



MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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2008 SECOND QUARTER HIGHLIGHTS

Acquisition and Development

- During the second quarter of 2008, LREIT completed the construction and lease-up of Laird's Landing and the property began contributing to the operating income of the Trust, effective June 1, 2008. Laird's Landing is a 189 suite apartment complex in Fort McMurray, Alberta.
- Property portfolio as of June 30, 2008 consists of 42 properties, comprised of 3,343 suites and 224,545 square feet of commercial leasable area.

Financial

Second quarter of 2008, compared to the second quarter of 2007:

- Rental revenues increased by \$4 Million or 38%, with \$3.4 Million derived from properties in Fort McMurray, Alberta.
- Net operating income increased by \$2.6 Million or 40% in total and by \$0.146 on a per unit basis.
- Operating margin for property portfolio improved from 59% in 2007 to 61% in 2008.
- "Same property" revenues increased by \$1.1 Million or 12%, while "same property" net operating income increased by \$0.7 Million or 13%.
- FFO increased by \$1.15 Million and \$0.065 on a per unit basis.
- AFFO increased by \$1.24 Million and \$0.070 on a per unit basis.

Capital Structure

- Weighted average interest rate on the aggregate mortgage loan balance of 6.3% at June 30, 2008, compared to 6.2% at December 31, 2007.
- Mortgage loan debt to estimated current value ratio of 59.4% at June 30, 2008, the same as 59.4% at December 31, 2007.

Ongoing Investment Activities - 2008

- On July 2, 2008, LREIT acquired the Siena Apartments, a 66-suite luxury apartment property in Fort McMurray, Alberta, at a price of \$30 Million.
- Acquisition of Parsons Landing, a 160-suite apartment property in Fort McMurray, Alberta is contracted for acquisition in 2008 at a cost of \$60.7 Million plus GST.
- Acquisition of Colony Square, a 89.4% interest in a mixed use development in downtown Winnipeg, Manitoba, comprised of 428 suites and 83,190 square feet of leasable office/commercial space, is scheduled to close on October 1, 2008 at a purchase price of \$34.2 Million.

Estimated Current Value

- The real estate portfolio of LREIT has an estimated current market value of \$655 Million as of June 30, 2008.

Unitholder Returns

	<u>Six Months Ended</u>	<u>Year Ended</u>
	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Distribution per unit	\$0.28	\$0.56
Opening unit price	\$4.99	\$5.90
Closing unit price	\$5.40	\$4.99
Annualized yield on opening price (distribution/opening unit price)	11.2%	9.5%
Current cash distribution (per annum)	\$0.56	
Closing unit price - August 12, 2008:	\$5.21	
Current yield:	10.7%	

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

Management previously projected that significant improvements in operating income and cash flows would occur throughout 2008, as additional properties in Fort McMurray moved from the development stage to the income-producing stage. As anticipated, the operating results of LREIT for the second quarter of 2008 have improved significantly in comparison to both the second quarter results for 2007 and the first quarter results for 2008, as summarized in the following chart:

	Per Unit - Basic					
	2008 Q2		2008 Q1 Comparison		2007 Q2 Comparison	
	Amount	Amount	Increase	Amount	Increase	
Net operating income (NOI)	\$ 0.520	\$ 0.455	\$ 0.065	\$ 0.374	\$ 0.146	
Funds from operations (FFO)	\$ 0.094	\$ 0.023	\$ 0.071	\$ 0.029	\$ 0.065	
Adjusted funds from operations (AFFO)	\$ 0.117	\$ 0.061	\$ 0.056	\$ 0.047	\$ 0.070	
Distributable income	\$ 0.147	\$ 0.085	\$ 0.062	\$ 0.084	\$ 0.063	

In addition to the growth in the per unit amounts for Distributable Income, FFO and AFFO, the second quarter results for 2008 are highlighted by the improvement in the distribution payout ratio. During the second quarter of 2008, distributable income exceeded distributions declared by \$103,603 or 4.2%, while cash flow from operating activities exceeded distributions declared by \$573,973 or 23.3%.

The improvement in operating results for the second quarter of 2008 reflect the impact of property acquisitions in 2007; an improvement in the operating results of properties which were acquired prior to 2007; and the inclusion of Laird's Landing as an income-producing property, effective June 1, 2008. In particular, the portfolio of income-producing properties in Fort McMurray, Alberta has continued to achieve favourable operating margins (73% for the second quarter of 2008) and has accounted for approximately 84% of the total increase in NOI in the second quarter of 2008, compared to the second quarter of 2007.

The favourable operating results for the second quarter of 2008 are a positive indicator for ongoing improvements in the second half of the year, after considering the following variables:

- (i) during the third quarter of 2008, Laird's Landing will contribute three months of operating income to the Trust, compared to one month in the second quarter of 2008. Laird's Landing is a fully occupied 189 suite apartment complex located in Fort McMurray, Alberta. (The NOI for Laird's Landing was \$436,991 for the month of June 2008.);
- (ii) on July 2, 2008, LREIT acquired the Siena Apartments, a 66 suite luxury apartment property in Fort McMurray, Alberta. The property is 100% leased on a net basis for four years and will essentially make a full contribution to the NOI of the Trust during the third quarter of 2008;
- (iii) on May 14, 2008, LREIT acquired Phase I of the Parsons Landing Apartments and it is anticipated that the remaining portion (Phase II) will be acquired in September 2008. The lease-up of the property is expected to be completed in October 2008, at which time the property will begin contributing to the operating income of the Trust. Parsons Landing is a 160 suite apartment building located in Fort McMurray, Alberta;
- (iv) the \$34 Million acquisition of Colony Square is scheduled to close on October 1, 2008. The property is located near the centre of the Winnipeg business district, is 100% leased and will add 428 residential suites and 83,190 square feet of leasable commercial area to the property portfolio of the Trust; and
- (v) additional properties to be added to the portfolio of income-producing properties include the 60 suite expansion of Elgin Lodge (Q4 2008) and the 126 suite Clarington Seniors Residence (2009).

In summary, LREIT is well-positioned to achieve significant growth in operating income and cash flows in

the second half of 2008, especially given the favourable returns from the new Fort McMurray properties.

The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to maximizing the long-term investment returns of the Unitholders.

A handwritten signature in black ink, appearing to read "A.C. Thorsteinson". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 13, 2008

Property Portfolio - June 30, 2008

<u>Property</u>	<u>Location</u>	<u>Purchase Price</u>	<u>Acquisition Date</u>	<u>Suites/ Leasable Area - Sq. Ft.</u>	<u>Occupancy June 30 2008</u>
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	\$ 5,700,000	January 2005	77	99 %
Chancellor Gate	Winnipeg	6,750,000	August 2005	48	96 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	100 %
Saskatchewan					
Borden Estates	Prince Albert	5,315,000	February 2005	144	91 %
Cedar Village	Prince Albert	2,700,000	February 2005	72	94 %
Carlton Manor	Prince Albert	410,000	February 2005	19	84 %
Riverside Apartments	Prince Albert	265,000	February 2005	12	92 %
MGM Apartments	Prince Albert	650,000	February 2005	28	54 %
Marquis Towers	Prince Albert	6,200,000	August 2005	129	100 %
Riverside Terrace (2)	Saskatoon	24,000,000	July 2005	181	100 %
Village West	Saskatoon	5,113,800	June 2006	100	96 %
Sir Robert Borden Place	Saskatoon	5,600,000	May 2007	113	97 %
Chateau St. Michael's (2)	Moose Jaw	7,600,000	June 2006	93	100 %
Woodlily Courts	Moose Jaw	3,700,000	June 2006	102	100 %
Alberta					
Nova Villa	Edmonton	5,400,000	May 2004	61	93 %
Nova Manor	Edmonton	2,615,000	May 2004	32	88 %
Nova Ridge Estates	Spruce Grove	8,800,000	July 2004	102	95 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	96 %
Broadview Meadows	Sherwood Park	6,790,000	January 2006	93	96 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	99 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	100 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	100 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	92 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	97 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	97 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	97 %
Laird's Landing	Fort McMurray	51,350,000	August 2006	189	98 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	90 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	100 %
Millennium Village	Fort McMurray	24,220,000	August 2007	72	96 %
Parsons Landing - Phase I (5)	Fort McMurray	33,054,000	May 2008	84	100 %
Westhaven Manor	Edson	4,050,000	May 2007	48	92 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	96 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	94 %
Nova Court (3)	Yellowknife	15,000,000	March 2007	106	100 %
Ontario					
Elgin Lodge (2)(4)	Port Elgin	18,122,000	June 2006	124	66 %
Clarington Seniors Residence (2)(5)	Bowmanville	22,400,000	February 2007	121	46 %
British Columbia					
Greenwood Gardens	Surrey	<u>10,950,000</u>	April 2004	<u>183</u>	94 %
Total - Residential		<u>\$ 479,255,800</u>	Total suites	<u>3,343</u>	

Property Portfolio - June 30, 2008 (continued)

<u>Property</u>	<u>Location</u>	<u>Purchase Price</u>	<u>Acquisition Date</u>	<u>Suites/ Leasable Area - Sq. Ft.</u>	<u>Occupancy June 30 2008</u>
Total - Residential		<u>\$ 479,255,800</u>	Total suites	<u>3,343</u>	
COMMERCIAL					
Retail and Office					
Kenaston (1)	Winnipeg, MB	12,656,200	April 2002	103,209	92 %
Mclvor Mall	Winnipeg, MB	<u>6,700,000</u>	February 2004	<u>65,283</u>	97 %
		<u>19,356,200</u>		<u>168,492</u>	
Light Industrial					
MAAX (6)	Aidrie, AB	1,600,000	June 2003	39,936	100 %
Purolator	Burlington, ON	<u>1,200,000</u>	September 2003	<u>16,117</u>	100 %
		<u>2,800,000</u>		<u>56,053</u>	
Total - Commercial		<u>22,156,200</u>	Total leasable area	<u>224,545</u>	
Total real estate portfolio		<u>\$ 501,412,000</u>			

Notes to the Property Portfolio:

- (1) Includes the cost of major renovations and asset additions.
- (2) Seniors housing complex.
- (3) Property includes 8,400 square feet of commercial space.
- (4) Costs in regard to the expansion of \$9,821,000 are classified as "properties under development".
- (5) Properties are classified as "properties under development".
- (6) Tenant has filed for creditor protection, rental payments ceased, effective July 1, 2008.

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".

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, 2008 and with reference to the first quarter report for 2008 and the Annual Report for 2007.

Forward-Looking Information

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 could cause actual results to differ materially from the results discussed in forward-looking statements including risks associated with the proposed taxation of trusts, public markets, real property ownership, debt financing, concentration of portfolio in one market, future property acquisitions, availability of cash for distributions, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, environmental risks, other tax-related risk factors, utility risk factor, government regulation, nature of Units, dilution, competition, general economic conditions, relationship with the property manager, reliance on key personnel and additional risks associated with convertible debentures. 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.

Purchase Price Information

All purchase prices set forth herein are disclosed prior to closing costs, other adjustments on closing and GST where applicable.

