LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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2007 SECOND QUARTER HIGHLIGHTS

Acquisition and Development

- Invested $9.65 Million in the acquisition of two additional properties, representing 161 additional apartment units
- Invested $5.9 Million in construction, expansion and renovation costs primarily in regard to Park View Apartments and Elgin Lodge.
- Quarter ending portfolio consists of 38 properties, comprised of 2,768 suites and 232,945 square feet of commercial leasable area.

Financial

Second quarter of 2007, compared to second quarter of 2006:

- Operating income increased by $2.49 Million or 62% in total and by $0.139 or 59% on a per unit basis.
- "Same property" operating income increased by $1.01 Million or 20.5%.
- Average occupancy rate for entire portfolio excluding properties under development increased from 88.6% to 96.2%.

Capital Structure

- Financed $16.9 Million of mortgage debt.
- Weighted average interest rate on the aggregate mortgage loan balance of 6.2% at June 30, 2007.
- Mortgage loan debt to current value ratio of 56.7% at June 30, 2007.

Ongoing Investment Activities

- Closed on a 175 unit apartment complex in Fort McMurray, Alberta, effective July 1, 2007 at a cost of $59.9 Million.
- Contracted acquisitions and new properties under construction at a combined acquisition cost of approximately $82.9 Million, encompassing 72 townhouse units and 186 apartment suites. The acquisitions are expected to be completed during the fourth quarter of 2007.
- A 59 suite expansion to a seniors' residence in Port Elgin, Ontario is in process at an estimated cost of $9.5 Million.

Unitholder Returns

	Six Months Ended June 30, 2007	Year Ended December 31, 2006
Distribution per unit	$0.28	$0.56
Opening unit price	$5.90	$5.25
Closing unit price	$5.10	$5.90
Annualized yield on opening price (distribution/opening unit price)	9.5%	10.7%
Projected cash distribution - 2007:	$0.56	
Closing unit price - August 9, 2007:	$5.30	
Current yield:	10.6%	

Lanesborough Real Estate Investment Trust Units are listed on the Toronto Stock Exchange under the symbol "LRT.UN". The Series F and Series G convertible debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.F" and "LRT.DB.G", respectively.

REPORT TO UNITHOLDERS

In our report for the first quarter of 2007, it was emphasized that LREIT was well positioned to achieve significant growth in operating income and cash flows once new property acquisitions completed the development phase and began to contribute to the investment returns of the Trust.

In the second quarter of 2007, the favourable impact of properties which have completed the development stage is beginning to be reflected in the operating results of the Trust. Overall, the operating results for the second quarter of 2007 were very positive, with the Trust achieving an increase in operating income of $2,493,909 or 62%, compared to the second quarter of 2006. The improvement in operating income compared to 2006 is not surprising, considering the growth in the property portfolio over the past year; however, the Trust also achieved an increase in operating income of $1,635,033 or 33%, compared to the first quarter of 2007. The growth in operating income between the first and second quarter of 2007 is partially attributable to the acquisition of two additional properties in May 2007; however, the main factor in the equation is the inclusion of Woodland Park as an income-producing property effective April 1, 2007. Woodland Park, which was acquired in March 2007 and was classified as a property under development in the first quarter of the year, accounted for $644,684 or 39% of the increase in operating income during the second quarter of 2007. On a per unit basis, LREIT achieved its highest level of operating income in two years, at $0.374 per unit for the second quarter of 2007, compared to $0.281 per unit for the first quarter of 2007 and $0.235 per unit for the second quarter of 2006.

Cash from operations, excluding changes in non-cash operating items, also improved significantly during the second quarter of 2007, increasing by $885,673 or 122% compared to the first quarter of 2007. Other measures of the cash generating abilities of the Trust also showed a marked improvement during the second quarter of 2007, compared to the first quarter of the year, including Funds from Operations (FFO), Adjusted Funds from Operations (AFFO) and Distributable Income. In comparison to the second quarter of 2006, cash from operations, excluding changes in non-cash operating items, decreased by $338,713 during the second quarter of 2007, mainly due to an increase in interest expense on mortgage loans and convertible debenture debt. To a large degree, the decrease in cash flow reflects the extent of the unrealized income of the Trust from non-income producing properties.

In the upcoming months, the operating income and cash flows of the Trust will be impacted to a much greater degree as additional properties move to the "income-producing" stage. Effective July 1, 2007, LREIT completed the acquisition of Lakewood Manor, a 175 unit apartment complex in Fort McMurray, Alberta at a purchase price of $59.9 Million. All of the units at the property are leased and occupied under a three-year lease agreement which will generate net operating income in excess of $4.7 Million per annum. After providing for debt service costs, the property is expected to result in an increase in cash flow of $366,000 per quarter. Other properties which are in various stages of development include the Clarington Seniors Residence, Millennium Village, Park View Apartments and the 59-suite expansion of Elgin Lodge.

In terms of bottom-line results, the Trust incurred a net loss, before future income tax recovery, of $1,417,123 during the second quarter of 2007, compared to a net loss of $807,917 during the second quarter of 2006. In comparison to the first quarter of 2007, the net loss, before future income tax recovery, decreased by $431,986 during the second quarter of 2007, largely due to the inclusion of Woodland Park as an income-producing property, effective April 1, 2007.

As a result of the acquisition of very large and profitable income-producing properties, such as Woodland Park and Lakewood Manor, the outlook for the third quarter of 2007 is very positive in terms of the anticipated growth in operating income and cash flows. The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to the long-term success of the Trust and to maximizing the investment returns to the Unitholders.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 9, 2007

Property Portfolio - June 30, 2007

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30, 2007
RESIDENTIAL					
Manitoba					
Highland Tower (3)	Thompson	$ 1,350,000	January 2005	77	77 %
Chancellor Gate	Winnipeg	6,750,000	August 2005	48	90 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	99 %
Saskatchewan					
Borden Estates	Prince Albert	5,315,000	February 2005	144	81 %
Cedar Village	Prince Albert	2,700,000	February 2005	72	79 %
Carlton Manor	Prince Albert	410,000	February 2005	19	84 %
Riverside Apartments	Prince Albert	265,000	February 2005	12	100 %
MGM Apartments	Prince Albert	650,000	February 2005	28	46 %
Marquis Towers	Prince Albert	6,200,000	August 2005	129	93 %
Riverside Terrace (1)	Saskatoon	24,000,000	July 2005	181	99 %
Village West	Saskatoon	5,113,800	June 2006	100	98 %
Borden Place	Saskatoon	5,600,000	May 2007	113	100 %
Chateau St. Michael's (1)	Moose Jaw	7,600,000	June 2006	93	89 %
Woodlily Courts	Moose Jaw	3,700,000	June 2006	102	93 %
Alberta					
Nova Villa	Edmonton	5,400,000	May 2004	61	93 %
Nova Manor	Edmonton	2,615,000	May 2004	32	97 %
Nova Ridge Estates	Spruce Grove	8,800,000	July 2004	102	96 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	97 %
Broadview Meadows	Sherwood Park	6,790,000	January 2006	93	98 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	100 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	97 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	92 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	92 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	100 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	97 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	97 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	98 %
Westhaven Manor	Edson	4,050,000	May 2007	48	100 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	100 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	100 %
Nova Court (4)	Yellowknife	15,000,000	March 2007	106	100 %
Ontario					
Elgin Lodge (1)	Port Elgin	8,300,000	June 2006	64	98 %
Clarington Seniors Residence (1) (5)	Bowmanville	22,400,000	February 2007	126	34 %
British Columbia					
Greenwood Gardens	Surrey	10,950,000	April 2004	183	97 %
Total - Residential		**$ 296,559,800**	Total suites	**2,768**	

Property Portfolio - June 30, 2007 (continued)

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy June 30, 2007
Total - Residential		**$ 296,559,800**	Total suites	**2,768**	
COMMERCIAL					
Retail and Office					
Kenaston (2)	Winnipeg, MB	$ 12,656,200	April 2002	103,209	99 %
McIvor Mall	Winnipeg, MB	6,700,000	February 2004	65,283	98 %
		19,356,200		168,492	
Light Industrial					
MAAX	Airdrie, AB	1,600,000	June 2003	39,936	100 %
Purolator	Burlington, ON	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**$ 22,156,200**	Total leasable area (4)	**224,545**	
Total		**$ 318,716,000**			

Notes to the Property Portfolio

(1) Seniors housing complex.
(2) Includes cost of asset additions.
(3) In-suite renovation program in process. The occupancy rate is based on suites available to lease, as of June 30, 2007.
(4) Nova Court also includes 8,400 square feet of commercial space.
(5) Properties are classified as "properties under development".

Profile of Property Acquisitions - Six Months Ended June 30, 2007

The Clarington Suites Residence

The Clarington Seniors Residence was acquired by LREIT on February 12, 2007. The three-storey complex contains 126 suites and is located on a 2.1 acre parcel of land in Bowmanville, Ontario. Bowmanville is located 55 kilometres east of Toronto on the north shore of Lake Ontario.

Woodland Park

Woodland Park is a luxury apartment and townhouse complex which was acquired by LREIT on March 12, 2007. The property consists of 32 three-bedroom townhouses and a four-storey apartment building. The apartment building contains 55 one-bedroom units, 12 two-bedroom plus den units and eight three-bedroom units. All townhouse and apartment units are fully furnished.

The property is located in the developing area of Wood Buffalo Estates in Fort McMurray, Alberta.

Nova Court

Nova Court was acquired by LREIT on March 23, 2007. The four-storey apartment property consists of 106 suites, including 76 one-bedroom suites, 28 two-bedroom suites and two three-bedroom suites. Fifty-four of the one-bedroom suites are fully furnished for short-term rentals. The property also contains approximately 8,400 square feet of commercial space on the main floor.

Nova Court is located in Yellowknife, Northwest Territories.

Borden Place

Borden Place was acquired by LREIT on May 1, 2007. The property consists of three, two and one-half storey buildings and is comprised of 49 one-bedroom, 56 two-bedroom and eight bachelor suites. The property was extensively renovated in 2005 and 2006.

