



**Lakeview Hotel Real Estate Investment Trust  
Management Discussion and Analysis  
for the Three and Nine months ended  
September 30, 2008**

November 25, 2008

Management's discussion and analysis of financial conditions and results of operations (MD&A) should be read in conjunction with the unaudited consolidated financial statements for the nine months ended September 30, 2008. The consolidated financial statements for the nine months ended September 30, 2008, have been prepared by and are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Lakeview Hotel REIT's independent auditors, Ernst & Young, LLP, have not conducted a review of these consolidated financial statements.

**OVERVIEW AND PORTFOLIO SUMMARY**

Lakeview Hotel Real Estate Investment Trust (Lakeview Hotel REIT) is an unincorporated closed-end mutual fund trust created pursuant to a Declaration of Trust dated February 11, 2004. The Qualifying Transaction was completed on April 15, 2004 through a private offering of Lakeview Hotel REIT units, a public offering of Lakeview Hotel REIT subordinate convertible debentures, and the acquisition of the Lakeview Inn & Suites - Fredericton hotel. Through September 30, 2008 Lakeview Hotel REIT had acquired 18 hotels including the Fredericton property.

The results of their operations are included in the September 30, 2008 unaudited consolidated financial statements of Lakeview Hotel REIT.

The table below provides details on the hotels owned by Lakeview Hotel REIT as of September 30, 2008.

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

In addition to income earned from hotel operations Lakeview Hotel REIT also earns income from licensing fees charged to certain Lakeview Inn & Suites hotels which are owned by Lakeview Management Inc. (a unitholder of Lakeview Hotel REIT) and include hotels in Bathurst, New Brunswick; Brandon, Manitoba; Grand Forks, North Dakota; Halifax, Nova Scotia; and Miramichi, New Brunswick. License fees of 4% of gross room revenue are also earned from Lakeview Inn & Suites Tumbler Ridge, British Columbia effective September 1, 2008 and the Lakeview Inn & Suites Hudson's Hope, British Columbia effective September 17, 2008.

As at November 25, 2008, the following units of Lakeview Hotel REIT were issued and outstanding:

Class A Units	18,774,756
Class V Special Trust Units and Exchangeable Units	<u>500,000</u>
Total Units that participate pro rata in distribution	<u>19,274,756</u>
Class T Special Trust Unit (1)	<u><u>1</u></u>

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

### HIGHLIGHTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008

During the third quarter of 2008 Lakeview REIT acquired its 18<sup>th</sup> hotel, the Days Inn – Ottawa Airport. The Ottawa asset is providing geographic diversification for the Lakeview REIT portfolio. The purchase represents a further step in Lakeview REIT's ongoing strategy of balancing its portfolio to reduce its overall reliance on markets dependent on oil and gas well drilling and servicing. With the recent acquisitions in Ottawa, Prince George and Calgary, over 45% of the rooms in the Lakeview REIT portfolio are in markets that are entirely non-reliant on oil and gas well drilling and servicing to generate room sales.

Also during the third quarter, Lakeview REIT began receiving license fees from hotels funded through its mezzanine loan program. License fees were received commencing September 1<sup>st</sup> from the Lakeview Inn & Suites in Tumbler Ridge, British Columbia and commencing September 17<sup>th</sup> from the Lakeview Inn & Suites in Hudson's Hope, British Columbia. Subsequent to the quarter, a Lakeview Inn & Suites funded by the mezzanine loan program opened in Fox Creek, Alberta. This property will commence paying license fees to Lakeview REIT in the fourth quarter of 2008. Lakeview REIT has fixed price option agreements in place to acquire each of the hotels in the mezzanine loan program.

Comparing the three months ended September 30, 2008 with the same period in the previous year:

- Occupancy increased from 67.06% to 69.39%.
- Average room rate increased from \$117.49 to \$120.61.
- RevPar increased from \$78.80 to \$83.69.
- Total revenues increased from \$9,712,315 to \$11,487,224.