Estimated Current Value

In this management discussion and analysis, references are made to the estimated current value of LREIT's property portfolio, which is an estimate of the current value of LREIT's property portfolio as at June 30, 2008 made by management of LREIT.

In summary, the total estimated current value of the property portfolio of \$654,823,000 is 6.1% in excess of the total appraised value of \$615,558,000. For 22 properties, representing 53% of total appraised value, management assumed current value was equal to the appraisal values of the applicable properties, for 18 properties, representing 44% of total appraised value, the total estimated current value of the applicable properties was 14% in excess of total appraised value of the properties and for 1 property, management estimated current value to be the total of the cost of the building expansion and the appraised value of the property before the expansion.

The appraised value of properties as contained in appraisals prepared by independent appraisers are estimates only, are made effective as at the date set forth in the appraisal and are subject to a number of assumptions, qualifications and limiting conditions, including but not limited to those described in such appraisals. Such assumptions, qualifications and limiting conditions generally include, among other things: (i) that title to the property is good and marketable; (ii) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect valuation, except as noted in the appraisal; (iii) the existing use of the property is legal and may be continued by any purchaser of the property; (iv) there has been no delinquency in the payment of taxes relating to the property; (v) that environmental laws have been complied with and there are no potentially hazardous materials on the property or any adjoining property; and (vi) that there are no patent or latent defects in the buildings located on the property.

There can be no assurance that appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2008, the date of management's estimate of the current value of such property. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property (and used by management of LREIT in estimating the current value of the portfolio) was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2008, the date of management's estimate of the current value of such property.

LREIT undertakes no obligation to update or revise its estimated current value of its portfolio from time to time.

Financial and Operating Summary

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
DISTRIBUTIONS				
Total	\$ 2,463,744	\$ 2,439,035	\$ 4,920,645	\$ 4,865,858
Per unit	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.28
KEY PERFORMANCE INDICATORS (1)				
Operations				
Average residential occupancy rate	96.0 %	94.3 %	95.0 %	93.7 %
Operating residential cost ratio	39.0 %	43.0 %	41.0 %	45.0 %
Operating Results				
Total revenue	\$ 14,975,258	\$ 11,127,584	\$ 28,604,251	\$ 20,179,348
Net operating income *	\$ 9,111,999	\$ 6,519,763	\$ 17,061,941	\$ 11,404,540
Loss for the period, before future income tax *	\$ (752,648)	\$ (1,417,123)	\$ (2,705,546)	\$ (3,203,090)
Income (loss) for the period	\$ (4,988,811)	\$ 688,355	\$ (4,988,510)	\$ (1,017,738)
Cash Flows				
Cash flow from operating activities	\$ 3,037,717	\$ 1,044,668	\$ 4,369,932	\$ 2,181,114
Funds from Operations (FFO) *	\$ 1,655,318	\$ 504,160	\$ 2,055,887	\$ 409,396
Adjusted Funds from Operations (AFFO) *	\$ 2,054,414	\$ 814,053	\$ 3,114,458	\$ 1,162,078
Distributable income *	\$ 2,567,347	\$ 1,456,792	\$ 4,055,399	\$ 2,238,941
Financing				
Mortgage loans to estimated current value ratio *			59.4 %	56.7 %
Weighted average interest rate of mortgage loans *			6.3 %	6.2 %
Per Unit				
Net operating income *				
- basic	\$ 0.520	\$ 0.374	\$ 0.975	\$ 0.654
- diluted	\$ 0.357	\$ 0.295	\$ 0.670	\$ 0.516
Loss for the period, before future income tax*				
- basic	\$ (0.043)	\$ (0.081)	\$ (0.155)	\$ (0.184)
- diluted	\$ (0.043)	\$ (0.081)	\$ (0.155)	\$ (0.184)
Income (loss) for the period				
- basic	\$ (0.284)	\$ 0.039	\$ (0.285)	\$ (0.058)
- diluted	\$ (0.284)	\$ 0.039	\$ (0.285)	\$ (0.058)
Distributable income *				
- basic	\$ 0.147	\$ 0.084	\$ 0.232	\$ 0.128
- diluted	\$ 0.139	\$ 0.082	\$ 0.219	\$ 0.126
Funds from Operations (FFO) *				
- basic	\$ 0.094	\$ 0.029	\$ 0.118	\$ 0.023
- diluted	\$ 0.094	\$ 0.028	\$ 0.116	\$ 0.023
Adjusted Funds from Operations (AFFO) *				
- basic	\$ 0.117	\$ 0.047	\$ 0.178	\$ 0.067
- diluted	\$ 0.117	\$ 0.046	\$ 0.172	\$ 0.065

(1) 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.

INVESTMENT OBJECTIVES AND STRATEGY

General

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.

In order 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 complete.

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.

The investment policies and operations of LREIT are subject to the overall control and direction of the Trustees. Shelter Canadian Properties Limited ("Shelter Canadian") 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.

REAL ESTATE PORTFOLIO

Investment in Properties - June 30, 2008

Portfolio Summary - June 30, 2008

As of June 30, 2008, the property portfolio of LREIT consists of 38 multi-family residential properties and four commercial properties, with a total purchase price of approximately \$501 Million, encompassing 3,343 suites and 224,545 square feet of leasable area.

Two properties, which are currently in the lease-up stage of development, namely, the Clarington Seniors Residence and the building addition at Elgin Lodge, are classified as "Properties Under Development" as of June 30, 2008. During the second quarter of 2008, the construction of Laird's Landing was substantially completed at a cost of \$50.4 Million plus GST and the property was reclassified as an income property, effective June 1, 2008. The final construction cost is estimated to be \$52.8 Million plus GST. The cost to complete is expected to be funded with the mortgage loan financing.

Properties Under Development

Status of Properties

- multi-level building addition at Elgin Lodge - the building addition was completed during the fourth quarter of 2007 at a cost of approximately \$9.8 Million. The lease-up of the building addition (60 suites in total) is expected to be completed by the end of 2008.
- The Clarington Seniors Residence - the property was acquired by LREIT in 2007 in the lease-up stage of development. Lease-up is expected to be completed in 2009.

Capitalization of Costs

The reclassification of "Properties Under Development" to "Income Properties" occurs when the lease-up stage is completed. As construction and/or carrying costs of a property under development are capitalized, the properties do not contribute to the operating income of the Trust until the property is reclassified as an income property.

Contracted Property Acquisitions - Subsequent to June 30, 2008

Siena Apartments

On July 2, 2008, LREIT acquired a 66 suite luxury apartment property in Fort McMurray, Alberta, known as Siena Apartments, for a purchase price of \$30 Million. The property consists of a four-storey apartment building, with a 93 stall underground parkade and is comprised of six one-bedroom and 60 two-bedroom suites. All of the suites are fully furnished and have individual condominium title.

The property is 100% leased to a major oil sands operating company on a net rent basis until May 1, 2012. The lease agreement provides the tenant with an option to extend the lease in 2012 for an additional five years at the current market rents at that time.

The purchase price was funded by a new first mortgage loan in the amount of \$21 Million, a vendor take-back mortgage loan of \$4 Million and the balance in cash. The first mortgage loan bears interest at a rate of 5.7% for a five-year term. The vendor take-back mortgage loan is a 5% "interest-only" mortgage with a due date of July 1, 2010.

LREIT also has a right of first refusal to acquire Phase II of Siena Apartments, which recently completed construction. Phase II consists of 57 suites and is also 100% leased to the same major oil sands operating company on a net rent basis for a five-year term until 2013.

Parsons Landing

In September 2007, LREIT entered into an agreement to acquire Parsons Landing, a 160 suite apartment property in the Timberlea area of Fort McMurray, Alberta. At the completion of construction, the property will consist of a four-storey apartment building, with a 219 stall parkade and 37 surface parking stalls and will be comprised of 32 one-bedroom, 124 two-bedroom and four three-bedroom suites, the majority of which will be fully furnished. Each of the suites will have individual condominium title.

The purchase price of the property is \$60.7 Million plus GST. After accounting for the \$10 Million second mortgage loan that was provided to the vendor in November 2007 and additional deposits of \$5 Million, the remaining amount payable for the property is \$45.7 Million, plus GST.

The acquisition of Parsons Landing is occurring in two phases upon the issuance of occupancy certificates. The acquisition of Phase I closed on May 14, 2008 and the acquisition of Phase II is expected to close in September 2008. The purchase price of Phase I, excluding GST, was approximately \$31.9 Million.

The purchase agreement for Parsons Landing provides for the balance of the purchase price to be paid subsequent to the property acquisition dates. After applying \$5.25 Million of the second mortgage loan advance and \$2.5 Million of the additional deposits to the purchase price of Phase I, the balance owing in regard to Phase I is approximately \$24.1 Million plus GST. The balance owing bears interest at 8%. Upon the closing of Phase II, the balance owing will increase to \$45.7 Million, plus GST. The payment of the balance owing is expected to occur in December 2008, from the receipt of a new first mortgage loan in the amount of \$50 Million. The excess amount of mortgage loan proceeds over the amounts due on closing will serve to improve the working capital of the Trust.

As of August 13, 2008, Phase I is 100% leased and Phase II is 20% leased. Parsons Landing is expected to be transferred from properties under development to income properties in October 2008.

Colony Square

In March 2008, LREIT agreed to acquire an 89.4% beneficial interest in an apartment/office complex in Winnipeg, Manitoba, known as Colony Square, at a purchase price of \$34.2 Million. LREIT currently owns a 1.5% beneficial interest in the property and is permitting certain owners, who own an aggregate of 9.1% beneficial interest to remain as part of the ownership syndicate.

Colony Square consists of two apartment towers (one with 16 storeys and one with 17 storeys), a seven storey office building and a 270 stall underground parkade. The two apartment towers contain a total of 428 suites, while the office building contains 80,935 square feet of leasable area. An additional 2,255 square feet of leasable commercial area is available on the main floors of the apartment towers.

The acquisition will be funded by the pro-rata assumption of a \$21 Million 5.5% first mortgage loan, a \$6.7 Million subordinate loan, and the balance in cash. The acquisition is scheduled to close on October 1, 2008.

Mortgage Loan Receivable

June 30, 2008	\$ 4,750,000
December 31, 2007	\$ 10,000,000

As of December 31, 2007, "Mortgage Loan Receivable" consisted of the \$10 Million second mortgage loan which was provided in regard to the construction of Parsons Landing. As disclosed above, \$5.25 Million of the loan was applied to the purchase price of Phase I of Parsons Landing, resulting in a balance of \$4.75 Million as of June 30, 2008.

CAPITAL STRUCTURE

Capital Structure - June 30, 2008

	June 30, 2008		December 31, 2007	
	Amount	%	Amount	%
Mortgage loans payable - principal amount	\$ 389,019,025	74.8 %	\$ 343,269,160	72.2 %
Convertible debentures - face value	51,362,000	9.9 %	52,955,000	11.1 %
Trust units (net of issue costs)	<u>79,991,818</u>	<u>15.3 %</u>	<u>79,124,607</u>	<u>16.7 %</u>
Total capitalization	<u>\$ 520,372,843</u>	<u>100.0 %</u>	<u>\$ 475,348,767</u>	<u>100.0 %</u>

Overall Financing Strategy

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 also serves as a source of capital. LREIT will also utilize operating lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital.

