

**LAKEVIEW HOTEL REIT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2009**

April 28, 2010

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, 2009. The consolidated financial statements for the year ended December 31, 2009, 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, 2009 Lakeview Hotel REIT had acquired 18 hotels including the Fredericton property.

The results of their operations are included in the December 31, 2009 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, 2009.

Property	Date of Purchase	Date of Conversion to Lakeview Brand	Number of Rooms
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
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 April 28, 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

The past two years have been extremely challenging for many companies. During the recession the hotel sector was especially hard hit. The challenges Lakeview REIT faced were magnified by its exposure to smaller markets, primarily in Alberta, that were and are dependant on natural gas drilling activity to drive occupancy. The past two years has seen markedly declining natural gas prices due to reduced consumption during the recession, record levels of natural gas in storage, and concerns over a developing glut of natural gas due to new technology which allows for the extraction of natural gas from shale. This problem of over supply was compounded by changes to the Alberta Royalty Tax structure which, in an environment of low natural gas prices, drove much of the remaining drilling activity out of the Province of Alberta.

Of the 18 hotels owned by Lakeview Hotel REIT, eleven are located in markets where occupancy is to a large extent related to natural gas prices and drilling activity. The eleven hotels are located in Brooks, Hinton, Edson, Edson Airport, Slave Lake, Whitecourt, Okotoks and Drayton Valley, Alberta; and in Fort Saint John, Chetwynd and Fort Nelson, British Columbia. The remainder of the hotels, located in Fredericton, New Brunswick, Ottawa and Vaughan, Ontario; Calgary, Sherwood Park and Fort Saskatchewan, Alberta; and Prince George, British Columbia have different drivers of hotel occupancy. These properties are all expected to see continued improvements in operating results as the economy strengthens.

While Lakeview REIT continues to deal with the challenges that it has faced over the past two years, there have been a number of significant developments that indicate significant improvement in operating results from properties operating in natural gas markets will be achieved within the next 12 to 18 months. Some of these developments are market specific while others are more global in nature. The more significant developments are outlined below.

Lakeview REIT has benefited from the support of “related parties” that own over 1/3 of the units of the REIT. By way of an informal understanding, the “related parties” have agreed to the deferral of payment of fees from the Lakeview Hotel REIT to ensure the accounts payables of all unrelated parties remain current. It is anticipated that this support from the related parties will continue until the cash flow from Lakeview REIT improves in late 2010 or in 2011.

GLOBAL DEVELOPMENTS

Natural Gas Pricing

While natural gas prices remain depressed, there are a number of reasons to believe that these prices will not remain depressed indefinitely. Natural gas pricing is affected by natural gas storage levels.

Natural gas storage is cyclical and seasonal in nature and is related to natural gas prices. When natural gas prices are high, there is usually a surge in drilling activity as companies take advantage of the high prices. As drilling activity increases, storage levels start to increase, putting pressure on natural gas prices. As prices decrease, drilling declines, gas production drops, gas storage levels decrease, which once again puts upward pressure on natural gas prices and the cycle starts over.

This is an oversimplification, but captures the essence of natural gas pricing and drilling activity. In the course of the past three years the situation has been more volatile than normal, influenced by record natural gas prices in 2007, corresponding record levels of drilling activity, followed by a global recession, massive finds of shale gas and technological developments to extract it, and punitive changes to royalty taxes making gas drilling increasingly uneconomical as gas prices declined. The net result has been a rapid draw down in natural gas storage levels. This again creates an opportunity for increased natural gas pricing and corresponding increases in drilling. Increased drilling activity creates, in turn, increased demand for hotel accommodations in the "oil patch".

Economic Recovery

While the exposure of Lakeview REIT is much greater to natural gas markets than oil markets, oil prices are perhaps the best barometer for the demand for energy, and as the demand for energy increases, all forms of energy tend to become more expensive. It is becoming more widely accepted that the world is at or near peak oil production. Even with very modest global economic growth we can expect large increases in oil prices which will ultimately drive all energy prices, including natural gas prices, much higher. This will directly benefit many of the smaller natural gas markets in Alberta and British Columbia.

