



**Lakeview Hotel Real Estate Investment Trust
Management Discussion and Analysis
for the year ended
December 31, 2006**

April 16, 2007

Management's discussion and analysis of financial conditions and results of operations (MD&A) should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006. The consolidated financial statements for the year ended December 31, 2006, have been prepared by and are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

OVERVIEW AND PORTFOLIO SUMMARY

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

The ten hotels listed below were purchased subsequent to the acquisition of Lakeview Inn & Suites – Fredericton with the results of their operations included in the December 31, 2006 audited 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, AB	October 16, 2006 and November 10, 2006	October 16, 2006
Days Inn – Chetwynd, AB	October 24, 2006 and November 9, 2006	October 24, 2006

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 April 16, 2006, the following units of Lakeview Hotel REIT were issued and outstanding:

Class A Units	18,092,734
Class V Special Trust Units and Exchangeable Units	<u>500,000</u>
Total Units that participate pro rata in distribution	<u>18,592,734</u>
Class T Special Trust Unit (1)	<u><u>1</u></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.*

2006 HIGHLIGHTS

Lakeview REIT experienced tremendous growth in 2006 and delivered the best results in its short history:

- ❑ Total number of properties owned by the REIT increased from 3 to 11.
- ❑ Total number of rooms owned by the REIT increases from 244 to 780
- ❑ Total revenues increased by 289% to \$19,154,611.
- ❑ Net income increased by over 1200% to \$2,861,722.
- ❑ Income per unit increased by 283% from \$0.078 to \$0.299.
- ❑ Distributions per unit were increased by 50% from \$0.265 in 2005 to \$0.40 in 2006.
- ❑ AFFO payout ratio decreased from 98.3% in 2005 to 78.6% in 2006.
- ❑ The price per Class A Unit increased from \$2.65 at the end of 2005 to close at \$4.40 at the end of 2006. Total return for 2006 including distributions was 81.1%.

KEY PERFORMANCE MEASURES

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

	Three months ended December 31		Year ended December 31	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Occupancy Percentage ⁽¹⁾	71.08%	79.46%	73.68%	73.42%
Average Room Rate ⁽¹⁾	\$107.75	\$100.40	\$105.30	\$88.10
RevPar ⁽¹⁾	\$76.58	\$79.78	\$77.58	\$64.68
Rooms Occupied	49,257	15,777	158,126	44,074

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.

The key performance measures have shown a strong increase in average room rate for the three months and year ended December 31, 2006 compared to the three months and year ended December 31, 2005. The increase reflects the higher room rates that are being generated by the hotels purchased in Alberta and BC and the yield strategies incorporated by Lakeview Hotel REIT. The occupancy percentage for the three months ended 2006 as compared to 2005 is lower for that period due to the newly acquired hotels in 2006 having a greater impact in occupancy in December than those in the previous year.

RESULTS OF OPERATIONS

The following is a comparison of the operating results for the three month period and year ended December 31, 2006 to the results of operations for the comparable period in 2005:

	Three months ended		Year ended	
	December 31		December 31	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Hospitality Revenue				
Room	\$5,279,122	\$1,496,921	\$16,616,879	\$3,901,814
Food, Beverage & Gift Shop	855,735	246,239	1,427,668	522,282
Other	<u>363,757</u>	<u>210,911</u>	<u>1,110,064</u>	<u>494,743</u>
Total Revenue	6,498,614	1,954,071	19,154,611	4,918,839
Expenses	<u>5,641,277</u>	<u>1,713,236</u>	<u>16,292,889</u>	<u>4,699,969</u>
Net Income	<u>857,337</u>	<u>240,835</u>	<u>2,861,722</u>	<u>218,870</u>
Basic and Diluted Income per Unit	<u>0.058</u>	<u>0.044</u>	<u>0.299</u>	<u>0.078</u>

OPERATING RESULTS REVIEW – THREE MONTHS ENDED DECEMBER 31, 2006

Room Revenue - For the fourth quarter of 2006 room revenue increased by \$3,782,201, from \$1,496,921 for the fourth quarter ended December 31, 2005 to \$5,279,122 for the fourth quarter ended December 31, 2006. The reason for this substantial increase is that the quarter ended December 31, 2006 included the operations of all eleven hotels in Lakeview Hotel REIT whereas the room revenue for the fourth quarter ended December 31, 2005 only included the operation of three hotels in Lakeview Hotel REIT.