Trust Units

Units Outstanding

Authorized	unlimited
Issued as of,	
- June 30, 2008	17,604,444
- August 12, 2008	17,567,129

As of June 30, 2008, LREIT had 17,604,444 units outstanding, representing an increase of 74,550 units or 0.4%, compared to the number of units outstanding as of December 31, 2007. The increase in units originated from the following transactions:

<u>Issue Date</u>	<u>Units Issued</u>	<u>Equity Raised</u>
Units outstanding, December 31, 2007	17,529,894	\$ 65,962,557
Units issued under DRIP	116,350	546,278
Units purchased and cancelled under normal course issuer bid	<u>(41,800)</u>	<u>(199,976)</u>
Units outstanding, June 30, 2008	<u>17,604,444</u>	<u>\$ 66,308,859</u>

Distribution Reinvestment Plan ("DRIP")

The "Distribution Reinvestment Plan" provides that 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, 116,350 units were issued under the Distribution Reinvestment Plan during the six months ended June 30, 2008.

Normal Course Issuer Bid

In January 2008, the Toronto Stock Exchange (the "Exchange") approved LREIT's Notice of Intention to make a normal course issuer bid for its trust units, with the bid period being established as the 12 month period commencing January 21, 2008. During the bid period, LREIT may acquire a maximum of 876,494 units, representing 5% of the issued and outstanding units, as of January 10, 2008. Purchases will be made at market prices through the facilities of the Exchange. Any tendered units taken up and paid for by LREIT will be cancelled.

LREIT believes that the ongoing purchase of units, pursuant to the bid, is an appropriate use of LREIT's resources, given the disparity between the market price of the units and the underlying value of the units, as determined by LREIT. LREIT also believes that the purchase of units pursuant to the bid will benefit all remaining Unitholders by increasing their proportionate equity interest and voting interest in LREIT, while affording liquidity to anyone who desires to sell their units.

As of June 30, 2008, LREIT has purchased 41,800 units under its normal course issuer bid at an average price of \$4.78 per unit.

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.

On January 7, 2008, LREIT granted options to acquire a total of 370,000 units to 26 individuals, including 245,000 units which were granted to the four independent trustees, the Chief Executive Officer and the Chief Financial Officer of LREIT, and 125,000 units which were granted to 20 management and other senior employees of Shelter Canadian Properties who are engaged in LREIT related functions. The options which were issued to the four independent trustees vested immediately, while the remaining options vest equally on each of the grant date and the four subsequent anniversaries of the grant date. All of the options are exercisable at a price of \$5.10.

As of June 30, 2008, LREIT had 1,480,000 units options outstanding.

In accordance with Canadian 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 Income (Loss) and Comprehensive Income (Loss). During the first six months of 2008, unit-based compensation expense related to the unit options amounted to \$227,937, including \$143,880 relating to the 370,000 units which were issued in January 2008.

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

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 2008, LREIT declared distributions of \$0.28 per unit or \$0.56 per unit on an annualized basis. The cash distribution for June 2008 was paid on July 15, 2008. Distributions are comprised of the following components:

	<u>Trust Units</u>	<u>LP Units</u>
Cash distributions paid for January to May, 2008	\$ 3,559,269	\$ 83,210
Cash distributions payable at June 30, 2008	<u>821,599</u>	<u>16,642</u>
	4,380,868	<u>99,852</u>
Value of units issued under DRIP	<u>539,777</u>	
Distributions declared, per Statement of Equity	<u>\$ 4,920,645</u>	

A cash distribution of \$0.04667 per unit, or \$0.56 on an annualized basis, was also declared for the month of July 2008 and will be paid on August 15, 2008.

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, 2008.

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions		Net Amount Outstanding June 30, 2008
				Six Months Ended June 30, 2008	As of December 31, 2007	
Aug. 30/02/Aug. 30/07	A	10.0 %	\$ 3,000,000	\$ -	\$ (3,000,000)	\$ -
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	(1,593,000)	(2,407,000)	-
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	(50,000)	11,950,000
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	-	-	13,680,000
Dec. 8/06/Dec. 31/11	G	7.5 %	<u>25,732,000</u>	-	-	<u>25,732,000</u>
Face value			<u>\$ 69,543,000</u>	<u>\$ (1,593,000)</u>	<u>\$ (16,588,000)</u>	51,362,000
Net accumulated accretion						4,555,633
Unamortized transaction costs						<u>(1,957,796)</u>
Book value, June 30, 2008						<u>\$ 53,959,837</u>
<u>Allocation of book value</u>						
Debt component						\$ 42,812,996
Equity component						13,104,637
Unamortized transaction costs						<u>(1,957,796)</u>
						<u>\$ 53,959,837</u>

Mortgage Loans Payable

June 30, 2008 \$386,650,804
December 31, 2007 \$341,334,043

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount June 30, 2008	Percentage of Total
Fixed rate			
2008	5.2 %	\$ 9,576,173	2.5 %
2009	7.5 %	51,349,855	13.2 %
2010	8.4 %	33,693,955	8.7 %
2011	8.5 %	7,272,940	1.9 %
2012	5.6 %	33,932,160	8.7 %
2013	5.9 %	25,660,880	6.6 %
2014	6.3 %	43,824,393	11.3 %
2015	5.7 %	36,708,714	9.4 %
2016	5.2 %	42,956,383	11.0 %
2017	5.7 %	5,799,418	1.5 %
2018	5.8 %	<u>22,781,500</u>	<u>5.9 %</u>
		313,556,371	80.6 %
Demand/floating rate	5.9 %	<u>75,462,654</u>	<u>19.4 %</u>
Principal amount		389,019,025	<u>100.0 %</u>
Difference between contractual and market interest rates on mortgage loans assumed		132,325	
Unamortized transaction costs		<u>(2,500,546)</u>	
		<u>\$ 386,650,804</u>	
Principal amount:			
Income properties		\$ 365,327,512	
Properties under development		<u>23,691,513</u>	
		<u>\$ 389,019,025</u>	

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 2008, the balance of mortgage loans payable increased by \$45,316,761, comprised of the following amounts:

	Three Months Ended June 30, 2008	Three Months Ended March 31, 2008	Six Months Ended June 30, 2008
Mortgage loans on existing properties (1)	\$ 24,131,500	\$ -	\$ 24,131,500
Increase in mortgage loans for properties under development	820,208	6,494,520	7,314,728
Interim financing	<u>12,000,000</u>	<u>5,400,000</u>	<u>17,400,000</u>
	<u>\$ 36,951,708</u>	<u>\$ 11,894,520</u>	48,846,228
Principal repayments			(3,096,363)
Change in the difference between contractual and market interest rates on mortgage loans assumed			(168,735)
Change in the unamortized component of transaction costs			<u>(264,369)</u>
			<u>\$ 45,316,761</u>

(1) Included in mortgage loans on existing properties is a \$22,781,500 floating interest rate mortgage, the interest rate of which has been fixed at 5.82% through an interest rate swap arrangement.

A summary of interest rates and debt ratios for the mortgage loan portfolio is provided in the following chart.

Mortgage Loan Debt Summary

	2008		2007		
	June 30	March 31	December 31	June 30	March 31
Weighted average interest rate					
Fixed rate mortgage loans	6.4%	6.2%	6.0%	6.2%	6.0%
Floating rate mortgage loans	5.9%	6.4%	7.1%	7.1%	6.9%
Ratio of mortgage loans payable, compared to:					
Total acquisition cost of income-producing properties	78%	81%	80%	78%	84%
Estimated current value of entire property portfolio	59%	60%	59%	57%	60%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to total acquisition cost of income-producing properties	96%	90%	89%	97%	97%

Interim Mortgage Loan Financing

As of June 30, 2008, the mortgage loans payable of LREIT includes \$45.9 Million of interim mortgage loan financing, comprised of the following:

- \$18 Million due on October 31, 2010;
- \$4.5 Million due on January 1, 2009;
- \$2 Million due on September 1, 2008;
- \$5.4 Million due on January 1, 2009;
- \$4 Million due on April 1, 2009; and
- \$12 Million due on October 1, 2010.

LREIT expects to renew the remaining interim mortgage loans maturing during 2008 for an additional one year term.

The interim mortgage loans are secured by charges registered against two or more properties, bear interest at an average rate of 9.3% and require payments of interest only.

Vendor Take-Back Mortgages

The vendor take-back mortgage loan balance consists of a \$1,600,000 mortgage, bearing interest at a rate of 6.25%, obtained upon the purchase of Westhaven Manor in May 2007. The loan is repayable on demand.

Revolving Line of Credit

The Trust utilizes a revolving line of credit with an authorized limit of \$5 Million. The line of credit bears interest at the Royal Bank prime rate and is payable on demand. As of June 30, 2008, the amount available on the line of credit was \$5 Million.

Mortgage Loan Financing for Millennium Village and Parsons Landing

Millennium Village

In accordance with the terms of the purchase agreement, the balance owing on the purchase price of Millennium Village was paid in May 2008.

The payment was funded by a new floating interest rate mortgage of \$22,781,500, the interest rate of which has been fixed at 5.82% with the use of an interest rate swap arrangement.

Parsons Landing

As previously disclosed in this report, the purchase agreement for Parsons Landing also provides for a portion of the purchase price to be paid subsequent to the acquisition date of the property. As of June 30, 2008, the balance owing was approximately \$24.1 Million, excluding the GST payable of approximately \$1.2 Million.

The balance owing is expected to be paid in full in December 2008 from the proceeds of a new first mortgage loan.

ANALYSIS OF INCOME/LOSS

General

Changes in Property Portfolio

The ongoing growth in the portfolio of income-producing properties of LREIT is one of the main factors affecting the comparability of financial results in different reporting periods. A summary of the change in the cost base of the portfolio of income-producing properties is provided below.

Q2 2008 vs. Q2 2007

During the second quarter of 2008, the cost base of the portfolio of income-producing properties of LREIT was approximately \$110 Million greater in comparison to the cost base for the second quarter of 2007, based on property acquisition costs, pro-rated for the month of acquisition. Properties which were added to the income-producing portfolio subsequent to June 30, 2007 include Lakewood Manor, Millennium Village, and Laird's Landing, effective June 1, 2008.

Six Months Ended June 30, 2008 vs. Six Months Ended June 30, 2007

During the six month period ended June 30, 2008, the cost base of the income-producing properties of LREIT was approximately \$130 Million greater in comparison to the cost base for the first six months of 2007, based on property acquisition costs, pro-rated for the month of acquisition. The increase in the cost base reflects properties which were added to the portfolio subsequent to June 30, 2007, as well as properties which were added during the first six months of 2007, namely Nova Court, Woodland Park, Borden Estates and Westhaven Manor.

Q2 2008 vs. Q1 2008

After pro-rating the \$54.5 Million purchase price of Laird's Landing to reflect one month of rental operations, the asset base of the income-producing portfolio was approximately \$18.15 Million greater than the second quarter of 2008, compared to the first quarter of 2008.