### KEY PERFORMANCE MEASURES

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Occupancy Percentage <sup>(1)</sup>	69.39%	67.06%	64.00%	63.21%
Average Room Rate <sup>(1)</sup>	\$120.61	\$117.49	\$119.06	\$114.11
RevPar <sup>(1)</sup>	\$83.69	\$78.80	\$76.19	\$72.13
Rooms Occupied	84,482	69,576	221,451	170,011

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

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

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

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

Average daily rates, occupancy and RevPar all increased for the three months ended September 30, 2008 compared to the three months ended September 30, 2007.

## RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three and nine months ended September 30, 2008 compared to the results of operations for the comparable periods in 2007:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Hospitality Revenue				
Room	10,223,940	8,241,740	26,507,779	19,446,155
Food & Beverage	771,880	1,097,119	2,815,628	2,990,380
Other	491,404	373,456	1,313,396	913,891
Total Revenue	11,487,224	9,712,315	30,636,803	23,350,426
Expenses	11,343,464	8,871,227	31,460,823	21,793,600
Net Income (Loss) before future income tax expense	143,760	841,088	(824,020)	1,556,826
Basic and diluted income (loss) before income tax per unit	0.007	0.044	(0.043)	0.083
Future Income Tax (Expense) Recovery (1)	(86,000)	15,000	(82,000)	(1,169,100)
Net Income (Loss)	57,760	856,088	(906,020)	387,726
Basic and Diluted Income (Loss) per Unit	0.003	0.044	(0.047)	0.021
Reconciliation to funds from Operations				
Add (deduct)				
Amortization of income properties	1,603,196	1,311,076	4,543,158	3,200,990
Amortization of franchise fees	12,161	12,536	36,099	22,435
Distributions from Lakeview Flag Licensing General Partnership	55,860	166,600	355,250	382,200
Income from Lakeview Flag Licensing General Partnership	(121,734)	(173,186)	(440,032)	(406,439)
Future income tax expense (recovery)	86,000	(15,000)	82,000	1,169,100
Funds from Operations	1,693,243	2,158,114	3,670,455	4,756,012
Basic and diluted funds from Operations per unit	0.088	0.112	0.190	0.253
Contributions to reserve account	(353,969)	(307,010)	(924,741)	(716,407)
Adjusted funds from Operations	1,339,274	1,851,104	2,745,714	4,039,605
Basic and diluted adjusted funds from Operations per unit	0.069	0.096	0.142	0.215
Reconciliation to distributable income				
Accretion on debt component of convertible debentures	246,741	138,120	601,548	244,210
Accretion of debentures	41,886	-	81,367	-
Accretion of mortgages payable	51,385	40,448	152,428	93,923
Decretion of mortgages receivable	1,029	-	3,325	-
Compensation costs of unit options	55,845	-	55,845	304,500
Distributable income	1,736,160	2,029,672	3,640,227	4,682,238
Basic and diluted distributable income per units	0.090	0.105	0.189	0.249
Distributions	2,122,150	2,121,563	6,365,473	6,230,065

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

## **OPERATING RESULTS REVIEW – THREE MONTHS ENDED SEPTEMBER 30, 2008**

Room Revenue - For the third quarter ended September 30, 2008 room revenue increased by \$1,982,200 from \$8,241,740 for the third quarter ended September 30, 2007, to \$10,223,940. The reason for this substantial increase is that the third quarter ended September 30, 2008 included the operations of all eighteen hotels in Lakeview Hotel REIT whereas the room revenue for the third quarter ended September 30, 2007 only included the operation of fifteen hotels in Lakeview Hotel REIT.

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

Other Income – The increase in Other Income for the third quarter ended September 30, 2008 is due to the income from Lakeview Flag Licensing General Partnership. This income will continue to grow as more Lakeview Inns & Suites are added to the hotels owned by Lakeview Hotel REIT which increases the license fees charged. The 2008 third quarter results also include the operation of all eighteen hotels in Lakeview Hotel REIT as compared to only fifteen hotels for the 2007 third quarter period.