With the strengthening of the global economy, oil prices have almost doubled from their lows in the fourth quarter of 2008. Increased oil prices encourages more drilling and stimulates more demand for hotel rooms.

Typically coming out of a recession, the hotel sector is generally one of the last sectors to recover. Nonetheless HVS Global Hospitality Services is projecting healthy growth in hotel demand returning in 2011. At a recent Americas Lodging Investment Summit (ALIS), most industry leaders expressed a belief that the hotel sector will experience positive growth in the third and fourth quarters of 2010.

Alberta Royalty Taxes

In 2007 the Province of Alberta introduced new royalty tax rates on oil and gas drilling revenues from that Province. Alberta's combined royalty and tax rates had become the highest in the country. Oil and gas producers considered the new tax structure punitive. The new royalty taxes were a contributing factor to the sharp decline in drilling activity experienced in Alberta. Many producers shut down their operations in Alberta, moving their operations to other jurisdictions such as Saskatchewan and British Columbia, which had much more favourable royalty tax structures.

On March 11, 2010, the Province of Alberta cut royalty taxes back to a level where Alberta is once again competitive with other jurisdictions. The changes received the approval of the Canadian Association of Petroleum Producers. The changes were designed to spur immediate growth in the oil and gas industry, encourage investment, and generate an immediate increase in drilling activity and production.

The main beneficiaries of the reduced royalty taxes are expected to be (1) conventional oil wells which will see the maximum royalty tax reduced from 50% to 40%; (2) conventional natural gas wells where the maximum royalty is reduced from 50% to 36%; and (3) new natural gas wells which will only pay a 5% royalty in their first year of production. As these types of exploration reflect much of the activity in the markets of Lakeview REIT hotels, Lakeview REIT should see a significant benefit from the new royalty structure.

British Columbia also announced in March natural gas royalty credits to companies that invest money in 2010 for road and pipeline infrastructure projects. This will also benefit Lakeview REIT's hotels in Northern British Columbia.

MARKET SPECIFIC DEVELOPMENTS

Whitecourt, Alberta

Whitecourt, Alberta will be a major beneficiary of a major carbon-capture project. Swan Hills Synfuels is set to begin work on the project which will see construction of a \$500 million, 300-megawatt power-generating plant in Whitecourt, a \$1 billion in-situ gasification facility in neighbouring Swan Hills, and a \$50 million pipeline to bring the synthetic gas from Swan Hills to Whitecourt. More than 500 full-time jobs are expected to be created from the construction of the power plant. Construction will take three to four years to complete. Construction is scheduled to begin in 2012 while environmental assessment work will be undertaken in 2011.

Slave Lake, Alberta

Pembina Pipeline Corporation intends to spend 60% of its capital budget for 2010 on its Nipisi and Mitsue pipeline projects. The Nipisi pipeline will extend from north of Slave Lake, Alberta to south of Swan Hills. The Mitsue pipeline will transport condensate from Whitecourt to Nipisi. Slave Lake and Whitecourt will both be major beneficiaries of these pipeline projects. Pipeline construction will commence in the fall of 2010 and continue throughout 2011. Pembina Pipeline estimates 500 people will be needed during pipeline construction. Total cost of the project is approximately \$440 million.

Drayton Valley, Edson, Edson Airport and Hinton, Alberta

Lakeview REIT properties in Drayton Valley, Hinton and the two properties in Edson will all benefit from the renewed interest in the Pembina Cardium formation which is centered near Drayton Valley and extends to Hinton and Edson. The Cardium play is considered the #2 resource play in Canada after Saskatchewan's Bakken. The area is becoming a major oil play and development is gathering momentum. While the Drayton Valley, Edson and Hinton properties were all acquired primarily based on natural gas drilling activity in these markets, the potential for oil drilling is a very pleasant and timely development.

