0.078)	(0.324)	(0.270)
Total Assets	158,863,267	166,855,178	158,863,267	166,855,178
Total Long-term Liabilities	39,974,332	117,123,171	39,974,332	117,123,171
Distribution declared per unit	-	-	-	0.01

Revenues have increased in the third quarter of 2010 over 2009 due to overall improvements in economic activity and to an increase in resource based activities.

SUMMARY OF QUARTERLY RESULTS

	<u>Q3-10</u>	<u>Q2-10</u>	<u>Q1-10</u>	<u>Q4-09</u>	<u>Q3-09</u>	<u>Q2-09</u>	<u>Q1-09</u>	<u>Q4-08</u>
Hospitality Revenue								
Rooms	8,814,503	7,511,982	6,830,877	6,594,497	7,971,535	7,592,028	7,758,443	8,626,842
Food, Beverage & Gift Shop	667,594	734,455	678,116	698,987	707,895	737,379	767,056	916,585
Other	362,568	326,666	435,088	308,761	353,354	493,273	518,328	568,111
Total Revenue	9,844,665	8,573,103	7,944,081	7,602,245	9,032,784	8,822,680	9,043,827	10,111,538
Expenses	12,192,071	10,360,831	10,141,137	10,420,526	10,562,138	11,071,985	10,514,997	11,542,946
Net Income (Loss) before future income tax expense	(2,347,406)	(1,787,728)	(2,197,056)	(2,818,281)	(1,529,354)	(2,249,305)	(1,471,170)	(1,431,408)
Basic and Diluted Income (Loss) before Tax per unit	(0.120)	(0.091)	(0.112)	(0.144)	(0.078)	(0.115)	(0.076)	(0.074)
Future Income Tax (Expense) Recovery	-	-	-	-	-	-	-	816,000
Net Income (Loss)	(2,347,406)	(1,787,728)	(2,197,056)	(2,818,281)	(1,529,354)	(2,249,305)	(1,471,170)	(615,408)
Basic and Diluted Income (Loss) per Unit	(0.120)	(0.091)	(0.112)	(0.144)	(0.078)	(0.115)	(0.076)	(0.032)
Occupancy Percentage ⁽¹⁾	61.36%	53.66%	49.49%	46.64%	54.47%	52.96%	52.88%	57.75%
Average Room Rate ⁽¹⁾	\$115.93	\$115.41	\$114.03	\$113.91	\$118.65	\$116.45	\$120.95	\$121.57
RevPar ⁽¹⁾	\$71.13	\$61.93	\$56.43	\$53.13	\$64.63	\$61.67	\$63.95	\$70.20

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.

GOING CONCERN

The unaudited consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles (“GAAP”) which contemplates that Lakeview Hotel Real Estate Investment Trust (“Lakeview Hotel REIT”) will continue in operations and be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future.

Under “Liquidity and Cash Flow”, Lakeview Hotel REIT was not in compliance with the Fixed Charge Coverage Ratio (“FCCR”) requirement for a number of hotels pledged as security under its long term mortgage agreements with its primary mortgage lender. All long-term mortgage agreements with the primary mortgage lender are cross-collateralized. As a result, the entire balance of the long-term mortgages with the primary lender are technically in default and can be deemed as payable on demand and, accordingly, have been classified as current liabilities. It should be noted that all mortgage payments to all lenders have always been current. Included in current liabilities at September 30, 2010 is a \$4,200,000 demand loan and \$76,502,178 of mortgages payable to Lakeview Hotel REIT’s primary mortgage lender. At September 30, 2010, Lakeview Hotel REIT had a working capital deficiency of \$82,587,956. Management’s understanding based on discussions with the primary lender is that there is currently no indication that repayment of the loan or mortgages will be demanded within the next year prior to their maturity dates. By September 30, 2011 seven of these mortgages will mature. While Lakeview Hotel REIT believes it will be able to renew these mortgages as they come due, the cash flow of Lakeview Hotel REIT remains constrained and it is unclear what interest rates will be on the mortgage renewals.

Until the third quarter of 2010, Lakeview Hotel REIT had experienced year-over-year declines in quarterly room revenues, reflecting a weak economic environment and a marked slowdown in the natural gas industry in the vicinity of several of Lakeview Hotel REIT’s properties. Management continues to assess various strategies to improve operating results and cash

flows and to adjust its capital structure. This includes the implementation of marketing initiatives aimed toward maximizing revenues, various cost reduction measures, and seeking out alternative sources of debt or equity.