Overall Results

A comparison of the 2008 and 2007 financial results of LREIT, for the three and six month periods ended June 30th, is provided in the following chart. Excluding future income tax, the loss of LREIT decreased by \$664,475 in the second quarter of 2008, compared to the second quarter of 2007, and by \$497,544 for the six month period ended June 30, 2008, compared to the six month period ended June 30, 2007. The decrease in the loss before future income tax in both the three and six month periods reflects an increase in net operating income, largely offset by an increase in financing expense, amortization charges and trust expense.

The increase in net operating income mainly reflects an increase in rental revenue, partially offset by an increase in property operating costs.

Analysis of Income (Loss)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Rental revenue	\$ 14,768,829	\$ 10,737,804	\$ 28,045,650	\$ 19,357,786
Interest and other income	206,429	389,780	558,601	821,562
Property operating costs	<u>5,863,259</u>	<u>4,607,821</u>	<u>11,542,310</u>	<u>8,774,808</u>
Net operating income (NOI) *	9,111,999	6,519,763	17,061,941	11,404,540
Trust expense	<u>551,996</u>	<u>533,736</u>	<u>1,286,903</u>	<u>992,058</u>
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA) *	8,560,003	5,986,027	15,775,038	10,412,482
Financing expense	<u>6,904,685</u>	<u>5,481,867</u>	<u>13,719,151</u>	<u>10,003,086</u>
Income (loss) before amortization, non- controlling interest and taxes *	1,655,318	504,160	2,055,887	409,396
Amortization	2,390,830	1,936,304	4,722,928	3,651,471
Non-controlling interest	<u>(17,136)</u>	<u>15,021</u>	<u>(38,505)</u>	<u>38,985</u>
Loss before future income tax *	(752,648)	(1,417,123)	(2,705,546)	(3,203,090)
Future income tax (expense) recovery	<u>(4,236,163)</u>	<u>2,105,478</u>	<u>(2,282,964)</u>	<u>2,185,352</u>
Income (loss) for the period	<u>\$ (4,988,811)</u>	<u>\$ 688,355</u>	<u>\$ (4,988,510)</u>	<u>\$ (1,017,738)</u>

The analysis of income (loss) for the period represents the re-formatting of balances from the Consolidated Statements of Operations in order to provide a summarized analysis of the financial performance of the Trust. All of the lines in the analysis agree to amounts in the financial statements. Accordingly, the analysis consists entirely of GAAP measurements, aside from the four sub-totals (see asterisks).

Revenue**Total Revenue****Operating Segments**

The operations of LREIT encompass the acquisition and management of a growing portfolio of income-producing properties located in rental markets across western Canada and in Ontario and the Northwest Territories. Aside from four commercial properties which were acquired in the initial years of operation, all of the properties in the LREIT portfolio are residential properties.

For financial reporting purposes, the operating results of LREIT, are segmented geographically and between "residential", "commercial", "light industrial" and "Trust" components. The "Trust" component reflects amounts pertaining to the overall asset management and administrative activities of LREIT.

The percentage of revenue generated by each operating segment for the six month period ended June 30, 2008, as well as a comparison of the 2008 and 2007 revenue results for the six month period ended June 30th, is disclosed in the following charts.

Analysis of Total Revenue

	Six Months Ended June 30, 2008		
	Income Properties		
	Residential	Commercial	Trust
Rental revenue	93%	7%	n/a
Interest and other income	42%	3%	55%
Total revenue	92%	7%	1%

Increase in Total Revenue

	Total Revenues			
	Six Months Ended June 30		Increase (Decrease)	
	2008	2007	Amount	% of Total
Residential	\$ 26,209,216	\$ 17,329,513	\$ 8,879,703	105 %
Commercial	2,085,647	2,245,942	(160,295)	(2)%
Trust	309,388	603,893	(294,505)	(3)%
Total	<u>\$ 28,604,251</u>	<u>\$ 20,179,348</u>	<u>\$ 8,424,903</u>	<u>100 %</u>

Residential Properties

The revenue of LREIT is primarily generated from the portfolio of residential properties. During the six month period ended June 30, 2008, the portfolio of residential properties accounted for 92% of total revenues of the Trust.

The growth in the revenue of LREIT is also primarily attributable to the portfolio of residential properties. During the six month period ended June 30, 2008, the total revenue of LREIT increased by \$8.4 Million, compared to the first six months of 2007, with the residential property portfolio essentially accounting for all of the increase.

Commercial Properties*Total Revenues*

During the six month period ended June 30, 2008, the portfolio of four commercial properties accounted for 7% of total revenue of LREIT. In comparison to the first six months of 2007, the revenue of the commercial portfolio decreased by \$160,294 during the first six months of 2008, primarily due to the increase in vacancy loss at the Kenaston Property.

MAAX Warehouse

The four commercial properties in the real estate portfolio of LREIT include the MAAX Warehouse building, a 39,936 square foot building in Airdrie, Alberta. Since the acquisition of the property in June 2003, the MAAX Warehouse building has been 100% leased to MAAX Inc. In 2007, the MAAX Warehouse building accounted for less than one half of a percent of the total revenue and operating income of the Trust.

In June 2008, MAAX Inc. successfully filed for creditor protection and advised that rent payments for the warehouse lease in Airdrie would be discontinued effective July 1, 2008 to the end of the lease term on December 31, 2008. Pending the releasing of the space, the reduction in revenue from the loss of the MAAX Warehouse lease will have a minimal impact on the overall financial position and results of operation of the Trust.

Trust Operations

Revenue from Trust operations is comprised almost exclusively of interest income on mortgage loans receivable and cash. The revenue is classified as "interest and other income" and represents a minor component of the overall revenues of the Trust.

As disclosed on the preceding chart, revenue from Trust operations accounted for 1% of the total revenue of LREIT during the six month period ended June 30, 2008. In comparison to the first six months of 2007, revenue from Trust operations decreased by \$294,505 during the the first six months of 2008. The decrease mainly reflects a reduction in interest income on mortgage loans receivable.

Rental Revenue from Residential Properties

Overall Increase

As noted above, revenue from residential properties increased by \$8,879,702 during the first six months of 2008. The increase is comprised of a \$8,850,992 increase in rental revenue and a \$28,710 increase in interest and other income.

The increase in residential rental revenue is mainly attributable to the acquisition of additional residential properties, as well as an improvement in the operating results of the residential properties which have been in the LREIT portfolio since January 1, 2007.

Analysis of Residential Rental Revenue by Geographic Segment

Analysis of Residential Rental Revenue

	Residential Rental Revenue					
	Three Months Ended June 30			Six Months Ended June 30		
	2008	2007	Increase (decrease)	2008	2007	Increase (decrease)
Alberta						
Fort McMurray	\$ 6,982,132	\$ 3,602,477	\$ 3,379,655	\$ 12,884,246	\$ 6,019,267	\$ 6,864,979
Other Alberta	<u>1,083,262</u>	<u>864,384</u>	<u>218,878</u>	<u>2,152,482</u>	<u>1,729,001</u>	<u>423,481</u>
Total - Alberta	8,065,394	4,466,861	3,598,533	15,036,728	7,748,268	7,288,460
Saskatchewan	2,923,431	2,581,313	342,118	5,781,542	5,052,519	729,023
Northwest Territories	1,510,116	1,492,649	17,467	3,027,429	2,223,560	803,869
Manitoba	531,260	403,613	127,647	1,014,484	785,162	229,322
British Columbia	366,765	360,058	6,707	734,864	726,196	8,668
Ontario	<u>422,128</u>	<u>408,008</u>	<u>14,120</u>	<u>614,169</u>	<u>793,809</u>	<u>(179,640)</u>
Total Residential Portfolio	<u>\$ 13,819,094</u>	<u>\$ 9,712,502</u>	<u>\$ 4,106,592</u>	<u>\$ 26,209,216</u>	<u>\$ 17,329,514</u>	<u>\$ 8,879,702</u>

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	
	2008	2007	2008	2007
Alberta				
Fort McMurray	50 %	37 %	49 %	35 %
Other Alberta	<u>8 %</u>	<u>9 %</u>	<u>8 %</u>	<u>10 %</u>
Total - Alberta	58 %	46 %	57 %	45 %
Saskatchewan	21 %	27 %	22 %	28 %
Northwest Territories	11 %	15 %	12 %	13 %
Manitoba	4 %	4 %	4 %	5 %
British Columbia	3 %	4 %	3 %	4 %
Ontario	<u>3 %</u>	<u>4 %</u>	<u>2 %</u>	<u>5 %</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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 past two fiscal years however, the majority of new property acquisitions by LREIT have been located in Fort McMurray, Alberta, due to the favourable rental market conditions and the high operating margins which are being achieved in that city. In regard to the 18-month period between January 1, 2007 and June 30, 2008, LREIT expended approximately \$188 Million on property acquisitions and construction and development projects, of which approximately 75% pertains to new properties in Fort McMurray.

The acquisition of additional properties in Fort McMurray has resulted in a significant increase in the percentage of revenues contributed by the Fort McMurray property portfolio. During the second quarter of 2008, revenues from residential properties in Fort McMurray increased by \$3,379,655, compared to the second quarter 2007, representing 82% of the total increase in residential rental revenue (please refer to first chart, above). As a percentage of total rental revenues, the contribution by the Fort McMurray portfolio increased from 37% during the second quarter of 2007 to 50% during the second quarter of 2008 (please refer to second chart, above).

During the first six months of 2008, residential rental revenues increased by \$8,879,702 or 51%, compared to the first six months of 2007, primarily due to the same factors which contributed to the increase in residential rental revenue during the second quarter of 2008 and, in particular, the acquisition of additional properties in Fort McMurray. Overall, the Fort McMurray portfolio accounted for 49% of the total residential rental revenues for the six months ended June 30, 2008, compared to 35% for the first six months of 2007. The Fort McMurray portfolio also accounted for 77% of the total increase in residential rental revenues during the first six months of 2008.

Vacancy Loss

Analysis of Vacancy by Geographic Market Segment

	Percentage of Vacancy Loss			
	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Alberta				
Fort McMurray	3 %	5 %	5 %	5 %
Other Alberta	<u>2 %</u>	<u>2 %</u>	<u>2 %</u>	<u>2 %</u>
Total - Alberta	3 %	4 %	5 %	4 %
Saskatchewan	2 %	10 %	3 %	10 %
Northwest Territories	- %	- %	- %	- %
Manitoba	3 %	17 %	5 %	20 %
British Columbia	5 %	3 %	5 %	2 %
Ontario	<u>34 %</u>	<u>7 %</u>	<u>34 %</u>	<u>7 %</u>
Total Residential Portfolio	<u>4 %</u>	<u>6 %</u>	<u>5 %</u>	<u>6 %</u>

As disclosed in the chart above, the overall vacancy loss of the property portfolio decreased from 6% during the second quarter of 2007 to 4% during the second quarter of 2008. The decrease is mainly due to a reduction in the vacancy loss for the property portfolios in Saskatchewan and Manitoba, partially offset by an increase in the vacancy loss for the property portfolio in British Columbia and Ontario. The improvement for the Saskatchewan portfolio reflects a significant reduction in the overall vacancy loss for all three of the rental markets where LREIT properties are located (Prince Albert, Moose Jaw and Saskatoon), while the improvement for the Manitoba portfolio is mainly due to the completion of the major renovation program at Highland Towers. The increase in the vacancy loss for the Ontario portfolio is associated with the new 60-suite addition at Elgin Lodge.

