



**Lakeview Hotel Real Estate Investment Trust
Management Discussion and Analysis
for the six months ended
June 30, 2007**

August 28, 2007

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 six months ended June 30, 2007. The consolidated financial statements for the six months ended June 30, 2007, have been prepared by and are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). 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.

The fourteen hotels listed below were purchased subsequent to the acquisition of Lakeview Inn & Suites – Fredericton with the results of their operations included in the June 30, 2007 unaudited consolidated financial statements of Lakeview Hotel REIT.

Property	Date of Purchase	Date of Conversion to Lakeview Inns & Suites
Best Western Black Gold Inn – Drayton Valley, AB	June 1, 2005	December 1, 2005
Ramada Limited & Suites – Hinton, AB	November 4, 2005	November 4, 2005
Best Western Okotoks Lodge – Okotoks, AB	January 6, 2006	July 1, 2006
Best Western Fort Inn & Suites – Fort Saskatchewan, AB	January 13, 2006	July 1, 2006
Super 8 Toronto North – Vaughan, ON	March 17, 2006	N/A
Super 8 Motel – Edson, AB	April 7, 2006	April 7, 2006
Ramada Limited – Whitecourt, AB	May 31, 2006	May 31, 2006
Holiday Inn Express & Suites – Sherwood Park, AB	June 1, 2006	N/A
Ramada Limited – Fort St. John, BC	October 16, 2006 and November 10, 2006	October 16, 2006
Days Inn – Chetwynd, BC	October 24, 2006 and November 9, 2006	October 24, 2006
Lakeview Inn & Suites – Fort Nelson, BC	January 8, 2007	N/A
Lakeview Inn & Suites – Edson Airport West	April 16, 2007	N/A
Holiday Inn Express & Suites - Brooks	May 15, 2007	May 15, 2007
Residence Inn Marriott - Calgary	June 22, 2007	June 22, 2007

In addition to income earned from hotel operations Lakeview Hotel REIT also earns income from licensing fees charged to 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 August 23, 2007, the following units of Lakeview Hotel REIT were issued and outstanding:

Class A Units	18,769,423
Class V Special Trust Units and Exchangeable Units	<u>500,000</u>
Total Units that participate pro rata in distribution	<u>19,269,423</u>
Class T Special Trust Unit (1)	<u>1</u>

(1) (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.

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 if a trust undergoes expansion beyond 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 31.5% tax to be applied to distributions for Lakeview Hotel REIT starting in the 2011 taxation year. As a result of this bill Lakeview Hotel REIT recorded an additional \$1,184,100 of future income tax expense and increased its future tax liability in the second quarter of 2007. The future income tax adjustment represents Lakeview Hotel REIT’s taxable temporary differences which are expected to reverse after 2010. This is a non cash charge to earnings relating to Lakeview Hotel REIT’s temporary differences between the accounting and tax basis of the assets and liabilities of the Trust. This charge will have no impact on Lakeview Hotel REIT’s cash flows or distributions in the current year.

HIGHLIGHTS – 3 MONTHS ENDED JUNE 30, 2007

The second quarter of the year typically would be the weakest quarter of the year for Lakeview Hotel REIT due to road restrictions in Alberta and British Columbia. The second quarter of 2007 was an especially challenging period for Lakeview Hotel REIT. Most of the hotels in the Lakeview Hotel REIT portfolio are heavily dependent upon oil and gas drilling activity in Alberta and northeastern British Columbia. Drilling activity was well below normal during the second quarter. A number of factors were at work leading to the lower activity levels. Road restrictions in Alberta and BC were more extensive and prolonged than usual due to unusually high levels of snow cover and an extended spring breakup melting period. Even without the road restrictions there has been a sharp decline in drilling activity in western Canada due to soft natural gas prices and high operating costs in Canada. As a result, the properties acquired by Lakeview Hotel REIT in 2007 have yet to perform to expectations and several of the properties acquired prior to 2007 did not perform to the occupancy levels achieved in prior second quarters.