Expenses – Expenses for the third quarter of 2008 increased by \$2,472,237 from \$8,871,227 for the third quarter ended September 30, 2007 to \$11,343,464. This increase was made up primarily from a \$292,120 increase in amortization of income properties; a \$865,978 increase in mortgage and debenture interest; a \$374,099 increase in salaries and benefits; and a \$630,527 increase in general administration expense.

Net Income (Loss) before future income tax expense - Net Income (loss) decreased from income of \$841,088 for the third quarter ended September 30, 2007, to income of \$143,760 for the quarter ended September 30, 2008.

## **OPERATING RESULTS REVIEW – NINE MONTHS ENDED SEPTEMBER 30, 2008**

Room Revenue - For the nine months ended September 30, 2008 room revenue increased by \$7,061,624, from \$19,446,155 for the nine months ended September 30, 2007, to \$26,507,779. The increase can be attributed to primarily five properties. The Lakeview Signature Inn in Calgary operated for only 3 months in the first nine months of 2007 and had an increase in room revenues of \$2,459,560. The Lakeview Inn & Suites Slave Lake, the Four Points by Sheraton Prince George and the Days Inn Ottawa Airport were not in the REIT portfolio in the first nine months of 2007. They had room revenues in the first nine months of 2008 of \$3,761,586. The Lakeview Inn & Suites Fort Nelson is in the process of ramping up and had an increase in room revenues of \$648,487.

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

Other Income – The increase in Other Income for the nine months ended September 30, 2008 is due to the income from Lakeview Flag Licensing General Partnership. This income will continue to grow as more Lakeview Inns & Suites are added to the hotels owned by Lakeview Hotel REIT which increases the license fees charged. The 2008 nine months results also include the operation of all eighteen hotels in Lakeview Hotel REIT as compared to only fifteen hotels for the 2007 nine months period.

Expenses – Expenses for the nine months of 2008 increased by \$9,667,223 from \$21,793,600 for the nine months ended September 30, 2007 to \$31,460,823. The largest components of this increase were a \$3,251,416 increase in mortgage and debenture interest; a \$2,012,389 increase in salaries and benefits; a \$1,342,168 increase in amortization of income properties; and a \$1,300,590 increase in general administration expense.

Net Income (Loss) before future income tax expense - Net income (loss) decreased from income of \$1,556,826 for the nine months ended September 30, 2007, to a loss of (\$824,020) for the nine months ended September 30, 2008. This change can be attributed largely to the poorer performance of Lakeview Hotel REIT portfolio of hotels in the first half of 2008 relative to the first half of 2007 and to an increase in amortization of income properties.

## 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 \$293,512 from \$2,029,672 for the third quarter ended September 30, 2007 to \$1,736,160 for the third quarter ended September 30, 2008 and decreased \$1,042,011 from \$4,682,238 from the nine months ended September 30, 2007 to \$3,640,227 for the nine months ended September 30, 2008.

### FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

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

FFO provides another useful measure of Lakeview Hotel REIT's performance as FFO excludes the effect of real estate amortization and gains and losses from sales of real estate, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance. Management believes that such a measure is useful in comparison of operating performance between periods and with other REITs. FFO, for the three months ended September 30, 2008, was \$1,693,243 compared to \$2,158,114 for the same period in 2007. For the nine months ended September 30, 2008, FFO was \$3,670,455 compared to \$4,756,012 for the same period in 2007.

Adjusted funds from operation (AFFO) has a further adjustment to funds from operations by taking into account the impact of capital requirements for Lakeview Hotel REIT and is calculated by deducting the contribution to the reserve account from FFO. AFFO decreased by \$511,830 from \$1,851,104 for the three months ended September 30, 2007 to \$1,339,214 for the three months ended September 30, 2008, AFFO decreased by \$1,293,891 from \$4,039,605 for the nine months ended September 30, 2007 to \$2,745,714 for the nine months ended September 30, 2008.