Chetwynd, British Columbia

Chetwynd has a resource based economy which was hurt deeply by the economic downturn. Economic conditions and the prospects for Chetwynd are markedly improving. The Canfor sawmill in Chetwynd, which shut down early in 2008, will be re-opening in late May, 2010 with close to \$15 million being spent on upgrading and retooling the mill. The Tembec pulp mill re-opened earlier this year. Chetwynd will also

be the major beneficiary of the Dokie Wind Project. The Dokie Ridge, located just east of Chetwynd, is considered one of British Columbia's best wind power assets in terms of power generation and existing infrastructure. The Dokie Wind project, when complete, will generate 300 mega watts of power. Installation of the massive wind turbines will require hotel accommodations for crews and technicians.

Chetwynd will also benefit from the oil and gas maintenance turn around this summer which will see approximately one thousand workers coming to Chetwynd. The oil and gas maintenance turnaround takes place every three years at the Spectra Refinery.

Fort Nelson, British Columbia

Fort Nelson is the community located closest to the massive Horn River Basin shale gas development in north eastern British Columbia. Fort Nelson has been, and is expected to continue to generate high occupancies and average room rates as the potential of the Horn River Basin is developed. Development of the Horn River Basin requires road construction for access, pipeline and compressor construction for gas transmission, and of course oil and gas drilling activity by major Canadian and US oil and gas companies.

Brooks, Alberta

As a community, Brooks was very adversely affected by the initial changes to the Alberta Royalty tax regime. The most recent changes (March 2010) to the tax regime will stimulate increased activity in the oil & gas industry which will favourably impact on the community of Brooks and in turn the Lakeview Inn & Suites.

Okotoks, Alberta

Several major projects currently under construction either in or in close proximity to Okotoks will favourably impact the Lakeview Inn & Suites in Okotoks, AB.

The Trinity Group is developing a 40 store retail outlet within the City of Okotoks to serve both the city and the immediate trading area with a population of 100,000. Major tenants will include Costco, Home Depot, The Brick, Michael's and Winners.

In south Calgary (Deer Foot and 196th Avenue) a \$1.7 billion hospital campus is under construction. 293 beds are planned for the 1st phase. The campus in its entirety will be complete by 2017 and is designed to accommodate 800,000 visits per year upon completion. Driving time from the hospital site in south Calgary to the City of Okotoks is approximately 15 minutes and the hotel in Okotoks will benefit from its close proximity to this major health facility during both the construction and operating phases.

The developments in conjunction with a generally improving economy (tourism & trade) and increased activity related to the oil & gas industry auger well for the Lakeview Inn & Suites Okotoks.

Fort Saint John, British Columbia

The community of Fort Saint John is a regional centre for government services, medical facilities and treatment and educational programs. In addition, Fort Saint John acts as a "conduit" to economic activity in northern BC. In the immediate vicinity of Fort Saint John, there are substantial resource deposits of oil & gas and forestry resources.

As both the general economy continues to improve and oil & gas drilling activity increases, the Lakeview Inn & Suites in Fort Saint John will benefit directly.

In particular, the marked increase in exploration and development of the Horn River Basin in northern BC will result in a substantial increase of traffic (oil & gas and related) into Fort Saint John enroute to Fort Nelson, which anchors the Horn River Basin shale deposit.

SUMMARY

While Lakeview REIT continues to face major challenges, it is the belief of the management of Lakeview REIT that there are enough positive developments taking place that over the next 12 to 18 months Lakeview REIT will begin seeing a significant improvement in operating results. Many Lakeview REIT hotels located in traditional gas markets will benefit from scheduled major capital projects while other markets are seeing renewed interest in their potential as oil plays. Hotels in non-resource markets are expected to see stronger results as the economy and the hotel sector improve.

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	
	2009	2008	2009	2008
Occupancy Percentage ⁽¹⁾	46.64%	57.75%	51.64%	62.35%
Average Room Rate ⁽¹⁾	\$112.91	\$121.57	\$117.59	\$119.67
RevPar ⁽¹⁾	\$53.13	\$70.20	\$60.72	\$74.62
Rooms Occupied	57,955	70,977	254,627	292,428

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 decreased for the year ended December 31, 2009 compared to the year ended December 31, 2008.

RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three months and year ended December 31, 2009 compared to the results of operations for the comparable periods in 2008:

	Three months ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
Hospitality Revenue				
Room	6,594,497	8,626,842	29,916,503	35,134,621
Food & Beverage	698,987	916,585	2,911,317	3,732,213
Other	308,761	568,111	1,673,716	1,881,507
Total Revenue	7,602,245	10,111,538	34,501,536	40,748,341
Expenses	10,420,526	11,542,946	42,569,646	43,003,769
Net Income (Loss) before future income tax expense	(2,818,281)	(1,431,408)	(8,068,110)	(2,255,428)
Basic and diluted income (loss) before income tax per unit	(0.144)	(0.074)	(0.414)	(0.117)
Future Income Tax (Expense) Recovery (1)		816,000		734,000
Net Loss	(2,818,281)	(615,408)	(8,068,110)	(1,521,428)
Basic and Diluted Income (Loss) per Unit	(0.144)	(0.032)	(0.414)	(0.079)
Reconciliation to funds from Operations				
Add (deduct)				
Amortization of income properties	1,680,893	1,669,487	6,694,496	6,212,645
Amortization of franchise fees	8,734	12,435	57,141	48,534
Distributions from Lakeview Flag Licensing General Partnership	19,600	182,280	439,530	537,530
Income from Lakeview Flag Licensing General Partnership	(105,614)	(177,302)	(584,552)	(617,334)
Future income tax expense (recovery) (1)		(816,000)		(734,000)
Funds from Operations	(1,214,668)	255,492	(1,461,495)	3,925,947
Basic and diluted funds from Operations per unit	(0.062)	0.013	(0.075)	0.204
Contributions to reserve account	(172,255)	(236,047)	(774,515)	(1,160,788)
Adjusted funds from Operations	(1,386,923)	19,445	(2,236,010)	2,765,159
Basic and diluted adjusted funds from Operations per unit	(0.071)	0.001	(0.115)	0.143
Reconciliation to distributable income				
Accretion on debt component of convertible debentures	267,423	245,109	1,038,698	846,657
Accretion of debentures	47,786	43,005	183,814	124,372
Accretion of mortgages payable	62,913	51,764	222,905	204,192
Decretion of mortgages receivable		3,554	56,877	6,879
Compensation costs of unit options				55,845
Loss on settlement of mortgage receivable			98,244	
Distributable income	(1,008,801)	362,877	(635,472)	4,003,104
Basic and diluted distributable income per units	(0.052)	0.019	(0.033)	0.208
Distributions	0	1,092,879	192,748	7,458,352

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, 2009

Room Revenue - For the quarter ended December 31, 2009 room revenue decreased from \$8,626,842 for the quarter ended December 31, 2008, to \$6,594,497. The decrease is mainly due to the general economic weakness and to a cyclical downturn in natural gas drilling activity, which impacted a number 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. Revenues declined due to lower occupancies.

Other Income – The decrease in Other Income for the quarter ended December 31, 2009 is due to a decrease in the ancillary revenue at the hotels due to lower occupancy.

Expenses – Expenses for the fourth quarter of 2009 decreased by \$1,122,420 from \$11,542,946 for the fourth quarter ended December 31, 2008 to \$10,420,526. This decrease was made up primarily from a decrease in salaries and benefits, administration expense, marketing and food, beverage and gift shop expense.

Net Loss before future income tax expense - Net Loss increased from a loss of \$1,431,408 for the fourth quarter ended December 31, 2008, to a loss of \$2,818,281 for the quarter ended December 31, 2009.

OPERATING RESULTS REVIEW –
YEAR ENDED DECEMBER 31, 2009

Room Revenue - For the year ended December 31, 2009 room revenue decreased by \$5,218,118, from \$35,134,621 for the year ended December 31, 2008, to \$29,916,503. The decrease is mainly due to the general economic weakness and to cyclical downturn in natural gas drilling which impacted a number of the Lakeview Hotel REIT hotels.

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. Revenues declined due to lower occupancies.

Other Income – The decrease in Other Income for the year ended December 31, 2009 is due to the lower occupancies at the hotels.

Expenses – Expenses for the year ended December 31, 2009 decreased by \$434,123 from \$43,003,769 for the year ended December 31, 2008 to \$42,569,646. The decrease is mostly due to lower food & beverage and gift shop expense as well as salaries and benefits.

