LANESBOROUGH REIT

2006 ANNUAL REPORT

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Financial Summary - 2006

	Year Ended December 31					
	Total			Per Unit - Basic		
	2006	2005	% Change	2006	2005	$ Change
Operating income	$ 16,362,751	$ 9,668,548	69 %	$ 0.953	$ 1.035	$ (0.082)
Cash from operations	$ 5,194,987	$ 3,161,869	64 %	$ 0.303	$ 0.338	$ (0.035)
Distributable income	$ 3,447,578	$ 2,568,504	34 %	$ 0.201	$ 0.275	$ (0.074)
FFO	$ 2,499,942	$ 1,248,734	100 %	$ 0.146	$ 0.134	$ 0.012
AFFO	$ 3,071,373	$ 1,927,398	59 %	$ 0.179	$ 0.206	$ (0.027)
Net income, before amortization	$ 3,124,338	$ 2,013,254	55 %	$ 0.182	$ 0.216	$ (0.034)
Loss for the year	$ (3,785,751)	$ (2,135,105)	77 %	$ (0.221)	$ (0.229)	$ 0.008

2006 HIGHLIGHTS

OBJECTIVE: CREATE A LARGE, DIVERSIFIED PORTFOLIO OF QUALITY RESIDENTIAL PROPERTIES.

RESULTS:
- **Property portfolio increased by $68 Million;**
- **Acquisitions encompassed 713 rental units;**
- **Geographic diversification expanded to include property acquisitions in Port Elgin, Ontario, Brandon, Manitoba and Moose Jaw, Saskatchewan;**
- **Year end portfolio consists of 29 residential properties with 2,268 rental units and four commercial properties with 224,545 square feet of leasable area;**

OBJECTIVE: MAXIMIZE OPERATING RESULTS THROUGH PRO-ACTIVE MANAGEMENT AND VALUE-ADDED CAPITAL IMPROVEMENTS.

RESULTS:
- **Total rental revenues increased by $11.9 Million or 69%;**
- **Operating income increased by $6.7 Million or 69%;**
- **Overall profit margin sustained at over 50% (51% in 2006; 52% in 2005);**
- **Invested over $2.5 Million in major renovation/expansion programs at two properties.**

OBJECTIVE: MAXIMIZE CASH FLOWS FROM THE PROPERTY PORTFOLIO.

RESULTS:
- **Cash from operations increased by $2 Million or 64%;**
- **Distributable income increased by $2.6 Million or 34%;**
- **FFO increased by $1.25 Million or 100%.**

OBJECTIVE: MAXIMIZE UNIT VALUES.

RESULTS:
- **Unit value increased by $0.65 or 12.4%;**
- **Cash distributions provided return of 10.7%, based on opening unit value;**
- **Units provided total return of 24% to investors.**

Unitholder Returns

	Year Ended December 31	
	2006	2005
Distribution per unit	$0.56	$0.56
Opening unit price	$5.25	$5.50
Closing unit price	$5.90	$5.25
Annualized yield on opening price (distribution/opening unit price)	10.7%	10.2%
Projected cash distribution - 2007:	$0.56	
Closing unit price - March 21 , 2007:	$5.75	
Current yield:	9.7%	

Lanesborough Real Estate Investment Trust Units are listed on the Toronto Stock Exchange under the symbol "LRT.UN".

The Series F and Series G convertible debentures are listed on the Toronto Stock Exchange under the symbol "LRT.DB.F" and "LRT.DB.G", respectively.

LREIT Unit Price History

Month	High	Low	Volume
2007			
to March 21	$5.85	$5.70	360,872
February	$5.99	$5.73	1,282,208
January	$6.10	$5.75	1,135,574
2006			
December	$5.95	$5.75	508,252
November	$5.90	$5.50	724,995
October	$5.90	$5.62	556,490
September	$5.95	$5.50	355,269
August	$6.00	$5.70	579,521
July	$5.80	$5.30	409,790
June	$6.05	$5.30	950,233
May	$6.22	$5.75	580,514
April	$6.70	$6.00	2,932,037
March	$6.65	$6.00	1,044,598
February	$6.75	$5.85	215,621
January	$5.50	$5.10	926,206

REPORT TO UNITHOLDERS

In 2006, LREIT continued to demonstrate that it has the capacity to meet its primary objective of creating a large, diversified portfolio of quality residential properties and maximizing the associated investment returns to its investors. On December 31, 2006, the closing price of LREIT units on the Toronto Stock Exchange was $5.90, representing a 12.4% increase, compared to the closing price at the end of 2005. After considering the cumulative monthly cash distributions of $0.56 per unit, the LREIT units yielded a return of 24% in 2006.

LREIT's portfolio of income-producing properties was significantly enhanced in 2006 with the acquisition of 12 additional residential properties at a cost of approximately $68 Million, representing a total of 713 rental units. After considering the impact of the new property acquisitions, the operating income of LREIT increased by 69% in 2006, while cash from operations and funds from operations increased by 64% and 100%, respectively.

As the acquisition of the 12 additional properties was completed throughout the first six months of 2006, the operating results for 2006 do not fully reflect the income potential of the year end property portfolio. During the second half of 2006, the 12 properties contributed to an increase in operating income of approximately $2.2 Million, compared to the first half of the year. After providing for a full year of operations for the 2006 property acquisitions and the anticipated improvements in results for the remaining properties, the additional operating income potential of the 2006 year ending property portfolio is projected to be in excess of $2.5 Million. The current market value of the property portfolio, as of December 31, 2006, is approximately $299 Million or 27.9% greater than the portfolio acquisition cost.

The ongoing growth in the asset base and underlying value of the LREIT trust units is continuing at a strong pace in 2007, with over $200 Million of new property acquisitions completed or under contract, an $9.5 Million property expansion underway and a two year, $2.5 Million major renovation program nearing completion at a multi-residential property in Thompson, Manitoba. The new property acquisitions encompass four multi-family residential apartment buildings in Fort McMurray, Alberta, a residential apartment building in Yellowknife, Northwest Territories and a newly constructed seniors' residence in Bowmanville, Ontario.

In summary, LREIT is well positioned to achieve another year of strong growth in operating cash flows and unit values in 2007, given the income potential of the existing property portfolio, the impact of value-added improvements and the extent of new property acquisitions. The Board of Trustees and the management team of Shelter Canadian remains committed to the long-term success of LREIT.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
March 22, 2007

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, 2006 and accompanying notes, and with reference to the quarterly reports for 2006. 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-unit residential properties. The overall investment strategy of LREIT is to focus on the acquisition of properties with stable yields, low vacancy levels and growth potential. LREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high 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 seniors housing complexes, will also continue to be considered.

Property Portfolio - December 31, 2006

As of December 31, 2005, the real estate portfolio of LREIT consisted of 17 multi-family residential properties and four commercial properties with a total acquisition cost of $165.8 Million.

During 2006, LREIT acquired 12 additional multi-family residential properties at a total purchase price of $68 Million, resulting in a real estate portfolio of 33 properties with a total cost of $233.8 Million as of December 31, 2006.

Property Portfolio - December 31, 2006

Property	Location	Purchase Price		Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy 31/12/2006	
RESIDENTIAL							
Manitoba							
Highland Tower	Thompson	$ 1,350,000		January 2005	77	23 %	(3)
Chancellor Gate	Winnipeg	6,750,000		August 2005	48	100 %	
Willowdale Gardens	Brandon	4,326,000		January 2006	88	100 %	
Saskatchewan							
Borden Estates	Prince Albert	5,315,000		February 2005	144	75 %	
Cedar Village	Prince Albert	2,700,000		February 2005	72	76 %	
Carlton Manor	Prince Albert	410,000		February 2005	19	95 %	
Riverside Apartments	Prince Albert	265,000		February 2005	12	83 %	
MGM Apartments	Prince Albert	650,000		February 2005	28	61 %	
Marquis Towers	Prince Albert	6,200,000		August 2005	129	89 %	
Riverside Terrace	Saskatoon	24,000,000	(1)	July 2005	181	93 %	
Village West	Saskatoon	5,113,800		June 2006	100	92 %	
Chateau St. Michael's	Moose Jaw	7,600,000	(1)	June 2006	93	90 %	
Woodlily Courts	Moose Jaw	3,700,000		June 2006	102	94 %	
Alberta							
Nova Villa	Edmonton	5,400,000		May 2004	61	98 %	
Nova Manor	Edmonton	2,615,000		May 2004	32	100 %	
Nova Ridge Estates	Spruce Grove	8,800,000		July 2004	102	97 %	
Norglen Terrace	Peace River	2,500,000		October 2004	72	93 %	
Broadview Meadows	Sherwood Park	6,790,000		January 2006	93	100 %	
Nelson Ridge Estates	Fort McMurray	40,575,000		April 2005	225	96 %	
Gannet Place	Fort McMurray	6,873,700		June 2006	37	92 %	
Lunar Apartments	Fort McMurray	4,457,100		June 2006	24	88 %	
Parkland Apartments	Fort McMurray	2,230,200		June 2006	12	100 %	
Skyview Apartments	Fort McMurray	5,385,800		June 2006	29	90 %	
Snowbird Manor	Fort McMurray	6,314,500		June 2006	34	65 %	
Whimbrel Terrace	Fort McMurray	6,873,700		June 2006	37	97 %	
Northwest Territories							
Beck Court	Yellowknife	14,300,000		April 2004	120	100 %	
Three Lakes Village	Yellowknife	10,900,000		May 2005	50	100 %	
Ontario							
Elgin Lodge	Port Elgin	8,300,000	(1)	June 2006	64	95 %	
British Columbia							
Greenwood Gardens	Surrey	10,950,000		April 2004	183	99 %	
Total - Residential		**$ 211,644,800**		Total Suites	**2,268**	89 %	
COMMERCIAL							
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	98 %	
		19,356,200			168,492	98 %	
Light Industrial							
MAAX	Aidrie, AB	1,600,000		June 2003	39,936	100 %	
Purolator	Burlington, ON	1,200,000		September 2003	16,117	100 %	
		2,800,000			56,053	100 %	
Total - Commercial		**$ 22,156,200**		Total leasable area	**224,545**	99 %	
Total		**$ 233,801,000**					

(1) Seniors housing complex.
(2) Includes cost of asset additions.
(3) In-suite renovation program in process. The occupancy rate is based on the number of suites that are available to lease, as of December 31, 2006.

Completed and Contracted Property Acquisitions - Subsequent to December 31, 2006

The Clarington Seniors Residence

On February 12, 2007, LREIT acquired The Clarington Seniors Residence, a 126-suite seniors' retirement residence located in Bowmanville, Ontario. The three-storey complex was completed in 2006 and is currently in the "lease-up" phase of operation.

The purchase price of $22.4 Million was funded by two-year mortgage loans in the amount of $15.1 Million, with the balance in cash. LREIT intends to obtain long-term mortgage financing upon completion of the "lease-up" of the property in 2008.

Additional details regarding the guarantees and commitments associated with the acquisition of the property are provided in the "Revenue/Income and Other Commitments" section of this report.

Woodland Park

On March 12, 2007, LREIT acquired Woodland Park, a newly constructed apartment complex in Fort McMurray, Alberta, consisting of 107 fully furnished suites, including 32 townhouses and a four-storey apartment building with 75 suites. The purchase price of $37,865,000 was funded by a 12.5% vendor take-back mortgage loan of $6.25 Million and a prime plus 1.5% interim first mortgage loan of $18 Million, with the balance in cash.

LREIT has also secured permanent first mortgage loan financing for the property, in the amount of $27.3 Million, for a term of five years at an interest rate of 5.43%.

The first mortgage loan proceeds will be released in May 2007 when the occupancy level of the Project is expected to exceed the 70% mark, at which time the interim mortgages will be repaid in full.

During the period from the construction completion date of November 30, 2006 to the closing date, when LREIT was in the process of securing interim and long-term financing for the property, all leasing and operating expenses of the property, net of rental revenues, were the responsibility of LREIT. The "Other Assets" of LREIT, as of December 31, 2006, include carrying charges for Woodland Park of $342,350, representing the net operating loss for the month of December 2006, plus financing expenses.

Nova Court

Nova Court is a multi-family residential property in Yellowknife, Northwest Territories, consisting of 106 suites and 8,400 square feet of commercial space. The acquisition of the property is expected to close in March 2007. The purchase price of $15 Million will be funded by the assumption of a 4.8% first mortgage loan in the amount of $9,285,000, maturing January 1, 2016, with the balance in cash. The cash payment includes a credit for a $5 Million second mortgage loan which LREIT provided to the property in the fourth quarter of 2006.

Lakewood Manor

Lakewood Manor is a 175 unit multi-family apartment complex which is currently under construction in Fort McMurray, Alberta. The property will consist of 64 three-storey fully furnished townhouses and a four-storey apartment building with 111 fully furnished suites. The acquisition of the property is scheduled to close on May 1, 2007, following the completion of the construction phase. The purchase price of the property is $58,735,825.

The acquisition of the Lakewood Manor will be funded by new first mortgage loans in the minimum amount of $48 Million, with the balance in cash.

In 2005, LREIT provided partial construction financing for Lakewood Manor in the form of an 8% second mortgage loan of $8.5 Million. The loan requires payments of interest only, on a quarterly basis, and is subordinate to a construction mortgage in the maximum amount of $38 Million. The second mortgage loan will be credited to the purchase price on the closing date of the property acquisition.

