LANESBOROUGH REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2007

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2007 THIRD QUARTER HIGHLIGHTS

Acquisition and Development

- Invested $73.4 Million in the acquisition of one additional property (Lakewood Manor) and in the partial acquisition of a second property (Phase I and Phase II of Millennium Village).

- Invested $11.1 Million in construction, expansion and renovation costs primarily in regard to Laird's Landing (formerly Park View Apartments) and Elgin Lodge.

- Quarter ending portfolio consists of 40 properties, comprised of 2,983 suites and 224,545 square feet of commercial leasable area.

Financial

Third quarter of 2007, compared to third quarter of 2006:

- Operating income increased by $2.9 Million or 60% in total and by $0.165 or 58% on a per unit basis.

- "Same property" operating income increased by $752,416 or 19.4%.

- Average occupancy rate for entire portfolio excluding properties under development increased from 93.2% to 96.1%.

Capital Structure

- Financed $70.8 Million of mortgage debt in the third quarter of 2007.

- Weighted average interest rate on the aggregate mortgage loan balance of 6.5% at September 30, 2007.

- Mortgage loan debt to current value ratio of 59.7% at September 30, 2007.

Ongoing Investment Activities

- Additional construction/renovation costs for Laird's Landing and Elgin Lodge are projected at $20 Million.

- The acquisition of Phase III of Millennium Village was completed in October 2007 and the acquisition of the fourth and final phase is expected to be completed on November 15, 2007.

- One other property in Fort McMurray, Alberta (Parsons Landing) is contracted for acquisition in 2008 at a cost of $64.4 Million.

Unitholder Returns

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006
Distribution per unit	$0.42	$0.56
Opening unit price	$5.10	$5.25
Closing unit price	$5.85	$5.90
Annualized yield on opening price (distribution/opening unit price)	10.3%	10.7%
Projected cash distribution - 2007:	$0.56	
Closing unit price - November 6, 2007:	$5.10	
Current yield:	11.0%	

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

During the quarter ended September 30, 2007, Lanesborough Real Estate Investment Trust (LREIT) marked its fifth-year anniversary as a publicly-traded real estate investment trust and moved further along its growth continuum, completing the third quarter of 2007 with a $73 Million increase in the total acquisition cost of its property portfolio. As of September 30, 2007, the real estate portfolio of LREIT consists of 41 properties with a total acquisition cost of approximately $440 Million, including Laird's Landing and Elgin Lodge, which are near construction completion. The estimated current market value of the portfolio is approximately $620 Million, or approximately $155 Million in excess of the acquisition costs when completed.

The third quarter of 2007 was highlighted by the acquisition of Lakewood Manor on July 1, 2007, followed by the acquisition of Phase I and Phase II of Millennium Village on August 3, 2007 and September 13, 2007, respectively. Located in Fort McMurray, Alberta and consisting of 175 apartment units, all of which are fully leased under a three year lease agreement with a major oil sands company, Lakewood Manor contributed $1.2 Million to the third quarter operating income of LREIT. After considering the impact of the properties which were acquired by LREIT during the first and second quarters of 2007 and the improvement in operating results of the remaining portfolio, the overall operating results of LREIT improved significantly during the third quarter of 2007, as reflected in the following statistics:

Third quarter of 2007, compared to the third quarter of 2006:

- operating income increased by $2,932,802, representing an increase of 60% or $0.165 per unit;
- cash flow from operating activities, excluding changes in non-cash operating items, increased by $594,581, representing an increase of 45% or $0.033 per unit; and
- distributable income increased by $158,550, representing an increase of 8% or $0.008 per unit.

Third quarter of 2007, compared to the second quarter of 2007:

- operating income increased by $1,325,545 representing an increase of 20% or $0.075 per unit;
- cash flow from operating activities, excluding changes in non-cash operating items, increased by $292,197, representing an increase of 19% or $0.160 per unit; and
- distributable income increased by $507,242, representing an increase of 33% or $0.029 per unit.

In the upcoming months, the real estate portfolio of LREIT will be further enhanced as a result of the acquisition of the remaining two phases of Millennium Village and the completion of the Laird's Landing development (formerly known as "Park View Apartments"). Millennium Village and Laird's Landing are also located in Fort McMurray, Alberta and the lease-up of the properties is progressing exceptionally well, as new oil sands projects are attracting an unprecedented number of new residents to Fort McMurray and resulting in a demand for rental accommodations which is significantly outpacing the available supply.

As of the date of this report, LREIT has completed the acquisition of three of the four phases of the Millennium Village development, with an anticipated closing date of November 15, 2007 for the remaining phase. In total, the apartment complex consists of 72 units, of which 74% are leased as of November 7, 2007. As a result to the favourable market conditions, the rental rates which are being achieved for the leased suites at Millennium Village are approximately 18% higher than was originally anticipated in 2006. The lease-up stage of development is expected to be completed by November 30, 2007 at which time the Project will be reclassified as an income-producing property and will also begin contributing to the quarterly operating income of the Trust.

Although the construction of Laird's Landing is not expected to be fully completed until January 2008, pre-leasing efforts have resulted in the lease-up of 44 of the 189 units, as of November 7, 2007, including 40 units which are leased by a major oil sands company. The rental rates for the leased units at Laird's Landing are approximately 27% higher than was originally anticipated at the outset of construction in 2006. The lease-up of the entire complex is expected to be completed by February 2008.

Looking forward beyond 2007, LREIT is under contract to acquire Parsons Landing, a 160-suite apartment complex which is currently under construction in Fort McMurray, Alberta in an area which is immediately adjacent to Laird's Landing. The acquisition of the property is scheduled to occur in two phases, with a target closing date of March 2008 for Phase I and June 2008 for Phase II.

In summary, the acquisition and development of very large and profitable properties, particularly in the City of Fort McMurray, has resulted in a significant improvement in the operating income and cash flows of the Trust during the first nine months of 2007 and has established a strong foundation for ongoing growth in the fourth quarter of 2007 and into 2008. The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to maximizing the investment returns to the Unitholders and to the long-term success of the Trust.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 7, 2007

Property Portfolio - September 30, 2007

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2007
RESIDENTIAL					
Manitoba					
Highland Tower (2)	Thompson	$ 5,700,000	January 2005	77	90 %
Chancellor Gate	Winnipeg	6,750,000	August 2005	48	96 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	91 %
Saskatchewan					
Borden Estates	Prince Albert	5,315,000	February 2005	144	81 %
Cedar Village	Prince Albert	2,700,000	February 2005	72	86 %
Carlton Manor	Prince Albert	410,000	February 2005	19	90 %
Riverside Apartments	Prince Albert	265,000	February 2005	12	100 %
MGM Apartments	Prince Albert	650,000	February 2005	28	57 %
Marquis Towers	Prince Albert	6,200,000	August 2005	129	96 %
Riverside Terrace (1)	Saskatoon	24,000,000	July 2005	181	99 %
Village West	Saskatoon	5,113,800	June 2006	100	95 %
Borden Place	Saskatoon	5,600,000	May 2007	113	95 %
Chateau St. Michael's (1)	Moose Jaw	7,600,000	June 2006	93	89 %
Woodlily Courts	Moose Jaw	3,700,000	June 2006	102	98 %
Alberta					
Nova Villa	Edmonton	5,400,000	May 2004	61	97 %
Nova Manor	Edmonton	2,615,000	May 2004	32	100 %
Nova Ridge Estates	Spruce Grove	8,800,000	July 2004	102	100 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	93 %
Broadview Meadows	Sherwood Park	6,790,000	January 2006	93	99 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	98 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	100 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	92 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	83 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	100 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	97 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	97 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	99 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	100 %
Millennium Village - Phase I & II (4)	Fort McMurray	13,456,000	August 2007	40	60 %
Westhaven Manor	Edson	4,050,000	May 2007	48	92 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	100 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	100 %
Nova Court (3)	Yellowknife	15,000,000	March 2007	106	100 %
Ontario					
Elgin Lodge (1)	Port Elgin	8,300,000	June 2006	64	98 %
Clarington Seniors Residence (1)(4)	Bowmanville	22,400,000	February 2007	126	45 %
British Columbia					
Greenwood Gardens	Surrey	10,950,000	April 2004	183	98 %
Total - Residential		**$ 374,265,800**	Total suites	**2,983**	

Property Portfolio - September 30, 2007 (continued)

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy September 30 2007
Total - Residential		**$ 374,265,800**	Total suites	**2,983**	
COMMERCIAL					
Retail and Office					
Kenaston (2)	Winnipeg, MB	$ 12,656,200	April 2002	103,209	99 %
McIvor Mall	Winnipeg, MB	6,700,000	February 2004	65,283	98 %
		19,356,200		168,492	
Light Industrial					
MAAX	Airdrie, AB	1,600,000	June 2003	39,936	100 %
Purolator	Burlington, ON	1,200,000	September 2003	16,117	100 %
		2,800,000		56,053	
Total - Commercial		**$ 22,156,200**	Total leasable area (4)	**224,545**	
Total		**$ 396,422,000**			

Notes to the Property Portfolio:

(1) Seniors housing complex.
(2) Includes the cost of major renovations and asset additions.
(3) Nova Court also includes 8,400 square feet of commercial space.
(4) Properties are classified as "properties under development".