Borden Place is located in Saskatoon, Saskatchewan.

Westhaven Manor

Westhaven Manor was acquired by LREIT on May 17, 2007. The property consists of a three-storey apartment building and is comprised of 24 one-bedroom and 24 two-bedroom suites. Westhaven Manor is located in Edson, Alberta. Edson is located approximately two hours west of Edmonton on the Trans Canada Yellowhead Route.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lanesborough Real Estate Investment Trust ("LREIT") is an unincorporated closed-end real estate investment trust created by the Declaration of Trust and governed by the laws of the Province of Manitoba. The trust units of LREIT are listed on the Toronto Stock Exchange under the symbol "LRT.UN".

Forward-Looking Information

Management's Discussion and Analysis ("MD&A") of Lanesborough Real Estate Investment Trust (LREIT" or the "Trust") should be read in conjunction with the financial statements of LREIT for the six months ended June 30, 2007 and with reference to the 2006 Annual Report.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors, as discussed herein, could cause actual results to differ materially from the results discussed in forward-looking statements. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither LREIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Financial and Operating Summary

	Three Months Ended June 30 2007	Three Months Ended June 30 2006 (restated)	Six Months Ended June 30 2007	Six Months Ended June 30 2006 (restated)
DISTRIBUTIONS				
Total	$ 2,439,035	$ 2,404,110	$ 4,865,858	$ 4,768,910
Per unit	$ 0.14	$ 0.14	$ 0.28	$ 0.28
KEY PERFORMANCE INDICATORS				
Operations				
Average residential occupancy rate	94.3 %	91.7 %	93.7 %	90.9 %
Operating residential cost ratio	43.0 %	45.0 %	45.0 %	49.0 %
Operating Results				
Total revenue	$ 11,127,584	$ 6,891,004	$ 20,179,348	$ 13,333,039
Operating income	$ 6,519,763	$ 4,025,854	$ 11,404,540	$ 7,388,241
Income (loss) for the period (1)	$ 688,355	$ (773,043)	$ (1,017,738)	$ (1,745,029)
Cash Flows				
Cash flow from operating activities	$ 1,044,668	$ 1,993,186	$ 2,181,114	$ 2,524,324
Funds from Operations (FFO) *	$ 504,160	$ 944,357	$ 409,396	$ 1,497,167
Adjusted Funds from Operations (AFFO) *	$ 814,043	$ 998,840	$ 1,162,068	$ 1,587,433
Distributable income *	$ 1,553,966	$ 1,389,807	$ 2,436,579	$ 2,239,981
Financing				
Mortgage loans to current value ratio *			56.7 %	63.2 %
Weighted average interest rate of mortgage loans *			6.2 %	5.6 %
Per Unit				
Operating income				
- basic	$ 0.374	$ 0.235	$ 0.654	$ 0.434
- diluted	$ 0.295	$ 0.222	$ 0.516	$ 0.410
Income (loss) for the period				
- basic	$ 0.039	$ (0.045)	$ (0.058)	$ (0.103)
- diluted	$ 0.039	$ (0.045)	$ (0.058)	$ (0.103)
Distributable income				
- basic	$ 0.089	$ 0.081	$ 0.140	$ 0.132
- diluted	$ 0.087	$ 0.080	$ 0.137	$ 0.131
Funds from Operations (FFO)				
- basic	$ 0.029	$ 0.055	$ 0.023	$ 0.088
- diluted	$ 0.028	$ 0.055	$ 0.023	$ 0.088
Adjusted Funds from Operations (AFFO)				
- basic	$ 0.047	$ 0.058	$ 0.067	$ 0.093
- diluted	$ 0.046	$ 0.058	$ 0.065	$ 0.093

***Non-GAAP Measurements**

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with Canadian generally accepted accounting principles (GAAP) or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with GAAP for purposes of assessing the performance of LREIT. LREIT believes, however, that the non-GAAP measurements are useful in supplementing the reader's understanding of the performance of the Trust.

Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP measurements, where applicable, are provided in the report.

(1) After deducting the future income tax recovery of $2,105,478 which was recorded in the second quarter of 2007 primarily due to a change in the application of an accounting policy of LREIT, the Trust incurred a loss of $1,417,123. On a basic and diluted per unit basis, the loss for the second quarter of 2007 is $0.081.

OVERALL INVESTMENT OBJECTIVES AND STRATEGY

The primary objectives of the Lanesborough Real Estate Investment Trust ("LREIT") are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large diversified portfolio of quality real estate investments through the ongoing acquisition of additional multi-unit residential properties. The overall investment strategy of LREIT is to focus on the acquisition of properties with stable yields, low vacancy levels and growth potential. LREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high caliber and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees. Shelter Canadian Properties Limited provides asset management services to LREIT, pursuant to the terms of a Services Agreement. Shelter Canadian is also responsible for the property management function for the Income Properties of LREIT, pursuant to the terms of a Property Management Agreement.

INVESTMENT ACTIVITIES

Property Acquisitions

General

Due to the limited construction of new rental properties over the last 25 years and as market values of existing rental properties continue to be well below replacement cost, the multi-family residential sector continues to offer an opportunity to earn high returns and achieve significant gains in value, especially if rental market conditions continue to improve due to rising interest rates and the increasing cost of home ownership. As a result, for the foreseeable future, the investment strategy of LREIT will continue to focus on the acquisition of multi-family residential properties in markets across western Canada, including continued investments in smaller centres.

Property Portfolio - June 30, 2007

As of December 31, 2006, the real estate portfolio of LREIT consisted of 29 multi-family residential properties and four commercial properties with a total acquisition cost of $233.8 Million.

During the first six months of 2007, LREIT acquired five residential properties at a total purchase price of $84.9 Million, resulting in a real estate portfolio of 38 properties with a total cost of $318.7 Million as of June 30, 2007.

The five residential property acquisitions were as follows:

			Contribution to Operating Income	
Property	Price	Closing Date	Q2	Q1
Clarington Seniors Residence	$22,400,000	February 12, 2007	-	-
Woodland Park	37,865,000	March 12, 2007	91 days	-
Nova Court	15,000,000	March 23, 2007	91 days	9 days
Borden Place	5,600,000	May 1, 2007	61 days	-
Westhaven Manor	4,050,000	May 17, 2007	44 days	-
	$84,915,000			

The Clarington Seniors Residence and the Woodland Park complex were acquired in the lease-up stage of development and, as such, the two properties were classified as "Properties Under Development" on the consolidated balance sheet of the Trust during the first quarter of 2007. The lease-up stage for Woodland Park was completed on April 1, 2007 and as a result, the apartment complex was classified under "Income Properties" during the second quarter of 2007. The lease-up of The Clarington Seniors Residence is expected to be completed during the second quarter of 2008.

The carrying costs of a property in the lease-up stage of development, including operating costs, net of rental revenues, are capitalized. Accordingly, properties which are acquired in the lease-up stage of development do not contribute to the operating income of the Trust, until the lease-up period is completed.

Completed and Contracted Property Acquisitions - Subsequent to June 30, 2007

Lakewood Manor

Effective July 1, 2007, LREIT completed the acquisition of Lakewood Manor, a newly-constructed multi-family apartment complex in Fort McMurray, Alberta. The property consists of 175 units, comprised of 64 three-storey fully furnished townhouses and a four-storey apartment building with 111 fully furnished suites. The purchase price of $59.9 Million was funded by two new first mortgage loans in the total amount of $47 Million, with the balance in cash.

In 2005, LREIT provided partial construction financing for Lakewood Manor in the form of an 8% second mortgage loan of $8.5 Million. The second mortgage loan was credited to the purchase price on the closing date of the property acquisition and served to reduce the balance of the cash payment to approximately $4.4 Million.

A major oil sands company has leased and occupied all of the units at Lakewood Manor under a three year lease agreement. The lessee is responsible for all property operating costs and as a result, the Trust will realize net operating income of $4,799,800 per annum.

The agreement also provides the oil sands company with an option to extend the lease for an additional two years, at a 10% increase in the annual absolute net operating income, and a three year purchase option to acquire all of the 64 townhouse units. The purchase price option for the townhouse units is set at $26,169,600 for 2007; $26,873,600 for 2008; and $27,667,200 for 2009. The portion of the lease related to the townhouses will be accounted for as a sales-type lease in accordance with CICA Handbook Section 3065 "Leases", on the basis that substantially all of the benefits and risks of ownership have effectively transferred to the lessee at the inception of the lease.

Millennium Village

Millennium Village is a 72-unit multi-family townhouse complex which is currently under construction in Fort McMurray, Alberta and is nearing the end of the construction phase of development. The property consists of 18 four-plex buildings with 36 two-bedroom and 36 two-bedroom plus den units, all of which will be fully furnished. Each of the townhouse units will have individual condominium title. The purchase price of the property is $25.2 Million.

The acquisition will be financed with a new first mortgage loan in the amount of $17 Million with the balance in cash. The leasing of the property is occurring in three phases and the target effective dates of acquisition are August 3, 2007 for Phase I, October 2007 for Phase II and November 2007 for Phase III.

In December 2006, LREIT provided partial construction financing for Millennium Village in the form of an 8% second mortgage loan of $4 Million. The loan requires payments of interest only, on a quarterly basis, and is subordinate to a construction mortgage in the maximum amount of $15 Million. The second mortgage loan will be credited to the purchase price on the effective date of acquisition of Phase I.

The closing of the acquisition of Millennium Village is expected to occur in March 2008, on receipt of the first mortgage loan proceeds. The balance owing on the acquisition will bear interest at 6% to August 31, 2007, 8% thereafter until the effective date of the acquisition of Phase III and prime plus 3% thereafter, until closing.

Park View Apartments

LREIT has entered into a development agreement with Shelter Canadian Properties Limited in regard to the construction of a 186 suite apartment building in Fort McMurray, Alberta, to be known as the Park View Apartments. The land acquisition for the property was completed in July 2006 at a cost of $9.3 Million, while the construction of the apartment building commenced in August 2006. As of June 30, 2007, the land acquisition costs and the cumulative construction costs amounted to approximately $30.8 Million and are included in "Properties under development" on the balance sheet of LREIT.

