

LAKEVIEW HOTEL REIT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2010

April 28, 2011

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, 2010. The consolidated financial statements for the year ended December 31, 2010, 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, 2010 Lakeview Hotel REIT had acquired 18 hotels including the Fredericton property.

The results of their operations are included in the December 31, 2010 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, 2010.

Property	Date of Purchase	Date of Conversion to Lakeview Brand	Number of Rooms
Lakeview Inn & Suites – Fredericton, NB	April 15, 2004	April 15, 2004	97
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	69
Super 8 Toronto North – Vaughan, ON	March 17, 2006	N/A	82
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	71
Days Inn – Chetwynd, BC	October 24, 2006 and November 9, 2006	October 24, 2006	58
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	77
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			1343

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, 2011 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>1</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

Looking back, it is clear to see that the bottom of the market for Lakeview REIT took place in February, 2010. Since that time, operating results have been in a clear uptrend. Starting in March, 2010, year-over-year monthly revenues for Lakeview REIT have increased in every month in 2010 but May. The increase in year-over-year monthly revenues continued in the first quarter of 2011.

The improvement in operating results that the REIT has enjoyed over the past 12 months is expected to continue. The overall outlook in the hotel sector has been improving as the economy in North America has been strengthening. Resource drilling activity in northern Alberta and British Columbia is also expected to show continued improvements from the very low levels of activity that began in 2008. This is very important for many of the hotels in Lakeview REIT located in smaller resource driven markets in that region.

Lakeview REIT's results for the second quarter of any year are greatly impacted by the timing and duration of spring road restrictions. These restrictions impact many of the hotels in Lakeview REIT and make it very difficult to predict the second quarter operating results. Regardless of the second quarter results, the third quarter of 2011 is expected to be strong. When combined with much improved operating results achieved in the first quarter of 2011, overall operating results for the year are expected to be markedly improved from 2010.

It is important to note that as a result of the improvement in operating results Lakeview REIT is no longer in a negative cash flow position on an annual basis. If operating results continue to improve and cash flow becomes more positive, available cash flow will be used to reduce liabilities of the REIT, for capital improvements to the properties owned by the REIT, and to replenish the capital reserve which was reduced in 2010. There is no expectation that Lakeview REIT will be in a position to resume distributions to its Unitholders in the foreseeable future.

Lakeview REIT has faced significant cash flow challenges over the past three years. The support of related parties that own over 1/3 of the units of the REIT and the agreement of the related parties to defer fees has allowed Lakeview REIT to remain current on all payments to all unrelated parties. Lakeview REIT has remained current on all debt service payments to all mortgage holders, on all

payments to all debenture holders, and on all property tax and tax payments to all government agencies. While the need for further deferrals of fees is expected to be reduced significantly as operating results continue to improve, the related parties remain committed to the welfare of the REIT and will continue to do what is deemed necessary to benefit the REIT and its Unitholders.

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	
	2010	2009	2010	2009
Occupancy Percentage ⁽¹⁾	54.45%	46.64%	54.78%	51.64%
Average Room Rate ⁽¹⁾	\$113.98	\$112.91	\$114.94	\$117.59
RevPar ⁽¹⁾	\$62.06	\$53.13	\$62.97	\$60.72
Rooms Occupied	67,228	57,955	268,332	254,627

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.

Occupancy and RevPar increased for the year ended December 31, 2010 compared to the year ended December 31, 2009.

RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three months and year ended December 31, 2010 compared to the results of operations for the comparable periods in 2009:

	Three months ended December 31		Year ended December 31	
	2010	2009	2010	2009
Hospitality Revenue				
Room	7,706,385	6,594,497	30,863,747	29,916,503
Food & Beverage	852,082	698,987	2,932,247	2,911,317
Other	341,756	308,761	1,466,078	1,673,716
Total Revenue	8,900,223	7,602,245	35,262,072	34,501,536
Expenses	12,797,437	10,420,526	45,491,476	42,569,646
Net Loss	(3,897,214)	(2,818,281)	(10,229,404)	(8,068,110)
Basic and Diluted Income (Loss) per Unit	(0.199)	(0.144)	(0.523)	(0.414)
Reconciliation to funds from Operations				
Add (deduct)				
Amortization of income properties	1,639,171	1,680,893	6,632,795	6,694,496
Amortization of franchise fees	8,214	8,734	34,416	57,141
Provision for Impairment of Note Receivable			1,396,062	
Provision for impairment of income properties	2,000,000		2,000,000	
Distributions from Lakeview Flag Licensing General Partnership	122,500	19,600	534,100	439,530
Income from Lakeview Flag Licensing General Partnership	(134,437)	(105,614)	(532,124)	(584,552)
Funds from Operations	(261,766)	(1,214,668)	(164,155)	(1,461,495)
Basic and diluted funds from Operations per unit	(0.013)	(0.062)	(0.008)	(0.075)
Contributions to reserve account	(199,177)	(172,255)	(770,056)	(774,515)
Adjusted funds from Operations	(460,943)	(1,386,923)	(934,211)	(2,236,010)
Basic and diluted adjusted funds from Operations per unit	(0.024)	(0.071)	(0.048)	(0.115)
Reconciliation to distributable income				
Accretion on debt component of convertible debentures	302,182	267,423	1,170,714	1,038,698
Accretion of debentures	53,098	47,786	204,248	183,814
Accretion of mortgages payable	64,550	62,913	254,688	222,905
Decretion of mortgages receivable				56,877
Compensation costs of unit options			124,000	
Loss on settlement of mortgage receivable				98,244
Loss on disposal of income properties	46,483		46,483	
Distributable income	5,370	(1,008,801)	865,922	(635,472)
Basic and diluted distributable income per units	0	(0.052)	0.044	(0.033)
Distributions	0	0	0	192,748

OPERATING RESULTS REVIEW – THREE MONTHS ENDED DECEMBER 31, 2010

Room Revenue - For the quarter ended December 31, 2010 room revenue increased from \$6,594,497 for the quarter ended December 31, 2009, to \$7,706,385. The increase is related to the improving economic conditions and to general increases in resource 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 increased primarily due to higher occupancies.

Other Income – Increased \$32,995 for the quarter ended December 31, 2010.

Expenses – Expenses for the fourth quarter of 2010 increased by \$2,376,911 from \$10,420,526 for the fourth quarter ended December 31, 2009 to \$12,797,437. This increase was made up primarily from an increase in salaries and benefits, and administration expense. Also included in expenses is a \$2,000,000 provision for impairment due to the performance of a hotel that no longer supports its carrying value. [See note 5 to the December 31, 2010 Audited Consolidated Financial Statements].

Net Loss - Net loss increased from a loss of \$2,818,281 for the fourth quarter ended December 31, 2009, to a loss of \$3,897,214 for the quarter ended December 31, 2010. The main reason for the increase was the recognition of a \$2,000,000 provision for impairment for one of the hotel properties as discussed above.

OPERATING RESULTS REVIEW – YEAR ENDED DECEMBER 31, 2010

Room Revenue - For the year ended December 31, 2010 room revenue increased by \$947,244, from \$29,916,503 for the year ended December 31, 2009, to \$30,863,747. The increase is mainly due to the improved operating results in the fourth quarter of 2010 due to the increased occupancy for hotels in resource based areas, 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 increased due to higher occupancies.

Other Income – The decrease in Other Income for the year ended December 31, 2010 is due to less interest earned on the promissory note in 2010 as compared to 2009.

Expenses – Expenses for the year ended December 31, 2010 increased by \$2,921,830 from \$42,569,646 for the year ended December 31, 2009 to \$45,491,476. The increase is mostly due to the provision for impairment of note receivable of \$1,396,062 (see note 3 of December 31, 2010 Lakeview Hotel Real Estate Investment Trust consolidated financial statements) as well as the recognition of a provision for impairment of \$2,000,000 in the fourth quarter as referred to above.