Profile of Property Acquisitions - Nine Months Ended September 30, 2007

The Clarington Suites Residence

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

Woodland Park

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

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

Nova Court

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

Nova Court is located in Yellowknife, Northwest Territories.

Borden Place

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

Borden Place is located in Saskatoon, Saskatchewan.

Westhaven Manor

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

Lakewood Manor

Lakewood Manor was acquired by LREIT, effective July 1, 2007. The property consists of 64 townhouses and a four-storey apartment building. The apartment building is comprised of seven one-bedroom and 104 two-bedroom suites. All townhouse and apartment units are fully furnished.

Lakewood Manor is located in Fort McMurray, Alberta.

Millennium Village

Millennium Village is a newly constructed property, encompassing four phases of development and consisting of 18 four-plex buildings with 36 two-bedroom and 36 two-bedroom plus den units, all of which are to be fully furnished. Phase I and Phase II of the development were acquired by LREIT during the third quarter of 2007. Millennium Village is located in Fort McMurray, Alberta.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-Looking Information

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

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

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

Financial and Operating Summary

	Three Months Ended September 30 2007	Three Months Ended September 30 2006 (restated)	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006 (restated)
DISTRIBUTIONS				
Total	$ 2,451,342	$ 2,417,797	$ 7,317,200	$ 7,186,707
Per unit	$ 0.14	$ 0.14	$ 0.42	$ 0.42
KEY PERFORMANCE INDICATORS (1)				
Operations				
Average residential occupancy rate	96.1 %	93.2 %	94.9 %	92.1 %
Operating residential cost ratio	37.0 %	44.0 %	42.0 %	47.0 %
Operating Results				
Total revenue	$ 12,597,091	$ 8,370,252	$ 32,776,440	$ 21,703,291
Operating income *	$ 7,845,308	$ 4,912,506	$ 19,249,847	$ 12,300,746
Income (loss) for the period (2)	$ 725,735	$ (829,956)	$ (292,006)	$ (2,574,986)
Cash Flows				
Cash flow from operating activities	$ 1,431,198	$ 1,245,311	$ 3,612,312	$ 3,765,953
Funds from Operations (FFO) *	$ 1,048,543	$ 1,072,635	$ 1,457,937	$ 2,566,111
Adjusted Funds from Operations (AFFO) *	$ 1,185,032	$ 1,571,496	$ 2,347,097	$ 3,155,236
Distributable income *	$ 2,061,208	$ 1,902,658	$ 4,497,783	$ 4,138,944
Financing				
Mortgage loans to current value ratio *			59.7 %	55.9 %
Weighted average interest rate of mortgage loans *			6.5 %	5.8 %
Per Unit				
Operating income				
- basic	$ 0.449	$ 0.284	$ 1.104	$ 0.719
- diluted	$ 0.331	$ 0.267	$ 0.825	$ 0.677
Income (loss) for the period				
- basic	$ 0.042	$ (0.048)	$ (0.017)	$ (0.151)
- diluted	$ 0.042	$ (0.048)	$ (0.017)	$ (0.151)
Distributable income				
- basic	$ 0.118	$ 0.110	$ 0.258	$ 0.242
- diluted	$ 0.114	$ 0.107	$ 0.253	$ 0.239
Funds from Operations (FFO)				
- basic	$ 0.060	$ 0.062	$ 0.084	$ 0.150
- diluted	$ 0.059	$ 0.060	$ 0.082	$ 0.148
Adjusted Funds from Operations (AFFO)				
- basic	$ 0.068	$ 0.091	$ 0.135	$ 0.185
- diluted	$ 0.066	$ 0.089	$ 0.132	$ 0.182

(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.

(2) Income (Loss), Excluding Future Income Tax Recoveries

After excluding the future income tax recoveries which were recorded in the second and third quarter of 2007, primarily due to a change in accounting estimates, the Trust incurred a loss of $754,075 and $3,643,395 for the three and nine month period ended September 30, 2007, respectively. On a basic and diluted per unit basis, the loss for the third quarter and nine month period is $0.043 and $0.209, respectively.

OVERALL INVESTMENT OBJECTIVES AND STRATEGY

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

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

INVESTMENT ACTIVITIES

Property Acquisitions

General

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

Property Portfolio - September 30, 2007

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

During the first nine months of 2007, LREIT acquired six residential properties and Phase I and Phase II of a seventh property at a total purchase price of $158.3 Million, resulting in a real estate portfolio of 40 properties with a total cost of $396.4 Million as of September 30, 2007.

The property acquisitions are as follows:

			Contribution to Operating Income (In Days)		
Property	Price	Closing Date	Q3	Q2	Q1
Clarington Seniors Residence	$22,400,000	February 12, 2007	-	-	-
Woodland Park	37,865,000	March 12, 2007	92	91	-
Nova Court	15,000,000	March 23, 2007	92	91	9
Borden Place	5,600,000	May 1, 2007	92	61	-
Westhaven Manor	4,050,000	May 17, 2007	92	44	-
Lakewood Manor	59,900,000	July 1, 2007	92	-	-
Millennium Village (Phase I and II)	13,456,000	Aug./Sept. 2007	-	-	-
	$158,271,000				

Contribution to Operating Income

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

Phase I and Phase II of Millennium Village were also acquired during the lease-up stage of development in the third quarter of 2007 and are classified as "Properties Under Development" as of September 30, 2007.

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

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

Millennium Village

Millennium Village is a newly constructed multi-family townhouse complex in Fort McMurray, Alberta, comprised of 72 units. The property consists of 18 four-plex buildings with 36 two-bedroom and 36 two-bedroom plus den units, all of which are to be fully furnished. Each of the townhouse units have individual condominium title. The purchase price of the property is $25.2 Million, including GST.

The construction of the property is being completed in four phases and each phase is turned over to LREIT, following the construction completion date. The acquisition of Phase I and Phase II occurred during the third quarter of 2007, in August and September, respectively. The acquisition date of Phase III occurred on October 15, 2007 and Phase IV is expected to be acquired on November 15, 2007. As noted above, Phase I and Phase II were acquired during the lease-up stage and are classified as "Properties Under Development" on the consolidated balance sheet of the Trust, as of September 30, 2007.

In December 2006, LREIT provided partial construction financing for Millennium Village in the form of an 8% second mortgage loan of $4 Million. The second mortgage loan and the initial deposits on the property were credited to the purchase price on the acquisition date of Phase I. The balance of the purchase price of $20.2 Million becomes due to the Vendor in gradual increments, in conjunction with the acquisition of each phase. As of September 30, 2007, the balance owing in regard to Phase I and Phase II was $8,509,120, including accrued interest of $53,565.

The purchase agreement for the property provides for the balance owing to be paid subsequent to the acquisition date of Phase IV. The balance owing accrued interest at a rate of 6% to August 31, 2007 and at a rate of 8% from September 1, 2007 to the turnover date of Phase IV, which is expected to be on November 15, 2007. Subsequent to November 15, 2007, the balance owing bears interest at an interest rate of prime plus 3%, until the balance is paid.