Additional details regarding the three year lease agreement which has been obtained for all of the suites at Lakewood Manor are provided on page 25.

Millennium Village

Millennium Village is a 72-unit multi-family townhouse complex which is currently under construction in Fort McMurray, Alberta. The property will consist of 18 four-plex buildings with 36 two-bedroom and 36 two-bedroom plus den units, all of which will be fully furnished. Each of the townhouse units will have individual condominium title. The purchase price of the property is $25,150,000.

The acquisition will be financed with a new first mortgage loan in the amount of $16,954,000 with the balance in cash. The construction of the property is occurring in three phases and the target closing dates are August 2007 for Phase I, October 2007 for Phase II and November 2007 for Phase III.

In December 2006, LREIT provided partial construction financing for Millennium Village in the form of an 8% second mortgage loan of $5 Million. The loan requires payments of interest only, on a quarterly basis, and is subordinate to a construction mortgage in the maximum amount of $15 Million. The second mortgage loan will be credited to the purchase price on the closing date of Phase I.

Park View Apartments

LREIT has entered into a development agreement with Shelter Canadian Properties Limited in regard to the construction of a 186 suite apartment building in Fort McMurray, Alberta, to be known as the Park View Apartments. The land acquisition for the property was completed in July 2006 at a cost of $9.3 Million, while the construction of the apartment building commenced in August 2006. As of December 31, 2006, the land acquisition costs and the cumulative construction costs amounted to approximately $19.4 Million and are included in "Properties under development" on the balance sheet of LREIT.

A three year first mortgage loan in the amount of $45 Million was arranged for the property. The loan agreement provides for funds to be advanced in instalments, based on construction progress billings. As of December 31, 2006, a total of $6,650,000 has been advanced under the loan.

Pursuant to the development agreement, the total cost of Park View Apartments, including interest costs and development fees, is not to exceed $57.75 Million. Based on the first mortgage loan of $45 Million, the projected equity contribution for the development is $12.75 Million.

In accordance with the accounting policy of LREIT, all acquisition costs, development, leasing, financing and operating costs, less rental revenue, are capitalized for properties under development until the property achieves a satisfactory occupancy level within a predetermined time limit. The construction costs for Park View Apartments in 2006, of approximately $10.1 Million, include carrying costs of $246,788, representing interest on the 8% vendor take-back mortgage loan and interest on the initial construction advance.

The construction of the apartment building is expected to be completed not later than November 30, 2007. Please refer to the "Related Party Transactions" section of this report for additional information regarding the development agreement for Park View Apartments.

Existing Properties Under Development

Elgin Lodge

In June 2006, LREIT acquired Elgin Lodge, a 64 suite retirement home in Port Elgin, Ontario. In conjunction with the acquisition of the property, LREIT developed plans for a multi-level extension of the building on excess land. At an estimated cost of $9.5 Million, the expansion will add an additional 59 suites to the property, of which 12 will be studio suites and 47 will be one-bedroom suites. Based on an increase in the existing mortgage loan by $6.9 Million, the projected equity contribution for the expansion is $2.6 Million.

The construction of the 59 suite expansion commenced during the fourth quarter of 2006. As of December 31, 2006, the construction costs amounted to $1,238,832 and were funded entirely by working capital.

Additional details regarding the guarantees and commitments associated with the Elgin Lodge expansion are provided on page 25 of this report.

Major Renovations

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

In 2005, LREIT commenced an extensive major renovations program at the Highland Tower property in Thompson, Manitoba. The renovation program involved the upgrading of an entire floor of suites at a time and the temporary removal of suites from the rental market. The renovation program is expected to be substantially complete by March 31, 2007, with the remaining work consisting primarily of landscaping and parking lot upgrades. As of December 31, 2006, the total cumulative renovation costs at Highland Towers are $2,227,819, of which $1,285,691 were incurred during 2006. Renovation costs are being funded from working capital.

In accordance with the accounting policy which was adopted by LREIT, effective July 1, 2005, carrying costs incurred during the period of major in-suite renovations of income properties are capitalized during the period that the suites are removed from the rental market. The total cumulative renovation costs for Highland Towers include carrying costs of $199,022.

Mortgage Loans Receivable

December 31, 2006	$18,500,000
December 31, 2005	$9,350,000

As of December 31, 2006, "Mortgage Loans Receivable" consist of the following loans:

(i) $13.5 Million of construction loans for upcoming property acquisitions, comprised of the $8.5 Million second mortgage loan for Lakewood Manor and the $5 Million second mortgage loan for Millennium Village, and

(ii) an investment in a 10% second mortgage loan of $5 Million due June 29, 2007, secured by the Nova Court property in Yellowknife, Northwest Territories. Nova Court is expected to be acquired by LREIT in March 2007.

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

Units Outstanding

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

As of December 31, 2006, LREIT had 17,392,235 units outstanding, representing an increase of 536,949 units or 3.2%, compared to the number of units outstanding as of December 31, 2005. All of the units which were issued during 2006 originated from the conversion of Series A and D debentures, aside from 2,439 units which were issued under the Distribution Reinvestment Plan and 100,000 units which were issued on the exchange of LP units of Village West LP.

Distribution Reinvestment Plan ("DRIP")

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

As noted above, 2,439 units were issued or purchased under the Distribution Reinvestment Plan during 2006.

Unit Options

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of LREIT and to other individuals who are employed or retained by the Trust to perform specific duties. As of December 31, 2005, LREIT had granted options to acquire a total of 20,000 units, of which 10,000 were exercised.

On January 17, 2006, LREIT granted options to the three Trustees and the Chief Financial Officer to acquire 7,500 units each at a price of $5.42 per unit. The options are exercisable immediately.

On July 26, 2006, LREIT granted options to each of the independent Trustees, the Chief Executive Officer and the Chief Financial Officer and to 17 management and senior employees of Shelter Canadian Properties Limited, who are engaged in functions related to the Trust, to acquire a total of 960,000 units at a price of $5.80 per unit. Approximately 40% of the options are exercisable immediately, while the remaining options are exercisable over a period of four years.

In accordance with generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statements of Operations. Due to the high proportion of options which vested on the date of issue, there is a very significant lump-sum charge to unit-based compensation expense and a corresponding increase in trust expense. Specifically, unit-based compensation expense amounted to $532,406, of which $498,175 pertains to the options that were issued in July 2006. The lump-sum charge to unit-based compensation expense contributed to the increase in trust expense in 2006.

In future periods, unit-based compensation expense, for the options that were issued in July 2006, is expected to decline by a significant amount, as follows:

Period	Projected Unit-Based Compensation
2006	$ 498,175
2007	256,668
2008	134,800
2009	68,314
2010	22,139
	$ 980,096

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

Summary of Trust Units Issued

The following is a summary of the units which have been issued by LREIT, as of December 31, 2006, since its inception date as a publicly listed entity:

Issue Date	Description	Units Issued	Equity Raised
August 30, 2002	Initial units issued on creation of LREIT	775,000	$ 500,000
Units outstanding, December 31, 2002		775,000	500,000
August 28, 2003	First closing of private offering	502,463	2,009,852
August 29, 2003	Units issued on conversion of debentures	14,500	-
December 8, 2003	Second closing of private offering	70,750	283,000
December 22, 2003	Private placement	1,250,000	5,000,000
Units outstanding, December 31, 2003		2,612,713	7,792,852
April 15, 2004	Private placement on the acquisition of Greenwood Gardens	20,000	-
December 23, 2004	First closing of private placement	3,828,500	19,142,500
Units outstanding, December 31, 2004		6,461,213	26,935,352
January 27, 2005	Second closing of private placement	1,171,500	5,857,500
February 2, 2005	Private placement	200,000	1,000,000
September 29, 2005	Exercise of unit options	10,000	40,000
December 14, 2005	Private placement	6,297,240	32,115,924
January to December 31, 2005	Units issued on conversion of debentures	2,715,333	-
Units outstanding, December 31, 2005		16,855,286	65,948,776
November 1, 2006	Units issued on exchange of Class B units of Village West LP	100,000	-
November and December 2006	Units issued under DRIP	2,439	13,250
January to December 31, 2006	Units issued on conversion of debentures	434,510	-
Units outstanding, December 31, 2006		17,392,235	$ 65,962,026

Limited Partnership Units

In June 2006, LREIT acquired the Village West Townhouses in Saskatoon, Saskatchewan. The acquisition of the property encompassed the issuance of 456,617 Class B Limited Partnership Units ("LPU's") of a wholly owned Limited Partnership which was established by the Trust (the LREIT Village West Limited Partnership). The LPU's were issued at a value of $6 per LPU, representing total consideration of $2,739,704. Each LPU is entitled to receive cash distributions equal to the cash distributions which are paid on the trust units of LREIT. The vendor has the right to exchange each LPU for LREIT trust units on a one for one basis.

On November 1, 2006, 100,000 of the LPU's were exchanged for LREIT trust units.

Cash 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, is paid on or about the 15th day of the following month to the Unitholders of record on each month end. The cash distribution for December is paid on or before December 31 to the Unitholders of record on or about December 15.

A cash distribution of $0.04667 per unit, or $0.56 on an annualized basis, was paid for the months of January to December 2006, inclusive, representing a total cash distribution of $9,613,279. In addition a cash distribution of $139,828 was paid in regard to the LREIT Village West Limited Partnership.

A cash distribution of $0.04667 per unit, or $0.56 on an annualized basis, was paid for the months of January and February 2007. The February 2007 distribution was paid on March 15, 2007.

Convertible Debentures

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

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 years three, four and five, respectively. In years one and two, the debentures are not convertible.

In December 2006, LREIT completed a prospectus offering of unsecured Subordinated Series G Convertible Redeemable Debentures in the total amount of $25,732,000, bearing interest at a rate of 7.5% with a five year term.

The debentures are convertible at the option of the holder, at any time prior to the maturity date or, if applicable, the redemption date, at a per unit price of $7.00, subject to adjustment for certain conditions. The debentures are redeemable by LREIT, in years four and five only, at a price equal to the principal amount plus accrued and unpaid interest, subject to certain conditions.

The following is a summary of the debenture offerings which have been undertaken by LREIT, as of December 31, 2006, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Units Conversions: Year Ended December 31 2006	Units Conversions: As of December 31 2005 (1)	Net Amount Outstanding December 31 2006
Aug. 30/02/Aug. 30/07	A	10.0 %	$ 3,000,000	$ (79,000)	$ (1,231,000)	$ 1,690,000
Aug. 30/02/Aug. 30/05	B	8.0 %	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8.0 %	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8.0 %	4,000,000	(2,104,000)	(147,000)	1,749,000
Feb. 17/05/Feb. 17/10	E	8.0 %	12,000,000	-	-	12,000,000
Mar. 10/06/Mar. 11/11	F	7.5 %	13,680,000	-	-	13,680,000
Dec. 8/06/Dec. 31/11	G	7.5 %	25,732,000	-	-	25,732,000
			$ 69,543,000	$ (2,183,000)	$ (12,509,000)	54,851,000
Net accumulated accretion						1,742,870
Book value, December 31, 2006						$ 56,593,870
Allocation of book value						
Debt component						$ 42,829,557
Equity component						13,764,313
						$ 56,593,870

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

Mortgage Loans Payable

December 31, 2006	$171,255,511
December 31, 2005	$116,827,895

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2006	Percentage of Total
2007	9.0%	$ 4,881,355	2.9 %
2008	4.4%	6,294,444	3.7 %
2009	5.3%	26,108,239	15.2 %
2011	5.7%	5,434,918	3.2 %
2013	5.9%	27,190,813	15.9 %
2014	5.5%	17,718,535	10.3 %
2015	5.7%	38,031,946	22.2 %
2016	5.4%	30,662,663	17.9 %
		156,322,913	91.3 %
Demand/floating rate	7.0%	14,932,598	8.7 %
		$ 171,255,511	100.0 %

Mortgage Loan Portfolio

The general policy of LREIT is to utilize fixed rate financing with terms which are appropriate for the nature of the properties being financed. Upward refinancing opportunities are also pursued, when appropriate, in order to provide a source of additional capital and to minimize the impact of capital expenditures on ongoing operating cash flows. The mortgage loan indebtedness of the Trust is restricted to 75% of the appraised value of the real estate portfolio.

All of the property acquisitions during 2006 encompassed first mortgage loan financing, although, for a number of properties, the first mortgage loan financing was arranged or increased, subsequent to the acquisition date. In November 2006, additional financing of $3,359,044 was also obtained for two properties which were acquired in prior years. The additional financing consisted of a 4.98% pari passu first mortgage loan of $859,044 for Nova Ridge and a 12.5% interest only second mortgage loan of $2.5 Million for Nelson Ridge.

As of December 31, 2006, the weighted average interest rate of the fixed rate mortgage loans is 5.6%, representing the same rate which existed as of December 31, 2005. The weighted average interest rate for floating rate mortgage loans increased from 6% as of December 31, 2005, to 7.0%, as of December 31, 2006.

The ratio of mortgage loans payable, relative to the total acquisition cost of the entire portfolio of income-producing properties, decreased from 71.6% as of December 31, 2005 to 70.0% as of December 31, 2006. The decrease reflects a decrease in the overall debt component for 2006 property acquisitions, partially offset by the additional financing of $3,359,044 which was obtained for prior year property acquisitions.

