LANESBOROUGH REIT

2005 ANNUAL REPORT

2005 ACHIEVEMENTS

- **Increase in real estate portfolio of $99.1 Million or 150%, representing the acquisition of 11 residential properties**
- **Increase in operating income of $5 Million or 109%**
- **Over $50 Million of new investment capital raised**
- **Improved geographic diversification of the property portfolio, encompassing 12 different municipal locations**
- **Increase in cash distributions of 5.7% per unit**

2	Unitholder Returns and Price History
3	Report to Unitholders
	Management's Discussion and Analysis
5	Overall Investment Objectives and Strategy
5	Investment Activities
8	Financing Activities
11	Financial Performance
25	Cash Distributions
27	Capital Resources and Liquidity
29	Related Party Transactions
30	Operating Risks and Uncertainties
30	Disclosure Controls and Procedures
30	Additional Information
30	Approval by the Trustees
31	Management's Responsibility
32	Auditors' Report
33	Financial Statements

Unitholder Returns

	Year Ended December 31	
	2005	2004
Distribution per unit	$0.56	$0.53
Opening unit price	$5.50	$4.00
Closing unit price	$5.25	$5.50
Annualized yield on closing price (distribution/closing unit price)	10.7%	9.6%
Capital appreciation (capital appreciation/opening unit price)	(4.5)%	37.5%
Total return	6.2%	47.1%

Projected cash distribution – 2006:	$0.56
Closing unit price – April 25, 2006:	$6.05
Current yield:	9.3%

Lanesborough Real Estate Investment Trust trades on the TSX Venture Exchange under the symbol "LRT.UN".

LREIT Unit Price History – TSX Venture Exchange

Month	High	Low	Volume
2006			
To April 25th	$6.85	$6.00	2,472,437
March	$6.65	$6.00	1,044,598
February	$6.75	$5.69	215,621
January	$5.55	$5.00	926,206
2005			
December	$5.61	$5.10	368,422
November	$5.49	$5.16	1,332,970
October	$5.85	$4.80	205,600
September	$5.95	$5.60	466,000
August	$6.00	$5.46	605,400
July	$5.75	$5.56	786,000
June	$5.85	$5.40	2,549,700
May	$5.55	$5.21	514,500
April	$6.15	$5.46	7,300
March	$6.95	$5.65	36,200
February	$7.00	$5.90	36,000
January	$6.10	$5.45	14,500

REPORT TO UNITHOLDERS

The investment strategy of Lanesborough Real Estate Investment Trust ("LREIT") is to focus on investing in quality rental apartment properties in markets across western Canada in order to create a geographically diversified portfolio with solid cash flows and strong capital appreciation potential.

In 2005, LREIT achieved another year of exceptional growth, increasing the cost base of its property portfolio by $99.1 Million or 150%, compared to the prior year. Although the acquisition of new properties occurred gradually throughout the year, the expanded property portfolio resulted in an increase in rental revenues of $9.8 Million or 137% and an increase in operating income of $5 Million or 109%.

In terms of its bottom line results, LREIT once again incurred a net loss due to high amortization charges, however, the net loss of $2.13 Million was only marginally higher than in 2004, increasing by $188,203 or 9.7%, compared to the 2004 net loss of $1.95 Million. On a per unit basis, the bottom line results improved significantly, moving from a net loss of $0.735 in 2004 to a net loss of $0.229 in 2005.

In regard to the cash-generating abilities of the Trust, distributable income increased by $1.6 Million or 157%, compared to 2004; cash from operations increased by $1.7 Million or 113%; and Funds from Operations (FFO) increased by $1.4 Million or 246%. On a per unit basis, Funds from Operations remained relatively constant at $0.216 per unit in 2005, compared to $0.22 per unit in 2004.

The $99.1 Million increase in the cost base of the LREIT portfolio reflects the acquisition of 11 additional properties in 2005, with two of the properties accounting for 65% of the increase. The largest of two properties, Nelson Ridge Estates, is a 225 suite multi-family residential property in Fort McMurray, Alberta, with an acquisition cost of $40.6 Million, while the other property, Luther Riverside Terrace, is a 181 suite senior's housing complex in Saskatoon, Saskatchewan, with an acquisition cost of $24 Million. Both of the properties generated exceptional returns in 2005 and are expected to contribute over $2.5 Million of additional operating income in 2006, based on the annualization of 2005 operating results, adjusted for increased rental rates. In particular, the investment in Nelson Ridge Estates is expected to provide an excellent opportunity for accretive gains as the demand for housing in Fort McMurray is expected to continue to exceed supply for the foreseeable future, with the ongoing expansion of the oil sands industry and the local economy. In 2006, the overall quality of the LREIT portfolio will be further solidified, with the closing of the Lakewood Manor acquisition, another large property in Fort McMurray. At a cost of $56.6 Million, Lakewood Manor will become part of the LREIT portfolio in December 2006. All of the units at Lakewood Manor are also pre-leased to a major oil sands operating company which will ensure that the property has a 100% occupancy level for a minimum of three years, with guaranteed absolute net operating income of $4.7 Million per annum.

The increase in the cost base of the LREIT property portfolio in 2005 also reflects the acquisition of Three Lakes Village, a residential property in Yellowknife, Northwest Territories, consisting of 50 townhouses, with a total acquisition cost of $10.9 Million. As the property was in the lease-up stage of development in 2005, all operating expenses, less revenues, were capitalized. With the lease-up completed, the operating results of LREIT will be significantly enhanced as the operating income potential of the property is estimated to be approximately $600,000, after debt service.

Similarly, Highland Tower, a 95 suite apartment complex in Thompson, Manitoba, which was acquired by LREIT in 2005, is undergoing a major renovation program, involving the temporary removal of suites from the rental market. As a result of the upgrade program, the property experienced high vacancy levels in 2005 and incurred an operating loss of $62,000, excluding capitalized renovation costs. Once the renovations are completed, the operating income potential of the property is estimated to be in the range of $250,000 to $300,000 per annum. As the $1.35 Million purchase price of the property represented an estimated capitalization rate of 16.3%, the property is expected to generate a favourable return, after considering the total costs of the upgrade program. The renovation program at Highland Tower reflects the approach of LREIT in undertaking capital improvement projects, as appropriate, in order to maximize the longer term yield and value of an acquired property.

The remaining seven property acquisitions in 2005 were all multi-family residential properties, comprised of six apartment complexes in Prince Albert, Saskatchewan and a luxury apartment building in Winnipeg, Manitoba.

The new acquisitions in 2005 also reflect an enhanced geographic diversification of the LREIT portfolio and the continued strategy of targeting properties with strong growth potential in secondary markets. As of December 31, 2005, the LREIT portfolio encompasses properties in 12 municipal locations throughout western Canada, Ontario and the Northwest Territories, with approximately 80% of the portfolio based in smaller centres. In 2005, LREIT also greatly strengthened its position as a residential REIT, completing the year with a residential property component of 87% of assets, based on acquisition costs.

Although the rental market for multi-family residential properties remained highly competitive throughout 2005, due to low interest rates and continued affordability of single family homes, there was a distinct shift in market fundamentals at the end of the year, mainly due to an increase in interest rates. The increase in interest rates, combined with other factors such as rising home prices and declining housing starts, is contributing to a gradual improvement in rental market conditions. Provided that rental markets continue to strengthen, there is an opportunity for LREIT to achieve a significant improvement in rental rates and in the overall occupancy level of its portfolio of multi-family residential properties and a corresponding improvement in operating income, in addition to the increases in income which are projected for the 2005 property acquisitions, based on a full year of operations.

In summary, the inclusion of Highland Tower and Three Lakes Village as income-producing properties and a full year of operations for the remaining 2005 property acquisitions, combined with the anticipated improvement in market conditions for multi-family residential properties, should translate into a very significant increase in the operating income and cash flow for the existing property portfolio of LREIT.

It is also anticipated that substantial gains in operating income and cash flows will be derived from ongoing property acquisitions in 2006 as LREIT has sufficient cash reserves and borrowing capacity to support another year of strong growth in its property portfolio. Based on property acquisitions that are completed or under contract, the cost base of the LREIT portfolio has increased to $246 Million as of March 31, 2006 and is expected to surpass the $350 Million level by the end of the year.

Since its inception as a publicly-traded real estate investment trust in September 2002, LREIT has achieved exceptional growth in its real estate portfolio and provided Unitholders with stable cash distributions and increasing unit values. The outlook for continued growth remains very positive in 2006, given the capital resources of the Trust and the quality of the asset base.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
April 26, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the audited financial statements for the year ended December 31, 2005 and accompanying notes, and with reference to the quarterly reports for 2005. In addition, certain statements in the Management's Discussion and Analysis could be considered as forward-looking information. The forward-looking information is subject to certain risks and uncertainties which could result in actual results differing materially from the forward-looking statements.

OVERALL INVESTMENT OBJECTIVES AND STRATEGY

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

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

INVESTMENT ACTIVITIES

Property Acquisitions

General

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

Property Portfolio – December 31, 2005

As of December 31, 2004, the real estate portfolio of LREIT consisted of six multi-family residential properties and four commercial properties with a total acquisition cost of $66.7 Million.

During 2005, LREIT acquired 11 additional multi-family residential properties at a total purchase price of $99.1 Million, resulting in a real estate portfolio of 21 properties with a total cost of $165.8 Million as of December 31, 2005.

Property Portfolio – December 31, 2005

Property	Location	Purchase Price		Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy 12/31/05	
Multi-Family Residential							
Beck Court	Yellowknife, NWT	$ 14,300,000		April 2004	120	97%	
Greenwood Gardens	Surrey, BC	10,950,000		April 2004	183	72%	
Nova Villa	Edmonton, AB	5,400,000		May 2004	61	98%	
Nova Manor	Edmonton, AB	2,615,000		May 2004	32	91%	
Nova Ridge Estates	Spruce Grove, AB	8,800,000		July 2004	102	99%	
Norglen Terrace	Peace River, AB	2,500,000		October 2004	72	96%	
Highland Tower	Thompson, MB	1,350,000		January 2005	95	33%	(3)
Borden Estates	Prince Albert, SK	5,315,000		February 2005	144	74%	
Cedar Village	Prince Albert, SK	2,700,000		February 2005	72	69%	
Carlton Manor	Prince Albert, SK	410,000		February 2005	19	84%	
Riverside Apartments	Prince Albert, SK	265,000		February 2005	12	83%	
MGM Apartments	Prince Albert, SK	650,000		February 2005	28	50%	
Nelson Ridge Estates	Fort McMurray, AB	40,575,000		April 2005	225	100%	
Three Lakes Village (formerly Nova Village)	Yellowknife, NWT	10,900,000		May 2005	50	70%	(4)
Luther Riverside Terrace	Saskatoon, SK	24,000,000	(1)	July 2005	181	97%	
Marquis Towers	Prince Albert, SK	6,200,000		August 2005	129	88%	
Chancellor Gate	Winnipeg, MB	6,750,000		August 2005	48	92%	
Total – Multi-Family		$ 143,680,000		Total Suites	1,573		
Retail and Office							
Kenaston	Winnipeg, MB	$ 12,656,200	(2)	April 2002	103,209	97%	
McIvor Mall	Winnipeg, MB	6,700,000		February 2004	65,283	96%	
		19,356,200			168,492		
Light Industrial							
MAAX Warehouse	Airdrie, AB	1,600,000		June 2003	39,936	100%	
Purolator Building	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		$ 165,836,200					

(1) Luther Riverside Terrace is a senior's housing complex.
(2) Includes cost of asset additions.
(3) In-suite renovation program in process.
(4) Newly constructed property, in lease-up stage.

Property Acquisitions Subsequent to December 31, 2005

Acquisitions which have been completed, or are in process, subsequent to December 31, 2005, are as follows:

Property Acquisitions – Subsequent to December 31, 2005

Property	Location	Actual/Projected Acquisition Date	Number of Suites	Purchase Price
Multi Family Residential:				
Willowdale Gardens (1)	Brandon, MB	January 2006 *	88	$ 4,326,000
Broadview Meadows	Sherwood Park, AB	January 2006 *	93	6,790,000
Chateau St. Michaels	Moose Jaw, SK	May 2006	93	7,600,000
Village West Townhouses	Saskatoon, SK	May 2006	100	5,150,000
Lakewood Manor (2)	Fort McMurray, AB	December 2006	175	56,565,300
				$ 80,431,300

* Acquisition completed.

(1) Please refer to the section on "Related Party Transactions" on page 29 of this report for additional information regarding the acquisition of Willowdale Gardens.

(2) The Lakewood Manor property in Fort McMurray, Alberta is under construction, with an estimated completion date in December 2006. The acquisition of the property is scheduled to close on the construction completion date.