For the six month period ended June 30, 2008, the overall vacancy loss of the property portfolio was 5%, compared to 6% during the first six months of 2007. The overall change in vacancy is mainly attributable to the same factors for the change in the three months ended June 30, 2008, as compared to the same corresponding period in 2007.

Operating Costs

Analysis of Operating Costs

	Property Operating Costs					
	Three Months Ended June 30		Increase (Decrease)	Six Months Ended June 30		Increase (Decrease)
	2008	2007		2008	2007	
Alberta						
Fort McMurray	\$ 1,919,543	\$ 1,068,182	\$ 851,361	\$ 3,799,362	\$ 1,771,849	\$ 2,027,513
Other Alberta	<u>430,163</u>	<u>413,475</u>	<u>16,688</u>	<u>918,318</u>	<u>898,838</u>	<u>19,480</u>
Total - Alberta	2,349,706	1,481,657	868,049	4,717,680	2,670,687	2,046,993
Saskatchewan	1,558,665	1,430,328	128,337	3,213,270	2,916,260	297,010
NWT	594,537	572,765	21,772	1,208,758	890,251	318,507
Manitoba	248,746	205,325	43,421	490,952	415,056	75,896
British Columbia	218,131	199,592	18,539	435,376	431,472	3,904
Ontario	<u>271,301</u>	<u>260,755</u>	<u>10,546</u>	<u>392,924</u>	<u>519,935</u>	<u>(127,011)</u>
Total Residential Portfolio	5,241,086	4,150,422	1,090,664	10,458,960	7,843,661	2,615,299
Total Commercial Portfolio	<u>622,173</u>	<u>457,399</u>	<u>164,774</u>	<u>1,083,350</u>	<u>931,147</u>	<u>152,203</u>
Total	<u>\$ 5,863,259</u>	<u>\$ 4,607,821</u>	<u>\$ 1,255,438</u>	<u>\$ 11,542,310</u>	<u>\$ 8,774,808</u>	<u>\$ 2,767,502</u>

During the second quarter of 2008, property operating costs for the residential portfolio increased by \$1,090,664 or 26%, compared to the second quarter of 2007, with the Fort McMurray portfolio accounting for the majority of the increase. As disclosed in the preceding chart, operating costs for the Fort McMurray portfolio increased by \$851,361 during the second quarter of 2008, representing 78% of the total increase in property operating costs for the residential portfolio. As with the second quarter revenue increase, the increase in operating costs in the Fort McMurray portfolio reflects the acquisition of Lakewood Manor and Millennium Village in the second half of 2007, as well as the inclusion of Laird's Landing as an income-producing property, effective June 1, 2008.

For the six month period ended June 30, 2008, property operating for the residential portfolio increased by \$2,615,299 or 33%, compared to the first six months of 2007, with the Fort McMurray portfolio accounting for the majority of the increase due to the additional property acquisitions in Fort McMurray, subsequent to January 1, 2007. The property portfolio in the Northwest Territories and in Saskatchewan account for the majority of the remaining increase in property operating costs. For the Northwest Territories portfolio, the increase in property operating costs is mainly due to the acquisition of Nova Court on March 22, 2007. Similarly, for the Saskatchewan portfolio, the increase in property operating costs is mainly due to the acquisition of Sir Robert Borden Place on May 1, 2007.

The decrease in operating costs for the Ontario portfolio for the six month period ended June 30, 2008, is mainly due to the temporary increase in vacancy associated with the expansion of Elgin Lodge.

Net Operating Income and Operating Margin

Overall

Summary Analysis of Net Operating Income

	Net Operating Income			Operating Margin	
	For the Three Months Ended June 30			2008	2007
	Amount		Increase		
	2008	2007	(Decrease)	2008	2007
Residential	\$ 8,578,009	\$ 5,562,073	\$ 3,015,936	62 %	57 %
Commercial	440,418	668,489	(228,071)	41 %	59 %
Trust	93,572	289,201	(195,629)	n/a	n/a
Total	\$ 9,111,999	\$ 6,519,763	\$ 2,592,236	61 %	59 %

	Net Operating Income			Operating Margin	
	For the Six Months Ended June 30			2008	2007
	Amount		Increase		
	2008	2007	(Decrease)	2008	2007
Residential	\$ 15,750,257	\$ 9,485,853	\$ 6,264,404	60 %	55 %
Commercial	1,002,296	1,314,794	(312,498)	48 %	59 %
Trust	309,388	603,893	(294,505)	n/a	n/a
Total	\$ 17,061,941	\$ 11,404,540	\$ 5,657,401	60 %	57 %

After reflecting "interest and other income" from Trust operations, the net operating income ("NOI") of the Trust increased by \$2,592,236 during the second quarter of 2008, compared to the second quarter of 2007. For the six month period ended June 30, 2008, the NOI of the Trust increased by \$5,657,401, compared to the first six months of 2007.

Residential Properties

During the second quarter of 2008, the NOI for the residential portfolio increased by \$3,015,936 or 54%, compared to the second quarter of 2007. The increase in NOI for the residential property portfolio mainly reflects the new income-producing properties in Fort McMurray and the fact that the operating margin for the Fort McMurray portfolio continues to be significantly higher in comparison to properties in other locations. During the second quarter of 2008, the NOI from the Fort McMurray portfolio increased by \$2.3 Million, representing 71% of the total increase in the NOI from the residential property portfolio. As disclosed in the following chart, during the second quarter of 2008, the operating margin for the Fort McMurray portfolio remained high at 73%, compared to an average of 50% for the remainder of the residential property portfolio.

Analysis of Net Operating Income - Residential Properties

	Net Operating Income				Operating Margin			
	Amount				Three Months Ended		Six Months Ended	
	Three Months Ended		Six Months Ended		2008	2007	2008	2007
	2008	2007	2008	2007	2008	2007	2008	2007
Alberta								
Fort McMurray	\$ 5,062,589	\$ 2,534,295	\$ 9,084,884	\$ 4,247,418	73 %	70 %	71 %	71 %
Other Alberta	<u>653,099</u>	<u>450,909</u>	<u>1,234,164</u>	<u>830,163</u>	60 %	52 %	57 %	48 %
Total - Alberta	5,715,688	2,985,204	10,319,048	5,077,581	71 %	67 %	69 %	66 %
Saskatchewan	1,364,766	1,150,985	2,568,274	2,136,261	47 %	45 %	44 %	42 %
Northwest Territories	915,579	919,884	1,818,671	1,333,309	61 %	62 %	60 %	60 %
Manitoba	282,514	198,288	523,532	370,106	53 %	49 %	52 %	47 %
British Columbia	148,634	160,466	299,488	294,724	41 %	45 %	41 %	41 %
Ontario	<u>150,828</u>	<u>147,246</u>	<u>221,244</u>	<u>273,872</u>	36 %	36 %	36 %	35 %
Total Residential	<u>\$ 8,578,009</u>	<u>\$ 5,562,073</u>	<u>\$ 15,750,257</u>	<u>\$ 9,485,853</u>	<u>62 %</u>	<u>57 %</u>	<u>60 %</u>	<u>55 %</u>

The most significant change in the operating margin occurred in the "Other Alberta" portfolio, with the margin increasing from 52% in 2007 to 60% in 2008. The improvement in the operating margin reflects rental rate increases offset by a marginal increase in vacancy loss.

Overall, the operating margin for the property portfolio improved during the second quarter of 2008, resulting in an increase in the operating margin for the entire residential portfolio from 57% during the second quarter of 2007 to 62% during the second quarter of 2008.

During the six month period ended June 30, 2008, the NOI of the residential portfolio increased by \$6,264,404 or 66%, compared to the six month period ended June 30, 2007, with the Fort McMurray portfolio accounting for 77% of the increase.

Same Property Analysis

The same property analysis for the first six months of 2008 encompasses 29 income-producing properties and 30 income-producing properties for the second quarter of 2008, as a result of the acquisition of Nova Court in March 2007.

As disclosed in the following analysis, the combined revenue of the 29 properties increased by 8.8% during the first six months of 2008, compared to the first six months of 2007, while net operating income increased by 9.5%. For the second quarter of 2008, the revenue and NOI increase was 11.7% and 12.8%, respectively, compared to the second quarter of 2007.

The improvement in net operating income is mainly attributable to the improvement in the operating margins, as discussed above. Specifically, the improvement in same property NOI reflects rental rate increases and an improvement in occupancy levels at the majority of the "same" properties.

	Six Months Ended June 30		Increase (Decrease)	
	2008	2007	Amount	%
Total revenue	\$ 16,722,063	\$ 15,365,626	\$ 1,356,437	8.8 %
Net operating income	\$ 8,984,045	\$ 8,202,436	\$ 781,609	9.5 %
	Three Months Ended June 30		Increase (Decrease)	
	2008	2007	Amount	%
Total revenue	\$ 10,636,933	\$ 9,519,903	\$ 1,117,030	11.7 %
Net operating income	\$ 6,123,769	\$ 5,427,672	\$ 696,097	12.8 %

Trust Expense

Trust expense increased by \$18,260 during the second quarter of 2008, compared to the second quarter in 2007. The increase mainly reflects the following factors:

- an increase of \$115,386 in the 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.

Please refer to "Related Party Transactions" 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

- a decrease in unit-based compensation expense of \$92,683. The decrease reflects the fact that unit-based compensation expense was relatively high during the second quarter of 2007, as the 2007 second quarter results included a portion of unit-based compensation expense related to unit options that were issued in 2006, and 100% of the unit-based compensation expense related to the unit options that were issued in June 2007.

For the six month period ended June 30, 2008, Trust expense increased by \$294,845, mainly due to an increase of \$276,526 in the service fee of Shelter Canadian. Unit-based compensation expense increased by \$15,537 during the majority of six month period ended June 30, 2008, as unit-based compensation expense related to the unit options that were issued in January 2008 was recorded in the first quarter of 2008, thereby offsetting the decrease in unit compensation expense which occurred during the second quarter of 2008.

Financing Expense

Financing expense increased by \$1,422,818 or 26% in during the second quarter of 2008, compared to the second quarter of 2007, of which \$1,457,896 pertains to mortgage loan financing. For the six month period ended June 30, 2008, financing expense increased by \$3,716,065 or 37%, of which 99% pertains to mortgage loan financing (please refer to the following chart).

Financing expense for the three and six month period ended June 30, 2008 includes amortization charges for transaction costs, accretion and the change in fair value of interest rate swap of \$944,549 and \$1,916,166, respectively.

