LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	June 30 2007	**December 31 2006 (restated)**
Assets		
Income properties (Note 4)	**$293,739,605**	$231,564,852
Properties under development (Note 5)	**61,397,160**	20,673,140
Mortgage loans receivable (Note 6)	**12,500,000**	17,500,000
Deferred financing costs (Note 7)	**-**	4,451,849
Cash	**6,568,717**	1,588,271
Other assets (Note 8)	**8,329,265**	18,444,089
Future income taxes (Note 12)	**1,871,579**	-
	$384,406,326	$294,222,201
Liabilities and Equity		
Mortgage loans payable (Note 9)	**$259,463,282**	$171,255,511
Convertible debentures (Note 10)	**41,328,118**	42,829,557
Accounts payable and accrued liabilities (Note 11)	**16,295,824**	8,294,598
Future income taxes (Note 12)	**3,273,232**	3,277,025
Distribution payable	**815,118**	-
	321,175,574	225,656,691
Non-controlling interest (Note 13)	**1,786,677**	1,925,515
Equity	**61,444,075**	66,639,995
	$384,406,326	$294,222,201

Approved by the Trustees

"Charles Loewen"

"Cheryl Barker"

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended June 30, 2007:

	Units	Income (Loss)	Distributions	Equity Component of Debentures	Total
Equity, March 31, 2007	$ 78,084,979	$ (8,627,488)	$ (20,325,781)	$ 13,746,663	$ 62,878,373
Issue costs	(10,054)	-	-	-	(10,054)
Conversion of debentures	75,232	-	-	(13,165)	62,067
Unit-based compensation	128,729	-	-	-	128,729
Income (loss)	-	688,355	-	-	688,355
Distributions declared	-	-	(2,439,035)	-	(2,439,035)
Units issued on distribution reinvestment plan	135,640	-	-	-	135,640
Equity, June 30, 2007	$ 78,414,526	$ (7,939,133)	$ (22,764,816)	$ 13,733,498	$ 61,444,075

Three Months Ended June 30, 2006 (restated):

	Units	Income (Loss)	Distributions	Equity Component of Debentures	Total
Equity, March 31, 2006, as previously reported	75,166,150	(5,303,669)	(10,637,229)	7,444,731	66,669,983
Change in accounting policy (Note 2)	-	446,197	-	-	446,197
Equity, March 31, 2006 (restated)	$ 75,166,150	$ (4,857,472)	$ (10,637,229)	$ 7,444,731	$ 67,116,180
Issue costs	(2,605)	-	-	-	(2,605)
Conversion of debentures	1,957,320	-	-	(363,140)	1,594,180
Unit-based compensation	3,989	-	-	-	3,989
Income (loss)	-	(773,043)	-	-	(773,043)
Distributions declared	-	-	(2,404,110)	-	(2,404,110)
Equity, June 30, 2006	$ 77,124,854	$ (5,630,515)	$ (13,041,339)	$ 7,081,591	$ 65,534,591

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Six Months Ended June 30, 2007:

	Units	Income (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 (Note 2)	-	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
Issue costs	(23,837)	-	-	-	(23,837)
Conversion of debentures	177,082	-	-	(30,815)	146,267
Unit-based compensation	212,400	-	-	-	212,400
Income (loss)	-	(1,017,738)	-	-	(1,017,738)
Distributions declared	-	-	(4,865,858)	-	(4,865,858)
Units issued on distribution reinvestment plan	236,388	-	-	-	236,388
Equity, June 30, 2007	$ 78,414,526	$ (7,939,133)	$ (22,764,816)	$ 13,733,498	$ 61,444,075

Six Months Ended June 30, 2006 (restated):

	Units	Income (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 (Note 2)	-	346,001	-	-	346,001
Equity, December 31, 2005 (restated)	75,115,429	(3,885,486)	(8,272,429)	3,935,245	66,892,759
Equity component of issued debentures	-	-	-	3,564,376	3,564,376
Issue costs	(250,919)	-	-	-	(250,919)
Conversion of debentures	2,252,366	-	-	(418,030)	1,834,336
Unit-based compensation	7,978	-	-	-	7,978
Income (loss)	-	(1,745,029)	-	-	(1,745,029)
Distributions declared	-	-	(4,768,910)	-	(4,768,910)
Equity, June 30, 2006	$ 77,124,854	$ (5,630,515)	$ (13,041,339)	$ 7,081,591	$ 65,534,591