Lakeview Hotel REIT's ability to continue as a going concern is subject to the continued support of its lenders and related parties. Specifically, Lakeview Hotel REIT's ability to continue to meet its financial obligations as they become due are dependent on the primary mortgage lender not demanding immediate repayment prior to the maturity dates as well as refinancing the mortgages as they become due.

RELATED PARTY TRANSACTIONS

Lakeview Hotel REIT recorded the following transactions with related parties during the three months ended September 30, 2010:

1. Marketing expenses in the amount of \$59,478 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended September 30, 2010. The marketing expense is currently calculated at 1% of room revenue of the hotel and is paid on a monthly basis.

Accounting fees in the amount of \$142,063 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended September 30, 2010. The fee is prorated based on an annual fee of \$30,000 per hotel (fee is subject to annual increases related to changes in the consumer price index in the province where each hotel is located) owned by Lakeview Hotel REIT during the year.

Reservation fees in the amount of \$89,216 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended September 30, 2010. The reservation fee is charged at 1.5% of room revenue, which provides for access by Lakeview Hotel REIT to the reservation system maintained by Lakeview Management Inc.

Accrued payables as at September 30, 2010 related to the above charges were \$1,567,573 which included the asset management fee of \$114,436 for the third quarter.

2. License fees for the three months ended September 30, 2010 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$238,065 of which 51% or \$121,413 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 September 30, 2010 accrued payables related to the above were \$459,727.

3. Management fees for the three months ended September 30, 2010 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of \$465,352 of which 75% or \$349,014 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 less expenses.

At September 30, 2010 accrued payables related to the above were \$1,318,468.

4. A movie rental fee in the amount of \$45,780 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the three months ended September 30, 2010. Free to Guest Movies Ltd. is a company related to Lakeview Management Inc. through common control.

5. Services Agreement

Lakeview Hotel REIT has entered into a services agreement (the "Services Agreement") with Lakeview Management Inc. Pursuant to that agreement, Lakeview Management Inc. provides the services of certain of its senior officers to Lakeview Hotel REIT. Specifically, Lakeview Management Inc. provides the services of its President, Mr. Keith Levit, its Executive Vice-President, Mr. Avrum Senensky, and its Chief Financial Officer, Mr. Rudy Beyer. Mr. Levit serves as Lakeview Hotel REIT's President, Mr. Senensky serves as Lakeview Hotel REIT's Executive Vice-President, and Mr. Beyer serves as Lakeview Hotel REIT's Chief Financial Officer. 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 three months ended September 30, 2010 were charged in the amount of \$114,436.

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

6. 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 \$30,000.00 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.

7. 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. In addition a license fee of 4% of room revenue is charged from the date any hotel becomes or is converted to a Lakeview Inn & Suites.

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% 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. The term of each 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 unaudited consolidated financial statements for the nine months ended September 30, 2010 summarizes Lakeview Hotel REIT's significant accounting policies.

FUTURE CHANGES TO CANADIAN GAAP

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In 2005, the Accounting Standards Board (ASB) announced that the accounting standards in Canada are to converge with IFRS. On February 13, 2009, 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.

IFRS CONVERSION PROGRESS

Lakeview Hotel REIT continues to make progress in the conversion to IFRS and the following describes the progress achieved and ongoing activities toward the IFRS implementation program:

ACCOUNTING POLICIES:

Lakeview Hotel REIT has completed a preliminary assessment of the key differences between Canadian GAAP as currently applied by Lakeview Hotel REIT and IFRS. The assessment also includes a summary of the key decisions that need to be made and a summary of the IFRS disclosure requirements. Lakeview Hotel REIT has identified the significant difference between IFRS and Canadian GAAP in relation to Lakeview Hotel REIT's primary financial statement items as follows:

Property, Plant & Equipment

Under Canadian GAAP, it is Section #3061 and under IFRS it is IAS#16 that set the standards for accounting for Property, Plant and Equipment. Like Canadian GAAP, property, plant and equipment should be initially recorded at cost under IFRS. Costs include all cost necessary to bring the asset to working condition for its intended use. IFRS permits a choice of two accounting models for measurement of property, plant, and equipment subsequent to initial recognition, - either cost or revaluation. Under the cost model, the asset is carried at cost less accumulated depreciation and impairment. Under the revaluation model, an asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. Revaluation should be carried out regularly, so that the carrying amount of an asset does not differ from its fair value at the balance sheet date.