Analysis of Financing Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Mortgage Loans				
Mortgage loan interest	\$ 4,982,161	\$ 3,496,450	\$ 9,815,175	\$ 6,047,854
Amortization of transaction costs	261,924	238,710	480,345	482,213
Change in value - swap asset	(51,029)	-	(51,029)	-
Total - mortgage loans	<u>5,193,056</u>	<u>3,735,160</u>	<u>10,244,491</u>	<u>6,530,067</u>
Debentures				
Interest on convertible debentures	977,975	1,053,821	1,987,810	2,108,360
Accretion of debt component	593,791	556,557	1,192,301	1,094,021
Amortization of transaction costs	<u>139,863</u>	<u>136,329</u>	<u>294,549</u>	<u>270,638</u>
Total - debentures	<u>1,711,629</u>	<u>1,746,707</u>	<u>3,474,660</u>	<u>3,473,019</u>
Total - financing expense	<u>\$ 6,904,685</u>	<u>\$ 5,481,867</u>	<u>\$ 13,719,151</u>	<u>\$ 10,003,086</u>

Financing Expense - Mortgage Loans

Mortgage loan interest increased by \$1,485,711 or 42% during the second quarter of 2008, compared to the second quarter of 2007 and by \$3,763,321 or 62% for the comparative six month periods. The increase reflects the increase in mortgage loan debt, as discussed in the "Mortgage Loans Payable" section of this report.

Financing Expense - Debentures

During the three and six month period ended June 30, 2008, interest on convertible debentures decreased by \$75,846 or 7% and by \$120,550 or 6% , respectively, compared to the same period in 2007. The decrease mainly reflects the retirement of \$1.6 Million of Series D Convertible Debentures in March 2008.

Total Interest Expense

As a percentage of operating income, total interest for mortgage loans and convertible debentures decreased from 70% during the second quarter of 2007 to 65% during the same period in 2008 and from 72% to 69% for the comparable six month periods. The decrease in the ratio of interest, relative to operating income, reflects the extent to which the increase in net operating income has exceeded the increase in interest expense during the first six months of the year, due to the following inter-related factors:

- (i) an improvement in NOI returns from the asset base of the Trust, particularly in regard to properties which progressed from the development stage to the income-producing stage; and
- (ii) a decrease in the amount of convertible debenture debt; partially offset by
- (iii) an increase in the mortgage loan debt ratio of income-producing properties.

The percentage of total interest expense to operating income of 69% for the first six months of 2008 reflects a percentage of 73% for the first quarter of 2008 and a percentage of 65% for the second quarter of 2008. The lower percentage for the second quarter of 2008 mainly reflects an ongoing improvement in operating income, net of interest expense, throughout the first six months of 2008.

Amortization Expense

During the three and six month period ended June 30, 2008, amortization expense increased by \$454,526 or 23% and by \$1,071,457 or 29%, respectively, compared to the same period in 2007. The increase is mainly due to amortization charges for the additional income-producing properties which were in the LREIT property portfolio during the first half of 2008. Amortization expense on the Consolidated Statement of Income (Loss) excludes amortization charges for transaction costs.

Comparison to Preceding Quarter

Analysis of Income (Loss) - Second Quarter 2008 vs. First Quarter 2008

	Three Months Ended		Increase (Decrease)	
	June 30, 2008	March 31, 2008		
Rental revenue	\$ 14,768,829	\$ 13,276,821	\$ 1,492,008	11.2 %
Interest and other income	206,429	352,172	(145,743)	(41.4)%
Property operating costs	<u>5,863,259</u>	<u>5,679,051</u>	<u>184,208</u>	3.2 %
Net Operating Income (NOI)	9,111,999	7,949,942	1,162,057	14.6 %
Trust expense	<u>551,996</u>	<u>734,907</u>	<u>(182,911)</u>	(24.9)%
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA)	8,560,003	7,215,035	1,344,968	18.6 %
Financing expense	<u>6,904,685</u>	<u>6,814,465</u>	<u>90,220</u>	1.3 %
Income before amortization, non-controlling interest and taxes	1,655,318	400,570	1,254,748	313.2 %
Amortization	2,390,830	2,332,098	58,732	2.5 %
Non-controlling interest	<u>17,136</u>	<u>21,370</u>	<u>(4,234)</u>	(19.8)%
Loss before future income tax recoveries	(752,648)	(1,952,898)	1,200,250	(61.5)%
Future income tax (expense) recovery	<u>(4,236,163)</u>	<u>1,953,199</u>	<u>(6,189,362)</u>	(316.9)%
Income (loss) for the period	<u>\$ (4,988,811)</u>	<u>\$ 301</u>	<u>\$ (4,989,112)</u>	

Excluding future income tax recoveries, LREIT incurred a loss of \$752,648 during the second quarter of 2008, compared to a loss of \$1,952,898 during the first quarter of 2008. The decrease in the loss mainly reflects an increase in net operating income of \$1,162,057 due to an improvement in overall occupancy level of the property portfolio, as well as the inclusion of Laird's Landing as an income-producing property, effective June 1, 2008.

Other factors which affected the comparative results for the first and second quarter of 2008 are as follows:

- financing expense increased by \$90,220 or 1.3%. The increase mainly reflects incremental interest on the mortgage loan financing for Laird's Landing.
- Trust expense decreased by \$182,911 or 24.9%. The decrease mainly reflects the fact that unit-based compensation expense was comparatively high in the first quarter of 2008, as the majority of the unit-based compensation expense for the unit options which were issued in January 2008 was recorded in the first quarter.
- amortization expense increased by \$58,732 or 2.5%, mainly due to the inclusion of Laird's Landing as an income-producing property, effective June 1, 2008.

After reflecting a decrease in future income tax recoveries of approximately \$6.2 Million in the second quarter, LREIT completed the three month period ended June 30, 2008 with a loss of \$4,988,811, compared to income of \$301 during the first quarter of 2008. The decrease in the amount of the future income tax recoveries mainly reflects an adjustment to the future projected taxable income of the Trust, as a result of the favourable results of new property acquisitions.

Summary of Quarterly Results

Quarterly Analysis

	2008		2007	
	Q2	Q1	Q4	Q3
Total revenue	\$ 14,975,258	\$ 13,628,993	\$ 13,534,875	\$ 12,597,091
Net operating income	\$ 9,111,999	\$ 7,949,942	\$ 7,822,808	\$ 7,845,308
Income (loss) for the period	\$ (4,988,811)	\$ 301	\$ (1,108,898)	\$ 725,735
Loss for the period, before future income tax	\$ (752,648)	\$ (1,952,898)	\$ (1,742,327)	\$ (1,188,347)

PER UNIT

Net operating income				
- basic	\$ 0.520	\$ 0.455	\$ 0.447	\$ 0.449
- diluted	\$ 0.357	\$ 0.312	\$ 0.330	\$ 0.331
Income (loss) for the period				
- basic	\$ (0.284)	\$ -	\$ (0.064)	\$ 0.042
- diluted	\$ (0.284)	\$ -	\$ (0.064)	\$ 0.042
Loss for the period, before future income tax				
- basic	\$ (0.043)	\$ (0.112)	\$ (0.100)	\$ (0.068)
- diluted	\$ (0.043)	\$ (0.112)	\$ (0.100)	\$ (0.068)

Quarterly Analysis

	2007		2006	
	Q2	Q1	Q4 (restated)	Q3 (restated)
Total revenue	\$ 11,127,584	\$ 9,051,765	\$ 8,835,557	\$ 8,370,252
Net operating income	\$ 6,519,763	\$ 4,884,730	\$ 4,796,613	\$ 4,912,506
Income (loss) for the period	\$ 688,355	\$ (1,706,093)	\$ (563,581)	\$ (829,956)
Loss for the period, before future income tax	\$ (1,417,123)	\$ (1,032,626)	\$ (1,066,410)	\$ (807,917)

PER UNIT

Net 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				
- basic	\$ 0.039	\$ (0.033)	\$ (0.048)	\$ (0.045)
- diluted	\$ 0.039	\$ (0.033)	\$ (0.048)	\$ (0.045)
Loss for the period, before future income tax				
- basic	\$ (0.081)	\$ (0.060)	\$ (0.062)	\$ (0.047)
- diluted	\$ (0.081)	\$ (0.060)	\$ (0.062)	\$ (0.047)

Loss Per Unit**Analysis of Loss per Unit**

	Six Months Ended June 30		Change
	2008	2007	
Income (loss) for the period			
- basic	\$ (0.285)	\$ (0.058)	\$ (0.227) (391)%
- diluted	\$ (0.285)	\$ (0.058)	\$ (0.227) (391)%
Loss for the period, before future income tax			
- basic	\$ (0.155)	\$ (0.184)	\$ 0.029 16 %
- diluted	\$ (0.155)	\$ (0.184)	\$ 0.029 16 %

Excluding future income tax recoveries, LREIT incurred a loss of \$0.155 per unit during the six months ended June 30, 2008, compared to a loss of \$0.184 per unit during the same period in 2007. As the weighted average number of units only increased by 0.5% during the six months ended June 30, 2008 compared to the same period in 2007, the decrease in the loss per unit mainly reflects the decrease in the overall loss of the trust before future tax recoveries.

ANALYSIS OF CASH FLOWS**Operating****Cash from Operating Activities***Second Quarter Comparatives*

	Three Months Ended June 30		Increase (Decrease)
	2008	2007	
Rental revenue	\$ 14,768,829	\$ 10,737,804	\$ 4,031,025
Interest and other income	206,429	389,780	(183,351)
Property operating costs	5,863,259	4,607,821	1,255,438
Net operating income (NOI)	9,111,999	6,519,763	2,592,236
Non-cash components of revenue	680	10,509	(9,829)
	9,111,319	6,509,254	2,602,065
Financing expense	6,904,685	5,481,867	1,422,818
Non-cash component of financing expense	944,549	931,596	12,953
	5,960,136	4,550,271	1,409,865
Trust expense	551,996	533,736	18,260
Non-cash component of trust expense	36,046	128,729	(92,683)
	515,950	405,007	110,943
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	2,635,233	1,553,976	1,081,257
Tenant inducements and leasing expenses	-	31,369	(31,369)
	2,635,233	1,522,607	1,112,626
Changes in non-cash operating items	402,484	(477,939)	880,423
Cash provided by operating activities	\$ 3,037,717	\$ 1,044,668	\$ 1,993,049

During the second quarter of 2008, LREIT generated cash from operating activities of \$3,037,717. After excluding changes in non-cash operating items, cash from operating activities increased by \$1,112,626 or 73% during the second quarter of 2008, compared to the second quarter of 2007. The increase mainly reflects an increase in net operating income, partially offset by an increase in the cash component of financing expense. Specifically, net operating income increased by \$2,592,236, while the cash component of financing expense increased by \$1,409,865. The cash component of financing expense reflects mortgage loan interest, interest on the line of credit and convertible debenture payments and is calculated by excluding amortization of transaction costs, the change in the fair value of the swap asset and the accretive portion of the debt component of convertible debentures.

The increase in mortgage loan interest accounts for the majority of the increase in the cash component of financing expense. Specifically, mortgage loan interest increased by \$1,376,516 during the second quarter of 2008, representing 98% of the increase in the cash component of financing expense. The increase in mortgage loan interest is mainly attributable to the mortgage financing for 2007 property acquisitions and the interim financing which has been arranged since June 30, 2007.