Net Loss before future income tax expense - Net Loss increased from a loss of \$2,255,428 for the year ended December 31, 2008, to a loss of \$8,068,110 for the year ended December 31, 2009.

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 \$1,371,678 from \$362,877 for the quarter ended December 31, 2008 to \$(1,008,801) for the quarter ended December 31, 2009 and decreased \$4,638,576 from \$4,003,104 from the year ended December 31, 2008 to \$(635,472) for the year ended December 31, 2009.

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, 2009, was \$(1,214,668) compared to \$255,492 for the same period in 2008. For the year ended December 31, 2009, FFO was \$(1,461,495) compared to \$3,925,947 in 2008.

Adjusted funds from operations (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 \$1,406,368 from \$19,445 for the three months ended December 31, 2008 to \$(1,386,923) for the three months ended December 31, 2009. AFFO decreased by \$5,001,169 from \$2,765,159 for the year ended December 31, 2008 to \$(2,236,010) for the year ended December 31, 2009.

LIQUIDITY AND CASH FLOW

At December 31, 2009 Lakeview Hotel REIT had cash and term deposits of \$1,331,392 and a balance in the reserve fund of \$651,321. 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 in 2010.

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. As at December 31, 2008, Lakeview Hotel REIT was not in compliance with the FCCR requirement for six of the hotel properties. In 2009, 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. Accordingly, at December 31, 2008 the mortgages payable were classified as long-term liabilities in the consolidated financial statements. As conditions for the lender's agreement, two letters of credit of \$1,250,000 each were provided by LMI in favour of the mortgage lender to draw upon in the event of default. 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. This cash collateral replaced the two letters of credit provided by LMI as noted above.

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 \$78,210,359 have all been classified as current liabilities as at December 31, 2009.

Based on its cash flow forecast, available financing, the continued deferral of payment of fees to related parties and cooperation of its major lender, while there can be no assurance, 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, 2009 and 2008.

	Year ended December 31	
	2009	2008
Net income (loss) for the year	(8,068,110)	(1,521,428)
Add charges (deduct credits) to operations not requiring a current cash payment		
Amortization of income properties	6,694,496	6,212,645
Amortization of franchise fees and licenses	57,141	48,534
Compensation costs of unit options		55,845
Income from Lakeview Flag Licensing General Partnership	(584,552)	(617,334)
Accretion on debt component of convertible debentures	1,038,698	846,657
Accretion of mortgages payable	222,905	204,192
Accretion of debentures	183,814	124,372
Decretion of mortgages receivable	56,877	6,879
Future income tax expense (recovery)		(734,000)
Loss on settlement of mortgages receivable	98,244	
	<u>(300,487)</u>	<u>4,626,362</u>
Net change in non-cash working capital balances related to operations	<u>1,722,218</u>	<u>1,000,865</u>
Cash provided by operating activities	<u>1,421,731</u>	<u>5,627,227</u>

CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities was \$1,421,731 for the year ended December 31, 2009 which decreased from \$5,627,227 cash provided by operating activities in the year ended December 31, 2008. The main reason for the decrease was the net loss realized in 2009.

CASH USED IN INVESTING ACTIVITIES

In 2009, \$1,122,248 of cash was used for renovation and capital improvements to the hotels. Also, \$3,666,153 was collected of the \$5,000,000 previously advanced mezzanine loan arrangements with the independent hotel developer.

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.

In 2008 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 earned interest at 12% per annum compounded and payable monthly.

CASH PROVIDED BY FINANCING ACTIVITIES

For the year ended December 31, 2009 cash of \$5,500,000 was provided through the mortgage financing of the Days Inn – Ottawa Airport and \$7,432,409 was used to repay a portion of the vendor take back mortgage on the Days Inn – Ottawa Airport as well as other long term debt.

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).

