LANESBOROUGH REIT

2005 SECOND QUARTER REPORT

Unitholder Returns

	Six Months Ended June 30, 2005	Year Ended December 31, 2004
Distribution per unit	$0.28	$0.53
Opening unit price	$5.50	$4.00
Closing unit price	$5.65	$5.50
Annualized yield on closing price (distribution/closing unit price)	9.9%	9.6%
Capital appreciation (capital appreciation/opening unit price)	2.7%	37.5%
Total return	12.6%	47.1%

Projected cash distribution – 2005:	$0.56
Closing unit price – August 24, 2005:	$5.90
Current yield:	9.49%

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

REPORT TO UNITHOLDERS

The investment strategy of Lanesborough Real Estate Investment Trust ("LREIT") is to focus on investing in quality properties in markets across Canada in order to create a geographically diversified portfolio with solid cash flows and strong capital appreciation potential. During the second quarter of 2005, the overall quality of the real estate portfolio of LREIT was significantly enhanced as a result of the acquisition of two multi-family residential properties, namely Nelson Ridge Estates in Fort McMurray, Alberta and Nova Village in Yellowknife, Northwest Territories.

After considering the acquisition cost of the two new properties, the real estate portfolio of LREIT has almost doubled in size since December 31, 2004 and the value of the portfolio exceeds $124 Million. With a cash balance of approximately $17.6 Million at the end of the second quarter, LREIT has the resources to further expand its property portfolio and achieve additional growth in operating income during the remainder of 2005.

Geographic diversification has been one of the cornerstones of LREIT's disciplined approach to growth and the expansion of the portfolio into the northern Alberta community of Fort McMurray has served to further diversify the economic base of the Trust. At a cost of approximately $40.6 Million, the Fort McMurray acquisition of Nelson Ridge Estates is now the largest property in the real estate portfolio of LREIT in terms of both cost and income-generating capability and the new property has significantly enhanced the overall stability of operating cash flows. In the booming economy of Fort McMurray, Nelson Ridge Estates was the highest yielding multi-family residential property in the LREIT portfolio during the second quarter of 2005 and accounted for 36% of the total operating income of the Trust. The other second quarter acquisition, Nova Village, is a newly constructed apartment complex in the initial lease-up stage of development that is expected to achieve high occupancy levels and solid cash flows, as has been the case with the 100% occupied Beck Court, the other LREIT property in Yellowknife.

LREIT's investment objective of generating sustained growth in operating cash flows is clearly reflected in the operating results for the second quarter of 2005. During the second quarter of 2005, operating income increased by $788,459 or 45%, compared to the first quarter of 2005, primarily due to the acquisition of Nelson Ridge Estates. In comparison to the first six months of 2004, the operating income of LREIT increased by $2,312,799 or 120% during the six month period ended June 30, 2005.

As reflected by the high cash balance as of June 30, 2005, LREIT had a significant amount of uninvested capital during the second quarter of 2005. Pending the investment of the remaining capital in income-producing properties, the cost of carrying the capital significantly exceeds the amount of interest income which is derived from the uninvested capital. The increase in the net loss of LREIT, from $246,582 during the second quarter of 2004, to $520,148 during the second quarter of 2005, is mainly attributable to the cost of carrying the uninvested capital and to increased amortization charges on new property acquisitions. As additional properties are acquired, the resultant increase in operating income is expected to offset the cost of capital by a significant amount. Accordingly, it is anticipated that there will be a substantial improvement in bottom-line results during the third and fourth quarter of 2005.

In summary, LREIT is achieving its objective of creating a large, diversified portfolio of quality real estate investments in order to provide Unitholders with stable cash distributions and increasing unit values. Over the 12 month period ended June 30, 2005, the unit value of LREIT has increased by 21% and Unitholders have received a direct return from cash distributions of 11.4%, based on the June 30, 2004 closing price of $4.66. The outlook for continued growth remains very positive, given the capital resources of the Trust and the increased income potential of the existing property portfolio.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 25, 2005

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 financial statements for the second quarter ended June 30, 2005 and accompanying notes, and with reference to the report for the first quarter of 2005 and the 2004 Annual Report. 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 properties. The overall investment strategy of LREIT is to focus on the acquisition of properties with stable yields, low vacancy levels, strong tenant covenants and growth potential. LREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high calibre and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

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 with the expectation that there will be an improvement in rental market conditions when interest rates increase and home ownership becomes a more costly alternative for renters. 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 Canada, including continued investments in small urban centres. Other multi-unit residential properties, such as senior housing complexes or "care" homes will also be considered.