A three year first mortgage loan in the amount of $45 Million was arranged for the property. The loan agreement provides for funds to be advanced in instalments, based on construction progress billings. As of June 30, 2007, a total of $12,089,271 has been advanced under the loan.

Pursuant to the development agreement, the total cost of Park View Apartments, including interest costs and development fees, is not to exceed $57.7 Million. Based on the first mortgage loan of $45 Million, the projected equity contribution for the development is $12.7 Million.

In accordance with the accounting policy of LREIT, all acquisition costs, development, leasing, financing and operating costs, less rental revenue, are capitalized for properties under development until the property achieves a satisfactory occupancy level within a predetermined time limit. The construction costs for Park View Apartments include carrying costs of $492,030, representing interest on the land acquisition/constructing financing.

The construction of the apartment building is expected to be completed not later than December 31, 2007. Please refer to the "Related Party Transactions" section of this report for additional information regarding the development agreement for Park View Apartments.

Existing Properties Under Development

Elgin Lodge

In June 2006, LREIT acquired Elgin Lodge, a 64 suite retirement home in Port Elgin, Ontario. In conjunction with the acquisition of the property, LREIT developed plans for a multi-level extension of the building on excess land. At an estimated cost of $10.4 Million, the expansion will add an additional 59 suites to the property, of which 12 will be studio suites and 47 will be one-bedroom suites. Based on an increase in the existing mortgage loan by $7.7 Million, the projected equity contribution for the expansion is $2.7 Million.

The construction of the 59 suite expansion commenced during the fourth quarter of 2006. As of June 30, 2007, the construction costs amounted to $6.4 Million and were funded entirely by working capital.

Additional details regarding the guarantees and commitments associated with the Elgin Lodge expansion are provided on page 25 of this report.

Major Renovations

In an effort to maximize the yield on its portfolio of income-producing properties, LREIT also undertakes appropriate capital improvement projects, renovations and re-marketing initiatives for certain properties. The benefits of major renovations are typically identified during the property acquisition process, with renovations commencing within a relatively short time frame after the property acquisition is completed.

In 2005, LREIT commenced an extensive major renovations program at the Highland Tower property in Thompson, Manitoba. The renovation program involved the upgrading of an entire floor of suites at a time and the temporary removal of suites from the rental market. The renovation program was substantially completed in July 2007, at a total estimated cost of $4,650,000, of which $1,629,940 was incurred during the first six months of 2007. The renovation costs were funded from a first mortgage loan in the amount of $1,750,000 and the balance from working capital.

In accordance with the accounting policy which was adopted by LREIT, effective July 1, 2005, carrying costs incurred during the period of major in-suite renovations of income properties are capitalized during the period that the suites are removed from the rental market. The total cumulative renovation costs for Highland Towers include carrying costs of $281,094.

Mortgage Loans Receivable

June 30, 2007	$12,500,000
December 31, 2006	$17,500,000

As of June 30, 2007, "Mortgage Loans Receivable" consist of $12.5 Million of construction loans for upcoming property acquisitions, comprised of the $8.5 Million second mortgage loan for Lakewood Manor and the $4 Million second mortgage loan for Millennium Village.

FINANCING ACTIVITIES

The overall strategy of LREIT is to fund the equity component of new property acquisitions through the issuance of additional trust units or convertible debentures. The upward refinancing of property debt may also serve as a source of capital.

Depending on the circumstances, LREIT may also consider operating lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital.

Trust Units

Units Outstanding

LREIT is authorized to issue an unlimited number of trust units.

As of June 30, 2007, LREIT had 17,465,351 units outstanding, representing an increase of 73,116 units or 0.4%, compared to the number of units outstanding as of December 31, 2006. During the first six months of 2007, 30,366 units originated from the conversion of Series A and D debentures and 42,750 units were issued under the Distribution Reinvestment Plan.

Distribution Reinvestment Plan ("DRIP")

In November 2006, LREIT implemented a "Distribution Reinvestment Plan" whereby Unitholders may choose to have monthly cash distributions automatically reinvested in additional units, while receiving a "bonus" distribution of units equal to 4% of the reinvested amount. Participants in the DRIP may also purchase additional units on a distribution payment date. The purchase price of the units will generally be equal to the weighted average closing price of the units for the five trading days immediately preceding the relevant distribution payment date.

As noted above, 42,750 units were issued or purchased under the Distribution Reinvestment Plan during the first six months of 2007.

Unit Options

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of LREIT and to other individuals who are employed or retained by the Trust to perform specific duties. As of December 31, 2006, LREIT had granted options to acquire a total of 1,010,000 units, of which 10,000 were exercised.

On June 8, 2007, LREIT granted options to each of the four independent Trustees to acquire 30,000 units each, or 120,000 units in total, at a price of $5.30 per unit. The options have vested and are exercisable immediately.

In accordance with generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Operations. During the first six months of 2007, unit-based compensation expense amounted to $212,400, including $45,058 relating to the 120,000 units issued on June 8, 2007.

As unit-based compensation is a "non-cash" expense, it does not impact the operating cash flows of the Trust.

Summary of Trust Units Issued

The following is a summary of the units which have been issued by LREIT since December 31, 2005.

Issue Date	Description	Units Issued	Equity Raised
Units outstanding, December 31, 2005		16,855,286	$ 65,948,776
November 1, 2006	Units issued on exchange of Class B units of Village West LP	100,000	-
November and December 2006	Units issued under DRIP	2,439	13,250
January to December 31, 2006	Units issued on conversion of debentures	434,510	-
Units outstanding, December 31, 2006		17,392,235	$ 65,962,026
January to June 30, 2007	Units issued under DRIP	42,750	236,388
January to June 30, 2007	Units issued on conversion of debentures	30,366	-
Units outstanding, June 30, 2007		17,465,351	$ 66,198,414

Limited Partnership Units

In June 2006, LREIT acquired the Village West Townhouses in Saskatoon, Saskatchewan. The acquisition of the property encompassed the issuance of 456,617 Class B Limited Partnership Units ("LPU's") of a wholly owned Limited Partnership which was established by the Trust (the LREIT Village West Limited Partnership). The LPU's were issued at a value of $6 per LPU, representing total consideration of $2,739,704. Each LPU is entitled to receive cash distributions equal to the cash distributions which are paid on the trust units of LREIT. The vendor has the right to exchange each LPU for LREIT trust units on a one for one basis. The LPU's are also transferable.

On November 1, 2006, 100,000 of the LPU's were exchanged for LREIT trust units.

Distribution Dates and Amounts

The distribution policy of LREIT is to pay distributions on a monthly basis. The distribution for each month, excluding December, is paid on or about the 15th day of the following month to the Unitholders of record on each month end. The distribution for December is paid on or before December 31 to the Unitholders of record on or about December 15.

During the first six months of 2007, LREIT declared distributions of $0.28 per unit, or $0.56 on an annualized basis. Distributions are comprised of the following components:

	Trust Units	LP Units	Total
Cash distributions paid for January to May, 2007, inclusive	$ 3,796,979	$ 83,211	$ 3,880,190
Cash distributions paid for June 2007	815,118	16,642	831,760
	4,612,097	99,853	4,711,950
Value of units issued under DRIP	253,761	-	253,761
Distributions declared, per Statement of Equity	$ 4,865,858	$ 99,853	$ 4,965,711

Convertible Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of convertible debt which may be issued by the Trust. The following is a summary of the debenture offerings which have been undertaken by LREIT, as of June 30, 2007, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

				Units Conversions		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Six Months Ended June 30 2007	As of December 31 2006	Net Amount Outstanding June 30 2007
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ (13,000)	$ (1,310,000)	$ 1,677,000
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	(141,000)	(2,251,000)	1,608,000
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	-	12,000,000
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	-	-	13,680,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	-	-	25,732,000
			$ 69,543,000	$ (154,000)	$ (14,692,000)	54,697,000
Net accumulated accretion						2,813,810
Unamortized transaction costs						(2,449,194)
Book value, June 30, 2007						$ 55,061,616
Allocation of book value						
Debt component						$ 43,777,312
Equity component						13,733,498
Unamortized transaction costs						(2,449,194)
						$ 55,061,616

Mortgage Loans Payable

June 30, 2007	$259,463,282
December 31, 2006	$171,255,511

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount June 30, 2007	Percentage of Total
Fixed rate			
2007	6.1 %	$ 2,349,309	0.9 %
2008	9.7 %	31,325,868	12.0 %
2009	5.4 %	31,036,137	11.9 %
2010	4.5 %	1,972,964	0.8 %
2011	8.5 %	7,383,205	2.8 %
2012	5.5 %	28,964,018	11.1 %
2013	5.9 %	26,695,551	10.2 %
2014	5.5 %	17,556,316	6.7 %
2015	5.7 %	37,603,397	14.4 %
2016	5.2 %	43,821,816	16.8 %
2017	5.7 %	5,900,000	2.3 %
		234,608,581	89.9 %
Demand/floating rate	7.1 %	26,459,516	10.1 %
Principal outstanding		261,068,097	100.0 %
Unamortized transaction costs		(2,294,076)	
Difference between contractual and market interest rates on mortgage loans assumed		689,261	
		$ 259,463,282	
Principal outstanding:			
Income properties		$ 232,108,826	
Properties under development		28,959,271	
		$ 261,068,097	

Mortgage Loan Portfolio

The general policy of LREIT is to utilize fixed rate financing with terms which are appropriate for the nature of the properties being financed. Upward refinancing opportunities are also pursued, when appropriate, in order to provide a source of additional capital and to minimize the impact of capital expenditures on ongoing operating cash flows. The mortgage loan indebtedness of the Trust is restricted to 75% of the appraised value of the real estate portfolio.