The cash component of trust expense increased by \$110,943 during the second quarter of 2008 and is mainly due to an increase in the service fee of Shelter Canadian. The cash component of trust expense excludes unit compensation expense.

Six Month Comparatives

	Six Months Ended June 30		Increase (Decrease)
	2008	2007	
Rental revenue	\$ 28,045,650	\$ 19,357,786	\$ 8,687,864
Interest and other income	558,601	821,562	(262,961)
Property operating costs	11,542,310	8,774,808	2,767,502
Net operating income (NOI)	17,061,941	11,404,540	5,657,401
Non-cash components of revenue	1,254	32,079	(30,825)
	17,060,687	11,372,461	5,688,226
Financing expense	13,719,151	10,003,086	3,716,065
Non-cash component of financing expense	1,916,166	1,846,872	69,294
	11,802,985	8,156,214	3,646,771
Trust expense	1,286,903	992,058	294,845
Non-cash component of trust expense	227,937	212,400	15,537
	1,058,966	779,658	279,308
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	4,198,736	2,436,589	1,762,147
Tenant inducements and leasing expenses	2,178	95,853	(93,675)
	4,196,558	2,340,736	1,855,822
Changes in non-cash operating items	173,374	(159,622)	332,996
Cash provided by operating activities	\$ 4,369,932	\$ 2,181,114	\$ 2,188,818

During the six month period ended June 30, 2008, cash from operating activities, excluding changes to non-cash operating items, increased by \$1,855,822 or 79%, compared to the first six months of 2007. The increase is mainly due to the same factors which contributed to the increase for the second quarter of 2008, namely an increase in net operating income, partially offset by an increase in the cash component of financing expense.

Overall, the increase in cash from operating activities for the first six months of 2008 is comprised of an increase of \$195,769 in the first quarter of 2008 and an increase of \$1,993,049 in the second quarter of 2008. The significantly higher increase in the second quarter of 2008 reflects an ongoing improvement in the NOI return on the total asset base of the Trust, net of the cash component of financing expense.

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 three months ended June 30, 2008, FFO increased by \$1,151,158, compared to the same period in 2007, while AFFO increased by \$1,240,361. On a basic per unit basis, FFO increased by \$0.065 per unit, while AFFO increased by \$0.070 per unit. For the six month comparative figures, FFO and AFFO increased by \$1,646,491 and \$1,952,380, respectively, in 2008, representing an increase of \$0.095 per unit for FFO and \$0.111 per unit for AFFO.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended June 30		Six Month Ended June 30	
	2008	2007	2008	2007
Income (loss) for the year	\$ (4,988,811)	\$ 688,355	\$ (4,988,510)	\$ (1,017,738)
Add (deduct):				
Amortization expense	2,390,830	1,936,304	4,722,928	3,651,471
Future income tax	4,236,163	(2,105,478)	2,282,964	(2,185,352)
Non-controlling interest	17,136	(15,021)	38,505	(38,985)
Funds from operations	1,655,318	504,160	2,055,887	409,396
Add (deduct):				
Straight-line rent adjustment	(1,122)	(10,908)	(2,141)	(32,878)
Net amortization of above/below market in-place leases	444	399	887	799
Accretion of debt component of convertible debentures	593,791	556,557	1,192,301	1,094,021
Unit-based compensation	33,046	128,729	227,937	212,400
Tenant inducement and leasing expenses	-	(31,369)	(2,178)	(95,853)
Ongoing improvements to income properties	(227,063)	(333,515)	(358,235)	(425,807)
Adjusted funds from operations	\$ 2,054,414	\$ 814,053	\$ 3,114,458	\$ 1,162,078
FFO per unit				
- basic	\$ 0.094	\$ 0.029	\$ 0.118	\$ 0.023
- diluted	\$ 0.094	\$ 0.028	\$ 0.116	\$ 0.023
AFFO per unit				
- basic	\$ 0.117	\$ 0.047	\$ 0.178	\$ 0.067
- diluted	\$ 0.117	\$ 0.046	\$ 0.172	\$ 0.065

* 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

General

The stated policy of LREIT is to distribute cash to the Unitholders, on a monthly 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 financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by GAAP and, therefore, the method that is used by LREIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable GAAP measurement of the cash flows of LREIT is "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, 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		Six Months Ended June 30	
	2008	2007	2008	2007
Cash provided by operating activities, per Statement of Cash Flows	\$ 3,037,717	\$ 1,044,668	\$ 4,369,932	\$ 2,181,114
Changes in non-cash operating items	(402,483)	477,939	(173,374)	159,622
	2,635,234	1,522,607	4,196,558	2,340,736
Add (deduct):				
Tenant inducement and leasing expenses	-	31,369	2,178	95,853
Amortization of tenant inducement and leasing expenses	(67,887)	(97,184)	(143,337)	(197,648)
Distributable income	\$ 2,567,347	\$ 1,456,792	\$ 4,055,399	\$ 2,238,941
Per unit				
- Basic	\$ 0.147	\$ 0.084	\$ 0.232	\$ 0.128
- Diluted	\$ 0.139	\$ 0.082	\$ 0.219	\$ 0.126

Changes in non-cash operating items are excluded from the calculations of distributable income as non-cash operating items are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

Tenant inducements and leasing expense fluctuate significantly throughout the year. Accordingly, the cash outlay for tenant inducements and leasing expenses is added-back for purposes of calculating distributable income, while amortization charges for cumulative tenant inducements and leasing expenses are deducted, as the amortization charges are considered to provide a more even distribution of leasing expenditures.

Distribution Variances

As disclosed in the following chart, distributable income exceeded total distributions by \$103,603 or 4% for the three months ended June 30, 2008. For the six month period ended June 30, 2008, there was a shortfall in distributable income, compared to total distributions of \$865,246 or 18%. For the three and six months ended June 30, 2007, the shortfall in distributable income was 40% and 54%, respectively.

For the three months ended June 30, 2008, cash from operating activities exceeded total distributions by \$573,973 or 23%, while distributions exceeded cash from operating activities by \$550,713 or 11% for the six months ended June 30, 2008. The six month variance between cash flows and distributions in 2008 of 11%, is comprised of a 46% unfavourable variance in the first quarter of 2008 and a 23% favourable variance in the second quarter of 2008 and also reflects an ongoing improvement in NOI returns during the first six months of 2008.

For the three and six month periods ended June 30, 2007, the shortfall in distributable income, compared to cash from operating activities, was 57% and 55%, respectively.

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Total distributions	<u>\$ 2,463,744</u>	<u>\$ 2,439,035</u>	<u>\$ 4,920,645</u>	<u>\$ 4,865,858</u>
Distributable income	<u>\$ 2,567,347</u>	<u>\$ 1,456,792</u>	<u>\$ 4,055,399</u>	<u>\$ 2,238,941</u>
Excess of distributions over distributable income	<u>\$ 103,603</u>	<u>\$ (982,243)</u>	<u>\$ (865,246)</u>	<u>\$ (2,626,917)</u>
Cash provided by operating activities	<u>\$ 3,037,717</u>	<u>\$ 1,044,668</u>	<u>\$ 4,369,932</u>	<u>\$ 2,181,114</u>
Excess of distributions over cash provided by operating activities	<u>\$ 573,973</u>	<u>\$ (1,394,367)</u>	<u>\$ (550,713)</u>	<u>\$ (2,684,744)</u>

To the extent that the cash outflow from distributions exceeds the cash inflow from operating activities, the difference was effectively funded from financing activities, or more specifically, from mortgage loan proceeds.

The significant improvement in the variance between total distributions declared, compared to distributable income and cash from operating activities, for both the three and six month periods in 2008, mainly reflects the extent to which the increase in net operating income has exceeded the increase in financing expense during the year. As additional properties move from the development stage to the income-producing stage and as additional properties are acquired, it is anticipated that the variance between the total distributions and operating cash flows will continue to improve, although there is no assurance that this will be the case.

Financing/Investment Activities

The following chart provides a summary of the cash flow activities of the Trust.

As disclosed in the chart, the net cash provided by financing activities, excluding distributions, exceeded the net cash used in investment activities by \$10,480,174 during the first six months of 2008. Financing activities consisted primarily of transactions related to mortgage loan financing, as well as the repayment of the outstanding principal balance of the Series D debentures and the purchase of units under the normal course issue bid. Investment activities consisted primarily of cash outflows associated with property acquisitions, the development of new properties and the funding for new deposits on potential acquisitions.

An analysis of the components of mortgage loan financing transactions is also provided in the section of this Report entitled "Mortgage Loans Payable".

After providing for the cash inflows from operating activities and the cash outflow in regard to distributions, the net cash increase for the first six months of 2008 was \$11,207,627. After accounting for the opening bank indebtedness of \$1,623,651, LREIT completed the six month period ended June 30, 2008 with a cash balance of \$9,583,976.

Cash Flow Analysis (Note 1)

	Three Months Ended June 30, 2008	Three Months Ended March 31, 2008	Six Months Ended June 30, 2008
Financing Activities:			
Mortgage proceeds	\$ 36,951,706	\$ 11,894,520	\$ 48,846,226
Mortgage principal payments	(1,675,160)	(1,421,203)	(3,096,363)
Repayment of Series D debentures	-	(1,593,000)	(1,593,000)
Normal course issuer bid	(188,120)	(11,856)	(199,976)
Transaction costs	(450,987)	(221,020)	(672,007)
Total financing	<u>34,637,439</u>	<u>8,647,441</u>	<u>43,284,880</u>
Investing Activities:			
Property acquisitions	(21,720,000)	-	(21,720,000)
Improvements to income properties	(227,063)	(131,172)	(358,235)
Construction of income properties	(417,154)	-	(417,154)
Properties under development	(2,739,676)	(6,290,300)	(9,029,976)
Deposits	(860,000)	-	(860,000)
Restricted cash	(267,655)	(151,686)	(419,341)
Total investing	<u>(26,231,548)</u>	<u>(6,573,158)</u>	<u>(32,804,706)</u>
Net cash inflow of investment capital	8,405,891	2,074,283	10,480,174
Operating activities	<u>3,037,717</u>	<u>1,332,215</u>	<u>4,369,932</u>
Cash before distributions	11,443,608	3,406,498	14,850,106
Cash distributions	<u>(2,161,895)</u>	<u>(1,480,584)</u>	<u>(3,642,479)</u>
Cash increase	9,281,713	1,925,914	11,207,627
Cash (bank indebtedness), beginning of period	<u>302,263</u>	<u>(1,623,651)</u>	<u>(1,623,651)</u>
Cash, end of period	<u>\$ 9,583,976</u>	<u>\$ 302,263</u>	<u>\$ 9,583,976</u>

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 subtotal entitled "net cash outflow of investment capital". Aside from the exclusion of cash distributions from financing activities and the subtotal entitled "net cash outflow of investment capital", the analysis consists entirely of GAAP measurements.