Second Quarter

As of March 31, 2005, the real estate portfolio of LREIT consisted of 12 multi-family residential properties and four commercial properties with a total acquisition cost of $77.4 Million.

During the second quarter of 2005, LREIT acquired two additional multi-family residential properties at a total purchase price of $51,475,000, resulting in a real estate portfolio of 18 properties with a total cost of $128.9 Million as of June 30, 2005.

Property Portfolio – June 30, 2005

Property	Location	Purchase Price		Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy 6/30/05	
Multi-Family Residential							
Beck Court	Yellowknife, NWT	$ 14,300,000		April 2004	120	100%	
Greenwood Gardens	Surrey, BC	10,950,000		April 2004	183	76%	(1)
Nova Villa	Edmonton, AB	5,400,000		May 2004	61	85%	
Nova Manor	Edmonton, AB	2,615,000		May 2004	32	81%	
Nova Ridge Estates	Spruce Grove, AB	8,800,000		July 2004	102	94%	
Norglen Terrace	Peace River, AB	2,500,000		October 2004	72	92%	
Highland Towers	Thompson, MB	1,350,000		January 2005	95	66%	(1)
Borden Estates	Prince Albert, SK	5,315,000		January 2005	144	71%	
Cedar Village	Prince Albert, SK	2,700,000		February 2005	72	82%	
Carlton Manor	Prince Albert, SK	410,000		February 2005	19	79%	
Riverside Apartments	Prince Albert, SK	265,000		February 2005	12	75%	
MGM Apartments	Prince Albert, SK	650,000		February 2005	28	71%	
Nelson Ridge Estates	Fort McMurray, AB	40,575,000		April 2005	225	100%	
Nova Village	Yellowknife, NWT	10,900,000		May 2005	50	38%	(2)
Total – Multi-Family		$ 106,730,000		Total Suites	1,215		
Retail and Office							
Kenaston	Winnipeg, MB	$ 12,656,200	(3)	April 2002	103,209	100%	
McIvor Mall	Winnipeg, MB	6,700,000		February 2004	65,283	97%	
		19,356,200			168,492		
Light Industrial							
MAAX Warehouse	Airdrie, AB	1,600,000		June 2003	39,936	100%	
Purolator Building	Burlington, ON	1,200,000		September 2003	16,117	100%	
		2,800,000			56,053		
Total - Commercial		$ 22,156,200		Total leasable area	224,545		
Total		$ 128,886,200					

(1) In-suite upgrade program in process.
(2) Newly constructed property, in lease-up stage.
(3) Includes cost of asset additions.

Subsequent to June 30, 2005

Acquisitions which have been completed, or are in process, subsequent to June 30, 2005, are as follows:

Property Acquisitions – Subsequent to June 30, 2005

Property	Location	Actual/Projected Acquisition Date	Number of Suites	Purchase Price
Luther Riverside Terrace **	Saskatoon, SK	July 2005 *	181	$ 24,000,000
Marquis Towers	Prince Albert, SK	August 2005	129	6,200,000
Chancellor Gate	Winnipeg, MB	August 2005	48	6,750,000
				$ 36,950,000

* Acquisitions completed.
** Luther Riverside Terrace is a senior's housing complex.

Capital Expenditures

Capital expenditures, excluding property acquisitions, were minimal during the first six months of 2005, amounting to $3,876, all of which pertains to the first quarter of the year.

Mortgage Loans Receivable

June 30, 2005 - $3,625,000
December 31, 2004 - $2,150,000

Pending the investment of new capital in property acquisitions, LREIT typically has a significant amount of short-term excess cash reserves. The strategy of LREIT is to attempt to maximize the return on short-term excess cash reserves by investing a portion of the reserves in low-risk, higher yield financial instruments.

Since December 2002, the primary investment vehicle for the short-term excess cash reserves of LREIT has been a second mortgage loan, secured by the Minacs Building in Oshawa, Ontario (the "Minacs Loan").