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006 (restated)**	**2007**	**2006 (restated)**
Revenue				
Rentals from income properties (Note 17)	**$ 10,737,804**	$ 6,461,667	**$ 19,357,786**	$ 12,451,386
Interest and other income	**389,780**	429,337	**821,562**	881,653
	11,127,584	6,891,004	**20,179,348**	13,333,039
Expenses				
Property operating costs	**4,607,821**	2,865,150	**8,774,808**	5,944,798
Operating income	**6,519,763**	4,025,854	**11,404,540**	7,388,241
Financing expense	**5,481,867**	2,622,975	**10,003,086**	5,126,270
Trust expense	**533,736**	283,988	**992,058**	486,373
Amortization (Note 18)	**1,936,304**	1,928,654	**3,651,471**	3,566,023
	7,951,907	4,835,617	**14,646,615**	9,178,666
Income (loss) before income taxes	**(1,432,144)**	(809,763)	**(3,242,075)**	(1,790,425)
Future income tax recovery (Note 12)	**(2,105,478)**	(34,874)	**(2,185,352)**	(43,550)
Income (loss) before the undernoted	**673,334**	(774,889)	**(1,056,723)**	(1,746,875)
Non-controlling interest (Note 13)	**15,021**	1,846	**38,985**	1,846
Income (loss) for the period	**$ 688,355**	$ (773,043)	**$ (1,017,738)**	$ (1,745,029)
Income (loss) per unit (Note 20)				
Basic	**$ 0.039**	$ (0.045)	**$ (0.058)**	$ (0.103)
Diluted	**0.039**	(0.045)	**(0.058)**	(0.103)
Weighted average number of units (Note 20)				
Basic	**17,445,721**	17,135,004	**17,426,675**	17,006,214
Diluted	**17,448,653**	17,135,004	**17,426,675**	17,006,214

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006** (restated)	**2007**	**2006** (restated)
Cash provided by (used in) operating activities				
Income (loss) from operations	**$ 688,355**	$ (773,043)	**$ (1,017,738)**	$ (1,745,029)
Items not affecting cash				
Straight-line rent adjustment	**(10,908)**	(12,871)	**(32,878)**	(23,181)
Accretion on debt component of convertible debentures (Note 10)	**1,610,378**	864,846	**3,202,381**	1,678,669
Unit-based compensation	**128,729**	3,989	**212,400**	7,978
Amortization (Note 18)	**2,311,742**	1,928,680	**4,405,121**	3,566,075
Future income taxes	**(2,105,478)**	(34,874)	**(2,185,352)**	(43,550)
Non-controlling interest	**(15,021)**	1,846	**(38,985)**	1,846
Interest paid on convertible debentures	**(964,960)**	(19,658)	**(2,111,784)**	(740,897)
	1,642,837	1,958,915	**2,433,165**	2,701,911
Changes in non-cash operating items (net of effects of acquisition of income properties)	**(566,800)**	43,005	**(156,198)**	(122,231)
Tenant inducements and leasing expenses incurred through leasing activity	**(31,369)**	(8,734)	**(95,853)**	(55,356)
	1,044,668	1,993,186	**2,181,114**	2,524,324
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**44,889,270**	28,304,250	**94,398,248**	33,854,250
Proceeds of convertible debentures	**-**	-	**-**	13,680,000
Repayment of mortgage loans on refinancing	**(27,964,166)**	-	**(30,464,166)**	-
Repayment of principal on mortgage loans	**(1,135,533)**	(2,913,781)	**(2,070,554)**	(3,631,420)
Transaction costs	**(169,171)**	-	**(883,065)**	-
Deferred financing costs	**-**	(49,604)	**-**	(760,887)
Issue costs	**-**	(2,605)	**-**	(250,919)
Distributions paid on trust units	**(2,279,811)**	(2,387,358)	**(3,796,979)**	(3,962,992)
Distributions paid on LP units of Village West LP	**(49,927)**	-	**(83,211)**	-
	13,290,662	22,950,902	**57,100,273**	38,928,032
Cash provided by (used in) investing activities				
Acquisition of income properties and properties under development	**(4,743,012)**	(43,235,315)	**(39,321,965)**	(52,060,870)
Improvements to income properties	**(979,452)**	(254,491)	**(2,193,226)**	(556,053)
Increase in properties under development	**(4,966,346)**	-	**(10,219,974)**	-
Mortgage loan receivable advance	**-**	(5,000,000)	**-**	(5,000,000)
Deposits on potential acquisitions	**(50,000)**	(240,000)	**(184,025)**	(1,440,000)
Increase in restricted cash	**(101,913)**	(157,679)	**(2,381,751)**	(131,556)
	(10,840,723)	(48,887,485)	**(54,300,941)**	(59,188,479)
Cash increase (decrease)	**3,494,607**	(23,943,397)	**4,980,446**	(17,736,123)
Cash, beginning of period	**3,074,110**	29,172,871	**1,588,271**	22,965,597
Cash, end of period	**$ 6,568,717**	$ 5,229,474	**$ 6,568,717**	$ 5,229,474

Supplementary cash flow information (Note 19)

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

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.