During the first six months of 2007, the balance of mortgage loans payable increased by $88,207,771, comprised of the following amounts:

	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007	Six Months Ended June 30, 2007
Mortgage loans on 2007 completed/contracted property acquisitions	$ 16,262,233	$ 50,407,159	$ 66,669,392
Additional mortgage loans on existing properties	6,954,771	18,258,977	25,213,748
Principal repayments	(1,135,533)	(935,021)	(2,070,554)
	$ 22,081,471	$ 67,731,115	89,812,586
Unamortized transaction costs			(2,294,076)
Difference between contractual and market interest rates on mortgage loans assumed			689,261
			$ 88,207,771

As of June 30, 2007, the weighted average interest rate of the fixed rate mortgage loans is 6.2%, compared to 5.6% as of December 31, 2006. The weighted average interest rate for floating rate mortgage loans increased from 7% at December 31, 2006 to 7.1% as of June 30, 2007.

Excluding properties under development, the ratio of mortgage loans payable, relative to the total acquisition cost of the entire portfolio of income-producing properties, increased from 70% as of December 31, 2006 to 78% as of June 30, 2007. The increase reflects the additional financing which was obtained during the first six months of 2007, for income-producing properties, in the total amount of $66.7 Million, including interim mortgage loan financing of $21 Million; upward refinanced first mortgage loans on existing properties of $7.7 Million and mortgage loans assumed or arranged on new property acquisitions of $44.4 Million.

The ratio of mortgage loans payable, relative to the estimated current value of the property portfolio, was approximately 56.7% at June 30, 2007, compared to 61.8%, as of December 31, 2006. The cumulative construction and land costs for Park View Apartments and the related mortgage loan indebtedness are excluded from the debt ratio calculation as Park View is under construction.

Interim Mortgage Loan Financing

During the first six months of 2007, LREIT arranged $21 Million of interim mortgage loan financing, including $16.5 Million which was obtained during the first quarter of 2007 and $4.5 Million which was obtained during the second quarter of 2007. The interim mortgage loan financing is secured by charges registered against two or more properties, bears interest at an average rate of 11% and requires payments of interest only. All of the debt matures within one year of issue.

The interim mortgage loan financing is expected to be increased by $2 Million in the third quarter of 2007.

Vendor Take-Back Mortgages

The vendor take-back mortgage loan balance of $1,836,475 consists of the $250,000 interest-free vendor take-back mortgage loan that was obtained on the acquisition of the properties in Prince Albert, Saskatchewan in February 2005, less amounts owed to LREIT from the vendor. The loan for the Prince Albert properties matured on July 1, 2006 and will be repaid on demand. In addition, a $1,600,000 vendor take-back mortgage, due on demand, was obtained upon the purchase of Westhaven Manor in May 2007.

RESULTS OF OPERATIONS

Impact of Changes in Accounting Policies

Improvements to Income Properties

Effective January 1, 2007, LREIT adopted a new accounting policy in regard to the treatment of costs associated with the upgrading of existing income properties to provide more reliable and relevant information in regard to improvements to the income properties. The new accounting policy is being applied on a retroactive basis.

The new policy is described in Note 2 of the second quarter financial statements. The adoption of the accounting policy by LREIT resulted in a decrease in prior year operating expenses of $1,100,474, an increase in prior year amortization expense of $80,456 and an increase in original cost of income properties of $989,485. Accordingly, for comparative purposes, the net loss for the three month and six month periods ended June 30, 2006 are lower than was previously reported by $186,332 and $286,528, respectively.

The new accounting policy does not impact the treatment of costs incurred in regard to major in-suite renovations or properties under development as the Trust has previously adopted accounting policies which provide for the capitalization of costs incurred in regard to in-suite renovations and properties under development.

Financial Instruments

As disclosed in Note 2 to the second quarter financial statements, LREIT adopted a new accounting policy in regard to the treatment of the transaction costs, effective January 1, 2007. Transaction costs are costs which are associated with the acquisition of a mortgage loan or the debt portion of debenture financing. Prior to January 1, 2007, transaction costs were included in deferred charges and amortized over the term of the mortgage loan or debenture financing and the amortization charges were included in "Amortization" expense. Effective January 1, 2007, transaction costs are charged directly to the associated mortgage loan or debenture financing liability and amortized over the expected life of the instrument using the effective interest method of amortization. Amortization charges related to transaction costs are now included in "Financing" expense.

As a result of the new policy, there has been a significant increase in financing expense and a corresponding decrease in amortization expense. Specifically, for the three and six month periods ended June 30, 2007, financing expense is $375,039 and $752,851 higher, respectively, than would have been reported under the previous policy, while amortization expense is lower by $375,039 and $752,851, respectively.

The new accounting policy is in accordance with new Canadian generally accepted accounting policies and has been applied prospectively. As the prospective application of the policy does not encompass the restatement of prior year expenses, the policy has significantly impacted the comparability of financing expense and amortization expense for the 2007 and 2006 operating periods.

Impact of Change in Accounting Estimate - Income Taxes

As indicated in note 2 to the financial statements, a change in income tax legislation which was enacted in June 2007 resulted in a significant change in the estimates used in the calculation of future tax assets and liabilities.

As a result of the change, a future income tax asset of $1,871,579 has been recognized and included in other assets with a corresponding credit to income tax recovery. In general terms, a future tax asset reflects the future tax savings or tax recovery derived by the application of capital cost allowance to the amount by which asset balances for income tax purposes exceed the assets balances determined in accordance with GAAP. The income tax recovery which is calculated in this fashion is a non-cash item and has no impact on the cash flows or distributions of the Trust.

The change has been implemented prospectively with the full effect of the change recognized in the second quarter. The policy has significantly affected the comparability of the bottom-line results of LREIT for the 2006 and 2007 operating periods as the prior year future income tax recovery is not reflected in the 2006 comparative results.

The future income tax asset is subject to being "derecognized", depending on the outcome of events which may not be known until 2011, including a restructuring of the affairs of the Trust.

Balance Sheet Classification of Deferred Charges and Intangibles

Effective January 1, 2007, LREIT adopted a new presentation of certain assets relating to income properties.

Prior to January 1, 2007, tenant improvements recorded on the acquisition of income properties, as well as tenant inducements and leasing expenses in regard to ongoing leasing activity, were recorded as deferred charges and disclosed as a separate line item on the consolidated balance sheet of the Trust. Deferred financing costs were also included in deferred charges. Similarly, intangible assets recorded on the acquisition of income properties, including lease origination costs, tenant relationships and above market in-place leases were recorded as intangible assets and disclosed as a separate line item on the consolidated balance sheet.

In accordance with the new presentation, the components of acquisition costs which were previously recorded as deferred charges, except for deferred financing costs, and the components which pertain to lease origination costs and tenant relationships, are now presented as components of income properties. The component of the acquisition costs which pertains to above market in-place leases is now classified as a component of other assets.

The new presentation does not have any impact on the operating income of the Trust as the amortization period for the reclassified assets has not changed.

Analysis of Income/Loss

General

At the end of the first quarter of 2007, the expectation for the remainder of the year was that LREIT would continue to achieve significant increases in operating income and cash flow from operating activities, while continuing to incur a net loss before income taxes and operate with a cash distribution payout ratio which exceeded operating cash flows.

Although the timing of Series G convertible debenture interest payment on June 30, 2007, in the amount of $964,950, served to reduce the level of cash flow, operating results for the second quarter of 2007 were generally in accordance with expectations, as follows:

(i) operating income increased by 62% and 54%, respectively, for the three month and six month periods ended June 30, 2007, compared to the corresponding periods in 2006. In comparison to the first quarter of 2007, operating income increased by 33%, during the second quarter of 2007;

(ii) cash flow from operating activities, excluding changes in non-cash operating items, decreased by 17% and 12%, respectively, for the three month and six month periods ended June 30, 2007, compared to the corresponding periods in 2006. In comparison to the first quarter of 2007, cash flow from operating activities, excluding changes in non-cash operating items, increased by 122%; and

(iii) after excluding future income tax recoveries LREIT incurred a loss of $1,417,123 and $3,203,090 for the three and six months ended June 30, 2007 respectively, compared to losses of $807,917 and $1,788,579 for the corresponding periods in 2006.

(iv) after excluding the future income tax recovery, the net loss of LREIT decreased by $431,986 in the second quarter of 2007, compared to the first quarter of 2007.

Income (Loss) for the Period

Analysis of Income (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 (restated)	2007	2006 (restated)
Operating income - rental properties	$ 6,230,562	$ 3,651,513	$ 10,800,647	$ 7,013,900
Interest income - Trust	289,201	374,341	603,893	374,341
Operating income	6,519,763	4,025,854	11,404,540	7,388,241
Financing expense				
Mortgage loans *	3,496,451	1,758,129	6,047,854	3,447,601
Debentures *	1,610,378	864,846	3,202,381	1,678,669
Amortization of transaction costs	375,039	-	752,851	-
	5,481,867	2,622,975	10,003,086	5,126,270
Operating income, net of financing expense*	1,037,896	1,402,879	1,401,454	2,261,971
Trust expense	533,736	283,988	992,058	486,373
Income, before amortization, future income tax recovery and non-controlling interest*	504,160	1,118,891	409,396	1,775,598
Amortization	1,936,304	1,928,654	3,651,471	3,566,023
Future income tax recovery	(2,105,478)	(34,874)	(2,185,352)	(43,550)
Non-controlling interest	15,021	1,846	38,985	1,846
Income (Loss) for the period	$ 688,355	$ (773,043)	$ (1,017,738)	$ (1,745,029)

The analysis of income (loss) for the year represents the re-formatting of balances from the Consolidated Statement of Operations in order to provide a more detailed assessment of the financial performance of the Trust. The components of operating income agree to the segmented financial information in the notes to the financial statements, while all other line items, with the exception of the individual components of financing expense, agree to the Consolidated Statement of Operations. The analysis discloses the amortization component of financing expense separately, per note 18 of the financial statements, with the remaining amount separated into the mortgage loan and debenture component. Accordingly, the analysis consists entirely of GAAP measurements, aside from two sub-totals and the mortgage loan and debenture component of financing expense (see asterisks).