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	
	2009	2008
Cash provided by operating activities	1,421,731	5,627,227
Add (Deduct)		
Net change in non-cash working capital balances related to operations	(1,722,218)	(1,000,865)
Distributions from Lakeview Flag Licensing General Partnership	439,530	537,530
	<u>139,043</u>	<u>5,163,892</u>
Deduct		
Contribution to reserve fund	774,515	1,160,788
	<u>(635,472)</u>	<u>4,003,104</u>
Distributable Income (Loss)		

For the year ended December 31, 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). 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	2008	Year ended December 31			Period ended Dec. 31, 2004(1)	Cumulative since inception
	Dec. 31, 2009		2007	2006	2005		
Cash provided by operating activities	1,421,731	5,627,227	6,425,653	5,416,638	(51,513)	158,248	18,997,984
Distributable income	(635,472)	4,003,104	5,480,891	5,031,211	895,282	9,334	14,784,350
Cash distributions paid	192,748	7,458,352	8,351,629	3,955,176	880,125	176,250	21,014,280
Cash provided by operating activities in excess of (less than) cash distributions	1,228,983	(1,831,125)	(1,925,976)	1,461,462	(931,638)	(18,002)	(2,016,296)
Distributable income in excess of (less than) cash distributions	(828,220)	(3,455,248)	(2,870,738)	1,076,035	15,157	(166,916)	(6,229,930)

(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 \$2,016,296 when cash distributions are compared to cash provided by operating activities and \$6,229,930 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 2008 and 2009 which impacted many of the hotels owned by Lakeview Hotel REIT.

SELECTED FINANCIAL INFORMATION

	Year ended December 31	
	2009	2008
Total Revenue	34,501,536	40,748,341
Net Income (loss) Before Future Income Tax Expenses	(8,068,110)	(2,255,428)
Basic and diluted income before tax per unit	(0.414)	(0.117)
Total Assets	163,709,741	171,577,503
Total Long-term Liabilities	41,103,937	110,896,445
Distribution declared per unit	0.01	0.39

Increase in net losses are primarily related to lower occupancies and consequently lower margins in the Alberta and northern British Columbia hotels due to the slowdown in drilling activity for oil and gas in 2008 and 2009.

SUMMARY OF QUARTERLY RESULTS

	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Hospitality Revenue								
Rooms	6,594,497	7,971,535	7,592,028	7,758,443	8,626,842	10,223,940	8,321,629	7,962,210
Food, Beverage & Gift Shop	698,987	707,895	737,379	767,056	916,585	771,880	939,012	1,104,736
Other	308,761	353,354	493,273	518,328	568,111	491,404	433,826	388,166
Total Revenue	7,602,245	9,032,784	8,822,680	9,043,827	10,111,538	11,487,224	9,694,467	9,455,112
Expenses	10,420,526	10,562,138	11,071,985	10,514,997	11,542,946	11,343,464	10,400,633	9,716,726
Net Income (Loss) before future income tax expense	(2,818,281)	(1,529,354)	(2,249,305)	(1,471,170)	(1,431,408)	143,760	(706,166)	(261,614)
Basic and Diluted Income (Loss) before Tax per unit	(0.144)	(0.078)	(0.115)	(0.076)	(0.074)	0.007	(0.037)	(0.014)
Future Income Tax (Expense) Recovery	-	-	-	-	816,000	(86,000)	-	4,000
Net Income (Loss)	(2,818,281)	(1,529,354)	(2,249,305)	(1,471,170)	(615,408)	57,760	(706,166)	(257,614)
Basic and Diluted Income (Loss) per Unit	(0.144)	(0.078)	(0.115)	(0.076)	(0.032)	0.003	(0.037)	(0.013)
Occupancy Percentage ⁽¹⁾	46.64%	54.47%	52.96%	52.88%	57.75%	69.39%	59.89%	62.46%
Average Room Rate ⁽¹⁾	\$113.91	\$118.65	\$116.45	\$120.95	\$121.57	\$120.61	\$120.20	\$115.98
RevPar ⁽¹⁾	\$53.13	\$64.63	\$61.67	\$63.95	\$70.20	\$83.69	\$71.97	\$72.44

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 audited 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.