Carrying Costs for Major Renovations and Properties Under Development

During 2005, additions to Income Properties amounted to $1,152,473. The additions consist primarily of the following:

(i) the capitalization of renovation costs of $942,128 in regard to the corridor and in-suite renovation program at Highland Tower. The renovation program at Highland Tower involves the upgrading of the entire floor of suites at a time, and the temporary removal of suites from the rental market. Accordingly, the capitalized renovation costs include carrying costs, such as vacancy losses and operating costs pertaining to the unavailable suites. In total, the capitalized renovation costs for Highland Tower include carrying costs of $42,062.

(ii) the capitalization of carrying costs for Three Lakes Village, in the amount of $107,343. Three Lakes Village is a newly constructed property that was acquired by LREIT on May 1, 2005, in the lease-up stage of development. Accordingly, all expenditures, less revenues, of the property are being capitalized until the property achieves a satisfactory occupancy level within a predetermined time limit. The capitalized costs for Three Lakes Village represent the net operating loss of the property from May 1, 2005 to December 31, 2005.

The capitalization of carrying costs for properties undergoing major renovations and for properties under development is in accordance with generally accounting accepted principles, pursuant to the new accounting policies that were adopted by LREIT in 2005. Please refer to the section entitled "Impact of Changes in Accounting Policy" on page 13.

Mortgage Loans Receivable

December 31, 2005 - $9,350,000
December 31, 2004 - $2,150,000

Lakewood Manor Loan

As of December 31, 2005, "Mortgage Loans Receivable" consisted primarily of an 8% second mortgage loan of $8.5 Million, which LREIT provided in regard to the construction of Lakewood Manor, the 175 suite multi-family residential property in Fort McMurray, Alberta. The acquisition of the property is scheduled to close on the projected construction completion date in December 2006, at which time the second mortgage loan will be credited to the purchase price of the property. Prior to closing, the second mortgage loan is subordinate to a construction mortgage in the maximum amount of $32 Million and will require payments of interest only, on a quarterly basis.

Other

The year end balance of "Mortgage Loans Receivable" also includes an investment in a 12% mortgage loan of $850,000, secured by land for a property which LREIT is considering for acquisition in Edmonton, Alberta.

Minacs Loan

As of December 31, 2004, "Mortgage Loans Receivable" consisted entirely of a second mortgage loan of $2.15 Million, secured by the Minacs Building in Oshawa, Ontario (the "Minacs Loan"). In January 2005, an additional $1.475 Million was invested in the Minacs Loan, resulting in an increase in the loan balance to $3.625 Million as of June 30, 2005. On July 8, 2005, LREIT received full repayment of the Minacs Loan.

Please refer to the section on "Related Party Transactions" on page 29 of this report for additional information regarding the Minacs Building.

FINANCING ACTIVITIES

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

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

Trust Units

Unit Offerings - 2005

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

In December 2004, LREIT initiated a private placement offering of a maximum of 5,000,000 trust units at a price of $5 per unit (the "December 2004 Unit Offering"). The first closing of the offering occurred on December 30, 2004, resulting in 3,828,500 units being issued for total gross proceeds of $19,142,500. After considering the unit offering, LREIT had 6,461,213 trust units outstanding as of December 31, 2004, with an average issue price of $4.25.

The second closing of the December 2004 Unit Offering occurred on January 27, 2005, resulting in the issuance of an additional 1,171,500 units for total gross proceeds of $5,857,500. On February 2, 2005, LREIT also completed a private placement of 200,000 trust units at a price of $5 per unit for gross proceeds of $1 Million.

On December 14, 2005, LREIT completed a private placement of 6,297,240 trust units at a price of $5.10 per unit, for aggregate gross proceeds of $32,115,924.

Debenture Conversions

During 2005, LREIT also issued 2,715,333 units in regard to debenture conversions, resulting in the retirement of both the Series B and Series C debentures.

Unit Option Plan

At the inception of LREIT, the Trust granted options to the two independent Trustees to acquire 10,000 units each at a price of $4 per unit, pursuant to the Unit Option Plan. As of December 31, 2005, options for 10,000 units were exercised under the Unit Option Plan, resulting in total gross proceeds of $40,000.

In January 2006, the Trust granted options to acquire 7,500 units at a price of $5.42 to the Chief Financial Officer of LREIT and to each of the three Trustees, representing options for a total of 30,000 units.

Summary

As of December 31, 2005, LREIT had 16,855,286 units outstanding, representing an increase of 10,394,073 units or 160%, compared to the number of units outstanding as of December 31, 2004.

The following is a summary of the trust units which were issued by LREIT during 2005:

Summary of Trust Units

		Units Issued	Gross Proceeds
Units outstanding, December 31, 2004		6,461,213	$ 26,935,352
January 27, 2005	Second closing of Dec/04 Unit Offering	1,171,500	5,857,500
February 2, 2005	Private placement to institutional investors	200,000	1,000,000
September 29, 2005	Exercise of unit options	10,000	40,000
December 14, 2005	Private placement offering	6,297,240	32,115,924
January to December 31, 2005	Units issued on conversion of debentures	2,715,333	-
Units issued – 2005		10,394,073	39,013,424
Units outstanding, December 31, 2005		16,855,286	$ 65,948,766

Convertible Debentures

Debenture Offerings – 2005

The Declaration of Trust for LREIT does not impose any limitations on the amount of convertible debt which may be issued by the Trust.

During 2005, LREIT completed a $12 Million private placement offering of Subordinated Series E Convertible Debentures, bearing interest at a rate of 8%, with a five year term. The first closing of the offering occurred on February 17, 2005 and the second and final closing occurred on March 16, 2005.

Debenture Conversions

During 2005, convertible debentures, with a total face value of $12,451,000, were converted into units, including all of the Series B and Series C Convertible Debentures.

Summary

The following is a summary of the debenture offerings which have been undertaken by LREIT, as of December 31, 2005, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

Issue Date/ Maturity Date	Series	Interest Rate	Amount Issued	Unit Conversions As of December 31, 2004	Unit Conversions As of December 31, 2005	Net Amount Outstanding Dec. 31, 2005
Aug. 30/02/Aug. 30/07	A	10%	$ 3,000,000	$ -	$ (1,231,000)	$ 1,769,000
Aug. 30/02/Aug. 30/05	B	8%	1,000,000	(58,000)	(942,000)	-
Jan. 30/04/Jan. 29/06	C	8%	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 15/08	D	8%	4,000,000	-	(147,000)	3,853,000
Feb. 17/05/Feb. 17/10	E	8%	12,000,000	-	-	12,000,000
			$ 30,131,000	$ (58,000)	$ (12,451,000)	17,622,000
Net accumulated accretion						810,216
Book value, December 31, 2005						$ 18,432,216

(1) All of the unit conversions occurred in 2005, except for $58,000 of Series B Debentures which were converted in 2003.

Debenture Offerings – Subsequent to December 31, 2005

In March 2006, LREIT completed a $13.68 Million private placement offering of Subordinated Series F Convertible Debentures, bearing interest at a rate of 7.5% with a five year term. The debentures are convertible at the option of the holder at a per unit price of $6.00, $6.60 and $7.30 in year three, four and five, respectively. In year one and two, the debentures are not convertible.

Mortgage Loans Payable

December 31, 2005 - $116,827,895
December 31, 2004 - $49,091,108

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate		Amount December 31, 2005	Percentage of Total
2006	4.5%		$ 464,054	0.4%
2006	-	(VTB)	250,000	0.2%
2007	6.5%		1,978,923	1.7%
2008	4.1%		4,089,914	3.5%
2009	5.3%		22,832,902	19.5%
2013	5.9%		28,139,271	24.1%
2014	5.5%		18,030,010	15.4%
2015	5.7%		38,853,219	33.3%
			114,638,293	98.1%
Demand/floating rate	Prime + 1%		2,189,602	1.9%
			$ 116,827,895	100.0%

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.

All of the property acquisitions during 2005 encompassed first mortgage loan financing, with the exception of Highland Tower, which was purchased entirely by a cash payment of $1,350,000. The total first mortgage loan debt arranged or assumed on the remaining ten property acquisitions amounted to approximately $65.5 Million or approximately 67% of the total purchase price, with a weighted average interest rate of 5.64%. In addition, the 2005 property acquisitions encompassed a non interest-bearing vendor take-back (VTB) mortgage of $250,000, maturing July 1, 2006, and a prime plus 1% second mortgage loan of $1,165,000, payable on demand. The new mortgage loans account for the increase in the balance of “Mortgage Loans Payable” since December 31, 2004.

On February 24, 2005, the prime plus 0.625% first mortgage loan for the Kenaston Property was upward refinanced, resulting in net proceeds of approximately $2.4 Million. The new loan of $12 Million bears interest at a fixed rate of 5.8% for ten years, maturing March 1, 2015.

A standby first mortgage loan in the amount of $32 Million has also been secured for Lakewood Manor, the property which is currently under construction, in Fort McMurray, Alberta. The first mortgage loan is to be advanced on the construction completion/acquisition date of the property, in the unlikely event that higher ratio, long-term fixed rate debt has not been arranged.

As of December 31, 2005, the weighted average interest rate of the entire portfolio of mortgage loans is 5.6%, compared to 5.3% as of December 31, 2004. The increase in the weighted average interest rate is mainly due to an increase in the prime interest rate during the year. Mortgage loans payable represent 63.8% of the appraised value of the total property portfolio of LREIT as of December 31, 2005, compared to 72.9% of the total appraised value as of December 31, 2004.

FINANCIAL PERFORMANCE

Financial Highlights

	Year Ended December 31 2005	Year Ended December 31 2004 (restated)
Total assets	$ 201,013,351	$ 90,779,084
Mortgage loans payable	$ 116,827,895	$ 49,091,108
Convertible debentures (face value)	17,622,000	18,073,000
	$ 134,449,895	$ 67,164,108
Total revenue	$ 17,792,929	$ 7,743,244
Operating income	$ 9,688,548	$ 4,616,038
Net loss	$ 2,135,105	$ 1,946,902
Distributable income	$ 2,611,954	$ 1,016,314
Funds from Operations (FFO)	$ 2,013,254	$ 581,621
Adjusted Funds from Operations (AFFO)	$ 1,927,398	$ 62,108
Cash distributions - paid	$ 6,230,007	$ 1,392,838
- declared, per unit	$0.56	$0.53

Per Unit

	2005 Basic	2005 Diluted	2004 Basic	2004 Diluted
Operating income	$1.04	$0.81	$1.74	$0.80
Net loss	$(0.229)	$(0.229)	$(0.735)	$(0.735)
Distributable income	$0.280	$0.279	$0.384	$0.373
Funds from Operations (FFO)	$0.216	$0.216	$0.220	$0.209
Adjusted Funds from Operations (AFFO)	$0.206	$0.206	$0.023	$0.023

Total Assets

As of December 31, 2005, the total assets of LREIT amounted to $201,013,351, compared to $90,779,084 at the end of 2004, representing an increase of approximately $110 Million or 121%. The increase in total assets is mainly due to an increase in “Income Properties” of $96.5 Million and reflects the growth in the real estate portfolio of LREIT during 2005.

Long-Term Financial Liabilities

As of December 31, 2005, mortgage loans payable and the face value of convertible debenture debt amounted to 65% of the total gross book asset value of LREIT, compared to 72% as of December 31, 2004. The reduction in the overall “debt” ratio is mainly due to the high level of debenture conversions in 2005.

Other Balance Sheet Items

Deferred Charges

December 31, 2005 - $2,701,397
December 31, 2004 - $2,801,876

As discussed on page 13, LREIT adopted a new accounting policy in 2005, whereby issue costs relating to the debt component of debentures are initially recorded as deferred charges and amortized over the term of the debentures. The retroactive application of the new accounting policy for convertible debentures resulted in a change in the unamortized balance of deferred charges, as of December 31, 2004 from $2,657,918 to $4,029,959.

As per Note 7 of the audited financial statements, the unamortized cost of deferred charges was $4,994,443 as of December 31, 2005, representing an increase of $964,484, in comparison to the unamortized balance as of December 31, 2004, as restated.

The increase in the unamortized balance of deferred charges in 2005 mainly represents an increase in deferred financing expenses. Approximately 71% of the increase in deferred financing expenses represents issue costs relating to the debt component of Series E debenture offering, while the remaining amount reflects financing costs relating to property-specific first mortgage loans.

Other Assets

December 31, 2005 - $2,865,877
December 31, 2004 - $1,271,668

Other assets increased by $1,594,209 since December 31, 2004. The increase is mainly due to an increase in rent receivable, prepaid expenses and deposits on potential acquisitions.

Intangible Assets

December 31, 2005 - $2,191,630
December 31, 2004 - $1,333,825

As disclosed in Note 10 of the audited financial statements, the unamortized cost of intangible assets was $3,617,285, as of December 31, 2005, representing an increase of $1,471,699, in comparison to the unamortized balance as of December 31, 2004.