Basis of presentation

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim financial statements reflect the operations of the Trust, wholly owned operating subsidiaries and LREIT Village West Limited Partnership ("Village West LP"). The interim financial statements have been prepared on a consistent basis with the December 31, 2006 audited financial statements except for the change in accounting policies disclosed in Note 2. These financial statements do not include all the information and disclosure required by Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the December 31, 2006 audited financial statements and notes thereto.

2 *Change in accounting policies*

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 $204,007 and $315,069 for the three and six months ended June 30, 2006, amortization expense is higher by $17,675 and $28,541 for the three and six months ended June 30, 2006 and the net book value of income properties is higher by $186,332 and $286,528 for the three and six months ended June 30, 2006.

Basic and diluted loss per unit is lower than would have been reported under the previous policy by $0.011 and $0.017 per unit for the three and six months ended June 30, 2006.

Financial instruments

On January 1, 2007, the Trust adopted CICA Handbook Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments - Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. The Trust adopted these standards prospectively; accordingly, comparative amounts for prior periods have not been restated.

Section 3855 prescribes when a financial asset, financial liability or non-financial instrument is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances.

2 *Changes in accounting policies (continued)*

Financial instruments (continued)
Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated.

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
Cash	Held for trading	Fair value
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
Distribution payable	Other financial liabilities	Amortized cost
Convertible debentures - debt portion	Other financial liabilities	Amortized cost

All derivative instruments, including embedded derivatives, are recorded in the balance sheet and statement of operations at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in operations.

Transaction costs
Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to loans and receivables and other financial liabilities are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest method.

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.

In addition, deferred financing costs of $4,709,709 at March 31, 2007, have been reclassified as transaction costs, and reduce the carrying value of mortgage loans payable and convertible debentures by $2,303,181 and $2,586,041 respectively and financing expense has increased by $377,727 and amortization of deferred financing costs has decreased by $440,869 for the three months ended March 31, 2007.

If the accounting policy had not been implemented, financing expense and amortization of deferred financing costs would be reduced by $375,123 and increased by $381,092 for the three and six months ended June 30, 2007, respectively.

2 Changes in accounting policies (continued)

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.

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". The 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 six months ended June 30, 2007, the Trust acquired three income properties comprising 267 suites and two properties under development.

The net assets acquired in the transactions are as follows:

Income properties	
Land	$ 3,013,000
Buildings	20,646,410
Furniture, equipment and appliances	798,867
Intangible assets	207,223
Mortgage loans payable assumed	(13,982,050)
Vendor take-back mortgage loan payable	(1,600,000)
	9,083,450
Properties under development	
Properties under development	62,002,169
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)
	48,463,515
	$ 57,546,965

Consideration:	
Cash	$ 39,321,965
Deposits made in prior year	13,225,000
Mortgage loan receivable, applied to purchase	5,000,000
	$ 57,546,965

Deposits of $300,000 and $13,375,000 for the three and six months ended June 30, 2007 respectively, were applied to the acquisitions of income properties and properties under development.

The use of reasonable estimates is an essential component to the allocation of assets upon acquisition. Estimates are subject to revision if changes in the circumstances on which the estimate was based differ as a result of new information or experience.

4 Income properties

June 30, 2007	Cost	Accumulated Amortization	Net Book Value
Land	$ 45,883,202	$ -	$ 45,883,202
Buildings and improvements	250,776,258	(9,819,017)	240,957,241
Furniture, equipment and appliances	6,234,627	(1,127,058)	5,107,569
Intangible assets	3,666,977	(1,875,384)	1,791,593
	$306,561,064	$ (12,821,459)	$293,739,605

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.

The cost of the major renovation at Highland Tower consists of construction costs of $552,276 (2006 - $2,355) and $1,547,867 (2006 - $154,877) for the three and six months ended June 30, 2007 and carrying costs of $37,476 (2006 - $48,129) and $82,073 (2006 - $86,077) for the three and six months ended June 30, 2007. Construction costs and carrying costs are included in the cost of buildings.

On April 1, 2007, Woodland Park achieved a level of occupancy necessary for the property to be classified as an income property and as a result, costs totaling $38,750,622 were transferred from properties under development to income properties.