Food, Beverage & Gift Shop – Revenue is earned due to the Lakeview Inn & Suites - Drayton Valley and the Lakeview Inn & Suites – Fort St. John having a restaurant facility. Revenue is greater in the fourth quarter of 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 fourth quarter ended December 31, 2006 is due to the income from Lakeview Flag Licensing General Partnership which will continue to grow as more Lakeview Inn & Suites are added to the hotels owned by Lakeview Hotel REIT which increases the license fees charged. The 2006 fourth quarter results also include the operation of all eleven hotels in Lakeview Hotel REIT as compared to only three hotels for the 2005 period.

Expenses – Expenses for the fourth quarter of 2006 increased by \$3,928,041 from \$1,713,236 for the fourth quarter ended December 31, 2005 to \$5,641,277 for the fourth quarter ended December 31, 2006. The reason for this substantial increase is that the fourth quarter ended December 31, 2006 included the operations of all eleven hotels in Lakeview Hotel REIT whereas the expenses for the fourth quarter ended December 31, 2005 only included the operations of three properties.

Net Income - Net income increased from \$240,835 for the fourth quarter ended December 31, 2005, to income of \$857,337 for the fourth quarter ended December 31, 2006. The increase in net income of \$616,502 can be attributed to properties acquired subsequent to December 31, 2005.

OPERATING RESULTS REVIEW – YEAR ENDED DECEMBER 31, 2006

Room Revenue - Room revenue increased by \$12,715,065 from \$3,901,814 for the year ended December 31, 2005, to \$16,616,879 for the year ended December 31, 2006. The increase is related to an increase in the number of hotels owned by Lakeview Hotel REIT as well as improved yield management procedures implemented by Lakeview Hotel REIT.

Food & Beverage – The increase in Food & Beverage revenue is related to 12 months of operations in Lakeview Inn & Suites – Drayton Valley in 2006 vs only seven months of operations in the comparable period in 2005. Also the Lakeview Inn & Suites – Fort St. John was purchased in the fourth quarter of 2006.

Other Income – The increase in Other Income for the year ended December 31, 2006 is largely due to the additional revenue generated by the Lakeview Inn & Suites - Drayton Valley specifically related to VLT income and restaurant lease income as well as the inclusion of the operations of the acquired hotels during 2006 which were not included in the 2005 results. The increase is also due to an increase in the income from Lakeview Flag Licensing General Partnership.

Expenses – Expenses for the year increased by \$11,592,920 from \$4,699,969 for the year ended December 31, 2005 to \$16,292,889 for the year ended December 31, 2006. The reason for this substantial increase relates to the increase in the number of hotels owned by Lakeview Hotel REIT in 2006.

Net Income - Net income increased from income of \$218,870 for the year ended December 31, 2005, to income of \$2,861,722 for the year ended December 31, 2006. The increase in net income of \$2,642,852 can be attributed to properties acquired subsequent to December 31, 2005 as well as improved yield management procedures implemented by Lakeview Hotel REIT.

LIQUIDITY AND CASH FLOW

At December 31, 2006 Lakeview Hotel REIT had cash and term deposits of \$11,231,601 and a balance in the reserve fund of \$622,779. This cash balance and term deposits are sufficient to meet Lakeview Hotel REIT's foreseeable working capital requirements as well as the payment for the purchase of the Lakeview Inn & Suites – Fort Nelson in January, 2007. The funds in the reserve account will be used for maintenance expenditures at the hotels.

It is anticipated that future expansion of the Lakeview Hotel REIT will be financed through the raising of capital by the sale of units, through debenture offerings, through additional mortgage financing and through credit facilities the REIT anticipates will be 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 Lakeview Inn & Suites Black Gold Inn - Drayton Valley. In addition, Lakeview Management Inc. will not sell, assign, transfer or pledge the 675,000 Units during the three year period.

The table below reconciles net income to cash flow from operations for the year ended December 31, 2006 and 2005.