The increase in the unamortized balance of intangible assets mainly represents an increase in lease origination costs, associated with property acquisitions in 2005. Lease origination costs represent the portion of the purchase price of a property that is attributed to the value of the operating leases which are in place when a property is acquired.

Accounts Payable and Accrued Liabilities

December 31, 2005 - $3,111,141
December 31, 2004 - $1,446,803

Accounts Payable and Accrued Liabilities increased by $1,664,338 since December 31, 2004. The increase mainly is directly related to the increase in the number of properties in the LREIT portfolio and reflects an increase in tenant security deposits, operating accounts payable and accrued interest on mortgage loans payable.

Operating Results

General

At the end of 2004, the expectation was that LREIT would achieve a favourable growth rate in operating income and operating cash flows during 2005 in proportion to the growth in revenues from new property acquisitions. It was also anticipated that the relative growth in net income would be limited during 2005, as a result of the lag between the receipt of new capital and the investment of the capital in income-producing properties and the associated capital "carrying" costs.

Overall, operating results were generally in accordance with expectations, with LREIT achieving a 109% increase in operating income and a 113% increase in operating cash flows. Net income, excluding amortization expense, increased by 246%, while the net loss of LREIT increased by 10%.

Impact of Changes in Accounting Policy

Convertible Debentures

Effective January 1, 2005, LREIT adopted a new accounting policy for debentures which are convertible to units, at the option of the debenture issuer. The accounting policy was adopted, pursuant to the recommendations of the CICA Handbook, in order to conform to Canadian generally accepted accounting principles. The new accounting policy is being applied on a retroactive basis.

The new policy is described in Note 3 of the audited financial statements. The adoption of the amended accounting policy by LREIT resulted in a reallocation of the liability and equity components of the Series B convertible debentures and an increase in prior years financing expense of $285,315. Accordingly, for comparative purposes, the net loss for 2004 is $134,916 higher than was previously reported.

Issue Costs on Convertible Debentures

As disclosed in Note 3 of the audited financial statements, LREIT adopted a new accounting policy, effective January 1, 2005, whereby the issue costs relating to the debt component of convertible debentures are recorded as deferred charges and amortized over the term of the debentures. Prior to 2005, all issue costs relating to convertible debentures were recorded as a reduction in equity.

The accounting policy was applied retroactively, resulting in the reclassification of $1,372,041 in issue costs from equity to deferred charges, in regard to convertible debentures which were issued prior to January 1, 2005. The increase in deferred charges of $1,372,041 and the retroactive adjustment of prior years amortization expense had a significant impact on the bottom-line results for 2004. Specifically, amortization of deferred charges for 2004, as restated in the audited financial statements, is $461,124 higher than was previously reported, as a result of the new accounting policy for issue costs on convertible debentures.

In 2005, the unamortized balance of deferred charges in regard to issue costs relating to convertible debentures increased by $685,266, as a result of the Series E convertible debenture offering in February 2005. Amortization of deferred charges in 2005 is $690,125 higher than would have been reported under the previous policy, of which $570,205 pertains to the convertible debentures which were issued prior to January 1, 2005.

Although the new accounting policy for issue costs on convertible debentures was adopted on a retroactive basis in 2005, the reclassification of $1,372,041 in issue costs from equity to deferred charges, in regard to convertible debentures which were issued prior to January 1, 2005, was not recorded until the end of the year. As a result, amortization expense in the quarterly reports for 2005 was understated. On a quarterly basis, the increase in amortization expense in regard to the new accounting policy is, as follows:

	Understatement of Amortization Expense	
Period	2005	2004
Q1	$ 184,934	$ 81,285
Q2	241,224	126,613
Q3	90,949	126,613
Q4	-	126,613
	$ 517,107	$ 461,124

The quarterly results in the "Summary of Quarterly Results" and the "Analysis of Fourth Quarter Results" on page 24 of this report have been restated to reflect the above noted increases in amortization expense.

Carrying Costs During Major Renovations

Effective July 1, 2005, LREIT adopted an accounting policy whereby carrying costs which are incurred during a period of major renovations to an income property, and which involve the temporary removal of suites from the rental market, are capitalized to the cost of the building and amortized over the estimated useful life of five years. The accounting policy is described in Note 3 of the audited financial statements. During 2005, the total capitalized carrying costs of LREIT are $42,062, all of which pertain to renovations at Highland Tower.

Properties Under Development

Effective October 1, 2005, LREIT adopted an accounting policy whereby all acquisition, development, leasing and operating costs are capitalized for properties under development until the property achieves a satisfactory occupancy level within a predetermined time limit. The accounting policy is in accordance with generally accepted accounting principles and is consistent with the standard accounting practices of the real estate industry. The accounting policy is described in Note 3 of the audited financial statements.

During 2005, capitalized costs for properties under development, excluding the initial acquisition costs, amounted to $107,343, all of which pertain to Three Lakes Village.

Net Income

Analysis of Net Income

	Year Ending December 31		Increase
	2005	2004 (restated)	(Decrease)
Operating income – rental properties	$ 9,157,356	$ 4,311,850	$ 4,845,506
Interest income – Trust	511,192	304,188	207,004
Operating income	9,668,548	4,616,038	5,052,510
Financing expense			
Mortgage loans	4,763,757	1,748,772	3,014,985
Debentures	2,704,761	2,161,170	543,591
	7,468,518	3,909,942	3,558,576
Operating income, net of financing expense	2,200,030	706,096	1,493,934
Trust expense	186,776	124,475	62,301
Net income, before amortization and future income tax Recovery	2,013,254	581,621	1,431,633
Amortization	4,191,809	2,528,523	1,663,286
Future income tax recovery	(43,450)	-	(43,450)
Net loss	$ (2,135,105)	$(1,946,902)	$ 188,203

Overview

Net Income, Excluding Amortization Expense

During 2005, the net income of LREIT, before amortization expense and future income tax recovery, increased by approximately $1.4 Million. The increase in net income mainly reflects an increase in operating income of approximately $5 Million, largely offset by an increase in financing expense of approximately $3.6 Million.

As discussed at length on pages 17 to 21 of this report, the increase in operating income is mainly due to an increase in the number of properties in the LREIT portfolio, although the increase in the operating cost ratio of the portfolio also affected the relative increase in operating income.

The increase in financing expense is comprised of an increase in financing expense pertaining to mortgage loans as well as an increase in financing expense in regard to convertible debentures. As discussed below, the proportionately higher increase in mortgage loan financing expense was the main contributing factor to the overall increase in financing expense in 2005.

Net Loss, Including Amortization Expense

After deducting amortization expense, LREIT incurred a net loss of approximately $2.1 Million in 2005. The net loss reflects total amortization charges of approximately $4.2 Million, compared to approximately $2.5 Million in 2004.

Financing Expense – Mortgage Loans

Financing expense on mortgage loans increased by $3 Million or 172% during 2005. The increase mainly reflects the incremental interest expense on the additional mortgage loans which were assumed or arranged for new property acquisitions. As a percentage of operating income, financing expense on mortgage loans increased from 38% in 2004 to 49% in 2005, due to the following factors:

- an increase in the average debt load of Income Properties. Although the debt ratio of the Income Properties was lower at the end of 2005, in comparison to 2004, the average debt ratio was significantly higher in 2005. The increase in the average debt ratio reflects the upward refinancing of the Kenaston Property in 2005 and the initial acquisition of the McIvor Mall on a 100% cash basis in 2004;

- an increase in the weighted average interest rate for floating rate mortgages, due to an increase in the prime lending rate, compounded by a reduction in the principal amount of floating rate mortgage loans; and

- the financing of new property acquisitions in 2005 at a higher average interest rate, in comparison to the property acquisitions in 2004.

The increase in the operating cost ratio of LREIT in 2005 also contributed to the increase in mortgage loan financing expense ratio.

Financing Expense – Debentures

During 2005, financing expense on convertible debentures increased by $543,951 or 25%, compared to 2004. The increase reflects the incremental financing expense resulting from the issuance of the $12 Million Series E convertible debentures in February and March 2005, followed by a gradual reduction in financing expense for the remainder of the year, due to ongoing debenture conversions.

As a percentage of operating income, financing expense on debentures decreased from 47% in 2004 to 28% in 2005. The decrease in the ratio of debenture financing expense to operating income reflects the following factors:

- a reduction in the amount of uninvested debenture capital. As discussed at length in previous reports, the receipt of debenture capital results in an immediate increase in financing expense, whereas the income from the investment of the capital gradually accrues as properties are acquired. The reduction in the ratio of financing expense to operating income effectively reflects a longer period of ownership for properties which were acquired with “pre-2005” debenture capital.

- a net decrease in the amount of debenture debt due to a high level of debenture conversions. Although LREIT raised an additional $12 Million of debenture capital in 2005, the increase in financing expense associated with the new debenture capital was gradually offset by a reduction in financing expense due to debenture conversions. As of December 31, 2005, the face value of debenture debt amounted to $17,622,000, compared to $18,073,000 as of December 31, 2004; and

- a decrease in the relative amount of debenture capital due to a change in the overall capital structure of the Trust. Prior to the unit offering in December 2004, LREIT had raised approximately $26.5 Million of capital, of which approximately $18.1 Million or 68% was raised from the issuance of convertible debentures. In comparison, prior to the unit offering in December 2005, LREIT had raised approximately $64 Million of capital, of which approximately $30.1 Million or 47% was raised from the issuance of convertible debentures. In summary, property acquisitions were funded by debenture capital to a significantly lesser extent in 2005, resulting in proportionately lower debenture financing expenses.

  As a result of the proportional reduction in debenture debt, the operating income coverage ratio for total financing expense increased from 1.2 in 2004 to 1.3 in 2005. As discussed on page 27 of this report, the proportional reduction in debenture debt and the corresponding decrease in the relative amount of debenture financing expense was offset by an increase in cash distributions.

Amortization Expense

During 2005, total amortization expense increased by $1,663,286 or 66%, compared to 2004. The increase mainly reflects the growth in the portfolio of income-producing properties during 2005.

During 2005, the ratio of amortization expense to operating income was 43%, compared to 55% in 2004. In accordance with generally accepted accounting principles, a portion of the purchase price of a rental property is allocated to deferred charges and to intangible assets or intangible liabilities, as applicable, in order to reflect tenant or lease origination costs and the value of above market leases. During 2004, approximately $2.6 Million or 5% of the acquisition cost of new property acquisitions was recorded as a deferred charge or intangible asset/liability, compared to approximately $1.5 Million or 1.5% in 2005. The deferred charges and intangible assets/liabilities are amortized over the term of tenant leases, resulting in relatively high amortization charges in the initial years of a property acquisition. The reduction in the ratio of amortization expense to net operating income is mainly due to the significantly higher allocation of property acquisition costs to intangible assets in 2004.

As the property portfolio of LREIT will continue to increase throughout 2006, amortization expense will continue to have a significant impact on the “bottom line” results of LREIT.

Trust Expense

Trust expense in 2005 and 2004 consists primarily of audit fees, legal fees for general trust matters and fees related to the distribution of reports to Unitholders and the filing of financial statements and other information to regulatory agencies.

In 2006, there will be a significant increase in trust expense, as LREIT will begin paying a fee for the administrative and asset management services of Shelter Canadian Properties Limited, effective January 1, 2006.

The “asset management fee” was approved by the Board of Trustees, pursuant to the terms of the Services Agreement. Specifically, for the six month period ending June 30, 2006, the Board of Trustees approved an asset management fee equal to 0.3% of the gross book value of the assets of LREIT, excluding cash, as of the date of the most recently issued financial statements. The fee is payable on the last day of each month. For the first quarter of 2006, the most recently issued financial statements are the financial statements for the third quarter of 2005, resulting in a monthly fee of $43,053. For the second quarter of 2006, the most recently issued financial statements are the financial statements for fiscal 2005, resulting in an increase in the monthly fee to $46,078.

Please refer to “Related Party Transactions” on page 29 of this report for additional information in regard to the administrative, asset management and property management services which are provided to LREIT by Shelter Canadian and the associated remuneration.

Operating Income

During 2005, the operating income of LREIT increased by approximately $5 Million or 109%, compared to 2004. The increase in the operating income is mainly due to the increase in the number of properties in the portfolio of LREIT. During 2004, ten properties, with a combined acquisition cost of $66.7 Million, contributed to the operating income of LREIT. During 2005, 21 properties, with a combined acquisition cost of $165.8 Million, contributed to operating income.

General

Analysis of Operating Income

	Percentage of Total Operating Income	
	Year Ended December 31	
	2005	2004
Residential	66%	42%
Commercial	29%	51%
Total - Income Properties	95%	93%
Trust	5%	7%
Total	100%	100%

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 by property type, while operating results pertaining to overall asset management and administrative activities are categorized under the heading of "Trust".

The operating income from "Trust" operations consists almost exclusively of interest income on mortgage loans receivable and excess cash reserves. The portfolio of Income Properties is the primary source of operating income accounting for 95% and 93% of the total operating of income of LREIT in 2005 and 2004, respectively.