The ratio of mortgage loans payable, relative to the estimated current value of the property portfolio, was approximately 61.8%, as of December 31, 2006, compared to 63.8% at December 31, 2005. The cumulative construction and land costs for Park View Apartments and the related mortgage loan indebtedness are excluded from the debt ratio calculation as Park View is under development.

Vendor Take-Back Mortgages

The vendor take-back mortgage loan balance of $236,475 consists of the $250,000 interest-free vendor take-back mortgage loan that was obtained on the acquisition of the properties in Prince Albert, Saskatchewan in February 2005, less amounts owed to LREIT from the vendor. The loan for the Prince Albert properties matured on July 1, 2006 and will be repaid on demand.

BALANCE SHEET ITEMS

Asset/Debt Summary

	December 31, 2006	December 31, 2005
Total assets	$ 293,232,706	$ 201,013,351
Mortgage loans payable	$ 171,255,511	$ 116,827,895
Convertible debentures (face value)	54,851,000	17,622,000
	$ 226,106,511	$ 134,449,895

Total Assets

As of December 31, 2006, the total assets of LREIT amounted to $293,232,706, compared to $201,013,351 at the end of 2005, representing an increase of approximately $92 Million or 46%. The increase in total assets is mainly due to an increase in "Income Properties" and reflects the acquisition of 12 additional properties since December 31, 2005.

During 2006, the cost of "Income Properties" also increased by $3,871,302 in regard to the future income tax liability associated with the acquisition of Riverside Terrace. Please refer to Note 4 and Note 13 of the audited financial statements.

Long-Term Financial Liabilities

As of December 31, 2006, mortgage loans payable and the face value of convertible debenture debt amounted to approximately 81.5% of the estimated current value of the total property portfolio of LREIT, compared to approximately 73.5% as of December 31, 2005.

Other Balance Sheet Items

Deferred Charges

December 31, 2006	$5,725,883
December 31, 2005	$2,978,897

As per Note 7 of the audited financial statements, the cost of deferred charges was $8,141,217 as of December 31, 2006, representing an increase of $2,869,274, in comparison to the balance of $5,271,943 as of December 31, 2005.

The increase in the unamortized balance of deferred charges in 2006 mainly reflects the deferral of financing costs of approximately $2.3 Million in regard to the Series F and Series G debentures and the deferral of approximately $1.7 Million of financing costs in regard to mortgage loans, partially offset by the write-off of the balance of fully amortized financing costs of $774,943 in regard to the Series B and Series C convertible debentures.

Other Assets

December 31, 2006	$17,371,861
December 31, 2005	$3,537,927

Other assets increased by $13,833,934 since December 31, 2005. The increase mainly reflects the non-refundable deposits of $13 Million in regard to the acquisition of Woodland Park.

Intangible Assets

December 31, 2006	$2,196,237
December 31, 2005	$2,191,630

As disclosed in Note 9 of the audited financial statements, the unamortized cost of intangible assets was $4,719,000, as of December 31, 2006, representing an increase of $1,101,715, in comparison to the unamortized balance of $3,617,285 as of December 31, 2005.

The increase in the unamortized balance of intangible assets mainly represents an increase in lease origination costs, associated with property acquisitions in 2006. 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, 2006	$8,294,598
December 31, 2005	$3,000,755

As disclosed in note 12 of the audited financial statements, "Accounts Payable and Accrued Liabilities" increased by $5,293,843 since December 31, 2005. The increase mainly reflects amounts due in regard to the construction costs of properties under development and an increase in trade accounts payable, mortgage interest payable and tenant security deposits as a result of the growth in LREIT's portfolio of properties.

Future Income Taxes

December 31, 2006	$3,277,025
December 31, 2005	$140,972

The liability for "future income taxes", as disclosed on the Consolidated Balance Sheet of LREIT mainly represents the income tax liability associated with the acquisition of Riverside Terrace.

In 2005, LREIT acquired Riverside Terrace by purchasing all of the issued and outstanding shares of its wholly owned operating subsidiary, Riverside Terrace Inc., resulting in a potential income tax liability of approximately $4 Million. The income tax liability is also reflected in the recorded cost of the property. The income tax liability pertains to a difference between the tax and book value of the assets and will decline as the difference between the tax and book value of the assets decreases over time.

Non-controlling Interest

As previously disclosed, the acquisition of the Village West Townhouses, encompassed the issuance of 456,617 Class B Limited Partnership Units. The net income or loss associated with the operations of the Village West Townhouses accrues to the holder of the limited partnership units until such time as the limited partnership units are converted to trust units. On November 1, 2006, 100,000 of the limited partnership units were converted to trust units

The "non-controlling interest" amount of $1,915,405 on the balance sheet of LREIT, represents the cumulative interest of the holder of the limited partnership units of the LREIT Village West Limited Partnership. As of December 31, 2006, the cumulative interest consists of the original value of the limited partnership units of $2,739,704, minus the operating loss attributable to the limited partnership units for 2006 of $84,471, the deemed value of the converted units of $600,000 and the cash distribution of $139,828 which was paid to the holder of the limited partnership units for the period from June 2006 to December 2006. Please refer to note 14 of the audited financial statements. As reflected on the Consolidated Statements of Operations, the allocation of the loss of $84,471 serves to decrease the loss of LREIT.

RESULTS OF OPERATIONS

Summary of Operating/Cash Flow Results

	Year Ended December 31	
	2006	2005
Total revenue	$ 30,538,848	$ 17,792,929
Operating income	$ 16,362,751	$ 9,668,548
Cash from operations	$ 5,194,987	$ 3,161,869
Loss for the year	$ (3,785,751)	$ (2,135,105)
Distributable income	$ 3,447,578	$ 2,568,504
Funds from operations (FF0)	$ 2,499,942	$ 1,248,734
Adjusted Funds from Operations (AFF0)	$ 3,071,373	$ 1,927,398
Cash distributions - total	$ 9,766,357	$ 6,230,007
- per unit	$ 0.56	$ 0.56

Per Unit

	Basic	Diluted	Basic	Diluted
Operating income	0.953	0.882	1.035	0.552
Loss for the year	(0.221)	(0.221)	(0.229)	(0.229)
Distributable income	0.201	0.198	0.275	0.271
Funds from operations (FFO)	0.146	0.143	0.134	0.133
Adjusted funds from operations (AFFO)	0.179	0.176	0.206	0.203

Analysis of Income/Loss

General

At the end of 2005, the expectation for 2006 was that LREIT would achieve a significant increase 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 exceeded operating cash flows.

Overall, operating results were generally in accordance with expectations, with LREIT achieving a 69.2% increase in operating income and a 64.3% increase in cash from operations. Income, before amortization, future income tax recovery and non-controlling interest increased by 55.2%, while the Loss of LREIT increased by 77.3%.

Loss for the Year

Analysis of Loss

	Year Ended December 31 2006	Year Ended December 31 2005 (restated)	Increase (Decrease)
Operating income - rental properties	$ 14,962,840	$ 9,157,356	$ 5,805,484
Interest income - Trust	1,399,911	511,192	888,719
Operating income	16,362,751	9,668,548	6,694,203
Financing expense			
Mortgage loans	7,901,230	4,763,757	3,137,473
Debentures	3,604,259	2,704,761	899,498
	11,505,489	7,468,518	4,036,971
Operating income, net of financing expense*	4,857,262	2,200,030	2,657,232
Trust expense	1,732,924	186,776	1,546,148
Income, before amortization, future income tax recovery and non-controlling interest*	3,124,338	2,013,254	1,111,084
Amortization	7,729,809	4,191,809	3,538,000
Future income tax recovery	(735,249)	(43,450)	(691,799)
Non-controlling interest	(84,471)	-	(84,471)
Loss for the year	$ (3,785,751)	$ (2,135,105)	$ (1,650,646)

The analysis of loss for the year represents the re-formatting of balances from the Consolidated Statement of Loss in order to provide a more detailed assessment of the financial performance of the Trust. The components of operating income and financing expense, as disclosed in the analysis, agree to the segmented financial information in the notes to the financial statements, while all other line items agree to the Consolidated Statement of Loss. Amortization represents the total of the three amortization categories in the Statement of Loss. Accordingly, the analysis consists entirely of GAAP measurements, aside from two sub-totals (see asterisks).

Income, Excluding Amortization Expense, Future Income Tax Recovery and Non-Controlling Interest

During 2006, the income of LREIT, before amortization expense, future income tax recovery and non-controlling interest, increased by $1,111,084 or 55%, compared to fiscal 2005. The increase in income reflects an increase in operating income of approximately $6.7 Million, largely offset by an increase in financing expense of approximately $4.0 Million.

The increase in operating income is almost entirely due to an increase in operating income from rental properties as a result of the increase in the number of properties in the LREIT portfolio.

The increase in operating income also reflects an increase in interest income from "Trust" operations of $888,719. The increase is mainly due to mortgages receivable related to upcoming acquisitions: Lakewood Manor, Woodland Park and Nova Court.

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.

Loss For the Year

After considering amortization expense, future income tax recovery and non-controlling interest, LREIT incurred a loss of $3,785,751 during 2006, compared to a loss of $2,135,105 during 2005. The loss reflects total amortization charges of approximately $7.7 Million, compared to approximately $4.2 Million in 2005.

Financing Expense - Mortgage Loans

Financing expense on mortgage loans increased by $3,137,473 Million or 65.9% during 2006. 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 decreased from 49.3% in 2005 to 48.3% in 2006, mainly due to a decrease in the average debt load of Income Properties. As a percentage of total property acquisition costs, the ratio of mortgage loans payable decreased from 71.6% as of December 31, 2005 to 70% as of December 31, 2006. The decrease in the ratio of mortgage loans payable reflects a decrease in the debt ratio of 2006 property acquisitions, partially offset by the additional financing of $3,359,044, which was obtained for prior year property acquisitions.

Financing Expense - Debentures

During 2006, financing expense on convertible debentures increased by $899,498 or 33%, compared to 2005. The increase mainly reflects the incremental financing expense which resulted from the issuance of the $13.68 Million Series F convertible debentures in March 2006.

As a percentage of operating income, financing expense on debentures decreased from 28% in 2005 to 22% in 2006. The decrease in the ratio of debenture financing expense, relative to operating income, reflects the following factors:

- a lower level of uninvested debenture capital during 2006. 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 more gradual investment of debenture capital in 2005, compared to 2006. In 2005, LREIT raised $12 Million of capital in February from the Series E debenture offering and the capital was gradually invested over the following six month period. In 2006, LREIT raised $13.68 Million of capital in March from the Series F debenture offering and the capital was fully invested within three months. The $25.732 Million Series G debenture offering which was completed in December 2006 did not have a significant impact on the debenture financing expense ratio; and

- a decrease in the relative amount of debenture capital due to a change in the overall capital structure of the Trust. In 2005, the total debenture capital raised by LREIT averaged approximately 45% of the total capital raised from debenture and trust unit offerings. In 2006, the ratio of debenture capital raised averaged approximately 40%.

  In general terms, a decrease in the ratio of debenture capital raised results in lower debenture financing costs and a proportional increase in the cost of equity, or, more specifically, a proportional increase in cash distributions, relative to operating income.

As a result of the proportional reduction in debenture debt, the operating income coverage ratio for total financing expense increased from 1.3 in 2005 to 1.4 in 2006.

Amortization Expense

During 2006, total amortization expense increased by $3,538,000 or 84%, compared to 2005. The increase mainly reflects the growth in the portfolio of income-producing properties since December 31, 2005.

During 2006, the ratio of amortization expense to operating income was 47%, compared to 43% in 2005. The increase in the ratio of amortization expense, relative to operating income, is mainly due to the following factors:

- a proportional increase in amortization of intangible assets, reflecting the proportionately higher allocation of the purchase price to intangible assets for properties which were acquired in 2006 and the relatively short amortization period for intangible assets; and

- a proportional decrease in amortization of deferred charges due to the comparatively high amount of amortization expense in 2005 in regard to deferred debenture financing expenses. Financing expense in regard to the Series B and Series C convertible debentures was fully amortized as of December 31, 2005, as the debentures were fully converted to trust units during 2005.

Trust Expense

Trust expense increased by $1,546,148 during 2006, compared to 2005. The increase in Trust expense is mainly due to the following factors:

- the lump-sum charge to unit-based compensation expense of $498,175 in regard to the unit options which were issued by the Trust in July 2006;

- the commencement of monthly asset management fees, effective January 1, 2006. As disclosed in the 2005 Annual Report, LREIT began paying a fee for the administrative and asset management services of Shelter Canadian Properties Limited during the first quarter of 2006. The fee is equal to 0.3% of the net book value of the assets of LREIT, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. The asset management fee for 2006 was $636,881.

  Please refer to "Related Party Transactions" on page 34 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 Properties Limited and the associated remuneration; and

- an increase in legal fees, due diligence costs for non-acquired properties and general administrative costs.

Operating Income

During 2006, the operating income of LREIT increased by approximately $6.7 Million or 69%, compared to 2005. The increase in the operating income is mainly due to the increase in the number of properties in the portfolio of LREIT. During 2005, 21 properties, with a total acquisition cost of $165.8 Million, contributed to the operating income of LREIT. During 2006, 33 properties, with a combined acquisition cost of $233.8 Million, contributed to operating income.