A first mortgage loan of $19.8 Million is being arranged for the property. The payment of the balance owing is expected to occur on closing in March 2008, following the lease-up of the entire property and the release of the first mortgage loan proceeds. The remainder of the balance owing, including accrued interest, will be funded in cash.

Laird's Landing (formerly known as "Park View Apartments")

LREIT has entered into a development agreement with Shelter Canadian Properties Limited in regard to the construction of a 189 suite apartment complex in Fort McMurray, Alberta, to be known as Laird's Landing. The land acquisition for the property was completed in July 2006 at a cost of $9.3 Million and the construction commenced in August 2006. As of September 30, 2007, the land acquisition costs and the cumulative construction costs amounted to approximately $40.0 Million and are included in "Properties Under Development" on the balance sheet of LREIT.

A three year first mortgage loan in the amount of $45 Million was arranged for the property. The loan agreement provides for funds to be advanced in installments, based on construction progress billings. As of September 30, 2007, a total of $24,464,663 has been advanced under the loan.

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

In accordance with the accounting policy of LREIT, all acquisition costs, development, leasing, financing and operating costs, less rental revenue, are capitalized for properties under development until the property achieves a satisfactory occupancy level within a predetermined time limit. The construction costs for Laird's Landing include carrying costs of $839,162, representing interest on the land acquisition/construction financing.

The construction of the apartment complex is expected to be completed in January 2008. Please refer to the "Related Party Transactions" section of this report for additional information regarding the development agreement for Laird's Landing.

Parsons Landing Apartments

In September 2007, LREIT entered into an agreement to acquire a 160 suite apartment property, which is currently under construction in the Timberlea area of Fort McMurray, Alberta. The property, known as Parsons Landing Apartments, 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 $64.4 Million, including GST.

The acquisition will be financed with a new first mortgage loan in the minimum amount of $45 Million and the balance in cash. The acquisition will close in two phases and will occur upon the issuance of occupancy certificates for each of the two phases. The target closing dates are expected to be March 2008 for Phase I and June 2008 for Phase II.

On November 1, 2007, LREIT provided a $10 Million second mortgage loan to the vendor, which will be credited towards the purchase price. The second mortgage loan bears interest at 8%, payable quarterly, and is subordinate to the vendor's construction mortgage in the maximum amount of $35 Million.

Existing Properties Under Development

Elgin Lodge

In June 2006, LREIT acquired Elgin Lodge, a 64 suite retirement home in Port Elgin, Ontario. Following the acquisition of the property, LREIT initiated a multi-level extension of the building on excess land, resulting in the addition of 59 suites of which 12 are studio suites and 47 are one-bedroom suites. The building expansion, which has a total estimated cost of $10.2 Million, was substantially complete as of October 31, 2007. As of November 7, 2007, 23 of the new suites or 39% have been leased to residents.

As of September 30, 2007, the construction costs amounted to $8.2 Million and were funded with an additional mortgage loan advance of $4.0 Million, with the balance from working capital. Based on an increase in the existing mortgage loan by $7.7 Million, the projected equity contribution for the expansion is $2.7 Million.

Additional details regarding the guarantees and commitments associated with the Elgin Lodge expansion are provided on page 26 of this report.

Major Renovations

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

In 2005, LREIT commenced an extensive major renovations program at the Highland Tower property in Thompson, Manitoba. The renovation program involved the upgrading of an entire floor of suites at a time and the temporary removal of suites from the rental market. Aside from landscaping and some exterior upgrades, the renovation program was substantially completed in July 2007. As of September 30, 2007, the total cumulative cost of the renovation program was approximately $4,350,000, of which $1,759,514 was incurred during the first nine months of 2007. The renovation costs were funded from a first mortgage loan in the amount of $1,750,000 and the balance from working capital.

In accordance with the accounting policy which was adopted by LREIT in 2005, carrying costs incurred during the period of major in-suite renovations of income properties are capitalized during the period that the suites are removed from the rental market. The total amount of carrying costs which were capitalized for Highland Towers to June 30, 2007 are $281,094. Effective July 1, 2007, the capitalization of carrying costs for Highland Towers was discontinued as the renovation program was substantially complete.

Mortgage Loans Receivable

September 30, 2007	$ nil
December 31, 2006	$17,500,000

As of December 31, 2006, "Mortgage Loans Receivable" consisted of an $8.5 Million second mortgage loan for Lakewood Manor, a $5 Million second mortgage loan for Nova Court and a $4 Million second mortgage loan for Millennium Village.

All of the second mortgage loans were credited to the purchase price of the properties on the closing date of the acquisitions, thereby reducing the receivable balance to nil as of September 30, 2007.

FINANCING ACTIVITIES

Capital Structure - September 30, 2007

	September 30, 2007	Percentage
Mortgage loans payable - principal amount	$ 330,525,955	71.5 %
Convertible debentures - face value	53,020,000	11.5 %
Equity raised - trust units (net of issue costs)	78,852,078	17.0 %
Total capitalization	$ 462,398,033	100.0 %

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 may also serve 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,	
- September 30, 2007	17,483,619
- November 7, 2007	17,500,287

As of September 30, 2007, LREIT had 17,483,619 units outstanding, representing an increase of 91,384 units or 0.5%, compared to the number of units outstanding as of December 31, 2006. The increase is comprised of 30,366 units which originated from the conversion of Series A and D debentures and 61,018 units which were issued under the Distribution Reinvestment Plan.

Distribution Reinvestment Plan ("DRIP")

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

As noted above, 61,018 units were issued or purchased under the Distribution Reinvestment Plan during the first nine months of 2007.

Unit Options

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

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

In accordance with 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 Operations. During the first nine months of 2007, unit-based compensation expense amounted to $268,239, including $45,058 relating to the 120,000 units which were issued on June 8, 2007.

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

Summary of Trust Units Issued

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

Issue Date	Description	Units Issued	Equity Raised
Units outstanding, December 31, 2005		16,855,286	$ 65,948,776
November 1, 2006	Units issued on exchange of Class B units of Village West LP	100,000	-
November and December 2006	Units issued under DRIP	2,439	13,250
January to December 31, 2006	Units issued on conversion of debentures	434,510	-
Units outstanding, December 31, 2006		17,392,235	$ 65,962,026
January to September 30, 2007	Units issued under DRIP	61,018	332,364
January to September 30, 2007	Units issued on conversion of debentures	30,366	-
Units outstanding, September 30, 2007		17,483,619	$ 66,294,390

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 nine months of 2007, LREIT declared distributions of $0.42 per unit, or $0.56 on an annualized basis. Distributions are comprised of the following components:

	Trust Units	LP Units	Total
Cash distributions paid for January to August, 2007, inclusive	$ 6,154,688	$ 133,136	$ 6,287,824
Cash distributions paid for September 2007	815,960	16,642	832,602
	6,970,648	149,778	7,120,426
Value of units issued under DRIP	346,552	-	346,552
Distributions declared, per Statement of Equity	$ 7,317,200	$ 149,778	$ 7,466,978

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 September 30, 2007, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions: Nine Months Ended September 30 2007	Repayments/Unit Conversions: As of December 31 2006	Net Amount Outstanding September 30 2007
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ (1,690,000)	$ (1,310,000)	$ -
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	(141,000)	(2,251,000)	1,608,000
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	-	12,000,000
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	-	-	13,680,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	-	-	25,732,000
			$ 69,543,000	$ (1,831,000)	$ (14,692,000)	53,020,000
Net accumulated accretion						3,099,378
Unamortized transaction costs						(2,310,382)
Book value, September 30, 2007						$ 53,808,996
Allocation of book value						
Debt component						$ 42,677,180
Equity component						13,442,198
Unamortized transaction costs						(2,310,382)
						$ 53,808,996