As of December 31, 2004, the total amount of the Minacs Loan was $2.15 Million, comprised of a $1.15 Million component bearing interest at a rate of 12.5% and a $1 Million component bearing interest at a rate of 9%, with a repayment date for the entire loan of June 30, 2005. In January 2005, an additional $1.475 Million was invested in the Minacs loan at an interest rate of 9%. During May 2005, the repayment date for the total loan was extended to December 31, 2005. On July 8, 2005, the Minacs Loan of $3.625 Million was repaid in full.

Please refer to the section on "Related Party Transactions" on page 18 of this report for additional information regarding the Minacs Building.

FINANCING ACTIVITIES

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

Trust Units

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

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

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

During the first six months of 2005, debenture conversions also resulted in the issuance of 1,202,111 units, of which 80% related to the Series C Convertible Debentures.

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

Summary of Trust Units

		Units Issued	Gross Proceeds
Units outstanding, December 31, 2004		6,461,213	$ 27,476,411
January 27, 2005	Second closing of December 2004 Unit Offering	1,171,500	5,857,500
February 2, 2005	Private placement to institutional investor	200,000	1,000,000
January to June 30, 2005	Units issued on conversion of debentures:		
	- first quarter 237,311		
	- second quarter 964,800	1,202,111	-
Units issued – first six months of 2005		2,573,611	6,857,500
Units outstanding, June 30, 2005		9,034,824	$ 34,333,911

Convertible Debentures

The Declaration of Trust does not impose any limitation on the amount of convertible debt which may be issued by the Trust. The Series C debentures included a covenant which restricted LREIT from issuing any additional debentures, other than the Series D debentures, until such time as LREIT acquired multi-family residential properties with a minimum gross purchase price of $50 Million. The acquisition covenant was satisfied on January 31, 2005, upon the acquisition of Highland Towers and Borden Estates. The Series C debentures also include a clause which specifies that prior to proceeding with any additional debenture offerings, LREIT must raise proceeds from additional unit offerings which are at least 50% greater than the proceeds from any additional debenture offerings.

In January 2005, LREIT initiated a $12 Million private placement offering of Subordinated Series E Convertible Debentures, bearing interest at a rate of 8%, with a five year term and a final closing date of March 16, 2005.

During the first six months of 2005, convertible debentures, with a total face value of $5,528,000, were converted into units, including $4,343,000 of the Series C Convertible Debentures.

The following is a summary of the debenture offerings which have been undertaken by LREIT, as of June 30, 2005, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

Issue Date/ Maturity Date	Series	Interest Rate	Amount Issued	Unit Conversions As Of March 31, 2005	Unit Conversions 2nd Quarter	Net Amount Outstanding June 30, 2005
Aug. 30/02/Aug. 30/07	A	10%	$ 3,000,000	$ (511,000)	$ (186,000)	$ 2,303,000
Aug. 30/02/Aug. 30/05	B	8%	1,000,000	(153,000)	(353,000)	494,000
Jan. 30/04/Jan. 29/06	C	8%	10,131,000	(500,000)	(3,843,000)	5,788,000
Mar. 16/04/Mar. 15/08	D	8%	4,000,000	(25,000)	(15,000)	3,960,000
Feb. 17/05/Feb. 17/10	E	8%	12,000,000	-	-	12,000,000
			$ 30,131,000	$ 1,189,000	$ 4,397,000	24,545,000
Net accumulated accretion						1,095,338
Book value, June 30, 2005						$ 25,640,338

Mortgage Loans Payable

June 30, 2005 - $93,501,828
December 31, 2004 - $49,091,108

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2004	Percentage of Total
2005	4.12%	$ 470,631	0.5%
2006	0.00% (VTB)	250,000	0.3%
2007	6.50%	2,003,595	2.1%
2008	4.10%	4,129,740	4.4%
2009	5.35%	19,258,428	20.6%
2013	6.47%	25,593,267	30.6%
2014	5.49%	18,179,500	19.4%
2015	5.80%	19,567,101	20.9%
		92,452,262	98.8%
Demand/floating rate	Prime + 1% (5.3%)	1,049,566	1.2%
		$ 93,501,828	100%

The general policy of LREIT is to utilize fixed rate financing with terms which are appropriate for the nature of the properties being financed. Upward refinancing opportunities are also pursued, when appropriate, in order to provide a source of additional capital and to minimize the impact of capital expenditures on ongoing operating cash flows.

