2007 ANNUAL REPORT

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HIGHLIGHTS

Acquisition and Development - 2007

- Acquired seven multi-family residential properties during 2007, comprised of 747 suites, at a total purchase price of $169.0 Million.
- Invested $36.8 Million in construction, expansion and renovation costs primarily in regard to Laird's Landing (formerly Park View Apartments) and Elgin Lodge.
- Year end property portfolio consists of 40 properties, comprised of 3,074 suites and 224,545 square feet of commercial leasable area, including Laird's Landing, a 189 suite apartment complex which was under construction and approximately 75% complete as of December 31, 2007.

Financial

Compared to 2006:

- Rental revenues increased by $16.5 Million or 57%.
- Net operating income increased by $10.0 Million or 58% in total and by $0.555 or 56% on a per unit basis.
- Operating margin for property portfolio improved from 56% in 2006 to 58% in 2007.
- "Same property" revenues increased by $2.6 Million or 13%, while "same property" net operating income increased by $2.2 Million or 21%.

Capital Structure

- Financed $176.8 Million of mortgage debt in 2007.
- Weighted average interest rate on the aggregate mortgage loan balance of 6.2% at December 31, 2007, compared to 5.7% of December 31, 2006.
- Mortgage loan debt to estimated current value ratio of 59.4% at December 31, 2007, compared to 61.8% at December 31, 2006.

Ongoing Investment Activities - 2008

- Construction of Laird's Landing to be completed in April, 2008 at a total cost of $57.75 Million.
- One other property in Fort McMurray, Alberta (Parsons Landing) is contracted for acquisition in 2008 at a cost of $63.8 Million.
- Acquisition of Colony Square, a 90% interest in a mixed use development in downtown Winnipeg, Manitoba, comprised of 428 suites and 83,200 square feet of leasable office/commercial space, is scheduled to close on October 1, 2008 at a purchase price of $34.2 Million.

Estimated Current Value

- The real estate portfolio of LREIT had a estimated current market value of $642 Million as of December 31, 2007.

Unitholder Returns

	Year Ended December 31, 2007	Year Ended December 31, 2006
Distribution per unit	$0.56	$0.56
Opening unit price	$5.90	$5.25
Closing unit price	$4.99	$5.90
Annualized yield on opening price (distribution/opening unit price)	9.5%	10.7%
Projected cash distribution - 2008:	$0.56	
Closing unit price - March 24, 2008:	$4.49	
Current yield:	12.5%	

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

The primary objective of Lanesborough Real Estate Investment Trust ("LREIT") is to create a large portfolio of multi-unit residential properties, focusing on the acquisition of properties with stable yields, low vacancy levels and growth potential.

In 2007, the ongoing efforts of LREIT to maximize the long-term value of the real estate portfolio are highlighted in three main areas:

1. Growth in asset base - During 2007, the real estate portfolio of LREIT increased by over $205.8 Million, representing the highest single year growth rate since the inception of the Trust in 2002. The increase in the real estate portfolio includes $169 Million of new property acquisitions and the investment of $36.8 Million in major renovation and expansion projects.

2. Concentration of new property acquisitions in one of Canada's strongest rental markets - In 2007, approximately 72% of LREIT's investment in new properties was related to the acquisition of three multi-family properties in Fort McMurray, Alberta, only two of which had progressed to the "income-producing" stage before the fourth quarter of 2007. Overall, LREIT's total portfolio of income-producing properties in Fort McMurray achieved a 96% occupancy level in 2007 and an operating profit margin of 73%, with the rental rates for Millennium Village and Laird's Landing approximately 18% and 27% higher than originally anticipated in 2006, respectively. In 2008, the outlook for the Fort McMurray portfolio is more favourable as a result of several factors, including the quality of the new properties, the existence of long-term lease agreements with major corporations and the continued high rate of growth in the Alberta oilsands.

3. Sustained growth in "same property" NOI - During 2007, the revenues and net operating income ("NOI") for the 18 properties which have been owned by LREIT since January 1, 2006 increased by 13% and 21% respectively, compared to 2006.

The positive accomplishments of LREIT, in terms of creating an accretive investment base, were tempered by an increase in financing expense in 2007, in large part due to the additional interest expense which was incurred as a result of the issuance of $25.7 Million of convertible debentures in December 2006. The cost of the convertible debentures was fully reflected in the 2007 income and cash flow results, in the form of interest expense of $1.93 Million, whereas the revenue from the investment of the debenture proceeds is gradually being realized as additional properties are acquired and/or as properties move from the "development" stage to the "income-producing" stage by the end of 2008.

In particular, the increased financing costs are reflected in "cash flow" measurements, including Cash provided by Operating Activities, Distributable Income, Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO), whereas the positive developments in terms of the longer term income-producing capabilities of the Trust are evident in the increase in revenue, NOI and current portfolio value, as summarized in the following chart:

Financial Summary - 2007

	Year Ended December 31					
	Total			Per Unit - Basic		
	2007	2006	% Change	2007	2006	$ Change
Cash from operating activities	$ 7,079,227	$ 6,373,416	11 %	$ 0.406	$ 0.371	$ 0.035
Distributable income	$ 5,724,554	$ 5,147,071	11 %	$ 0.328	$ 0.301	$ 0.027
FFO	$ 2,000,321	$ 3,229,848	(38)%	$ 0.115	$ 0.189	$ (0.074)
AFFO	$ 2,896,707	$ 4,040,961	(28)%	$ 0.166	$ 0.236	$ (0.070)
Total revenue	$ 46,311,315	$ 30,538,848	52 %	$ 2.653	$ 1.780	$ 0.873
NOI	$ 27,072,655	$ 17,092,657	58 %	$ 1.551	$ 0.996	$ 0.555
Portfolio estimated current value	$ 642,000,000	$ 318,000,000	102 %	$ 36.775	$ 18.530	$ 18.245

In 2008, the Trust is expected to achieve a substantial increase in NOI from its existing property portfolio as the income contribution period from new property acquisitions and capital improvements will encompass a significantly longer time frame in 2008. Although there will be an increase in debt service costs in regard to the mortgage loan financing for the new property acquisitions and capital improvements, the incremental increase in NOI is expected to be well in excess of the incremental increase in debt service costs.

In terms of enhancing the underlying value of the Trust units, LREIT will continue to pursue accretive property acquisitions in 2008 and undertake measures to further improve its "same property" NOI results. At the forefront of new developments is the contracted acquisitions of Colony Square and Parsons Landing. Colony Square is a mixed use development in downtown Winnipeg, Manitoba, comprised of 428 apartment suites and 83,200 square feet of leaseable office/commercial space. The acquisition is scheduled to close on October 1, 2008 at a purchase price of $34.2 Million. The $60.7 Million acquisition of Parsons Landing is scheduled to close in two phases and it is anticipated that the property will begin to contribute to the operating income of the Trust by the final quarter of 2008.

Over the past five years, LREIT has created a portfolio of quality real estate investments with a cost base in excess of $400 Million and an estimated current value which is approaching $650 Million. With over $162 Million of new and prior year investments moving to the income-producing stage during the year, LREIT is expected to make a significant step forward in 2008, in terms of improving the cash returns on its asset base and its overall bottom-line results. The Board of Trustees and the management team of Shelter Canadian Properties Limited believe that 2008 will be a successful year for LREIT and we remain fully committed to maximizing the long-term investment returns of the Unitholders.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
March 24, 2008

Property Portfolio - December 31, 2007

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy December 31 2007
RESIDENTIAL					
Manitoba					
Highland Tower (1)	Thompson	$ 5,700,000	January 2005	77	97 %
Chancellor Gate	Winnipeg	6,750,000	August 2005	48	92 %
Willowdale Gardens	Brandon	4,326,000	January 2006	88	99 %
Saskatchewan					
Borden Estates	Prince Albert	5,315,000	February 2005	144	81 %
Cedar Village	Prince Albert	2,700,000	February 2005	72	86 %
Carlton Manor	Prince Albert	410,000	February 2005	19	84 %
Riverside Apartments	Prince Albert	265,000	February 2005	12	100 %
MGM Apartments	Prince Albert	650,000	February 2005	28	54 %
Marquis Towers	Prince Albert	6,200,000	August 2005	129	98 %
Riverside Terrace (2)	Saskatoon	24,000,000	July 2005	181	98 %
Village West	Saskatoon	5,113,800	June 2006	100	99 %
Sir Robert Borden Place	Saskatoon	5,600,000	May 2007	113	96 %
Chateau St. Michael's (2)	Moose Jaw	7,600,000	June 2006	93	99 %
Woodlily Courts	Moose Jaw	3,700,000	June 2006	102	98 %
Alberta					
Nova Villa	Edmonton	5,400,000	May 2004	61	90 %
Nova Manor	Edmonton	2,615,000	May 2004	32	97 %
Nova Ridge Estates	Spruce Grove	8,800,000	July 2004	102	100 %
Norglen Terrace	Peace River	2,500,000	October 2004	72	99 %
Broadview Meadows	Sherwood Park	6,790,000	January 2006	93	98 %
Nelson Ridge Estates	Fort McMurray	40,575,000	April 2005	225	83 %
Gannet Place	Fort McMurray	6,873,700	June 2006	37	97 %
Lunar Apartments	Fort McMurray	4,457,100	June 2006	24	92 %
Parkland Apartments	Fort McMurray	2,230,200	June 2006	12	100 %
Skyview Apartments	Fort McMurray	5,385,800	June 2006	29	90 %
Snowbird Manor	Fort McMurray	6,314,500	June 2006	34	97 %
Whimbrel Terrace	Fort McMurray	6,873,700	June 2006	37	95 %
Woodland Park	Fort McMurray	37,865,000	March 2007	107	79 %
Lakewood Manor	Fort McMurray	59,900,000	July 2007	175	100 %
Millennium Village	Fort McMurray	24,220,000	August 2007	72	86 %
Westhaven Manor	Edson	4,050,000	May 2007	48	98 %
Northwest Territories					
Beck Court	Yellowknife	14,300,000	April 2004	120	100 %
Three Lakes Village	Yellowknife	10,900,000	May 2005	50	98 %
Nova Court (3)	Yellowknife	15,000,000	March 2007	106	100 %
Ontario					
Elgin Lodge (2)(4)	Port Elgin	18,067,000	June 2006	123	60 %
Clarington Seniors Residence (2)(5)	Bowmanville	22,400,000	February 2007	126	41 %
British Columbia					
Greenwood Gardens	Surrey	10,950,000	April 2004	183	97 %
Total - Residential		**$ 394,796,800**	Total suites	**3,074**	

Property Portfolio - December 31, 2007 (continued)

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy December 31 2007
Total - Residential		**$ 394,796,800**	Total suites	**3,074**	
COMMERCIAL					
Retail and Office					
Kenaston (1)	Winnipeg, MB	12,656,200	April 2002	103,209	93 %
McIvor Mall	Winnipeg, MB	6,700,000	February 2004	65,283	96 %
		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	**224,545**	
Total properties		**416,953,000**			
Property under construction					
Laird's Landing (5)		**45,439,000**	August 2006		
Total real estate portfolio		**$ 462,392,000**			

Notes to the Property Portfolio:

(1) Includes the cost of major renovations and asset additions.
(2) Seniors housing complex.
(3) Nova Court includes 8,400 square feet of commercial space.
(4) Costs in regard to the expansion of $9,767,000 are classified as "properties under development".
(5) Properties are classified as "properties under development".

Profile of Property Acquisitions - 2007

The Clarington Seniors Residence

The Clarington Seniors Residence was acquired after completion of construction 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.

Woodland Park

Woodland Park is a luxury apartment and townhouse complex in Fort McMurray, Alberta which was acquired after completion of construction 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 of which are fully furnished. All townhouse and apartment units have individual condominium title.

Nova Court

Nova Court was acquired 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. Construction was completed in 2006. The property also contains approximately 8,400 square feet of commercial space on the main floor.

Nova Court is located in Yellowknife, Northwest Territories adjacent to the Stanton Regional Hospital.

Sir Robert Borden Place

Borden Place was acquired 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 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 in Fort McMurray, Alberta was acquired after completion of construction, 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 of which are fully furnished. Each of the townhouse and apartment units have individual condominium title. All of the townhouse and apartment units are under long-term lease to a major oil sands company.

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 fully furnished. Each of the townhouse units have individual condominium title.

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 year ended December 31, 2007 and with reference to the quarterly reports for 2007.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of LREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of LREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements including risks associated with the proposed taxation of trusts, public markets, real property ownership, debt financing, concentration of portfolio in one market, future property acquisitions, availability of cash for distributions, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, environmental risks, other tax-related risk factors, utility risk factor, government regulation, nature of Units, dilution, competition, general economic conditions, relationship with the property manager, reliance on key personnel and additional risks associated with convertible debentures. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, LREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

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

Purchase Price Information

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

Estimated Current Value

In this management discussion and analysis, references are made to the estimated current value of LREIT's property portfolio, which is an estimate of the current value of LREIT's property portfolio as at December 31, 2007 made by management of LREIT. In making such estimates:

(a) with respect to 26 properties, management assumed that the current value of the properties was equal to the appraised value of such properties as contained in appraisals prepared by independent appraisers; and

(b) with respect to 14 properties, management estimated that the current value of those properties was an aggregate of $37,520,000 above the appraised value of such properties as contained in appraisals prepared by independent appraisers, which estimate was arrived at by management using an income approach to valuation and applying the same capitalization rates used by the independent appraisers in arriving at the appraised value set forth in their respective appraisals; and

(c) with respect to one property, Elgin Lodge, management added the cost of the expansion to the appraised value of Elgin Lodge as contained in an appraisal prepared by an independent appraiser in June, 2006.

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

There can be no assurance that appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2007, the date of management's estimate of the current value of such property. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property (and used by management of LREIT in estimating the current value of the portfolio) was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2007, the date of management's estimate of the current value of such property.

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

Financial and Operating Summary

	Year Ended December 31	
	2007	2006 (restated)
DISTRIBUTIONS		
Total	$ 9,767,655	$ 9,626,529
Per unit	$ 0.56	$ 0.56
BALANCE SHEET		
Total Assets	$ 476,199,270	$ 294,222,201
Total face value of mortgage loans payable and convertible debentures	$ 396,224,160	$ 226,106,511
KEY PERFORMANCE INDICATORS (1)		
Operations		
Average residential occupancy rate	95.2 %	92.0 %
Operating residential cost ratio	42.4 %	47.2 %
Operating Results		
Total revenue	$ 46,311,315	$ 30,538,848
Net operating income *	$ 27,072,655	$ 17,092,657
Loss for the year, before future income tax recoveries*	$ (6,133,767)	$ (3,887,616)
Loss for the year	$ (1,400,904)	$ (3,152,367)
Cash Flows		
Cash flow from operating activities	$ 7,079,227	$ 6,373,416
Funds from Operations (FFO) *	$ 2,000,321	$ 3,229,848
Adjusted Funds from Operations (AFFO) *	$ 2,896,707	$ 4,040,961
Distributable income *	$ 5,724,554	$ 5,147,071
Financing		
Mortgage loans to estimated current value ratio *	59.4 %	61.8 %
Weighted average interest rate of mortgage loans *	6.2 %	5.7 %
Per Unit		
Net operating income *		
- basic	$ 1.551	$ 0.996
- diluted	$ 1.144	$ 0.925
Loss for the year, before future income tax recoveries*		
- basic	$ (0.351)	$ (0.227)
- diluted	$ (0.351)	$ (0.227)
Loss for the year		
- basic	$ (0.080)	$ (0.184)
- diluted	$ (0.080)	$ (0.184)
Distributable income *		
- basic	$ 0.328	$ 0.301
- diluted	$ 0.321	$ 0.297
Funds from Operations (FFO) *		
- basic	$ 0.115	$ 0.189
- diluted	$ 0.112	$ 0.187
Adjusted Funds from Operations (AFFO) *		
- basic	$ 0.166	$ 0.236
- diluted	$ 0.163	$ 0.233

(1) Non-GAAP Measurements

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

INVESTMENT OBJECTIVES AND STRATEGY

General

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

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

Property Acquisitions and Development

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 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.