Mortgage Loans Payable

September 30, 2007 $328,504,615
December 31, 2006 $171,255,511

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount September 30, 2007	Percentage of Total
Fixed rate			
2008	9.4 %	$ 34,858,456	10.5 %
2009	5.5 %	33,868,338	10.2 %
2010	7.0 %	21,963,928	6.6 %
2011	5.7 %	7,356,778	2.2 %
2012	5.6 %	33,050,000	10.0 %
2013	5.9 %	26,442,483	8.0 %
2014	6.3 %	44,403,702	13.4 %
2015	5.7 %	37,384,491	11.3 %
2016	5.2 %	43,609,614	13.2 %
2017	5.7 %	5,875,387	1.8 %
		288,813,177	87.4 %
Demand/floating rate	7.4 %	41,712,778	12.6 %
Principal outstanding		330,525,955	100.0 %
Unamortized transaction costs		(2,606,632)	
Difference between contractual and market interest rates on mortgage loans assumed		585,292	
		$ 328,504,615	
Principal outstanding:			
Income properties		$ 289,191,292	
Properties under development		41,334,663	
		$ 330,525,955	

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 nine months of 2007, the balance of mortgage loans payable increased by $157,249,104, comprised of the following amounts:

	Three Months Ended September 30, 2007	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007	Nine Months Ended September 30, 2007
Mortgage loans on 2007 property acquisitions/ developments	$ 69,603,456	$ 11,762,235	$ 33,907,159	$ 115,272,850
Increase in first mortgage loans on existing properties	1,150,472	6,954,771	18,258,977	26,364,220
Interim financing	-	4,500,000	16,500,000	21,000,000
Principal repayments	(1,296,072)	(1,135,533)	(935,021)	(3,366,626)
	$ 69,457,856	$ 22,081,473	$ 67,731,115	159,270,444
Unamortized transaction costs				(2,606,632)
Difference between contractual and market interest rates on mortgage loans assumed				585,292
				$ 157,249,104

As of September 30, 2007, the weighted average interest rate of the fixed rate mortgage loans is 6.3%, compared to 5.6% as of December 31, 2006. The weighted average interest rate for floating rate mortgage loans increased from 7% at December 31, 2006 to 7.4% as of September 30, 2007.

Excluding properties under development, the ratio of mortgage loans payable, relative to the total acquisition cost of the entire portfolio of income-producing properties, increased from 70% as of December 31, 2006 to 82% as of September 30, 2007. The increase reflects the additional financing which was obtained during the first nine months of 2007 for income-producing properties, in the total amount of $123.1 Million, including interim mortgage loan financing of $21.0 Million; upward refinanced first mortgage loans on existing properties of $9.6 Million and mortgage loans assumed or arranged on new property acquisitions of $97.6 Million.

The ratio of mortgage loans payable, relative to the estimated current value of the property portfolio, was approximately 59.7% at September 30, 2007, compared to 61.8%, as of December 31, 2006. The ratio excludes all capitalized costs and mortgage proceeds for properties which are under construction, namely, Laird's Landing and Millennium Village.

Interim Mortgage Loan Financing

During the first nine months of 2007, LREIT arranged $21.0 Million of interim mortgage loan financing, including $16.5 Million which was obtained during the first quarter of 2007 and $4.5 Million which was obtained during the second quarter of 2007. The interim mortgage loan financing is secured by charges registered against two or more properties, bears interest at an average rate of 11% and requires payments of interest only. All of the debt matures within one year of issue.

The interim mortgage loan financing is expected to be reduced by $3.5 Million in the fourth quarter of 2007 as a result of arranging substitute longer term mortgage financing.

Vendor Take-Back Mortgages

The vendor take-back mortgage loan balance of $1,836,475 consists of the $236,475 interest-free vendor take-back mortgage loan that was obtained on the acquisition of the properties in Prince Albert, Saskatchewan in February 2005 and a $1,600,000 vendor take-back mortgage, bearing interest at a rate of 6.25%, obtained upon the purchase of Westhaven Manor in May 2007. The loans are repayable on demand.

RESULTS OF OPERATIONS

Impact of Changes in Accounting Policies

Improvements to Income Properties

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

The new policy is described in Note 2 of the third quarter financial statements. The adoption of the accounting policy by LREIT resulted in a decrease in prior years operating expenses of $1,100,474, an increase in prior years amortization expense of $80,456 and an increase in original cost of income properties of $989,485. For comparative purposes, the net loss for the three month and nine month periods ended September 30, 2006 are lower than was previously reported by $180,029 and $470,248, respectively.

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

Financial Instruments

Effective January 1, 2007, LREIT adopted a new accounting policy in regard to the treatment of transaction costs (please refer to note 2 to the third quarter financial statements)

Transaction costs are costs which are associated with the acquisition of a mortgage loan or the debt portion of debenture financing. Prior to January 1, 2007, transaction costs were included in deferred charges and amortized over the term of the mortgage loan or debenture financing and the amortization charges were included in "Amortization" expense. Effective January 1, 2007, transaction costs are charged directly to the associated mortgage loan or debenture financing liability and amortized over the expected life of the instrument using the effective interest method of amortization. Amortization charges related to transaction costs are now included in "Financing" expense.

As a result of the new policy, there has been a significant increase in financing expense and a corresponding decrease in amortization expense. Specifically, for the three and nine months period ended September 30, 2007, financing expense is $360,720 and $1,113,570 higher, respectively, than would have been reported under the previous policy, while amortization expense is lower by $360,720 and $1,113,570, respectively.

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

Impact of Change in Accounting Estimate - Income Taxes

As indicated in note 2 to the financial statements, a change in income tax legislation which was enacted in June 2007 resulted in a change in the tax status of the Trust which, in turn, resulted in a significant change in the accounting estimate that is used in the calculation of future tax assets and liabilities.

As a result of the change in the accounting estimate, a future income tax asset of $3,351,389 has been recognized as an asset on the consolidated balance sheet of the Trust, with a corresponding credit to future income tax recovery, of which $1,479,810 is reflected in the 2007 third quarter results. In general terms, a future tax asset reflects the future tax savings or tax recovery derived by the application of capital cost allowance to the amount by which asset balances for income tax purposes exceed the assets balances determined in accordance with GAAP. The future income tax recovery is a non-cash item and has no impact on the cash flows or distributions of the Trust.

The change in estimate was implemented prospectively in the second quarter of 2007. As the prospective application of the change in accounting estimate does not encompass restatement of the future income tax recovery for prior periods, the change in accounting estimate has significantly impacted the comparability of the bottom-line results of the Trust for the 2007 and 2006 operating periods. As noted above, the income of the Trust is $1,479,810 higher than it otherwise would have been as a result of the change in accounting estimate.

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

As disclosed in note 12 to the third quarter financial statements, the total future income tax recovery for the three and nine month period ended September 30, 2007 is comprised of other components, aside from the amount which pertains to the change in the tax status of the Trust.

Balance Sheet Classification of Deferred Charges and Intangibles

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

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

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

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

Analysis of Income/Loss

General

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

Overall, operating results for the third quarter of 2007 were generally in accordance with expectations, as follows:

(i) operating income increased by 60.0% and 56.5%, respectively, for the three month and nine months period ended September 30, 2007, compared to the corresponding periods in 2006. In comparison to the second quarter of 2007, operating income increased by 20.3%, during the third quarter of 2007;

(ii) cash flow from operating activities, excluding changes in non-cash operating items, increased by 45.3% and 6.9%, respectively, for the three month and nine month period ended September 30, 2007, compared to the corresponding periods in 2006. In comparison to the second quarter of 2007, cash flow from operating activities, excluding changes in non-cash operating items, increased by 19.0% during the third quarter of 2007; and

(iii) after excluding future income tax recoveries LREIT incurred a loss of $1,188,347 and $4,391,440 for the three and nine months ended September 30, 2007 respectively, compared to losses of $1,066,410 and $2,854,990 for the corresponding periods in 2006. The net loss, excluding future income tax recoveries, decreased by $350,713 in the third quarter of 2007, compared to the second quarter of 2007.