All of the property acquisitions during the first six months of 2005 encompassed first mortgage loan financing, with the exception of Highland Tower, which was purchased entirely by a cash payment of $1,350,000. The total first mortgage loan debt assumed on the remaining seven property acquisitions amounted to approximately $42.6 Million or approximately 70% of the total purchase price, with a weighted average interest rate of 5.5%. In addition, the first quarter acquisitions encompassed a non interest-bearing vendor take-back (VTB) mortgage of $250,000, maturing July 1, 2006. The new mortgage loans account for the increase in the balance of “Mortgage Loans Payable” since December 31, 2004.

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

RESULTS OF OPERATIONS

Operating Highlights

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Total revenue	$4,390,880	$1,961,339	$7,445,335	$2,905,577
Operating income	$2,511,215	$1,319,195	$4,233,971	$1,921,172
Net loss	$(520,148)	$(246,582)	$(794,609)	$(418,581)
Cash from operations	$809,864	$640,539	$1,408,616	$867,411

Impact of Changes in Accounting Policy

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

The new policy is described in Note 2 of the year end financial statements. The adoption of the amended accounting policy by LREIT resulted in a reallocation of the debt and equity components of the Series B convertible debentures and an increase in prior years financing expense of $286,451 of which $32,565 pertains to the three month period ended June 30, 2004 and $65,322 pertains to the six month period ended June 30, 2004. Accordingly, for comparative purposes, the net loss for both the three month period and the six month period ended June 30, 2004 are higher than was previously reported.

Overall Performance

General

In accordance with its overall investment strategy, LREIT is progressively acquiring additional properties in order to achieve sustained growth in operating cash flows and create ongoing gains in unit values.

The operating results for the six months ended June 30, 2005 clearly reflect that LREIT has been very successful in achieving its investment objectives, in comparison to the first six months of 2004. During the six month period ended June 30, 2005, the operating income of LREIT increased by $2,312,799 or 120%, compared to the first six months of 2004, while cash from operations increased by $541,205 or 62%.

The increase in the operating income is mainly due to the increase in the number of properties in the portfolio of LREIT. During the first six months of 2004, eight properties, with a combined purchase price of approximately $55.4 Million, contributed to the operating income of LREIT. During the first six months of 2005, 18 properties, with a combined acquisition cost of approximately $129 Million, contributed to operating income.

Operating Segments

Geographic

During the second quarter of 2005, the geographic diversification of LREIT became significantly more pronounced, primarily due to the expansion of the portfolio into the northern Alberta community of Fort McMurray. The Fort McMurray property of Nelson Ridge Estates is the largest acquisition in the LREIT portfolio by a significant degree, having a revenue base which is approximately 2.5 times greater than the other large LREIT properties.

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

Analysis of Operating Income by Geographic Market Segment

	Percentage of Total Revenues	
	Three Months Ended	
	June 30, 2005	June 30, 2004
Alberta	43%	11%
Manitoba	28%	49%
Northwest Territories	13%	24%
Saskatchewan	9%	-
British Columbia	6%	14%
Ontario	1%	2%
	100%	100%

Throughout the remainder of 2005, there will be a greater geographic diversification of the real estate portfolio of LREIT, with the portfolio expanding into new markets in Western Canada. 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.

Property Type

General

The real estate portfolio of LREIT did not contain any residential properties during the first quarter of 2004. Subsequent to March 31, 2004, LREIT refocused its efforts exclusively toward the acquisition of multi-family residential properties. During the second quarter of 2004, LREIT acquired four multi-family residential properties. The four multi-family residential properties accounted for 46% of the total income from property operations during the second quarter of 2004.

During the second quarter of 2005, the 14 multi-family residential properties in the LREIT portfolio accounted for 68% of the total income from property operations. The percentage has also increased significantly, in comparison to the 58% level which was attained during the first quarter of 2005, primarily due to the acquisition of Nelson Ridge Estates in Fort McMurray, Alberta.