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

REAL ESTATE PORTFOLIO

Investment in Properties - 2007

Property Acquisitions

During 2007, LREIT acquired seven residential properties at a total purchase price of $169.0 Million and incurred $36.8 Million in construction and expansion costs for three properties, as follows:

Property	Price	Closing/Completion Date
Completed Acquisitions:		
Clarington Seniors Residence	$22,400,000	February 12, 2007
Woodland Park	37,865,000	March 12, 2007
Nova Court	15,000,000	March 23, 2007
Sir Robert Borden Place	5,600,000	May 1, 2007
Westhaven Manor	4,050,000	May 17, 2007
Lakewood Manor	59,900,000	July 1, 2007
Millennium Village	24,220,000	November 15, 2007
	169,035,000	
Construction/Expansion Costs		
Highland Tower	2,258,000	
Elgin Lodge	8,528,000	
Laird's Landing	26,005,000	
	36,791,000	
Total	$205,826,000	

Properties Under Construction

In August 2006, LREIT commenced construction of Laird's Landing, a 189 suite apartment complex in Fort McMurray, Alberta (formerly known as "Park View Apartments"). As of December 31, 2007, the cumulative construction costs, including land costs, amounted to approximately $45.4 Million and are included in "Properties Under Development" on the balance sheet of LREIT.

The property is expected to be completed in April 2008, at a total cumulative cost of $57.75 Million plus GST. To date, 68% of the suites have been leased and it is expected that the lease-up of the property will be completed in June 2008 and the property will be reclassified as an income-producing property.

The mortgage loan financing for the property was advanced in installments, based on construction progress billings. As of December 31, 2007, mortgage loan advances amounted to $30.3 Million, representing 67.3% of the total mortgage loan amount of $45 Million.

The construction of Laird's Landing was completed pursuant to a development agreement with Shelter Canadian Properties Limited. Please refer to the "Related Party Transactions" section of this report for additional information regarding the development agreement.

Major Renovation and Expansion Projects

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, was substantially completed during the fourth quarter of 2007 at a total cost of $9,766,638. The lease-up of the expansion is expected to be completed in the summer of 2008 and amounts capitalized during construction will be reclassified to income properties in the third quarter.

The building expansion was funded by a $6.8 Million increase in the existing first mortgage loan, with the balance from working capital.

Additional details regarding the commitments associated with the Elgin Lodge expansion are provided in the Revenue/Income and Other Commitments section of this report.

Highland Tower

In 2005, LREIT commenced an extensive major renovation program at the Highland Tower property in Thompson, Manitoba. The renovation program involved the upgrading of an entire floor of suites at a time and the temporary removal of suites from the rental market. The renovation program was substantially completed in July 2007, at which time all of the suites were available for lease. The total cumulative cost of the renovation program was approximately $4,204,511 of which $2,175,714 was incurred during 2007. The renovation costs were funded by a first mortgage loan in the amount of $1,750,000 and the balance from working capital.

In accordance with the accounting policy of LREIT, 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.

Portfolio Summary - December 31, 2007

As of December 31, 2007, the property portfolio of LREIT consists of 36 multi-family residential properties and four commercial properties, with a total purchase price of approximately $417 Million, encompassing 3,074 suites and 224,545 square feet of leasable area. The real estate portfolio also includes one property under construction with cumulative construction costs of $45.4 Million as of December 31, 2007.

Additional Information Regarding 2007 Property Acquisitions

Properties Acquired in Lease-Up Stage

Properties which are acquired in the lease-up stage are initially classified as "Properties Under Development", are subsequently reclassified as "Income Properties" when the lease-up stage is completed. During 2007, LREIT acquired three properties in the lease-up stage, including Woodland Park, which was acquired in March 2007 and reclassified under "Income Properties", effective April 1, 2007, and Millennium Village, which was acquired in phases during the period from August 2007 to November 2007 and reclassified under "Income Properties", effective November 1, 2007. The lease-up stage for the third property, the Clarington Seniors Residence, is expected to be completed in 2009.

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.

Mortgage Loan Financing - Millennium Village

The construction of Millennium Village was completed in four phases and each phase turned over to LREIT, following the construction completion date. The acquisition of Phase I and Phase II occurred during the third quarter of 2007, while the acquisition of Phase III and Phase IV occurred during the fourth quarter of 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 of $1 Million on the property were credited to the $24.2 Million purchase price on the acquisition date of Phase I. The purchase agreement for the property provides for the remaining balance of the purchase price to be paid subsequent to the acquisition date of Phase IV. As of December 31, 2007, the balance owing, including accrued interest, was $19,615,893.

A 10 year first mortgage loan of $22.7 Million, with a 25 year amortization, has been arranged for the property. The interest rate will be approximately 5.5%. The payment of the balance owing is expected to occur in April 2008, from the receipt of the first mortgage loan proceeds. The excess amount of mortgage loan proceeds over the amounts due on closing of $2 Million will serve to increase the cash flow of the Trust and will be used to fund ongoing capital commitments in 2008.

Contracted Property Acquisitions - Subsequent to 2007

Parsons Landing
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 $60.7 Million plus GST.

The acquisition is expected to be financed with a new first mortgage loan in the amount of $50 Million. 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 June 2008 for Phase I and September 2008 for Phase II. Purchase installment payments of $2.5 Million will be paid on closing in June 2008 and September 2008.

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 to the maximum amount of $35 Million.

The balance owing on the acquisition bears interest at 8% until the closing date of Phase II and at 12% to February 29, 2009. The payment of the balance owing is expected to occur in December 2008, from the receipt of the first mortgage loan proceeds. The excess amount of mortgage loan proceeds over the amounts due on closing of $1.8 Million will serve to increase the cash flow of the Trust and will be used to fund ongoing capital commitments in 2009.

Colony Square
In March 2008, LREIT agreed to acquire a 90% beneficial interest in an apartment/office complex in Winnipeg, Manitoba, known as Colony Square, at a purchase price of $34.2 Million. LREIT currently owns a 1.5% beneficial interest in the property and is permitting certain owners, who own an aggregate of 8.5% beneficial interest to remain as part of the ownership syndicate.

Colony Square consists of two apartment towers of sixteen and seventeen storeys, respectively, a seven storey office building and a 270 stall underground parkade. The two apartment towers contain a total of 428 suites, while the office building contains 80,935 square feet of leaseable area. An additional 2,255 square feet of leaseable commercial area is available on the main floors of the apartment towers.

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

Mortgage Loans Receivable

December 31, 2007	$ 10,000,000
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.

As of December 31, 2007, "Mortgage Loans Receivable" consisted of the $10 Million second mortgage loan which was provided in regard to the construction of Parsons Landing.

CAPITAL STRUCTURE

Capital Structure - December 31, 2007

	December 31, 2007	% of Total
Mortgage loans payable - principal amount	$ 343,269,160	72.2 %
Convertible debentures - face value	52,955,000	11.1 %
Trust units (net of issue costs)	79,124,607	16.7 %
Total capitalization	$ 475,348,767	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,	
- December 31, 2007	17,529,894
- March 24, 2008	17,568,905

As of December 31, 2007, LREIT had 17,529,894 units outstanding, representing an increase of 137,659 units or 0.8%, compared to the number of units outstanding as of December 31, 2006. The increase in units originated from the following transactions:

Issue Date	Units Issued	Equity Raised
Units outstanding, December 31, 2006	17,392,235	$ 65,962,557
Units issued under DRIP	86,601	454,909
Units issued on conversion of debentures	41,058	-
Units issued on exercise of options	10,000	40,000
Units outstanding, December 31, 2007	17,529,894	$ 66,457,466

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, 86,601 units were issued under the Distribution Reinvestment Plan during 2007.

Unit Options

2007

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. In June 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 vested immediately. As of December 31, 2007, LREIT had 1,110,000 units options outstanding.

In accordance with Canadian generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Loss and Comprehensive Loss. During 2007, unit-based compensation expense related to the unit options amounted to $301,727, including $45,058 relating to the 120,000 units which were issued in June 2007.

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

2008

On January 7, 2008, LREIT granted options to acquire a total of 370,000 units to 26 individuals, including 245,000 units which were granted to the four independent trustees, the Chief Executive Officer and the Chief Financial Officer of LREIT, and 125,000 units which were granted to 20 management and other senior employees of Shelter Canadian Properties who are engaged in LREIT related functions. The options which were issued to the four independent trustees vested immediately, while the remaining options vest equally on each of the grant date and the four subsequent anniversaries of the grant date. All of the options are exercisable at a price of $5.10. Unit based compensation expense for the options which were granted in January 2008 is estimated at $241,000 of which $190,000 will be recognized in 2008.

Normal Course Issuer Bid

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

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

As of March 24, 2008, LREIT has purchased 2,400 units under its normal course issuer bid at an average price of $4.94 per unit.

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 2007, LREIT declared distributions of $0.56 per unit. Distributions are comprised of the following components:

	Trust Units	LP Units	Total
Cash distributions paid for January to December, 2007	$ 9,336,147	$ 199,705	$ 9,535,852
Value of units issued under DRIP	431,508	-	431,508
Distributions declared, per Statement of Equity	$ 9,767,655	$ 199,705	$ 9,967,360

A cash distribution of $0.04667 per unit, or $0.56 on an annualized basis, was paid for the months of January and February 2008. The February 2008 distribution was paid on March 15, 2008.

Convertible Debentures

The Declaration of Trust for LREIT does not impose any limitations on the amount of convertible debt which may be issued by the Trust. The following is a summary of the debenture offerings which have been undertaken by LREIT, as of December 31, 2007.

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions Year Ended December 31, 2007	Repayments/Unit Conversions As of December 31, 2006	Net Amount Outstanding December 31, 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	(156,000)	(2,251,000)	1,593,000
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	(50,000)	-	11,950,000
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	-	-	13,680,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	-	-	25,732,000
Face value			$ 69,543,000	$ (1,896,000)	$ (14,692,000)	52,955,000
Net accumulated accretion						3,680,207
Unamortized transaction costs						(2,171,659)
Book value, December 31, 2007						$ 54,463,548
Allocation of book value						
Debt component						$ 43,207,912
Equity component						13,427,295
Unamortized transaction costs						(2,171,659)
						$ 54,463,548

Mortgage Loans Payable

December 31, 2007 $341,334,043
December 31, 2006 $171,255,511

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2007	Percentage of Total
Fixed rate			
2008	8.5 %	$ 22,303,607	6.5 %
2009	5.5 %	33,691,046	9.8 %
2010	7.0 %	21,860,378	6.4 %
2011	8.5 %	7,330,343	2.1 %
2012	5.6 %	32,892,580	9.6 %
2013	5.9 %	26,185,717	7.6 %
2014	6.3 %	44,213,562	12.9 %
2015	5.7 %	37,162,440	10.8 %
2016	5.2 %	43,394,661	12.6 %
2017	5.7 %	5,850,423	1.7 %
		274,884,757	80.1 %
Demand/floating rate	7.1 %	68,384,403	19.9 %
Principal amount		343,269,160	100.0 %
Difference between contractual and market interest rates on mortgage loans assumed		301,060	
Unamortized transaction costs		(2,236,177)	
		$ 341,334,043	
Principal amount:			
Income properties		$ 289,251,232	
Properties under development		54,017,928	
		$ 343,269,160	

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 2007, the balance of mortgage loans payable increased by $170,078,532, comprised of the following amounts:

Mortgage loans on 2007 income property acquisitions	$ 94,759,193
Increase in mortgage loans for properties under development	48,185,281
Increase in mortgage loans on existing properties	5,364,220
Interim financing	28,500,000
	176,808,694
Principal repayments	(4,795,045)
Difference between contractual and market interest rates on mortgage loans assumed	301,060
Unamortized transaction costs	(2,236,177)
	$ 170,078,532

As of December 31, 2007, the weighted average interest rate of the fixed rate mortgage loans is 6.0%, compared to 5.6% as of December 31, 2006. The weighted average interest rate for floating rate mortgage loans increased from 7% at December 31, 2006 to 7.1% as of December 31, 2007.

The ratio of mortgage loans payable, relative to the total acquisition cost of the property portfolio, increased from 70% as of December 31, 2006 to 80% as of December 31, 2007. The ratio of mortgage loans payable, relative to the Trust's estimated current value of the property portfolio, was approximately 59% at December 31, 2007, compared to 62%, as of December 31, 2006. The ratios exclude Laird's Landing which is currently under construction and Millennium Village for which the mortgage financing proceeds is expected to be received in April 2008.

Interim Mortgage Loan Financing

During 2007, LREIT arranged $28.5 Million of interim mortgage loan financing. The interim mortgage loan financing is secured by charges registered against two or more properties, bears interest at an average rate of 8.5% and requires payments of interest only. The interim financing consists of $18 Million of debt which is repayable on demand, $4 Million which is due on April 1, 2008, $4.5 Million which is due on July 1, 2008 and $2 Million which is due on September 1, 2008. LREIT expects to renew the interim mortgage loans maturing during 2008 for an additional one year term.

Vendor Take-Back Mortgages

The vendor take-back mortgage loan balance of $1,836,475 consists of 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 and a $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. The loans are repayable on demand.

Revolving Line of Credit

On November 16, 2007, the Trust obtained a revolving line of credit in the maximum amount of $5 Million, bearing interest at the Royal Bank prime rate and payable on demand. As of December 31, 2007, the amount drawn on the line of credit was $3,040,000.

SELECTED ANNUAL INFORMATION

	2007	2006 (restated)	2005 (restated)
Distributions			
Total	$ 9,767,655	$ 9,626,529	$ 6,230,007
Per unit	$ 0.56	$ 0.56	$ 0.56
Balance Sheet			
Total Assets	$ 476,199,270	$ 294,222,201	$ 201,359,352
Total face value of mortgage loans payable and convertible debentures	$ 396,224,160	$ 226,106,511	$ 134,449,895
Operating Results			
Total Revenue	$ 46,311,315	$ 30,538,848	$ 17,792,929
Loss for the year	$ (1,400,904)	$ (3,152,367)	$ (1,880,377)
Per unit Loss for the year			
Per unit - basic	$ (0.080)	$ (0.184)	$ (0.201)
Per unit - diluted	$ (0.080)	$ (0.184)	$ (0.201)

ANALYSIS OF INCOME/LOSS

Changes in Accounting Policies and Estimates Affecting Annual Comparisons

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 was applied on a retroactive basis.

The new policy is described in note 2 of the audited 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 2006 is $643,494 lower than was previously reported.

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 audited 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 applied to reduce 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 year ended December 31, 2007, financing expense is $1,759,686 higher than would have been reported under the previous policy, while amortization expense is lower by $1,864,233.

The new accounting policy is in accordance with new Canadian generally accepted accounting policies and has been applied retroactively without restatement. As the 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 Estimates

Future Income Tax Recovery

As indicated in note 2 to the audited 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 $3,763,761 has been recognized as an asset on the consolidated balance sheet of the Trust, with a corresponding credit included in the calculation of "future income tax recovery" on the Consolidated Statement of Loss and Comprehensive Loss. As disclosed in note 12 to the audited financial statements, the total future income tax recovery for 2007 of $4,732,863 is comprised of other components, aside from the amount which pertains to the change in the tax status of the Trust.

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. Specifically, the loss of the Trust is $3,763,761 lower 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.

Additional information regarding the accounting policies and accounting estimates of LREIT is provided in this report in the sections entitled "Changes in Accounting Policies" and "Critical Accounting Estimates".