Income (Loss) for the Period

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006 (restated)	2007	2006 (restated)
Operating income - rental properties	$ 7,825,483	$ 4,499,195	$ 18,626,129	$ 11,887,435
Interest income - Trust	19,825	413,311	623,718	413,311
Operating income *	7,845,308	4,912,506	19,249,847	12,300,746
Financing expense				
Mortgage loans	4,353,368	2,132,482	10,401,223	5,580,083
Debentures	1,617,178	866,049	4,819,559	2,544,718
Amortization of transaction costs	360,720	-	1,113,570	-
	6,331,266	2,998,531	16,334,352	8,124,801
Operating income, net of financing expense*	1,514,042	1,913,975	2,915,495	4,175,945
Trust expense	465,499	728,057	1,457,558	1,214,430
Income, before amortization, future income tax recovery and non-controlling interest*	1,048,543	1,185,918	1,457,937	2,961,515
Amortization	2,245,918	2,285,747	5,897,389	5,851,770
Future income tax recovery	(1,914,082)	(236,454)	(4,099,434)	(280,004)
Non-controlling interest	9,028	33,419	48,012	35,265
Income (Loss) for the period	$ 725,735	$ (829,956)	$ (292,006)	$ (2,574,986)

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

Three Month Period Ended September 30, 2007

Income Before Amortization, Future Income Tax Recovery and Non-Controlling Interest

During the third quarter of 2007, the income of LREIT, before amortization, future income tax recovery and non-controlling interest, decreased by $137,375 or 12%, compared to the third quarter of 2006. After adjusting the 2007 results to deduct amortization charges in regard to transaction costs of $360,720, the income of LREIT before amortization, future income tax recovery and non-controlling interest increased by $223,345 or 19%, compared to the third quarter of 2006. The increase in income, as adjusted, reflects an increase in operating income of $2.93 Million and a decrease in Trust expense of approximately $262,000, almost entirely offset by an increase in financing expense of $2.97 Million, excluding amortization of transaction costs.

The increase in operating income is almost entirely due to an increase in operating income from rental properties. The increase in financing expense is comprised of an increase in financing expense pertaining to mortgage loans, including interim loans, and an increase in financing expense in regard to convertible debentures. The decrease in Trust expense reflects a decrease in unit based compensation expense, partially offset by an increase in service fees and stock exchange listing fees.

Income (Loss) For the Period

After considering total amortization charges, future income tax recovery and non-controlling interest the Trust completed the third quarter of 2007 with income of $725,735, compared to a loss of $829,956 in the third quarter of 2006. The improvement in the bottom-line results is almost entirely attributable to the future tax recovery of $1,914,082, which was recorded in the third quarter of 2007, of which $1,479,810 pertains to the change in the tax status of the Trust and the corresponding change in accounting estimate.

Financing Expense - Mortgage Loans

Financing expense on mortgage loans increased by $2,220,886 or 104.1% during the third quarter of 2007, compared to the third quarter of 2006. As a percentage of operating income, financing expense on mortgage loans increased from 43.4% in the third quarter of 2006 to 55.5% in the third quarter of 2007. The increase reflects the incremental interest expense on additional mortgage loan financing, including:

- the mortgage loan financing which was assumed or arranged for new property acquisitions in 2007;

- the interim mortgage loans which were obtained in 2007; and

- the upward refinancing of mortgage loans for properties which were acquired subsequent to September 30, 2006.

Financing Expense - Debentures

During the third quarter of 2007, financing expense on convertible debentures increased by $751,129 or 87%, compared to the third quarter of 2006. The increase mainly reflects the incremental financing expense which resulted from the issuance of the $25.73 Million Series G convertible debentures in December 2006.

As a percentage of operating income, financing expense on debentures increased from 18% in the third quarter of 2006 to 21% in the third quarter of 2007. The increase in the ratio of debenture financing expense, relative to operating income, mainly reflects an increase in the relative amount of debenture capital due to a change in the overall capital structure of the Trust. As of September 30, 2007, the ratio of convertible debenture debt, at face value, compared to the unit component of the total equity of the Trust was 51%. As of September 30, 2006, the convertible debenture debt ratio was 40%.

Amortization Expense

During the third quarter of 2007, total amortization expense decreased by a marginal amount of $39,829 or 1.7%, mainly due to the change in accounting policy regarding the amortization of transaction costs. After adjusting amortization expense to income amortization charges in regard to transaction costs, amortization expense increased by $320,891 or 14%.

During the third quarter of 2007, the ratio of amortization expense, as adjusted, to operating income was 33%, compared to 47% in 2006. The decrease in the ratio of amortization expense, relative to operating income mainly reflects a proportionately lower allocation of a portion of the purchase price to intangible assets for properties which were acquired subsequent to September 30, 2006 and the fact that intangible assets are amortized over a shorter time frame than other components of the acquisition cost.

Trust Expense

Trust expense decreased by $262,558 during the third quarter of 2007, compared to the third quarter of 2006. The decrease in Trust expense is mainly due to the following factors:

- a decrease in unit-based compensation expense of $384,918. Unit-based compensation expense was comparatively high during the third quarter of 2006 as a high proportion of the unit options which were issued in July 2006 vested immediately, resulting in a very significant lump-sum charge to unit-based compensation expense in the third quarter of 2006.

- an increase in the monthly service fee of Shelter Canadian in regard to administrative and asset management services due to the increased size of the Trust's assets. The fee is equal to 0.3% of the net book value of the assets of LREIT, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. The asset management for the three months ended September 30, 2007 was $304,923, compared to $163,308 for the three months ended September 30, 2006.

  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

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

Nine Months Ended September 30, 2007

During the nine months ended September 30, 2007, the income of LREIT, before amortization, future income tax recovery and non-controlling interest, decreased by $1,503,578 or 51%, compared to the corresponding period in 2006. After adjusting the 2007 results to deduct amortization charges in regard to transaction costs, the income of LREIT before amortization, future income tax recovery and non-controlling interest decreased by $390,008 or 13%, compared to 2006. The decrease in net income for the nine month period, as adjusted, reflects an increase in operating income, fully offset by an increase in financing expense and further reduced by an increase in Trust expenses.

The increase in operating income for the nine month period is due to the same factors which contributed to the increase in operating income for the third quarter of 2007. The increase in financing expense exceeded the increase in operating income, primarily due to the extent of the interim and upward refinanced loans which were arranged during the period. The increase in Trust expense is mainly due to an increase in service fees and an increase in stock exchange listing fees.

After considering amortization, future income tax recovery and non-controlling interest, the net loss of LREIT, for the nine months ended September 30, 2007, decreased by $2,282,980, compared to the first nine months of 2006. Similar to the third quarter results for 2007, the improvement in the bottom-line results for the nine month period is almost entirely attributable to the future income tax recovery of $3,351,389, which was recorded as a result of the change in the tax status of the Trust and the corresponding change in accounting estimates.

Operating Income

General

During the third quarter of 2007, the operating income of LREIT increased by approximately $2.93 Million or 60%, compared to the third quarter of 2006. The increase in the operating income reflects the incremental income from properties which were acquired during or subsequent to the third quarter of 2006, as well as a significant improvement in the operating income of the residential properties which have been in the LREIT portfolio since July 1, 2006.

During the third quarter of 2007, 38 properties, with a total acquisition cost of $356.2 Million, contributed to the operating income of LREIT. During the third quarter of 2006, 33 properties, with a total acquisition cost of $233.8 Million, contributed to operating income. (The number of properties excludes any properties which were classified as "Properties Under Development" during the applicable quarter.)

Since 2004, LREIT has focused exclusively on the acquisition of residential properties. During the first nine months of 2007, residential properties accounted for 87% of the total operating income of the Trust, compared to 75% during the first nine months of 2006.

Notwithstanding the focus on residential properties, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties, McIvor Mall and the Kenaston Property, were 98.4% and 98.8% leased respectively, as of September 30, 2007.

As a result of the focus on residential property acquisitions and as the operating results of the commercial properties are relatively stable, the following discussion regarding revenues and operating costs is based on an analysis of the residential property portfolio.