## LIQUIDITY AND CASH FLOW

At September 30, 2008 Lakeview Hotel REIT had cash and term deposits of \$2,011,946 and a balance in the reserve fund of \$1,767,885. This cash balance and term deposits are sufficient to meet Lakeview Hotel REIT's foreseeable working capital requirements based on the effect of a reduction in the monthly distributions effective December 31, 2008 to \$0.01 per unit. The funds in the reserve account will be used for maintenance expenditures at the hotels.

Future expansion of Lakeview Hotel REIT will be financed through the 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.

Lakeview Hotel REIT is currently in the process of arranging a longer term first mortgage loan to replace the vendor take back mortgage bearing interest at 7% per annum due August 1<sup>st</sup>, 209 and collateralized by a first charge on the Days Inn Ottawa Airport.

The table below reconciles net income (loss) to cash provided by operating activities for the three and nine months ended September 30, 2008 and 2007.

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Net income (loss) for the period	57,760	856,088	(906,020)	387,726
Add charges (deduct credits) to operations not requiring a current cash payment				
Amortization of income properties	1,603,196	1,311,076	4,543,158	3,200,990
Amortization of franchise fees, licenses, & pre-opening costs	12,161	12,536	36,099	22,435
Compensation costs of unit options	55,845	-	55,845	304,500
Income from Lakeview Flag Licensing General Partnership	(121,734)	(173,186)	(440,032)	(406,439)
Accretion on debt component of convertible debentures	246,741	138,120	601,548	244,210
Future income tax expense (recovery)	86,000	(15,000)	82,000	1,169,100
Accretion of mortgages payable	51,385	40,448	152,428	93,923
Accretion of debentures	41,886	-	81,367	-
Decretion of mortgages receivable	1,029	-	3,325	-
	2,034,269	2,170,082	4,209,718	5,016,445
Net change in non-cash working capital balances related to operations	1,334,598	1,012,903	(541,158)	473,110
Cash provided by operating activities	3,368,867	3,182,985	3,668,560	5,489,555

### CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities was \$3,368,867 for the three months ended September 30, 2008 which increased from \$3,182,985 cash provided by operating activities in the three months ended September 30, 2007.

### CASH USED IN INVESTING ACTIVITIES

For the three months ended September 30, 2008 cash was used to purchase the Days Inn Ottawa Airport for a cash consideration of \$3,707,017. Cash was also used for renovations to Lakeview Inn & Suites – Fort St. John and other existing hotels.

Cash was also used to fund a mezzanine loan arrangement in the amount of \$1,000,000 with an independent hotel developer and its related parties for a number of hotels in British Columbia and Alberta. The mortgages receivable earn interest at 12% per annum compounded and payable monthly. Payments of interest only are received on the mortgages. The principal is due no later than the maturity of the mortgages which is on the third anniversary of the date upon which the last advance under the loan was made. As at September 30, 2008 a total of \$5,000,000 had been advanced.

Lakeview Hotel REIT has been granted the option to purchase three hotel properties from the mezzanine loan borrowers at any time prior to the later of (a) the second anniversary on the date of which the last advance of mortgage funds was made under the loan to the owners or (b) the date the mortgages are repaid in full by the owners. The purchase price for the lands and hotel business upon exercise of the option will range from \$115,000 to \$130,000 per room/suite in the hotels. The purchase price will be reduced by any amounts owing to Lakeview Hotel REIT by the owners under the mortgages for each hotel purchased pursuant to the options. The hotels will be licensed and operated as Lakeview Inns & Suites and will be paying license fees to Lakeview Flag Licensing General Partnership. Effective January 1, 2009 management fees will be paid to Lakeview Flag Management General Partnership for each of those three hotels.

In 2007 cash was used for renovations to existing hotels.

### CASH PROVIDED BY FINANCING ACTIVITIES

For the three months ended September 30, 2007 cash provided by financing activities was raised through a drawdown of the existing preapproved line of credit in the amount of \$4,200,000.

For the three months ended September 30, 2008 there was no cash provided by financing activities.

### DISTRIBUTIONS

Effective September 1, 2005 the Trustees approved a change in the distribution policy from quarterly distributions of \$0.05 per unit to monthly distributions. Lakeview Hotel REIT paid monthly distributions of \$0.03 per unit to April 30, 2006.