5 Properties under development

	June 30 2007	December 31 2006 (audited)
Park View Apartments	$ 30,753,849	$ 19,434,308
Clarington Seniors Residence	24,290,495	-
Elgin Lodge	6,352,816	1,238,832
	$ 61,397,160	$ 20,673,140

The cost of properties under development for the six months ended June 30, 2007, includes carrying costs of $727,891 (2006 - nil).

6 Mortgage loans receivable

	June 30 2007	December 31 2006 (audited)
Lakewood Manor	$ 8,500,000	$ 8,500,000
Millennium Village	4,000,000	4,000,000
Nova Court	-	5,000,000
	$ 12,500,000	$ 17,500,000

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, which is currently under construction in Fort McMurray, Alberta. The loan advance of $4,000,000 bears interest at 8%. Interest is payable quarterly. The loan was applied toward the purchase price of the property upon acquisition of Phase I, effective August 3, 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*

	June 30 2007	December 31 2006 (audited)
Amounts receivable	$ 1,868,039	$ 1,158,445
Property tax deposits and other	1,259,959	1,302,853
Deposits on potential acquisitions	1,050,000	14,240,975
Straight-line rent receivable	265,809	232,930
Restricted cash	3,818,409	1,436,658
Above market in place leases, net of accumulated amortization of $56,677, (2006 - $51,498)	67,049	72,228
	$ 8,329,265	$ 18,444,089

Amounts receivable includes amounts due from tenants of $247,708 (2006 - $340,016) and a loan receivable from a tenant of $99,198 (2006 - $210,091).

Restricted cash consists of funds held in trust for residential tenant security deposits, as well as interest and repair reserves required by lenders.

9 Mortgage loans payable

Mortgage loans payable consists of the following:

	Interest Rates at June 30, 2007			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	June 30 2007
Income properties				
Fixed rate mortgages	4.1% - 11.0%	6.0%	5.7 years	$223,238,581
Floating rate mortgages	6.3% - 7.0%	6.8%	Demand	8,633,770
Non interest bearing vendor take-back second mortgage			Demand	236,475
				232,108,826
Properties under development				
Fixed rate mortgages	5.8% - 16.0%	9.4%	1.7 years	11,370,000
Floating rate mortgages	7.0% - 8.0%	7.3%	Demand	17,589,271
				28,959,271
				261,068,097
Difference between contractual and market interest rates on mortgage loans assumed				689,261
Unamortized transaction costs				(2,294,076)
				$259,463,282

	Interest Rates at December 31, 2006			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2006 (audited)
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	
2007 - remainder of year	$ 49,934,143
2008	18,942,978
2009	31,406,332
2010	6,368,401
2011	11,317,110
Thereafter	143,099,133
	$261,068,097

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 $689,261 is net of accumulated amortization of $169,413 (2006 - nil) at June 30, 2007. The difference relates to mortgage loans assumed on acquisition of properties under development. The amortization of $128,082 (2006 - nil) for the three months ended June 30, 2007 and $169,413 (2006 - nil) for the six months ended June 30, 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 June 30, 2007.

10 Convertible debentures

During the period ended June 30, 2007, holders of convertible debentures exercised their right to convert to units, as follows:

Convertible Debentures	Conversion Price	Units Issued: Three Months Ended June 30 2007	Units Issued: Six Months Ended June 30 2007
Series A	$ 6.00	-	2,166
Series D	5.00	13,000	28,200

Convertible Debentures	Conversion Price	Units Issued: Three Months Ended June 30 2006	Units Issued: Six Months Ended June 30 2006
Series A	$ 5.50	6,544	6,544
Series D	5.00	352,400	406,600

June 30, 2007	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,663,809	$ 291,300	$ 1,955,109
Series D - 8%, due March 16, 2008	1,530,145	325,696	1,855,841
Series E - 8%, due February 17, 2010	10,217,562	2,847,555	13,065,117
Series F - 7.5%, due March 11, 2011	10,808,122	3,564,376	14,372,498
Series G - 7.5%, due December 31, 2011	19,557,674	6,704,571	26,262,245
	43,777,312	13,733,498	57,510,810
Unamortized transaction costs	(2,449,194)	-	(2,449,194)
	$ 41,328,118	$ 13,733,498	$ 55,061,616

December 31, 2006 (audited)	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 A, Series D, Series E, Series F and Series G debentures.

The accretion of the debt component for the three months ended June 30, 2007 of $1,610,378 (2006 - $864,846) and for the six months ended June 30, 2007 of $3,202,381 (2006 - $1,678,669), which increases the debt component from the initial carrying amount, is included in financing expense.