Lakeview Hotel REIT has continued to pay regular monthly distributions to its Unitholders of \$0.0367 per unit. As a result of the weak second quarter, Lakeview over distributed in the first half of the year with an AFFO (adjusted funds from operations) payout ratio of 155% for this period. A payout ratio of over 100% is an anomaly for the REIT. In the first half of 2006 the AFFO payout ratio was 75%. The AFFO payout for all of 2006 was 78.6% and for 2005 was 98.3%. The third and fourth quarters of the year are historically the strongest quarters of the year for the properties in the Lakeview Hotel REIT portfolio. Drilling activity levels are expected to increase late in 2007 or in the first quarter of 2008. As market activity improves and the results from the recently acquired properties are ramped up, Management anticipates a significant improvement in its AFFO payout ratio in the coming quarters.

While results in the second quarter of 2007 were below expectation, Lakeview Hotel REIT ended the quarter with \$927,489 in the reserve fund for capital expenditures, made mortgage principal repayments of \$272,995, and achieved an average room rate of over \$110.00 for the second consecutive quarter.

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 June 30		Six months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Occupancy Percentage ⁽¹⁾	55.54%	72.19%	60.79%	72.21%
Average Room Rate ⁽¹⁾	\$110.26	\$101.16	\$111.76	\$102.20
RevPar ⁽¹⁾	\$61.24	\$73.03	\$67.95	\$73.80
Rooms Occupied	49,049	36,247	100,435	60,905

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.

While average daily rates increased, occupancy and RevPar both declined for the three months and six months ended June 30, 2007 compared to the three months and six months ended June 30, 2006. The decline reflects the slow down in activity in markets dependent on oil and gas drilling.

RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three month and six month periods ended June 30, 2007 to the results of operations for the comparable period in 2006:

	Three months ended June 30		Six months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Hospitality Revenue				
Room	\$5,400,496	\$3,666,731	\$11,204,415	\$6,224,408
Food & Beverage	950,650	176,456	1,893,261	381,266
Other	<u>265,502</u>	<u>246,584</u>	<u>540,435</u>	<u>454,840</u>
Total Revenue	6,616,648	4,089,771	13,638,111	7,060,514
Expenses	<u>7,069,787</u>	<u>3,528,193</u>	<u>12,922,373</u>	<u>6,276,759</u>
Net Income (Loss) before future income tax expense	(453,139)	<u>561,578</u>	<u>715,738</u>	<u>783,755</u>
Future Income Tax Expense	<u>(1,184,100)</u>	-	<u>(1,184,100)</u>	-
Net Income (Loss)	<u>(1,637,239)</u>	<u>561,578</u>	<u>(\$468,362)</u>	<u>783,755</u>
Basic and Diluted Income (Loss)/Unit	<u>(0.086)</u>	<u>0.068</u>	<u>(0.025)</u>	<u>0.114</u>

OPERATING RESULTS REVIEW – THREE MONTHS ENDED JUNE 30, 2007

Room Revenue - For the second quarter ended June 30, 2007 room revenue increased by \$1,733,765, from \$3,666,731 for the second quarter ended June 30, 2006, to \$5,400,496. The reason for this substantial increase is that the quarter ended June 30, 2007 included the operations of all fifteen hotels in Lakeview Hotel REIT whereas the room revenue for the second quarter ended June 30, 2006 only included the operation of nine hotels in Lakeview Hotel REIT.

Food, Beverage & Gift Shop – Revenue is earned from restaurant facilities in the Lakeview Inn & Suites - Drayton Valley and the Lakeview Inn & Suites – Fort St. John. Revenue is greater in the second quarter of 2007 than the same period in 2006 because of the purchase of the Lakeview Inn & Suites – Fort St. John in the fourth quarter of 2006.

Other Income – The increase in Other Income for the second quarter ended June 30, 2007 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 2007 second quarter results also include the operation of all fifteen hotels in Lakeview Hotel REIT as compared to only nine hotels for the 2006 period.

Expenses – Expenses for the second quarter of 2007 increased by \$3,541,094 from \$3,528,193 for the second quarter ended June 30, 2006 to \$7,069,787. The reason for this substantial increase is that the second quarter ended June 30, 2007 included the operations of all fifteen hotels in Lakeview Hotel REIT

whereas the expenses for the second quarter ended June 30, 2006 only included the operations of nine properties.