Comparison to Prior Year

Overall Results

LREIT completed 2007 with a loss of $1,400,904, compared to a loss of $3,152,367 in 2006. After excluding future income tax recoveries, LREIT incurred a loss of $6,133,767 in 2007, compared to a loss of $3,887,616 in 2006. As disclosed in the following chart, the increase in the loss before future income tax recoveries mainly reflects an increase in net operating income, offset by an increase in financing expense and further reduced by an increase in trust expense and amortization charges.

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

Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease)	
	2007	2006 (restated)		
Rental revenue	$ 45,216,274	$ 28,736,288	$ 16,479,986	57.3 %
Interest and other income	1,095,041	1,802,560	(707,519)	(39.3)%
Property operating costs	19,238,660	13,446,191	5,792,469	43.1 %
Net Operating Income (NOI) *	27,072,655	17,092,657	9,979,998	58.4 %
Trust expense	2,056,789	1,732,924	323,865	18.7 %
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA) *	25,015,866	15,359,733	9,656,133	62.9 %
Financing expense	23,015,545	11,505,489	11,510,056	100.0 %
Income before amortization, non-controlling interest and taxes *	2,000,321	3,854,244	(1,530,058)	(39.7)%
Amortization	8,174,795	7,816,221	358,574	4.6 %
Non-controlling interest	40,707	74,361	(33,654)	(45.3)%
Loss before future income tax recoveries *	(6,133,767)	(3,887,616)	(2,246,151)	57.8 %
Future income tax recovery	4,732,863	735,249	3,997,614	543.7 %
Loss for the year	$ (1,400,904)	$ (3,152,367)	$ 1,751,463	(55.6)%

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

Revenue

Total Revenue

Analysis of Total Revenue

	Income Properties		
	Residential	Commercial	Trust
Rental revenue	90%	10%	n/a
Interest and other income	30%	3%	67%
Total revenue	88%	10%	2%

The operations of LREIT encompass the acquisition and management of a growing portfolio of income-producing properties. The portfolio of Income Properties includes commercial and residential properties in rental markets across western Canada and in Ontario and the Northwest Territories. For financial reporting purposes, the operating results of the Income Properties are segmented geographically and between "residential", "commercial" and "light industrial" components, while operating results pertaining to overall asset management and administrative activities are categorized under the heading of "Trust".

As disclosed in the preceding chart, the portfolio of Income Properties is the primary source of revenue, accounting for 100% of rental revenue and 33% of interest and other income in 2007. The revenue from "Trust" operations accounts for 67% of interest and other income in 2007 and consists almost exclusively of interest income on mortgage loans receivable and excess cash reserves.

Rental Revenue

Total rental revenue, 2007 - $45,216,274
Total rental revenue, 2006 - $28,736,288

General

Since 2004, LREIT has focused exclusively on the acquisition of residential properties and, as a result, the revenue contribution by the residential portfolio is gradually increasing over time. As disclosed in the preceding chart, residential properties accounted for 90% of the total rental revenue of the Trust during 2007. During 2006, residential properties accounted for 85% of the total rental revenue.

Overall, the total rental revenue of LREIT increased by approximately $16.5 Million or 57%, compared to 2006.

Rental Revenue from Commercial Properties

Notwithstanding the ongoing increase in the residential property portfolio, 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. One light industrial property is under a long-term lease agreement. The tenant at the other light industrial property has indicated it will not be renewing the lease at the expiry of the lease on December 31, 2008. The two commercial properties, McIvor Mall and the Kenaston Property, were 96% and 93% leased respectively, as of December 31, 2007.

During 2007, rental revenue from commercial properties increased by $107,595 or 2%.

Rental Revenue from Residential Properties

During 2007, rental revenue from residential properties increased by $16,372,391 or 67%. The increase in residential rental revenue reflects a full year of income from properties which were acquired in 2006; a partial year of income for properties which were acquired during 2007 and classified as "income-producing" properties by the end of the year; and a significant improvement in the operating results of the residential properties which have been in the LREIT portfolio since January 1, 2006.

Analysis of Residential Rental Revenue by Geographic Market Segment

	Percentage of Total Revenue		Vacancy Loss	
	2007	2006	2007	2006
Alberta				
Fort McMurray	41 %	27 %	4 %	2 %
Other Alberta	9 %	13 %	2 %	3 %
Total - Alberta	50 %	40 %	4 %	3 %
Saskatchewan	26 %	34 %	6 %	12 %
Northwest Territories	12 %	11 %	- %	5 %
Manitoba	4 %	6 %	15 %	24 %
British Columbia	4 %	5 %	3 %	11 %
Ontario	4 %	4 %	14 %	- %
Total Residential Portfolio	100 %	100 %	5 %	8 %

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 2007, LREIT acquired properties in two new locations (Bowmanville, Ontario and Edson, Alberta) and increased its holdings in Saskatoon, Yellowknife and Fort McMurray. The three property acquisitions in Fort McMurray account for 72% of the total acquisition cost of new properties in 2007.

The 2007 property acquisitions in Fort McMurray, combined with the Fort McMurray properties that were acquired in 2006, resulted in a significant increase in the percentage of revenues contributed by the Fort McMurray property portfolio in 2007. During 2007, revenues from residential properties in Fort McMurray increased by $10,015,881, compared to 2006. As a percentage of total rental revenues, the contribution by the Fort McMurray portfolio increased from 27% in 2006 to 41% in 2007.

During 2007, the overall vacancy loss of the property portfolio decreased from 8% in 2006 to 5% in 2007, mainly due to a reduction in the vacancy loss for the property portfolios in Saskatchewan and the Northwest Territories. The improvement for the Saskatchewan portfolio reflects a significant reduction in the overall vacancy loss for all three of the rental markets where LREIT properties are located (Prince Albert, Moose Jaw and Saskatoon), while the improvement for the Northwest Territories portfolio reflects a reduction in the vacancy loss for Three Lakes Village and the addition of Nova Court, which operated with high occupancy rates during the year.

In 2007, LREIT also achieved a significant reduction in the vacancy loss for the property portfolio in Manitoba and British Columbia, while the vacancy loss for the property portfolio in Ontario increased. The decrease in the vacancy loss for the Manitoba portfolio is mainly due to the completion of the major renovation program at Highland Towers, while the improvement in the British Columbia portfolio reflects the positive impact of ongoing upgrades to Greenwood Gardens, which is the only property in the British Columbia portfolio. The temporary increase in the vacancy loss for the Ontario portfolio is associated with the new additional units completed at the Elgin Lodge property in late 2007.

Operating Costs

Analysis of Operating Costs

	Property Operating Costs		Increase (Decrease)
	2007	2006	$
Alberta			
Fort McMurray	$ 4,550,029	$ 1,718,378	$ 2,831,651
Other Alberta	1,773,381	1,784,903	(11,522)
Total - Alberta	6,323,410	3,503,281	2,820,129
Saskatchewan	6,093,955	4,684,309	1,409,646
Northwest Territories	2,057,851	1,141,516	916,335
Manitoba	873,556	796,556	77,000
British Columbia	872,868	931,518	(58,650)
Ontario	1,169,673	592,676	576,997
Total Residential Portfolio	17,391,313	11,649,856	5,741,457
Total Commercial Portfolio	1,847,347	1,796,335	51,012
Total	$ 19,238,660	$ 13,446,191	$ 5,792,469

During 2007, property operating costs for the residential portfolio increased by $5,741,457 or 49%, compared to 2006. The increase mainly reflects property acquisitions which occurred in 2007 or part way through 2006, particularly for the property portfolios in Alberta, Saskatchewan, Ontario and the Northwest Territories. For the Manitoba portfolio, the increase in property operating costs is due to the fact that certain property operating costs are no longer being capitalized as all suites were returned to the rental market following the substantial completion of the major renovation program, effective July 1, 2007. For the Ontario portfolio, the increase in operating costs reflects the operation of Elgin Lodge for a full year in 2007, compared to six months in 2006. Elgin Lodge was the only income-producing property in the Ontario portfolio at December 31, 2007.

The decrease in operating costs for British Columbia is mainly due to the fact that administrative and security costs associated with the completion of the upgrades to Greenwood Gardens were comparatively high in 2006.

Property operating costs for the commercial portfolio increased by $51,012 or 3% during 2007, compared to 2006.

Net Operating Income and Operating Margin

Overall

Summary Analysis of Net Operating Income

	Net Operating Income			Operating Margin	
	Amount		Increase (Decrease)		
	2007	2006	$	2007	2006
Residential	$ 23,641,647	$ 13,032,225	10,609,422	58 %	53 %
Commercial	2,696,830	2,660,521	36,309	59 %	60 %
Trust	734,178	1,399,911	(665,733)	n/a	n/a
Total	$ 27,072,655	$ 17,092,657	9,979,998	58 %	56 %

The net operating income of LREIT increased by $9,979,998 or 58% in 2007, compared to 2006. The increase is comprised of a $10,609,422 increase in NOI for the residential portfolio, a $36,309 increase in NOI for the commercial portfolio and a $665,733 decrease in interest and other income included in "Trust" operations. The overall operating margin of the property portfolio of the Trust increased from 56% in 2006 to 58% in 2007.

The majority of interest income is comprised of interest income on mortgage loans receivable and excess cash reserves. The decrease in interest income included in Trust operations reflects a reduction in the average monthly balance of mortgage loan receivables during 2007, compared to 2006, as well as a reduction in the average monthly cash balance of the Trust.

Residential Properties

The increase in NOI for the residential property portfolio mainly reflects an increase in the income contribution from properties in Fort McMurray and the high operating margin which is being achieved by the Fort McMurray properties. During 2007, the NOI from the Fort McMurray portfolio increased by $7.2 Million, representing 68% of the total increase in the NOI from the residential property portfolio. As disclosed in the following chart, the contribution to NOI by the Fort McMurray portfolio increased from 39% in 2006 to 52% in 2007 and the operating margin remained high at 73%, compared to an average of 45% for the remainder of the residential property portfolio.

Analysis of Net Operating Income - Residential Properties

	Net Operating Income				Operating Margin	
	Amount		% of Total			
	2007	2006	2007	2006	2007	2006
Alberta						
Fort McMurray	$ 12,237,679	$ 5,053,449	52 %	39 %	73 %	75 %
Other Alberta	2,057,327	1,337,080	9 %	10 %	54 %	43 %
Total - Alberta	14,295,006	6,390,529	61 %	49 %	69 %	65 %
Saskatchewan	4,474,035	3,636,780	19 %	28 %	42 %	44 %
Northwest Territories	3,022,244	1,557,741	13 %	12 %	59 %	58 %
Manitoba	788,683	640,085	3 %	5 %	47 %	45 %
British Columbia	580,405	376,007	2 %	3 %	40 %	29 %
Ontario	481,274	431,083	2 %	3 %	29 %	42 %
Total Residential Portfolio	$ 23,641,647	$ 13,032,225	100 %	100 %	58 %	53 %

The most significant change in the operating margin occurred in British Columbia and Ontario, with the margin increasing from 29% in 2006 to 40% in 2007 in British Columbia and decreasing from 42% to 29% in Ontario. In British Columbia, the improvement in the operating margin reflects the reduction in the vacancy loss and in property operating costs at Greenwood Gardens. In Ontario, the decrease in the operating margin reflects an increase in the vacancy loss at Elgin Lodge.

Overall, the NOI from the entire residential portfolio improved significantly, increasing from 53% in 2006 to 58% in 2007.

Same Property Analysis

There are 18 residential properties which have been in the LREIT portfolio since January 1, 2006.

As disclosed in the following analysis, the combined revenue of the 18 properties increased by 13.1% during 2007, compared to 2006, while net operating income increased by 21.0%. The improvement in net operating income 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.

	Year Ended December 31		Increase (Decrease)	
	2007	2006 (restated)	Amount	%
Total revenue	$ 22,299,546	$ 19,709,729	$ 2,589,817	13.1 %
Net operating income	$ 12,623,330	$ 10,434,731	$ 2,188,599	21.0 %

Trust Expense

Trust expense increased by $323,865 during 2007, compared to 2006. The increase mainly reflects the following factors:

- an increase of $540,086 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.

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

- a decrease in unit-based compensation expense of $223,173. Unit-based compensation expense was comparatively high during 2006, as a high proportion of the unit options which were issued in July 2006 vested immediately.

Financing Expense

As disclosed in the following chart, financing expense increased by $11,510,056 or 100% in 2007, compared to 2006, of which $3,107,688 or 27% pertains to debenture financing and $8,402,368 or 73% pertains to mortgage loan financing financing. In total, amortization charges in regard to the new accounting policy for transaction costs account for $1,759,686 or 15% of the total increase in financing expense.

Analysis of Financing Expense

	Year Ended December 31		Increase	% of
	2007	2006	(Decrease)	Total
Mortgage Loans				
Mortgage loan interest	$ 15,092,084	$ 7,901,230	$ 7,190,854	62 %
Amortization of transaction costs	1,211,514	-	1,211,514	10 %
Total - mortgage loans	16,303,598	7,901,230	8,402,368	72 %
Debentures				
Interest on convertible debentures	4,159,555	2,474,514	1,685,041	15 %
Accretion of debt component	2,004,220	1,129,745	874,475	8 %
Amortization of transaction costs	548,172	-	548,172	5 %
Total - debentures	6,711,947	3,604,259	3,107,688	28 %
Total - financing expense	$ 23,015,545	$ 11,505,489	$ 11,510,056	100 %

Financing Expense - Mortgage Loans

Financing expense on mortgage loans increased by $8,402,368 or 72% during 2007, compared to 2006, of which $1,211,514 is attributable to amortization charges in regard to the new accounting policy for transaction costs. As a percentage of operating income, financing expense on mortgage loans, excluding amortization charges, increased from 46% in 2006 to 56% in 2007. The increase reflects the higher mortgage loan debt ratio.

Financing Expense - Debentures

During 2007, financing expense on convertible debentures increased by $3,107,688 or 28%, compared to 2006. The increase mainly reflects a full year of financing expense for the March 2006 and December 2006 convertible debenture offerings, as well as $548,172 of amortization charges related to the new accounting policy for transaction costs.

As a percentage of operating income, financing expense on debentures, excluding amortization charges, increased from 21% in 2006 to 23% in 2007. The increase in the ratio of debenture financing expense, relative to operating income, mainly reflects an increase in the ratio of convertible debenture debt, at face value, compared to the unit component of the total equity of the Trust, primarily due to the issuance of $25.73 Million of convertible debentures in December 2006.

Amortization Expense

During 2007, total amortization expense increased by $358,574 or 5%. The increase is mainly due to the change in accounting policy regarding the amortization of transaction costs, offset by the new amortization charges incurred on 2007 property acquisitions. After adjusting amortization expense to exclude amortization charges in regard to deferred financing costs in 2006, amortization expense increased by $982,970 or 14%.

During 2007, the ratio of amortization expense, as adjusted, to operating income was 37%, compared to 46% 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 December 31, 2006 and the fact that intangible assets are amortized over a shorter time frame than other components of the acquisition cost.