Three Month Period Ended June 30, 2007

Income, Excluding Amortization Expense, Future Income Tax Recovery and Non-Controlling Interest

During the second quarter of 2007, the income of LREIT, before amortization expense, future income tax recovery and non-controlling interest, decreased by $614,731 or 55%, compared to the second quarter of 2006. After adjusting the 2007 results to deduct amortization charges in regard to transaction costs of $375,039, the income of LREIT before amortization expense, future income tax recovery and non-controlling interest decreased by $239,692 or 21%, compared to the second quarter of 2006. The decrease in income, as adjusted, reflects an increase in operating income of $2.49 Million, almost entirely by an increase in financing expense of $2.48 Million and further reduced by an increase in Trust expense of approximately $250,000.

The increase in operating income is almost entirely due to an increase in operating income from rental properties. The increase reflects the incremental income from properties which were acquired subsequent to the second quarter of 2006, as well as a significant improvement in the operating income of the residential properties which have been in the LREIT portfolio since April 1, 2006.

The increase in financing expense is comprised of an increase in financing expense pertaining to mortgage loans and an increase in financing expense in regard to convertible debentures.

The increase in Trust expense reflects an increase in unit based compensation expense, service fees and stock exchange listing fees.

Income (Loss) For the Period

After considering total amortization charges, future income tax recovery and non-controlling interest the Trust completed the second quarter of 2007 with income of $688,355, compared to a loss of $773,043 in the second quarter of 2006. The improvement in the bottom-line results is almost entirely attributable to the future tax recovery of $2,105,478, which was recorded in the second quarter of 2007, primarily as a result of a change in accounting estimates.

Financing Expense - Mortgage Loans

Financing expense on mortgage loans increased by $1,738,322 or 98.9% during the second quarter of 2007, compared to the second quarter of 2006. As a percentage of operating income, financing expense on mortgage loans increased from 43.7% in the second quarter of 2006 to 53.6% in the second quarter of 2007. The increase reflects the incremental interest expense on the interim mortgage loans; the upward refinanced mortgage loans and on the mortgage loan financing which was assumed or arranged for new property acquisitions in 2007.

Financing Expense - Debentures

During the second quarter of 2007, financing expense on convertible debentures increased by $745,532 or 86%, compared to the second quarter of 2006. The increase mainly reflects the incremental financing expense which resulted from the issuance of the $13.68 Million Series F convertible debentures in March 2006 and the $25.73 Million Series G convertible debentures in December 2006.

As a percentage of operating income, financing expense on debentures increased from 21% in the second quarter of 2006 to 25% in the second quarter of 2007. The increase in the ratio of debenture financing expense, relative to operating income, reflects the following:

- an increase in the relative amount of debenture capital due to a change in the overall capital structure of the Trust. As of June 30, 2007, the ratio of convertible debenture debt, at face value, compared to the unit component of the total equity of the Trust was 51%. As of June 30, 2006, the convertible debenture debt ratio was 40%.

- a lag in the return of convertible debenture capital. On December 31, 2006, LREIT issued $25.7 Million of convertible debenture debt of which a significant portion remained invested in non-income producing properties as of June 30, 2007, resulting in a lag between the cost of capital and the return of capital. During the second quarter of 2006, there was also a significant level of capital invested in non-income producing properties, following the issuance of the $13.68 Million convertible debenture offering in March 2006; however, the impact of the lag in investment returns was greater in 2007 given the substantially higher amount of the debenture offering in December 2006.

Amortization Expense

During the second quarter of 2007, total amortization expense increased by a marginal amount of $7,650 or 0.4%, mainly due to the change in accounting policy regarding the amortization of transaction costs. After adjusting amortization expense to income amortization charges in regard to transaction costs, amortization expense increased by $382,689 or 20%.

During the second quarter of 2007, the ratio of amortization expense, as adjusted, to operating income was 36%, compared to 48% in 2006. The decrease in the ratio of amortization expense, relative to operating income mainly reflects a proportionately lower allocation of a portion of the purchase price to intangible assets for properties which were acquired subsequent to June 30, 2006 and the fact that intangible assets are amortized over a shorter time frame than other components of the acquisition cost.

Trust Expense

Trust expense increased by $249,748 during the second quarter of 2007, compared to the second quarter of 2006. The increase in Trust expense is mainly due to the following factors:

- the charge to unit-based compensation expense of $125,882 in regard to the unit options which were issued by the Trust in July 2006 and June 2007;

- an increase in the monthly service fee of Shelter Canadian in regard to administrative and asset management services due to the increased size of the Trust's assets. The fee is equal to 0.3% of the net book value of the assets of LREIT, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. The asset management for the three months ended June 30, 2007 was $275,855, compared to $141,779 for the three months ended June 30, 2006.

  Please refer to "Related Party Transactions" on page 33 of this report for additional information in regard to the administrative, asset management and property management services which are provided to LREIT by Shelter Canadian Properties Limited and the associated remuneration; and

- an increase in fees associated with being listed on the TSX in 2007 as opposed to the Venture Exchange in 2006.

Six Months Ended June 30, 2007

During the first six months of 2007, the income of LREIT, before amortization expense, future income tax recovery and non-controlling interest, decreased by $1,366,202 or 77%, compared to the first six months of 2006. After adjusting the 2007 results to deduct amortization charges in regard to transaction costs, the income of LREIT before amortization expense, future income tax recovery and non-controlling interest decreased by $613,351 or 35%, compared to the first six months of 2006. The decrease in net income for the six month period, as adjusted, is mainly due to the same factors which contributed to the decrease in net income for the second quarter. Specifically, the decrease in net income reflects an increase in operating income, partially offset by increases in financing expense and trust expense.

After considering amortization expense, future income tax recovery and non-controlling interest, the net loss of LREIT, for the six months ended June 30, 2007, decreased by $727,291, compared to the first six months of 2006.

Operating Income

General

During the second quarter of 2007, the operating income of LREIT increased by approximately $2.49 Million or 62%, compared to the second quarter of 2006. The increase in the operating income is mainly due to the increase in the number of properties in the portfolio of LREIT.

During the second quarter of 2007, 37 properties, with a total acquisition cost of $296.3 Million, contributed to the operating income of LREIT, including one property which was acquired on May 17, 2007. During the second quarter of 2006, 27 properties, with a total acquisition cost of $233.8 Million, contributed to operating income, including four properties which were acquired on June 1, 2006.

Since 2004, LREIT has focused exclusively on the acquisition of residential properties. During the first six months of 2007, residential properties accounted for 83% of the total operating income of the Trust, compared to 72% during the first six months of 2006. The following discussion regarding revenues and operating costs is based on an analysis of the residential property portfolio.

Notwithstanding the focus on residential properties, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties, McIvor Mall and the Kenaston Property, were 98% and 99% leased respectively, as of June 30, 2007.

Revenue from Residential Properties

Analysis of Rental Revenue by Geographic Market Segment - Residential Properties

	Percentage of Total Rental Revenue			
	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Alberta	46 %	37 %	45 %	39 %
Saskatchewan	27 %	35 %	29 %	34 %
Northwest Territories	15 %	13 %	13 %	13 %
Manitoba	4 %	7 %	5 %	7 %
British Columbia	4 %	6 %	4 %	6 %
Ontario	4 %	2 %	4 %	1 %
	100 %	100 %	100 %	100 %

The investment strategy of LREIT is to focus on the acquisition of multi-family residential properties primarily in markets across western and northern Canada. During the first six months of 2007, LREIT acquired properties in two new locations (Bowmanville, Ontario and Edson, Alberta) and increased its holdings in Saskatoon, Yellowknife and Fort McMurray.

Aside from the increase in the percentage contributions by Alberta, the relative ranking of revenues by geographic market segment has not changed significantly during the first six months of 2007, as the 2007 property acquisitions of LREIT included acquisitions in Alberta and Saskatchewan which are the two provinces with the highest percentage of property holdings in the LREIT portfolio. The increase in the percentage contribution by Alberta reflects the acquisition of Woodland Park in March 2007. The purchase price of Woodland Park represented 77% of the total purchase price of the four properties which were acquired by LREIT in 2007 and which were classified as income-producing properties in the second quarter of the 2007.

Operating Costs for Residential Properties

Overall Residential Portfolio

Geographic Analysis of Operating Cost Ratio - Multi-Family Properties

	Operating Cost Ratio			
	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Alberta	33 %	36 %	34 %	39 %
Northwest Territories	38 %	40 %	40 %	45 %
Manitoba	51 %	40 %	53 %	49 %
Saskatchewan	55 %	54 %	58 %	56 %
British Columbia	55 %	69 %	59 %	81 %
Ontario	64 %	51 %	66 %	51 %
Total residential portfolio	43 %	45 %	45 %	49 %

During the second quarter of 2007, there was a significant improvement in the operating cost ratio of the residential property portfolio, with the ratio decreasing from 45% during the second quarter of 2006 to 43% during the second quarter of 2007.

The operating results for the Alberta portfolio have the most significant impact of the overall ratio, given the relative size of the Alberta portfolio, compared to other provinces. For the Alberta portfolio, the operating cost ratio decreased from 36% in the second quarter of 2006 to 33% in the second quarter of 2007. The decrease in ratio reflects the acquisition of six properties in Fort McMurray, Alberta on June 30, 2006 and the comparatively high profit margin associated with the six properties.

The province with the most significant change in operating cost ratio was British Columbia, with the operating cost ratio decreasing from 69% during the second quarter of 2006 to 55% during the second quarter of 2007. The lower operating cost ratio mainly reflects the improvement in the vacancy rate at Greenwood Gardens, the sole property in the LREIT portfolio in British Columbia.

Overall, the residential portfolio continued to generate a favourable return during the second quarter of 2007 as the high operating cost ratios are primarily occurring in the smaller properties which, in total, comprise a relatively low percentage of the overall property portfolio.

Same Property Analysis

As of January 1, 2006, there were 18 residential properties in the LREIT portfolio.