Net Income (Loss) before future income tax expense - Net income (loss) before future income tax expense went from income of \$561,578 for the second quarter ended June 30, 2006, to a net loss of \$453,139 for the quarter ended June 30, 2007. This change can be attributed largely to the poorer than expected performance by some of the Alberta and Northern British Columbia hotels due to a longer than usual spring break-up and a reduction in the drilling activity for oil and gas. Another contribution to the loss was the purchase of newly built hotels which are in the process of ramping up their occupancies.

Future Income Tax Expense – On June 22, 2007, the Canadian Government introduced new tax legislation that effectively imposes income tax on Lakeview Hotel REIT after January 1, 2011. Although Lakeview Hotel REIT will not be liable for current income taxes until after January 1, 2011 it has recognized, in the current period, the future income tax arising from temporary tax timing differences expected to reverse after January 1, 2011, at the tax rate of 31.5%. All of the future income tax expense of \$1,184,100 relates to these future timing differences.

OPERATING RESULTS REVIEW – SIX MONTHS ENDED JUNE 30, 2007

Room Revenue - Room revenue increased by \$4,980,007, from \$6,224,408 for the six months ended June 30, 2006, to \$11,204,415 for the six months ended June 30, 2007. The increase is related to an increase of the number of hotels owned by Lakeview Hotel REIT during that period.

Food & Beverage and Gift Shop – The increase in Food & Beverage revenue is related to six months of operations in Lakeview Inn & Suites – Drayton Valley and Lakeview Inn & Suites – Fort St. John in 2007 whereas the same period for 2006 did not include any of the operations of Lakeview Inn & Suites – Fort St. John.

Other Income – The increase in Other Income for the six months ended June 30, 2007 is largely due to an increase in the income from Lakeview Flag Licensing General Partnership due to the addition of hotels during that period.

Expenses – Expenses for the six months ended June 30, 2007 increased by \$6,645,614 from \$6,276,759 for the six months ended June 30, 2006 to \$12,922,373 for the six months ended June 30, 2007. The reason for this substantial increase relates to the increase of the number of hotels owned by Lakeview Hotel REIT in 2007.

Net Income (Loss) before future income tax expense - Net income before future income tax expense decreased from income of \$783,755 for the six months ended June 30, 2006, to income of \$715,738 for the six months ended June 30, 2007. The decrease in income of \$68,017 can be attributed to lower occupancies in the Alberta and Northern British Columbia hotels due to a longer than normal spring breakup and a slowdown in the drilling activity for oil and gas in this period.

Future Income Tax Expense – (See operating results review – three months ended June 30, 2007)

LIQUIDITY AND CASH FLOW

At June 30, 2007 Lakeview Hotel REIT had cash and term deposits of \$1,667,799 and a balance in the reserve fund of \$927,489. This cash balance and term deposits are sufficient to meet Lakeview Hotel REIT's foreseeable working capital requirements. 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, through additional mortgage financing and through credit facilities the REIT has available to it.

Lakeview Management Inc. has agreed to subordinate their entitlement to distributions on the 675,000 Units currently held directly or indirectly by Lakeview Management Inc. to distributions to be made to all other Unitholders with respect to the first \$0.30 of distributions made per Unit per year for the three year period May 30, 2005 to May 30, 2008 arising out of the operations of the Lakeview Inn & Suites Fredericton, and the Black Gold Inn - Drayton Valley. In addition, Lakeview Management Inc. will not sell, assign, transfer or pledge the 675,000 Units during that three year period.

The table below reconciles net income to cash flow from operations for the three months and six months ended June 30, 2007 and 2006.

	Three months ended June 30		Six months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net income (loss) for the period	(1,637,239)	561,578	(468,362)	783,755
Add charges (deduct credits) to operations not requiring a current cash payment				
Amortization of income properties	1,016,596	513,986	1,889,914	870,632
Amortization of deferred financing costs	-	55,713	-	97,100
Amortization of franchise fees, licenses, & pre-opening costs	4,949	2,303	9,899	2,518
Compensation costs of unit options	304,500	45,000	304,500	45,000
Income from Lakeview Flag Licensing General Partnership	(114,737)	(70,363)	(233,253)	(130,910)
Accretion on debt component of convertible debentures	64,054	61,562	106,090	126,334
Accretion of mortgages	29,146	-	53,475	-
Future income tax expense	<u>1,184,100</u>	-	<u>1,184,100</u>	-
	851,369	1,169,779	2,846,363	1,794,429
Net change in non-cash working capital balances related to operations	<u>(447,496)</u>	<u>(254,481)</u>	<u>(539,793)</u>	<u>530,763</u>
Cash provided by operating activities	<u>403,873</u>	<u>915,298</u>	<u>2,306,570</u>	<u>2,325,192</u>

CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities was \$403,873 in the three months ended June 30, 2007 which decreased from \$915,298 cash provided by operating activities in the three months ended June 30, 2006.

The major reason for the decrease in cash provided by operating activities was lower than expected performance of the hotels in the second quarter of 2007.

CASH USED IN INVESTING ACTIVITIES

During the three month period ended June 30, 2007 cash was used to purchase the Lakeview Inn & Suites - Edson Airport West, the Holiday Inn Express & Suites - Brooks and the Residence Inn by Marriott - Calgary for a total of \$45,492,961. Cash was also used for renovations to Lakeview Inn & Suites – Fort Saskatchewan.

CASH PROVIDED BY FINANCING ACTIVITIES

During the three month period ended June 30, 2007 cash provided by financing activities was raised through a number of different sources. The major sources of funding were the proceeds from mortgages of \$32,670,000 (secured by the three hotels purchased as well as cross collateralized by other Lakeview Hotel REIT properties), and the proceeds from the sale of 6.5% convertible debentures of \$16,744,137 (net of costs of raising that capital).

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 until April 30, 2006. Effective for the May 31, 2006 distribution payment the Trustees have 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.

Distributable cash is calculated in accordance with the provisions of the Lakeview Hotel REIT Declaration of Trust as follows:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Cash provided by operating activities	403,873	915,298	2,306,570	2,325,192
Add (Deduct)				
Net change in non-cash working capital balances related to operations	447,496	254,481	539,793	(530,763)
Distributions from Lakeview Flag Licensing General partnership	<u>129,850</u>	<u>66,640</u>	<u>215,600</u>	<u>118,580</u>
	981,219	1,236,419	3,061,963	1,913,009
Deduct:				
Mortgage principal repayments	(272,995)	(160,482)	(511,342)	(270,501)
Contribution to reserve fund	<u>(199,486)</u>	<u>(91,712)</u>	<u>(409,397)</u>	<u>(173,128)</u>
Distributable cash available ⁽¹⁾	<u>508,738</u>	<u>984,225</u>	<u>2,141,224</u>	<u>1,469,380</u>
Add:				
Mortgage principal repayments	<u>272,995</u>	<u>160,482</u>	<u>511,342</u>	<u>270,501</u>
AFFO ⁽¹⁾	<u>781,733</u>	<u>1,144,707</u>	<u>2,652,566</u>	<u>1,739,881</u>

Distribution declared	<u>2,090,788</u>	<u>819,258</u>	<u>4,108,502</u>	<u>1,307,508</u>
AFFO Payout Ratio ⁽¹⁾	<u>267%</u>	<u>72%</u>	<u>155%</u>	<u>75%</u>

Note (1): *Distributable cash available, adjusted funds from operations (AFFO) and AFFO Payout Ratio are not standardized measures under GAAP and, therefore, may not be comparable to similarly titled measures used by other trusts.*

Management feels that a very important measure of performance is cash flow from operations which provides a useful measure of Lakeview Hotel REIT's performance as net income incorporates depreciation and amortization of real estate assets, which may not necessarily occur and is based on historical cost accounting.

The AFFO pay out ratio gives an indication of how much in distributions is actually being paid out of cash earned from operations as opposed to other sources such as working capital.

For the three month period ended June 30, 2006 distributions of \$769,258 have been paid to the Class "A" unitholders and distributions of \$50,000 have been paid to the Class "E" unitholders (exchangeable units). For the three month period ended June 30, 2007, distributions of \$2,035,738 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 six month period ended June 30, 2006 distributions of \$1,212,508 have been paid to the Class "A" unitholders and distributions of \$95,000 have been paid to the Class "E" unitholders (exchangeable units). For the six month period ended June 30, 2007, distributions of \$3,998,435 have been paid to the Class "A" unitholders and distributions of \$110,067 have been paid to the Class "E" unitholders (exchangeable units).