The following discussion focuses on an analysis of the Income Properties of LREIT, with a more detailed review of the residential property portfolio, given the ongoing increase in the amount of residential properties.

Overall Portfolio Analysis

Revenue

Analysis of Rental Revenues by Property Sector

	Percentage of Total Rental Revenues	
	Year Ended December 31	
	2005	2004
Residential	73%	45%
Commercial	27%	55%
	100%	100%

As of December 31, 2005, the real estate portfolio of LREIT consisted of four commercial properties and 17 residential properties. During 2005, the residential properties accounted for 73% of the total rental revenues of the Trust and 66% of the total operating income, compared to 45% and 42%, respectively, in 2004. The percentage increase reflects the change in the investment strategy of LREIT to focus exclusively on the acquisition of residential properties, commencing in March 2004. The percentage of revenue and income attributable to residential properties is expected to continue to increase, as additional residential properties are acquired.

Notwithstanding the exclusive focus on the acquisition of residential properties since 2004, 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. During 2005, commercial and light industrial properties accounted for 29% of the total operating income of LREIT. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties, McIvor Mall and the Kenaston Property, were 96% and 97% leased, respectively, as of December 31, 2005.

Although the residential property component of LREIT is gradually accounting for a higher percentage of operating income, the commercial and light industrial properties will continue to enhance the overall status of the Trust in terms of property income growth.

Property Operating Costs

Analysis of Operating Cost Ratio by Property Sector

	Operating Cost Ratio Year Ended December 31 2005	2004
Residential	50%	46%
Commercial	41%	42%
Total portfolio	48%	44%

The operating cost ratio for the entire portfolio of LREIT properties increased from 44% in 2004 to 48% in 2005.

At the beginning of 2004, the property portfolio of LREIT consisted entirely of four commercial properties, including the MAAX Warehouse and the Purolator Building. During the nine month period from April 1, 2004 to December 31, 2004, six residential properties were added to the property portfolio. The lower operating cost ratio in 2004 reflects the higher proportion of commercial properties in the 2004 and the fact that commercial properties and, in particular, single-tenant commercial properties have comparatively lower operating costs than residential properties.

As discussed in detail on pages 20 to 21, the operating cost ratio for residential properties was higher in 2005, primarily due to an increase in the overall vacancy rate for residential properties.

Analysis of Residential Properties

Revenue

In 2005, the geographic diversification of the residential property portfolio became significantly more pronounced as the portfolio expanded into Manitoba and Saskatchewan and into the new provincial location of Fort McMurray, Alberta.

The increased geographic diversification of the LREIT portfolio is reflected in the following chart:

Analysis of Rental Revenue by Geographic Market Segment – Residential Properties

	Percentage of Total Rental Revenue Year Ended December 31 2005	2004
Alberta	46%	31%
Saskatchewan	26%	-
Northwest Territories	15%	42%
British Columbia	9%	27%
Manitoba	4%	-
	100%	100%

In 2004, the Northwest Territories portfolio generated the highest percentage of rental revenue at 42%, whereas, in 2005, the highest percentage of rental revenue was generated by the Alberta portfolio at 46%. The change in the relative position of the Alberta portfolio mainly reflects the acquisition of Nelson Ridge Estates.

The continued geographic diversification of LREIT will serve to mitigate the general economic risks which are associated with real property ownership, such as the risk of increased competition or reduced demand in a local real estate market.

Operating Costs

Geographic Analysis of Operating Cost Ratio – Multi-Family Properties

	Year Ended December 31			
	2005		2004	
	Operating Cost Ratio	Vacancy Loss	Operating Cost Ratio	Vacancy Loss
Alberta	37%	3%	37%	1%
Northwest Territories	43%	1%	35%	2%
Saskatchewan	58%	10%	-	-
British Columbia	88%	24%	74%	16%
Manitoba	92%	29%	-	-
Total residential portfolio	50%	8%	46%	6%

As reflected in the preceding chart, the primary factor affecting the operating cost ratio for the LREIT residential portfolio is the occupancy level. In general, operating cost ratios increase in direct relation to increases in the vacancy rate, as properties with higher vacancy rates generate less income to cover fixed expenses. The increase in the overall operating cost ratio from 46% in 2004 to 50% in 2005, is primarily due to an increase in the overall vacancy rate, or more specifically, to the higher vacancy rates in the property portfolio for Manitoba, British Columbia and Saskatchewan.

Vacancy Rates/Occupancy Levels

General

As disclosed on page 6 of this report, the occupancy level for the properties in the multi-family residential portfolio of LREIT ranged considerably as of December 31, 2005. The occupancy rate for the largest properties in the portfolio, Nelson Ridge Estates, Luther Riverside Terrace and Beck Court, was at a very favourable level, ranging from 97% to 100%, while the occupancy level for a number of properties was low, particularly for Greenwood Gardens, Highland Tower and the small properties in Prince Albert, Saskatchewan.

Vacancy levels are high by historical standards throughout the multi-family residential rental market, as interest rates have been at a very low level for an extended period of time, resulting in a move to home ownership by a high percentage of existing and potential tenants. On the positive side, the favourable lending conditions have enabled LREIT to secure low interest financing for new property acquisitions and minimize first mortgage loan debt service costs. Vacancy levels are also factored into the purchase price of new property acquisitions.

Alberta

The favourable operating cost ratio for the Alberta portfolio reflects an average 2005 occupancy level of 99.5% for Nelson Ridge Estates in Fort McMurray, partially offset by an average 2005 occupancy level of 92% for the properties in Edmonton, Spruce Grove and Peace River. Operating expenses for the Peace River property, Norglen Terrace, were also comparatively higher due to an increase in maintenance costs in regard to the completion of upgrades to the building.

Northwest Territories

The favourable operating cost ratio for the Northwest Territories portfolio reflects an average 2005 occupancy level of 99% at Beck Court, which is the only property reflected in the analysis for the Northwest Territories. The operating cost ratio is not affected by the other property in the Northwest Territories, Three Lakes Village, as the property was under development at year end and all operating costs are capitalized in 2005.

Saskatchewan

The operating cost ratio of 58% for the Saskatchewan portfolio reflects an average occupancy level of 97% at Luther Riverside Terrace in Saskatoon, partially offset by the low occupancy level for the five residential properties in Prince Albert.

British Columbia

Although an extensive multi-year in-suite and common area upgrade program is being implemented at Greenwood Gardens, the timing of upgrades fluctuates and minimal upgrades were completed during 2005. The low occupancy level at Greenwood Gardens, which is the only property in the British Columbia rental market, was the primary variable affecting the high operating cost ratio for the British Columbia portfolio. As reported in the 2004 Annual Report and the quarterly reports for 2005, it is anticipated that, in the short-term, Greenwood Gardens will achieve a low profit margin, pending the completion of the upgrade program and an overall improvement in market conditions.

Manitoba

The operating cost ratio of 92% for the Manitoba portfolio reflects an average occupancy level of 42% for the suites which were available for lease at Highland Tower in Thompson, partially offset by an average occupancy level of 95% at Chancellor Gate in Winnipeg. The operating cost ratio for 2005 excludes suites which were temporarily removed from the rental market due to the renovations at Highland Tower, as the associated vacancy losses and operating costs were capitalized. In the longer term, the renovation program is expected to result in a significant improvement in the occupancy level at Highland Tower and a corresponding improvement in the operating cost ratio.

Summary

Overall, the residential portfolio continued to generate a favourable return in 2005 as the high operating cost ratios are primarily occurring in the smaller properties which, in total, comprise a relatively low percentage of the overall property portfolio.

Revenue/Income Commitments

Nova Properties

The acquisition of three properties, Nova Manor, Nova Villa and Nova Ridge Estates, encompassed cash flow guarantees, whereby the Vendor guaranteed a specified monthly operating cash flow until the monthly net rental revenues reach a predetermined threshold level, subject to a maximum period of one year. The “one year” period ended on April 30, 2005 for Nova Manor and Nova Villa and on June 30, 2005 for Nova Ridge Estates. Although the three properties experienced a decrease in operating income following the expiry date of the cash flow guarantees, the expiry of the cash flow guarantees did not have a significant impact on the total operating income of LREIT during 2005.

Lakewood Manor

As disclosed on page 7, the acquisition of Lakewood Manor is expected to close on the estimated construction completion date in December 2006. The property, which is located in Fort McMurray, Alberta, consists of 64 three-storey townhouses and a four storey apartment building with 111 suites. All of the suites and townhouses will be fully furnished.

In April 2006, LREIT finalized a multi-year lease agreement with a major oil sands company for all of the apartment suites and townhouses at the property.

The term of the lease extends until December 31, 2009 and will result in absolute net operating income for Lakewood Manor of $4,743,000 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 for the townhouse units is set at $25,593,600 for 2007; $26,297,600 for 2008; and $27,091,200 for 2009.

The lease agreement will ensure a 100% occupancy for Lakewood Manor for a minimum of three years, ending December 31, 2009. The lease agreement is also expected to result in a reduction in the cost of fixed rate mortgage financing for the property.

Cash Flows

Cash from Operations

During 2005, LREIT generated cash from operations of $3.2 Million, compared to cash from operations of $1.5 Million during 2004.

The increase in cash flow is mainly due to an increase in operating income, net of mortgage loan financing expense and to a proportionately lower level of convertible debenture interest payments in 2005. As disclosed on the Statement of Cash Flows, “interest paid on convertible debentures” was $1,481,775 during 2005, representing an increase of $337,031, compared to 2004. As a percentage of operating income, however, debenture interest payments decreased from 25% in 2004 to 15% in 2005. The reduction is mainly due to the full conversion of the Series C debentures.

Funds from Operations (“FFO”)

Funds from Operations (“FFO”) is not defined by GAAP and is a non-GAAP financial measure of operating performance widely used by the real estate industry. FFO has been calculated in accordance with the new recommendations of RealPac, however, the method that is used by LREIT for calculating FFO may differ from other issuers’ methods and accordingly, may not be comparable with measures used by other issuers. FFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP. FFO per unit has been calculated on a basis consistent with that prescribed by GAAP for calculating earnings per unit.

LREIT considers FFO to be a meaningful additional measure of operating performance, as FFO measures the cash generating abilities of LREIT.

Funds from Operations

	Year Ended December 31	
	2005	2004 (restated)
Net loss	$ (2,135,105)	$ (1,946,902)
Add (Deduct):		
Total amortization expense	4,191,809	2,528,523
Income tax recoveries	(43,450)	-
Funds from operations	$ 2,013,254	$ 581,621
Funds from operations per unit - basic	$0.216	$0.220
- diluted	$0.216	$0.209

Adjusted Funds from Operations (AFFO)

Adjusted Funds From Operations (AFFO) is also a non-GAAP financial measure of operating performance which is widely used by the real estate industry. LREIT considers AFFO to be a useful measure of operating performance and is indicative of available cash flow after capital reinvestment transactions. AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP. The method that is used by LREIT for calculating AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

Adjusted Funds from Operations

		Year Ended December 31	
		2005	2004 (restated)
Funds from operations		$ 2,013,254	$ 581,621
Add (deduct):			
Accrued rental revenue		(89,304)	(92,791)
Net amortization of above/below market in-place lease		3,545	(9,891)
Amortization of deferred financing costs		(764,520)	(495,939)
Accrued financing expense on convertible debentures		2,704,761	2,161,171
Interest on debentures		(1,766,525)	(1,374,330)
Unit based compensation		11,388	11,388
Lease acquisition costs		(185,201)	(719,121)
Adjusted funds from operations		$ 1,927,398	$ 62,108
Adjusted funds from operations per unit	- Basic	$0.206	$0.023
	- Diluted	$0.206	$0.023

SUMMARY OF QUARTERLY RESULTS

Quarterly Analysis For the Year Ended December 31	2005			
	Q4	Q3 (restated)	Q2 (restated)	Q1 (restated)
Total revenue	$5,592,039	$4,846,417	$4,300,018	$3,054,455
Operating income	$2,849,749	$2,630,693	$2,465,350	$1,722,756
Net income (loss)	$(463,009)	$(486,238)	$(726,463)	$(459,395)
PER UNIT				
Operating income				
- Basic	$0.305	$0.263	$0.304	$0.230
- Diluted	$0.261	$0.225	$0.211	$0.153
Net income (loss)				
- Basic	$(0.040)	$(0.049)	$(0.090)	$(0.061)
- Diluted	$(0.040)	$(0.049)	$(0.090)	$(0.061)

Quarterly Analysis for the Year Ended December 31	2004 (restated)			
	Q4	Q3	Q2	Q1
Total revenue	$2,528,428	$2,309,239	$1,961,339	$944,238
Operating income	$1,296,410	$1,398,456	$1,319,195	$601,979
Net income (loss)	$(714,454)	$(605,970)	$(373,196)	$(253,282)
PER UNIT				
Operating income				
- Basic	$0.477	$0.531	$0.501	$0.230
- Diluted	$0.198	$0.227	$0.224	$0.134
Net income (loss)				
- Basic	$(0.263)	$(0.230)	$(0.142)	$(0.097)
- Diluted	$(0.263)	$(0.230)	$(0.142)	$(0.097)

FOURTH QUARTER RESULTS

Third and Fourth Quarter Comparison

	Three Months Ended		
	December 31, 2005	September 30, 2005 (restated)	Increase (Decrease)
Operating income – rental properties	$ 2,760,500	$ 2,646,914	$ 113,586
Interest income – Trust	89,249	(16,221)	105,470
Operating income	2,849,749	2,630,693	219,056
Financing expense			
Mortgage loans	1,512,150	1,354,150	158,000
Debentures	533,916	580,053	(46,197)
	803,683	696,490	107,193
Trust expense	63,026	22,995	40,031
Net income, before amortization	740,657	673,495	67,162
Amortization	1,247,117	1,159,733	187,384
Net loss	$ (506,459) *	$ (486,238)	$ (20,221)

* Excludes future income tax recovery of $43,450.