As disclosed in the following analysis, the combined revenue of the 18 properties increased by 12.5% during the first six months of 2007, compared to the first six months of 2006, while operating income increased by 20.5% during the same period. The improvement in operating results is mainly attributable to Greenwood Gardens and Nelson Ridge Estates. For Greenwood Gardens, the improvement mainly reflects a significant reduction in the vacancy loss and in bad debt expense. For Nelson Ridge Estates, the improvement is mainly attributable to rental rate increases.

	Six Months Ended June 30		Increase (Decrease)	
	2007	2006 (restated)	Amount	%
Total revenue	$ 10,854,455	$ 9,645,656	$ 1,208,799	12.5 %
Operating income	$ 5,962,692	$ 4,950,000	$ 1,012,692	20.5 %

Revenue/Income and Other Commitments

Elgin Lodge

LREIT has retained Kingsway Arms Management Services Inc. ("Kingsway") to manage Elgin Lodge for a ten year term. Kingsway is an Ontario-based company, which acquires, manages and develops retirement homes, catering principally to the independent and assisted living segments. Kingsway currently manages a portfolio of nine properties, totaling 850 suites located across Ontario.

As disclosed on page 12, the construction of the 59 suite expansion of Elgin Lodge commenced in December 2006. During the five year period following the closing date of the acquisition, Kingsway is entitled to a one-time payment equal to 50% of the amount, if any, by which the appraised value of the expanded property exceeds the total cost to LREIT, including the expansion cost. The one-time payment will be net of a 12% annual return on the LREIT equity investment.

The Clarington Seniors Residence

LREIT has also retained Kingsway to manage The Clarington Seniors Residence for a ten-year term. During the five year period after the "lease-up" date, Kingsway is entitled to a one-time payment equal to 50% of the amount, if any, by which the appraised value of the property exceeds the original acquisition cost to LREIT. The one-time payment will be net of an 8% annual return on the LREIT equity investment.

Park View Apartments

LREIT has entered into a Development Agreement with Shelter Canadian Properties Limited in regard to the construction of Park View Apartments. Details of the Development Agreement are disclosed on page 34 of this report.

Comparison to Preceding Quarter

Comparison to 2007 First Quarter

	Three Months Ended		
	June 30, 2007	March 31, 2007 (restated)	Increase (Decrease)
Operating income - rental properties	$ 6,230,562	$ 4,570,037	$ 1,660,525
Interest income - Trust	289,201	314,693	(25,492)
Operating income	6,519,763	4,884,730	1,635,033
Financing expense			
Mortgage loans	3,496,451	2,551,404	945,047
Debentures	1,610,378	1,592,003	18,375
Transaction costs	375,038	377,727	(2,689)
	5,481,867	4,521,134	960,733
Operating income, net of financing expense	1,037,896	363,596	674,300
Trust expense	533,736	458,323	75,413
Income (loss), before amortization, future income tax recovery and non-controlling interest	504,160	(94,727)	598,887
Amortization	1,936,304	1,715,167	221,137
Future income tax recovery	(2,105,478)	(79,874)	(2,025,604)
Non-controlling interest	15,021	23,927	(8,906)
Income (loss) for the period	$ 688,355	$ (1,706,093)	$ 2,394,448

Analysis of Incremental Loss

During the second quarter of 2007, LREIT incurred an income of $688,355, compared to a loss of $1,706,093 during the first quarter of 2007. The decrease in the loss mainly reflects the following factors:

- an increase in operating income of $1,635,033. The increase in operating income mainly reflects the inclusion of Woodland Park as an income-producing property, effective April 1, 2007, as well as the contribution of a full quarters operating income for first quarter acquisitions, along with the contribution of two additional properties acquired in May 2007.

- an increase in mortgage loan financing expense, excluding amortization charges for transaction costs, of $945,047 or 37%. The increase reflects the additional mortgage financing which was obtained for the four properties which were added to the portfolio of income-producing during the second quarter of 2007, as well the incremental interest on the interim mortgage loan financing and upward refinanced loans that were arranged during the second quarter of 2007.

- a increase in Trust expense of $75,413. The increase mainly reflects an increase in unit based compensation expense, due to the options which were issued in June 2007, as well as an increase in the service fee of Shelter Canadian due to an increase in the asset base of the Trust.

- an increase in amortization expense, including transaction costs, of $218,448 due to the increase in the portfolio of income-producing properties in the second quarter of 2007.

- a increase in income tax recovery of $2,025,604, mainly attributable to a change in the estimated future tax assets of the Trust as a result of new legislation relating to the taxation of publicly traded income trusts.

Summary of Quarterly Results

Quarterly Analysis

	2007		2006	
	Q2	Q1 (restated)	Q4 (restated)	Q3 (restated)
Total revenue	$ 11,127,584	$ 9,051,765	$ 8,835,557	$ 8,370,252
Operating income	$ 6,519,763	$ 4,884,730	$ 4,796,613	$ 4,912,506
Income (loss) for the period (1)	$ 688,355	$ (1,706,093)	$ (563,581)	$ (829,956)
PER UNIT				
Operating income				
- basic	$ 0.374	$ 0.281	$ 0.278	$ 0.284
- diluted	$ 0.295	$ 0.255	$ 0.267	$ 0.266
Income (loss) for the period (1)				
- basic	$ 0.039	$ (0.102)	$ (0.033)	$ (0.048)
- diluted	$ 0.039	$ (0.102)	$ (0.033)	$ (0.048)

Quarterly Analysis

	2006		2005	
	Q2 (restated)	Q1 (restated)	Q4 (restated)	Q3 (restated)
Total revenue	$ 6,891,004	$ 6,442,035	$ 5,579,894	$ 4,846,417
Operating income	$ 4,025,854	$ 3,362,387	$ 2,876,420	$ 2,819,604
Income (loss) for the period	$ (773,043)	$ (971,986)	$ (437,352)	$ (299,935)
PER UNIT				
Operating income				
- basic	$ 0.235	$ 0.200	$ 0.288	$ 0.282
- diluted	$ 0.222	$ 0.187	$ 0.227	$ 0.241
Income (loss) for the period				
- basic	$ (0.045)	$ (0.058)	$ (0.043)	$ (0.030)
- diluted	$ (0.045)	$ (0.058)	$ (0.043)	$ (0.030)

Note:
(1) After deducting the future income tax recovery of $2,105,478 which was recorded in the second quarter of 2007 primarily due to a change in the application of an accounting policy of LREIT, the Trust incurred a loss of $1,417,123. On a basic and diluted per unit basis, the loss for the second quarter of 2007 is $0.081.

CAPITAL RESOURCES AND LIQUIDITY

Cash from Operating Activities

During the first six months of 2007, LREIT generated cash from operating activities of $2,181,114. After excluding the cash flows pertaining to non-cash operating activities, the operating cash flow for the first six months of 2007 was $2,337,312, compared to $2,646,555 during the first six months of 2006. The decrease of $309,243 reflects the following variables:

- a marginal increase in operating income, net of financing expense. During the first six months of 2007, the increase in the operating income of LREIT was almost entirely offset by an increase in the cash component of financing expense. Specifically, operating income increased by $4,016,299 while the cash component of financing expense increased by $3,971,140. The increase in the cash component of financing expense reflects an increase in interest expense on mortgage loans payable of $2,600,253 and an increase in interest payments on convertible debenture of $1,370,887. The increase in interest payments on convertible debenture debt reflects the issuance of $13.68 Million of convertible debenture debt on March 10, 2006 and the issuance of $25.732 Million of debenture debt on December 8, 2006.

- an increase in non-cash component of trust expense of $301,263. The increase is mainly due to an increase in the asset base of the Trust and the associated increase in the service fee of Shelter Canadian.

Funds from Operations ("FFO") & Adjusted Funds from Operations ("AFFO")

LREIT considers "Funds from Operations" ("FFO") and "Adjusted Funds from Operations" ("AFFO") to be meaningful additional measures of operating performance. FFO measures the cash generating abilities of LREIT, while AFFO is indicative of available cash flow after capital reinvestment transactions.

During the second quarter of 2007, FFO decreased by $440,197 compared to the second quarter of 2006, while AFFO decreased by $184,797. On a per unit basis, FFO decreased by $0.026 per unit, while AFFO decreased by $0.011 per unit. For the six month comparative figures, FFO and AFFO decreased by $1,087,771 and $425,365, respectively in 2007, representing a decrease of $0.065 per unit for FFO and $0.026 per unit for AFFO.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 (restated)	2007	2006 (restated)
Loss for the period	$ 688,355	$ (773,043)	$ (1,017,738)	$ (1,745,029)
Add (Deduct):				
Total amortization expense	1,936,304	1,928,654	3,651,471	3,566,023
Amortization of deferred financing costs	-	(178,226)	-	(282,123)
Future income tax recovery	(2,105,478)	(34,874)	(2,185,352)	(43,550)
Non-controlling interest	(15,021)	1,846	(38,985)	1,846
Funds from operations	504,160	944,357	409,396	1,497,167
Add (Deduct):				
Straight-line rent adjustment	(10,908)	(12,871)	(32,878)	(23,181)
Net amortization of above/below market in-place lease	399	26	799	52
Accretion of debt component of convertible debentures	1,610,378	864,846	3,202,381	1,678,669
Interest expense on convertible debentures	(1,053,831)	(588,766)	(2,108,370)	(1,202,827)
Unit-based compensation	128,729	3,989	212,400	7,978
Tenant inducement and leasing expenses	(31,369)	(8,734)	(95,853)	(55,356)
Improvements to income properties	(333,515)	(204,007)	(425,807)	(315,069)
Adjusted funds from operations	$ 814,043	$ 998,840	$ 1,162,068	$ 1,587,433
FFO per unit				
- basic	$ 0.029	$ 0.055	$ 0.023	$ 0.088
- diluted	$ 0.028	$ 0.055	$ 0.023	$ 0.088
AFFO per unit				
- basic	$ 0.047	$ 0.058	$ 0.067	$ 0.093
- diluted	$ 0.046	$ 0.058	$ 0.065	$ 0.093

* FFO and AFFO are non-GAAP financial measures of operating performance widely used by the real estate industry. Accordingly, FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP.