	Year ended December 31	
	<u>2006</u>	<u>2005</u>
Net income for the period	\$2,861,722	\$218,870
Add charges (deduct credits) to operations not requiring a current cash payment		
Amortization of income properties	2,238,411	493,349
Amortization of deferred financing costs	242,790	111,089
Amortization of franchise fees and licenses	11,688	0
Compensation costs of unit options	45,000	9,250
Income from Lakeview Flag Licensing General Partnership	(353,293)	(170,258)
Accretion on debt component of convertible debentures	<u>213,033</u>	<u>213,927</u>
	5,259,351	876,227
Net change in non-cash working capital balances related to operations	<u>157,287</u>	<u>(927,740)</u>
Cash provided by (used in) operating activities	<u>5,416,638</u>	<u>(51,513)</u>

CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities was \$5,416,638 for the year ended December 31, 2006 which increased from (\$51,513) cash used in operating activities in the year ended December 31, 2005. The major reasons for the increase in cash provided by operating activities is the increase in profits from 2005 to 2006 and the higher non-cash amortization charge for the 2006 period. In addition, the amounts held on deposit for the acquisition of hotels declined in 2006 over 2005.

INVESTING ACTIVITIES

In 2006 cash was used to purchase 8 hotels for a total cash consideration of \$60,704,137. Also cash was used for renovations to Lakeview Inn & Suites – Fort Saskatchewan, the Super 8 – Toronto North, and for the purchase of signage for various hotels.

In 2005 cash was used to purchase 2 hotels for a total cash consideration of \$14,600,558.

CASH PROVIDED BY FINANCING ACTIVITIES

During 2006 cash provided by financing activities was raised through a number of different sources. The major sources of funding were the proceeds from mortgages of \$37,375,000 (secured by the hotels purchased) less the mortgages that were repaid of \$12,555,442, and the issuance of units by private placement in the amount of \$43,500,000 net of the cost of raising capital of \$2,944,720.

During 2005 the major sources of funding were the proceeds from mortgages of \$8,235,000 (secured by the two hotels purchased), the issuance of units by private placement of \$12,350,000 net of the cost of raising capital of \$924,391 and the issuance of 9% convertible debentures of \$1,500,000.

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. Starting with 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 have approved a further increase in the monthly distribution of \$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:

	Year ended December 31	
	<u>2006</u>	<u>2005</u>
Cash provided by (used in) operating activities	\$5,416,638	\$(51,513)
Add (Deduct):		
Net change in non-cash working capital balances related to operations	(157,287)	927,740
Distributions from Lakeview Flag Licensing General Partnership	<u>339,570</u>	<u>163,170</u>
	5,598,921	1,039,397
Deduct:		
Mortgage principal repayments	(755,276)	(202,742)
Contribution to reserve fund	<u>(567,710)</u>	<u>(144,115)</u>
Distributable cash available ⁽¹⁾	<u>4,275,935</u>	<u>692,540</u>
Add:		
Mortgage principal repayments	<u>755,276</u>	<u>202,742</u>
AFFO ⁽¹⁾	<u>5,031,211</u>	<u>895,282</u>
Distribution Declared	<u>3,955,176</u>	<u>880,125</u>
AFFO Payout Ratio ⁽¹⁾	<u>78.6%</u>	<u>98.3%</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. AFFO in previous MD&As was reported net of trust expenses.

Management feels that a very important measure of performance is cash flow from operations which provides a useful measure of the 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 payment 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 year ended December 31, 2005 distributions of \$747,625 have been declared to the Class “A” unitholders and distributions of \$132,500 have been declared to the Class “E” unitholders (exchangeable units). For the year ended December 31, 2006, distributions of \$3,756,843 have been declared to the Class “A” unitholders and distributions of \$198,333 have been declared to the Class “E” unitholders (exchangeable units).

SELECTED FINANCIAL INFORMATION

	Year ended December 31	
	<u>2006</u>	<u>2005</u>
Total Revenue	\$19,154,611	\$4,918,839
Net Income	2,861,722	218,870
Basic and diluted income per unit	0.299	0.078
Total Assets	96,307,496	29,878,409
Total Long-term Liabilities	38,391,388	16,268,577
Distribution declared per unit	\$0.400	\$0.265

Increases in balances have occurred from the previous year due to the acquisition of eight hotels in 2006.