CAPITAL RESOURCES AND LIQUIDITY**Working Capital Requirements**

On an annual basis, LREIT is generating sufficient cash from operating activities to fully fund monthly mortgage loan principal payments and ongoing improvements to income properties. After deducting mortgage loan principal payments of \$3,096,363 and improvement costs for income properties of \$358,235 from the cash provided by operating activities of \$4,369,932, the cash surplus was \$915,334 for the six months ended June 30, 2008.

LREIT requires other sources of capital in order to fund property acquisitions, major renovations and expansion projects, lump-sum convertible debenture repayments and a portion of the monthly distributions.

Contractual Obligations

Property Acquisitions

The following chart provides a summary of the approximate amount of the capital commitments of LREIT in regard to property acquisitions subsequent to June 30, 2008.

Property	Approximate Amount	Description
Siena Apartments (closed, July 2, 2008)	\$4.7 Million	- represents the purchase price of \$30 Million and estimated closing costs, less mortgage financing and deposits
Parsons Landing (additional deposit in September 2008)	2.5 Million	- represents the total purchase price of \$60.7 Million plus GST and estimated closing costs, less the projected mortgage loan financing of \$50.0 Million, the \$4.75 Million mortgage loan receivable, payments of \$7.75 Million and the \$2.5 Million additional deposit
(mortgage proceeds, net of acquisition payable in December 2008)	(1.8 Million)	
Colony Square (closing date, October 1, 2008)	5.3 Million	- represents the purchase price of \$34.2 Million for an 89.4% interest and estimated closing costs, less pro-rata assumed mortgage financing of \$21 Million and a subordinate loan of \$6.7 Million.
	<u>\$ 10.7 Million</u>	

Mortgage Loan Debt

A summary of the debt obligations of LREIT for the remainder of 2008 and for each of the next five years and thereafter, is provided in the following chart:

Summary of Contractual Obligations - Long-term Debt

<u>Payments Due by Period</u>	<u>Total</u>	<u>≤ 1 Year</u>	<u>2 - 3 Years</u>	<u>4 - 5 Years</u>	<u>≥ 5 Years</u>
Mortgage loans	\$ 341,519,025	\$ 55,685,792	\$ 61,516,299	\$ 14,808,062	\$ 209,508,872
Interim mortgage loans	45,900,000	33,900,000	12,000,000	-	-
Vendor take-back mortgage loans	1,600,000	1,600,000	-	-	-
Total	<u>\$ 389,019,025</u>	<u>\$ 91,185,792</u>	<u>\$ 73,516,299</u>	<u>\$ 14,808,062</u>	<u>\$ 209,508,872</u>

To the extent that the amount due for mortgage loans includes the balance due on maturity, management intends to renew or refinance the amounts due effective on the maturity date of the loans.

Convertible Debentures

Since the inception as a real estate investment trust, LREIT has issued seven series of convertible debentures, of which four have matured and been retired through conversion prior to maturity or repayment upon maturity, including the Series D debentures which were retired on March 16, 2008 with an outstanding balance of \$1,593,000. A summary of the net amount outstanding in regard to the three remaining series of convertible debentures is provided in the following chart.

Issue Date/Maturity Date	Series	Amount Issued	Net Amount Outstanding June 30, 2008
Feb. 17/05/Feb. 17/10	E	\$ 12,000,000	\$ 11,950,000
Mar. 10/06/Mar. 11/11	F	13,680,000	13,680,000
Dec. 8/06/Dec. 31/11	G	<u>25,732,000</u>	<u>25,732,000</u>
Face Value		<u>\$ 51,412,000</u>	<u>\$ 51,362,000</u>

Improvements to Existing Properties

During 2008, ongoing improvements to income properties are projected to be approximately \$2.8 Million. The cash flow for the entire year in 2008 is expected to be sufficient to fully fund property improvement costs.

Operating Line of Credit

As previously disclosed, \$5,000,000 is available to the Trust under the terms of the line of credit.

Normal Course Issuer Bid

As previously noted in this report, LREIT may acquire a maximum of 876,944 units during the 12 month period commencing January 21, 2008, pursuant to its normal course issuer bid. The Trust is not required to purchase any units under the normal course issuer bid.

Sources of Capital

Short-term

As of June 30, 2008, the total cash balance of LREIT was \$9,583,976, while the working capital balance, excluding mortgage loans receivable and accrued liabilities for property acquisitions or properties under development, was approximately \$5.2 Million. LREIT also has access to a \$5 Million revolving line of credit.

The refinancing of under-leveraged properties is expected to serve as the primary source of additional capital for the last six months of 2008, supplemented with draws on the line of credit. The refinancing may occur in the form of an upward refinanced loan on a specific property or as an interim mortgage loan secured by two or more properties. As disclosed in the analysis of mortgage loans payable, LREIT received approximately \$49 Million of mortgage loan proceeds during the first six months of 2008, of which \$17.4 Million was interim financing. Financing proposals for an additional \$23 Million of loans on existing properties are under negotiation with lenders.

The proceeds from the refinancing of under-leveraged properties, combined with the existing working capital and the line of credit, are expected to be sufficient to enable LREIT to fulfil all of its funding commitments for property acquisitions, capital improvements and cash distributions in 2008.

Longer Term

In addition to the refinancing of under-leveraged properties, LREIT will consider additional debenture or trust unit offerings as a source of investment capital. LREIT may also issue trust units to vendors as consideration for real property acquisitions.

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 second half of 2008, the NOI of the Trust is expected to continue to improve as the income contribution from new property acquisitions and leased-up properties continues to gradually accrue to the Trust. Although there will be an increase in financing expense as a result of additional mortgage loan financing, the incremental increase in NOI is expected to be in excess of the incremental increase in financing expense. Accordingly, it is also anticipated that the Trust will achieve an improvement in cash flows and in income before amortization and taxes during 2008.

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.

Commencing January 1, 2006, the Committee approved a service fee equal to 0.3% of the gross book value of the total assets of the Trust, which is defined as the total assets shown on the most recently issued financial statements, excluding cash and accumulated amortization. Payment of the fee occurs on a monthly basis, on the last day of each month.

The initial term of the Services Agreement expired on August 30, 2007. At the Trustee Meeting on August 30, 2007, the independent Trustees approved a one year extension of the agreement to August 30, 2008. At the Trustee Meeting on August 13, 2008, the independent Trustees approved an extension of the agreement to December 31, 2008.

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. Following the expiry date of the initial term of the management agreement on August 30, 2007, the agreement provides for the management term to be automatically renewed for a further five year period, subject to the consent of the independent Trustees. At the Trustee Meeting on August 9, 2007, the independent Trustees approved the five year renewal term to August 30, 2012.

Mr. Arni Thorsteinson, Chief Executive Officer 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 Laird's Landing

The Laird's Landing apartment complex was constructed pursuant to a development agreement with Shelter Canadian. Pursuant to the development agreement, Shelter Canadian 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.

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

REVENUE/INCOME AND OTHER COMMITMENTS

Lakewood Manor

The acquisition of Lakewood Manor was completed by LREIT, effective July 1, 2007. A major oil sands company has leased and occupied all of the units at the property 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 provided 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 \$26,873,600 to June 30, 2009 and \$27,667,200 to June 30, 2010.

Elgin Lodge

LREIT retained Kingsway Arms Management Services Inc. ("Kingsway") to manage Elgin Lodge for a ten year term, expiring on May 31, 2016. 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 previously disclosed in this report, a 60 suite expansion was completed at Elgin Lodge during 2007. 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 by which the appraised value of the expanded property exceeds the total of the cost to LREIT, including the expansion cost and the unpaid portion 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, expiring on February 12, 2017. During the five year period after the "lease-up" date, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the original acquisition cost to LREIT and the unpaid portion of a 8% annual return on the LREIT equity investment.

CHANGES IN ACCOUNTING POLICIES

New Accounting Standards - Adopted January 1, 2008

On January 1, 2008, the Trust adopted CICA Handbook Section 1535 - Capital Disclosures, Section 3862 - Financial Instruments - Disclosures and Section 3863 - Financial Instruments - Presentation. Section 1535 requires the Trust to disclose information that enables users of its financial statements to evaluate the Trust's objectives, policies and processes for managing capital. Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards do not have any impact on the classification or measurement of financial instruments.

Future changes to significant accounting policies

CICA Handbook Section 3064 - Goodwill and Intangibles will be effective for interim and annual financial statements of the Trust for periods beginning after January 1, 2009. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and intangible assets by profit-oriented enterprises.

In 2008 the Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). The AcSB has confirmed the effective date for reporting under IFRS will be January 1, 2011, with appropriate comparative data from the prior year.

The Trust is currently considering the effect on the financial statements of the new standards.

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.

Payment of 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 pay distributions 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, 2008, there were 42 properties in the real estate portfolio of LREIT, including four commercial properties and 38 residential properties, comprising 3,343 rental units. Twelve of the residential properties, including Laird's Landing and Parsons Landing - Phase I, comprising a total of 1,025 suites are located in Fort McMurray. The twelve properties have an aggregate acquisition price of \$279.1 Million, which represents approximately 55.7% of the total aggregate purchase price of the real estate portfolio.

LREIT has also entered into an agreement to acquire Siena Apartments in Fort McMurray, Alberta, which comprises 66 suites. After providing for Phase II of Parsons Landing and Siena Apartments, LREIT will have a total of 13 multi-family residential properties in Fort McMurray, comprising a total of 1,167 suites, with an aggregate acquisition price/development cost to LREIT of approximately \$343.6 Million. The 13 Fort McMurray properties will represent approximately 34.2% of the total multi-family residential suites and approximately 64.3% 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.

Estimated Current Value

Management of LREIT estimates the current value of LREIT's property portfolio as at June 30, 2008.

In summary, the total estimated current value of the property portfolio of \$654,823,000 is 6.1% in excess of the total appraised value of \$615,558,000. For 22 properties, representing 53% of total appraised value, management assumed current value was equal to the appraisal values of the applicable properties, for 18 properties, representing 44% of total appraised value, the total estimated current value of the applicable properties was 14% in excess of total appraised value of the properties and for 1 property, management estimated current value to be the total of the cost of the building expansion and the appraised value of the property before the expansion.

The appraised value of properties contained in appraisals prepared by independent appraisers are estimates only, are made effective as at the date set forth in the appraisal and are subject to a number of assumptions, qualifications and limiting conditions, including but not limited to those described in such appraisals. Such assumptions, qualifications and limiting conditions generally include, among other things: (i) that title to the property is good and marketable; (ii) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect valuation, except as noted in the appraisal; (iii) the existing use of the property is legal and may be continued by any purchaser of the property; (iv) there has been no delinquency in the payment of taxes relating to the property; (v) that environmental laws have been complied with and there are no potentially hazardous materials on the property or any adjoining property; and (vi) that there are no patent or latent defects in the buildings located on the property.

There can be no assurance that appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2008, the date of management's estimate of the current value of such property. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property (and used by management of LREIT in estimating the current value of the portfolio) was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2008, the date of management's estimate of the current value of such property.

LREIT undertakes no obligation to update or revise its estimated current value of its portfolio from time to time.

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:

- 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 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;
- 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 be 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, 2008, 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 three months ended June 30, 2008 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 prove 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 2008 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 13, 2008