FFO and AFFO have been calculated in accordance with the recommendations of RealPac, however, the method that is used by LREIT for calculating FFO and AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers. The FFO and AFFO per unit amounts have been calculated on a basis consistent with that prescribed by GAAP for calculating earnings per unit.

Distributable Income

The stated policy of LREIT is to distribute cash to the Unitholders, on a quarterly basis, in an amount which is approximately equal to 90% of the annual "Distributable Income" of the Trust. Cash distributions may also be established at a specific level, as determined by the Trust and, as such, may exceed distributable income.

Distributable income is a non-GAAP measurement which differs from "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. A reconciliation between cash from operating activities and distributable income is provided in the chart below.

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended June 30 2007	Three Months Ended June 30 2006 (restated)	Six Months Ended June 30 2007	Six Months Ended June 30 2006 (restated)
Cash provided by operating activities, per Statement of Cash Flow	$ 1,044,668	$ 1,993,186	$ 2,181,114	$ 2,524,324
Changes in non-cash operating items	566,800	(43,005)	156,198	122,231
	1,611,468	1,950,181	2,337,312	2,646,555
Add (deduct):				
Interest paid on convertible debentures	964,960	19,658	2,111,784	740,897
Interest expense on convertible debentures	(1,053,831)	(588,766)	(2,108,370)	(1,202,827)
Tenant inducement and leasing expenses	31,369	8,734	95,853	55,356
Distributable income	$ 1,553,966	$ 1,389,807	$ 2,436,579	$ 2,239,981
Per unit				
- Basic	$ 0.089	$ 0.081	$ 0.140	$ 0.132
- Diluted	$ 0.087	$ 0.080	$ 0.137	$ 0.131

As disclosed in the following summary, the total distributions of LREIT for the first six months of 2007 exceeded distributable income by $2,429,279 and cash from operating activities by $2,684,744.

	Three Months Ended June 30 2007	Three Months Ended June 30 2006 (restated)	Six Months Ended June 30 2007	Six Months Ended June 30 2006 (restated)
Total distributions	$ 2,439,035	$ 2,404,110	$ 4,865,858	$ 4,768,910
Distributable income	$ 1,553,966	$ 1,389,807	$ 2,436,579	$ 2,239,981
Excess of distributions over distributable income	$ (885,069)	$ (1,014,303)	$ (2,429,279)	$ (2,528,929)
Cash provided by operating activities	$ 1,044,668	$ 1,993,186	$ 2,181,114	$ 2,524,324
Excess of distributions over cash provided by operating activities	$ (1,394,367)	$ (410,924)	$ (2,684,744)	$ (2,244,586)

Distribution Shortfall

The shortfall between total distributions and cash from operating activities effectively represents a return of capital to the Unitholders.

As additional properties are acquired and operations stabilize, it is anticipated that the shortfall between the total distributions and operating cash flows will be reduced over time.

Financing/Investment Activities

The chart on page 31 provides a summary of the cash flow activities of the Trust.

As disclosed in the chart, the net cash used in investment activities exceeded the net cash provided by financing activities, excluding cash distributions, by $6,679,522 during the six months ended June 30, 2007. Financing activities consisted almost exclusively of transactions related to mortgage loan financing while investment activities consisted primarily of cash outflows associated with the acquisition and development of new properties. Included in investment activities are improvements to income properties of $2,193,226, the details of which are provided in note 2 of the chart.

After providing for the cash inflows from operating activities and the cash outflow in regard to cash distributions, the net cash increase for the first six months of 2007 was $4,980,446, or $4,165,328 after deducting the March 2007 cash distribution of $815,118 which was paid on April 15, 2007. After accounting for the opening cash balance of $1,588,271, LREIT completed the first six months of 2007 with a cash balance of $6,568,717.

Cash Flow Analysis (Note 1)

	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007	Six Months Ended June 30, 2007
Financing Activities:			
Mortgage proceeds	$ 44,889,270	$ 49,508,978	$ 94,398,248
Mortgage principal payments	(1,135,533)	(935,021)	(2,070,554)
Mortgage loans repaid on refinancing	(27,964,166)	(2,500,000)	(30,464,166)
Transaction costs	(169,171)	(713,894)	(883,065)
Total financing	15,620,400	45,360,063	60,980,463
Investing Activities:			
Property acquisitions	(4,743,012)	(34,578,953)	(39,321,965)
Improvements to income properties (Note 2)	(979,452)	(1,213,774)	(2,193,226)
Properties under development	(4,966,346)	(5,253,628)	(10,219,974)
Deposits	(50,000)	(134,025)	(184,025)
Restricted cash	(101,913)	(2,279,838)	(2,381,751)
Total investing	(10,840,723)	(43,460,218)	(54,300,941)
Net cash inflow of investment capital	4,779,677	1,899,845	6,679,522
Operating activities	1,044,668	1,136,446	2,181,114
Cash before distributions	5,824,345	3,036,291	8,860,636
Cash distributions	(2,329,738)	(1,550,452)	(3,880,190)
Net cash inflow	3,494,607	1,485,839	4,980,446
Cash, beginning of period	3,074,110	1,588,271	1,588,271
Cash, ending of period	$ 6,568,717	$ 3,074,110	$ 6,568,717

Note 1 - GAAP Measurements

The preceding cash flow analysis represents the re-formatting of balances from the Consolidated Statement of Cash Flows in the financial statements in order to provide Unitholders with a direct depiction of the net inflow/outflow of investment capital, before considering the impact of operating activities and cash distributions. The components of financing activities, investing activities and operating activities, as disclosed in the analysis, agree to the Consolidated Statement of Cash Flows, with the exception of cash distributions which are excluded from financing activities and disclosed as a separate line item. The order of presentation of financing, investing and operating activities also differs from the Consolidated Statement of Cash Flows, in order to derive the sub-total entitled "net inflow of investment capital". Aside from the exclusion of cash distributions from financing activities and the subtotal entitled "net inflow" of investment capital, the analysis consists entirely of GAAP measurements.

Note 2 - Improvements to Income Properties

	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007	Six Months Ended June 30, 2007
Renovation costs for Highland Tower	$ 914,271	$ 1,465,578	$ 2,035,753
Improvements to other Properties	333,515	92,292	425,807
	1,247,786	1,557,870	2,461,560
Asset additions included in accounts payable	(268,334)	(344,096)	(268,334)
Cash outlay - asset additions	$ 979,452	$ 1,213,774	$ 2,193,226

Working Capital Requirements

General

On an annual basis, LREIT is generating sufficient cash from operating activities to fully fund operating costs and mortgage loan debt service costs for its entire portfolio of income-producing properties, as well as interest payable on convertible debentures and trust expenses.

LREIT requires other sources of capital in order to fund property acquisitions, capital improvements and a portion of the monthly cash distributions.

Capital Commitments

The following chart provides a summary of the projected capital commitments of LREIT in regard to property acquisitions, capital improvements and convertible debentures, subsequent to June 30, 2007.

Property	Approximate Amount	Description
Highland Tower (substantially complete in July 2007)	$0.8 Million	- represents the cash outlay to complete the renovation program, including accounts payable.
Lakewood Manor (closed effective July 1, 2007)	$5.1 Million	- represents the $59.9 Million purchase price plus closing costs, net of first mortgage loan financing of $47 Million and the mortgage loan receivable of $8.5 Million.
Park View Apartments (ongoing funding - projected completion in December 2007)	nil	- represents the total maximum construction costs of $57.7 Million, net of the projected financing of $45 Million less the cash outlay to June 30, 2007 of approximately $12.7 Million
Elgin Lodge (projected completion in October 2007)	$(1.5 Million)	- represents the projected construction costs in the amount of $10.4 Million, less the mortgage financing of approximately $7.7 Million less the cash outlay to June 30, 2007 of approximately $4.2 Million
Millennium Village (projected closing in March 2008)	$3.2 Million	- represents the $25.2 Million purchase price, net of the mortgage financing of $17 Million, less the mortgage loan receivable of $4 Million and deposit of $1 Million
Series A Debentures (mature August 31, 2007)	$1.7 Million	- represents the estimated balance on the Series A Debentures at maturity
	$9.3 Million	

As indicated in the preceding chart, LREIT requires approximately $9.3 Million in order to fund its existing capital commitments.

Sources of Capital

Short-term

As of June 30, 2007, the cash balance of LREIT was $6,568,717, while the working capital deficiency was $3,787,778.

The refinancing of under-leveraged properties is expected to serve as the primary source of additional capital during the remainder of 2007. The refinancing may occur in the form of an upward refinanced loan on a specific property or as a interim mortgage loan secured by two or more properties. Since June 30, 2007, LREIT has received upward refinancing proceeds of $1.1 Million. Financing proposals for an additional $35 Million of mortgage loans are also under negotiation with lenders.

The proceeds from the refinancing of under-leveraged properties are expected to be sufficient to enable LREIT to fulfil all of its funding commitments for the immediate future in regard to property acquisitions, capital improvements and cash distributions.

Longer Term

Since its inception, LREIT has demonstrated an ongoing ability to raise additional capital to fund new property acquisitions and it is anticipated that any future debenture or trust unit offerings will be well received by the marketplace and will also serve as a source of investment capital. LREIT may also exchange trust units for real property acquisitions. Secondary financing sources, such as a revolving line of credit, may also be considered by LREIT as a source of interim investment capital.

The ability of LREIT to raise additional capital and, in turn, proceed with the acquisition of the properties which are under contract or development is subject to uncertainty. Factors which could impair the ability of LREIT to raise additional capital include a downturn in general economic conditions, a change in legislation, fluctuations in the markets for equity securities and numerous other factors beyond the control of LREIT.