Effective for the May 31, 2006 distribution payment the Trustees approved an increase in the regular monthly cash distribution from \$0.03 to \$0.0333 per unit. Effective for the Unitholders of record on November 30, 2006 and the distribution payable on December 29, 2006 the Trustees approved a further increase in the monthly distribution from \$0.0333 per unit to \$0.0367 per unit.

After careful review and assessment the Board of Trustees has determined that it is prudent and in the best interest of Unitholders to reduce the monthly distribution to \$0.01 effective with the distribution payable December 31, 2008.

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Cash provided by operating activities	3,368,867	3,182,985	3,668,560	5,489,555
Add (Deduct)				
Net change in non-cash working capital balances related to operations	(1,334,598)	(1,012,903)	541,158	(473,110)
Distributions from Lakeview Flag Licensing General Partnership	55,860	166,600	355,250	382,200
	2,090,129	2,336,682	4,564,968	5,398,645
Deduct:				
Contribution to reserve fund	(353,969)	(307,010)	(924,741)	(716,407)
Distributable Income	1,736,160	2,029,672	3,640,227	4,682,238

For the three months ended September 30, 2007 distributions of \$2,066,513 have been paid to the Class "A" unitholders and distributions of \$55,050 have been paid to the Class "E" unitholders (exchangeable units). For the three months ended September 30, 2008, distributions of \$2,067,100 have been paid to the Class "A" unitholders and distributions of \$55,050 have been paid to the Class "E" unitholders (exchangeable units).

For the nine months ended September 30, 2007 distributions of \$6,064,948 have been paid to the Class "A" unitholders and distributions of \$165,117 have been paid to the Class "E" unitholders (exchangeable units). For the nine months ended September 30, 2008, distributions of \$6,200,323 have been paid to the Class "A" unitholders and distributions of \$165,150 have been paid to the Class "E" unitholders (exchangeable units).

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

	Nine months ended September 30, 2008	Year ended December 31			Period ended Dec. 31, 2004(1)	Cumulative since inception
		2007	2006	2005		
Cash provided by operating activities	3,668,560	\$6,425,653	\$5,416,638	(51,513)	158,248	15,617,586
Distributable income	3,640,227	5,480,891	5,031,211	895,282	9,334	15,056,945
Cash distributions paid	6,365,473	8,351,676	3,955,176	880,125	176,250	19,728,700
Cash provided by operating activities in excess of (less than) cash distributions	(2,696,913)	(1,926,023)	1,461,462	(931,638)	(18,002)	(4,111,114)
Distributable income in excess of (less than) cash distributions	(2,725,246)	(2,870,785)	1,076,035	15,157	(166,916)	(4,671,755)

(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 \$4,111,114 when cash distributions are compared to cash provided by operating activities and \$4,671,755 when cash distributions are compared to distributable income.

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

## SELECTED FINANCIAL INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Total Revenue	11,487,224	9,712,315	30,636,803	23,350,426
Net Income (loss) Before Future Income Tax Expenses	143,760	841,088	(824,020)	1,556,826
Basic and diluted income before tax per unit	0.007	0.044	(0.043)	0.083
Total Assets	175,806,934	141,648,487	175,806,934	141,648,487
Total Long-term Liabilities	111,979,665	81,355,958	111,979,665	81,355,958
Distribution declared per unit	0.11	0.11	0.33	0.33

Increases in total revenues, assets, and long term liabilities have occurred from the previous year due to the acquisition of three hotels subsequent to September 30, 2007. Declines in net income are primarily related to lower occupancies and subsequently lower margins in the Alberta and northern British Columbia hotels due to the slow down in drilling activity for oil and gas in 2007 and 2008.