Overall Portfolio Analysis

Analysis of Operating Income

	Percentage of Total Operating Income Year Ended December 31	
	2006	2005
Residential	75 %	66 %
Commercial	16 %	29 %
Total - Income Properties	91 %	95 %
Trust	9 %	5 %
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 91% and 95% of the total operating of income of LREIT in 2006 and 2005, 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.

Revenues

Total Rental Revenues

Total rental revenues, 2006 - $28,736,288
Total rental revenues, 2005 - $17,023,087

Analysis of Rental Revenues by Property Sector

	Percentage of Total Rental Revenue Year Ended December 31	
	2006	2005
Residential	85 %	73 %
Commercial	15 %	27 %
	100 %	100 %

During 2006, total rental revenues increased by approximately $11.7 Million or 69%, compared to 2005. The increase is mainly due to an increase in the number of properties in the LREIT portfolio.

During 2006, the residential properties accounted for 85% of the total rental revenues of the Trust and 75% of the operating income, compared to 73% and 66%, respectively, during 2005. The percentage increase in revenues and operating income reflects the acquisition of additional residential properties in 2006.

As of December 31, 2006, the real estate portfolio of LREIT consisted of four commercial properties and 29 residential properties, compared to four commercial properties and 17 residential properties as of December 31, 2005. The percentage of revenue and income attributable to residential properties is expected to continue to increase as additional residential properties are acquired.

Although the residential property component of LREIT is gradually accounting for a higher percentage of operating income, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties, McIvor Mall and the Kenaston Property, were 98% and 97% leased, respectively, as of December 31, 2006.

Revenue from Residential Properties

Analysis of Rental Revenue by Geographic Market Segment - Residential Properties

	Percentage of Total Rental Revenue	
	Year Ended December 31	
	2006	2005
Alberta	40 %	46 %
Saskatchewan	34 %	26 %
Manitoba	6 %	4 %
Northwest Territories	11 %	15 %
British Columbia	5 %	9 %
Ontario	4 %	N/A %
	100 %	100 %

The investment strategy of LREIT is to focus on the acquisition of multi-family residential properties primarily in markets across western Canada, including investments in secondary markets. In 2006, LREIT expanded into a number of new locations, including Brandon, Manitoba, Moose Jaw, Saskatchewan and Port Elgin, Ontario. The majority of new property acquisitions occurred in Alberta and Saskatchewan, with the highest concentration of property acquisitions centred in Fort McMurray, Alberta.

As reflected in the chart above, the Alberta portfolio maintained the top ranking as seven properties were acquired in Alberta in 2006 at an acquisition cost of $38.9 Million.

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

Total Operating Costs

Analysis of Operating Cost Ratio by Property Sector

	Operating Cost Ratio Year Ended December 31	
	2006	2005
Residential	50 %	50 %
Commercial	42 %	41 %
Total portfolio	49 %	48 %

The operating cost ratio for the entire portfolio of LREIT properties increased from 48% in 2005 to 49% in 2006.

Operating Costs for Commercial Properties

The higher overall operating cost ratio for 2006 is primarily due to an increase in the operating cost ratio for the portfolio of commercial properties. The increase is mainly due to a decrease in the occupancy level for the Kenaston Property during 2006.

Same Property Analysis

All of the commercial properties in the LREIT portfolio were acquired prior to 2005 and, as such, the properties completed a full year of operation in 2005 and 2006. As disclosed in the following analysis, the total revenues and operating income of the commercial properties decreased by 4.5% and 7.4%, respectively, in 2006, compared to 2005. The decrease mainly reflects the decrease in the occupancy level at the Kenaston property, as noted above, partially offset by an improvement in the operating results of the McIvor Mall.

	Year Ended December 31		Decrease	
	2006	2005	Amount	%
Total revenue	$ 4,456,858	$ 4,666,046	$ (209,188)	(4.5)%
Operating income	$ 2,592,369	$ 2,798,492	$ (206,123)	(7.4)%

Operating Costs for Residential Properties

Overall Residential Portfolio

Geographic Analysis of Operating Cost Ratio - Multi-Family Properties

	Year Ended December 31			
	2006		2005	
	Operating Cost Ratio	Vacancy Loss	Operating Cost Ratio	Vacancy Loss
Alberta	39 %	3 %	36 %	3 %
Northwest Territories	46 %	5 %	43 %	1 %
Saskatchewan	57 %	11 %	58 %	10 %
Ontario	58 %	- %	N/A	N/A
British Columbia	78 %	11 %	88 %	24 %
Manitoba	62 %	25 %	89 %	29 %
Total residential portfolio	50 %	8 %	50 %	8 %

Although the operating cost ratio for the entire portfolio of residential properties remained constant at 50% in 2006, there was a significant variation in the ratio throughout the property portfolio. In general, the variation in the operating cost ratio for the provincial portfolios reflects differences in occupancy levels and the impact of new property acquisitions.

The operating results for the Alberta and Saskatchewan portfolios have the most significant impact of the overall ratio, given the relative size of the portfolios compared to other provinces.

The increase in the operating cost ratio for the Alberta portfolio in 2006 reflects an increase in operating costs at the Nova Properties. Operating costs at the Nova Properties were comparatively higher in 2006 due to the expiry of the cash flow guarantee, as discussed below. The decrease in the operating cost ratio for the Saskatchewan portfolio mainly reflects the favourable operating cost ratio associated with the acquisition of Riverside Terrace in July 2005.

The province with the most significant change in operating cost ratio was Manitoba. The decrease in the operating cost ratio for the Manitoba portfolio reflects a high operating cost ratio at Highland Tower, offset by the more favourable operating cost ratio of the two Manitoba properties which were acquired in August 2005 and in January 2006, namely Chancellor Gate and Willowdale Gardens, respectively.

Overall, the residential portfolio continued to generate a favourable return in 2006 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.

Nova Properties

In 2004, LREIT acquired three properties, Nova Manor, Nova Villa and Nova Ridge Estates, which 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. As a result of the expiry of the cash flow guarantee, the operating income from the three properties decreased by $136,806 or 13.8% during 2006. The decrease in operating income is mainly due to an increase in operating expenses, including maintenance expenses, advertising and leasing expenses, management fees and salaries and office expenses.

Same Property Analysis

There are six residential properties in the LREIT portfolio which were acquired prior to 2005, namely Greenwood Gardens, Beck Court, Norglen Terrace, Nova Villa, Nova Manor and Nova Ridge Estates. As disclosed in the following analysis, the combined revenue of the six properties increased by 6.3% in 2006, compared to 2005, while operating income decreased by 4.4%. The increase in revenues is mainly attributable to Greenwood Gardens and reflects the significant improvement in the occupancy level in 2006. As disclosed in the preceding chart on operating cost ratios, the vacancy loss for the British Columbia portfolio, which consists solely of Greenwood Gardens, decreased from 24% in 2005 to 11% in 2006.

The decrease in the combined operating income of the six properties mainly reflects the expiry of the cash flow guarantee for the three "Nova" properties and an increase in maintenance costs for Norglen Terrace and Beck Court, partially offset by an increase in the operating income of Greenwood Gardens of approximately $150,000. The increase in maintenance costs at Norglen Terrace and Beck Court mainly reflects an increase in in-suite, common area and building exterior repairs/upgrade costs.

	Year Ended December 31		Increase (Decrease)	
	2006	2005	Amount	%
Total revenue	$ 5,572,480	$ 5,241,952	$ 330,528	6.3 %
Operating income	$ 2,108,711	$ 2,205,088	$ (96,377)	(4.4)%

Revenue/Income and Other Commitments

Lakewood Manor

As disclosed on page 8, the acquisition of Lakewood Manor is expected to close on May 1, 2007. A multi-year lease agreement with a major oil sands company has been arranged for all of the apartment suites and townhouses at the property.

The lease is for a three year term, with a two year renewal option, 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 option 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. The lease agreement is also expected to result in a reduction in the cost of fixed rate mortgage financing for the property.

Elgin Lodge

LREIT has retained Kingsway Arms Management Services Inc. ("Kingsway") to manage Elgin Lodge for a ten year term. Kingsway is an Ontario-based company, which acquires, manages and develops retirement homes, catering principally to the independent and assisted living segments. Kingsway currently manages a portfolio of nine properties, totalling 850 suites located across Ontario. Kingsway will guarantee a 12% return on the equity component of LREIT's investment for a five year period.

During 2006, there was a shortfall between the actual return and the guaranteed return of $61,750. The shortfall is reflected in "Interest and Other Income" in the audited financial statements.

As disclosed on page 9, the construction of the 59 suite expansion of Elgin Lodge commenced in December 2006. Kingsway will also guarantee a 12% return on the equity component of LREIT's investment in the expansion for the balance of the original five year period. During the five year period following the closing date of the acquisition, Kingsway is entitled to a one-time payment equal to 50% of the amount, if any, by which the appraised value of the expanded property exceeds the total cost to LREIT, including the expansion cost.

The Clarington Seniors Residence

LREIT has also retained Kingsway to manage The Clarington Seniors Residence for a ten-year term. Kingsway will guarantee an 8% return on the equity component of LREIT's investment in The Clarington until the "lease-up" of the property is achieved. During the five year period after the "lease-up" date, Kingsway is entitled to a one-time payment equal to 50% of the amount, if any, by which the appraised value of the property exceeds the original acquisition cost to LREIT.

Park View Apartments

LREIT has entered into a Development Agreement with Shelter Canadian Properties Limited in regard to the construction of Park View Apartments. Details of the Development Agreement are disclosed on page 8 of this report.

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

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

During 2006, FFO increased by $1,251,208 compared to 2005, while AFFO increased by $1,143,975 On a per unit basis, FFO increased by $.012 per unit, while AFFO decreased by $.027 per unit.

Funds from Operations/Adjusted Funds from Operations *

	Year Ended December 31 2006	Year Ended December 31 2005 (restated)
Loss for the year	$ (3,785,751)	$ (2,135,105)
Add (Deduct):		
Total amortization expense	7,729,809	4,191,809
Amortization of deferred financing fees	(624,396)	(764,520)
Future income tax recovery	(735,249)	(43,450)
Non-controlling interest	(84,471)	-
Funds from operations	2,499,942	1,248,734
Add (Deduct):		
Accrued rental revenue	(50,835)	(89,304)
Net amortization of above/below market in-place lease	104	3,545
Accrued financing expense on convertible debentures	3,604,259	2,704,761
Interest on convertible debentures	(3,444,102)	(1,766,525)
Unit based compensation	532,406	11,388
Lease acquisition costs	(70,401)	(185,201)
Adjusted funds from operations	$ 3,071,373	$ 1,927,398
FF0 per unit		
- basic	$ 0.146	$ 0.134
- diluted	$ 0.143	$ 0.133
AFFO per unit		
- basic	$ 0.179	$ 0.206
- diluted	$ 0.176	$ 0.203

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

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

Fourth Quarter Results

Comparison to 2006 Third Quarter

	Three Months Ended December 31, 2006	Three Months Ended September 30, 2006	Increase (Decrease)
Operating income - rental properties	$ 4,327,009	$ 4,288,842	$ 38,167
Interest income - Trust	260,417	413,311	(152,894)
Operating income	4,587,426	4,702,153	(114,727)
Financing expense			
Mortgage loans	2,321,147	2,132,482	188,665
Debentures	1,059,541	866,049	193,492
	3,380,688	2,998,531	382,157
Operating income, net of financing expense	1,206,738	1,703,622	(496,884)
Trust expense	518,494	728,057	(209,563)
Income, before amortization, future income tax recovery and non-controlling interest	688,244	975,565	(287,321)
Amortization	1,936,904	2,255,423	(318,519)
Future income tax recovery	(455,245)	(236,454)	(218,791)
Non-controlling interest	(52,898)	(33,419)	(19,479)
Loss for the period	$ (740,517)	$ (1,009,985)	$ 269,468

Analysis of Fourth Quarter Loss

During the fourth quarter of 2006, the income of LREIT, excluding amortization expense, future income tax recovery and non-controlling interest, decreased by $287,321 or 29%, compared to the third quarter of 2006, mainly due to the following factors:

- a decrease in operating income of $114,728. The decrease reflects a significant decrease in interest income from Trust operations, partially offset by a modest increase in operating income from rental properties.

  The decrease in interest income from Trust operations reflects the "conversion" of the $5 Million second mortgage loan receivable for Woodland Park to a non-refundable deposit during the fourth quarter of 2006.

  During the third quarter of 2006, operating income from rental properties increased by $841,336 or 24%, primarily due to the incremental operating income which was derived from the ten new property acquisitions in June 2006. The modest increase in operating income from rental properties during the fourth quarter of 2006 reflects the stabilization of the property portfolio;

- an increase in mortgage loan financing expense of $188,665 or 9%. The increase is mainly due to the additional mortgage financing which was obtained for Nova Ridge and Nelson Ridge in November 2006;

- an increase in debenture financing expenses of $193,492 due to fourth quarter issuance of the Series G debentures; and

- a decrease in Trust expense of $209,563. The decrease mainly reflects the fact that Trust expense was comparatively high during the third quarter of 2006 due to the lump-sum charge to unit-based compensation expense of $417,351 in regard to the unit options which were issued by the Trust in July 2006.