11 Accounts payable and accrued liabilities

	June 30 2007	December 31 2006 (audited)
Accounts payable and accrued liabilities	$ 4,526,122	$ 2,207,600
Construction costs payable on properties under development	6,709,319	2,730,762
Mortgage and debenture interest payable	2,813,570	1,732,235
Tenant security deposits	2,233,339	1,606,147
Below market in-place leases, net of accumulated amortization of $62,119 (2006 - $57,740)	13,474	17,854
	$ 16,295,824	$ 8,294,598

12 Future income taxes

Future income taxes consists of the following components:

	June 30 2007	December 31 2006 (audited)
Future income tax assets:		
Future income taxes related to difference in tax and book value of the Trust	$ 1,871,579	$ -
Future income tax liabilities:		
Future income taxes related to difference in tax and book value of wholly owned operating subsidiaries	$ 3,682,472	$ 3,389,586
Future income taxes related to operating losses of wholly owned operating subsidiaries	(409,240)	(112,561)
	$ 3,273,232	$ 3,277,025

Future income tax recoveries:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 (audited)	2007	2006 (audited)
Tax recoveries relating to operating losses based on the effective rate	$ (157,879)	$ (36,532)	$ (296,679)	$ (49,778)
Adjustment to future tax assets and liabilities relating to timing differences	(1,947,599)	1,658	(1,888,673)	6,228
	$ (2,105,478)	$ (34,874)	$ (2,185,352)	$ (43,550)

13 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 these 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.

Non-controlling interest consists of the following:

	June 30 2007	December 31 2006 (restated)
Opening balance	$ 1,925,515	$ -
LP Units of Village West LP issued	-	2,739,704
Share of loss of Village West Townhouses	(38,985)	(74,361)
Distributions on LP Units of Village West LP	(99,853)	(139,828)
Exchange of 100,000 LP Units for Units of the Trust	-	(600,000)
	$ 1,786,677	$ 1,925,515

14 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 Propertied Limited and its parent company, 2668921 Manitoba Ltd., are related parties of the Trust by virtue of the fact that all outstanding shares of 2668921 Manitoba Ltd. are owned by the family trust of an Officer and Trustee of the Trust.

Management agreement

The Trust incurred property management fees to Shelter Canadian Properties Limited of $357,203 for the three months ended June 30, 2007 (2006 - $217,993) and $663,996 for the six months ended June 30, 2007 (2006 - $432,518). Property management fees are included in property operating costs and properties under development.

Included in accounts payable and accrued liabilities at June 30, 2007 is a balance of $79,796 (2006 - $14,389), payable to Shelter Canadian Properties Limited.

Services agreement

The Trust incurred service fees to Shelter Canadian Properties Limited of $277,855 for the three months ended June 30, 2007 (2006 - $141,779) and $503,957 for the six months ended June 30, 2007 (2006 - $270,938). Service fees are included in Trust expense.

Unit-based compensation expense for the three months ended June 30, 2007 of $2,847 (2006 - $2,847) and for the six months ended June 30, 2007 of $5,694 (2006 - $5,694) , relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the term of the services agreement.

14 Related party transactions (continued)

Acquisition

The Trust has entered into a development agreement with Shelter Canadian Properties Limited to develop Park View Apartments, a residential property located in Fort McMurray, Alberta. During the three and six months ended June 30, 2007, $121,273 (2006 - nil) and $196,094 (2006 - nil) respectively, 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 June 30, 2007 is a balance of $318,499 (2006 - nil) payable to Shelter Canadian Properties Limited in regard to the development and construction services.

15 Units

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

	Six Months Ended June 30 2007	Year Ended December 31 2006 (audited)
Outstanding, beginning of period	17,392,235	16,855,286
Units issued on conversion of debentures	30,366	434,510
Units issued on distribution reinvestment plan	42,750	2,439
Units issued on exchange of LP units of Village West LP	-	100,000
Outstanding, end of period	17,465,351	17,392,235

16 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.

Unit-based compensation expense of $125,882 for the three months ended June 30, 2007 (2006 - $1,142) and $206,706 for the six months ended June 30, 2007 (2006 - $2,284), relating to the options issued was recorded to expense the fair value unit-based compensation, including $45,058 for the three and six months ended June 30, 2007 relating to the options issued on June 8, 2007. Unit-based compensation is included in trust expense.

	Six Months Ended June 30, 2007		Year Ended December 31, 2006	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, beginning of period	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	-	-
Outstanding, end of period	1,120,000	$ 5.72	1,000,000	$ 5.77
Vested, end of period	512,000		392,000	

At June 30, 2007 the following unit options granted were outstanding:

Exercise price	Options outstanding	Options vested	Expiry date
$ 4.00	10,000	10,000	October 29, 2007
$ 5.42	30,000	30,000	January 17, 2011
$ 5.80	960,000	352,000	July 26, 2011
$ 5.30	120,000	120,000	June 8, 2012
	1,120,000	512,000	

17 Rentals from income properties

Rental revenue contractually due from tenants includes the recovery of property operating costs from tenants of $406,869 for the three months ended June 30, 2007 (2006 - $388,194) and $804,809 for the six months ended June 30, 2007 (2006 - $840,409) and meal revenue of $254,633 for the three months ended June 30, 2007 (2006 - $153,550) and $507,611 for the six months ended June 30, 2007 (2006 - $274,183).