## SUMMARY OF QUARTERLY RESULTS

	<u>Q3-08</u>	<u>Q2-08</u>	<u>Q1-08</u>	<u>Q4-07</u>	<u>Q3-07</u>	<u>Q2-07</u>	<u>Q1-07</u>	<u>Q4-06</u>
Hospitality Revenue								
Rooms	10,223,940	8,321,629	7,962,210	7,125,694	\$8,241,740	\$5,400,496	\$5,803,919	\$5,279,122
Food, Beverage & Gift Shop	771,880	939,012	1,104,736	1,144,371	1,097,119	950,650	942,611	855,735
Other	491,404	433,826	388,166	396,211	373,456	265,502	274,933	363,757
Total Revenue	11,487,224	9,694,467	9,455,112	8,666,276	9,712,315	6,616,648	7,021,463	6,498,614
Expenses	11,343,464	10,400,633	9,716,726	9,232,691	8,871,227	7,069,787	5,852,586	5,641,277
Net Income (Loss) before future income tax expense	143,760	(706,166)	(261,614)	(566,415)	841,088	(453,139)	1,168,877	857,337
Basic and Diluted Income (Loss) before Tax per unit	0.007	(0.037)	(0.014)	(0.029)	0.044	(0.024)	0.064	0.058
Future Income Tax (Expense) Recovery	(86,000)	-	4,000	435,100	15,000	(1,184,100)	-	-
Net Income (Loss)	57,760	(706,166)	(257,614)	(131,315)	856,088	(1,637,239)	1,168,877	857,337
Basic and Diluted Income (Loss) per Unit	0.003	(0.037)	(0.013)	(0.007)	0.044	(0.086)	0.064	0.058
Occupancy Percentage <sup>(1)</sup>	69.39%	59.89%	62.46%	58.56%	67.06%	55.54%	66.78%	71.08%
Average Room Rate <sup>(1)</sup>	\$120.61	\$120.20	\$115.98	\$113.46	\$117.49	\$110.26	\$111.77	\$107.75
RevPar <sup>(1)</sup>	\$83.69	\$71.97	\$72.44	\$66.44	\$78.80	\$61.24	\$74.63	\$76.58

Note (1):

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

## OUTLOOK

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

While stronger results were anticipated, they have yet to materialize. The recent constraints in the credit market and the overall weakness in the economy makes it difficult to predict when increased levels of activity will occur. As a result, and after careful review and assessment, the Board of Trustees has determined that it is prudent and in the best interest of Unitholders to reduce the monthly distributions to \$0.01 effective with the distribution payable December 31, 2008. Lakeview will continue to focus on prudent fiscal management for the benefit of its Unitholders. Lakeview Hotel REIT has also taken steps to both balance its portfolio and to reduce the risk associated with the ramping up of new properties. These steps should lead to more stable operating results going forward. The Lakeview Hotel REIT's latest acquisitions in Calgary and Slave Lake, Alberta; in Prince George, British Columbia; and in Ottawa, Ontario have reduced its overall dependence on gas drilling activity. While Lakeview Hotel REIT remains confident in and committed to markets benefiting from gas drilling activities, portfolio balancing will help stabilize cash flow in the event of any future cyclical downturn in such activity.

## RELATED PARTY TRANSACTIONS

Lakeview Hotel REIT recorded the following transactions with related parties during the three months ended September 30, 2008:

1. Marketing expenses in the amount of \$108,959 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended September 30, 2008. The marketing expense is currently calculated at 1.5% of room revenue of the hotel and is paid on a monthly basis.

Accounting fees in the amount of \$136,267 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended September 30, 2008. The fee is prorated based on an annual fee of \$30,000 per hotel owned by Lakeview Hotel REIT during the year. The fee is subject to annual increases related to changes in the consumer price index in the province where each hotel is located.

Reservation fees in the amount of \$109,134 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended September 30, 2008. The reservation fee which is charged at 1.5% of room revenue, provides Lakeview Hotel REIT access to the reservation system maintained by Lakeview Management Inc.

A development fee will be paid to Lakeview Management Inc. for the development services provided in the renovations to the Lakeview Signature Suites – Calgary and Lakeview Inn & Suites – Fort St. John hotels. The amount of the fee charged was \$29,983 which is based on 5% of the total renovation costs.

