LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

MEYERS NORRIS PENNY LLP

Auditors' Report

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the consolidated balance sheets of Lanesborough Real Estate Investment Trust as at December 31, 2005 and 2004 and the consolidated statements of equity, loss and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba
April 19, 2006

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEET

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

Approved by the Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF EQUITY

Year Ended December 31, 2005:

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

Year Ended December 31, 2004 (restated):

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF LOSS

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

1 Organization

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

2 Significant accounting policies

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

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

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

Amortization on buildings is recorded on a straight-line basis over the remaining useful life. Amortization of appliances is recorded on a straight-line basis at 10% per annum.

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

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

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

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

2 Significant accounting policies (continued)

Unit options

The Trust has a unit option plan available for officers, employees and trustees and has granted options to Shelter Canadian Properties Limited and the independent Trustees. Consideration paid by option holders on exercise of unit options is credited to Unitholders' equity. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense in regard to options granted to officers, employees and trustees is recognized over the vesting period of the options. Compensation expense in regard to options issued to Shelter Canadian Properties Limited under the services agreement is recognized over the term of the services agreement.

Revenue recognition

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

Income taxes

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

Riverside Terrace Inc., a wholly owned subsidiary of the Trust, is an operating business and provides for income tax expense using the asset and liability method of accounting for income taxes at enacted or substantially enacted rates. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Per unit calculations

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

Use of estimates

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

2 *Significant accounting policies (continued)*

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

3 *Changes in accounting policies*

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

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

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

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

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

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

3 Changes in accounting policies (continued)

Carrying costs during major renovations
Effective July 1, 2005, carrying costs incurred during the period of major in-suite renovations of income properties are capitalized in the cost of the building. Major in-suite renovations involve the temporary removal of suites from the rental market and include the replacement of flooring, draperies, appliances and cabinetry as well as related repairs and painting. Carrying costs consist of financing and certain property operating costs including property taxes, utilities, common area maintenance and salary costs during the period the suites are removed from the rental market. The period for which the costs will be capitalized will be not more than three months. The carrying costs are amortized over the estimated useful life of five years. The new policy has been applied retroactively. The prior periods have not been restated as there were not any major in-suite renovations which involved the temporary removal of suites from the rental market in prior periods.

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

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

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

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

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

4 Acquisitions

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

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

4 Acquisitions (continued)

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

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

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

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

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

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

The net assets acquired in the transactions are as follows:

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

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

5 Income properties

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

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

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

6 Mortgage loans receivable

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

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

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

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

7 Deferred charges

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

Amortization of deferred charges consists of the following:

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

8 Cash

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

9 *Other assets*

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

10 *Intangible assets*

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

Amortization of intangible assets consists of the following:

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

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

11 Mortgage loans payable

Mortgage loans payable consists of the following:

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

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

Approximate principal repayments are as follows:

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

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

12 Convertible debentures

The Series A debentures bear interest at 10%, mature on August 30, 2007 and are subordinate only to the mortgage loans payable. The Series A debentures are convertible at the request of the holder at any time during the year ending August 30, 2006 at $5.50 and during the year ended August 30, 2007, at $6.00. The Trust has the right to redeem all, but not less than all of the Series A debentures at par plus accrued interest, provided that the weighted average trading price of the units during the twenty consecutive trading days ending five trading days preceding the date on which the notice of redemption is given must not be less than the applicable conversion price. Upon receipt of the notice of intent to redeem, the holders may elect to convert to units at the then applicable conversion price.

The Series D debentures bear interest at 8%, mature on March 15, 2008 and are subordinate to the mortgage loans payable. The Series D debentures are convertible at the request of the holder at any time prior to maturity at a conversion price of $5.00.

The Trust issued $3,659,000 and $8,341,000 of Series E debentures by way of private placement on February 18, 2005 and March 16, 2005 respectively. The Series E debentures bear interest at 8%, mature on February 17, 2010 and are subordinate to the Series A debentures and Series D debentures. The Series E debentures are convertible at the request of the holder at any time during the year ending February 17, 2008, at a conversion price per unit of $6.50, during the year ending February 17, 2009, at $7.15; and during the year ending February 17, 2010, at $7.90

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

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

The following allocation of the convertible debentures to debt and equity components is based on the net present value of future interest and principal payments with an estimated cost of borrowing without conversion option of 15% for Series A, Series C, Series D and Series E debentures and 18% for Series B debentures:

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

12 Convertible debentures (continued)

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

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

13 Accounts payable and accrued liabilities

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

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

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

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

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

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

14 Intangible liabilities

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

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

15 Related party transactions

Management agreement
The Trust entered into a property management agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties, except for Luther Riverside Terrace. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. In regard to commerical properties, Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewals of 1 1/2% to 2 1/2% of base rental payments. Shelter Canadian Properties Limited is also entitled to tenant improvement and renovation fees equal to 5% of the total cost of the work.

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

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

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

Services agreement
The Trust entered into a services agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust.

Unit-based compensation expense for the year ended December 31, 2005 of $11,388 (2004 - $11,388), relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the term of the services agreement.

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

16 Units

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

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

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

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

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

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

17 Unit options

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

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

18 Rentals from income properties

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

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

19 Interest and other income

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

20 Per unit calculations

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

Loss per unit calculations are based on the following:

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

21 Financial instruments and risk management

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

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

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

Risk management
The Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. The Trust manages the risks, as follows:

Interest rate risk is minimized for the mortgage loans payable on demand, which are financed at variable rates, by structuring the mortgage loans with an option to fix the interest rate. The Declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties. As at December 31, 2005, the total of mortgage loans payable is 63.8% (2004 - 72.9%) of the total appraised value of income properties.

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

22 *Segmented financial information*

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

Year ended December 31, 2005:

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

Year ended December 31, 2004 (restated):

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

22 Segmented financial information (continued)

Year ended December 31, 2005:

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

Year ended December 31, 2004 (restated):

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

23 Subsequent events

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

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

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

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

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

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

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

Service agreement
On January 17, 2006, the terms of the service agreement between the Trust and Shelter Canadian Properties Limited were modified. For the period commencing on January 1, 2006 and concluding June 30, 2006, a service fee will be paid to Shelter Canadian Properties Limited, equal to 0.3% of the net book value of the assets of the Trust, excluding cash and accumulated amortization.

24 Comparative figures

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