SELECTED FINANCIAL INFORMATION

	Three months ended June 30		Six months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Total Revenue	\$6,616,648	\$4,089,771	\$13,638,111	\$7,060,514
Net Income (Loss)	(1,637,239)	561,578	(468,362)	783,755
Net Income (Loss) on a basic and diluted income (loss) per unit	(0.086)	0.068	(0.025)	0.114
Total Assets	142,443,846	70,291,911	142,443,846	70,291,911
Total Long-term Liabilities	81,947,637	43,003,225	81,947,637	43,003,225
Distribution declared per unit	0.11	\$0.10	0.22	\$0.19

Increases in total revenues, assets, and long term liabilities have occurred from the previous year due to the acquisition of six hotels subsequent to June 30, 2006. Declines in net income are primarily related to weaker operating results in the second quarter of 2007 and to additional future income tax expenses in the second quarter of 2007.

SUMMARY OF QUARTERLY RESULTS

	<u>Q2-07</u>	<u>Q1-07</u>	<u>Q4-06</u>	<u>Q3-06</u>	<u>Q2-06</u>	<u>Q1-06</u>	<u>Q4-05</u>	<u>Q3-05</u>
Hospitality Revenue								
Rooms	\$5,400,496	\$5,803,919	\$5,279,122	\$5,113,349	\$3,666,731	\$2,557,677	\$1,496,921	\$1,319,007
Food, Beverage & Gift Shop	950,650	942,611	855,735	190,667	176,456	204,810	246,239	209,643
Other	<u>265,502</u>	<u>274,933</u>	<u>363,757</u>	<u>291,467</u>	<u>246,584</u>	<u>208,256</u>	<u>210,911</u>	<u>163,523</u>
Total Revenue	6,616,648	7,021,463	6,498,614	5,595,483	4,089,771	2,970,743	1,954,071	1,692,173
Expenses	<u>7,067,787</u>	<u>5,852,586</u>	<u>5,641,277</u>	<u>4,374,853</u>	<u>3,528,193</u>	<u>2,748,566</u>	<u>1,713,236</u>	<u>1,482,403</u>
Net Income (Loss) before future income tax expense	(453,139)	1,168,877	857,337	1,220,630	561,578	222,177	240,835	209,770
Future Income Tax Expense	<u>(1,184,100)</u>	-	-	-	-	-	-	-
Net Income (Loss)	<u>(1,637,239)</u>	<u>1,168,877</u>	<u>857,337</u>	<u>1,220,630</u>	<u>561,578</u>	<u>222,177</u>	<u>240,835</u>	<u>209,770</u>
Basic and Diluted Income (Loss) per Unit	<u>(0.086)</u>	<u>0.064</u>	<u>0.058</u>	<u>0.126</u>	<u>0.068</u>	<u>0.041</u>	<u>0.044</u>	<u>0.067</u>
Occupancy Percentage ⁽¹⁾	55.54%	66.78%	71.08%	80.45%	72.19%	70.53%	79.46%	85.03%
Average Room Rate ⁽¹⁾	\$110.26	\$111.77	\$107.75	\$106.97	\$101.16	\$100.86	\$100.40	\$88.73

Note (1):

Performance Indicators and 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.

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.

Lakeview Hotel REIT had generated net income for 7 consecutive periods prior to the second quarter of 2006. This streak was ended primarily as a result of abnormally low levels of drilling activity in the second quarter. While occupancies declined, average room rate for the quarter was \$110.26 or 9% higher than in the second quarter of 2006.

OUTLOOK

While the second quarter of 2007 was challenging, stronger results are anticipated in the second half of the year based on historically stronger results during the third and fourth quarters, and ramping up of operations for hotels acquired earlier in the year. Results will further improve as oil and gas drilling activity increases later in 2007 and early in 2008.