Analysis of Fourth Quarter Net Income

During the fourth quarter of 2005, the net income of LREIT, excluding amortization expense and income tax recoveries, increased by $67,162 or 16%, compared to the third quarter of 2005, mainly due to the following factors:

- an increase in operating income, net of mortgage loan financing expense, mainly due to the incremental income which was derived from property acquisitions in the third quarter of 2005; and

- a proportional decrease in debenture financing expense. As a percentage of net operating income, debenture financing expense decreased from 22% during the third quarter to 19% during the fourth quarter. The decrease reflects a gradual decrease in the amount of uninvested debenture capital during 2005, as well as a decrease in the proportion of debenture capital to total capital during the fourth quarter.

The net loss of LREIT, excluding future income tax recovery, increased by $20,221 during the fourth quarter of 2005, mainly due to an increase in amortization charges in regard to intangible assets. The increase in amortization expense for intangible assets is due to the fact that the third quarter acquisition of Chancellor Gate was the only property which had a portion of the purchase price allocated to intangible assets.

CASH DISTRIBUTIONS

Distribution Dates and Amounts

Effective January 1, 2006, the cash distribution policy of LREIT changed from quarterly cash distributions to monthly cash distributions. The cash distributions for each month, excluding December, will be made on or about the 15th day of the following month to the Unitholders of record on each month end. The cash distribution for December will be made on or before December 31 to the Unitholders of record on or about December 15.

In accordance with its previous policy of paying cash distributions on a quarterly basis, the cash distribution of LREIT for the fourth quarter ending December 31, 2005, in the amount of $3,359,749 or $0.14 per unit, was paid on December 31, 2005. In total, the quarterly cash distributions for fiscal 2005 amounted to $6,230,007 or $0.56 per unit.

A cash distribution of $0.04667 per unit, or $0.56 on an annualized basis, has been paid for the months of January, February and March 2006. The March 2006 distribution was paid on April 15, 2006.

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. Distributable income is equal to the net income of LREIT, as determined in accordance with GAAP, subject to certain adjustments for non-cash transactions, such as adding back amortization expense for income properties and intangible assets and converting interest expense on debentures to a cash basis.

Distributable income is a non-GAAP measure, however, and excludes other transactions which LREIT takes into consideration in its determination of cash distributions. Specifically, LREIT considers cash from operations, net of principal payments on mortgage loans, to more representative of the cash which is available for distribution. LREIT has also supplemented cash distributions from working capital to a significant degree, as disclosed in the following chart.

	Year Ended December 31	
	2005	2004 (restated)
Net loss	$ (2,135,105)	$ (1,946,902)
Add (deduct):		
Total amortization expense	4,191,809	2,528,523
Amortization of tenant inducements and leasing expenses	(308,615)	(260,854)
Accretion on debt component of convertible debentures	2,704,761	2,161,171
Interest expense on convertible debentures	(1,766,525)	(1,374,330)
Revenue adjustments	(85,759)	(102,682)
Unit-based compensation	11,388	11,388
Distributable income	2,611,954	1,016,314
Interest expense on convertible debentures	1,766,525	1,374,330
Interest paid on convertible debentures	(1,481,775)	(1,144,474)
Amortization of tenant inducements and leasing expenses	308,615	260,854
Cash from operations, per Statement of Cash Flows (i)	3,205,319	1,507,024
Principal repayment of mortgage loans	(1,878,718)	(722,869)
Cash from operations, net of principal repayment of mortgage loans	1,323,601	784,155
Cash distribution	(6,230,007)	(1,392,838)
Working capital supplement	$ (4,906,406)	$ (608,683)

(i) Excludes funds derived from increases in property values, such as the proceeds of upward refinancing. In February 2005, the upward refinancing of the first mortgage loan of the Kenaston Property resulted in cash proceeds of approximately $2.4 Million.

Cash Distribution Shortfall

As disclosed in the preceding analysis, the total cash distributions of LREIT for 2005 exceeded operating cash flows, net of mortgage loan principal payments, by $4.9 Million. To a significant degree, the shortfall between the cash flow and cash distribution amount reflects a lag between the receipt of new investment capital and the investment of the new capital in income-producing properties. Specifically, the lump-sum receipt of large amounts of investment capital results in an immediate increase in financing expense or cash distribution amounts, while the income from the investment of the capital gradually accrues to LREIT as new properties are acquired.

During 2005, LREIT acquired 11 additional properties at a total purchase price of $99.1 Million. Based on an assumed rate of return of 8%, an investment of $99.1 Million represents a potential increase in operating income of approximately $8 Million. In comparison, the operating income of LREIT increased by approximately $5 Million during 2005. The variance between the example of $8 Million and the actual increase in operating income of $5 Million, is mainly attributable to the fact that new properties were acquired gradually throughout 2005 and, as such, the investment period for the $99.1 Million amount was substantially less than one year. On a weighted-average basis by quarter end, LREIT had approximately $68 Million of new property investments during 2005, representing a potential increase in operating income of approximately $5.4 Million, based on an 8% return. After excluding new property acquisitions which are under development or renovation, the weighted average cost of new property investments decreases to approximately $58.2 Million in 2005.

In summary, the cash distribution amount in 2005 is reflective of the cash flow potential of the LREIT property portfolio or, conversely, the shortfall between the cash flow and cash distribution amount reflects the unrealized income potential of new property acquisitions.

The shortfall between the cash flow and cash distribution amount is also partially attributable to the timing of the December 2005 unit offering, as the offering resulted in an increase in the fourth quarter cash distribution of $884,170. The cash distribution which was associated with the conversion of the Series B and Series C convertible debentures also served to increase the variance between the cash flow and cash distribution amount, as the additional trust units have a higher effective cost in comparison to the cost of debenture debt.

To the extent that the cash distribution amount exceeds cash flows, the excess distribution effectively represents a return of capital to the Unitholders. As additional property acquisitions are completed and operations stabilize, it is anticipated that operating cash flows will gradually increase to a level which is sufficient to fully fund the cash distributions of the Trust. The minimal variance between the cash flow amount in 2005 of $1,323,601 and the cash distribution amount in 2004 of $1,392,838 is a reflection of the extent to which the funding capabilities of the Trust are increasing over a 12 month period.

The following chart also illustrates the extent to which overall operating results are improving for properties which have completed two full years of operations as of December 31, 2005, namely the Kenaston Property, the Purolator Building and MAAX Warehouse. As disclosed on the chart, the operating results for pre-2004 acquisitions have improved significantly, with total revenue increasing by $525,719 or 19%; operating income increasing by $416,495 or 26%; and net income increasing by $168,386 or 29%. The overall increase is mainly due to an improvement in the operating results of the Kenaston property.

Analysis of Financial Results for Pre-2004 Acquisitions (Kenaston Property, Purolator Building and MAAX Warehouse)

	Year Ended December 31		
	2005	2004	Increase
Total revenue	$ 3,229,370	$ 2,703,651	$ 525,719
Operating income	$ 2,046,758	$ 1,630,263	$ 416,495
Net income	$ 739,428	$ 571,042	$ 168,386

CAPITAL RESOURCES AND LIQUIDITY

Working Capital

Operations

LREIT is generating sufficient revenues from operations to fully fund operating costs and mortgage loan debt service costs for its entire portfolio of income-producing properties, as well as interest payable on convertible debentures and trust expenses. As disclosed in the preceding analysis, cash from operations exceeded mortgage loan debt service costs and debenture interest by $1,323,601 in 2005.

Cash Distributions

The cash distributions of LREIT for 2006 are expected to continue at $0.56/per unit, on an annualized basis. It is also anticipated that a significant portion of the cash distributions will be funded from working capital in 2006. It is anticipated, however, that the variance between cash flow and the cash distribution amount will be reduced in 2006, given that a full year of operating income will be generated from the capital which was invested in 2005.

Leasing Costs and Property Improvements

LREIT requires working capital in order to fund leasing costs and property improvements. In the short-term, leasing costs in regard to the ongoing turnover of tenants at other commercial properties will be funded from working capital. Over the longer term, the incremental revenue from new leasing activity is expected to exceed the initial capital outlays and result in an increase in cash inflows.

Investment Capital

2005 Overview

Since its inception, LREIT has demonstrated an ongoing ability to raise additional capital to fund new property acquisitions. LREIT commenced 2005 with a cash balance of $19.76 Million and raised additional capital of $48.4 Million during the year from unit and debenture offerings, net of issue costs. Approximately $19 Million of the additional capital was raised during the first quarter of 2005, resulting in a relatively large amount of uninvested capital at the beginning of the year. Ongoing property acquisitions resulted in a gradual reduction in the cash reserves of LREIT during the second, third and fourth quarter, until December 14, 2005, when the $32 Million unit trust offering was completed. As a result of the unit trust offering, LREIT completed 2005 with substantial cash reserves.

During 2005, the total acquisition cost of new properties amounted to approximately $99.1 Million, of which approximately $32.1 Million was funded from working capital and approximately $67 Million was funded by mortgage loan financing.

The upward refinancing of the first mortgage loan of the Kenaston Property during the first quarter of 2005 also resulted in cash proceeds of approximately $2.4 Million, net of refinancing costs.

Future Growth

LREIT is well positioned for significant growth in 2006, commencing the year with a cash balance of approximately $24 Million and mortgage loan investments of $9.35 Million. In March 2006, the cash reserves were further supplemented from the proceeds from the Series F convertible debenture offering of $13.68 Million. Based on a mortgage debt to equity ratio of 25% for new property acquisitions, the existing capital resources of LREIT represent funding for over $150 Million of new property acquisitions in 2006.

As disclosed on page 7 of this report, new property acquisitions which are completed or under contract in 2006 amount to $80.4 Million.

Trends

It is anticipated that the substantial cash reserves of LREIT will be gradually reduced during 2006 as new property acquisitions are completed. As in the past, the lag between the receipt of capital and the investment of the capital in income-producing properties is expected to result in a variance between the cost of the additional capital and the return on the investment capital. The cost of additional capital will be reflected in immediate increases in cash distributions and debenture financing expense, whereas the return on investment capital will be reflected in gradual increases in operating income from an expanding portfolio.

In summary, as LREIT continues in an aggressive growth phase and undergoes another year with a relatively high level of uninvested capital, the 2006 financial results are expected to be similar to the results for 2005. In other words, the expectation is that in 2006, LREIT will achieve significant increases in operating income, cash from operations and net income, excluding amortization expense, while continuing to incur a net loss and operate with a cash distribution payout ratio which exceeds operating cash flows.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

The Declaration of Trust for LREIT provides the Trustees with the power to appoint an Administrator of the Trust with responsibility for administering the affairs of the Trust on a day-to-day basis and performing the record-keeping and reporting functions of the Trust, subject to the overriding authority of the Trustees over the management of the Trust. Pursuant to the Declaration of Trust, Shelter Canadian was appointed to act as the Administrator of LREIT in accordance with the terms of the Services Agreement. As its initial remuneration for the services provided under the Services Agreement, Shelter Canadian received options to acquire 50,000 trust units at a price of $1.00 per unit. The options were exercised by Shelter Canadian on December 19, 2002.

As the scope of the administrative and asset management services expands over time, the Services Agreement provides for the remuneration of Shelter Canadian to be established at a level which is to commensurate with customary comparable market asset management fees, subject to the discretion of the Governance and Compensation Committee of the Board of Trustees.

In January 2006, the Governance and Compensation Committee of the Board of Trustees determined that the remuneration of Shelter Canadian, pursuant to the Services Agreement, should be amended to be comparable with market asset management fees. For the six month period ending June 30, 2006, the Committee approved an asset management fee equal to 0.3% of the gross book value of the total assets of the Trust, excluding cash, as of the date of the most recently issued financial statements. Payment of the fee is to occur on a monthly basis, on the last day of each month.