Net Loss - Net loss increased from a loss of \$8,068,110 for the year ended December 31, 2009, to a loss of \$10,229,404 for the year ended December 31, 2010. The main reason for the increase was the \$2,000,000 provision for impairment as referred to above.

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 \$1,014,171 from \$(1,008,801) for the quarter ended December 31, 2009 to \$5,370 for the quarter ended December 31, 2010 and increased \$1,501,394 from \$(635,472) for the year ended December 31, 2009 to \$865,922 for the year ended December 31, 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 December 31, 2010, was \$(261,766) compared to \$(1,214,668) for the same period in 2009. For the year ended December 31, 2010, FFO was \$(164,155) compared to \$(1,461,495) in 2009.

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 increased by \$925,980 from \$(1,386,923) for the three months ended December 31, 2009 to \$(460,943) for the three months ended December 31, 2010. AFFO increased by \$1,301,799 from \$(2,236,010) for the year ended December 31, 2009 to \$(934,211) for the year ended December 31, 2010.

LIQUIDITY AND CASH FLOW

At December 31, 2010 Lakeview Hotel REIT had cash of \$1,436,789 and a balance in the reserve fund of \$359,868. 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.

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 could be demanded at any time.

As at December 31, 2010 Lakeview Hotel REIT was not in compliance with the FCCR requirements for 10 of the hotel properties. However, subsequent to year end, Lakeview Hotel REIT entered into a loan commitment agreement with the mortgage lender to refinance the seven mortgages maturing from February 1, 2011 to July 1, 2011 [with total carrying values of \$27,501,018 as at December 31, 2010] and \$2,200,000 of the \$4,200,000 loan payable. As part of the loan commitment agreement, the lender has agreed to enter into a forbearance agreement regarding its right to demand repayment of all of the mortgages as a result of the non-compliance of the FCCR requirement at December 31, 2010. The refinanced mortgages will have a 3 year term with annual fixed interest rates at 4.35% above the 3-year Canadian dollar fixed interest SWAP rate. Total loan fees of 1% of the loan amount are due on or before September 1, 2011. Also as part of the loan commitment agreement, Lakeview Hotel REIT is committed to obtain refinancing from alternate mortgage lender(s) for one income property with a mortgage maturing January 1, 2012, and for another one of two income properties with mortgages maturing on May 1, 2012 and December 1, 2012, respectively. If Lakeview Hotel REIT has not received refinancing for these two income properties by September 1, 2011 and the related mortgages are not repaid by December 31, 2011, this will be considered an event of default and repayment of all of the mortgages can be demanded at any time. As a result of this contingency and the possibility that a number of the hotels will not be in compliance with the FCCR requirement at December 31, 2011, \$75,914,044 of mortgages have all been classified as current liabilities as at December 31, 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 December 31, 2010, \$37,271 was collected on the note receivable and the interest receivable balance that has accrued to September 30, 2010 and is outstanding at December 31, 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. In August 2010, Lakeview Hotel REIT was informed that a Receiver-Manager was appointed 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. Subsequently, Lakeview Hotel REIT learned that the Tumbler Ridge property was 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 December 31, 2010 from the proceeds of the sale of the Tumbler Ridge property, or from any of the other collateral. Accordingly, during 2010 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 that had accrued to 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 following table reconciles net income (loss) to cash provided by operating activities for the year ended December 31, 2010 and 2009.