As discussed in note 11, 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 in default and can be deemed as payable on demand and accordingly, have been reclassified as current liabilities. Included in current liabilities at December 31, 2009 is a \$4,200,000 demand loan and \$78,210,359 of mortgages payable to Lakeview Hotel REIT'S primary mortgage lender. Lakeview Hotel REIT's consolidated financial statements for the year ended December 31, 2009 show a working capital deficiency of \$80,038,362 (2008 - \$12,474,130). It is management's understanding based on discussions with the primary lender that there is currently no indication that repayment of the loan or mortgages will be demanded in 2010.

There is reasonable doubt about the appropriateness of the going concern assumption because of the material uncertainty caused by the current market conditions and default under the loan agreements. Without the cooperation of its primary lender, Lakeview Hotel REIT will not be able to meet its financial obligations as they come due. However, as stated above, 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 in 2010. Lakeview Hotel REIT has experienced declines in 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. The outlook for the hotel industry is beginning to improve as is the outlook for many of the smaller markets Lakeview REIT operates in. This is discussed in more detail under the heading "Outlook".

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. While management believes that progress is being made in implementation of these strategies, there is no assurance as to their outcome or success.

Lakeview Hotel REIT's ability to continue as a going concern is subject to the continued support of its lenders and related parties. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for the consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expense and the balance sheet classifications used. These adjustments may be material.

RELATED PARTY TRANSACTIONS

Lakeview Hotel REIT recorded the following transactions with related parties during the year ended December 31, 2009:

1. Marketing expenses in the amount of \$196,253 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2009. The marketing expense is currently calculated at 1% of gross room revenue of the hotel and is paid on a monthly basis.

Accounting fees in the amount of \$564,011 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2009. 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 \$294,380 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2009. 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.

Accrued payables as at December 31, 2009 related to the above charges were \$614,721.

2. License fees for the year ended December 31, 2009 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$786,499 of which 51% or \$401,114 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, 2009 accrued payables related to the above were \$501,629.

3. Management fees for the year ended December 31, 2009 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of \$1,615,320 of which 75% or \$1,211,490 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, 2009 accrued payables related to the above were \$761,138.

4. A movie rental fee in the amount of \$179,925 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the year ended December 31, 2009. 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, 2009 XYZ Design Inc. charged \$6,047 in fees to Lakeview Hotel REIT.

6. 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, 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, 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 year ended December 31, 2009 were charged in the amount of \$477,753.

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.

7. 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.

8. 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 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 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, 2009 summarizes Lakeview Hotel REIT's significant accounting policies.

NEW ACCOUNTING STANDARDS ADOPTED IN 2009

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 were effective for the REIT's 2009 fiscal year. These new standards did not have a material impact on Lakeview Hotel REIT's 2009 financial statements.

FUTURE CHANGES TO CANADIAN GAAP

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 (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.

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, 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 has chosen to continue to measure property, plant and equipment using the carrying amount under Canadian GAAP.

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 and as such 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.

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, 2009, \$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, 2009 Lakeview Hotel REIT had a reserve fund of \$651,321 made up as follows:

Reserve Fund December 31, 2008	\$545,824
Contributions during the year	774,515
Distributions during the year	(669,018)
Reserve Fund December 31, 2009	<u>651,321</u>

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, 2009, \$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 and \$102,000 of the Series A debentures were repaid on maturity by issuance of 283,050 Class A units at \$0.3604 per unit. 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 having occurred 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, 2009 \$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. As at December 31, 2008, Lakeview Hotel REIT was not in compliance with the FCCR requirements for six of the hotel properties. In 2009 Lakeview Hotel REIT obtained an agreement from the 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, at December 31, 2008 the mortgages payable are classified as long-term liabilities in the consolidated financial statements. As conditions for the lender’s agreement, two letters of credit of \$1,250,000 each were provided in favor of the mortgage lender that it can draw upon in the event of default. 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 above.

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 \$78,210,359 have all been classified as current liabilities as of December 31, 2009.

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 is also not in compliance with this mortgage agreement as at December 31, 2009. Subsequent to year end, 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 in 2010 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:

	\$
2010	2,733,575
2011	31,323,895
2012	30,713,316
2013	5,014,632
2014	16,342,154
Total principal outstanding	86,127,572
Financing costs	(1,293,414)
Accretion of mortgages	622,450
	<u>85,456,608</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, 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.

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. 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 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 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.

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.