The loss of LREIT, including amortization expense, future income tax recovery and non-controlling interest, decreased by $269,468 during the fourth quarter of 2006, compared to the third quarter of 2006. The decrease in the net loss is mainly due to a decrease in amortization expense of $318,519 and an increase in income tax recovery of $218,791.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31

	2006							
		Q4		Q3		Q2		Q1
Total revenue	$	8,835,557	$	8,370,252	$	6,891,004	$	6,442,035
Operating income	$	4,587,425	$	4,702,153	$	3,821,847	$	3,251,325
Loss for the period	$	(740,517)	$	(1,009,985)	$	(963,067)	$	(1,072,182)
PER UNIT								
Operating income								
- basic	$	0.266	$	0.272	$	0.223	$	0.193
- diluted	$	0.255	$	0.255	$	0.211	$	0.181
Loss for the period								
- basic	$	(0.043)	$	(0.059)	$	(0.056)	$	(0.064)
- diluted	$	(0.043)	$	(0.059)	$	(0.056)	$	(0.064)

Quarterly Analysis For the Year Ended December 31

	2005							
		Q4 (restated)		Q3 (restated)		Q2 (restated)		Q1 (restated)
Total revenue	$	5,579,894	$	4,846,417	$	4,300,018	$	3,066,600
Operating income	$	2,848,881	$	2,630,693	$	2,466,218	$	1,722,756
Loss for the period	$	(463,009)	$	(486,238)	$	(726,463)	$	(459,395)
PER UNIT								
Operating income								
- basic	$	0.285	$	0.263	$	0.304	$	0.230
- diluted	$	0.225	$	0.225	$	0.211	$	0.153
Loss for the period								
- basic	$	(0.046)	$	(0.049)	$	(0.090)	$	(0.061)
- diluted	$	(0.046)	$	(0.049)	$	(0.090)	$	(0.061)

CAPITAL RESOURCES AND LIQUIDITY

Operating Activities

Cash from Operations

During 2006, LREIT generated cash from operations of $5.2 Million, compared to cash from operations of approximately $3.2 Million during 2005, representing an increase of approximately $2 Million. The increase is roughly equivalent to the increase in the net income of the Trust before amortization expense, future income tax recovery and non-controlling interest of $1,111,084, after adjusting for the increase in the non-cash component of Trust expenses and debenture financing expense.

The increase in non-cash component of Trust expenses consists of the increase in unit-based compensation. As disclosed in the "Trust Units" section of this report, unit based compensation expense amounted to $532,406 in 2006, representing an increase in non-cash Trust expenses of $521,018.

As a percentage of operating income, debenture interest expense, calculated on a cash basis, decreased from 15% in 2005 to 12% in 2006. The decrease is attributable to a decrease in the ratio of debenture capital in 2006, compared to 2005, relative to the total capital raised by the Trust.

Net Cash from Operating Activities

After considering the change in non-cash operating items and the cash outflow in regard to tenant inducements and leasing expenses, the net cash provided by operating activities in 2006 was $5,643,510.

Tenant inducements and leasing expenses, excluding amounts recorded on property acquisitions, amounted to $70,401 during 2006 and consisted entirely of leasehold improvements at the Kenaston Property and the McIvor Mall.

Initially, tenant inducements and leasing expenses are 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.

Funding of Cash Distributions

Cash Distribution Policy

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. As disclosed in the first chart below, distributable income is equal to the loss of LREIT, adjusted for certain 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. Cash distributions may also be established at a specific level, as determined by the Trust and, as such, may exceed distributable income.

Distributable Income

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

Distributable Income

	Year Ended December 31 2006	Year Ended December 31 2005 (restated)
Loss for the period	$ (3,785,751)	$ (2,135,105)
Add (deduct):		
Total amortization expense	7,729,809	4,191,809
Amortization of tenant inducements and leasing expenses	(318,592)	(308,615)
Accretion on debt component of convertible debentures	3,604,259	2,704,761
Interest expense on convertible debentures	(3,444,102)	(1,766,525)
Revenue adjustments	(50,731)	(85,759)
Unit-based compensation	532,406	11,388
Future income tax recovery	(735,249)	(43,450)
Non-controlling interest	(84,471)	-
Distributable income	$ 3,447,578	$ 2,568,504
Per unit		
- Basic	$ 0.201	$ 0.275
- Diluted	$ 0.198	$ 0.271

Reconciliation Between Distributable Income and Cash from Operating Activities

	Year Ended December 31 2006	Year Ended December 31 2005 (restated)
Distributable income	$ 3,447,578	$ 2,568,504
Interest expense on convertible debentures	3,444,102	1,766,525
Interest paid on convertible debentures	(2,015,285)	(1,481,775)
Amortization of tenant inducements and leasing expenses	318,592	308,615
Cash from operations, per Statement of Cash Flow	5,194,987	3,161,869
Changes in non-cash operating items	518,924	341,145
Tenant inducement and leasing expenses	(70,401)	(185,201)
Cash provided by operating activities, per Statement of Cash Flow	$ 5,643,510	$ 3,317,813

As disclosed in the following summary, the total cash distributions of LREIT for 2006 exceeded distributable income by $6,305,529 and cash from operating activities by $4,109,597.

	Year Ended December 31 2006	Year Ended December 31 2005 (restated)
Cash distributions	$ 9,753,107	$ 6,230,007
Distributable income	$ 3,447,578	$ 2,568,504
Excess of cash distributions over distributable income	$ (6,305,529)	$ (3,661,503)
Cash provided by operating activities	$ 5,643,510	$ 3,317,813
Excess of cash distributions over cash provided by operating activities	$ (4,109,597)	$ (2,912,194)

Cash Distribution Shortfall

The shortfall between cash distributions and cash from operating activities effectively represents a return of capital to the Unitholders and serves to reduce the investment capacity of the Trust, thereby contributing to the variance between the operating cash flows and the cash distribution amount.

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

Financing/Investment Activities

The chart on page 32 provides a summary of the cash flow activities of the Trust.

As disclosed in the chart, the net cash used in investment activities exceeded the net cash provided by financing activities, excluding cash distributions, by approximately $17.2 Million during 2006. Financing activities consisted primarily of transactions related to mortgage loan financing and the March and December debenture offerings. Investment activities consisted primarily of cash outflows associated with the acquisition and development of new properties, including mortgage loan receivable advances and purchase deposits. Also included in investment activities are asset additions of $1,216,673, the details of which are provided in note 2 of the chart.

After providing for the cash inflows from operating activities and the cash outflow in regard to cash distributions, the net cash outflow for 2006 was $21,377,326. After accounting for the opening cash balance of $22,965,597, LREIT completed 2006 with a cash balance of $1,588,271.

Cash Flow Analysis (Note 1)

	2006 Total
Financing Activities:	
Debenture proceeds	$ 39,412,000
Mortgage proceeds	50,255,483
Mortgage principal payments	(3,199,700)
Mortgage loan refinancing	(9,452,843)
Financing costs	(3,506,513)
Issue costs	(765,742)
Total financing	72,742,685
Investing Activities:	
Property acquisitions	(55,934,280)
Asset additions (Note 2)	(1,216,673)
Property under development	(10,642,378)
Mortgage loan receivable advances	(10,000,000)
Mortgage loan receivable repayments	850,000
Deposits	(12,580,975)
Restricted cash	(486,108)
Total investing	(90,010,414)
Net cash inflow (outflow) of investment capital	(17,267,729)
Operating activities	5,643,510
Cash distributions	(9,753,107)
Net cash inflow (outflow)	**(21,377,326)**
Cash, beginning of period	22,965,597
Cash, ending of period	$ 1,588,271

Note 1 - GAAP Measurements

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

Note 2 - Asset Additions

Renovation costs for Highland Tower	$ 1,285,691
Additional acquisition costs for Elgin Lodge	221,038
Additional acquisition costs for Fort McMurray Portfolio	103,281
Additional acquisition costs for other properties	32,054
	1,642,064
Asset additions included in accounts payable	(425,391)
Cash outlay - asset additions	$ 1,216,673

Working Capital Requirements

General

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

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

Capital Commitments

The following chart provides a summary of the projected capital commitments of LREIT.

Property	Approximate Amount	Description
The Clarington Seniors Residence (closed on February 12, 2007)	$6.7 Million	- represents the $22.4 Million purchase price, net of the mortgage loans of $15.1 Million and deposits of $600,000.
Highland Tower Apartment Project (substantially completed)	$2.3 Million	- represents the cost to complete the renovation program. *
Woodland Park Apartment Project (closed on March 12, 2007)	($2.4 Million)	- represents the $37,865,000 purchase price, net of the cash payment on closing of $13 Million and the subsequent receipt of first mortgage loan proceeds of $27.3 Million.
Nova Court (projected closing in March 2007)	$0.7 Million	- represents the $15 Million purchase price, net of first mortgage loan financing of $9,285,000, less the mortgage loan receivable of $5 Million.
Lakewood Manor (projected closing in May 2007)	$2.2 Million	- represents the $58,735,825 purchase price, net of the projected financing of $48 Million, less the mortgage loan receivable of $8.5 Million.
Park View Apartments (ongoing funding - projected closing date in November 2007)	$9.7 Million	- represents the total maximum construction costs of $57.75 Million, net of the projected financing of $45 Million, less the cash outlay to December 31, 2006 of approximately $9.7 Million. *
Elgin Lodge (ongoing funding)	$1.6 Million	- represents the projected construction costs of $9.5 Million, less the mortgage financing of approximately $6.9 Million, less the cash outlay to December 31, 2006 of approximately $1 Million. *
Millennium Village (Projected closing in August, October and November 2007)	$3.2 Million	- represents the $25,150,000 purchase price, net of the mortgage financing of $16,954,000, less the mortgage loan receivable of $5 Million
	$24 Million	

* adjusted for accounts payable

As indicated in the preceding chart, LREIT requires approximately $24 Million during 2007 in order to fund its existing capital expenditure commitments.

Sources of Capital

Short-term

As of December 31, 2006, the cash balance of LREIT, was $1,588,271, while the working capital balance was $10,450,458.

The refinancing of under-leveraged properties is expected to serve as a source of additional capital during 2007. Since December 31, 2006, LREIT has received mortgage loan advances of approximately $13.8 Million in regard to prior year property acquisitions and financing proposals for additional of $16.9 Million are under negotiation with lenders.

The proceeds from the refinancing of existing properties are expected to be sufficient to enable LREIT to fulfill all of its funding commitments for the immediate future in regard to property acquisitions, capital improvements and cash distributions.

Longer Term

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

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

Trends

The financial results for 2007 are expected to be similar to the results for 2006 with LREIT achieving 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, Compensation and Nominating Committee of the Board of Trustees.

In January 2006, the Committee 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 net book value of the total assets of the Trust, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. The period for the 0.3% fee was initially extended to December 31, 2006 and subsequently, to August 31, 2007. 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 the Property Manager for all of the properties, except for Riverside Terrace, Chateau St. Michael's, Elgin Lodge and the Clarington Seniors Residence, which are managed by third party managers who specialize in seniors' housing.

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

Acquisition of Willowdale Gardens

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

Development Agreement for Park View Apartments

As disclosed on page 5 of this report, LREIT has entered into a development agreement with Shelter Canadian in regard to the construction and acquisition of an 186 suite apartment property in Fort McMurray, to be known as "Park View Apartments". Pursuant to the development agreement, Shelter Canadian has agreed to:

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

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

(iii) provide all development and construction supervision services for the Project. In consideration for its services under the development agreement, Shelter will earn a development fee from LREIT in the maximum amount of $1,000,000, representing approximately 1.73% of the total estimated Project cost.

The acquisition of the land for the property closed on July 31, 2006, at a cost of $9.3 Million. The acquisition of the land relating to the Park View Apartments, and the entering into of the development agreement with Shelter, was approved by the independent trustees of LREIT and Mr. Thorsteinson abstained from voting on the resolution approving the transaction.

CHANGES IN ACCOUNTING POLICY

Effective January 1, 2007, LREIT is adopting two new accounting policies, as established under GAAP. The adoption of the new accounting policies is not expected to have a material impact on the consolidated balance sheet or the consolidated statement of operations of the Trust. The new accounting policies are described below.

Financial Instruments, Recognition and Measurement

In January 2005, The Canadian Institute of Chartered Accountants ("CICA") released new Handbook Section 3855, Financial Instruments, Recognition and Measurement, effective for annual and interim periods beginning on or after October 1, 2006. This new section establishes standards for the recognition and measurement of all financial instruments, provides a character-based definition of a derivative financial instrument and provides criteria to be used to determine when a financial instrument should be recognized and when a financial instrument is to be extinguished.

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, Comprehensive Income and Section 3251, Equity, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530.

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

General

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

Fluctuations in Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk and the return on an investment in units is based on many performance assumptions. The ability of LREIT to continue to pay distributions which are in excess of its Distributable Income is dependent upon the level of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. Cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if LREIT is unable to provide a satisfactory return to Unitholders.