SUMMARY OF QUARTERLY RESULTS

	<u>Q4-06</u>	<u>Q3-06</u>	<u>Q2-06</u>	<u>Q1-06</u>	<u>Q4-05</u>	<u>Q3-05</u>	<u>Q2-05</u>	<u>Q1-05</u>
Hospitality Revenue								
Rooms	\$5,279,122	\$5,113,349	\$3,666,731	\$2,557,677	\$1,496,921	\$1,319,007	\$667,656	\$418,230
Food, Beverage & Gift Shop	855,735	190,667	176,456	204,810	246,239	209,643	66,400	-
Other	<u>363,757</u>	<u>291,467</u>	<u>246,584</u>	<u>208,256</u>	<u>210,911</u>	<u>163,523</u>	<u>77,221</u>	<u>43,088</u>
Total Revenue	6,498,614	5,595,483	4,089,771	2,970,743	1,954,071	1,692,173	811,277	461,318
Expenses	<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>	<u>865,735</u>	<u>638,595</u>
Net Income (Loss)	<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>	<u>(54,458)</u>	<u>(177,277)</u>
Basic and Diluted Income (Loss) per Unit	<u>0.058</u>	<u>0.126</u>	<u>0.068</u>	<u>0.041</u>	<u>0.044</u>	<u>0.067</u>	<u>(0.038)</u>	<u>(0.151)</u>
Occupancy Percentage ⁽¹⁾	71.08%	80.45%	72.19%	70.53%	79.46%	85.03%	68.5%	59.02%
Average Room Rate ⁽¹⁾	\$107.75	\$106.97	\$101.16	\$100.86	\$100.40	\$88.73	\$83.04	\$80.13

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.

A review of the quarterly results shows that the fourth quarter of 2006 was the sixth consecutive quarter that net income was generated. The addition of hotels has resulted in a more consistent cash flow for Lakeview Hotel REIT and has helped to reduce the seasonal nature of the results of operations when traditionally occupancy is higher in the summer vacation months and lower in the winter months.

OUTLOOK

Lakeview Hotel REIT will continue its growth through the acquisition of hotels and will attempt to increase cash flow through the implementation of proper management practices at the hotels it acquires. The primary focus of Lakeview Hotel REIT has been hotel acquisitions in the province of Alberta and northern British Columbia. Ten of the twelve Lakeview Hotel REIT owned hotels are located in Alberta and northern British Columbia.

RELATED PARTY TRANSACTIONS

Lakeview Hotel REIT recorded the following transactions with related parties during the year ended December 31, 2006:

1. At December 31, 2006, Lakeview Hotel REIT had accrued the December accounting fees, asset management fees, reservation fee, and marketing fee in the amount of \$59,580 which was payable to Lakeview Management Inc. - a Unitholder of Lakeview Hotel REIT.

Marketing expenses in the amount of \$118,965 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2006. 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 \$242,237 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2006. The fee is prorated based on an annual fee of \$30,000 per hotel owned by Lakeview Hotel REIT during the year.

Reservation fees in the amount of \$178,451 were charged by Lakeview Management Inc. to Lakeview Hotel REIT for the year ended December 31, 2006. 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 December 31, 2006 Lakeview Hotel REIT owed Lakeview Flag Licensing General Partnership license fees for the month of December in the amount of \$44,043, which were subsequently paid. Lakeview Hotel REIT has a 49% interest in Lakeview Flag Licensing General Partnership.

License fees for the year ended December 31, 2006 were charged by Lakeview Flag Licensing General Partnership to Lakeview Hotel REIT in the amount of \$475,870. The license fees are charged based on 4% of gross room revenue for the period.

3. At December 31, 2006 Lakeview Hotel REIT owed Lakeview Flag Management General Partnership management fees for the month of December in the amount of \$64,580 which were subsequently paid. Lakeview Hotel REIT has a 50% interest in the Lakeview Flag Management General Partnership.

Management fees for the year ended December 31, 2006 were charged by Lakeview Flag Management General Partnership to Lakeview Hotel REIT in the amount of \$693,500. The management fees are charged based on 5% of gross revenue of limited service hotels and 4% of gross revenue of full service hotels.

4. A movie rental fee in the amount of \$83,940 was charged by Free to Guest Movies Ltd. to Lakeview Hotel REIT for the year ended December 31, 2006. 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 a related party. The services of this company are used to provide design consultation and professional services with respect to renovations of purchased hotels. For the year ended December 31, 2006 a total of \$4,100.00 was paid 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 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 year ended December 31, 2006 were charged in the amount of \$53,069.

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 will 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.) will receive 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. will initially be 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 to be charged by the Lakeview Flag Management General Partnership and the accounting fees charged by Lakeview Management Inc. will 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 will 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 will be 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 the 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.