Gains are credited directly to equity under the heading of revaluation surplus. Losses are applied against any previous increases realized in equity with any excess recorded as a loss in income.

Under Canadian GAAP, only the cost method is used to subsequently measure property, plant and equipment. After recognition as an asset, an item of property, plant and equipment shall be carried at cost less accumulated depreciation and any accumulated impairment loss.

Due to the costs involved with regular revaluation, Lakeview Hotel REIT has chosen to use the cost model of measuring an asset subsequent to initial recognition.

IFRS 1 – First Time Adoption of IFRS

At adoption of IFRS, the entity is required to present its financial statements as if it had always reported under IFRS. IFRS 1 provides guidance on the initial adoption of IFRS and provides certain exceptions and exemptions which the entity may elect. IFRS 1 allows an entity to initially measure its property, plant and equipment at fair value on transition to IFRS. If applied, the fair value would become the new cost basis for the property, plant and equipment.

Lakeview Hotel REIT continues to assess the alternatives and implications as to the valuation of property, plant and equipment and has not yet made a definite conclusion on the measurement of the value of the property, plant and equipment on transition to IFRS. This final decision will be made in the fourth quarter of 2010.

Impairment

Under Canadian GAAP, an impairment loss should be recognized when the carrying amount of a long lived asset is not recoverable and exceeds its fair value when the undiscounted future cash flows from an asset are less than their carrying value.

Under IFRS, an entity is required to recognize an impairment loss when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of a) fair value less costs to sell or b) value in use. Value in use is the discounted present value of estimated future cash flows expected to arise from the use of an asset and from its disposal at the end of its useful life.

IFRS allows the reversal of an impairment loss when the recoverable amount is higher than the carrying value (to no more than what the depreciated amount of an asset would have been had the impairment not occurred). Impairment losses cannot be reversed under Canadian GAAP.

It is anticipated that under IFRS that there will be a greater frequency of impairment charges due to the fact that GAAP uses undiscounted cash flows, whereas IFRS bases its valuation on discounted cash flows.

Lakeview Hotel REIT has elected to account for its property, plant and equipment based on the cost model. Therefore, any impairment losses or reversals of impairment losses calculated will be recognized immediately in profit and loss.

Business Combinations

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 an 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. 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 IFRS. IFRS1 allows an entity to elect to implement the Business Combination standards either a) prospectively from the date of transition to IFRS or b) retrospectively from a previous date onwards. Lakeview Hotel REIT has chosen to adopt Business Combinations as of the beginning of its fiscal year beginning on January 1, 2010, at which time acquisition costs will be expensed through the income statement.

Accounting For Joint Ventures

IFRS currently allows two treatments of accounting for an investment in jointly controlled entities-either proportionate consolidation or the equity method. In September 2007, Exposure Draft (ED) 9 – Joint arrangements was issued by the International Accounting Standards Board which proposed to make equity accounting mandatory for investments in joint venture entities. Lakeview Hotel REIT has taken the position that beginning January 1, 2011 with comparatives for 2010, it will account for joint ventures using the equity method.

Trust Units

Under IFRS the key distinguishing feature as to whether trust units are classified as to liability or equity is that a financial liability involves a contractual obligation either to deliver cash or another financial asset, or to issue another financial instrument, under terms that are potentially unfavourable to the issuer. An instrument that does not give rise to such a contractual obligation is an equity instrument.

Since Lakeview Hotel REIT's Declaration of Trust does not contain a contractual requirement to distribute future taxable income ie: the distribution of income is discretionary at the option of the Trustees, the trust units and exchangeable units are correctly accounted for as equity instruments under IFRS.

The IFRS conversion team has completed its preliminary conversion to IFRS position paper. Lakeview Hotel REIT is in the process of finalizing its IFRS accounting policies. It is expected that this will be completed in the fourth quarter of 2010.

INFORMATION TECHNOLOGY:

It has been determined that no technology system change is required with respect to the conversion to IFRS.