Residential

The vacancy rate for the majority of the multi-family residential properties in the LREIT portfolio was relatively high as of June 30, 2005. Vacancy levels are high by historical standards throughout the multi-family residential rental market, as interest rates have been at a very low level for an extended period of time, resulting in a move to home ownership by a high percentage of existing and potential tenants. On the positive side, the favourable lending conditions have enabled LREIT to secure low interest financing for new property acquisitions and minimize first mortgage loan debt service costs. Vacancy levels are also factored into the purchase price of new property acquisitions. As a result, notwithstanding the higher vacancy levels, the majority of the multi-family residential properties in the LREIT portfolio achieved positive cash flow results during the second quarter of 2005, after funding first mortgage loan interest expense.

The most notable exceptions were Greenwood Gardens in Surrey, British Columbia, Highland Tower in Thompson, Manitoba and Norglen Terrace in Peace River, Alberta, all of which experienced a decrease in operating income during the second quarter of 2005 and a cash deficiency after funding first mortgage loan interest expense.

The cash deficiency at Greenwood Gardens is largely due to the costs associated with the completion of an extensive multi-year in-suite and common area upgrade program at the Project. As reported in the 2004 Annual Report and the First Quarter Report for 2005, it is anticipated that, in the short-term, Greenwood Gardens will incur operating costs which are higher than the portfolio average and that the cost of the upgrade program will exceed the cash flow from operations.

Similarly, the second quarter cash deficiency at Highland Tower reflects the commencement of extensive improvements to the Project, involving the upgrading of an entire floor of suites at a time. The upgrade program is resulting in a reduction in revenues and an increase in maintenance/improvement costs, as well as an increase in expenses related to securing the site and supervising the upgrade work. As with Greenwood Gardens, it is anticipated that the cost of the upgrade program will exceed cash flow from operations in the short-term and that the Project will continue to incur a cash deficiency for the remainder of 2005.

The cash deficiency at Norglen Terrace reflects a modest increase in the vacancy rate as well as an increase in maintenance costs due to the commencement of some major upgrades to the building exterior. The required upgrades are less extensive, in comparison to upgrade programs at Greenwood Gardens and Highland tower and as a result, Norglen Terrace is expected to return to a cash flow position by the end of 2005.

The other properties that incurred a cash deficiency in the second quarter of 2005, after funding first mortgage loan interest expense, were the Riverside Apartments and MGM Apartments in Prince Albert, Saskatchewan and Nova Village in Yellowknife, Northwest Territories. The quarter-to-quarter variance for the Riverside Apartments and MGM Apartments was not significant as the projects incurred a marginal cash deficiency in the second quarter of 2005, compared to a marginal cash flow during the first quarter of 2005. Moreover, the Riverside Apartments and MGM Apartments were part of an acquisition which encompassed four properties in Prince Albert and overall, the four properties achieved a cash flow during the second quarter of 2005, which exceeded first mortgage loan interest expense by $24,300 or 72%. In comparison to the first quarter of 2005, the cash flow from the four properties increased by $17,200 during the second quarter of 2005.

Nova Village is a newly constructed project that was acquired in the “lease-up” stage of operations. The marginal cash deficiency that was incurred by Nova Village for the second quarter of 2005, of $3,831, encompasses a vacancy loss of $107,688 and reflects the fact that 34 of the 50 suites remained to be leased as of June 30, 2005. The high vacancy loss also reflects the extent of the unrealized income potential of the Project and the expectation that there will be a significant improvement in operating results as the lease-up phase is completed and the occupancy rate increases to market levels.

Notwithstanding the operating cash deficiencies of certain properties, the positive operating results which were achieved by Nelson Ridge Estates resulted in an increase in the overall profit margin of the real estate portfolio during the second quarter of 2005.

Commercial and Light Industrial

Notwithstanding the exclusive focus on the acquisition of residential properties since 2004, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. During the second quarter of 2005, commercial and light industrial properties accounted for 32% of the total income from property operations. 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 97% and 100% leased, respectively, as of June 30, 2005.