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.

SUBSEQUENT EVENTS

Subsequent to year end \$1,035,000 of the convertible debentures issued April 15, 2004 were converted at a price of \$2.50 into 414,000 Class A units.

Subsequent to year end, \$100,000 of the convertible debentures issued May 30, 2005 were converted at a price of \$2.90 into 34,482 Class A units.

Subsequent to year end, the Lakeview Hotel REIT received an additional \$1,500,000 under the Pre-Approved Line of Credit.

On January 8, 2007 the Lakeview Hotel REIT acquired a newly constructed hotel located in Fort Nelson, British Columbia for total consideration of \$9,645,314 plus closing adjustments. The hotel was immediately flagged as a Lakeview Inn & Suites hotel. As at December 31, 2006 a deposit of \$50,000 had been made against the purchase price. The cash consideration for this purchase was financed by proceeds from the private placement of Class A units on November 8, 2006.

On March 1, 2007, the Lakeview Hotel REIT acquired approximately 2/3 of an acre of land adjacent to the Lakeview Inn & Suites in Edson, Alberta for total consideration of \$350,000 plus closing adjustments. The Lakeview Hotel REIT intends to add up to 36 rooms to the Edson property. As at December 31, 2006, a deposit of \$10,000 had been made against the purchase price. The cash consideration for this purchase was financed out of working capital.

Effective April 16, 2007, the Lakeview Hotel REIT acquired a newly constructed hotel located in Edson, Alberta for a purchase price of \$7,800,000 plus closing adjustments. The hotel is flagged as a Lakeview Inn & Suites hotel. As at December 31, 2006 a deposit of \$25,000 had been made against the purchase price. The cash consideration of this purchase was financed through the funding of previously registered but not yet funded GE Capital mortgages on LHREIT's hotels in Fort St. John and Chetwynd, BC.

The Lakeview Hotel REIT continues to pursue other hotel acquisition opportunities which will be financed by a combination of mortgages, Pre-Approved Line of Credit, Unit and debenture offerings and working capital

Subsequent to year end, the Lakeview Hotel REIT entered into various commitments for an estimated \$800,000 of renovations to the Lakeview Inn & Suites in Fort Saskatchewan.

PROPOSED TRANSACTIONS

Subsequent to December 31, 2006 Lakeview Hotel REIT signed a purchase and sale agreement relative to the acquisition of a seventy-eight room limited service hotel in Alberta for a total consideration of \$10,400,000.

The acquisition is expected to close in May 2007. The purchase price of this hotel is expected to be financed in part through a first mortgage loan, based on 60% of the purchase price of the hotel, bearing interest at a rate equal to the five year Government of Canada rate plus 2.1% and amortized over 20 years. The balance of the purchase price will be funded by way of a previously registered but not yet funded GE Capital mortgage on LHREIT's hotel in Hinton, Alberta.

Subsequent to December 31, 2006 Lakeview Hotel REIT signed a purchase and sale agreement relative to the acquisition of a one hundred and twenty room limited service hotel in Alberta for a total consideration of \$26,500,000.

The acquisition is expected to close in June 2007. The purchase price of this hotel is expected to be financed through a first mortgage loan, based on 60% of the purchase price of the hotel, with the balance funded by a possible market raise of equity.

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 December 31, 2006, 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 December 31, 2006 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 fourth quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the REIT's internal control over financial reporting.

CHANGES IN ACCOUNTING POLICIES

Accounting Policy Adopted in 2006

Lakeview Perks Loyalty Program

In 2006 LMI introduced the Lakeview Perks Loyalty Program. Members of the Lakeview Perks Loyalty Program earn points based on their spending at Lakeview Inn & Suites hotels and Lakeview Resorts. Points can be redeemed for hotel stays at participating hotels or other services or merchandise. The future redemption liability is included in accounts payable and accrued liabilities and is estimated based on points awarded and management's assessment of anticipated point redemptions and point value.

Management will adjust the estimated liability based on redemption experience and additional points awarded and such adjustments will be recorded in the results of operations.

Accounting Policies to be Adopted in 2007

The Canadian Institute of Chartered Accountants has issued the following sections:

- 1530, Comprehensive Income;
- 3855, Financial Instruments – Recognition and Measurement

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives. Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- Financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and

- Certain financial instruments that qualify for hedge accounts.