Public Market Risk

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

Closing of Proposed Acquisitions

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

Concentration of LREIT's Portfolio in One Market

The property portfolio of LREIT has significant exposure to the Fort McMurray, Alberta market. As of December 31, 2006, there were 33 properties in the real estate portfolio of LREIT, including four commercial properties and 29 residential properties, comprising 2,268 rental units. Seven of the residential properties, comprising a total of 398 suites are located in Fort McMurray. The seven properties have an aggregate acquisition price of $72.6 Million, which represents approximately 31% of the total aggregate purchase price of the real estate portfolio. In addition, LREIT has acquired or is committed to acquire three additional multi-family residential properties in Fort McMurray and is currently developing a fourth multi-family residential property in Fort McMurray. The four properties comprise a total of 540 suites and have an aggregate acquisition price/development cost of approximately $179.5 Million. Assuming the completion of the committed acquisitions and the property under development, LREIT will have a total of 11 multi-family residential properties in Fort McMurray, comprising a total of 938 suites, with an aggregate acquisition price/development cost to LREIT of approximately $252.1 Million. After including the acquisition of the Clarington Seniors Residence and Nova Court, the 11 Fort McMurray properties will represent approximately 31% of the total multi-family residential suites and approximately 57% of the total aggregate acquisition price/development cost to LREIT of its real estate portfolio.

Proposed Changes to Tax Treatment of Trusts

On December 21, 2006, the Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly-traded trusts (such as income trusts and REITs) and partnerships. The Proposals are contemplated to apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 ("Existing Trust") commencing with taxation years ending in or after 2011 (other than those Existing Trusts which qualify for the REIT Exception as described below).

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where the Existing Trust undergoes "undue expansion".

The new taxation regime will not apply to certain Existing Trusts that qualify as REITs (the "REIT Exception") as defined in the Proposals. Accordingly, unless the REIT Exception is applicable to LREIT, the Proposals could, commencing in 2011, impact the level of cash distributions which would otherwise be made by LREIT. The Proposals do not fully accommodate the current business structures used by many Canadian REITs and contain a number of tests that many Canadian REITs, including LREIT, will likely find difficult to satisfy. The Minister's stated intention is to exempt REITs from taxation as SIFTs in recognition of "the unique history and role of collective real estate investment vehicles". Accordingly, it is possible that changes to these tests will be made prior to their enactment in order to accommodate some or all of the existing Canadian REITs, including LREIT. Alternatively, if the Proposals are not changed, existing Canadian REITs, including LREIT, may need to restructure their affairs in order to limit the application of the Proposals.

In the light of the foregoing, it is not currently possible to accurately predict whether the Proposals as ultimately enacted will have an adverse effect on LREIT.

Other

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

TAXATION

Taxation of LREIT

LREIT is generally subject to tax in Canada under the Income Tax Act (the "Tax Act") in respect to its taxable income each year, except to the extent that such taxable income is paid or deemed to be payable to Unitholders and deducted by LREIT for tax purposes.

Pursuant to the Declaration of Trust of LREIT, the Trustees intend to distribute or designate all taxable income directly earned by LREIT to the Unitholders of the Trust in order to ensure that LREIT will not be subject to income tax under Part I of the Tax Act.

Taxation of Unitholders

A Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of LREIT paid or payable to the Unitholder in the year. The Declaration of Trust generally requires LREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. The cash distributions which have been paid to the Unitholders since the inception of LREIT as a real estate investment trust in September 2002, have exceeded the income of LREIT, as calculated for income tax purposes. Distributions in excess of the taxable income of LREIT are allocated to the Unitholder for the year and will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

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

All of the distributions which have been paid by LREIT from September 2002 to December 31, 2006 have represented a reduction in adjusted cost base of the units.

CONTROLS AND PROCEDURES

Disclosure Controls

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

The CEO and CFO evaluated the effectiveness of the disclosure controls and procedures of LREIT (as defined in Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2006 and have concluded that the controls and procedures are operating effectively.

Internal Controls Over Financial Reporting

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

The CEO and CFO conducted an assessment of the design of the internal controls over financial reporting for LREIT (as defined in Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2006 and, based on that assessment, determined that the internal controls over financial reporting were appropriately designed.

No changes were made to the design of the internal controls over financial reporting during the three months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2006 Annual Report of Lanesborough Real Estate Investment Trust and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
March 22, 2007

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

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

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

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Kenneth J. Dando"

Kenneth J. Dando
Chief Financial Officer

March 22, 2007

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, 2006 and 2005 and the consolidated statements of equity, operations and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2006 and 2005 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
February 16, 2007
except as to Note 26 which is as of March 15, 2007

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	December 31 2006	December 31 2005
Assets		
Income properties (Note 4)	**$227,177,314**	$148,970,556
Properties under development (Note 5)	**20,673,140**	11,018,744
Mortgage loans receivable (Note 6)	**18,500,000**	9,350,000
Deferred charges (Note 7)	**5,725,883**	2,978,897
Cash	**1,588,271**	22,965,597
Other assets (Note 8)	**17,371,861**	3,537,927
Intangible assets (Note 9)	**2,196,237**	2,191,630
	$293,232,706	$201,013,351
Liabilities and Equity		
Mortgage loans payable (Note 10)	**$171,255,511**	$116,827,895
Convertible debentures (Note 11)	**42,829,557**	14,496,971
Accounts payable and accrued liabilities (Note 12)	**8,294,598**	3,000,755
Future income taxes (Note 13)	**3,277,025**	140,972
	225,656,691	134,466,593
Non-controlling interest (Note 14)	**1,915,405**	-
Equity	**65,660,610**	66,546,758
	$293,232,706	$201,013,351

Approved by the Trustees

"Charles Loewen"

"Cheryl Barker"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended December 31, 2006:

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2005	$ 75,115,429	$ (4,231,487)	$ (8,272,429)	$ 3,935,245	$ 66,546,758
Issue of units on exchange of LP units of Village West LP	600,000	-	-	-	600,000
Equity component of issued debentures	-	-	-	10,268,947	10,268,947
Issue costs	(829,863)	-	-	-	(829,863)
Conversion of debentures	2,380,740	-	-	(439,879)	1,940,861
Unit-based compensation	532,406	-	-	-	532,406
Loss	-	(3,785,751)	-	-	(3,785,751)
Distributions declared	-	-	(9,626,529)	-	(9,626,529)
Units issued on distribution reinvestment plan	13,781	-	-	-	13,781
Equity, December 31, 2006	$ 77,812,493	$ (8,017,238)	$ (17,898,958)	$ 13,764,313	$ 65,660,610

Year Ended December 31, 2005:

	Units	Loss	Distributions	Equity Component of Debentures	Total
Equity, December 31, 2004 (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

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31 2006	2005
Revenue		
Rentals from income properties (Note 18)	**$ 28,736,288**	$ 17,023,087
Interest and other income (Note 19)	**1,802,560**	769,842
	30,538,848	17,792,929
Expenses		
Property operating costs	**14,176,097**	8,124,381
Operating income	**16,362,751**	9,668,548
Financing expense	**11,505,489**	7,468,518
Trust expense	**1,732,924**	186,776
Amortization of income properties	**4,478,280**	2,444,966
Amortization of deferred charges	**1,015,733**	1,150,943
Amortization of intangible assets	**2,235,796**	595,900
	20,968,222	11,847,103
Loss before income taxes	**(4,605,471)**	(2,178,555)
Future income tax recovery (Note 13)	**(735,249)**	(43,450)
Loss before the undernoted	**(3,870,222)**	(2,135,105)
Non-controlling interest (Note 14)	**84,471**	-
Loss for the year	**$ (3,785,751)**	$ (2,135,105)
Loss per unit (Note 21)		
Basic	**$ (0.221)**	$ (0.229)
Diluted	**(0.221)**	(0.229)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 2006	December 31 2005
Cash provided by (used in) operating activities		
Loss from operations	**$ (3,785,751)**	$ (2,135,105)
Items not affecting cash		
Accrued rental revenue	**(50,835)**	(89,304)
Amortization of above market in-place leases	**12,836**	17,994
Amortization of below market in-place leases	**(12,732)**	(14,449)
Accretion on debt component of convertible debentures (Note 11)	**3,604,259**	2,704,761
Unit-based compensation	**532,406**	11,388
Amortization of income properties	**4,478,280**	2,444,966
Amortization of deferred charges	**1,015,733**	1,150,943
Amortization of intangible assets	**2,235,796**	595,900
Future income taxes	**(735,249)**	(43,450)
Non-controlling interest	**(84,471)**	-
Interest paid on convertible debentures	**(2,015,285)**	(1,481,775)
Cash from operations	**5,194,987**	3,161,869
Changes in non-cash operating items (net of effects of acquisition of income properties)	**518,924**	341,145
Tenant inducements and leasing expenses incurred through leasing activity	**(70,401)**	(185,201)
	5,643,510	3,317,813
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**50,255,483**	19,621,494
Proceeds of convertible debentures	**39,412,000**	12,000,000
Repayment of mortgage loans on refinancing	**(9,452,843)**	(9,500,766)
Repayment of principal on mortgage loans	**(3,199,700)**	(1,878,758)
Private placement of units	**-**	38,973,424
Options exercised	**-**	40,000
Financing costs	**(3,506,513)**	(1,142,764)
Issue costs	**(765,742)**	(2,741,876)
Distributions paid on trust units	**(9,613,279)**	(6,230,007)
Distributions paid on LP units of Village West LP	**(139,828)**	-
	62,989,578	49,140,747
Cash provided by (used in) investing activities		
Income properties acquired	**(55,934,280)**	(28,231,528)
Additions to income properties	**(1,216,673)**	(1,045,130)
Properties under development	**(10,642,378)**	(11,018,744)
Mortgage loan receivable advance	**(10,000,000)**	(10,825,000)
Repayment of mortgage loan receivable	**850,000**	3,625,000
Deposits on potential acquisitions	**(12,580,975)**	(810,000)
Change in restricted cash	**(486,108)**	(451,340)
	(90,010,414)	(48,756,742)
Cash decrease	**(21,377,326)**	3,701,818
Cash, beginning of year	**22,965,597**	19,263,779
Cash, end of year	**$ 1,588,271**	$ 22,965,597

Supplementary cash flow information (Note 20)

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 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 dated April 23, 2002 and amended on June 12, 2006.

2 Significant accounting policies

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

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

Income properties are carried at cost. If events or circumstances indicate that the carrying value of the income properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income properties. If the analysis indicated that the carrying value is not recoverable from future cash flows, the income properties are written down to estimated fair value and an impairment loss is recognized.

Amortization on buildings is recorded on a straight-line basis over their remaining useful lives ranging from 25 to 50 years. Amortization of appliances is recorded on a straight-line basis over their remaining useful lives ranging from 7 to 15 years.

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

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

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

2 Significant accounting policies (continued)

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 the debt component of 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

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

Unit options

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

2 Significant accounting policies (continued)

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

Wholly-owned operating subsidiaries of the Trust are operating businesses and provide for income tax expense using the asset and liability method of accounting for income taxes at enacted or 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, exchangeable Class B Limited Partnership units of Village West LP and outstanding unit options. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

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

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

Recent accounting pronouncements issued and not yet applied

(i) Financial instruments, recognition and measurement:

In January 2005, The Canadian Institute of Chartered Accountants ("CICA") released new Handbook Section 3855, Financial Instruments, Recognition and Measurement, effective for annual and interim periods beginning on or after October 1, 2006. This new section establishes standards for the recognition and measurement of all financial instruments, provides a character-based definition of a derivative financial instrument and provides criteria to be used to determine when a financial instrument should be recognized and when a financial instrument is to be extinguished. The effect of this new standard on the Trust's Consolidated Balance Sheets and Consolidated Statements of Operations is disclosed in Note 22.

2 Significant accounting policies (continued)

Recent accounting pronouncements issued and not yet applied (continued)

(ii) Comprehensive income and equity:

In January 2005, the CICA released new Handbook Section 1530, Comprehensive Income and Section 3251, Equity, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530.

3 Acquisitions

On January 1, 2006, the Trust acquired Willowdale Gardens, a residential property located in Brandon, Manitoba for a total cost of $4,419,425. The acquisition was funded from the assumption of a first mortgage loan of $2,169,426, with the balance paid in cash. On April 7, 2006, a new first mortgage loan was obtained in the amount of $3,685,500.

On February 1, 2006, the Trust acquired Broadview Meadows, a residential property located in Sherwood Park, Alberta for a total cost of $6,825,556. The acquisition was funded entirely in cash. On February 6, 2006, a first mortgage loan was obtained in the amount of $5,550,000.

On June 1, 2006, the Trust acquired Village West Townhouses, a residential property located in Saskatoon, Saskatchewan for a total cost of $5,213,550 through Village West LP. The acquisition was funded with the assumption of a first mortgage loan of $2,339,121, the issuance of 456,617 Class B Limited Partnership Units of Village West LP in the amount of $2,739,704 and the balance in cash.

On June 1, 2006, the Trust acquired Woodlily Courts, a residential property located in Moose Jaw, Saskatchewan for a total cost of $3,717,600. The acquisition was funded with a new first mortgage loan of $3,000,000 with the balance in cash.

On June 1, 2006, the Trust acquired Chateau St. Michael's, a seniors housing complex located in Moose Jaw, Saskatchewan for a total cost of $7,639,811 through a wholly owned operating subsidiary. The acquisition was funded from the assumption of a first mortgage loan of $5,016,129 with the balance in cash. On September 29, 2006, an advance of $492,188 was received on the existing mortgage loan.

On June 1, 2006, the Trust acquired Elgin Lodge Retirement Home, a seniors housing complex located in Port Elgin, Ontario for a total cost of $8,500,309 through a wholly owned operating subsidiary. The acquisition was funded entirely in cash. On July 5, 2006, a new first mortgage loan was obtained in the amount of $5,900,000.