18 Amortization

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 (restated)	2007	2006 (restated)
Building	$ 1,538,416	$ 1,007,780	$ 2,847,760	$ 1,950,861
Furniture, equipment and appliances	149,999	105,557	264,074	201,620
Intangible assets, except for in-place leases	247,889	637,091	539,637	1,131,419
Deferred financing costs	-	178,226	-	282,123
	1,936,304	1,928,654	3,651,471	3,566,023
Transaction costs	375,039	-	752,851	-
Above market in-place leases	2,589	3,209	5,178	6,418
Below market in-place leases	(2,190)	(3,183)	(4,379)	(6,366)
	$ 2,311,742	$ 1,928,680	$ 4,405,121	$ 3,566,075

19 Supplementary cash flow information

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Interest paid and received				
Interest paid on mortgage loans payable	$ 3,980,814	$ 1,726,570	$ 6,211,696	$ 3,382,632
Interest received on mortgage loans receivable	$ 259,068	$ 340,000	$ 551,397	$ 340,000
Other interest received	$ 140,645	$ 234,373	$ 283,129	$ 493,867
Cash distributions				
Distributions declared	$ 2,439,035	$ 2,404,110	$ 4,865,858	$ 4,768,910
Distributions payable beginning of period	813,312	789,166	-	-
Distributions payable end of period	(815,118)	(805,918)	(815,118)	(805,918)
Distributions to participants in the DRIP	(157,418)	-	(253,761)	-
Distributions paid on trust units	$ 2,279,811	$ 2,387,358	$ 3,796,979	$ 3,962,992

20 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:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 (restated)	2007	2006 (restated)
Income (loss)	$ 688,355	$ (773,043)	$ (1,017,738)	$ (1,745,029)
Dilutive options	-	-	-	-
Diluted income (loss)	$ 688,355	$ (773,043)	$ (1,017,738)	$ (1,745,029)
Weighted average number of units	17,445,721	17,135,004	17,426,675	17,006,214
Dilutive options	2,932	-	-	-
Weighted average diluted number of units	17,448,653	17,135,004	17,426,675	17,006,214

21 Distribution of income

In accordance with the Declaration of Trust, the Trust shall issue cash distributions in an amount equal to 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) and nil (2006 - nil) for the three and six months ended June 30, 2007.

22 Financial instruments and risk management

Fair values
As at June 30, 2007, the carrying values of cash, restricted cash, amounts receivable, mortgage loans receivable, accounts payable and accrued liabilities and distribution payable approximate fair value due to the immediate or short-term maturities of these instruments.

As at June 30, 2007, no circumstances have occurred that indicate that the carrying value of income properties is less than the fair value.

The carrying 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 $257,300,000 at June 30, 2007 (December 31, 2006 - $172,000,000).

The carrying 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 June 30, 2007 and December 31, 2006 approximates fair value.

Risk management
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. The Trust manages the risks, as follows:

Interest rate risk is minimized for the mortgage loans payable on demand, which are financed at variable rates, by structuring the mortgage loans with an option to fix the interest rate. 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 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. No single tenant accounted for 10% or more of the rentals from income properties. 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.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006

23 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.

Six months ended June 30, 2007:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	2,043,844	186,450	17,127,492	-	19,357,786
Interest and other income	15,007	641	202,021	603,893	821,562
Property operating costs	888,803	42,345	7,843,660	-	8,774,808
Operating income	1,170,048	144,746	9,485,853	603,893	11,404,540
Financing expense	512,693	61,075	5,019,156	4,410,162	10,003,086
Amortization	441,666	15,673	3,194,132	-	3,651,471
Income (loss)	215,691	67,998	1,625,321	(2,926,748)	(1,017,738)
Total assets	18,968,574	2,763,672	341,654,273	21,019,807	384,406,326

Six months ended June 30, 2006 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	2,063,285	181,892	10,206,209	-	12,451,386
Interest and other income	23,012	3,676	128,782	726,183	881,653
Property operating costs	884,707	23,795	5,036,296	-	5,944,798
Operating income	1,201,590	161,773	5,298,695	726,183	7,388,241
Financing expense	506,635	61,972	2,878,994	1,678,669	5,126,270
Amortization	467,269	16,209	2,841,825	240,720	3,566,023
Income (loss)	227,678	83,592	(376,720)	(1,679,579)	(1,745,029)
Total assets	19,921,630	2,789,388	215,541,143	22,439,197	260,691,358