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 Asset Manager and Property Manager for the majority of properties. The on-site property management function is sub-contracted for certain properties in order to maintain continuity between the tenants and the incumbent Property Manager or due to such factors as the remoteness of the property location or the nature of the acquisition process.

Mr. Arni Thorsteinson, the President and Chief Executive Office of LREIT and a Trustee, is a Director and President of Shelter Canadian and the President of the parent corporation of Shelter Canadian, 2668921 Manitoba Ltd. The Governance and Compensation Committee is comprised of all of the Trustees of LREIT, including Mr. Thorsteinson and, as such, Mr. Thorsteinson abstained from all discussions and voting in regard to the approval of fees for asset management services.

Minacs Loan

At the beginning of 2005, the investments of LREIT included an investment in a second mortgage loan, secured by the Minacs Building. During the term of the second mortgage loan, the Minacs Building was beneficially owned by 2668921 Manitoba Limited, the parent company of Shelter Canadian. On July 8, 2005, the Minacs second mortgage loan was fully repaid. Mr. Thorsteinson abstained from voting on all matters concerning the Minacs Loan.

Acquisition of Willowdale Gardens

In January 2006, LREIT acquired a 100% ownership interest in Willowdale Gardens, including the 18.67% ownership interest which was held by 2668921 Manitoba Ltd., at a price of $4,326,000. In November 2005, Willowdale Gardens was appraised at a value of $4,550,000.

The acquisition of Willowdale Gardens was approved by the independent trustees of LREIT and by the TSX Venture Exchange. Mr. Thorsteinson abstained from voting on the resolution approving the transaction.

OPERATING RISKS AND UNCERTAINTIES

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.

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

DISCLOSURE CONTROLS AND PROCEDURES

The management of LREIT, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Trust's disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis to the Trust's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

The CEO and CFO evaluated the effectiveness of the Trust's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2005 and have concluded that such controls and procedures are effective.

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 2005 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
April 26, 2006

MANAGEMENT'S RESPONSIBILITY

The 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, the Trust maintains a system of internal controls to ensure that its reporting practises and accounting and administrative procedures are appropriate, and provide assurance that relevant financial information is produced. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgement in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the financial statements.

Meyers Norris Penny LLP, the independent auditors, were appointed by the Unitholders and are responsible for auditing the financial statements and giving an opinion thereon.

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

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Kenneth J. Dando"

Kenneth J. Dando
Chief Financial Officer

April 26, 2006

MEYERS NORRIS PENNY LLP

Auditors' Report

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, 2005 and 2004 and the consolidated statements of equity, 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 audit.

We conducted our audit 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, 2005 and 2004 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
April 19, 2006

Chartered Accountants

CONSOLIDATED BALANCE SHEET

	December 31 2005	December 31 2004 (restated)
Assets		
Income properties (Note 5)	**$159,989,300**	$ 63,459,726
Mortgage loans receivable (Note 6)	**9,350,000**	2,150,000
Deferred charges (Note 7)	**2,701,397**	2,801,876
Cash (Note 8)	**23,915,147**	19,761,989
Other assets (Note 9)	**2,865,877**	1,271,668
Intangible assets (Note 10)	**2,191,630**	1,333,825
	$201,013,351	$ 90,779,084
Liabilities and Equity		
Mortgage loans payable (Note 11)	**$116,827,895**	$ 49,091,108
Convertible debentures (Note 12)	**14,496,971**	16,341,180
Accounts payable and accrued liabilities (Note 13)	**3,111,141**	1,446,803
Intangible liabilities (Note 14)	**30,586**	45,035
	134,466,593	66,924,126
Equity	**66,546,758**	23,854,958
	$201,013,351	$ 90,779,084

Approved by the Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

CONSOLIDATED STATEMENT OF EQUITY

Year Ended December 31, 2005:

	Units In $	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2004, as previously reported	$ 23,920,224	$ (1,234,248)	$ (2,042,422)	$ 3,254,034	$ 23,897,588
Changes in accounting policies (Note 3)	1,372,041	(862,134)	-	(552,537)	(42,630)
Equity, December 31, 2004, as restated	25,292,265	(2,096,382)	(2,042,422)	2,701,497	23,854,958
Private placement of units	38,973,424	-	-	-	38,973,424
Options exercised	40,000	-	-	-	40,000
Equity component of issued debentures	-	-	-	2,847,555	2,847,555
Issue costs	(2,741,876)	-	-	-	(2,741,876)
Conversion of debentures	13,540,228	-	-	(1,613,807)	11,926,421
Unit-based compensation	11,388	-	-	-	11,388
Loss	-	(2,135,105)	-	-	(2,135,105)
Distributions	-	-	(6,230,007)	-	(6,230,007)
Equity, December 31, 2005	$ 75,115,429	$ (4,231,487)	$ (8,272,429)	$ 3,935,245	$ 66,546,758

Year Ended December 31, 2004 (restated):

	Units In $	Income (Loss)	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2003, as previously reported	$ 7,145,113	$ 116,614	$ (649,585)	$ 1,269,790	$ 7,881,932
Changes in accounting policies (Note 3)	363,918	(266,094)	-	(552,537)	(454,713)
Equity, December 31, 2003, as restated	7,509,031	(149,480)	(649,585)	717,253	7,427,219
Private placement of units	19,142,500	-	-	-	19,142,500
Equity component of issued debentures	-	-	-	1,984,244	1,984,244
Issue costs	(1,457,854)	-	-	-	(1,457,854)
Unit-based compensation	98,588	-	-	-	98,588
Loss	-	(1,946,902)	-	-	(1,946,902)
Distributions	-	-	(1,392,837)	-	(1,392,837)
Equity, December 31, 2004	$ 25,292,265	$ (2,096,382)	$ (2,042,422)	$ 2,701,497	$ 23,854,958

CONSOLIDATED STATEMENT OF LOSS

	Year Ended December 31 2005	2004 (restated)
Revenue		
Rentals from income properties (Note 18)	**$ 17,023,087**	$ 7,174,069
Interest and other income (Note 19)	**769,842**	569,175
	17,792,929	7,743,244
Expenses		
Property operating costs	**8,124,381**	3,127,206
Operating income	**9,668,548**	4,616,038
Financing expense	**7,468,518**	3,909,942
Trust expense	**186,776**	124,475
Amortization of income properties	**2,444,966**	901,464
Amortization of deferred charges	**1,150,943**	835,966
Amortization of intangible assets	**595,900**	791,093
	11,847,103	6,562,940
Loss before income taxes	**(2,178,555)**	(1,946,902)
Future income tax recovery (Note 13)	**(43,450)**	-
Loss	**$ (2,135,105)**	$ (1,946,902)
Loss per unit (Note 20)		
Basic	**$ (0.229)**	$ (0.735)
Diluted	**(0.229)**	(0.735)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31 2005	2004 (restated)
Cash provided by (used in) operating activities		
Loss from operations	**$ (2,135,105)**	$ (1,946,902)
Items not affecting cash		
Accrued rental revenue (Note 18)	**(89,304)**	(92,791)
Amortization of above market in-place leases (Note 18)	**17,994**	20,668
Amortization of below market in-place leases (Note 18)	**(14,449)**	(30,559)
Accretion on debt component of convertible debentures (Note 12)	**2,704,761**	2,161,171
Unit-based compensation (Note 15)	**11,388**	11,388
Amortization of income properties	**2,444,966**	901,464
Amortization of deferred charges	**1,150,943**	835,966
Amortization of intangible assets	**595,900**	791,093
Interest paid on convertible debentures	**(1,481,775)**	(1,144,474)
Cash from operations	**3,205,319**	1,507,024
Changes in non-cash operating items (net of effects of acquisition of income properties)	**20,195**	(366,515)
Tenant inducements and leasing expenses incurred through leasing activity	**(185,201)**	(719,121)
	3,040,313	421,388
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**19,621,494**	7,035,297
Proceeds of convertible debentures	**12,000,000**	14,000,000
Repayment of mortgage loans	**(11,379,524)**	(722,869)
Private placement of units	**38,973,424**	19,142,500
Options exercised	**40,000**	-
Financing costs	**(865,264)**	(1,253,731)
Issue costs	**(2,741,876)**	(1,457,854)
Distribution paid	**(6,230,007)**	(1,392,838)
	49,418,247	35,350,505
Cash provided by (used in) investing activities		
Income properties acquired (Note 4)	**(39,142,929)**	(18,842,771)
Additions to income properties	**(1,152,473)**	(449,056)
Mortgage loan receivable advance	**(10,825,000)**	(1,000,000)
Repayment of mortgage loan receivable	**3,625,000**	3,098,326
Deposits on potential acquisitions	**(810,000)**	(645,000)
Change in restricted cash	**(451,340)**	(498,210)
	(48,756,742)	(18,336,711)
Cash increase	**3,701,818**	17,435,182
Cash, beginning of year	**19,263,779**	1,828,597
Cash, end of year	**$ 22,965,597**	$ 19,263,779
Supplementary cash flow information		
Interest paid on mortgage loans payable	**$ 5,065,355**	$ 2,734,543

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 on April 23, 2002.

2 Significant accounting policies

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements reflect the operations of the Trust and its wholly owned operating subsidiary, Riverside Terrace Inc. All intercompany transactions have been eliminated.

Income properties
Income properties include land, buildings and related costs and appliances.

Income-producing properties are carried at cost. If events or circumstances indicate that the carrying value of the income-producing properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing 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 the remaining useful life. Amortization of appliances is recorded on a straight-line basis at 10% per annum.

Deferred charges
Deferred charges include tenant inducements and leasing expenses that are incurred to obtain a lease, and financing costs relating to mortgage loans payable and convertible debentures. Tenant inducements and leasing expenses are deferred and amortized on a straight-line basis over the term of the respective leases and financing costs are deferred and amortized over the term of the respective mortgages and convertible debentures.

In addition, a portion of the total cost of acquisition of an income property is allocated to deferred charges to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in-place leases. If the carrying value is not recoverable from future cash flows, the deferred charges are written down to estimated fair value and a loss is recognized.

Intangible assets and liabilities
A portion of the total cost of acquisition of an income property is allocated to intangible assets and intangible liabilities to reflect the cost of lease origination costs, tenant relationships, above market leases and below market leases. Intangible assets and liabilities are amortized over the term of the tenant leases. If the carrying value is not realizable in the future, the intangible assets and liabilities are adjusted to estimated fair value and a loss or gain is recognized.

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 12. Accordingly, the debentures are divided into debt and equity components. The debt component of convertible debentures represents the present value of future interest and principal payments at the time of issue, due under the terms of the debentures. The equity component represents the fair value ascribed to the holders' options to convert the debentures into units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

2 Significant accounting policies (continued)

Unit options
The Trust has a unit option plan available for officers, employees and trustees and has granted options to Shelter Canadian Properties Limited and the independent Trustees. Consideration paid by option holders on exercise of unit options is credited to Unitholders' 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 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 deferred rent receivable and accrued rental revenue. Recoveries from tenants for property operating costs and property taxes are recognized as revenue during the period in which the applicable costs are incurred. Meal and other revenue is recognized as earned.

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. A provision for income taxes is, therefore, not required.

Riverside Terrace Inc., a wholly owned subsidiary of the Trust, is an operating business and provides for income tax expense using the asset and liability method of accounting for income taxes at enacted or substantially 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 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 period in which the adjustments become known.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

2 Significant accounting policies (continued)

Use of estimates (continued)
Significant items subject to estimates include the allocation of the total cost of acquisition of income properties and the remaining useful life of capital assets acquired.

3 Changes in accounting policies

Convertible debentures
Effective January 1, 2005, in accordance with the new recommendations of the CICA Handbook regarding financial instruments, the present value of the principal payments of the Series B convertible debentures is recorded as a liability. The Trust has applied the change retroactively. In prior years, the amount was included in the equity component of the convertible debentures. As a result, the related cumulative financing expense has been reclassified from equity to liability in the amount of $285,315 at December 31, 2004 and $150,399 at December 31, 2003.

Financing expense is higher than would have been reported under the previous policy by $70,444 for the year ended December 31, 2005 and $134,916 for the year ended December 31, 2004.

Basic and diluted loss per unit is greater than would have been reported under the previous policy by $0.008 per unit for the year ended December 31, 2005 and $0.051 per unit for the year ended December 31, 2004.

Issue costs on convertible debentures
Effective January 1, 2005, issue costs relating to the liability components of debentures are recorded as deferred charges and amortized over the term of the debentures, The Trust has applied the change retroactively. In prior years, all issue costs were recorded as a reduction of equity. As a result, the cumulative issue costs have been reclassifed from equity to deferred charges in the amount of $1,372,041 at December 31, 2004 and $363,918 at December 31, 2003. Equity has been adjusted in the amount of $576,819 as at December 31, 2004 ($115,695 as at December 31, 2003) for accumulated amortization of deferred charges related to the prior periods.