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

Cash Flow Guarantees

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

Analysis of Operating Results

Analysis of Net Income

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Income Properties				
Operating income	$ 2,336,929	$ 1,251,167	$ 3,795,807	$ 1,751,387
Financing expense – mortgage loans	(1,243,350)	(406,076)	(1,947,156)	(543,430)
Net income, excluding trust operations, financing expense on debentures and amortization	1,093,574	845,091	1,848,651	1,207,957
Trust Operations				
Interest income	174,291	68,028	438,164	169,785
Trust expense	(54,970)	(44,120)	(100,754)	(78,248)
	119,321	23,908	337,410	91,537
Financing expense – debentures	(903,748)	(577,328)	(1,590,791)	(953,735)
Net income, excluding amortization	**309,147**	**291,671**	**595,270**	**345,759**
Amortization expense	(829,295)	(538,253)	(1,389,879)	(764,340)
Net loss	$ (520,148)	$ (246,582)	$ (794,609)	$ (418,581)

Net Income, Excluding Amortization Expense

Net income, before amortization expense, increased by $17,476 during the second quarter of 2005, compared to the second quarter of 2004. The increase is comprised of the following components:

Increase in income from property operations	$ 248,483
Increase in trust income	95,413
	343,896
Less: Increase in financing expense on debentures	326,420
Increase in net income, excluding amortization	$ 17,476

The increase in net income from property operations reflects the acquisition of additional properties, while the increase in trust income reflects an increase in interest income from uninvested capital and from the investment in the Minacs Loan. The increase in financing expense on debentures reflects the completion of the Series E Convertible Debenture offering of $12 Million on February 17, 2005.

The modest increase in net income, before amortization expense of $17,476, reflects an increase in the amount of uninvested capital during the second quarter of 2005, compared to the second quarter of 2004. LREIT commenced the second quarter of 2004 with a cash balance of approximately $9.8 Million and had a net cash outlay of approximately $3.8 Million in regard to new property acquisitions during the three months ended June 30, 2004, ending the period with a cash balance of approximately $5.9 Million. In comparison, LREIT commenced the second quarter of 2005 with a cash balance of approximately $33.7 Million and had a net cash outlay of approximately $16 Million in regard to new property acquisitions during the three month period ended June 30, 2005, ending the period with a cash balance of approximately $17.6 Million.

In summary, the lag between the receipt of new capital and the investment of new capital in income-producing properties has served to limit the relative growth in net income during the second quarter of 2005. Although LREIT achieved an increase in net income, before amortization expense, during the second quarter of 2005, compared to the second quarter of 2004, the increase is not fully reflective of the substantially higher asset base of LREIT, due to the relative increase in the amount of uninvested capital. To the extent that uninvested capital is derived from debenture offerings, the effective cost of the capital is 8%, whereas the income derived from uninvested capital is nominal. Conversely, the investment of capital in income-producing properties results in a significant increase in operating income. Accordingly, the acquisition of additional income-producing properties by LREIT, funded from existing capital, is expected to result in a significantly greater improvement in operating income during the second half of 2005.

During the six month period ended June 30, 2005, net income before amortization expense increased by $249,511, compared to the six month period ended June 30, 2004. The relatively higher increase in net income for the six month comparison mainly reflects the fact that the “variance” in the amount of uninvested capital was substantially less during the comparative six month period.

Net Loss, Including Amortization Expense

During the six month period ended June 30, 2005, LREIT incurred a net loss of $520,148, compared to a net loss of $246,582 for the six month period ended June 30, 2004. The increase in the net loss is directly attributable to an increase in amortization expense for income properties as a result of an increase in the size of the property portfolio of LREIT.

Similarly, the increase in the net loss, from $418,581 for the six month period ended June 30, 2004 to $794,609 for the six month period ended June 30, 2005 is due to an increase in amortization expense.

As the property portfolio of LREIT will continue to increase throughout 2005, amortization expense will continue to have a significant impact on the “bottom line” results of LREIT in the third and fourth quarter of 2005.

Property Operating Costs

Operating costs for rental properties, as a percentage of revenues from rental properties, increased from 34% during the second quarter of 2004, to 45%, during the second quarter of 2005. For the six month period ended June 30, 2004, the operating cost percentage was 36%, compared to 47% for the six month period ended June 30, 2004.