Accrued payables as at September 30, 2008 related to the above charges were \$151,745.

2. License fees for the three months ended September 30, 2008 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$291,211 of which 51% or \$148,517 is paid to Lakeview Management Inc. The license fees are charged based on 4% of gross room revenue for the period. Lakeview Hotel REIT has a 49% interest in Lakeview Flag Licensing General Partnership and Lakeview Management Inc. has a 51% interest.

At September 30, 2008 accrued payables related to the above were \$98,271, which amount was subsequently paid.

3. Management fees for the three months ended September 30, 2008 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of \$541,244 of which 75% or \$405,933 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 September 30, 2008 accrued payables related to the above were \$140,660. This amount was subsequently paid.

4. A movie rental fee in the amount of \$16,811 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the three months ended September 30, 2008. Free to Guest Movies Ltd. is a company related to Lakeview Management Inc. through common control.
5. XYZ Design Inc. is a company that is related to Lakeview Management Inc. due to control by related parties. The services of this company are used to provide design consultation and professional services with respect to renovations of purchased hotels. For the three months ended September 30, 2008 XYZ Design Inc. charged \$7,282 in fees to Lakeview Hotel REIT and a total of \$1,513 is payable to XYZ Design Inc. for those services.

#### **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. Laurie Etkin, its Chief Financial Officer, Mr. Rudy Beyer, and its Vice-President Finance, Mr. Avrum Senensky. Mr. Levit serves as Lakeview Hotel REIT's President, Mr. Etkin serves as Lakeview Hotel REIT's Executive Vice-President, Mr. Beyer serves as Lakeview Hotel REIT's Chief Financial Officer, and Mr. Senensky serves in various capacities including financial analyst and investor relations. Each has agreed to devote the amount of time necessary to the proper management of Lakeview Hotel REIT.

Effective October 1, 2006, Lakeview Management Inc. began charging an asset management fee based on 0.3% of the net book value of Income Properties. The fee is paid monthly on the last day of every month and is based on the net book value of Income Properties at the end of the previous month. Asset management fees for the three months ended September 30, 2008 were charged in the amount of \$118,963.

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

#### **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 \$30,000.00 per hotel for accounting services subject to annual increases related to changes in the consumer price index in the province each hotel is located in.

The management fees charged by the Lakeview Flag Management General Partnership and the accounting fees charged by Lakeview Management Inc. include all services such as Managerial Services, Pre-opening and Initial Training and Accounting Services. The joint management structure is designed to ultimately provide Lakeview Hotel REIT with an ongoing source of management fee revenue and to lessen Lakeview Hotel REIT's requirements for employees and office space. The initial term of each individual Hotel Management Agreement is 50 years.

## 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. Lakeview Management Inc. and Lakeview Hotel REIT have entered into a licensing and management arrangement with an independent hotel developer and its related parties for a number of hotels in British Columbia and Alberta. (See Note 4 of the September 30, 2008 unaudited consolidated financial statements.) Three hotels under contract will be licensed and operated as Lakeview Inns & Suites and will be paying license fees to Lakeview Flag Licensing General Partnership at 4% of gross room revenue. Two of the three hotels, namely the Lakeview Inn & Suites – Tumbler Ridge and the Lakeview Inn & Suites – Hudson's Hope, both located in British Columbia, opened September 1, 2008 and September 17, 2008 respectively. In addition a license fee of 4% of gross room revenue is charged from the date any hotel becomes or is converted to a Lakeview Inn & Suites.

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

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

## SUBSEQUENT EVENTS

Effective for the distribution payable on December 31, 2008 to unitholders of record on December 5, 2008, the monthly distribution will be reduced to \$0.01 per unit or \$0.12 annually.

## SIGNIFICANT ACCOUNTING POLICIES

Note 1 to Lakeview Hotel REIT's unaudited consolidated financial statements for the three months ended September 30, 2008 summarizes Lakeview Hotel REIT's significant accounting policies.

## CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS – PRESENTATION AND DISCLOSURE

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

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

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

## FUTURE CHANGES TO CANADIAN GAAP

International Financial Reporting Standards ("IFRS")

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

adoption of IFRS for 2011, by beginning its assessment of the key accounting differences between Canadian GAAP and IFRS as it relates to the accounting policies of Lakeview Hotel REIT.

## CAPITAL RESOURCES AND CAPITAL EXPENDITURES

The primary first mortgage lender of Lakeview Hotel REIT, namely GE Capital Solutions, has provided a Pre-Approved Line of Credit (PAL) up to a value of \$5,780,000 with various properties taken as security. The pre-approved line bears interest at the Canadian Dollar Banker's Acceptance rate plus 4.25% to 5% floating per annum, is on a demand basis and the payments are interest only and paid monthly. As at September 30, 2008, \$4,200,000 of the available PAL had been used to purchase the Days Inn hotel in Ottawa, Ontario.

At September 30, 2008 Lakeview Hotel REIT had a reserve fund of \$1,767,885 made up as follows:

Reserve Fund December 31, 2007	\$1,237,214
Contributions during the first nine months of 2008	924,741
Distributions during the first nine months of 2008	(394,070)
	<hr/>
	\$1,767,885

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

Under two offerings the 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 September 30, 2008, \$4,223,000 of the Series A debentures were converted at a price of \$2.50 into 1,689,200 Class A units and \$175,000 of the Series A debentures were converted at a price of \$3.00 into 58,331 Class A units. As well, \$1,460,000 of the Series B debentures issued May 30, 2005 were converted at a price of \$2.90 resulting in the issuance of 503,430 Class A Units of Lakeview Hotel REIT.

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

On March 28, 2008 Lakeview Hotel REIT, through a public offering issued \$10,250,000 Series A Senior Secured Debentures (the "Debentures"). The debentures mature on June 20, 2012 and bear interest at an annual rate of 8.125% payable monthly, in cash, with the first payment occurring on April 30, 2008. The debentures are redeemable in full from time to time at Lakeview Hotel REIT's sole option on not less than 30 days' prior written notice, at a price to equal 110% of the principal amount plus accrued and unpaid interest up to, but excluding the date of redemption.

On May 8, 2008 under a public offering, Lakeview Hotel REIT issued \$10,000,000 of Series D Convertible, Redeemable Subordinated Debentures. The debentures bear interest at 8.5%, mature May 31, 2013, and are subordinate only to property specific conventional mortgage financing, any vendor take-back mortgage financing and the Series A Senior Secured debentures issued March 28, 2008. The debentures are convertible by the holder at any time prior to maturity at \$3.75 per unit. On maturity the debentures are repayable at par plus any accrued and unpaid interest in cash. From May 8, 2008 to September 30, 2008 \$20,000 of the debentures were converted at a price of \$3.75 into 5,333 Class A units.

## 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 27.2% 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 September 30, 2008 Lakeview Hotel REIT had no undisclosed Off-Balance Sheet Arrangements.

## **RISKS AND UNCERTAINTIES**

Lakeview Hotel REIT has focused its effort in the Alberta and northern British Columbia markets. These markets have previously benefited from strong demand for hotel rooms from the oil and gas sectors and from a shortage of room supply.

The performance of Lakeview Hotel REIT has been and may continue to be affected by new room supply coming into the Alberta and northern BC markets. New room supply has had a dampening affect on hotel occupancy and RevPar.

The performance of Lakeview Hotel REIT may be impacted by lower commodity prices which may result in reduced levels of drilling and exploration work in Alberta and northern British Columbia. A general slow down in the economy may have a similar impact on Lakeview Hotel REIT.

Lakeview Hotel REIT is operating in a tight labour market in Alberta and northern British Columbia. The difficulty in retaining qualified hotel staff has a negative impact on the results of the REIT.

Additional information on the risks and uncertainties are described under "Risk Factors" in Lakeview Hotel REIT's Annual Information Form dated April 28, 2008 which is available at [www.sedar.com](http://www.sedar.com).

## **FORWARD-LOOKING STATEMENTS**

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

## **ADDITIONAL INFORMATION**

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