Comparison to Preceding Quarter

Analysis of Income (Loss) - Fourth Quarter vs. Third Quarter

	Three Months Ended			
	December 31, 2007	September 30, 2007	Increase (Decrease)	
Rental revenue	$ 13,374,143	$ 12,484,344	$ 889,799	7.1 %
Interest and other income	160,732	112,747	47,985	42.6 %
Property operating costs	5,712,067	4,751,783	960,284	20.2 %
Net Operating Income (NOI)	7,822,808	7,845,308	(22,500)	(0.3)%
Trust expense	599,231	465,499	133,732	28.7 %
Income before financing expense, amortization, non-controlling interest and taxes (EBITDA)	7,223,577	7,379,809	(156,232)	(2.1)%
Financing expense	6,681,193	6,331,266	349,927	5.5 %
Income before amortization, non-controlling interest and taxes	542,384	1,048,543	(506,159)	(48.3)%
Amortization	2,277,406	2,245,918	31,488	1.4 %
Non-controlling interest	(7,305)	9,028	(16,333)	(180.9)%
Loss before future income tax recoveries	(1,742,327)	(1,188,347)	(553,980)	46.6 %
Future income tax recovery	633,429	1,914,082	(1,280,653)	(66.9)%
Income (loss) for the period	$ (1,108,898)	$ 725,735	$ (1,834,633)	(252.8)%

Excluding future income tax recoveries, LREIT incurred a loss of $1,742,327 during the fourth quarter of 2007, compared to a loss of $1,188,347 during the third quarter of 2007. The increase in the loss mainly reflects the following factors:

- a decrease in net operating income of $22,500, as the increase in property operating expenses in the fourth quarter of 2007 exceeded the increase in rental revenues. The increase in rental revenues is mainly due to the inclusion of Millennium Village as an income-producing property, effective November 1, 2007, whereas the increase in property operating costs mainly reflects higher heating costs for the majority of residential properties during the fourth quarter of the year.

- an increase in financing expense of $349,927 or 5.5%. The increase mainly reflects incremental interest of $234,757 on the $5.5 Million of additional interim mortgage loan financing which was obtained in the fourth quarter.

- a increase in Trust expense of $133,732. The increase mainly reflects the increase in professional fees and an increase in service fees as a result of the increased size of the Trust's assets.

- an increase in amortization expense of $31,488, mainly due to the inclusion of Millennium Village in the portfolio of income-producing properties, effective November 1, 2007.

After reflecting a decrease in future income tax recoveries of approximately $1.3 Million in the fourth quarter, LREIT completed the three month period ended December 31, 2007 with a loss of $1,108,898, compared to income of $725,735 during the third quarter of 2007. The decrease in the amount of the future income tax recoveries and the corresponding variance in the bottom-line results reflects the 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 $412,372 for the fourth quarter of 2007 and $1,479,810 for the third quarter of 2007.

Summary of Quarterly Results

Quarterly Analysis

	2007			
	Q4	Q3	Q2	Q1 (restated)
Total revenue	$ 13,534,875	$ 12,597,091	$ 11,127,584	$ 9,051,765
Net operating income	$ 7,822,808	$ 7,845,308	$ 6,519,763	$ 4,884,730
Income (loss) for the period	$ (1,108,898)	$ 725,735	$ 688,355	$ (1,706,093)
Loss for the period, before future income tax recoveries	$ (1,742,327)	$ (1,188,347)	$ (1,417,123)	$ (1,849,109)
PER UNIT				
Net operating income				
- basic	$ 0.447	$ 0.449	$ 0.374	$ 0.281
- diluted	$ 0.330	$ 0.331	$ 0.295	$ 0.255
Income (loss) for the period				
- basic	$ (0.064)	$ 0.042	$ 0.039	$ (0.102)
- diluted	$ (0.064)	$ 0.042	$ 0.039	$ (0.102)
Loss for the period, before future income tax recoveries				
- basic	$ (0.100)	$ (0.068)	$ (0.081)	$ (0.106)
- diluted	$ (0.100)	$ (0.068)	$ (0.081)	$ (0.106)

Quarterly Analysis

	2006			
	Q4 (restated)	Q3 (restated)	Q2 (restated)	Q1 (restated)
Total revenue	$ 8,835,557	$ 8,370,252	$ 6,891,004	$ 6,442,035
Net operating income	$ 4,796,613	$ 4,912,506	$ 4,025,584	$ 3,362,387
Income (loss) for the period	$ (563,581)	$ (829,956)	$ (773,043)	$ (971,986)
Loss for the period, before future income tax recoveries	$ (1,032,626)	$ (1,066,410)	$ (807,917)	$ (980,662)
PER UNIT				
Net operating income				
- basic	$ 0.278	$ 0.284	$ 0.235	$ 0.200
- diluted	$ 0.267	$ 0.266	$ 0.222	$ 0.187
Income (loss) for the period				
- basic	$ (0.033)	$ (0.048)	$ (0.045)	$ (0.058)
- diluted	$ (0.033)	$ (0.048)	$ (0.045)	$ (0.058)
Loss for the period, before future income tax recoveries				
- basic	$ (0.060)	$ (0.062)	$ (0.047)	$ (0.058)
- diluted	$ (0.060)	$ (0.062)	$ (0.047)	$ (0.058)

Loss Per Unit

Analysis of Loss per Unit

	Year Ended December 31		Increase	
	2007	2006	(Decrease)	
Loss for the year				
- basic	$ (0.080)	$ (0.184)	$ (0.104)	(57)%
- diluted	$ (0.080)	$ (0.184)	$ (0.104)	(57)%
Loss for the year, before future income tax recoveries				
- basic	$ (0.351)	$ (0.227)	$ 0.124	55 %
- diluted	$ (0.351)	$ (0.227)	$ 0.124	55 %

Excluding future income tax recoveries, LREIT incurred a loss of $0.351 per unit in 2007, compared to a loss of $0.227 per unit in 2006. As the weighted average number of units only increased by 1.7% in 2007, the increase in the loss per unit mainly reflects the increase in the overall loss of LREIT during 2007.

ANALYSIS OF CASH FLOWS

Operating

	Year Ended December 31		Increase
	2007	2006	(Decrease)
Rental revenue	$ 45,216,274	$ 28,736,288	$ 16,479,986
Interest and other income	1,095,041	1,802,560	(707,519)
Property operating costs	19,238,660	13,446,191	5,792,469
Net Operating Income (NOI)	27,072,655	17,092,657	9,979,998
Non-cash components of revenue	57,019	50,731	6,288
	27,015,636	17,041,926	9,973,710
Financing expense	23,015,545	11,505,489	11,510,056
Non-cash component of financing expense	3,763,906	1,129,745	2,634,161
	19,251,639	10,375,744	8,875,895
Trust expense	2,056,789	1,732,924	323,865
Non-cash component of trust expense	309,233	532,406	(223,173)
	1,747,556	1,200,518	547,038
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses	6,016,441	5,465,664	550,777
Tenant inducements and leasing expenses	105,479	70,401	35,078
	5,910,962	5,395,263	515,699
Changes in non-cash operating items	1,168,265	978,153	190,112
Cash provided by operating activities	$ 7,079,227	$ 6,373,416	$ 705,811

Cash from Operating Activities

During 2007, LREIT generated cash from operating activities of $7,079,227. After excluding changes in non-cash operating items, cash from operating activities increased by $515,699 or 9.6% in 2007, compared to 2006. The increase mainly reflects the fact that the increase in net operating income exceeded the increase in the cash component of financing expense. Specifically, net operating income increased by $9,979,998, while the cash component of financing expense increased by $8,875,895. The cash component of financing expense reflects mortgage loan interest and convertible debenture payments and is calculated by excluding amortization of transaction costs and the accretive portion of the debt component of convertible debentures.

The increase in the cash component of financing expense reflects an increase in mortgage loan interest of $7,190,854 and convertible debenture interest of $1,685,041. The increase in convertible debenture interest mainly reflects the issuance of the Series G convertible debentures in December 2006 and an additional interest payment on the Series F convertible debentures.

The increase in the cash component of trust expense is mainly due to an increase in the service fee of Shelter Canadian. The cash component of trust expense excludes unit compensation expense.

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

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

During 2007, FFO decreased by $1,229,527, compared to 2006, while AFFO decreased by $1,144,254. On a basic per unit basis, FFO decreased by $0.074 per unit, while AFFO decreased by $0.070 per unit.

Funds from Operations/Adjusted Funds from Operations *

	Year Ended December 31	
	2007	2006 (restated)
Income (loss) for the year	$ (1,400,904)	$ (3,152,367)
Add (deduct):		
Total amortization expense	8,174,795	7,816,221
Amortization of deferred financing costs	-	(624,396)
Future income tax recovery	(4,732,863)	(735,249)
Non-controlling interest	(40,707)	(74,361)
Funds from operations	2,000,321	3,229,848
Add (deduct):		
Straight-line rent adjustment	(58,618)	(50,835)
Net amortization of above/below market in-place leases	1,599	104
Accretion of debt component of convertible debentures	2,004,220	1,129,745
Unit-based compensation	309,233	532,406
Tenant inducement and leasing expenses	(105,479)	(70,401)
Ongoing improvements to income properties	(1,254,569)	(729,906)
Adjusted funds from operations	$ 2,896,707	$ 4,040,961
FFO per unit		
- basic	$ 0.115	$ 0.189
- diluted	$ 0.112	$ 0.187
AFFO per unit		
- basic	$ 0.166	$ 0.236
- diluted	$ 0.163	$ 0.233

* 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

	Year Ended December 31	
	2007	2006 (restated)
Cash provided by operating activities, per Statement of Cash Flow	$ 7,079,227	$ 6,373,416
Changes in non-cash operating items	(1,168,265)	(978,153)
	5,910,962	5,395,263
Add (deduct):		
Tenant inducement and leasing expenses	105,479	70,401
Amortization of tenant inducement and leasing expenses	(291,887)	(318,593)
Distributable income	$ 5,724,554	$ 5,147,071
Per unit		
- Basic	$ 0.328	$ 0.301
- Diluted	$ 0.321	$ 0.297

Distribution Shortfall

As disclosed in the following chart, the total distributions of LREIT for 2007 exceeded distributable income by $4,043,101 and cash from operating activities by $2,688,428.

	Year Ended December 31	
	2007	2006 (restated)
Total distributions	$ 9,767,655	$ 9,626,529
Distributable income	$ 5,724,554	$ 5,147,071
Excess of distributions over distributable income	$ (4,043,101)	$ (4,479,458)
Cash provided by operating activities	$ 7,079,227	$ 6,373,416
Excess of distributions over cash provided by operating activities	$ (2,688,428)	$ (3,253,113)

The percentage of distributions to distributable income decreased from 187% in 2006 to 171% in 2007.

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

As additional properties are acquired and operations stabilize, it is anticipated that the shortfall between the total distributions and operating cash flows will be reduced or eliminated over time, although there is no assurance that this will be the case.

Financing/Investment Activities

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

As disclosed in the chart, the net cash used in investment activities, excluding distributions, exceeded the net cash provided by financing activities by $755,297 during 2007. Financing activities consisted primarily of transactions related to mortgage loan financing, as well as the repayment of the outstanding principal balance of the Series A debentures. Investment activities consisted primarily of cash outflows associated with the acquisition and development of new properties, as well as capital expenditures in regard to improvements to existing properties. As disclosed in note 2 to the chart, capital expenditures are comprised of two main categories, namely, major renovations and ongoing property improvements.

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

After providing for the cash inflows from operating activities and the cash outflow in regard to distributions, the net cash decrease for 2007 was $3,211,922. After accounting for the opening cash balance of $1,588,271, LREIT completed 2007 with bank indebtedness of $1,623,651.

Cash Flow Analysis (Note 1)

	Year Ended December 31, 2007
Financing Activities:	
Mortgage proceeds	$ 180,042,264
Mortgage principal payments	(4,795,045)
Repayment of Series A debentures	(1,677,000)
Mortgage loans repaid on refinancing	(31,232,909)
Transaction costs	(1,773,800)
Total financing	140,563,510
Investing Activities:	
Property acquisitions	(91,191,965)
Improvements to income properties (Note 2)	(3,890,777)
Properties under development	(34,231,084)
Mortgage loan receivable advance	(10,000,000)
Deposits	(600,000)
Restricted cash	(1,404,981)
Total investing	(141,318,807)
Net cash outflow of investment capital	(755,297)
Operating activities	7,079,227
Cash before distributions	6,323,930
Cash distributions	(9,535,852)
Cash decrease	(3,211,922)
Cash, beginning of year	1,588,271
Bank indebtedness, end of year	$ (1,623,651)

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

Note 2 - Improvements to Income Properties

	Year Ended December 31, 2007
Renovation costs for Highland Tower	$ 2,257,787
Ongoing improvements to income properties	1,254,569
	3,512,356
Asset additions included in accounts payable - December 31, 2006	405,813
Asset additions included in accounts payable - December 31, 2007	(27,392)
Cash outlay - asset additions	$ 3,890,777

CAPITAL RESOURCES AND LIQUIDITY

Working Capital Requirements

On an annual basis, LREIT is generating sufficient cash from operating activities to fully fund monthly mortgage loan principal payments and ongoing improvements to income properties. Specifically, after deducting mortgage loan principal payments of $4,795,045 and improvement costs for income properties of $1,254,569, from the cash provided by operating activities of $7,079,227, the remaining cash balance is $1,029,613.

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

Contractual Obligations

Property Acquisitions

The following chart provides a summary of the approximate amount of the capital commitments of LREIT in regard to property acquisitions subsequent to December 31, 2007.

Property	Approximate Amount	Description
Laird's Landing (completion in April 2008)	$1.9 Million	- represents the total maximum construction costs of $57.7 Million plus GST, net of the projected financing of $45 Million less the cash outlay to December 31, 2007 of approximately $12.7 Million
Millennium Village (mortgage proceeds, net of acquisition payable, in April 2008)	(2.4 Million)	- represents the $24.2 Million purchase price plus GST and estimated closing costs, less mortgage financing of $22.7 Million, the mortgage loan receivable of $4 Million and the deposit of $1 Million
Parsons Landing (deferred payments in June 2008 and September 2008	5.0 Million	- represents the total purchase price of $60.7 Million plus GST and estimated closing costs, less the projected mortgage loan financing of $50.0 Million, the $10 Million mortgage loan receivable and the $5.0 Million deferred payments
(mortgage proceeds, net of acquisition payable in December 2008)	(1.8 Million)	
Colony Square (closing date, October 1, 2008)	14.3 Million	- represents the purchase price of $34.2 Million for a 90% interest, less mortgage financing and deposits
	$17.0 Million	

Mortgage Loan Debt

A summary of the debt obligations of LREIT for 2008 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	$ 312,932,685	$ 66,131,448	$ 39,720,597	$ 17,526,724	$ 189,553,916
Interim mortgage loans	28,500,000	28,500,000	-	-	-
Vendor take-back mortgage loans	1,836,475	1,836,475	-	-	-
Total	$ 343,269,160	$ 96,467,923	$ 39,720,597	$ 17,526,724	$ 189,553,916

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

Convertible Debentures

Since the inception as a real estate investment trust, LREIT has issued seven series of convertible debentures, of which three have matured and been retired through conversion prior to maturity or repayment upon maturity. A summary of the net amount outstanding in regard to the four remaining series of convertible debentures is provided in the following chart.

Issue Date/Maturity Date	Series	Amount Issued	Net Amount Outstanding December 31, 2007
Mar. 16/04/Mar. 16/08	D	$ 4,000,000	$ 1,593,000
Feb. 17/05/Feb. 17/10	E	12,000,000	11,950,000
Mar. 10/06/Mar. 11/11	F	13,680,000	13,680,000
Dec. 8/06/Dec. 31/11	G	25,732,000	25,732,000
Face Value		$ 55,412,000	$ 52,955,000

On March 16, 2008, the outstanding balance of the Series D debentures, in the amount of $1,593,000 was repaid.

Improvements to Existing Properties

As disclosed above, the operating cash flow of the Trust was $1,029,613 in excess of the amount required to fund mortgage loan principal repayments and ongoing improvements to income properties in 2007. During 2007, improvements to income properties amounted to $1,254,569. For 2008, ongoing improvements to income properties are projected to be approximately $2.8 Million, or approximately $1.5 Million greater than in 2007. The increase in property improvement costs is expected to be fully funded from working capital.