Revenue from Residential Properties

Analysis of Rental Revenue by Geographic Market Segment - Residential Properties

	Percentage of Total Rental Revenue			
	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Alberta	53 %	40 %	49 %	39 %
Saskatchewan	24 %	34 %	27 %	34 %
Northwest Territories	12 %	10 %	13 %	12 %
Manitoba	4 %	5 %	4 %	6 %
British Columbia	3 %	5 %	4 %	6 %
Ontario	4 %	6 %	3 %	3 %
	100 %	100 %	100 %	100 %

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

During the first nine months of 2007, the percentage of revenues contributed by the Alberta property portfolio increased significantly, compared to 2006, as a result of the acquisition of Woodland Park in March 2007 and Lakewood Manor in July 2007. During the nine month period ended September 30, 2007, revenues from residential properties in Alberta increased by $7,057,075, compared to the corresponding period in 2006, of which $3,490,931 or 49.5% is attributable to Woodland Park and Lakewood Manor.

Operating Costs for Residential Properties

Overall Residential Portfolio

Geographic Analysis of Operating Cost Ratio - Multi-Family Properties

	Operating Cost Ratio			
	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Alberta	25 %	30 %	30 %	35 %
Northwest Territories	36 %	37 %	39 %	42 %
Manitoba	52 %	64 %	53 %	54 %
Saskatchewan	56 %	53 %	57 %	55 %
British Columbia	54 %	62 %	58 %	74 %
Ontario	65 %	63 %	65 %	60 %
Total residential portfolio	37 %	44 %	42 %	47 %

During the third quarter of 2007, there was a significant improvement in the operating cost ratio of the residential property portfolio, with the ratio decreasing from 44% during the third quarter of 2006 to 37% during the third quarter of 2007.

The operating results for the Alberta portfolio have the most significant impact of the overall ratio, given the relative size of the Alberta portfolio, compared to other provinces. For the Alberta portfolio, the operating cost ratio decreased from 30% in the third quarter of 2006 to 25% in the third quarter of 2007. The decrease in ratio mainly reflects the acquisition of Woodland Park and Lakewood Manor in March 2007 and July 2007 respectively, and the comparatively high profit margin associated with properties which are located in Fort McMurray, Alberta.

The province with the most significant change in operating cost ratio was Manitoba, with the operating cost ratio decreasing from 64% during the third quarter of 2006 to 52% during the third quarter of 2007. The lower operating cost ratio mainly reflects the completion of the renovation program at Highland Tower.

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

Same Property Analysis

Nine Month Comparative

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

As disclosed in the following analysis, the combined revenue of the 18 properties increased by 13.3% during the first nine months of 2007, compared to the first nine months of 2006, while operating income increased by 21.6% during the same period. The improvement in operating results is mainly attributable to Greenwood Gardens and Nelson Ridge Estates. For Greenwood Gardens, the improvement mainly reflects a significant reduction in the vacancy loss and in bad debt expense. For Nelson Ridge Estates, the improvement is mainly attributable to rental rate increases.

	Nine Months Ended September 30		Increase (Decrease)	
	2007	2006 (restated)	Amount	%
Total revenue	$ 16,521,956	$ 14,588,915	$ 1,933,041	13.3 %
Operating income	$ 9,376,098	$ 7,713,335	$ 1,662,763	21.6 %

Three Month Comparative

As of July 1, 2006, there were 29 residential properties in the LREIT portfolio.

As disclosed in the following analysis, the combined revenue of the 29 properties increased by 16% during the third quarter of 2007, compared to the third quarter of 2006, while operating income increased by 19% during the same period. The improvement in operating results mainly reflects rental rate increases and lower vacancy rates for the Alberta portfolio, particularly for properties which are located in Fort McMurray.

	Three Months Ended September 30		Increase (Decrease)	
	2007	2006 (restated)	Amount	%
Total revenue	$ 8,003,235	$ 6,903,951	$ 1,099,284	15.9 %
Operating income	$ 4,637,982	$ 3,885,566	$ 752,416	19.4 %

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 provides the oil sands company with an option to extend the lease for an additional two years, at a 10% increase in the annual absolute net operating income, and a three year purchase option to acquire all of the 64 townhouse units. The purchase price option for the townhouse units is set at $26,169,600 for 2008; $26,873,600 for 2009; and $27,667,200 for 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 disclosed in the section of this report entitled "Existing Properties Under Development", the construction of the 59 suite expansion of Elgin Lodge commenced in December 2006. During the five year period following the closing date of the acquisition, Kingsway is entitled to a one-time payment equal to 50% of the amount, if any, by which the appraised value of the expanded property exceeds the total cost to LREIT, including the expansion cost. The one-time payment will be net of a 12% annual return on the LREIT equity investment.

The Clarington Seniors Residence

LREIT has also retained Kingsway to manage The Clarington Seniors Residence for a ten-year term, 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, if any, by which the appraised value of the property exceeds the original acquisition cost to LREIT. The one-time payment will be net of an 8% annual return on the LREIT equity investment.

Laird's Landing (formerly known as "Park View Apartments")

LREIT has entered into a Development Agreement with Shelter Canadian Properties Limited in regard to the construction of Laird's Landing. Details of the Development Agreement are disclosed in the section of this report entitled "Related Party Transactions".

Comparison to Preceding Quarter

Comparison to 2007 First Quarter

	Three Months Ended		
	September 30, 2007	June 30, 2007	Increase (Decrease)
Operating income - rental properties	$ 7,825,483	$ 6,230,562	$ 1,594,921
Interest income - Trust	19,825	289,201	(269,376)
Operating income	7,845,308	6,519,763	1,325,545
Financing expense			
Mortgage loans	4,353,368	3,496,451	856,917
Debentures	1,617,178	1,610,378	6,800
Transaction costs	360,720	375,038	(14,318)
	6,331,266	5,481,867	849,399
Operating income, net of financing expense	1,514,042	1,037,896	476,146
Trust expense	465,499	533,736	(68,237)
Income, before amortization, future income tax recovery and non-controlling interest	1,048,543	504,160	544,383
Amortization	2,245,918	1,936,304	309,614
Future income tax recovery	(1,914,082)	(2,105,478)	191,396
Non-controlling interest	9,028	15,021	(5,993)
Income for the period	$ 725,735	$ 688,355	$ 37,380

Analysis of Incremental Income

Excluding future income tax recoveries, LREIT incurred a loss of $1,188,347 during the third quarter of 2007, compared to a loss of $1,417,123 during the second quarter of 2007. The decrease in the loss mainly reflects the following factors:

- an increase in operating income of $1,325,545. The increase in operating income mainly reflects the inclusion of Lakewood Manor as an income-producing property, effective July 1, 2007, as well as the contribution of a full quarter of operating income for the two properties which were acquired in May 2007.

- an increase in mortgage loan financing expense, excluding amortization charges for transaction costs, of $856,917 or 25%. The increase reflects the additional mortgage financing which was obtained for Lakewood Manor, as well the incremental interest on the upward refinanced loans that were arranged during the third quarter of 2007.

- a decrease in Trust expense of $68,237. The decrease mainly reflects the increased charge to unit-based compensation expense during the second quarter of 2007 as a result of the unit options which were issued in June 2007.

- an increase in amortization expense, including transaction costs, of $295,296, mainly due to the inclusion of Lakewood Manor in the portfolio of income-producing properties in the third quarter of 2007.

- including future income tax recoveries in the total amount of $4,019,560, LREIT completed the three month period ended September 30, 2007 with income of $725,735, compared to income of $688,355 during the second quarter of 2007. As previously discussed, the high level of future income tax recoveries is mainly attributable to a change in accounting estimates which was implemented in the second quarter of 2007 due to a change in the tax status of the Trust. Specifically, the portion of the future income tax recovery which is attributable to the change in accounting estimates is $1,871,579 for the second quarter of 2007 and $1,478,809 for the third quarter.