At the beginning of the second quarter of 2004, the property portfolio of LREIT consisted of four commercial properties, including the MAAX Warehouse and the Purolator Building. During the second quarter of 2004, four residential properties were added to LREIT. The increase in the operating cost percentage reflects the higher proportion of commercial properties in the 2004 results and the fact that commercial properties and, in particular, single-tenant commercial properties have comparatively lower operating costs than multi-family residential properties. As LREIT is now focusing on the acquisition of multi-family residential properties, the profit margin is not expected to change significantly in the third and fourth quarter of 2005. Accordingly, the rate of growth in operating income and operating cash flows is expected to continue at a favourable level in 2005, in proportion to the growth in revenues from new property acquisitions.

In this regard, the operating cost percentage decreased from 49% during the first quarter of 2005 to 45% during the second quarter of 2005. The improvement in the operating cost percentage mainly reflects the favourable profit margin for Nelson Ridge Estates.

Cash from Operations

During the second quarter of 2005, LREIT generated cash from operations of $809,684, compared to cash from operations of $640,539 during the second quarter of 2004, representing an increase of $169,145. For the six months ended June 30, 2005, cash from operations increased by $541,205, compared to the first six months of 2004.

The impact of amortization expense and other non-cash expenses is reflected in the contrast between the net loss and the favourable results in regard to cash from operations. Cash from operations excludes amortization expense, the non-cash component of debenture financing expense, accrued revenue and unit-based compensation.

Balance Sheet Items

Deferred Charges

June 30, 2005 - $3,256,764
December 31, 2004 - $2,006,654

As of June 30, 2005, the balance of deferred charges increased by $1,250,110, compared to the balance as of December 31, 2004.

The increase in the balance of deferred charges mainly represents an increase in deferred financing expenses. Approximately 64% of the increase in deferred financing expenses represents issue costs relating to the Series E debenture offering and approximately 26% represents financing costs relating to the acquisition of new property acquisitions in 2005.

As disclosed in Note 2 of the audited financial statements, LREIT has adopted a new accounting policy, effective January 1, 2005, whereby issue costs relating to debentures are initially recorded as deferred charges and amortized over the term of the debentures. Previously, issue costs relating to debentures were recorded as a reduction of equity.

Other Assets

June 30, 2005 - $2,162,323
December 31, 2004 - $1,271,668

Other assets increased by $890,655 since December 31, 2004. The increase is mainly due to an increase in prepaid expenses, deposits on potential property acquisitions and other receivables. Other receivables is comprised of numerous third party receivables, such as receivables pertaining to property acquisitions.

Accounts Payable and Accrued Liabilities

June 30, 2005 - $2,571,193
December 31, 2004 - $1,446,803

Accounts Payable and Accrued Liabilities increased by $1,124,390 since December 31, 2004. The increase mainly reflects an increase in tenant security deposits, accrued interest on mortgage loans payable and convertible debentures, and amounts due to Shelter Canadian Properties Limited. As disclosed in Note 13 of the audited financial statements, the amount due to Shelter Canadian consists primarily of a repayable cash advance and property management fees payable.

Comparison to Preceding Quarter

Fourth Quarter Comparison

	Three Months Ended June 30, 2005	Three Months Ended March 31, 2005	Increase (Decrease)
Revenue:			
Rentals from Income Properties	$ 4,157,533	$ 2,700,607	$ 1,456,926
Interest and Other Income	233,347	353,848	(120,501)
Total revenue	$ 4,390,880	$ 3,054,455	$ 1,336,425
Operating income	$ 2,511,215	$ 1,722,756	$ 788,459
Net loss	$ (520,148)	$ (274,461)	$ (245,687)

Analysis of Variance

During the second quarter of 2005, the operating income of LREIT increased by $788,459 or 45%, compared to the first quarter of 2005, while the net loss increased by $245,687 or 89%.

The increase in operating income is comprised of the following components:

Increase in operating income - Income properties	$ 878,041
Decrease in operating income - Trust	(89,582)
	$ 788,459

The increase in the operating income of LREIT is primarily due to the additional income from the two residential properties which were acquired by LREIT during the second quarter of 2005, namely Nelson Ridge and Nova Village. On the acquisition date of April 1, 2005, Nelson Ridge became the largest property in the LREIT portfolio and its contribution to the second quarter operating income of the Trust exceeded the contribution of other properties by a significant margin.