Operating Line of Credit

As previously disclosed, the Trust has drawn approximately $3 Million on the $5 Million operating line of credit as of December 31, 2007. The outstanding balance on the line of credit is payable on demand.

Normal Course Issuer Bid

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

Sources of Capital

Short-term

As of December 31, 2007, LREIT had access to $1.96 Million under its line of credit, while the working capital deficiency, excluding mortgage loans receivable and accrued liabilities for property acquisitions or properties under development was $7,365,391.

The refinancing of under-leveraged properties is expected to serve as the primary source of additional capital during 2008. The refinancing may occur in the form of an upward refinanced loan on a specific property or as an interim mortgage loan secured by two or more properties. Excluding additional mortgage loan advances on Laird's Landing, LREIT has received $5.4 Million of additional mortgage loan financing since December 31, 2007 in the form of an interim loan. The additional mortgage loan financing has served as the primary funding source for the year-to-date capital commitments of LREIT. Financing proposals for an additional $28.8 Million of additional mortgage loans on existing properties 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 in 2008.

Longer Term

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

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

TRENDS

In 2008, the Trust is expected to achieve a substantial increase in NOI from its existing property portfolio as the income contribution from new property acquisitions and capital improvements will encompass a significantly longer time frame in 2008. Although there will be an increase in financing expense as a result of additional mortgage loan financing, the incremental increase in NOI is expected to be in excess of the incremental increase in financing expense. Accordingly, it is also anticipated that the Trust will achieve an improvement in cash flows and in income before amortization and taxes during 2008.

As the lease-up completion of the new properties is expected to occur during the second half of 2008, it is anticipated that the increase in financing expense will exceed the increase in NOI during the first and second quarters of the year.

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

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

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

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

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

(iii) provide all development and construction supervision services for the Project. The arrangement provides for Shelter Canadian to earn a development fee from LREIT in the maximum amount of $1,000,000, in consideration for its services under the development agreement, representing approximately 1.73% of the total estimated Project cost. A development fee of $756,826 is recorded to December 31, 2007, including $553,826 which was accrued and included in the year end accounts payable of the Trust. A total of $800,000 of the fee has been paid as of March 24, 2008.

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

REVENUE/INCOME AND OTHER COMMITMENTS

Lakewood Manor

The acquisition of Lakewood Manor was completed by LREIT, effective July 1, 2007. A major oil sands company has leased and occupied all of the units at the property under a three year lease agreement. The lessee is responsible for all property operating costs and as a result, the Trust will realize net operating income of $4,799,800 per annum.

The agreement also 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 previously disclosed in this report, a 59 suite expansion was completed at Elgin Lodge during 2007. During the five year period following the closing date of the acquisition, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded property exceeds the total of the cost to LREIT, including the expansion cost and the unpaid portion of a 12% annual return on the LREIT equity investment.

The Clarington Seniors Residence

LREIT has also retained Kingsway to manage The Clarington Seniors Residence for a ten-year term, expiring on February 12, 2017. During the five year period after the "lease-up" date, Kingsway is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the original acquisition cost to LREIT and the unpaid portion of a 8% annual return on the LREIT equity investment.

CHANGES IN ACCOUNTING POLICIES

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.

Change in accounting policies

New Accounting Standards Adopted January 1, 2007

Effective January 1, 2007, LREIT adopted six new accounting standards that were issued by the CICA. In general, the new accounting standards address the disclosure of comprehensive income, the recognition measurement, disclosure and presentation of financial instruments, the presentation of equity and the accounting treatment for hedged transactions and accounting changes.

Comprehensive Income

In accordance with the new accounting standards, the consolidated Statements of Loss of LREIT now discloses the "comprehensive" income or loss of the Trust. The comprehensive income or loss includes the income or loss of the Trust for the period, plus Other Comprehensive Income ("OCI"). OCI generally includes unrealized gains or losses on financial assets classified as available for sale, unrealized foreign currency adjustments and changes in the fair value of hedging instruments. As applicable, the financial statements of LREIT will include a Statement of Other Comprehensive Income, while the accumulated amount of Other Comprehensive Income (AOCI) will be presented as a category of Unitholders' Equity.

As the Trust does not have any amounts classified as OCI, the comprehensive loss of the Trust in 2007 is the same as the loss for the period.

Financial Instruments

In accordance with the new accounting standards, all financial instruments are to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on the classification of the financial instrument.

As disclosed in note 2 of the audited financial statements, all of the financial instruments of LREIT, except for cash amounts, have been classified as "loans and receivables" or "other financial liabilities" and are measured at amortized cost. The cash resources of LREIT (i.e., restricted cash and bank indebtedness) are classified as "held for trading" and measured at fair value.

The new accounting standards for financial instruments also address the treatment of transaction costs. As disclosed in the section of this report entitled "Changes in Accounting Policies and Estimates Affecting Annual Comparisons", transaction costs which were previously included in "Deferred Charges", and amortized over the term of the mortgage loan or debenture debt, were reclassified as a reduction to mortgage loan payable and convertible debenture debt, effective January 1, 2007. The costs are now being amortized over the expected life of the financial instrument using the effective interest rate method.

In total, $4,451,849 of deferred financing costs were reclassified during 2007, comprised of a $1,819,569 reduction to the carrying value of mortgage loans payable and a $2,632,280 reduction to the debt component of convertible debentures. The Trust also recorded a transition adjustment to reduce the opening balance of cumulative losses at January 1, 2007 by $116,548. In total, net amortization charges were $256,074 lower in 2007 than would have previously been recorded, as a result of adopting the new accounting standard.

Equity

As noted above, the Trust does not have any amounts classified as OCI and as a result, there were no significant changes to the Consolidated Statements of Equity in 2007.

Hedged Transactions

The new accounting standards for hedges did not impact the financial statements of LREIT, as the Trust does not have any hedging transactions.

The detailed explanation of the changes in accounting policies, as disclosed in note 2 of the audited financial statements, reflects the new standards for the treatment and disclosure of accounting changes.

Future Changes to Accounting Standards

Effective January 1, 2008, the Trust adopted three additional new accounting standards pursuant to Canadian GAAP. In general, the new accounting standards address the presentation of financial instruments and non-financial derivatives and the disclosure requirements in regard to the objectives, policies and processes of the Trust for managing capital.

Management is currently considering the affect of the new standards on the financial statements of the Trust.

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 December 31, 2007, there were 40 properties in the real estate portfolio of LREIT, including four commercial properties and 36 residential properties, comprising 3,074 rental units. Ten of the residential properties, comprising a total of 752 suites are located in Fort McMurray. The ten properties have an aggregate acquisition price of $194.7 Million, which represents approximately 44.1% of the total aggregate purchase price of the real estate portfolio.

In April, 2008, LREIT is expected to complete the construction of Laird's Landing, an 189 suite apartment complex in Fort McMurray, and has also entered into an agreement to acquire Parsons Landing, a 160 suite apartment complex in Fort McMurray. The two properties comprise a total of 349 suites and have an aggregate acquisition price/development cost of approximately $122.2 Million. After providing for Laird's Landing and assuming that the acquisition of Parsons Landing is completed, 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 $316.9 Million. The 12 Fort McMurray properties will represent approximately 32.2% of the total multi-family residential suites and approximately 58.8% of the total aggregate acquisition price/development cost to LREIT of its real estate portfolio.

Changes to Tax Treatment of Trusts

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

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

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

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

Estimated Current Value

Management of LREIT estimates the current value of LREIT's portfolio as at December 31, 2007. In making such estimates:

(a) with respect to 26 properties, management assumed that the current value of the properties was equal to the appraised value of such properties as contained in appraisals prepared by independent appraisers; and

(b) with respect to 14 properties, management estimated that the current value of those properties was an aggregate of $37,520,000 above the appraised value of such properties as contained in appraisals prepared by independent appraisers, which estimate was arrived at by management using an income approach to valuation and applying the same capitalization rates used by the independent appraisers in arriving at the appraised value set forth in their respective appraisals; and

(c) with respect to one property, Elgin Lodge, management added the cost of the expansion to the appraised value of Elgin Lodge as contained in an appraisal prepared by an independent appraiser in June, 2006.

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

There can be no assurance that appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2007, the date of management's estimate of the current value of such property. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property (and used by management of LREIT in estimating the current value of the portfolio) was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2007, the date of management's estimate of the current value of such property.

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

Relationship with Shelter Canadian Properties Limited

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

Reliance on Key Personnel

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

Other

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

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

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

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

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

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

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

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

TAXATION

Taxation of LREIT

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

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

Taxation of Unitholders

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

The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. All of the distributions, which have been paid by LREIT from September 2002 to December 31, 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

Controls and Procedures

Disclosure Controls

The management of LREIT, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the disclosure controls and procedures for the Trust. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO evaluated the effectiveness of the disclosure controls and procedures of LREIT (as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2007 and have concluded that the controls and procedures are operating effectively.

Internal Controls over Financial Reporting

The management of LREIT, including the CEO and CFO are also responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

An assessment of the design of the internal controls over financial reporting for LREIT (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2007 was conducted by management of LREIT under the supervision of the CEO and CFO. Based on that assessment, management has determined that the internal controls over financial reporting were appropriately designed.

No changes were made to the design of the internal controls over financial reporting during the year ended December 31, 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.

ESTIMATED CURRENT VALUE OF PROPERTY PORTFOLIO

As disclosed in the following chart, the real estate portfolio of LREIT had an estimated current value of $642 Million as of December 31, 2007.

	Estimate Current Value 2007
Alberta	
Fort McMurray	$ 280,725,000
Other Alberta	44,070,000
Total - Alberta	324,795,000
Saskatchewan	77,140,000
Northwest Territories	43,580,000
Manitoba	20,150,000
British Columbia	15,000,000
Ontario	9,300,000
Total Residential Portfolio	489,965,000
Total Commercial Portfolio	36,110,000
Properties under development	115,963,000
Total Estimated Current Value	$ 642,038,000

The estimated current value of the property portfolio is based on periodic appraisal reports for each property, as prepared by accredited independent appraisers and current internal valuations prepared by utilizing the same valuation criteria as is used in the independent appraisal reports. Please refer to page 9 for a summary of the assumptions of management in determining the estimated current value of the property portfolio.

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 Annual 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
March 24, 2008

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Lanesborough Real Estate Investment Trust. To fulfill this responsibility, management maintains systems of internal control which are designed to give reasonable assurance that transactions are authorized and properly recorded, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial and other financial reports. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgment in the circumstances.

The financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of the three independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee.

Meyers Norris Penny LLP, the independent chartered accountants, were appointed by the Unitholders and are engaged to audit the consolidated financial statements in accordance with generally accepted auditing standards and provide an independent auditor's opinion.

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Kenneth J. Dando"

Kenneth J. Dando
Chief Financial Officer

March 24, 2008

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated balance sheets of Lanesborough Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of equity, loss and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba

March 24, 2008

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	December 31 2007	December 31 2006 (restated)
Assets		
Income properties (Note 4)	**$375,796,299**	$231,564,852
Properties under development (Note 5)	**80,228,769**	20,673,140
Mortgage loans receivable (Note 6)	**10,000,000**	17,500,000
Deferred financing costs (Note 7)	**-**	4,451,849
Cash	**-**	1,588,271
Other assets (Note 8)	**6,410,441**	18,444,089
Future income taxes (Note 12)	**3,763,761**	-
	$476,199,270	$294,222,201
Liabilities and Equity		
Mortgage loans payable (Note 9)	**$341,334,043**	$171,255,511
Convertible debentures (Note 10)	**41,036,253**	42,829,557
Accounts payable and accrued liabilities (Note 11)	**31,339,325**	8,294,598
Future income taxes (Note 12)	**2,617,905**	3,277,025
Bank indebtedness (Note 13)	**1,623,651**	-
	417,951,177	225,656,691
Non-controlling interest (Note 14)	**1,685,103**	1,925,515
Equity	**56,562,990**	66,639,995
	$476,199,270	$294,222,201

Approved by the Board of Trustees

"Charles Loewen"

"Cheryl Barker"

The accompanying notes are an integral part of these financial statements.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended December 31, 2007:

	Units	Loss and total accumulated comprehensive loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2006	$ 77,812,493	$ (8,017,238)	$ (17,898,958)	$ 13,764,313	$ 65,660,610
Change in accounting policy	-	979,385	-	-	979,385
Equity, December 31, 2006 restated	77,812,493	(7,037,853)	(17,898,958)	13,764,313	66,639,995
Change in accounting policy (Note 2)	-	116,458	-	-	116,458
Equity, January 1, 2007 restated	77,812,493	(6,921,395)	(17,898,958)	13,764,313	66,756,453
Conversion of debentures	250,659	-	-	(35,656)	215,003
Maturity of Series A debentures	301,362	-	-	(301,362)	-
Exercise of unit options	40,000	-	-	-	40,000
Issue costs	(44,049)	-	-	-	(44,049)
Unit based compensation	309,233	-	-	-	309,233
Units issued on distribution reinvestment plan	454,909	-	-	-	454,909
Loss and comprehensive loss	-	(1,400,904)	-	-	(1,400,904)
Distributions declared	-	-	(9,767,655)	-	(9,767,655)
Equity, December 31, 2007	$ 79,124,607	$ (8,322,299)	$ (27,666,613)	$ 13,427,295	$ 56,562,990

Year Ended December 31, 2006 (restated):

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2005, as previously reported	$ 75,115,429	$ (4,231,487)	$ (8,272,429)	$ 3,935,245	$ 66,546,758
Change in accounting policy	-	346,001	-	-	346,001
Equity, December 31, 2005 restated	75,115,429	(3,885,486)	(8,272,429)	3,935,245	66,892,759
Conversion of debentures	2,380,740	-	-	(439,879)	1,940,861
Equity component of issued debentures	-	-	-	10,268,947	10,268,947
Issue of units on exchange of LP units of Village West LP	600,000	-	-	-	600,000
Issue costs	(829,863)	-	-	-	(829,863)
Unit based compensation	532,406	-	-	-	532,406
Units issued on distribution reinvestment plan	13,781	-	-	-	13,781
Loss	-	(3,152,367)	-	-	(3,152,367)
Distributions declared	-	-	(9,626,529)	-	(9,626,529)
Equity, December 31, 2006	$ 77,812,493	$ (7,037,853)	$ (17,898,958)	$ 13,764,313	$ 66,639,995

The accompanying notes are an integral part of these financial statements.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Year Ended 2007	December 31 2006 (restated)
Revenue		
Rentals from income properties (Note 18)	**$ 45,216,274**	$ 28,736,288
Interest and other income	**1,095,041**	1,802,560
	46,311,315	30,538,848
Expenses		
Property operating costs	**19,238,660**	13,446,191
Income before the undernoted	**27,072,655**	17,092,657
Financing expense (Note 19)	**23,015,545**	11,505,489
Trust expense	**2,056,789**	1,732,924
Amortization (Note 20)	**8,174,795**	7,816,221
	33,247,129	21,054,634
Loss before income taxes	**(6,174,474)**	(3,961,977)
Future income tax recovery	**(4,732,863)**	(735,249)
Loss before non-controlling interest	**(1,441,611)**	(3,226,728)
Non-controlling interest (Note 14)	**40,707**	74,361
Loss and comprehensive loss for the year	**$ (1,400,904)**	$ (3,152,367)
Loss per unit (Note 22)		
Basic	**$ (0.080)**	$ (0.184)
Diluted	**(0.080)**	(0.184)
Weighted average number of units (Note 22)		
Basic	**17,457,299**	17,161,415
Diluted	**17,457,299**	17,161,415

The accompanying notes are an integral part of these financial statements.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 2007	December 31 2006 (restated)
Cash provided by (used in) operating activities		
Income (loss) for the year	**$ (1,400,904)**	$ (3,152,367)
Items not affecting cash		
Straight-line rent adjustment	**(58,618)**	(50,835)
Accretion on debt component of convertible debentures (Note 10)	**2,004,220**	1,129,745
Unit-based compensation	**309,233**	532,406
Amortization (Note 20)	**9,936,080**	7,816,325
Future income taxes	**(4,732,863)**	(735,249)
Non-controlling interest	**(40,707)**	(74,361)
	6,016,441	5,465,664
Changes in non-cash operating items (net of effects of acquisition of income properties)	**1,168,265**	978,153
Tenant inducements and leasing expenses incurred through leasing activity	**(105,479)**	(70,401)
	7,079,227	6,373,416
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**180,042,264**	50,255,483
Proceeds of convertible debentures	**-**	39,412,000
Repayment of Series A debentures	**(1,677,000)**	-
Repayment of mortgage loans on refinancing	**(31,232,909)**	(9,452,843)
Repayment of principal on mortgage loans	**(4,795,045)**	(3,199,700)
Transaction costs	**(1,773,800)**	-
Deferred financing costs	**-**	(3,506,513)
Issue costs	**-**	(765,742)
Distributions paid on trust units (Note 21)	**(9,336,147)**	(9,613,279)
Distributions paid on LP units of Village West LP	**(199,705)**	(139,828)
	131,027,658	62,989,578
Cash provided by (used in) investing activities		
Acquisition of income properties and properties under development	**(91,191,965)**	(55,934,280)
Improvements to income properties	**(3,890,777)**	(1,946,579)
Increase in properties under development	**(34,231,084)**	(10,642,378)
Mortgage loan receivable advance	**(10,000,000)**	(9,000,000)
Repayment of mortgage loan receivable	**-**	850,000
Deposits on potential acquisitions	**(600,000)**	(13,580,975)
Increase in restricted cash	**(1,404,981)**	(486,108)
	(141,318,807)	(90,740,320)
Cash decrease	**(3,211,922)**	(21,377,326)
Cash, beginning of year	**1,588,271**	22,965,597
Cash (bank indebtedness), end of year	**$ (1,623,651)**	$ 1,588,271

Supplementary cash flow information (Note 21)

1 Organization

Lanesborough Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust which was created under a Declaration of Trust dated April 23, 2002 and amended on June 12, 2006.