Three months ended June 30, 2007:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	1,025,611	93,225	9,618,968	-	10,737,804
Interest and other income	6,762	289	93,528	289,201	389,780
Property operating costs	435,891	21,416	4,150,514	-	4,607,821
Operating income	596,482	72,098	5,561,982	289,201	6,519,763
Financing expense	258,965	29,560	2,815,015	2,378,327	5,481,867
Amortization	216,792	7,836	1,711,676	-	1,936,304
Income (loss)	120,634	34,701	1,284,303	(751,283)	688,355
Total assets	18,968,574	2,763,672	341,654,273	21,019,807	384,406,326

23 Segmented financial information (continued)

Three months ended June 30, 2006 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	1,007,914	84,359	5,369,394	-	6,461,667
Interest and other income	9,967	227	44,802	374,341	429,337
Property operating costs	400,916	11,342	2,452,892	-	2,865,150
Operating income	616,965	73,244	2,961,304	374,341	4,025,854
Financing expense	252,711	32,189	1,473,229	864,846	2,622,975
Amortization	235,849	8,105	1,526,076	158,624	1,928,654
Income (loss)	128,397	32,950	(1,273)	(933,117)	(773,043)
Total assets	19,921,630	2,789,388	215,541,143	22,439,197	260,691,358

Six months ended June 30, 2007:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	7,704,120	720,372	2,822,461	873,262	2,213,692	5,023,879	-	19,357,786
Interest and other income	151,496	5,824	21,552	288	9,867	28,642	603,893	821,562
Property operating costs	2,692,360	431,472	1,303,857	540,609	890,250	2,916,260	-	8,774,808
Operating income	5,163,256	294,724	1,540,156	332,941	1,333,309	2,136,261	603,893	11,404,540
Financing expense	2,695,375	178,878	779,825	333,994	557,176	1,047,676	4,410,162	10,003,086
Amortization	1,360,990	95,755	615,715	138,039	351,180	1,089,792	-	3,651,471
Income (loss)	1,106,893	20,091	144,614	112,827	424,952	99,633	(2,926,748)	(1,017,738)
Total assets	172,466,354	10,930,602	33,978,105	42,093,657	39,807,263	64,110,538	21,019,807	384,406,326

Six months ended June 30, 2006 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	4,043,751	589,436	2,767,261	206,219	1,318,906	3,525,813	-	12,451,386
Interest and other income	96,096	5,978	31,995	(110)	7,738	13,773	726,183	881,653
Property operating costs	1,579,638	485,193	1,232,057	76,274	599,305	1,972,331	-	5,944,798
Operating income	2,560,209	110,221	1,567,199	129,835	727,339	1,567,255	726,183	7,388,241
Financing expense	1,281,147	185,100	741,654	29,263	451,594	758,843	1,678,669	5,126,270
Amortization	987,071	93,665	1,185,504	48,145	249,241	761,677	240,720	3,566,023
Income (loss)	294,608	(168,544)	(361,845)	52,427	26,504	91,400	(1,679,579)	(1,745,029)
Total assets	99,401,123	11,018,130	32,949,779	9,794,976	24,738,748	60,349,405	22,439,197	260,691,358

23 *Segmented financial information (continued)*

Three months ended June 30, 2007:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	4,449,051	357,305	1,426,346	447,726	1,485,514	2,571,862	-	10,737,804
Interest and other income	71,461	2,753	9,639	142	7,134	9,450	289,201	389,780
Property operating costs	1,492,499	199,592	641,307	271,336	572,765	1,430,322	-	4,607,821
Operating income	3,028,013	160,466	794,678	176,532	919,883	1,150,990	289,201	6,519,763
Financing expense	1,571,334	88,872	402,635	158,779	339,189	542,731	2,378,327	5,481,867
Amortization	747,791	48,436	303,731	69,077	216,818	550,451	-	1,936,304
Income (loss)	708,897	23,157	88,313	137,502	363,876	117,893	(751,283)	688,355
Total assets	172,466,354	10,930,602	33,978,105	42,093,657	39,807,263	64,110,538	21,019,807	384,406,326