RELATED PARTY TRANSACTIONS

Lakeview Hotel REIT recorded the following transactions with related parties during the three months ended June 30, 2007:

1. At June 30, 2007, Lakeview Hotel REIT had accrued the June accounting fees, reservation fee and marketing fee in the amount of \$94,177 which was payable to Lakeview Management Inc. - a Unitholder of Lakeview Hotel REIT.

Marketing expenses in the amount of \$41,616 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended June 30, 2007. The marketing expense is calculated at 1% of room revenue of the hotel and is paid on a monthly basis.

Accounting fees in the amount of \$101,743 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended June 30, 2007. The fee is prorated based on an annual fee of \$30,000 per hotel (fee is subject to increases related to changes in the consumer price index in the province where each hotel is located) owned by Lakeview Hotel REIT during the year.

Reservation fees in the amount of \$62,468 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the three months ended June 30, 2007. The reservation fee is charged at 1.5% of room revenue, which provides for access by Lakeview Hotel REIT to the reservation system maintained by Lakeview Management Inc.

2. At June 30, 2007 Lakeview Hotel REIT owed Lakeview Flag Licensing General Partnership license fees for the month of June in the amount of \$77,256, which were subsequently paid. Lakeview Hotel REIT has a 49% interest in Lakeview Flag Licensing General Partnership and Lakeview Management Inc. has a 51% interest.

License fees for the three months ended June 30, 2007 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$166,608. The license fees are charged based on 4% of gross room revenue for the period.

3. At June 30, 2007 Lakeview Hotel REIT owed Lakeview Flag Management General Partnership management fees for the month of June in the amount of \$103,421 which were subsequently paid. Lakeview Hotel REIT and Lakeview Management Inc. each has a 50% interest in the Lakeview Flag Management General Partnership.

Management fees for the three months ended June 30, 2007 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of

\$235,400. The management fees are charged based on 5% of gross revenue for limited service hotels and 4% for full service hotels.

4. A movie rental fee in the amount of \$42,645 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the three months ended June 30, 2007. The fee is charged based on a rental fee of \$924 per month per hotel. 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 month period ended June 30, 2007 a total of \$15,314 was paid to XYZ Design Inc. for those services.

At June 30, 2007 Lakeview Hotel REIT owed XYZ Design Inc. \$375.00 for services performed which has subsequently been paid.

6. Keith Levit Photography is a business that is related to Lakeview Management Inc. through common control. The services of this company were used to supply artwork for new hotels purchased. For the three month period ended June 30, 2007 a total of \$8,825.00 was paid to Keith Levit Photography for those services.

7. Services Agreement:

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

Pursuant to the Services Agreement, Lakeview Hotel REIT agreed to remunerate Lakeview Management Inc. initially on the basis of the issuance of options to acquire 50,000 Units at \$1.00 per Unit exercisable upon issuance. The options were all exercised upon issuance in 2004. The Services Agreement provides that as the scope of the services required by Lakeview Hotel REIT expands over time, the remuneration provision of the Services Agreement will be modified to reflect remuneration commensurate with customary, comparable market fees. In August, 2006, the Governance and Compensation Committee of the Board of Trustees of the Trust determined that the remuneration of Lakeview Management Inc., pursuant to the Services Agreement, should be modified to reflect customary comparable market asset management fees.

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 month period ended June 30, 2007 were charged in the amount of \$74,867.

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.

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 Management Inc. is initially paid \$30,000.00 per hotel for accounting services subject to 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 a license fee of 4% of

room revenue is charged from the date any hotel becomes or is converted to a Lakeview Inn & Suites.

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

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

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

PROPOSED TRANSACTIONS

Upon completion of its due diligence inspections, Lakeview Hotel REIT has decided not to proceed with the acquisition of a ninety-eight room limited service hotel in Alberta for total consideration of \$20,000,000.

DISCLOSURE CONTROLS & PROCEDURES

In accordance with Multilateral Instrument 52-109 regarding Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and the Chief Financial Officer, together with other management, as at June 30, 2007, have concluded, based upon their evaluation of Disclosure Controls and Procedures, that Lakeview Hotel REIT's Disclosure Controls and Procedures were adequate and effective to provide reasonable assurance that material information relating to Lakeview Hotel REIT (and its subsidiary entities) would have been made known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the REIT is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable measures regarding the reliability of financial reporting, and the preparation of financial statements for external purposes in accordance with GAAP. In accordance with Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Financial Officer and the Chief Executive Officer have concluded an assessment of the design of internal controls over financial reporting as at June 30, 2007 and based on that assessment determined that the internal controls over financial reporting were appropriately designed.