2 Significant accounting policies

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These financial statements reflect the operations of the Trust and wholly owned operating subsidiaries and LREIT Village West Limited Partnership ("Village West LP"), an entity controlled by the Trust. All inter-entity transactions have been eliminated.

Income properties

Income properties include land, buildings and related costs and improvements, appliances, tenant inducements and leasing expenses and intangible assets.

Income properties are carried at cost. Tenant inducements and leasing expenses that are incurred to obtain a lease are capitalized to the cost of buildings and improvements. In addition, a portion of the total cost of acquisition of an income property is allocated to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in-place leases. A portion of the total cost of acquisition of an income property is allocated to intangible assets to reflect the cost of lease origination costs, tenant relationships and above market leases. If events or circumstances indicate that the carrying value of the income properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income properties. If the analysis indicated that the carrying value is not recoverable from future cash flows, the income properties are written down to estimated fair value and an impairment loss is recognized.

Amortization on buildings is recorded on a straight-line basis over their remaining useful lives ranging from 25 to 50 years. Amortization of improvements is recorded on a straight-line basis over their remaining useful lives ranging from 5 to 25 years. Amortization of tenant inducements and leasing expenses is recorded on a straight-line basis over the term of the respective leases. Amortization of appliances is recorded on a straight-line basis over their remaining useful lives ranging from 7 to 15 years. Amortization of intangible assets is recorded on straight-line basis over the term of respective leases.

Carrying costs during major renovations

Carrying costs incurred in regard to major in-suite renovations of income properties are capitalized in the cost of the building. Major in-suite renovations involve the temporary removal of suites from the rental market and include the replacement of flooring, draperies, appliances and cabinetry as well as related repairs and painting. Carrying costs consist of financing and certain property operating costs including property taxes, utilities, common area maintenance and salary costs relating to the suites removed from the rental market. The carrying costs are amortized at such a time as the suites are returned to the rental market with an estimated useful life of five years.

2 Significant accounting policies (continued)

Properties under development

Properties under development are stated at cost. Cost is comprised of acquisition costs, external and internal development and initial leasing costs, property operating costs and financing expenses less rental revenue incurred during the period of development prior to achieving a satisfactory level of occupancy within a predetermined time period.

Mortgage loans receivable

Mortgage loans receivable are stated at amortized cost. If events or circumstances indicate that the carrying value of a mortgage loan receivable may be impaired, the mortgage loan receivable is classified as impaired and reduced to its estimated fair value.

Intangible liabilities

A portion of the total cost of acquisition of an income property is allocated to intangible liabilities to reflect the cost of below market leases. If the carrying value is not realizable in the future, the intangible liabilities are adjusted to estimated fair value and a gain is recognized.

Convertible debentures

Convertible debentures are separated into debt and equity components based on the respective fair values at the date of issue. The fair value of the debt component of convertible debentures is estimated based on the present value of future interest and principal payments due under the terms of the debentures. The value assigned to the equity component represents the estimated fair value ascribed to the holders' options to convert the debentures into units.

Unit options

The Trust has a unit option plan available for trustees, officers and employees of the Trust, as well as management company employees of the Trust, including Shelter Canadian Properties Limited and consultants retained by the Trust including investor relations consultants. Consideration paid by option holders on exercise of unit options is credited to Equity. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense in regard to options granted to officers, employees and trustees is recognized over the vesting period of the options. Compensation expense in regard to options issued to Shelter Canadian Properties Limited under the services agreement is recognized over the initial term of the services agreement.

Revenue recognition

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases is recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amount contractually due under the lease agreements is recorded to straight-line rent receivable and accrued rental revenue. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the year in which the applicable costs are incurred. Meal and other revenue is recognized as earned.

2 Significant accounting policies (continued)

Income taxes
In accordance with the terms of the Declaration of the Trust, the Trust intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part 1 of the Income Tax Act.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. As the Trust does not currently meet the criteria for a Qualifying REIT for distributions to be deducted in computing taxable income, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status. Prior to 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT and allow distributions to be deducted from taxable income.

Wholly-owned operating subsidiaries of the Trust are operating businesses and provide for income tax expense using the asset and liability method of accounting for income taxes at enacted or substantively enacted rates. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Per unit calculations
Basic per unit amounts are calculated using the weighted average number of units outstanding during the year. Diluted per unit amounts are calculated after considering the potential exercise of convertible debentures, exchangeable Class B Limited Partnership units of Village West LP and outstanding unit options. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates, and as adjustments become necessary, the adjustments are reported in earnings in the year in which the adjustments become known.

Significant items subject to estimates include the allocation of the total cost to income properties on acquisition and the transfer of amounts from properties under development to income properties, the remaining useful life of the income properties and the calculation of future income tax assets and liabilities.

2 Significant accounting policies (continued)

Change in accounting policies

On January 1, 2007, the Trust adopted six new accounting standards that were issued by the CICA. Handbook Section 1530 - Comprehensive Income, Handbook Section 3855 - Financial Instruments - Recognition and Measurement, Handbook Section 3865 - Hedges, Handbook Section 3861 - Financial Instruments - Disclosure and Presentation, Handbook Section 3251 - Equity, and Handbook Section 1506 - Accounting Changes. As required, the new standards are applied retroactively without restatement and accordingly, comparative amounts for prior periods, if any, have not been restated.

Comprehensive income, CICA Handbook Section 1530

Comprehensive income includes net income and other comprehensive income ("OCI"). OCI generally includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Trust's financial statements will include a statement of other comprehensive income for any items included in OCI while the cumulative amount and accumulated other comprehensive income ("AOCI"), will be presented as a category of unitholders' equity.

The Trust does not have any OCI or AOCI.

Financial instruments - Recognition and Measurement, CICA Handbook Section 3855

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are capitalized on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities (other than those held-for-trading) are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in OCI.

The Trust does not have any derivative instruments.

2 *Significant accounting policies (continued)*

The Trust may designate any financial instrument whose fair value can be reliably measured as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855.

The standard specifically excludes Section 3065 - Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. Other significant accounting implications arising on adoption of the standard include the initial recognition of certain financial guarantees at fair value on the balance sheet (no subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative), and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Upon adoption of these new standards, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Mortgage loans receivable	Loans and receivables	Amortized cost
Other assets		
Amounts receivable	Loans and receivables	Amortized cost
Restricted cash	Held for trading	Fair value
Mortgage loans payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debentures - debt portion	Other financial liabilities	Amortized cost
Bank indebtedness	Held for trading	Fair value

Hedges, CICA Handbook Section 3865

This standard specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies including fair value hedges and cash flow hedges.

In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net earnings. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard ("effective"), will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion as defined by the standard ("ineffective") will be recognized in net earnings. The amounts recognized in AOCI will be reclassified to net earnings in those periods in which net earnings is affected by the variability in the cash flows of the hedged item.

Deferred gains or losses on the hedging instrument with respect to fair value hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to net earnings over the remaining term of the hedged item for fair value hedges, and for cash flow hedges will be recognized in AOCI and reclassified to net earnings in the same period during which the hedged item affects net earnings. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of deficit on transition.

The Trust does not have any hedging transactions.

2 *Significant accounting policies (continued)*

Equity, CICA Handbook Section 3251

With the introduction of the new standards relating to financial instruments, the CICA has replaced previous Section 3250 - Surplus with Section 3251 - Equity. This new section establishes standards for the presentation of equity and changes in equity during the reporting period.

Financial Instruments - Disclosure and Presentation, CICA Handbook Section 3861

This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The disclosure paragraphs deal with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. This Section also deals with disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for controlling those risks.

Accounting Changes, CICA Handbook Section 1506

The objective of this Section is to prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Improvements to income properties

In order to provide reliable and more relevant information in regard to property operating costs and improvements to income properties, expenditures relating to improvements to income properties are capitalized to the cost of income properties, effective January 1, 2007. Amortization of improvements is recorded on a straight-line basis over their estimated useful lives ranging from five to twenty-five years. The policy has been applied retroactively, with restatement of prior periods. As a result of the retroactive restatement, the net book value of income properties at December 31, 2006, has increased by $989,495, non-controlling interest at December 31, 2006, has increased by $10,110, retained earnings at December 31, 2006, has increased by $979,385 and retained earnings at December 31, 2005, has increased by $346,001.

Property operating costs are lower by $729,906 for the year ended December 31, 2006, amortization expense is higher by $86,412 for the year ended December 31, 2006 and the net book value of income properties is higher by $643,494 for the year ended December 31, 2006.

Basic and diluted loss per unit is lower than would have been reported under the previous policy by $0.036 per unit for the year ended December 31, 2006.

2 *Significant accounting policies (continued)*

Impact of adopting changes in accounting policies
Effective January 1, 2007, the carrying value of financial liabilities are reduced by the cost incurred to obtain financing considered to be transaction costs which were previously disclosed as deferred financing costs on the Consolidated Balance Sheets of the Trust. Deferred financing costs of $4,451,849 that were related to outstanding debt at December 31, 2006, have been reclassified and reduce the carrying value of mortgage loans payable and convertible debentures by $1,819,569 and $2,632,280 respectively.

As a result of adopting changes in accounting policies the Trust recorded transition adjustments reducing the opening balance of cumulative losses at January 1, 2007 by $116,458.

If the accounting policy had not been implemented, financing expense would be reduced by $1,759,686 for the year ended December 31, 2007, while amortization of deferred financing costs would be increased by $1,864,233 for the year ended December 31, 2007.

Change in estimate - income taxes
In accordance with GAAP, the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset or liability.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. Under the new 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. Distributions paid as returns of capital will not be subjected to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. The new legislation is not expected to apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. Prior to 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT.

As the Trust does not currently meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status, notwithstanding the intent of the Trust to become a Qualifying REIT prior to 2011 to the extent possible.

Future changes to significant accounting policies
CICA Handbook Sections 3862 "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentation", will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These Sections establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Handbook Section 3855 "Financial Instruments - Recognition and Measurement".

2 Significant accounting policies (continued)

These sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

CICA Handbook Section 1535 "Capital Disclosures", will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The section will require the Trust to disclose information that enables users of its financial statements to evaluate the Trust's objectives, policies and processes for managing capital.

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

3 Acquisitions

During the year ended December 31, 2007, the Trust acquired four income properties comprising 442 suites and three properties under development.

The net assets acquired in the transactions are as follows:

Income properties	
Land	$ 17,408,377
Buildings	65,748,658
Furniture, equipment and appliances	1,671,242
Intangible assets	207,223
Mortgage loans payable assumed	(13,982,050)
Vendor take-back mortgage loan payable	(1,600,000)
	69,453,450
Properties under development	
Properties under development	86,222,168
Mortgage loans payable assumed	(6,120,000)
Vendor take-back mortgage loan payable	(6,250,000)
Difference between contractual and market interest rates on mortgage loans payable assumed	(858,673)
Future income tax liability	(309,981)
	72,683,514
	$142,136,964
Consideration:	
Cash	$ 91,191,965
Deposits made in prior year	14,225,000
Mortgage loan receivable, applied to purchase	17,500,000
Acquisition payable	19,219,999
	$142,136,964

Deposits of $17,375,000 for the year ended December 31, 2007 respectively, were applied to the acquisitions of income properties and properties under development.

4 Income properties

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
Land	$ 70,228,011	$ -	$ 70,228,011
Buildings and improvements	311,293,608	(13,338,109)	297,955,499
Furniture, equipment and appliances	7,825,239	(1,557,893)	6,267,346
Intangible assets	3,465,827	(2,120,384)	1,345,443
	$392,812,685	$ (17,016,386)	$375,796,299

December 31, 2006 (restated)	Cost	Accumulated Amortization	Net Book Value
Land	$ 31,961,341	$ -	$ 31,961,341
Buildings and improvements	201,883,832	(8,408,098)	193,475,734
Furniture, equipment and appliances	4,847,496	(843,728)	4,003,768
Intangible assets	4,595,274	(2,471,265)	2,124,009
	$243,287,943	$ (11,723,091)	$231,564,852

Effective January 1, 2007, tenant improvements recorded on acquisition of income properties and tenant inducements and leasing expenses in regard to ongoing leasing, previously presented as components of deferred charges, as well as intangible assets are presented as components of income properties. The period of amortization of the applicable amounts remains unchanged.

On July 1, 2007 the major in-suite renovations at Highland Tower were substantially complete, making all suites available to the rental market. Carrying costs are no longer being capitalized and the cost of the major in-suite renovations are being amortized effective July 1, 2007. The cost of the major renovations at Highland Tower for the year ended December 31, 2007, consisted of construction costs of $2,175,714 (2006 - $1,128,731) and carrying costs of $82,073 (2006 - $156,960). Construction costs and carrying costs are included in the cost of buildings.

For a three year term expiring June 30, 2010, the tenant at Lakewood Manor has the option to purchase the townhouse portion of the property for $26,169,600 during year one, $26,873,600 during year two and $27,667,200 during year three.

As at December 31, 2007, no circumstances have occurred that indicate that the carrying value of income properties is less than the fair value.

5 *Properties under development*

	December 31 2007	December 31 2006
Laird's Landing (formerly Park View Apartments)	$ 45,439,063	$ 19,434,308
Clarington Seniors Residence	25,023,068	-
Elgin Lodge	9,766,638	1,238,832
	$ 80,228,769	$ 20,673,140

The cost of properties under development for the year ended December 31, 2007, includes carrying costs of $2,111,781 (2006 - $246,788).