	Year ended December 31	
	2010	2009
Net income (loss) for the year	(10,229,404)	(8,068,110)
Add charges (deduct credits) to operations not requiring a current cash payment		
Amortization of income properties	6,632,795	6,694,496
Amortization of franchise fees and licenses	34,416	57,141
Provision for Impairment of Note Receivable	1,396,062	
Provision for impairment of income properties	2,000,000	
Compensation costs of unit options	124,000	
Income from Lakeview Flag Licensing General Partnership	(532,124)	(584,552)
Accretion on debt component of convertible debentures	1,170,714	1,038,698
Accretion of mortgages payable	254,688	222,905
Accretion of debentures	204,248	183,814
Decretion of mortgages receivable		56,877
Loss on Disposal of Income Properties	46,483	
Loss on settlement of mortgages receivable		98,244
	1,101,878	(300,487)
Net change in non-cash working capital balances related to operations	1,590,774	1,722,218
Cash provided by operating activities	2,692,652	1,421,731

CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities was \$2,692,652 for the year ended December 31, 2010 which increased from \$1,421,731 cash provided by operating activities for the year ended December 31, 2009.

CASH USED IN INVESTING ACTIVITIES

In 2010, \$348,191 of cash was used for renovation and capital improvements to the hotels.

For the year ended December 31, 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 contractor.

CASH PROVIDED BY FINANCING ACTIVITIES

For the year ended December 31, 2010, \$2,773,164 was used to repay long term debt.

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.

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.

The Board of Trustees determined that it was 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	
	2010	2009
Cash provided by operating activities	2,692,652	1,421,731
Add (Deduct)		
Net change in non-cash working capital balances related to operations	(1,590,774)	(1,722,218)
Distributions from Lakeview Flag Licensing General Partnership	534,100	439,530
	<u>1,635,978</u>	<u>139,043</u>
Deduct		
Contribution to reserve fund	770,056	774,515
	<u>865,922</u>	<u>(635,472)</u>

For the year ended December 31, 2010 no distributions were paid to the Class "A" unitholders or to the Class "E" unitholders (exchangeable units). For the year ended December 31, 2009, distributions of \$0.01 per Class A Unit and per Exchangeable Unit were declared, totaling \$192,748.

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 Dec. 31, 2010	Year ended December 31					Period ended Dec. 31, 2004(1)	Cumulative since inception
		2009	2008	2007	2006	2005		
Cash provided by operating activities	2,692,652	1,421,731	5,627,227	6,425,653	5,416,638	(51,513)	158,248	21,690,636
Distributable income	865,922	(635,472)	4,003,104	5,480,891	5,031,211	895,282	9,334	15,650,272
Cash distributions paid	0	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	2,692,652	1,228,983	(1,831,125)	(1,925,976)	1,461,462	(931,638)	(18,002)	676,356
Distributable income in excess of (less than) cash distributions	865,922	(828,220)	(3,455,248)	(2,870,738)	1,076,035	15,157	(166,916)	(5,364,008)

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 \$676,356 when cash distributions are compared to cash provided by operating activities and a cash shortage of \$5,364,008 when cash distributions are compared to distributable income.

The shortage of 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 2009 and 2010 which impacted many of the hotels owned by Lakeview Hotel REIT.

SELECTED FINANCIAL INFORMATION

	Year ended December 31	
	2010	2009
Total Revenue	35,262,072	34,501,536
Net Income (loss)	(10,229,404)	(8,068,110)
Basic and diluted income per unit	(0.523)	(0.414)
Total Assets	154,394,090	163,709,741
Total Long-term Liabilities	40,278,852	41,103,937
Distribution declared per unit	0	0.01

Revenues have increased in 2010 over 2009 due to overall improvements in economic activity and to an increase in resource based activities. The increase in net loss resulted from the \$2,000,000 provision for impairment of income properties discussed previously.