INTERNAL CONTROLS OVER FINANCIAL REPORTING:

Lakeview Hotel REIT does not anticipate any significant changes to its internal controls over financial reporting as a result of the conversion to IFRS. The completion of the assessment of the internal controls and any implementation of new controls if necessary will be in place in the fourth quarter of 2010.

DISCLOSURE CONTROLS AND PROCEDURES:

As all of the changes with respect to the conversion to IFRS will be managed by head office, Lakeview Hotel REIT does not expect there to be any changes in the procedures for disclosure controls.

FINANCIAL REPORTING TRAINING AND AWARENESS OF STAFF:

The IFRS conversion team is fully in place, and have taken training courses offered by the CICA and other organizations on IFRS. The conversion team has been consulting with the Lakeview Hotel REIT's external auditors during the conversion process.

BUSINESS ACTIVITIES:

Lakeview Hotel REIT is reviewing the implications of the conversion to IFRS on any financial covenants that it may have. Any effect on covenant calculations will be communicated to its lenders by the end of 2010.

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 September 30, 2010, \$4,200,000 of the available PAL had been advanced to Lakeview Hotel REIT. 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 September 30, 2010 Lakeview Hotel REIT had a reserve fund of \$260,332 made up as follows:

Reserve Fund December 31, 2009	\$651,321
Contributions during the period	570,879
Distributions during the period	(961,868)
Reserve Fund September 30, 2010	<u>260,332</u>

Under approval by the trustees, included in the distribution from the reserve fund during 2010 were amounts withdrawn to fund operations.

It is expected that the reserve fund plus the monthly contributions will be sufficient to fund maintenance expenditures required for the hotels owned by Lakeview Hotel REIT. As new hotels are acquired the need for capital expenditures is assessed and quantified.

On September 20, 2007, through 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. 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 through 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 with the primary mortgage lender 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. In November 2009, Lakeview Hotel REIT entered an "Escrow Agreement" with the lender whereby it transferred \$2,500,000 to be held in trust with an escrow agent in favour of the lender. The cash collateral replaced the two letters of credit provided by LMI as noted in note 10 of the September 30, 2010 unaudited consolidated financial statements.

As at December 31, 2009 Lakeview Hotel REIT was not in compliance with the FCCR requirements for 11 of the hotel properties. As a result and since the mortgages with the primary mortgage lender are cross collateralized by each of the underlying properties, repayment of the mortgages can be demanded at any time. Accordingly these mortgages of \$76,502,178 have all been classified as current liabilities as of September 30, 2010.

The agreement for the mortgage payable for the Days Inn Ottawa contains a cross-default provision with Lakeview Hotel REIT's other debt obligations. Therefore, as a result of the non-compliance of the financial covenant for the mortgages noted above, Lakeview Hotel REIT was also not in compliance with this mortgage agreement as at December 31, 2009. During 2010, Lakeview Hotel REIT obtained an agreement from the lender to waive its rights to demand repayment of the mortgage as a result of this covenant breach. Accordingly, the portion of the Days Inn - Ottawa mortgage not due within the next year continues to be classified as a long-term liability.

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

Remainder of 2010	\$700,000
2011	\$31,323,895
2012	\$30,713,314
2013	\$5,014,634
2014	\$16,342,153
Total principal outstanding	\$84,093,996
Financing costs	(\$1,293,414)
Accretion of mortgages	\$812,588
	<u>\$83,613,170</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 Trust has evaluated and considered the options available to address the taxation changes under the Bill and determined that no action is required by the Trust before December 31, 2011. The Trust has estimated the non-taxable portion of distributions made in 2010 will approximate 100% and remain so through 2011. The Trust continues to study two options available to address the changes from the Bill; conversion to a corporation or a reorganization to become a Qualifying REIT.

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 September 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, 2009 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. 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. Lakeview Hotel REIT is not in compliance with some of these covenants. Please see "Mortgages Payable" section as well as note 11 to the notes to the consolidated financial statements dated December 31, 2009 for further information.

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. In such circumstances, if Lakeview Hotel REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more of its hotel properties at times which may not permit realization of the maximum return of such investments or could be required to agree to additional financing at unfavourable terms.

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 MANAGEMENT

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 September 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 trusts 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Lakeview Hotel REIT’s internal controls over financial reporting that occurred during the most recent interim period ended September 30, 2010 that have materially affected or are reasonably likely to materially affect the Lakeview Hotel REIT’s internal controls over financial reporting.

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.