6 *Mortgage loans receivable*

	December 31 2007	December 31 2006
Parsons Landing	$ 10,000,000	$ -
Lakewood Manor	-	8,500,000
Millennium Village	-	4,000,000
Nova Court	-	5,000,000
	$ 10,000,000	$ 17,500,000

Parsons Landing Apartments
The Trust invested in a second mortgage loan, secured by a 160-suite multi-family apartment property in Fort McMurray, Alberta. The loan advance of $10,000,000 bears interest at 8%. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property upon closing, which is expected to occur in two phases in June and September 2008.

Lakewood Manor
The Trust invested in a second mortgage loan, secured by a 175-suite multi-family apartment and townhouse property in Fort McMurray, Alberta. The loan advance of $8,500,000 bore interest at 8%. Interest was payable quarterly. The loan was applied toward the purchase price of the property effective July 1, 2007.

Millennium Village
The Trust invested in a second mortgage loan, secured by a 72-suite multi-family townhouse complex in Fort McMurray, Alberta. The loan advance of $4,000,000 bore interest at 8%. Interest was payable quarterly. The loan was applied toward the purchase price of the property upon acquisition of Phase I, effective August 3, 2007.

Nova Court
The Trust invested in mortgage loan, secured by a residential property in Yellowknife, Northwest Territories. The loan advance of $5,000,000 bore interest at 10%. Interest was payable monthly. The loan was applied toward the purchase price of the property on March 23, 2007.

7 Deferred financing costs

Deferred financing costs are net of accumulated amortization of nil (December 31, 2006 - $1,208,527).

Effective January 1, 2007, financing costs previously presented as deferred charges are presented as transaction costs and are included as components of mortgage loans payable and convertible debentures.

8 Other assets

	December 31 2007	December 31 2006
Amounts receivable	$ 1,667,624	$ 1,158,445
Property tax deposits and other	897,759	1,302,853
Deposits on potential acquisitions	650,000	14,240,975
Straight-line rent receivable	291,548	232,930
Restricted cash	2,841,639	1,436,658
Above market in place leases, net of accumulated amortization of $61,855, (2006 - $51,498)	61,871	72,228
	$ 6,410,441	$ 18,444,089

Amounts receivable includes amounts due from tenants of $547,827 (2006 - $340,016) and a loan receivable from a tenant of $91,557 (2006 - $210,091).

Restricted cash consists primarily of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by lenders of $641,028 (2006 - $48,250).

9 Mortgage loans payable

Mortgage loans payable consists of the following:

	Interest Rates at December 31, 2007			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2007
Income properties				
Fixed rate mortgages	4.1% - 11.0%	5.9%	5.3 years	$263,514,757
Floating rate mortgages	6.3% - 7.3%	7.1%	Demand	25,500,000
Non interest bearing vendor take-back second mortgage			Demand	236,475
				289,251,232
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	9.4%	1.2 years	11,370,000
Floating rate mortgages	7.0% - 8.0%	7.0%	Demand	42,647,928
				54,017,928
				343,269,160
Difference between contractual and market interest rates on mortgage loans assumed				301,060
Unamortized transaction costs				(2,236,177)
				$341,334,043

	Interest Rates at December 31, 2006			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2006
Income properties				
Fixed rate mortgages	4.1% - 12.5%	5.6%	6.5 years	$156,322,913
Floating rate mortgages	6.5% - 7.0%	7.0%	Demand	8,046,123
Non interest bearing vendor take-back second mortgage			Demand	236,475
				164,605,511
Properties under development				
Floating rate mortgages	7.0%	7.0%	Demand	6,650,000
				$171,255,511

9 *Mortgage loans payable (continued)*

Approximate principal repayments are as follows:

Year ending December 31	
2008	$ 96,467,923
2009	32,344,736
2010	7,375,861
2011	12,398,450
2012	5,128,274
Thereafter	189,553,916
	$343,269,160

The floating rate mortgage loans payable are payable on demand until such time as the interest rate and term are fixed. The income properties have been pledged as security under the related mortgage agreements.

The difference between contractual and market interest rates on mortgage loans assumed is amortized over the term of the respective mortgages. The balance of $301,060 is net of accumulated amortization of $557,613 (2006 - nil) at December 31, 2007. The difference relates to mortgage loans assumed on acquisition of properties under development. The amortization of $557,613 (2006 - nil) for the year ended December 31, 2007 is recorded as a reduction of the carrying value of properties under development.

Certain of the mortgage loans payable are subject to covenants, including minimum debt service ratios. The Trust is in compliance with all covenants in regard to mortgage loans payable as at December 31, 2007.

10 *Convertible debentures*

The Series A debentures which bore interest at 10%, matured on August 31, 2007. The Trust repaid $1,677,000 in respect of the Series A debentures.

The Series D debentures bear interest at 8%, mature on March 16, 2008 and are subordinate to the mortgage loans payable. The Series D debentures are convertible at the request of the holder at any time prior to maturity at a conversion price of $5.00.

The Series E debentures bear interest at 8%, mature on February 17, 2010 and are subordinate to the Series D debentures. The Series E debentures are convertible at the request of the holder at any time during the year ending February 17, 2008, at a conversion price per unit of $6.50, during the year ending February 17, 2009 at $7.15, and during the year ending February 17, 2010 at $7.90.

The Series F debentures bear interest at 7.5%, mature on March 11, 2011 and are subordinate to the Series D debentures and Series E debentures. The Series F debentures are convertible at the request of the holder at any time during the year ending March 11, 2009 at a conversion price per unit of $6.00, during the year ending March 11, 2010 at $6.60, and during the year ending March 11, 2011 at $7.30.

10 Convertible debentures (continued)

The unsecured Series G debentures bear interest at 7.5%, mature on December 31, 2011 and are subordinate to the Series D debentures, Series E debentures, and Series F debentures. The Series G debentures are convertible at the request of the holder at any time prior to their maturity date at a conversion price of $7.00. The Trust has the right to redeem in whole or in part, the Series G debentures at par plus accrued interest, provided that the weighted average trading price of the units during the twenty consecutive trading days ending five trading days preceding the date on which the notice of redemption is given must not be less than 125% of the applicable conversion price for the period from December 31, 2009 to December 31, 2010 and at par plus accrued interest from December 31, 2010. Upon receipt of the notice of intent to redeem, the holders may elect to convert to units at the then applicable conversion price.

During the year ended December 31, 2007, holders of convertible debentures exercised their right to convert to units, as follows:

Convertible Debentures	Conversion Price	Units Issued
Series A	$ 6.00	2,166
Series D	5.00	31,200
Series E	6.50	7,692

During the year ended December 31, 2006, holders of convertible debentures exercised their right to convert to units, as follows:

Convertible Debentures	Conversion Price	Units Issued
Series A	$ 5.50	6,544
Series A	6.00	7,166
Series D	5.00	420,800

December 31, 2007	Debt	Equity	Total
Convertible debentures			
Series D - 8%, due March 16, 2008	$ 1,565,705	$ 322,658	$ 1,888,363
Series E - 8%, due February 17, 2010	10,456,183	2,835,690	13,291,873
Series F - 7.5%, due March 11, 2011	11,113,418	3,564,376	14,677,794
Series G - 7.5%, due December 31, 2011	20,072,606	6,704,571	26,777,177
	43,207,912	13,427,295	56,635,207
Unamortized transaction costs	(2,171,659)	-	(2,171,659)
	$ 41,036,253	$ 13,427,295	$ 54,463,548

10 Convertible debentures (continued)

December 31, 2006	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,638,179	$ 293,557	$ 1,931,736
Series D - 8%, due March 16, 2008	1,616,384	354,254	1,970,638
Series E - 8%, due February 17, 2010	9,957,343	2,847,555	12,804,898
Series F - 7.5%, due March 11, 2011	10,528,607	3,564,376	14,092,983
Series G - 7.5%, due December 31, 2011	19,089,044	6,704,571	25,793,615
	$ 42,829,557	$ 13,764,313	$ 56,593,870

The allocation of the convertible debentures to debt and equity components is based on the net present value of future interest and principal payments with an estimated cost of borrowing without conversion option of 15% for Series D, Series E, Series F and Series G debentures.

The accretion of the debt component for the year ended December 31, 2007 of $2,004,220 (2006 - $1,129,745), which increases the debt component from the initial carrying amount, is included in financing expense.

11 Accounts payable and accrued liabilities

	December 31 2007	December 31 2006
Accounts payable and accrued liabilities	$ 2,191,916	$ 2,207,600
Acquisition payable	19,615,893	-
Construction costs payable on properties under development	4,710,619	2,730,762
Mortgage and debenture interest payable	2,276,599	1,732,235
Tenant security deposits	2,535,202	1,606,147
Below market in-place leases, net of accumulated amortization of $66,498 (2006 - $57,740)	9,096	17,854
	$ 31,339,325	$ 8,294,598

The acquisition payable relates to the acquisition of Millennium Village. The acquisition payable is due up to 180 days from November 15, 2007. The acquisition payable bore interest at 6% to August 31, 2007, 8% from September 1, 2007 to November 15, 2007, and at prime plus 3% thereafter. The acquisition payable is expected to be paid in April 2008. Included in acquisition payable at December 31, 2007 is accrued interest of $395,894.

12 Future income taxes

Future income taxes consists of the following components:

	December 31 2007	2006
Future income tax assets:		
Future income taxes related to difference in tax and book value of the Trust	$ 3,763,761	$ -
Future income tax liabilities:		
Future income taxes related to difference in tax and book value of wholly owned operating subsidiaries	$ 3,507,101	$ 3,389,586
Future income taxes related to operating losses of wholly owned operating subsidiaries	(889,196)	(112,561)
	$ 2,617,905	$ 3,277,025

Future income tax recoveries:

	Year Ended December 31 2007	2006
Current income tax recovery at Canadian statutory tax rates	$ 668,354	$ 352,299
Increase in future income tax recoveries resulting from the change in tax status with the enactment of Bill C-52	3,763,761	-
Lease-up period operations capitalized to Properties Under Development, included in taxable income	285,253	-
Differences between net income per the financial statements and taxable income per wholly-owned operating subsidiaries	170,014	295,941
Adjustment to future tax liabilities for changes to the difference between Tax and GAAP carrying values	(154,519)	87,009
	$ 4,732,863	$ 735,249

13 Bank indebtedness

Bank indebtedness consists of a revolving line of credit less cash in bank. The Trust obtained a revolving line of credit on November 16, 2007 in the maximum amount of $5,000,000, bearing interest at prime and repayable on demand. An income property has been pledged as security under the terms of the line of credit. As at December 31, 2007, $1,960,000 is available to the Trust under the terms of the line of credit.

Bank indebtedness consists of the following:

	December 31 2007	2006
Line of credit	$ 3,040,000	-
Less: Cash in bank	1,416,349	$ -
	$ 1,623,651	$ -

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14 Non-controlling interest

Non-controlling interest represents the interest of the holder of the Class B units (LP Units) of Village West LP, an entity controlled by the Trust, which is consolidated in the financial statements. The holder of the LP Units of Village West LP is entitled to receive distributions equal to those provided to holders of units of the Trust. LP Units are transferable and are exchangeable, at the option of the holder on a one for one basis for units of the Trust. As at December 31, 2007, there were 356,617 (2006 - 356,617) LP Units of Village West LP outstanding.

Non-controlling interest consists of the following:

	December 31	
	2007	2006 (restated)
Opening balance	$ 1,925,515	$ -
LP Units of Village West LP issued	-	2,739,704
Share of loss of Village West Townhouses	(40,707)	(74,361)
Distributions on LP Units of Village West LP	(199,705)	(139,828)
Exchange of 100,000 LP Units for Units of the Trust	-	(600,000)
	$ 1,685,103	$ 1,925,515

15 Related party transactions

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited is a related party by virtue of the property management and services agreement with the Trust.

Management agreement

The Trust entered into a property management agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. On August 9, 2007, the property management agreement was renewed with the same terms and conditions for a further five year term expiring on August 30, 2012. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties, except for the seniors housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regards to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The Trust incurred property management fees payable to Shelter Canadian Properties Limited of $1,605,530 for the year ended December 31, 2007 (2006 - $974,256). Property management fees are included in property operating costs and during the period of major in-suite renovations or development are capitalized to the cost of buildings and properties under development.

Included in accounts payable and accrued liabilities at December 31, 2007 is a balance of $65,926 (2006 - $61,836), payable to Shelter Canadian Properties Limited in regard to outstanding property management fees.

15 Related party transactions (continued)

Services agreement
The Trust entered into a services agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. Effective January 1, 2006, the services agreement was amended to provide for a service fee payable to Shelter Canadian Properties Limited, equal to 0.3% of the net book value of the assets of the Trust, excluding cash and accumulated amortization. On August 30, 2007, the services agreement was renewed with the same terms and conditions for a one year term expiring on August 30, 2008.

The Trust incurred service fees payable to Shelter Canadian Properties Limited of $1,176,967 for the year ended December 31, 2007 (2006 - $636,881). Service fees are included in trust expense.

Included in accounts payable and accrued liabilities at December 31, 2007 is a balance of $265,902 (2006 - nil), payable to Shelter Canadian Properties Limited in regard to outstanding service fees.

Unit-based compensation expense for the period ended December 31, 2007 of $7,506 (2006 - $11,388), relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the initial term of the services agreement that expired August 30, 2007.

Acquisition
The Trust has entered into a development agreement with Shelter Canadian Properties Limited to develop Laird's Landing (formerly Park View Apartments), a residential property located in Fort McMurray, Alberta. During the year ended December 31, 2007, $431,421 (2006 - $334,405) was recorded to properties under development in regard to the development and construction supervision services provided by Shelter Canadian Properties Limited.

Included in construction costs payable on properties under development at December 31, 2007 is a balance of $553,826 (2006 - $122,405) payable to Shelter Canadian Properties Limited in regard to the development and construction services.

Guarantees
Certain of the mortgage loans payable have been guaranteed by Shelter Canadian Properties Limited.

16 Units

A summary of the status of the units and changes during the year is as follows:

	Year Ended December 31	
	2007	2006
Outstanding, beginning of year	17,392,235	16,855,286
Units issued on conversion of debentures	41,058	434,510
Units issued on distribution reinvestment plan	86,601	2,439
Units issued on exchange of LP units of Village West LP	-	100,000
Units issued on exercise of unit option	10,000	-
Outstanding, end of year	17,529,894	17,392,235

Distribution Reinvestment Plan
Pursuant to the distribution reinvestment plan ("DRIP"), holders of Units may elect to have all or a portion of their regular monthly distributions automatically reinvested in additional Units. Participants in the DRIP receive a bonus distribution of units equal to 4% of the amount of the cash distribution which is reinvested. The purchase price of the units is equal to the weighted average closing price of the Units for the five trading days immediately preceding the distribution payment date. During the year ended ended December 31, 2007, 61,018 (2006 - 2,439) units have been issued pursuant to the DRIP.

17 Unit option plan

On June 8, 2007, the Trust granted options to each of the four independent trustees to acquire 30,000 units at $5.30 per unit. The options have vested and expire on June 8, 2012.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used for the options granted on June 8, 2007 are dividend yield of 9.35%, expected volatility of 23.46%, risk-free interest rate of 4.66% and life of options of five years.

17 Unit option plan (continued)

Unit-based compensation expense of $301,727 for the year ended December 31, 2007 (2006 - $521,018), relating to options issued was recorded to expense the fair value unit-based compensation, including $45,058 for the year ended December 31, 2007 relating to the options issued on June 8, 2007. Unit-based compensation is included in trust expense.