SUMMARY OF QUARTERLY RESULTS

	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
Hospitality Revenue								
Rooms	7,706,385	8,814,503	7,511,982	6,830,877	6,594,497	7,971,535	7,592,028	7,758,443
Food, Beverage & Gift Shop	852,082	667,594	734,455	678,116	698,987	707,895	737,379	767,056
Other	341,756	362,568	326,666	435,088	308,761	353,354	493,273	518,328
Total Revenue	8,900,223	9,844,665	8,573,103	7,944,081	7,602,245	9,032,784	8,822,680	9,043,827
Expenses	12,797,437	12,192,071	10,360,831	10,141,137	10,420,526	10,562,138	11,071,985	10,514,997
Net (Loss)	(3,897,214)	(2,347,406)	(1,787,728)	(2,197,056)	(2,818,281)	(1,529,354)	(2,249,305)	(1,471,170)
Basic and Diluted Income (Loss) per unit	(0.199)	(0.120)	(0.091)	(0.112)	(0.144)	(0.078)	(0.115)	(0.076)
Occupancy Percentage ⁽¹⁾	54.45%	61.36%	53.66%	49.49%	46.64%	54.47%	52.96%	52.88%
Average Room Rate ⁽¹⁾	\$113.98	\$115.93	\$115.41	\$114.03	\$113.91	\$118.65	\$116.45	\$120.95
RevPar ⁽¹⁾	\$62.06	\$71.13	\$61.93	\$56.43	\$53.13	\$64.63	\$61.67	\$63.95

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 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 10, 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. Although it entered into a loan commitment agreement subsequent to December 31, 2010 with its primary mortgage lender to refinance the mortgages maturing in 2011 and to refinance \$2,200,000 of the demand loan payable and the agreement included a commitment to enter into a forbearance agreement with respect to the lender's right to demand repayment of the mortgages as a result of the non-compliance with the FCCR requirement as at December 31, 2010, there remains uncertainties relating to Lakeview Hotel REIT's ability to fulfill its commitments under the agreement with respect to the refinancing in 2011 with alternate lender(s) of two of three income properties that have current mortgages with maturity dates in 2012. As all long-term mortgage agreements with the primary mortgage lender are cross-collateralized, the entire balance of the long-term mortgages with the primary lender may be in default by December 31, 2011 and will be deemed as payable on demand. Therefore, these mortgages remain classified as current liabilities at December 31, 2010.

Included in current liabilities at December 31, 2010 and 2009 is a \$4,200,000 demand loan and \$75,914,044 [2009 - \$78,210,359] of mortgages payable to Lakeview Hotel REIT's primary mortgage lender. In addition, a \$2,000,000 second mortgage on the Days Inn - Ottawa Airport matures on August 1, 2011. Due to the items included in current liabilities, Lakeview Hotel REIT had a working capital deficiency of \$82,601,372 at December 31, 2010 [2009 - \$80,038,362]. Currently, management is in the process of arranging for the refinancing of the two of three income properties as committed to in the loan commitment agreement discussed above and for the refinancing of the Days Inn - Ottawa Airport second mortgage.

There is doubt about the appropriateness of the going concern assumption because of the uncertainty caused by the current market conditions and possible default on Lakeview Hotel REIT's mortgages with the primary mortgage lender should Lakeview Hotel REIT not be able to fulfill its commitments under the loan commitment agreement as discussed above. Lakeview Hotel REIT experienced declines in room revenue in 2009 which continued into 2010, reflecting a weak economic environment and a marked slowdown in the oil and gas industry in the vicinity of several of Lakeview Hotel REIT's properties. Although there are signs of recovery, as reflected by the increase in revenue and cash flow from operations in 2010, the cash flow of Lakeview Hotel REIT remains constrained. The cash flow constraints and the outcome of the refinancing efforts result in uncertainty as to whether Lakeview Hotel REIT will be able to meet its financial obligations as they become due.

Management continues to employ various strategies to improve operating results and cash flows and to assess strategies to adjust its capital structure. This includes 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 the implementation of these strategies and refinancing can be arranged for the mortgages required under the agreement with the primary lender and the second mortgage maturing in 2011, there is no assurance as to their outcome or success. Further, Lakeview Hotel REIT's results for future periods are subject to uncertainties arising from the pace of recovery of the economy and from fluctuations in oil and gas prices.

Lakeview Hotel REIT's ability to continue as a going concern is also subject to the continued support of related parties [note 14]. Specifically, Lakeview Hotel REIT has deferred payment of certain marketing, accounting, reservation, licensing and management fees to 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 these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenue and expenses 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, 2010:

1. Marketing expenses in the amount of \$204,909 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2010. 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 \$568,362 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2010. 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 \$307,364 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2010. 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, 2010 related to the above charges were \$1,849,113.