Section 1530 of the CICA Handbook provides new standards for the presentation and disclosure of “other comprehensive income”. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income. Unrealized gains and losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standard. Lakeview Hotel REIT is required to adopt these new standards for its fiscal year ending December 31, 2007. Management believes there will be no significant impact on the presentation of the Lakeview Hotel REIT’s results from operations or financial position as a result of the adoption of these standards.

The financial statements for the year ended December 31, 2006 have been prepared in accordance with the accounting policies discussed in the consolidated financial statements for the year ended December 31, 2006.

CAPITAL RESOURCES AND CAPITAL EXPENDITURES

The first mortgage lender on the following hotels: Lakeview Inn & Suites Okotoks, Lakeview Inn & Suites Fort Saskatchewan, Lakeview Inn & Suites - Fredericton, and the Super 8 Motel in Vaughan provided a Pre-Approved Line of Credit (PAL) up to the difference between 75% of appraised value of the properties taken under security and the amount of the first mortgages on those properties plus any secondary debt placed on the properties and this amount will be available in the form of a revolving acquisition line. The interest rate on the pre-approved line is equal to the annual rate of interest applicable to a one month Canadian Dollar Banker’s Acceptance plus 5%. The loan term is five years on a demand basis and the payments are interest only and paid monthly. As at December 31, 2006, \$2,530,000 was available to the REIT through the pre-approved line.

At December 31, 2006 Lakeview Hotel REIT had a reserve fund of \$622,779 made up as follows:

Reserve Fund December 31, 2005	\$175,615
Contributions	567,710
Distributions	<u>(120,546)</u>
	<u>\$622,779</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.

Subsequent to year end Lakeview Hotel REIT entered into various commitments for an estimated \$800,000 of renovations to the Lakeview Inn & Suites – Fort Saskatchewan restaurant and lounge. The cash required for these expenditures will be financed through the Pre-Approved Line of Credit and Working Capital.

The first mortgage lender on the Lakeview Inn & Suites, Hinton, Alberta has approved but not yet funded a first mortgage on this property which recently had its prior mortgage paid off using the proceeds of LHREIT’s last private placement. The amount of the registered mortgage is \$4,120,000:

GE Capital has agreed to advance the funds from the Hinton mortgage for LHREIT's use in acquiring its next property. The interest rate will be the five year G.O.C. rate at the time that funds are advanced plus 2.1% compounded semi-annually for a 5 year term.

Under two offerings the Lakeview Hotel REIT issued \$4,500,000 of 10% subordinate convertible debentures on April 15, 2004 and issued an additional \$1,500,000 of 9% subordinate convertible debentures on May 30, 2005. As at December 31, 2006, \$2,327,000 of the first series of convertible debentures were converted, resulting in the issuance of 930,800 Class "A" Units of Lakeview Hotel REIT. As well, \$580,000 of the convertible debentures issued May 30, 2005 were converted at a price of \$2.90 resulting in the issuance of 199,990 Class A Units of Lakeview Hotel REIT.

Subsequent to December 31, 2006, \$1,035,000 of the convertible debentures issued April 15, 2004 were converted at a price of \$2.50 into 414,000 Class A Units and \$100,000 of the convertible debentures issued May 30, 2005 were converted at a price of \$2.90 into 34,482 Class A Units.

OFF -BALANCE SHEET ARRANGEMENTS

As at December 31, 2006 Lakeview Hotel REIT had no undisclosed Off-Balance Sheet Arrangements.

FINANCIAL INSTRUMENTS

The Lakeview Hotel REIT is not exposed to significant currency or credit risks. The REIT is exposed to interest risk as it relates to the Pre-Approved Line of Credit loan, and the renewal and refinancing of all of its mortgages as they become due.

RISKS AND UNCERTAINTIES

Lakeview Hotel REIT has focused its effort in the Alberta and northern British Columbia markets. These markets have 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 may be affected by new room supply coming into the Alberta and northern BC markets. New room supply could potentially have 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 staffing could potentially impact on the results of the REIT.

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 if a trust undergoes expansion beyond prescribed limits.

The Bill contemplates that a REIT which carries on Canadian hotel operations 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.

Management is reviewing, with its professional advisors, the potential impact of these proposed rule changes but it is not possible at this preliminary stage to provide any suggestions as to what if anything can be done to reduce the tax effect of this Legislation.

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.