Three months ended June 30, 2006 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	2,056,729	326,011	1,358,285	175,424	677,168	1,868,050	-	6,461,667
Interest and other income	23,821	2,844	15,296	(229)	4,544	8,720	374,341	429,337
Property operating costs	735,100	226,449	541,681	74,995	270,159	1,016,766	-	2,865,150
Operating income	1,345,450	102,406	831,900	100,200	411,553	860,004	374,341	4,025,854
Financing expense	656,438	91,570	376,532	14,912	220,191	398,486	864,846	2,622,975
Amortization	525,832	47,639	593,785	44,697	124,742	433,335	158,624	1,928,654
Income (loss)	163,183	(36,803)	(138,417)	40,590	66,621	64,900	(933,117)	(773,043)
Total assets	99,401,123	11,018,130	32,949,779	9,794,976	24,738,748	60,349,405	22,439,197	260,691,358

24 *Commitments*

Acquisitions

Millennium Village

The Trust has agreed to acquire Millennium Village, a residential property located in Fort McMurray, Alberta ,which is currently under construction, for a total cost of $25,150,000, including GST. The acquisition will be funded with a new first mortgage loan of $16,954,000 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 of Phase I, effective August 3, 2007. The acquisitions of the remaining two phases are expected to be effective October 2007 and November 2007.

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

24 Commitments (continued)

Park View Apartments

The Trust has acquired and agreed to develop 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 expected to be completed in December 2007.

Lakewood Manor

The Trust has agreed to acquire Lakewood Manor, a residential property currently under construction, located in Fort McMurray, Alberta for a total cost of $59,900,000 including GST. The acquisition will be funded with new first mortgage loans in the amount of $47,000,000, with the balance in cash. The Trust had provided an $8,500,000 second mortgage loan, which bore interest at 8.0%, and was credited towards the purchase price effective July 1, 2007.

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

25 Contingent consideration on acquisition

Elgin Lodge

In conjunction with the acquisition of Elgin Lodge, the Trust has contracted with Kingsway Arms Management Services Inc., the management company of the property, to manage the expansion of the property at a rate of $12,000 per month beginning June 1, 2006 for a period of twelve months. The estimated cost of the expansion is $10,400,000 to be financed with an additional mortgage loan of $7,700,000 from the existing lender with the balance in cash.

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, if any, by which the appraised value of the expanded Elgin Lodge property exceeds the total costs to the Trust, including the expansion costs. The one-time payment will be net of a 12% return on equity. Consideration recorded at June 30, 2007 of $107,779, which increases the cost of the building, is included in accounts payable and accrued liabilities.

25 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, if any, by which the appraised value of the property exceeds the total acquisition cost to the Trust. The one-time payment will be net of an 8% return on equity. Consideration recorded at June 30, 2007 of $68,994, which increases the cost of properties under development, is included in accounts payable and accrued liabilities.

26 Subsequent events

Acquisitions

Lakewood Manor
Effective July 1, 2007, the Trust acquired a residential property consisting of 64 townhouses and a 111-suite apartment complex located in Fort McMurray, Alberta, for a total cost of $59,900,000. The acquisition was funded with two new first mortgage loans in the aggregate amount of $47,000,000, the application of an $8,500,000 mortgage loan receivable and the balance in cash.

The Trust has leased the entire property for a three year term. The lessee is responsible for all property operating costs and as a result the Trust will realize net operating income in the amount of $4,799,800 per year over the term of the lease. The lessee has an option to extend the lease for an additional two years with a 10% increase in net operating income. The lessee also 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.

The portion of the lease related to the townhouses will be accounted for as a sales-type lease in accordance with CICA Handbook Section 3065 "Leases", on the basis that substantially all of the benefits and risks of ownership have effectively transferred to the lessee at the inception of the lease.

Millennium Village
Effective August 3, 2007, the Trust acquired Phase I of a 72 suite multi-family townhouse complex located in Fort McMuarray, Alberta for a total cost of $8,383,000, including GST. 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 of Phase I, effective August 3, 2007. The balance outstanding will bear interest at 6% to August 31, 2007, 8% thereafter until the acquisition of Phase III effective November 2007 and at prime plus 3% thereafter, until closing which is expected to occur in March 2008.

26 Subsequent events (continued)

Distributions
Distributions of $788,112 were paid on July 15, 2007 to unitholders of the Trust. Units of 5,385 were issued on July 15, 2007 to unitholders of the Trust in regard to participation in the DRIP. Distributions of $16,642 were paid on July 15, 2007 to the holder of the LP units of Village West LP.

Upward refinancing
On July 12, 2007, a 6.05% $3,000,000 first mortgage loan was obtained on Norglen Terrace. The mortgage loan payable was secured by the income property and is due on January 1, 2009. The proceeds of the first mortgage loan payable were used to repay the existing mortgage loan of $1,898,635, with the balance in cash.

27 Comparative figures

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