2. License fees for the year ended December 31, 2010 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$821,445 of which 51% or \$418,937 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, 2010 accrued payables related to the above were \$475,827.

3. Management fees for the year ended December 31, 2010 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of \$1,662,241 of which 75% or \$1,246,681 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, 2010 accrued payables related to the above were \$1,315,283.

4. A movie rental fee in the amount of \$185,394 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the year ended December 31, 2010. 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, 2010 XYZ Design Inc. charged \$1,160 in fees to Lakeview Hotel REIT.

6. Keith Levit Photography is a business that is related to Lakeview Management through common control. The services of this company were used to supply artwork for hotels. For the year ended December 31, 2010 a total of \$5,024 was paid to Keith Levit Photography for those services.

7. **Services Agreement**

Lakeview Hotel REIT has entered into a services agreement (the "Services Agreement") with Lakeview Management Inc. Pursuant to that agreement, Lakeview Management Inc. provides the services of certain of its senior officers to Lakeview Hotel REIT. Specifically, Lakeview Management Inc. provides the services of its President, Mr. Keith Levit, its Executive Vice-President, Mr. 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, 2010 were charged in the amount of \$460,544.

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 was renewed to April 14, 2014.

8. **Hotel Management Agreements**

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

The management fees charged by the Lakeview Flag Management General Partnership and the accounting fees charged by Lakeview Management Inc. include all services such as Managerial Services, Pre-opening and Initial Training and Accounting Services. The joint management structure is designed to ultimately provide Lakeview Hotel REIT with an ongoing source of

management fee revenue and to lessen Lakeview Hotel REIT's requirements for employees and office space. The initial term of each individual Hotel Management Agreement is 50 years.

9. License Agreements

Pursuant to the License Agreements, Lakeview Management Inc. and Lakeview Hotel REIT jointly license certain hotel properties through Lakeview Flag Licensing General Partnership. An individual license agreement has been entered into with each of the Lakeview branded hotels owned by Lakeview Hotel REIT. Income is also earned through the payment of a license fee equal to 4% of gross room revenue (the "Continuing License Fee") received from the following hotels which are owned by Lakeview Management Inc. and are located as follows: (i) Lakeview Inn & Suites - Miramichi, New Brunswick, (ii) Lakeview Inn & Suites - Brandon, Manitoba, (iii) Lakeview Inn & Suites - Bathurst, New Brunswick, (iv) Lakeview Inn & Suites - Halifax, Nova Scotia, (v) Lakeview Inn & Suites - Grand Forks, North Dakota.

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, 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, 2008, the CICA had confirmed that the use of IFRS will be required by January 1, 2011, with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed. The consolidated financial performance and financial position as disclosed in Lakeview Hotel REIT's current GAAP consolidated financial statements will be significantly different when presented in accordance with IFRS.

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, and these have been summarized here in. The assessment also includes a summary of the key decisions that need to be made and a summary of the IFRS disclosure requirements. The key accounting policy alternatives have been presented to the audit committee and accounting policies have been selected. A number of the hotels have been appraised by a third party valuation company. Seven of the nine valuations have been completed with the remaining two to be completed shortly. The remaining hotels will be valued by management and all valuations will be completed for inclusion in the first quarter 2011, Lakeview Hotel REIT financial statements.

INFORMATION TECHNOLOGY

It has been determined that no technology system change is required with respect to the conversion to IFRS. Lakeview Hotel REIT will use its existing accounting system for 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.

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. All senior management and Audit Committee members have reviewed requirements and policy changes for implementation of IFRS.

BUSINESS ACTIVITIES

Lakeview Hotel REIT has reviewed the implications of the conversion to IFRS on any financial covenants that it may have, and it has been determined that there will not be any affect on financial covenant due to IFRS.