Summary of Quarterly Results

Quarterly Analysis

	2007			2006
	Q3	Q2	Q1	Q4
			(restated)	(restated)
Total revenue	$ 12,597,091	$ 11,127,584	$ 9,051,765	$ 8,835,557
Operating income	$ 7,845,308	$ 6,519,763	$ 4,884,730	$ 4,796,613
Income (loss) for the period (1)	$ 725,735	$ 688,355	$ (1,706,093)	$ (563,581)
PER UNIT				
Operating income				
- basic	$ 0.449	$ 0.374	$ 0.281	$ 0.278
- diluted	$ 0.331	$ 0.295	$ 0.255	$ 0.267
Income (loss) for the period (1)				
- basic	$ 0.042	$ 0.039	$ (0.102)	$ (0.033)
- diluted	$ 0.042	$ 0.039	$ (0.102)	$ (0.033)

Quarterly Analysis

	2006			2005
	Q3	Q2	Q1	Q4
	(restated)	(restated)	(restated)	(restated)
Total revenue	$ 8,370,252	$ 6,891,004	$ 66,442,035	$ 5,579,894
Operating income	$ 4,912,506	$ 4,025,584	$ 3,362,387	$ 2,876,420
Income (loss) for the period	$ (829,956)	$ (773,043)	$ (971,986)	$ (437,352)
PER UNIT				
Operating income				
- basic	$ 0.284	$ 0.235	$ 0.200	$ 0.288
- diluted	$ 0.266	$ 0.222	$ 0.187	$ 0.227
Income (loss) for the period				
- basic	$ (0.048)	$ (0.045)	$ (0.058)	$ (0.043)
- diluted	$ (0.048)	$ (0.045)	$ (0.058)	$ (0.043)

Note:

(1) After deducting the future income tax recoveries which were recorded in the second and third quarter of 2007, primarily due to a change in accounting estimates, the Trust incurred a loss of $1,417,123 and $1,188,347, for the second and third quarter of 2007, respectively. On a basic and diluted per unit basis, the loss for the second and third quarter of 2007 is $0.081 and $0.068 , respectively.

CAPITAL RESOURCES AND LIQUIDITY

Cash from Operating Activities

During the first nine months of 2007, LREIT generated cash from operating activities of $3,612,312. After excluding the cash flows pertaining to non-cash operating activities, the operating cash flow for the first nine months of 2007 was $4,254,749, compared to $3,962,552 during the first nine months of 2006. The increase of $292,197 mainly reflects an increase in operating income, partially offset by an increase in the cash component of financing expense and trust expense. Specifically, operating income increased by $6,949,101, while the cash component of financing expense and trust expense increased by $6,339,994 and $423,624, respectively.

The increase in the cash component of financing expense reflects an increase in interest expense on mortgage loans payable of $4,821,140 and an increase in interest payments on convertible debentures of $1,369,497. The increase in interest payments on convertible debenture debt reflects the issuance of $25.732 Million of debenture debt on December 8, 2006.

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

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

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

During the third quarter of 2007, FFO decreased by $24,092, compared to the third quarter of 2006, while AFFO decreased by $386,464. On a per unit basis, FFO decreased by $0.002 per unit, while AFFO decreased by $0.023 per unit. For the nine month comparative figures, FFO and AFFO decreased by $1,108,174 and $808,139, respectively in 2007, representing a decrease of $0.066 per unit for FFO and $0.050 per unit for AFFO.

Funds from Operations/Adjusted Funds from Operations *

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006 (restated)	2007	2006 (restated)
Income (loss) for the period	$ 725,735	$ (829,956)	$ (292,006)	$ (2,574,986)
Add (Deduct):				
Total amortization expense	2,245,918	2,285,747	5,897,389	5,851,770
Amortization of deferred financing costs	-	(113,283)	-	(395,404)
Future income tax recovery	(1,914,082)	(236,454)	(4,099,434)	(280,004)
Non-controlling interest	(9,028)	(33,419)	(48,012)	(35,265)
Funds from operations	1,048,543	1,072,635	1,457,937	2,566,111
Add (Deduct):				
Straight-line rent adjustment	(10,072)	(13,334)	(42,952)	(36,515)
Net amortization of above/below market in-place lease	399	26	1,199	78
Accretion of debt component of convertible debentures	1,617,178	866,049	4,819,559	2,544,718
Interest expense on convertible debentures	(1,011,399)	(576,758)	(3,119,769)	(1,779,587)
Unit-based compensation	55,839	440,757	268,239	448,735
Tenant inducement and leasing expenses	(4,356)	(7,526)	(100,209)	(62,882)
Improvements to income properties	(511,100)	(210,353)	(936,907)	(525,422)
Adjusted funds from operations	$ 1,185,032	$ 1,571,496	$ 2,347,097	$ 3,155,236
FFO per unit				
- basic	$ 0.060	$ 0.062	$ 0.084	$ 0.150
- diluted	$ 0.059	$ 0.060	$ 0.082	$ 0.148
AFFO per unit				
- basic	$ 0.068	$ 0.091	$ 0.135	$ 0.185
- diluted	$ 0.066	$ 0.089	$ 0.132	$ 0.182

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

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

Distributable Income

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

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

Reconciliation Between Cash from Operating Activities and Distributable Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006 (restated)	2007	2006 (restated)
Cash provided by operating activities, per Statement of Cash Flow	$ 1,431,198	$ 1,245,311	$ 3,612,312	$ 3,765,953
Changes in non-cash operating items	486,243	74,379	642,437	196,599
	1,917,441	1,319,690	4,254,749	3,962,552
Add (deduct):				
Interest paid on convertible debentures	1,150,810	1,152,200	3,262,594	1,893,097
Interest expense on convertible debentures	(1,011,399)	(576,758)	(3,119,769)	(1,779,587)
Tenant inducement and leasing expenses	4,356	7,526	100,209	62,882
Distributable income	$ 2,061,208	$ 1,902,658	$ 4,497,783	$ 4,138,944
Per unit				
- Basic	$ 0.118	$ 0.110	$ 0.258	$ 0.242
- Diluted	$ 0.114	$ 0.107	$ 0.253	$ 0.239

As disclosed in the following summary, the total distributions of LREIT for the first nine months of 2007 exceeded distributable income by $2,819,417 and cash from operating activities by $3,704,888.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006 (restated)	2007	2006 (restated)
Total distributions	$ 2,451,342	$ 2,417,797	$ 7,317,200	$ 7,186,707
Distributable income	$ 2,061,208	$ 1,902,658	$ 4,497,783	$ 4,138,944
Excess of distributions over distributable income	$ (390,134)	$ (515,139)	$ (2,819,417)	$ (3,047,763)
Cash provided by operating activities	$ 1,431,198	$ 1,245,311	$ 3,612,312	$ 3,765,953
Excess of distributions over cash provided by operating activities	$ (1,020,144)	$ (1,172,486)	$ (3,704,888)	$ (3,420,754)

Financing/Investment Activities

The chart on page 33 provides a summary of the cash flow activities of the Trust.

As disclosed in the chart, the net cash provided by financing activities exceeded the net cash used in investment activities, excluding cash distributions, by $6,846,593 during the nine months ended September 30, 2007. Financing activities consisted almost exclusively of transactions related to mortgage loan financing, while investment activities consisted primarily of cash outflows associated with the acquisition and development of new properties. Included in investment activities are improvements to income properties of $3,021,912, the details of which are provided in note 2 of the chart.

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 cash distributions, the net cash increase for the first nine months of 2007 was $4,171,081, or $3,355,121 after deducting the September 2007 cash distribution of $815,960 which was paid on October 15, 2007. After accounting for the opening cash balance of $1,588,271, LREIT completed the first nine months of 2007 with a cash balance of $5,759,352.

Distribution Shortfall

As disclosed on the chart on page 33, the cash outflow in regard to cash distributions for the first nine months of 2007 was $6,287,824, while the cash inflow from operating activities was $3,612,312, representing a difference of $2,675,512. To the extent that the cash outflow from cash distributions exceeded the cash inflow from operating activities, the difference was effectively funded from financing activities, or more specifically, from mortgage proceeds. As disclosed in the analysis of distributable income, the shortfall between operating cash flows and cash distributions increases to $3,704,888 after providing for the September 2007 cash distribution of $815,960 which was paid on October 15, 2007.