A summary of the status of the unit options and changes during the year is as follows:

	Year Ended December 31, 2007		Year Ended December 31, 2006	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of year	1,000,000	$ 5.77	10,000	$ 4.00
Granted, January 17, 2006	-	-	30,000	5.42
Granted, July 26, 2006	-	-	960,000	5.80
Granted, June 8, 2007	120,000	5.30	-	-
Exercised, October 26, 2007	(10,000)	4.00	-	-
Outstanding, end of year	1,110,000	$ 5.72	1,000,000	$ 5.77
Vested, end of year	654,000		392,000	

At December 31, 2007 the following unit options were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 5.42	30,000	30,000	January 17, 2011
$ 5.80	960,000	504,000	July 26, 2011
$ 5.30	120,000	120,000	June 8, 2012
	1,110,000	654,000	

18 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs and property taxes from tenants of $2,244,485 (2006 - $1,645,274).

19 Financing expense

	Year Ended December 31	
	2007	2006
Mortgage loan interest	$ 15,092,084	$ 7,901,230
Convertible debenture interest	4,159,555	2,474,514
Accretion of the debt component of convertible debentures	2,004,220	1,129,745
Amortization of transaction costs	1,759,686	-
	$ 23,015,545	$ 11,505,489

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20 Amortization

	Year Ended December 31 2007	Year Ended December 31 2006 (restated)
Building	$ 6,551,383	$ 4,460,592
Furniture, equipment and appliances	637,624	495,437
Intangible assets, except for in-place leases	985,788	2,235,796
Deferred financing costs	-	624,396
	8,174,795	7,816,221
Transaction costs	1,759,686	-
Above market in-place leases	10,357	12,836
Below market in-place leases	(8,758)	(12,732)
	9,936,080	7,816,325
Difference between contractual and market interest rates on mortgage loans assumed	(557,613)	-
	$ 9,378,467	$ 7,816,325

21 Supplementary cash flow information

	Year Ended December 31 2007	Year Ended December 31 2006
Interest paid and received		
Interest paid on mortgage loans	$ 14,215,038	$ 7,678,142
Interest paid on convertible debentures	$ 4,484,041	$ 2,015,285
Interest received on mortgage loans receivable	$ 717,356	$ 882,466
Other interest received	$ 470,430	$ 714,625
Cash distributions		
Distributions declared	$ 9,767,655	$ 9,626,529
Distributions to participants in the DRIP	(431,508)	(13,250)
Distributions paid on trust units	$ 9,336,147	$ 9,613,279

22 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the year. Diluted per unit information is calculated based on the weighted average diluted number of units for the year, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive and the potential conversion of the outstanding Class B units of Village West LP to the extent that the units are dilutive.

Loss per unit calculations are based on the following:

	Year Ended December 31	
	2007	2006 (restated)
Loss	$ (1,400,904)	$ (3,152,367)
Diluted loss	$ (1,400,904)	$ (3,152,367)
Weighted average number of units	17,457,299	17,161,415
Weighted average diluted number of units	17,457,299	17,161,415

23 Distribution of income

In accordance with the Declaration of Trust, the Trust shall make cash distributions in an amount not less than the aggregate of taxable income from operations and realized capital gains, net of any realized allowable capital losses.

The minimum distribution required by the Declaration of Trust is nil (2006 - nil) for the year ended December 31, 2007.

24 Financial instruments and risk management

Fair values
The carrying values of cash, restricted cash, amounts receivable, mortgage loans receivable and accounts payable and accrued liabilities approximate fair value due to the immediate or short-term maturities of these instruments.

The value of the mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages of similar terms and conditions. The estimated fair value of mortgage loans payable is $343,000,000 at December 31, 2007 (2006 - $172,000,000).

The fair value of the debt components of convertible debentures are impacted by changes in market yields which can result in differences in the carrying value and fair value of the instruments. The fair value of the debt components of convertible debentures has been estimated based on the current market rates for debentures with similar terms and conditions. The carrying value of the debt components of convertible debentures at December 31, 2007 and 2006 approximates fair value.

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As part of the overall operation of the Trust, management considers the avoidance of undue concentrations of risk. The Trust manages the risks, as follows:

Fluctuations in interest rates creates a cash flow risk which is minimized by obtaining long-term mortgages. There is a risk that interest rates will fluctuate subsequent to the date the Trust commits to a fixed interest rate with the lender. Obtaining long-term mortgages with fixed interest rates minimizes cash flow risk. The declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties.

Credit risk arises from the possibility that tenants may experience financial difficulty and may not be able to fulfil their lease commitments. The credit risk is limited to the recorded amount of tenant receivables. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts. The risk of credit loss is mitigated by ensuring that the tenant mix is diversified and by limiting the exposure to any one tenant. Prior to July 1, 2007 no single tenant accounted for 10% or more of the rentals from income properties. On the lease of Lakewood Manor to a single tenant on July 1, 2007, the Trust has a tenant accounting for approximately 10% of rentals from income properties. Credit risk has been managed by the Trust leasing to a credit worthy tenant. Credit risk also arises from the possibility that a borrower may default on the repayment of a loan from the Trust. The risk is mitigated by ensuring that security is obtained in support of the mortgage loans receivable and the loan receivable from tenant.

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25 Segmented financial information

The assets are located in and revenue is derived from the operation of commercial, light industrial and residential real estate in Canada. Commercial real estate consists of retail properties and office and retail mixed-use properties. Residential real estate consists of multi family residential properties and seniors housing complexes.

Year ended December 31, 2007:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	4,151,475	363,649	40,701,150	-	45,216,274
Interest and other income	27,834	1,217	331,812	734,178	1,095,041
Property operating costs	1,754,682	92,663	17,391,315	-	19,238,660
Financing expense	1,011,485	136,866	12,481,929	9,385,265	23,015,545
Amortization	860,383	31,345	7,283,067	-	8,174,795
Income (loss)	552,758	103,992	4,886,462	(6,944,116)	(1,400,904)
Total assets	18,742,321	2,729,861	442,275,294	12,451,794	476,199,270

Year ended December 31, 2006 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	4,056,179	351,350	24,328,759	-	28,736,288
Interest and other income	43,501	5,829	353,319	1,399,911	1,802,560
Property operating costs	1,748,420	47,915	11,649,856	-	13,446,191
Financing expense	1,008,348	125,816	6,767,066	3,604,259	11,505,489
Amortization	925,612	32,417	6,420,828	437,364	7,816,221
Income (loss)	417,481	151,031	653,754	(4,374,633)	(3,152,367)
Total assets	19,577,360	2,796,990	235,714,906	36,132,945	294,222,201

Year ended December 31, 2007:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	20,548,300	1,439,007	5,792,407	1,872,594	5,051,458	10,512,508	-	45,216,274
Interest and other income	274,533	14,266	49,141	(61,194)	28,637	55,480	734,178	1,095,041
Property operating costs	6,367,049	872,869	2,628,237	1,218,702	2,057,851	6,093,952	-	19,238,660
Financing expense	7,674,083	353,961	1,575,248	648,191	1,210,037	2,168,760	9,385,265	23,015,545
Amortization	3,471,522	187,306	1,296,307	276,535	791,634	2,151,491	-	8,174,795
Income (loss)	3,310,182	39,138	341,753	263,624	1,020,573	567,942	(6,944,116)	(1,400,904)
Total assets	271,242,401	10,848,911	34,132,475	45,231,275	39,306,839	62,985,575	12,451,794	476,199,270

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

25 Segmented financial information (continued)

Year ended December 31, 2006 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	9,926,967	1,294,144	5,477,775	1,084,873	2,681,860	8,270,669	-	28,736,288
Interest and other income	200,182	13,381	58,546	62,727	17,397	50,416	1,399,911	1,802,560
Property operating costs	3,544,970	931,516	2,544,975	598,904	1,141,515	4,684,311	-	13,446,191
Financing expense	3,103,598	367,706	1,491,270	280,434	889,664	1,768,558	3,604,259	11,505,489
Amortization	2,427,782	190,833	2,182,926	260,447	500,404	1,816,465	437,364	7,816,221
Income (loss)	1,050,796	(182,529)	(682,848)	104,111	167,674	765,062	(4,374,633)	(3,152,367)
Total assets	118,692,774	10,998,100	33,144,725	11,556,938	24,614,664	59,082,055	36,132,945	294,222,201

26 Commitments

Acquisitions

Millennium Village
On August 3, 2007, the Trust acquired Millennium Village, a residential property located in Fort McMurray, Alberta , for a total cost of $25,150,000, including GST. The acquisition will be funded with a new first mortgage loan, with the balance in cash. The Trust had provided a $4,000,000 second mortgage loan, which bore interest at 8%, and was credited toward the purchase price on acquisition.

The balance owing on the acquisition bore interest at 6% to August 31, 2007, 8% from September 1, 2007 to November 15, 2007 and prime plus 3% thereafter. The balance owing is due up to 180 days from November 15, 2007 and is expected to be paid in April 2008, on receipt of the first mortgage loan proceeds. As at December 31, 2007, the amount owing on acquisition totaled $19,615,893, including accrued interest of $395,894, is included in accounts payable and accrued liabilities.

Laird's Landing (formerly Park View Apartments)
The Trust has acquired and agreed to develop Laird's Landing (formerly Park View Apartments), a residential property located in Fort McMurray, Alberta. The Trust acquired the land for $9,300,000 funded by a vendor take-back mortgage in the amount of $7,300,000, with the balance in cash. The vendor take-back mortgage was repaid with the proceeds of the new mortgage financing of $6,650,000, with the balance in cash. The $6,650,000 represents the initial draw of a mortgage loan in the maximum amount of $45,000,000. In addition, the Trust entered into a development agreement with Shelter Canadian Properties Limited in which Shelter Canadian Properties Limited has agreed to (i) develop the project for a total cost not to exceed $57,750,000 (inclusive of the purchase price of the land); (ii) arrange and guarantee construction financing, in the approximate amount of $45,000,000 and permanent financing after completion of construction; and (iii) provide all development and construction supervision services for the project. The Trust will pay to Shelter Canadian Properties Limited a fee of $1,000,000 in consideration for services provided under the development agreement. The construction of the apartment project is to be completed in April 2008.

26 *Commitments (continued)*

Parsons Landing Apartments

The Trust has agreed to acquire Parsons Landing Apartments, a residential property located in Fort McMurray, Alberta, which is currently under construction, for a total cost of $63,800,000, including GST. The acquisition will be funded with a new first mortgage loan of $50,000,000. On November 1, 2007, The Trust provided a $10,000,000 second mortgage loan, bearing interest at 8%, to be credited toward the purchase price upon closing which is expected to occur in two phases. Purchase installment payments of $2,500,000 will be paid on closing in each of June 2008 and September 2008. The payment of the balance owing is expected to occur in December 2008 on receipt of the first mortgage loan proceeds.

Mortgage Guarantee Fees

The Trust has outstanding commitments to pay mortgage guarantee fees to guarantors on certain of the mortgage loans payable until the mortgage terms are amended to remove the guarantors or the mortgages are refinanced.

Amounts due under the commitments are as follows:

Year ending December 31	
2008	$ 173,824
2009	170,329
2010	166,615
2011	162,668
2012	158,473
Thereafter	327,953
	$ 1,159,862

Management Contracts

The Trust has retained the following third party managers to provide on-site management services to the seniors housing complexes:

Property	Manager	Term Expiring
Riverside Terrace	LutherCare Communities	July 31, 2015
Chateau St. Michael's	Integrated Life Care Inc.	September 30, 2010
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016
Clarington Seniors Residence	Kingsway Arms Management Inc.	February 12, 2017

27 *Contingent consideration on acquisition*

Elgin Lodge

During the five year period from June 1, 2006, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the expanded Elgin Lodge property exceeds the total of the cost to the Trust, including the expansion costs and the unpaid portion of a 12% return on equity. Consideration recorded at December 31, 2007 of $194,756 (2006 - nil), which increases the cost of the building, is included in accounts payable and accrued liabilities.

27 Contingent consideration on acquisition (continued)

Clarington Seniors Residence
During the five year period after lease-up is achieved, Kingsway Arms Management Services Inc. is entitled to a one-time payment equal to 50% of the amount by which the appraised value of the property exceeds the total of the acquisition cost to the Trust and the unpaid portion of an 8% return on equity. Consideration recorded at December 31, 2007 of $150,001 (2006 - nil), which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

28 Subsequent events

Acquisitions
On March 15, 2008, the Trust has agreed to acquire a 90% beneficial interest in Colony Square, a residential and commercial property located in Winnipeg, Manitoba for $34,200,000. The Trust currently owns a 1.5% beneficial interest and is permitting certain existing owners, who own an aggregate of 8.5% beneficial interest, to remain as part of the ownership syndicate. The acquisition will be funded with the pro-rata assumption of a first mortgage loan of $21,000,000 with the balance in cash.

Distributions
Distributions of $724,214 and $720,104 were paid on February 15, 2008 and March 15, 2008 to unitholders of the Trust. Units of 20,220 and 21,191 were issued on February 15, 2008 and March 15, 2008 respectively, to unitholders of the Trust in regard to participation in the DRIP. Distributions of $16,642 and $16,642 were paid on February 15, 2008 and March 15, 2008 respectively, to the holder of the LP units of Village West LP.

Issuance of unit options
On January 7, 2008, the Trust granted options to each of the four independent trustees, the chief executive officer, the chief financial officer and to a total of 20 management and other senior employees of Shelter Canadian Properties Limited who are engaged in functions related to the Trust, to acquire an aggregate of 370,000 units, exercisable at $5.10 per unit. The options granted to each of the four independent trustees vested immediately. The balance of the options granted will vest equally on each of the grant date and the first, second, third and fourth anniversaries of the grant date. The units issued upon exercise of the options will be subject to a minimum hold period of four months and a day from the date of the grant of the options.

Normal course issuer bid
On January 16, 2008, the Trust announced its intention to make a normal course issuer bid to acquire up to 876,494 units, representing 5% of the issued and outstanding units of the Trust, over the twelve month period ended January 20, 2009, in accordance with the policies of the Toronto Stock Exchange. Any units purchased by the Trust under its normal course issuer bid will be cancelled. The Trust has repurchased 2,400 units under its normal course issuer bid at an average price of $4.94 per unit.

Upward refinancing
On February 12, 2008, a 12% $5,400,000 second mortgage loan was obtained on Lakewood Manor, Nova Court, Nova Ridge Estates and Nova Villa. The mortgage loan payable is due on January 1, 2009.

28 Subsequent events (continued)

Convertible debentures
The series D debentures which bore interest at 8%, matured on March 16, 2008. The Trust repaid $1,593,000 in respect of the Series D debentures.

29 Comparative figures

Certain of the prior year figures have been reclassified to be comparable to the current period.

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of LREIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited with the right to appoint one trustee.

The current trustees of LREIT are Mr. Charles Loewen, Mr. Earl Coleman, Mr. Harold Milavsky, FCA, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr Loewen is the Chief Executive Officer of Online Enterprises Inc. and serves as Chairman of LREIT. Mr. Coleman is the President of Big Freight Systems Inc. Mr. Milavsky and Ms. Barker were appointed at the Annual General Meeting in June 2006. Mr. Milavsky is the Chair of the Board, Quantico Capital Corporation. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson is the President of Shelter Canadian Properties Limited and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer and Secretary of LREIT is Mr. Kenneth Dando, CA, Senior Manager of Corporate Accounting and Financial Reporting for Shelter Canadian Properties Limited.

Administrator of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of LREIT and to perform the accounting and reporting functions of LREIT.

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the income properties in the LREIT portfolio. Shelter Canadian Properties Limited manages all of the income properties except for the seniors housing complexes where the Trust has retained third party property managers to provide on-site management services, due to the nature of the operations.

Shelter Canadian Properties Limited is one of Canada's leading privately owned real estate development and property management companies.

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Unit Listing

Toronto Stock Exchange (TSX)
Unit trading symbol: LRT.UN
Debenture trading symbol: LRT.DB.F
LRT.DB.G

Unitholder and Investor Contact

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