Trends

During the third quarter of 2007, LREIT is expected to achieve a significant increase in operating income and cash from operating activities, while continuing to incur a net loss before future income tax recoveries and non-controlling interest and operate with a cash distribution payout ratio which exceeds operating cash flows. The anticipated increase in operating income and cash from operations is expected to result primarily from the acquisition of Lakewood Manor on July 1, 2007, partially offset by an increase in financing expense on the additional mortgage loans which are arranged for under-leveraged properties.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Shelter Canadian provides administrative and asset management services to LREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter Canadian to be established at a level which is commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

For 2006, the Committee approved a monthly service fee equal to 0.3% of the net book value of the total assets of the Trust, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. For 2007, the 0.3% fee has been extended to August 31, 2007. Payment of the fee occurs on a monthly basis, on the last day of each month.

The initial term of the Services Agreement ends on August 30, 2007 and will be extended on an interim basis, pending the approval of a specific renewal period by the independent Trustees.

Shelter Canadian is also the Property Manager for LREIT, pursuant to the Property Management Agreement. Shelter Canadian has a direct involvement in the management of all of the income properties in the portfolio of LREIT and acts as the Property Manager for all of the properties, except for the seniors' housing complexes, which are managed by third party managers who specialize in seniors' housing. The initial term of the management agreement ends on August 30, 2007, and the agreement is automatically renewed for a further five year period, subject to the consent of the independent Trustees.

Mr. Arni Thorsteinson, Chief Executive Office of LREIT and a Trustee, is a Director and President of Shelter Canadian and the President of the parent corporation of Shelter Canadian, 2668921 Manitoba Ltd. As of February 2007, the Governance, Compensation and Nominating Committee is comprised of all of the independent Trustees of LREIT. Prior to February 2007, Mr. Thorsteinson was a member of the Governance and Compensation Committee and, as such, Mr. Thorsteinson abstained from all discussions and voting in regard to the approval of the service fee.

Development Agreement for Park View Apartments

As disclosed in the section of this report entitled "Investment Activities", the Park View apartment complex is being constructed pursuant to a development agreement with Shelter Canadian. Pursuant to the development agreement, Shelter Canadian has agreed to:

(i) develop the Project for a total cost not to exceed $57.75 Million (inclusive of the purchase price of the land);

(ii) arrange and guarantee construction financing in the approximate amount of $45 Million and permanent financing after completion of construction; and

(iii) provide all development and construction supervision services for the Project. The arrangement provides for Shelter Canadian to earn a development fee from LREIT in the maximum amount of $1,000,000, in consideration for its services under the development agreement, representing approximately 1.73% of the total estimated Project cost. A development fee of $518,499 has been recorded to June 30, 2007, of which $318,499 was payable to Shelter Canadian as of June 30, 2007.

The development agreement was approved by the independent trustees of LREIT and Mr. Thorsteinson abstained from voting on the resolution approving the transaction.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, LREIT adopted the new GAAP accounting policies for "Financial Instruments, Recognition and Measurement" (Handbook Section 3855), for "Comprehensive Income and Equity" (Handbook Sections 1530 and 3251) and for "Hedges" (Handbook Section 3865).

This new policy for Financial Instruments, Recognition and Measurement establishes standards for the recognition and measurement of all financial instruments, provides a character-based definition of a derivative financial instrument and provides criteria to be used to determine when a financial instrument should be recognized and when a financial instrument is to be extinguished.

The new policy for Comprehensive Income and Equity establishes standards for the presentation of equity and changes in equity during the reporting period.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of LREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of residential and commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust.

The key risks include the following:

General

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors. In order to minimize the general market risk and achieve stable or increasing average rental rates, combined with acceptable occupancy levels, LREIT focuses on tenant retention and the marketing of vacant space. LREIT further decreases its operating risk through property and geographic diversification and for commercial properties, through the diversification of tenancies and staggered lease maturities. The risk of revenue losses due to defaults by commercial tenants in respect of lease obligations, is minimized by leasing to tenants with strong financial covenants with the rights of the Landlord strongly entrenched in contractual agreements.

Fluctuations in Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk and the return on an investment in units is based on many performance assumptions. The ability of LREIT to continue to pay distributions which are in excess of its Distributable Income is dependent upon the level of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. Cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if LREIT is unable to provide a satisfactory return to Unitholders.

Public Market Risk

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of LREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of LREIT. The market price for the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of LREIT.

Closing of Proposed Acquisitions

There can be no assurance that LREIT will complete the proposed acquisitions described herein on the basis described herein or on the expected closing dates, if at all. The successful growth of LREIT will depend on the ability of Management to complete the proposed acquisitions and successfully integrate the acquired properties and identify opportunities for future property acquisitions. The ability of Management to generate growth from property acquisitions may be affected by elevated acquisition costs, funding of the acquisitions, unexpected liabilities with regards to the properties and other problems related to the integration of the properties. Management's failure to successfully grow through future property acquisitions could adversely affect LREIT's financial condition, net income from operations and its ability to generate cash available for distribution.

Concentration of LREIT's Portfolio in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. As of June 30, 2007, there were 38 properties in the real estate portfolio of LREIT, including four commercial properties and 34 residential properties, comprising 2,768 rental units. Eight of the residential properties, comprising a total of 505 suites are located in Fort McMurray. The eight properties have an aggregate acquisition price of $110.6 Million, which represents approximately 34.7% of the total aggregate purchase price of the real estate portfolio. In addition, LREIT acquired an additional multi-family property in Fort McMurray in July 2007 and is under contract to acquire or in the process of developing two additional multi-family residential properties in Fort McMurray. The three properties comprise a total of 433 suites and have an aggregate acquisition price/development cost of approximately $142.7 Million. Assuming the completion of the committed acquisitions and the property under development, LREIT will have a total of 11 multi-family residential properties in Fort McMurray, comprising a total of 938 suites, with an aggregate acquisition price/development cost to LREIT of approximately $253.3 Million. The 11 Fort McMurray properties will represent approximately 29.3% of the total multi-family residential suites and approximately 54.9% of the total aggregate acquisition price/development cost to LREIT of its real estate portfolio.

Changes to Tax Treatment of Trusts

LREIT currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, LREIT is required to distribute an amount equal to not less than all of its taxable income to its Unitholders and to deduct these distributions for income tax purposes.

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "New SIFT Rules") was enacted. Under the New SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The New SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, LREIT may increase its equity capital by $50 Million for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, LREIT's equity capital has not increased beyond the Safe Harbour Limit.

The New SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. Accordingly, LREIT is subject to the New SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, LREIT will be subject to the tax on distributions commencing in 2011. Prior to 2011, LREIT will consider its alternatives, including restructuring its affairs to qualify as a Qualifying REIT. However, no assurances can be given that any reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to LREIT and its unitholders. In addition, no assurance can be given that LREIT's equity capital will not increase beyond the Safe Harbour Limit prior to 2011.

Relationship with Shelter Canadian Properties Limited

The financial performance of LREIT will depend in part on the performance of Shelter Canadian in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

Reliance on Key Personnel

The success of LREIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on LREIT.

Other

Other risks and uncertainties are more fully explained in the other regulatory filings of LREIT, including the Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements of LREIT, in accordance with Canadian generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- amortization of the building component of Income Properties: a portion of the purchase price of an income property is allocated to "building" based on the estimated value of the building on an "as if vacant" basis. Amortization expense is based on the estimated useful life of the building. The estimated useful life of the building may vary and could result in a different amount of amortization charged to income;

- allocation of the cost of property acquisition: a portion of the acquisition cost of an income property is allocated to tenant origination costs associated with in-place leases and the cost of tenant relationships, lease origination costs above market leases and below market leases. The amount allocated to the above is based on the estimated fair market value of each variable. The allocated amounts are of significance, as the costs are amortized over a relatively short time frame (i.e., the term of the respective tenant leases) in comparison to the amount allocated to buildings and equipment;

- amortization of property improvements: expenditures relating to improvements to income properties are capitalized to the cost of income properties and amortized for a period of five to 25 years, based on the estimated useful life of the improvements. The estimated useful life of improvements may vary and could result in a different amount of amortization charged to income;

- unit-based compensation expense: unit-based compensation expense is based on the estimated fair value of the applicable options using the Black-Scholes option pricing method;

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to used in calculating future income tax assets and liabilities; and

- the allocation of convertible debentures between debt and equity based on the estimated fair value of the debt using an estimated cost of borrowing.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

TAXATION

Taxation of LREIT

LREIT qualifies as a mutual fund trust for income tax purposes. Subject to the New SIFT Rules, LREIT is generally subject to tax in Canada under the Income Tax Act (the "Tax Act") in respect to its taxable income each year, except to the extent that such taxable income is paid or deemed to be payable to Unitholders and deducted by LREIT for tax purposes. Pursuant to the Declaration of Trust of LREIT, the Trustees distribute or designate all taxable income directly earned by LREIT to the Unitholders of the Trust in order to ensure that LREIT will not be subject to income tax under Part I of the Tax Act.

Under the New SIFT Rules, if LREIT does not meet the REIT Conditions to become a Qualifying REIT resulting in the tax on distributions commencing to apply to LREIT in 2011 (or earlier if LREIT increases its equity capital beyond its Safe Harbour Limit), certain distributions from LREIT will no longer be deductible in computing its taxable income, and it will be subject to tax on such distributions at a rate that is substantively equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid as a return of capital will generally not be subject to the tax.

Taxation of Unitholders

The Declaration of Trust generally requires LREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. Subject to the New SIFT Rules, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of LREIT paid or payable to the Unitholder in the year. Distributions in excess of the taxable income of LREIT for the year which are allocated to a Unitholder are not included in computing the taxable income of the Unitholder. However, the adjusted cost base of the units which are held by a Unitholder will generally be reduced by the amount of distributions not included in income.

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to June 30, 2007, have represented a reduction in adjusted cost base of the units.

Under the New SIFT Rules, should they become applicable to LREIT as set out above, certain distributions from LREIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in LREIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the six months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately provide to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

Additional information relating to LREIT, including the Annual Information Form, is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2007 Second Quarter Report of Lanesborough Real Estate Investment Trust and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 9, 2007