On June 30, 2006, the Trust acquired Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor and Whimbrel Terrace, six residential properties located in Fort McMurray, Alberta for a total cost of $32,132,409. The acquisition was funded with a new first mortgage loan of $21,618,751 with the balance in cash.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

3 Acquisitions (continued)

On July 27, 2006, the Trust acquired land in Fort McMurray, Alberta for the development of Park View Apartments at total cost of $9,300,000. The acquisition was funded with a vendor take-back mortgage of $7,300,000, with the balance in cash. On December 18, 2006, the vendor take-back mortgage was repaid in full with the initial advance of $6,650,000 of a new mortgage loan, with the balance in cash.

The net assets acquired in the transactions are as follows:

Land	$ 15,001,264
Buildings	50,547,334
Furniture, equipment and appliances	605,223
Properties under development	9,300,000
Intangible assets	
Lease origination costs	1,768,077
Tenant relationships	485,162
Vendor take-back mortgage	(7,300,000)
Mortgage loans payable assumed	(9,524,677)
Working capital, net	41,601
	$ 60,923,984
Consideration:	
Cash	$ 57,934,280
Class B units of Village West LP	2,739,704
Deposits made in year ended December 31, 2005	250,000
	$ 60,923,984

Deposits of $3,300,000 were applied to the acquisitions of income properties during the year ended December 31, 2006 (2005 - $2,000,000).

4 Income properties

December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Land	$ 31,961,341	$ -	$ 31,961,341
Buildings	198,396,670	(7,129,412)	191,267,258
Furniture, equipment & appliances	4,793,124	(844,409)	3,948,715
	$235,151,135	$ (7,973,821)	$227,177,314

December 31, 2005	Cost	Accumulated Amortization	Net Book Value
Land	$ 15,360,952	$ -	$ 15,360,952
Buildings	133,158,960	(3,109,495)	130,049,465
Furniture, equipment & appliances	3,946,185	(386,046)	3,560,139
	$152,466,097	$ (3,495,541)	$148,970,556

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

4 Income properties (continued)

The cost of the major renovation at Highland Tower for the year ended December 31, 2006, consists of construction costs of $1,128,731 (2005 - $900,066) and carrying costs of $156,960 (2005 - $42,062) and is included in the cost of buildings.

During the year ended December 31, 2006, the cost of buildings was increased by an amount of $3,871,302 relating to an adjustment of the net assets acquired on the purchase of Riverside Terrace Inc.

5 Properties under development

	December 31	
	2006	2005
Park View Apartments	$ 19,434,308	$ -
Elgin Lodge	1,238,832	-
Three Lakes Village	-	11,018,744
	$ 20,673,140	$ 11,018,744

The cost of properties under development for the year ended December 31, 2006, consists of land of $9,300,000, construction costs of $11,126,352 and carrying costs of $246,788.

The cost of properties under development relating to Three Lakes Village for the year ended December 31, 2005 consists of land of $1,599,125, building of $9,088,275, appliances of $224,000 and carrying costs of $107,343. On January 1, 2006, Three Lakes Village achieved a satisfactory level of occupancy and the costs were capitalized to income properties.

6 Mortgage loans receivable

	December 31	
	2006	2005
Lakewood Manor	$ 8,500,000	$ 8,500,000
Millennium Village	5,000,000	-
Nova Court	5,000,000	-
Edmonton land	-	850,000
	$ 18,500,000	$ 9,350,000

Lakewood Manor
The Trust has invested in a second mortgage loan, secured by a 175-suite multi-family apartment and townhouse property in Fort McMurray, Alberta. The loan advance of $8,500,000 bears interest at 8%. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property, which is expected to close on May 1, 2007, in the amount of $58,735,825.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

6 Mortgage loans receivable (continued)

Millennium Village
The Trust has invested in a second mortgage loan, secured by a 72 unit multi-family townhouse complex, which is currently under construction in Fort McMurray, Alberta. The loan advance of $5,000,000 bears interest at 8%. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property upon closing of Phase one of the project in August 2007.

Nova Court
The Trust has invested in a mortgage loan, secured by a residential property in Yellowknife, Northwest Territories. The loan advance of $5,000,000 bears interest at 10%. Interest is payable monthly. The loan shall be applied toward the purchase price of the property on closing.

Edmonton land
The Trust invested in a mortgage loan, secured by land in Edmonton, Alberta. The loan advance of $850,000 bore interest at 12%. The loan was repaid on July 15, 2006.

7 Deferred charges

December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Tenant inducements	$ 1,745,767	$ (897,919)	$ 847,848
Financing costs	5,660,376	(1,208,527)	4,451,849
Leasing expenses	165,871	(79,162)	86,709
Amounts recorded on acquisition of income properties			
Tenant inducements	569,203	(229,726)	339,477
	$ 8,141,217	$ (2,415,334)	$ 5,725,883

December 31, 2005	Cost	Accumulated Amortization	Net Book Value
Tenant inducements	$ 1,777,982	$ (712,239)	$ 1,065,743
Financing costs	2,753,783	(1,359,076)	1,394,707
Leasing expenses	170,975	(64,750)	106,225
Amounts recorded on acquisition of income properties			
Tenant inducements	569,203	(156,981)	412,222
	$ 5,271,943	$ (2,293,046)	$ 2,978,897

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7 Deferred charges (continued)

Amortization of deferred charges consists of the following:

	Year Ended December 31 2006	Year Ended December 31 2005
Tenant inducements	$ 290,212	$ 282,138
Financing costs	624,396	764,520
Leasing expenses	28,381	26,477
Amounts recorded on income property acquisition		
Tenant inducements	72,744	77,808
	$ 1,015,733	$ 1,150,943

8 Other assets

	December 31 2006	December 31 2005
Amounts receivable	$ 948,354	$ 513,796
Loan receivable from tenant	210,091	236,105
Property tax deposits and other	1,302,853	746,381
Deposits on potential acquisitions	13,240,975	910,000
Deferred rent receivable	232,930	182,095
Restricted cash	1,436,658	949,550
	$ 17,371,861	$ 3,537,927

Deposits on potential acquisitions includes a $13,000,000 non-refundable deposit in regard to Woodland Park which was applied on closing of the purchase of the property in March 2007.

Restricted cash consists of funds held in trust for residential tenant security deposits.

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9 Intangible assets

December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Lease origination costs	$ 3,554,364	$ (2,107,639)	$ 1,446,725
Tenant relationships	1,040,910	(363,626)	677,284
	4,595,274	(2,471,265)	2,124,009
Above market in-place leases	123,726	(51,498)	72,228
	$ 4,719,000	$ (2,522,763)	$ 2,196,237

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

Amortization of intangible assets consists of the following:

	Year Ended December 31	
	2006	2005
Lease origination costs	$ 1,971,324	$ 471,096
Tenant relationships	264,472	74,804
Cash flow guarantee	-	50,000
	2,235,796	595,900
Above market in-place leases	12,836	17,994
	$ 2,248,632	$ 613,894

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

10 Mortgage loans payable

Mortgage loans payable consists of the following:

	Interest Rates at December 31, 2006			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2006
Fixed rate mortgage loans payable	4.1% - 12.5%	5.6%	6.5 years	$156,322,913
Floating rate mortgage loans payable	6.5% - 7.0%	7.0%	Demand	14,696,123
Non interest bearing vendor take-back second mortgage loans payable	-	-	Demand	236,475
				$171,255,511

	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 take-back second mortgage loans payable			0.5 years	250,000
				$116,827,895

Approximate principal repayments are as follows:

Year ending December 31	
2007	$ 23,541,121
2008	9,822,337
2009	25,128,074
2010	3,450,835
2011	8,224,117
Thereafter	101,089,027
	$171,255,511

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.

11 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 31, 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 16, 2008 and are subordinate to the mortgage loans payable. The Series D debentures are convertible at the request of the holder at any time prior to maturity at a conversion price of $5.00.

The Series E debentures bear interest at 8%, mature on February 17, 2010 and are subordinate to the Series 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.

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 11, 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 11, 2009 at a conversion price per unit of $6.00, during the year ending March 11, 2010 at $6.60, and during the year ending March 11, 2011 at $7.30.

The Trust issued $25,000,000 of unsecured Series G debentures by way of public offering on December 8, 2006 and an additional $732,000 under the over-allotment option on December 22, 2006. The Series G debentures bear interest at 7.5%, mature on December 31, 2011 and are subordinate to the Series A debentures, Series D debentures, Series E debentures, and Series F debentures. The Series G debentures are convertible at the request of the holder at any time prior to their maturity date at a conversion price of $7.00. The Trust has the right to redeem in whole or in part, the Series G debentures at par plus accrued interest, provided that the weighted average trading price of the units during the twenty consecutive trading days ending five trading days preceding the date on which the notice of redemption is given must not be less than 125% of the applicable conversion price for the period from December 31, 2009 to December 31, 2010 and at par plus accrued interest from December 31, 2010. Upon receipt of the notice of intent to redeem, the holders may elect to convert to units at the then applicable conversion price.

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

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

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11 Convertible debentures (continued)

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 D, Series E, Series F and Series G debentures:

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

December 31, 2005	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,640,931	$ 307,280	$ 1,948,211
Series D - 8%, due March 16, 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

The accretion of the debt component for the year ended December 31, 2006 of $3,604,259 (2005 - $2,704,761), which increases the debt component from the initial carrying amount, is included in financing expense.

12 Accounts payable and accrued liabilities

	December 31 2006	2005
Accounts payable and accrued liabilities	$ 2,207,600	$ 983,512
Construction costs payable on properties under development	2,730,762	-
Mortgage and debenture interest payable	1,732,235	1,026,663
Tenant security deposits	1,606,147	959,994
Below market in-place leases, net of accumulated amortization of $57,740 (2005 - $45,008)	17,854	30,586
	$ 8,294,598	$ 3,000,755

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13 Future income taxes

The future income tax liability of wholly-owned operating subsidiaries, which are subject to income taxes, consists of the following:

	December 31 2006	December 31 2005
Tax liabilities related to difference in tax and book value	$ 3,509,275	$ 195,885
Tax assets related to difference in tax and book value	(119,689)	-
Tax assets related to operating losses	(112,561)	(54,913)
	$ 3,277,025	$ 140,972

The future income tax liability and related increase in the cost of Riverside Terrace Inc. was recorded in the year ended December 31, 2006.

The future income tax recovery of wholly-owned subsidiaries consists of the following:

	Year Ended December 31 2006	Year Ended December 31 2005
Tax recovery relating to operating losses based on the effective rate	$ (64,642)	$ (54,913)
Adjustment to future tax assets and liabilities relating to timing differences	(159,582)	11,463
Adjustment for future tax assets and liabilities for change in the effective tax rate	(511,025)	-
	$ (735,249)	$ (43,450)

14 Non-controlling interest

Non-controlling interest represents the interest of the holder of the Class B units (LP Units) of Village West LP, an entity controlled by the Trust, which is consolidated in these financial statements. The holder of the LP Units of Village West LP is entitled to receive distributions equal to those provided to holders of units of the Trust. LP Units are exchangeable, at the option of the holder on a one for one basis into units of the Trust.

Non-controlling interest consists of the following:

	December 31 2006	December 31 2005
LP Units of Village West LP	$ 2,739,704	$ -
Share of loss of Village West Townhouses	(84,471)	-
Distributions on LP Units of Village West LP	(139,828)	-
Exchange of 100,000 LP Units for Units of the Trust	(600,000)	-
	$ 1,915,405	$ -

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 the seniors housing complexes. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regards to commercial properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewal of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The Trust incurred property management fees to Shelter Canadian Properties Limited of $974,256 for the year ended December 31, 2006 (2005 - $577,195). Property management fees are included in property operating expenses.

Included in accounts payable and accrued liabilities at December 31, 2006 is a balance of $61,836 (2005 - $58,116), 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. On January 17, 2006 and as subsequently amended, the terms of the services agreement between the Trust and Shelter Canadian Properties Limited were modified. For the period from January 1, 2006 to August 31, 2007, a service fee is payable to Shelter Canadian Properties Limited, equal to 0.3% of the net book value of the assets of the Trust, excluding cash and accumulated amortization.

The Trust incurred service fees to Shelter Canadian Properties Limited of $636,881 for the year ended December 31, 2006 (2005 - $nil). Service fees are included in Trust expense.

Unit-based compensation expense for the year ended December 31, 2006 of $11,388 (2005 - $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.

Acquisition
Effective January 1, 2006, the Trust acquired Willowdale Gardens. Prior to the acquisition a related party, 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited, which is owned by the Arni Thorsteinson Family Trust, the Chief Executive Officer and a trustee of the Trust, held an 18.67% undivided interest in Willowdale Gardens. From January 1, 2006 until April 6, 2006, the assumed first mortgage loan was guaranteed by Shelter Canadian Properties Limited.

15 Related party transactions (continued)

Acquisition (continued)
On July 27, 2006, the Trust acquired and agreed to develop Park View Apartments, a residential property located in Fort McMurray, Alberta. The Trust has purchased the land and entered into a development agreement with Shelter Canadian Properties Limited in which Shelter Canadian Properties Limited has agreed to (i) develop the project for a total cost not to exceed $57,750,000 (inclusive of the purchase price of the land); (ii) arrange and guarantee construction financing, in the approximate amount of $45,000,000 and permanent financing after completion of construction; and (iii) provide all development and construction supervision services for the project. The Trust will pay to Shelter Canadian Properties Limited a fee of $1,000,000 in consideration for services provided under the development agreement. During the year ended December 31, 2006, $334,405 was recorded to properties under development in regard to the development and construction supervision services provided by Shelter Canadian Properties Limited.