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

Cash Flow Analysis (Note 1)

	Three Months Ended September 30, 2007	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007	Nine Months Ended September 30, 2007
Financing Activities:				
Mortgage proceeds	$ 71,472,391	$ 44,889,270	$ 49,508,978	$ 165,870,639
Mortgage principal payments	(1,296,072)	(1,135,533)	(935,021)	(3,366,626)
Repayment of Series A debentures	(1,760,850)	-	-	(1,760,850)
Mortgage loans repaid on refinancing	(768,743)	(27,964,166)	(2,500,000)	(31,232,909)
Transaction costs	(549,679)	(169,171)	(713,894)	(1,432,744)
Total financing	67,097,047	15,620,400	45,360,063	128,077,510
Investing Activities:				
Property acquisitions	(51,870,000)	(4,743,012)	(34,578,953)	(91,191,965)
Improvements to income properties (Note 2)	(828,686)	(979,452)	(1,213,774)	(3,021,912)
Properties under development	(14,386,756)	(4,966,346)	(5,253,628)	(24,606,730)
Deposits	(415,975)	(50,000)	(134,025)	(600,000)
Restricted cash	571,441	(101,913)	(2,279,838)	(1,810,310)
Total investing	(66,929,976)	(10,840,723)	(43,460,218)	(121,230,917)
Net cash inflow of investment capital	167,071	4,779,677	1,899,845	6,846,593
Operating activities	1,431,198	1,044,668	1,136,446	3,612,312
Cash before distributions	1,598,269	5,824,345	3,036,291	10,458,905
Cash distributions	(2,407,634)	(2,329,738)	(1,550,452)	(6,287,824)
Net cash inflow	(809,365)	3,494,607	1,485,839	4,171,081
Cash, beginning of period	6,568,717	3,074,110	1,588,271	1,588,271
Cash, ending of period	$ 5,759,352	$ 6,568,717	$ 3,074,110	$ 5,759,352

Note 1 - GAAP Measurements

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

Note 2 - Improvements to Income Properties

	Three Months Ended September 30, 2007	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007
Renovation costs for Highland Tower	$ 355,262	$ 914,271	$ 1,465,578
Improvements to other Properties	511,100	333,515	92,292
	866,362	1,247,786	1,557,870
Asset additions included in accounts payable	(37,676)	(268,334)	(344,096)
Cash outlay - asset additions	$ 828,686	$ 979,452	$ 1,213,774

Working Capital Requirements

General

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

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

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 and capital improvements, subsequent to September 30, 2007.

Property	Approximate Amount	Description
Laird's Landing (ongoing funding - projected completion in January 2008)	$ nil	- represents the total maximum construction costs of $57.7 Million, net of the projected financing of $45 Million less the cash outlay to September 30, 2007 of approximately $12.7 Million
Elgin Lodge (projected completion in October 2007)	nil	- represents the projected construction costs in the amount of $10.4 Million, less the mortgage financing of approximately $7.7 Million less the cash outlay to September 30, 2007 of approximately $2.7 Million
Millennium Village (deferred payment, amount due March 2008)	0.4 Million	- represents the $25.2 Million purchase price plus estimated accrued interest to September 30, 2007 of $53,565, net of mortgage financing of $19.8 Million, less the mortgage loan receivable of $4 Million and deposit of $1 Million
Parsons Landing - mortgage loan (funded November 1, 2007)	9.6 Million	- represents the mortgage loan receivable to be funded in the amount of $10.0 Million, less the $400,000 funded to September 30, 2007. The loan is secured by a charge registered against the income property
Parsons Landing - acquisition (projected closing of Phase I in March 2008 and Phase II in June 2008)	9.4 Million	- represents the total purchase price of $64.4 Million, less the estimated mortgage loan financing of $45 Million, less the $10 Million mortgage loan receivable
	$19.4 Million	

Long-term Debt

A summary of the long-term debt obligations of LREIT for the remainder of 2007 and for each of the next five years and thereafter, is provided in the following chart:

Summary of Contractual Obligations - Long-term Debt

Payments Due by Period	Total	< 1 Year	2 - 3 Years	4 - 5 Years	> 5 Years
Mortgage loans	$ 330,525,955	$ 45,076,382	$ 71,170,660	$ 19,764,140	$ 194,514,773

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, under similar terms and conditions, effective on the maturity date of the loans.

The analysis of long-term debt obligations excludes any amounts of principal which may become due in regard to the convertible debentures of the Trust. The Series D convertible debentures mature on March 16, 2008 and as of September 30, 2007, the net amount outstanding in regard to the debentures is $1,608,000.

Sources of Capital

Short-term

As indicated on the chart on page 34, LREIT requires approximately $19.4 Million to fund its existing capital commitments in regard to upcoming property acquisitions, including $0.4 Million in regard to the acquisition of Millennium Village. As of September 30, 2007, the cash balance of LREIT was $5,759,352, while the working capital balance, excluding accrued liabilities for property acquisitions or properties under development was $5,589,672.

The refinancing of under-leveraged properties is expected to serve as the primary source of additional capital during the remainder of 2007. The refinancing may occur in the form of an upward refinanced loan on a specific property or as a interim mortgage loan secured by two or more properties. Since September 30, 2007, LREIT has received upward refinancing proceeds of $8.5 Million and arranged additional interim mortgage loan financing of $2 Million. Financing proposals for an additional $25.8 Million of mortgage loans are also under negotiation with lenders.

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

Longer Term

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

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

Trends

In general, it is anticipated that the operating results for the fourth quarter of 2007 will be relatively similar to the third quarter results, as the portfolio of "income-producing" properties is not expected to change significantly for the remainder of the year. Although the acquisition of Millennium Village is expected to be fully completed during the fourth quarter of 2007, it is anticipated that the impact of the new property acquisition on fourth quarter operating income will be minimal, as the property is being acquired in the lease-up stage of development. The increase in financing expense which will result from the refinancing of under-leveraged properties may also surpass any gains in operating income from the existing portfolio of income-producing properties.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

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

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.

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

Development Agreement for Laird's Landing (formerly known as "Park View Apartments")

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

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

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

(iii) provide all development and construction supervision services for the Project. The arrangement provides for Shelter Canadian to earn a development fee from LREIT in the maximum amount of $1,000,000, in consideration for its services under the development agreement, representing approximately 1.73% of the total estimated Project cost. A development fee of $670,206 has been recorded to September 30, 2007, of which $470,206 was payable to Shelter Canadian as of September 30, 2007.

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

CHANGES IN ACCOUNTING POLICIES

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

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

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

General

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

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 continue to pay distributions which are in excess of its Distributable Income is dependent upon the level of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. Cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if LREIT is unable to provide a satisfactory return to Unitholders.

Public Market Risk

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

Closing of Proposed Acquisitions

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

Concentration of LREIT's Portfolio in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. As of September 30, 2007, there were 40 properties in the real estate portfolio of LREIT, including four commercial properties and 36 residential properties, comprising 2,983 rental units. Ten of the residential properties, comprising a total of 720 suites are located in Fort McMurray, including Phase I and Phase II of Millennium Village. The ten properties have an aggregate acquisition price of $183.9 Million, which represents approximately 46.4% of the total aggregate purchase price of the real estate portfolio.

In October 2007, LREIT acquired Phase III of Millennium Village and is expected to complete the acquisition of Phase IV on November 15, 2007. In addition, LREIT is under contract to acquire or in the process of developing two additional multi-family residential properties in Fort McMurray. The two properties combined with Phase III and Phase IV of Millennium Village comprise a total of 381 suites and have an aggregate acquisition price/development cost of approximately $133.8 Million. Assuming the completion of the committed acquisitions and the property under development, LREIT will have a total of 12 multi-family residential properties in Fort McMurray, comprising a total of 1,101 suites, with an aggregate acquisition price/development cost to LREIT of approximately $317.8 Million. The 12 Fort McMurray properties will represent approximately 27.0% of the total multi-family residential suites and approximately 59.9% of the total aggregate acquisition price/development cost to LREIT of its real estate portfolio.

Changes to Tax Treatment of Trusts

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

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

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

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

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

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

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

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

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to 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 September 30, 2007, have represented a reduction in adjusted cost base of the units.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2007 Third 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
November 7, 2007