There have been no changes to the design of the REIT's internal controls over financial reporting that occurred during the most recent interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the REIT's internal control over financial reporting.

SIGNIFICANT ACCOUNTING POLICIES

Note 1 to Lakeview Hotel REIT's unaudited consolidated financial statements for the three months ended June 30, 2007 summarizes Lakeview Hotel REIT's significant accounting policies.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007 Lakeview Hotel REIT adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 Comprehensive income, Section 3855 Financial Instruments – Recognition and Measurement and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments, as well as the recognition of a transition adjustment. The comparative interim consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

Section 3855 Financial Instruments – Recognition and measurement sets out the standards for the recognition and measurements of financial assets and financial liabilities. The standard prescribes when to recognize financial instruments in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other Comprehensive income.

Lakeview Hotel REIT has made the following classifications:

- Cash and cash equivalents, reserve fund, and deposits held in trust are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in Net Income.
- Accounts receivable are classified as "loans and receivables" and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, distributions payable, loan payable, convertible debentures, and mortgages payable are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

For periods prior to January 1, 2007 Lakeview Hotel REIT deferred and amortized financing costs on a straight-line basis over the term of the debt. Commencing January 1, 2007 financing costs are no longer classified as assets on the balance sheet or amortized over the term of the debt. CICA Handbook Section 3855, "*Financial Instruments – Recognition and Measurement*" prescribes that under the effective interest method, financing costs must be applied against the debt to which they relate. Over the term of the debt the long-term liability will increase to the face value of the debt, with the accretion

being included in interest on mortgages or interest on convertible debentures on the consolidated statement of net income and comprehensive income.

The adoption of these new accounting standards on January 1, 2007 has resulted in an adjustment to certain opening financial statement accounts. Prior periods' statements have not been restated for the adoption of these new accounting policies. As a result of adopting these standards as at January 1, 2007 deferred financing costs decreased from \$753,845 to \$nil. Mortgages decreased from \$36,829,515 to \$36,354,078, convertible debentures decreased from \$2,573,860 to \$2,371,303 and accumulated earnings decreased by \$75,852.

CAPITAL RESOURCES AND CAPITAL EXPENDITURES

The 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 5% floating per annum. The loan term is five years on a demand basis and the payments are interest only and paid monthly. As at June 30, 2007, \$4,830,000 was available to the REIT through the PAL.

At June 30, 2007 Lakeview Hotel REIT had a reserve fund of \$927,489 made up as follows:

Reserve Fund December 31, 2006	\$622,779
Allocations to Reserve Fund	409,397
Use of Reserve Fund	(104,687)
	<u>\$927,489</u>

It is expected that the reserve fund plus the monthly contribution of 4% of monthly room revenue for the Fredericton hotel, and the monthly contribution of 3% of monthly room revenue for all other hotels 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, Lakeview Hotel REIT issued \$4,500,000 of Series A 10% subordinate convertible debentures on April 15, 2004 and an additional \$1,500,000 of Series B 9% subordinate convertible debentures on May 30, 2005. As at June 30, 2007, \$4,223,000 of the Series A debentures were converted at a price of \$2.50 into 1,689,200 Class A units and \$150,000 of the Series A debentures were converted at a price of \$3.00 into 49,998 Class A units. As well, \$1,110,000 of the Series B debentures issued May 30, 2005 were converted at a price of \$2.90 resulting in the issuance of 382,745 Class A Units of Lakeview Hotel REIT.

Subsequent to June 30, 2007, \$25,000 of the Series A debentures issued April 15, 2004 were converted at a price of \$3.00 into 8,333 Class A Units and \$350,000 of the Series B debentures issued May 30, 2005 were converted at a price of \$2.90 into 120,685 Class A Units.

On June 30, 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 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.

OFF -BALANCE SHEET ARRANGEMENTS

As at June 30, 2007 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 & gas sector 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 could potentially impact on the results of the REIT.

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 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.