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

16 Units

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

	Year Ended December 31 2006	Year Ended December 31 2005
Outstanding, beginning of year	16,855,286	6,461,213
Units issued on conversion of debentures	434,510	2,715,333
Units issued on exchange of LP units of Village West LP	100,000	-
Units issued on distribution reinvestment plan	2,439	-
Units issued by private placement	-	7,668,740
Units issued on exercise of unit option	-	10,000
Outstanding, end of year	17,392,235	16,855,286

Distribution Reinvestment Plan
Commencing with the November 30, 2006 cash distribution, the Trust implemented a distribution reinvestment plan ("DRIP"). Pursuant to the DRIP, holders of Units may elect to have all or a portion of their regular monthly distributions automatically reinvested in additional Units. Participants in the DRIP receive a bonus distribution of units equal to 4% of the amount of the cash distribution which is reinvested. The purchase price of the units is equal to the weighted average closing price of the Units for the five trading days immediately preceding the distribution payment date. During the year ended December 31, 2006, 2,439 units have been issued pursuant to the DRIP.

17 Unit option plan

The maximum number of units reserved for issuance under the unit option plan will be limited to 10% of the total number of issued and outstanding 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 price of the units on the date of grant. The options will have a maximum term of five years from the date of grant.

On January 17, 2006, the Trust granted options to the three Trustees and the Chief Financial Officer to acquire 7,500 units each at $5.42 per unit. The options have vested and expire on January 17, 2011.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used for the options granted on January 17, 2006 are dividend yield of 10.13%, expected volatility of 36.22%, risk-free interest rate of 3.84% and life of options of five years.

Unit-based compensation expense of $22,843 for the year ended December 31, 2006 (2005 - $nil) relating to options issued on January 17, 2006, was recorded to expense the fair value of unit-based compensation and is including in Trust expense.

On July 26, 2006, the Trust granted options to each of the independent Trustees, the Chief Executive Officer and the Chief Financial Officer as well as seventeen management and senior employees of Shelter Canadian Properties Limited who are engaged in functions related to the Trust to acquire a total of 960,000 units at $5.80 per unit. The options granted to the independent Trustees have vested. The balance of the options vest equally on the grant date and the first, second, third and fourth anniversaries of the grant date. The options expire on July 26, 2011.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used for the options granted on July 26, 2006, are a dividend yield of 9.61%, expected volatility of 43.10%, risk-free interest rate of 4.25% and life of options of five years.

Unit based compensation expense of $498,175 for the year ended December 31, 2006 (2005 - $nil), relating to the options issued on July 26, 2006, was recorded to expense the fair value unit-based compensation and is included in Trust expense.

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17 Unit option plan (continued)

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

	Year Ended December 31, 2006		Year Ended December 31, 2005	
	Units	Exercise Price	Units	Exercise Price
Outstanding, beginning of year	10,000	$ 4.00	20,000	$ 4.00
Granted, January 17, 2006	30,000	5.42	-	-
Granted, July 26, 2006	960,000	5.80	-	-
Exercised	-	-	(10,000)	4.00
Outstanding, end of year	1,000,000		10,000	
Vested, end of year	392,000		10,000	
Weighted average exercise price		$ 5.77		$ 4.00

18 Rentals from income properties

Rental revenue contractually due from tenants include the recovery of property operating costs and property taxes from tenants of $1,645,274 (2005 - $1,777,217) and meal revenue of $1,364,535 (2005 - $330,578) for the year ended December 31, 2006.

19 Interest and other income

	Year Ended December 31 2006	Year Ended December 31 2005
Interest on mortgage loans receivable	$ 971,019	$ 212,358
Other interest	714,625	473,413
Alberta natural gas rebates	55,166	12,145
Equity guarantee	61,750	-
Cash flow guarantee	-	71,926
	$ 1,802,560	$ 769,842

The current year includes an equity guarantee of $61,750 from Kingsway Arms Acquisition Corporation, the vendor on the purchase of Elgin Lodge Retirement Home.

20 Supplementary cash flow information

	Year Ended December 31 2006	Year Ended December 31 2005
Interest paid on mortgage loans payable	$ 7,678,142	$ 5,065,355
Interest received on mortgage loans receivable	$ 882,466	$ 180,221
Other interest received	$ 714,625	$ 473,413

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21 Per unit calculations

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

Loss per unit calculations are based on the following:

	Year Ended December 31 2006	2005
Loss	$ (3,785,751)	$ (2,135,105)
Diluted loss	$ (3,785,751)	$ (2,135,105)
Weighted average number of units	17,161,415	9,341,400
Weighted average diluted number of units	17,161,415	9,341,400

22 Financial instruments and risk management

Fair values
As at December 31, 2006, the carrying values of cash, amounts receivable, mortgage loans receivable and accounts payable and accrued liabilities approximate fair value due to the immediate or short-term maturities of these instruments.

The carrying value of the mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of the instruments. The estimated fair value of mortgage loans payable is $171,868,072 (2005 - $112,264,967).

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, 2006, the total of mortgage loans payable is 61.8% (2005 - 63.8%) of the total appraised value of income properties.

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22 Financial instruments and risk management (continued)

Risk management (continued)
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.

23 Segmented financial information

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

Year ended December 31, 2006:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	$ 4,056,179	$ 351,350	$ 24,328,759	$ -	$ 28,736,288
Interest and other income	43,501	5,829	353,319	1,399,911	1,802,560
Property operating costs	1,816,577	47,915	12,311,605	-	14,176,097
Operating income	2,283,103	309,264	12,370,473	1,399,911	16,362,751
Financing expense	1,008,348	125,816	6,767,066	3,604,259	11,505,489
Amortization of income properties	332,727	31,345	4,114,208	-	4,478,280
Amortization of deferred charges	408,390	1,072	168,907	437,364	1,015,733
Amortization of intangible assets	177,821	-	2,057,975	-	2,235,796
Income (loss)	$ 355,818	$ 151,031	$ 82,033	$ (4,374,633)	$ (3,785,751)
Total assets	$ 19,428,858	$ 2,796,990	$ 234,873,913	$ 36,132,945	$ 293,232,706

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

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23 Segmented financial information (continued)

Year ended December 31, 2006:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	9,926,967	1,294,144	5,477,775	1,084,873	2,681,860	8,270,669	-	28,736,288
Interest and other income	200,182	13,381	58,546	62,727	17,397	50,416	1,399,911	1,802,560
Property operating costs	3,878,004	1,023,942	2,707,173	598,904	1,243,369	4,724,705	-	14,176,097
Operating income	6,249,145	283,583	2,829,148	548,696	1,455,888	3,596,380	1,399,911	16,362,751
Financing expense	3,103,598	367,706	1,491,270	280,434	889,664	1,768,558	3,604,259	11,505,489
Amortization of income properties	1,778,306	176,016	666,514	96,910	492,787	1,267,747	-	4,478,280
Amortization of deferred charges	60,247	1,005	410,791	94,234	2,038	10,054	437,364	1,015,733
Amortization of intangible assets	545,807	-	1,089,797	69,303	-	530,889	-	2,235,796
Income (loss)	761,184	(261,143)	(829,222)	104,111	71,399	742,554	(4,374,634)	(3,785,751)
Total assets	118,258,418	10,865,515	32,903,415	11,556,938	24,486,765	59,028,710	36,132,945	293,232,706

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

24 Commitments

Acquisitions

Millennium Village

The Trust has agreed to acquire Millennium Village, a residential property currently under construction, located in Fort McMurray, Alberta for a cost of $25,150,000. The acquisition will be funded with a new first mortgage loan of $16,954,000, with the balance in cash. The Trust has provided a $5,000,000 second mortgage, bearing interest at 8%, to be credited towards the purchase price upon the closing of Phase One of the project in August 2007. The remaining two phases are expected to close October 2007 and November 2007 respectively.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

24 Commitments (continued)

Acquisitions (continued)

Park View Apartments
The Trust has acquired and agreed to develop Park View Apartments, a residential property located in Fort McMurray, Alberta. The Trust acquired the land for $9,300,000 funded by a vendor take-back mortgage in the amount of $7,300,000, with the balance in cash. The vendor take-back mortgage was repaid with the proceeds of the new mortgage financing of $6,650,000, with the balance in cash. The $6,650,000 represents the initial draw of a mortgage loan in the maximum amount of $45,000,000. In addition, the Trust entered into a development agreement with Shelter Canadian Properties Limited in which Shelter Canadian Properties Limited has agreed to (i) develop the project for a total cost not to exceed $57,750,000 (inclusive of the purchase price of the land); (ii) arrange and guarantee construction financing, in the approximate amount of $45,000,000 and permanent financing after completion of construction; and (iii) provide all development and construction supervision services for the project. The Trust will pay to Shelter Canadian Properties Limited a fee of $1,000,000 in consideration for services provided under the development agreement. The construction of the apartment project is expected to be completed no later than November 30, 2007.

Lakewood Manor
The Trust has agreed to acquire Lakewood Manor, a residential property currently under construction, located in Fort McMurray, Alberta for a total cost of $58,735,825. The acquisition will be funded with new first mortgage loans in the minimum amount of $48,000,000, with the balance in cash. The Trust has provided an $8,500,000 second mortgage loan, bearing interest at 8.0%, to be credited towards the purchase price upon closing. The purchase is expected to close on May 1, 2007.

Nova Court
The Trust has agreed to acquire Nova Court, a residential property located in Yellowknife, Northwest Territories for $15,000,000. The acquisition will be funded with the assumption of a first mortgage loan of $9,285,000, with the balance in cash. The mortgage loan receivable of $5,000,000 shall be credited to the purchase price, on closing.

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

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

Guarantees
For a period of five years from June 1, 2006, Kingsway Arms Acquisition Corporation, the vendor on the purchase of Elgin Lodge, has guaranteed the Trust a return of 12% on its equity in the property. As at December 31, 2006, $61,750 is included in interest and other income as a result of a shortfall on the guaranteed return.

25 Contingent consideration on acquisition

In conjunction with the acquisition of Elgin Lodge, the Trust has contracted with Kingsway Arms Management Services Inc., the management company of the property, to manage the expansion of the property at a rate of $12,000 per month beginning June 1, 2006 for a period of twelve months. The estimated cost of the expansion is $9,500,000 to be financed with an additional mortgage loan of $6,850,000 from the existing lender with the balance in cash.

For a period of five years from June 1, 2006, the Trust is required to make an additional payment to Kingsway Arms Management Services Inc. of 50% of the amount, if any, that the appraised value of the expanded Elgin Lodge property exceeds the total costs to the Trust, including the expansion costs.

26 Subsequent events

Acquisitions

Clarington Seniors Residence
On February 15, 2007, the Trust acquired the Clarington Seniors Residence, an independent living retirement home located in Bowmanville, Ontario for $22,400,000. The acquisition was funded with a mortgage loan of $15,100,000 with the balance in cash. The Trust has retained Kingsway Arms Management Service Inc. to manage the property for a 10 year term. Kingsway Management Services Inc. will guarantee a return of 8% on the equity component of the Trust's investment until such at time as the lease-up is achieved. For a period of five years after lease-up, the Trust is required to make an additional payment to Kingsway Arms Management Services Inc. of 50% of the amount, if any, that the appraised value of the property exceeds the total original acquisition cost to the Trust.

Woodland Park
On March 12, 2007, the Trust acquired Woodland Park, a residential property located in Fort McMurray, Alberta for a total cost of $37,865,000. The acquisition was funded with an interim mortgage loan payable of $18,000,000, a vendor take-back mortgage of $6,250,000, bearing interest at 12.5% and due on June 30, 2007, with the balance in cash. The non refundable deposit of $13,000,000 was credited to the purchase price on closing. A new mortgage loan in the amount of $27,300,000 has also been arranged. The Trust was entitled to all rental revenue and was responsible for all leasing, operating and financing expenses in regard to the property from November 30, 2006. The total of leasing, operating and financing expenses, net of rental revenue, in the amount of $342,250 is including in other assets.

Distributions
Distributions of $749,604 and $746,845 were paid on February 15, 2007 and March 15, 2007, respectively, to unitholders of the Trust. Units of 8,227 and 9,046 were issued on February 15, 2007 and March 15, 2007, respectively, to unitholders of the Trust in regard to participation in the DRIP. Distributions of $15,941 and $15,941 were paid on February 15, 2007 and March 15, 2007, respectively, to the holder of the LP units of Village West LP.

Upward refinancing
On January 1, 2007, a 4.91% $4,258,978 first mortgage loan payable, ranking pari passu to the existing first mortgage loan, was obtained on Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor and Whimbrel Terrace. The mortgage loan payable is due September 1, 2016.

On February 9, 2007, a 12.5% $12,500,000 second mortgage loan was obtained on Nelson Ridge Estates and Riverside Terrace. The mortgage loan payable is due on August 1, 2007.

27 Comparative figures

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

UNITHOLDER INFORMATION

Trustees and Officers

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

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

Administrator of the Trust

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

Property Management

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

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

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Unit Listing

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

Unitholder and Investor Contact

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