Amortization of deferred charges is higher than would have been reported under the previous policy by $690,125 for the year ended December 31, 2005 and $461,124 for the year ended December 31, 2004.

Basic and diluted loss per unit is greater than would have been reported under the previous policy by $0.074 per unit for the year ended December 31, 2005 and $0.174 per unit for the year ended December 31, 2004.

3 *Changes in accounting policies (continued)*

Carrying costs during major renovations
Effective July 1, 2005, carrying costs incurred during the period of 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 during the period the suites are removed from the rental market. The period for which the costs will be capitalized will be not more than three months. The carrying costs are amortized over the estimated useful life of five years. The new policy has been applied retroactively. The prior periods have not been restated as there were not any major in-suite renovations which involved the temporary removal of suites from the rental market in prior periods.

Property operating costs are lower and the cost of the building is higher than would have been reported prior to the new policy by $42,062 for the year ended December 31, 2005. Carrying costs have not been amortized as the suites were not returned to the rental market at December 31, 2005.

Basic and diluted loss per unit are less than would have been reported prior to the new policy by $0.005 per unit for the year ended December 31, 2005.

Properties under development
Effective October 1, 2005, revenue earned and property operating costs and financing expense incurred on properties under development, prior to the achieving a satisfactory level of occupancy within a predetermined time period, are capitalized in the cost of the building. Properties under development are stated at cost. Cost is comprised of the acquisition costs, external and internal development and initial leasing costs, property operating costs, financing expenses less rental revenue during the period of development. The new policy has been applied retroactively.

Revenue is lower by $320,506, property operating costs are lower by $427,849 and the cost of the building is higher by $107,343 than would have have been reported prior to adoption of the new policy for the year ended December 31, 2005. Included in the above amounts are revenues and property operating costs of $193,787 and $234,574 respectively relating to the period from acquisition to September 30, 2005. In addition, amortization of income properties of $77,753 relating to the period from acquisition to September 30, 2005 was reversed on adoption of the policy.

Basic and diluted loss per unit are higher than would have been reported prior to the new policy by $0.011 per unit for the year ended December 31, 2005.

4 *Acquisitions*

On January 31, 2005, the Trust acquired Highland Tower, a residential property located in Thompson, Manitoba for a total cost of $1,378,682. The acquisition was funded entirely by cash.

On February 1, 2005, the Trust acquired Borden Estates, a residential property located in Prince Albert, Saskatchewan for a total cost of $5,333,325. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of $3,986,187 with the balance paid by cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

4 Acquisitions (continued)

On February 28, 2005, the Trust acquired Riverside Apartments, Carlton Manor, MGM Apartments and Cedar Village, four residential properties located in Prince Albert, Saskatchewan for a total cost of $4,041,002. The acquisition was funded from the assumption of mortgage financing of $2,894,370, a $250,000 non-interest bearing vendor take-back second mortgage loan maturing July 1, 2006, with the balance paid by cash.

On April 1, 2005, the Trust acquired Nelson Ridge Estates, a residential property located in Fort McMurray, Alberta for a total cost of $40,613,563. The acquisition was funded from the assumption of first mortgage loans totaling $27,828,210 with the balance paid by cash.

On May 1, 2005, the Trust acquired Three Lakes Village, a residential property located in Yellowknife, Northwest Territories for a total cost of $10,911,400. The acquisition was funded with a first mortgage loan in the principal amount of $7,621,494 with the balance paid by cash.

On July 31, 2005, the Trust purchased all issued and outstanding shares of Riverside Terrace Inc. for a total cost of $23,942,420. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of $14,737,335 with the balance paid by cash.

On August 31, 2005 the Trust acquired Marquis Tower, a residential property located in Prince Albert, Saskatchewan for a total cost of $6,154,025. The acquisition was funded with the assumption of a first mortgage loan in the principal amount of $4,800,000 with the balance paid by cash.

On September 1, 2005, the Trust acquired Chancellor Gate, a residential property located in Winnipeg, Manitoba for a total cost of $6,750,000. The acquisition was funded from the assumption of a first mortgage loan of $3,833,717 and a second mortgage loan of $1,165,000 with the balance paid by cash.

The net assets acquired in the transactions are as follows:

Land	$ 5,981,322
Building	89,008,187
Furniture, equipment and appliances	2,873,347
Intangible assets	
Lease origination costs	1,437,829
Tenant relationships	33,870
Mortgage loans payable assumed	(59,242,159)
Tax liability assumed	(184,422)
Working capital, net	29,955
	$ 39,937,929
Consideration:	
Cash	$ 39,142,929
Vendor take-back second mortgage loan	250,000
Deposits made in year ended December 31, 2004	545,000
	$ 39,937,929

Deposits of $2,000,000 were applied to the acquisitions of income properties during the year ended December 31, 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

5 Income properties

	Cost	Accumulated Amortization	Net Book Value December 31 2005	Net Book Value December 31 2004
Land	$ 16,960,077	$ -	$ 16,960,077	$ 10,978,755
Buildings	142,354,579	(3,109,495)	139,245,084	51,224,297
Appliances	4,170,185	(386,046)	3,784,139	1,256,674
	$163,484,841	$ (3,495,541)	$159,989,300	$ 63,459,726

The cost of the major renovation, including capitalized carrying costs, at Highland Tower for the year ended December 31, 2005 of $942,128 is included in the cost of the buildings.

The net cost incurred during lease-up at Three Lakes Village for the period from acquisition to December 31, 2005 of $107,343 is included in the cost of the buildings.

6 Mortgage loans receivable

	Year Ended December 31 2005	2004
Lakewood Manor	$ 8,500,000	$ -
Edmonton land	850,000	-
Minacs Building	-	2,150,000
	$ 9,350,000	$ 2,150,000

Lakewood Manor
The Trust has invested in a second mortgage loan, secured by a 175-suite multi-family apartment and townhouse property, which is currently under construction in Fort McMurray, Alberta. The loan advance of $8,500,000 bears interest at 8%. Interest is payable every third month commencing March 15, 2006. The loan shall be applied toward the purchase price of the property, which is expected to close on December 15, 2006 in the amount of $56,565,825.

Edmonton land
The Trust has invested in a mortgage loan, secured by land in Edmonton, Alberta. The loan advance of $850,000 bears interest at 12%. The loan is due on July 15, 2006.

Minacs Building
The Trust had invested in a second mortgage loan, secured by an office building in Oshawa, Ontario. The Minacs Building was developed and is beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. The initial loan advance of $1,150,000 beared interest at 12.5%. The second loan advance of $1,000,000 beared interest at 9%. The mortgage loan receivable was repaid in full on July 6, 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

7 *Deferred charges*

	Cost	Accumulated Amortization	Net Book Value December 31 2005	Net Book Value December 31 2004 (restated)
Tenant inducements	$ 1,777,982	$ (712,239)	$ 1,065,743	$ 1,177,438
Financing costs	2,476,283	(1,359,076)	1,117,207	1,016,463
Leasing expenses	170,975	(64,750)	106,225	117,945
Amounts recorded on acquisition of income properties				
Tenant inducements	569,203	(156,981)	412,222	490,030
	$ 4,994,443	$ (2,293,046)	$ 2,701,397	$ 2,801,876

Amortization of deferred charges consists of the following:

	Year Ended December 31 2005	Year Ended December 31 2004 (restated)
Tenant inducements	$ 282,138	$ 237,884
Financing costs	764,520	495,939
Leasing expenses	26,477	22,970
Amounts recorded on income property acquisition		
Tenant inducements	77,808	79,173
	$ 1,150,943	$ 835,966

8 *Cash*

	December 31 2005	December 31 2004
Cash	$ 22,965,597	$ 19,263,779
Restricted cash	949,550	498,210
	$ 23,915,147	$ 19,761,989

Restricted cash consists primarily of funds held in trust for tenant security deposits, future tenant inducements and a rental achievement holdback.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

9 Other assets

	December 31 2005	December 31 2004
Amounts receivable	$ 867,711	$ 118,373
Loan receivable from tenant	236,105	250,000
Property tax deposits and other	669,966	165,504
Deposits on potential acquisitions	910,000	645,000
Deferred rent receivable	182,095	92,791
	$ 2,865,877	$ 1,271,668

10 Intangible assets

	Cost	Accumulated Amortization	Net Book Value December 31 2005	Net Book Value December 31 2004
Lease origination costs	$ 2,653,441	$ (1,003,469)	$ 1,649,972	$ 683,239
Tenant relationships	589,618	(133,024)	456,594	497,528
Cash flow guarantee	250,500	(250,500)	-	50,000
	3,493,559	(1,386,993)	2,106,566	1,230,767
Above market in-place leases	123,726	(38,662)	85,064	103,058
	$ 3,617,285	$ (1,425,655)	$ 2,191,630	$ 1,333,825

Amortization of intangible assets consists of the following:

	Year Ended December 31 2005	Year Ended December 31 2004
Lease origination costs	$ 471,096	$ 532,373
Tenant relationships	74,804	58,220
Cash flow guarantee	50,000	200,500
	595,900	791,093
Above market in-place leases	17,994	20,668
	$ 613,894	$ 811,761

Amortization of the above market in-place leases is charged to rentals from income properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

11 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	Interest Rates at December 31, 2005			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2005
Fixed rate mortgage loans payable	4.1% - 7.4%	5.6%	7.2 years	$114,388,293
Floating rate mortgage loans payable	6.0%	6.0%	Demand	2,189,602
Non-interest bearing vendor takeback second mortgage loans payable	-	-	0.5 years	250,000
				$116,827,895

	Interest Rates at December 31, 2004			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2004
Fixed rate mortgage loans payable	4.1% - 7.4%	5.5%	7.0 years	$ 32,038,838
Floating rate mortgage loans payable	4.7% - 5.3%	4.8%	Demand	17,052,270
				$ 49,091,108

Approximate principal repayments are as follows:

Year ending December 31	
2006	$ 5,685,252
2007	4,813,728
2008	6,886,061
2009	23,508,445
2010	2,615,622
Thereafter	73,318,787
	$116,827,895

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

12 Convertible debentures

The Series A debentures bear interest at 10%, mature on August 30, 2007 and are subordinate only to the mortgage loans payable. The Series A debentures are convertible at the request of the holder at any time during the year ending August 30, 2006 at $5.50 and during the year ended August 30, 2007, at $6.00. The Trust has the right to redeem all, but not less than all of the Series A 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 the applicable conversion price. Upon receipt of the notice of intent to redeem, the holders may elect to convert to units at the then applicable conversion price.

The Series D debentures bear interest at 8%, mature on March 15, 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 Trust issued $3,659,000 and $8,341,000 of Series E debentures by way of private placement on February 18, 2005 and March 16, 2005 respectively. The Series E debentures bear interest at 8%, mature on February 17, 2010 and are subordinate to the Series A debentures and 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

During the year ended December 31, 2005, holders of convertible debentures exercised their right to convert to units, as follows:

Convertible Debentures	Conversion Price	Units Issued
Series A	$ 5.00	246,200
Series B	5.00	188,400
Series C	4.50	2,251,333
Series D	5.00	29,400

The following 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 C, Series D and Series E debentures and 18% for Series B debentures:

December 31, 2005	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,640,931	$ 307,280	$ 1,948,211
Series B - 8%, due August 30, 2005			
Series C - 8%, due January 29, 2006			
Series D - 8%, due March 15, 2008	3,368,169	780,410	4,148,579
Series E - 8%, due February 17, 2010	9,487,871	2,847,555	12,335,426
	$ 14,496,971	$ 3,935,245	$ 18,432,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

12 Convertible debentures (continued)

December 31, 2004 (restated)	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 2,687,773	$ 502,510	$ 3,190,283
Series B - 8%, due August 30, 2005	884,140	214,743	1,098,883
Series C - 8%, due January 29, 2006	9,454,042	1,174,061	10,628,103
Series D - 8%, due March 15, 2008	3,315,225	810,183	4,125,408
	$ 16,341,180	$ 2,701,497	$ 19,042,677

The accretion of the debt component for the year ended December 31, 2005 of $2,704,761 (2004 - $2,161,171), which increases the debt component from the initial carrying amount, is included in financing expense.

13 Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is $140,972 (2004 - nil) related to future income taxes of Riverside Terrace Inc., a wholly-owned operating subsidiary, which is subject to income taxes.

The future income tax liability of Riverside Terrace Inc. at December 31, 2005 consists of the following:

	2005	2004
Tax liabilities related to difference in tax and book value	$ 195,885	$ -
Tax assets related to operating losses	(54,913)	-
	$ 140,972	$ -

Future income tax recovery of Riverside Terrace Inc. consists of the following:

	2005	2004
Temporary differences	$ 11,463	$ -
Current year operating loss	(54,913)	-
	$ (43,450)	$ -

The operating loss carried forward for tax purposes expires in 2015.