IMPACT OF ADOPTION OF IFRS

Lakeview Hotel REIT has identified IFRS and Canadian GAAP differences and has made conclusions on the selection of accounting policy changes under IFRS. The key differences are 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. Cost includes all costs 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.

However, requirements to identify different components of property, plant and equipment under IFRS are more explicit than those existing under Canadian GAAP. As a result Lakeview Hotel REIT expects to identify two to three additional components of its assets which may result in an increase in depreciation expense in future periods given the shorter useful life attributed to other individual components.

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. When applied, the fair value would

become the new cost basis for the property, plant and equipment. Lakeview Hotel REIT intends to make this election for certain properties as at January 1, 2010.

Certain of the hotel properties have been recently appraised by a third party valuation company. The remainder of the hotel properties were valued using management application of the discounted cash flow valuation techniques utilized by the third party valuation company as well as consideration being given to comparable per room values. Using this information and the applicable capitalization rates and discount rates as at January 1, 2010, fair market value for the hotels will be determined as at January 1, 2010.

Based on the preliminary information, it is expected that the total restated values of the hotels as at January 1, 2010 will be less than their current net book value.

- **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 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 chose to adopt Business Combinations as of the beginning of its fiscal year beginning on January 1, 2010, at which time acquisition costs would have been 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

At December 31, 2010 Lakeview Hotel REIT had a reserve fund of \$359,868 made up as follows:

Reserve Fund December 31, 2009	\$651,321
Contributions during the period	770,056
Distributions during the period	(1,061,509)
Reserve Fund December 31, 2010	<u>359,868</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 June 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 December 31, 2010 audited consolidated financial statements.

As at December 31, 2010 Lakeview Hotel REIT was not in compliance with the FCCR requirements for 10 of the hotel properties. However, subsequent to year end, Lakeview Hotel REIT entered into a loan commitment agreement with the mortgage lender to refinance the seven mortgages maturing from February 1, 2011 to July 1, 2011 [with total carrying values of \$27,501,018 as at December 31, 2010] and \$2,200,000 of the \$4,200,000 loan payable. As part of the loan commitment agreement, the lender has agreed to enter into a forbearance agreement regarding its right to demand repayment of all of the mortgages as a result of the non-compliance of the FCCR requirement at December 31, 2010. The refinanced mortgages will have a 3 year term with annual fixed interest rates at 4.35% above the 3-year Canadian dollar fixed interest SWAP rate. Total loan fees of 1% of the loan amount are due on or before September 1, 2011. Also as part of the loan commitment agreement, Lakeview Hotel REIT is committed to obtain refinancing from alternate mortgage lender(s) for one income property with a mortgage maturing January 1, 2012, and for another one of two income properties with mortgages maturing on May 1, 2012 and December 1, 2012, respectively. If Lakeview Hotel REIT has not received refinancing for these two income properties by September 1, 2011 and the related mortgages are not repaid by December 31, 2011, this will be considered an event of default and repayment of all of the mortgages can be demanded at any time. As a result of this contingency and the possibility that a number of the hotels will not be in compliance with the FCCR requirement at December 31, 2011, \$75,914,044 of mortgages have all been classified as current liabilities as at December 31, 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, 2010. 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 as it was at December 31, 2009.

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

2011	\$31,323,895
2012	\$30,713,315
2013	\$5,014,634
2014	<u>\$16,342,564</u>
Total principal outstanding	\$83,394,408
Financing costs	(\$1,293,414)
Accretion of mortgages	\$877,138
	<u>\$82,978,132</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 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 27% 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. The future tax assets have been reduced by an equivalent valuation allowance as it can not be determined at this time whether it is more likely or not that Lakeview Hotel REIT will realize the benefits of the future tax assets.

OFF- BALANCE SHEET ARRANGEMENTS

As at December 31, 2010 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 which the Lakeview Hotel REIT 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 10 to the notes to the consolidated financial statements dated December 31, 2010 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 year ended December 31, 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.