14 Intangible liabilities

	Cost	Accumulated Amortization	Net Book Value December 31 2005	Net Book Value December 31 2004
Below market in-place leases	$ 75,594	$ (45,008)	$ 30,586	$ 45,035

Amortization of below market in-place leases is credited to rentals from income properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

15 Related party transactions

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. 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 Luther Riverside Terrace. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regard to commerical 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 renewals 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 the work.

The Trust incurred property management fees to Shelter Canadian Properties Limited of $577,195 for the year ended December 31, 2005 (2004 - $206,975).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of nil and nil, respectively for the year ended December 31, 2005 (2004 - $12,376 and 2004 - $41,323, respectively). The amounts relating to 2004 were capitalized to deferred charges and income properties.

Included in accounts payable and accrued liabilities at December 31, 2005 is a balance of $58,116 (2004 - $10,745), payable to Shelter Canadian Properties Limited.

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.

Unit-based compensation expense for the year ended December 31, 2005 of $11,388 (2004 - $11,388), 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.

Mortgage loans receivable

The Trust invested in a second mortgage loan, secured by the Minacs Building beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. Interest income of $180,221 was recorded for the year ended December 31, 2005 (2004 - $232,482).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

16 Units

On January 27, 2005 the over-allotment option from the December 30, 2004 private placement of units, was closed, resulting in 1,171,500 units being issued for total gross proceeds of $5,857,500.

On February 2, 2005, the Trust issued 200,000 units for total gross proceeds of $1,000,000 by way of private placement.

On December 14, 2005, the Trust issued 6,297,240 units for total gross proceeds of $32,115,924 by way of private placement.

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

	Units Year Ended December 31 2005	Units Year Ended December 31 2004
Outstanding, beginning of year	6,461,213	2,612,713
Units issued by private placement	7,668,740	3,828,500
Units issued on conversion of debentures	2,715,333	
Units issued on exercise of unit option	10,000	-
Units issued on income property acquisition	-	20,000
Outstanding, end of year	16,855,286	6,461,213

There are not any units which are subject to escrow provisions at December 31, 2005 (2004 - 150,840). All units which were subject to escrow provisions were entitled to vote and receive distributions.

17 Unit options

Unit option plan
The Trust may grant options to the Trustees, a director of a subsidiary of the Trust, a senior officer of the Trust or a subsidiary of the Trust, an employee of the Trust or a subsidiary of the Trust, management company employees of the Trust or a subsidiary of the Trust and consultants retained by the Trust including investor relations consultants. The maximum number of units reserved for issuance under the unit option plan will be limited to the lessor of 10% of the total number of issued and outstanding units or 50,000 units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the fair market value of the units on the date of grant. The options will have a maximum term of five years from the date of grant.

The Trust granted options in 2002 to the two independent Trustees to acquire 10,000 units each at $4.00 per unit. On September 30, 2005, one independent trustee exercised the option to acquire 10,000 units at $4.00 per unit for total gross proceeds of $40,000 (2004 - nil). The remaining options have vested and expire October 29, 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

18 Rentals from income properties

	Year Ended December 31 2005	2004
Rent revenue contractually due from tenants	$ 16,937,328	$ 7,071,387
Accrued rental revenue recognized on a straight-line basis	89,304	92,791
Amortization of above market in-place leases	(17,994)	(20,668)
Amortization of below market in-place leases	14,449	30,559
	$ 17,023,087	$ 7,174,069

Rental revenue contractually due from tenants include the recovery of property operating costs and property taxes from tenants of $1,777,217 (2004 - $1,386,060) and meal revenue of $330,578 (2004 - nil) for the year ended December 31, 2005.

19 Interest and other income

	Year Ended December 31 2005	2004
Cash flow guarantee	$ 71,926	$ 200,520
Interest on mortgage loans receivable	212,358	232,482
Other interest	485,558	136,173
	$ 769,842	$ 569,175

20 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the year. The 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 Series A, Series B, Series C and Series D convertible debentures to the extent that the debentures are dilutive.

Loss per unit calculations are based on the following:

	Year Ended December 31 2005	2004 (restated)
Loss	$ (2,135,105)	$ (1,946,902)
Diluted loss	$ (2,135,105)	$ (1,946,902)
Weighted average number of units	9,341,400	2,647,896
Weighted average diluted number of units	9,341,400	2,647,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

21 Financial instruments and risk management

Fair values
As at December 31, 2005, the carrying values of cash, amounts receivable, mortgage loan receivable and accounts payable and accrued liabilities approximate fair value due to the immediate or short-term maturities of these instruments.

The carrying value of the mortgage loans payable on demand approximate fair value as the mortgage loans payable bear interest at currently prevailing variable interest rates. The carrying value of the term mortgage loans approximate fair value as the interest rate is consistent with current rates for debt with similar terms.

The carrying value of the convertible debentures approximate fair value as the convertible debentures bear interest at currently prevailing interest rates.

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. As at December 31, 2005, the total of mortgage loans payable is 63.8% (2004 - 72.9%) of the total appraised value of income properties.

Credit risk arises from the possibility that tenants may experience financial difficulty and not be able to fulfill 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

22 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.

Year ended December 31, 2005:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	4,251,326	321,343	12,450,418	-	17,023,087
Interest and other income	90,711	2,665	165,274	511,192	769,842
Property operating costs	1,822,634	44,919	6,256,828	-	8,124,381
Operating income	2,519,403	279,089	6,358,864	511,192	9,668,548
Financing expense	993,111	114,332	3,656,314	2,704,761	7,468,518
Amortization of income properties	329,845	31,345	2,083,776	-	2,444,966
Amortization of deferred charges	401,823	1,072	57,923	690,125	1,150,943
Amortization of intangible assets	207,777	-	388,123	-	595,900
Income (loss)	586,846	132,341	216,178	(3,070,470)	(2,135,105)
Total assets	20,589,930	2,816,442	145,247,818	32,359,161	201,013,351

Year ended December 31, 2004 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	3,629,826	336,716	3,207,527	-	7,174,069
Interest and other income	34,136	1,694	229,157	304,188	569,175
Property operating costs	1,601,767	48,537	1,476,902	-	3,127,206
Operating income	2,062,195	289,873	1,959,782	304,188	4,616,038
Financing expense	617,749	113,814	1,017,209	2,161,170	3,909,942
Amortization of income properties	308,918	31,345	561,201	-	901,464
Amortization of deferred charges	360,404	1,072	13,366	461,124	835,966
Amortization of intangible assets	272,647	-	518,446	-	791,093
Income (loss)	502,478	143,641	(150,441)	(2,442,580)	(1,946,902)
Total assets	21,046,906	2,910,376	45,109,052	21,712,750	90,779,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

22 Segmented financial information (continued)

Year ended December 31, 2005:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	5,928,714	1,094,565	4,742,743	123,180	1,840,406	3,293,479	-	17,023,087
Interest and other income	115,742	6,699	106,563	882	12,022	16,742	511,192	769,842
Property operating costs	2,168,821	966,069	2,274,927	5,452	788,053	1,921,059	-	8,124,381
Operating income	3,875,635	135,195	2,574,379	118,610	1,064,375	1,389,162	511,192	9,668,548
Financing expense	1,975,647	383,470	1,093,269	58,094	524,824	728,453	2,704,761	7,468,518
Amortization of income properties	1,060,324	176,016	407,608	12,719	296,635	491,664	-	2,444,966
Amortization of deferred charges	53,728	1,005	401,823	1,072	-	3,190	690,125	1,150,943
Amortization of intangible assets	72,914	2,058	393,719	-	282	126,927	-	595,900
Income (loss)	713,022	(427,354)	277,963	46,725	242,633	82,376	(3,070,470)	(2,135,105)
Total assets	61,257,806	11,052,887	29,589,912	1,239,063	25,087,176	40,427,346	32,359,161	201,013,351

Year ended December 31, 2004 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Trust	Total
Rentals from income properties	1,211,784	848,676	3,629,826	123,180	1,360,603	-	7,174,069
Interest and other income	220,448	5,426	34,136	534	4,443	304,188	569,175
Property operating costs	413,531	625,172	1,601,767	5,317	481,419	-	3,127,206
Operating income	1,018,701	228,930	2,062,195	118,397	883,627	304,188	4,616,038
Financing expense	392,498	281,452	617,749	59,146	397,927	2,161,170	3,909,942
Amortization of income properties	232,673	124,678	308,918	12,719	222,476	-	901,464
Amortization of deferred charges	12,696	670	360,404	1,072	-	461,124	835,966
Amortization of intangible assets	298,286	11,442	272,647	-	208,718	-	791,093
Income (loss)	82,548	(189,313)	502,478	45,460	54,505	(2,442,580)	(1,946,902)
Total assets	21,292,531	11,212,394	21,046,906	1,270,288	14,244,215	21,712,750	90,779,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

23 Subsequent events

Options
On January 17, 2006, the Trust issued options to the three Trustees and Chief Financial Officer to acquire 7,500 units each at $5.42 per unit.

Acquisitions
Effective January 1, 2006, the Trust acquired Willowdale Gardens, a residential property located in Brandon, Manitoba for a total cost of $4,326,000. The acquisition was funded from the assumption a first mortgage loan of $2,076,000, with the balance paid in cash. Prior to the acquisition a related party, 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited, which is owned by the family trust of Arni Thorsteinson, The Chief Executive Officer and a trustee of LREIT, held an 18.67% undivided interest in Willowdale Gardens. On April 1, 2006, the first mortgage loan was upward refinanced with a new first mortgage loan in the amount of $3,700,000 bearing interest at 5.468% and due April 1, 2016.

On February 2, 2006, the Trust acquired Broadview Meadows, a residential property located in Sherwood Park, Alberta for a total cost of $6,790,000. The acquisition was funded entirely in cash on an interim basis. On February 6, 2006, a first mortgage loan was obtained in the amount of $5,550,000 bearing interest at 5.303% and due March 1, 2016.

On April 6, 2006, the Trust agreed to acquire Village West Townhouses, a residential property located in Saskatoon, Saskatchewan for a total cost of $5,150,000. The acquisition will be funded from the assumption of a first mortgage loan of $2,350,000, the issuance of Class B Limited Partnership Units of a wholly-owned limited partnership, to be established by the Trust, in the aggregate amount of $2,649,990, with the balance in cash.

On April 18, 2006, the Trust agreed to acquire Chateau St. Michaels, a seniors housing complex located in Moose Jaw, Saskatchewan for a total cost of $7,600,000. The acquisition will be financed with a new first mortgage loan of $5,500,000, with the balance in cash.

Distributions
Distributions of $787,504, $788,130 and $789,166 were paid on February 15, March 15 and April 15, 2006 respectively.

Convertible debentures
The Trust issued $13,680,000 of Series F debentures by way of private placement on March 10, 2006. The Series F debentures bear interest at 7.5%, mature on March 9, 2011 and are subordinate to the Series A debentures, 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 9, 2009 at a conversion price per unit of $6.00, during the year ending March 9, 2010 at $6.60, and during the year ending March 9, 2011 at $7.30.

Service agreement
On January 17, 2006, the terms of the service agreement between the Trust and Shelter Canadian Properties Limited were modified. For the period commencing on January 1, 2006 and concluding June 30, 2006, a service fee will be paid 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.

24 Comparative figures

For comparative purposes, certain of the prior year figures have been reclassified.

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 K. Loewen, Mr. Earl S. Coleman and Mr. Arni C. Thorsteinson. Mr Loewen is the Chairman, Founder and Chief Strategy Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is the Vice President and Secretary Treasurer of Big Freight Systems Inc. and serves as Secretary of LREIT. Mr. Thorsteinson, CFA, is the President and principal owner 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 of LREIT is Mr. Kenneth J. 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 is one of Canada's leading privately owned real estate development and property management companies.

Office Address

Lanesborough Real Estate Investment Trust
c/o Shelter Canadian Properties Limited
2600 Seven Evergreen Place
Winnipeg, Manitoba R3L 2T3
Telephone: (204) 475-9090
Facsimile: (204) 452-5505
Email: info@lreit.com
Website: www.lreit.com

Unit Listing

TSX Venture Exchange
Unit trading symbol: LRT.UN

Unitholder and Investor Contact

Mr. Gino Romagnoli, CGA
Manager, Investor Services
Shelter Canadian Properties Limited
Telephone: (204) 475-9090, Ext. 208
Facsimile: (204) 452-5505
Email: gromagnoli@lreit.com

Transfer Agent and Registrar

CIBC Mellon Trust Company
600, 333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Auditors

Meyers Norris Penny, LLP
Chartered Accountants
500 – 1661 Portage Avenue
Winnipeg, Manitoba R3J 3T7

Legal Counsel

Aikins MacAulay & Thorvaldson LLP
30th Floor, Commodity Exchange Tower
360 Main Street
Winnipeg, Manitoba R3C 4G1