Specifically, the net increase in the operating income of rental properties during the second quarter of 2005 reflects operating income of $905,611 from Nelson Ridge and $45,865 from Nova Village, partially offset by a net decrease in the combined operating income of the other properties in the LREIT portfolio. As disclosed on page 9 of this report, the majority of properties in the LREIT portfolio achieved positive cash flow results during the second quarter of 2005, with a few exceptions, the most significant of which were Greenwood Gardens, Highland Tower and Norglen Terrace.

The increase in the net loss during the second quarter of 2005, compared to the first quarter of 2005 is comprised of the following components:

Increase in operating income – properties	$ 878,041
Increase in financing expense – first mortgage loans	(539,546)
Increase in amortization expense	(268,711)
	69,784
Decrease in operating income – Trust	(98,768)
	(28,984)
Increase in financing expense – debentures	(216,703)
	$ (245,687)

As reflected in the preceding chart, the increase in operating income from income properties exceeds the increase in the first mortgage loan financing expense and amortization expense by $69,784. As additional properties are acquired, it is anticipated that the increase in operating income will also offset the increase in debenture financing expense. The increase in the second quarter loss largely reflects the fact that the incremental increase in operating income, net of first mortgage loan financing expense and amortization expense, is less than the incremental increase in debenture financing expense. The variance reflects the lag between the receipt of new investment capital and the actual investment of the capital in income-producing properties.

LREIT began the first quarter of 2005 with outstanding debentures of approximately $18 Million and a cash balance of approximately $20 Million. In comparison, LREIT began the second quarter of 2005 with outstanding debentures of approximately $29 Million and a cash balance of approximately $34 Million. The relatively higher balances in the second quarter of 2005 effectively illustrate that there was a greater amount of uninvested debenture capital during the second quarter of 2005 which translated into an increase in the net loss of the Trust. As additional properties are acquired, the increase in operating income is expected to exceed incremental increases in debenture financing expense by a significant amount.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31	2005		2004		
	Q2	Q1	Q4	Q3	Q2
Total revenue	$4,390,880	$3,054,455	$2,528,428	$2,309,239	$1,961,339
Operating income	$2,511,215	$1,722,756	$1,296,410	$1,398,456	$1,319,195
Net income (loss)	$(520,148)	$(274,461)	$(587,841)	$(479,357)	$(246,582)
PER UNIT					
Operating income					
- Basic	$0.310	$0.230	$0.477	$0.531	$0.501
- Diluted	$0.215	$0.153	$0.198	$0.227	$0.224
Net income (loss)					
- Basic	$(0.064)	$(0.037)	$(0.216)	$(0.182)	$(0.094)
- Diluted	$(0.064)	$(0.037)	$(0.216)	$(0.182)	$(0.094)

Quarterly Analysis for the Year Ended December 31	2004	2003		
	Q1	Q4	Q3	Q2
Total revenue	$944,238	$628,934	$719,416	$541,384
Operating income	$601,979	$382,574	$495,772	$336,575
Net income (loss)	$(171,997)	$(1,668)	$96,870	$(6,218)
PER UNIT				
Operating income				
- Basic	$0.230	$0.267	$0.513	$0.434
- Diluted	$0.134	$0.233	$0.412	$0.322
Net income (loss)				
- Basic	$(0.066)	$(0.001)	$0.100	$(0.008)
- Diluted	$(0.066)	$(0.001)	$0.100	$(0.008)

CASH DISTRIBUTIONS

Distribution Amount

In accordance with the quarterly cash distribution policy, the cash distribution of LREIT, for the second quarter of 2005, in the amount of $1,264,875 or $0.14 per unit, was paid on July 15, 2005.

Distributable Income

The stated policy of LREIT is to distribute cash to the Unitholders, on a quarterly basis, in an amount which is approximately equal to 90% of the annual "Distributable Income" of the Trust. Distributable income is equal to the net income of LREIT, as determined in accordance with GAAP, subject to certain adjustments for non-cash transactions, such as adding back amortization expense for income properties and intangible assets and converting interest expense on debentures to a cash basis.

Distributable income is a non-GAAP measure, however, and excludes other transactions which LREIT takes into consideration in its determination of cash distributions. Specifically, the source of funding for LREIT has primarily been cash from operations, as follows:

	Six Months Ended June 30	
	2005	2004
Net loss	$ (794,609)	$ (418,581)
Add (deduct):		
Total amortization expense	1,389,879	764,340
Amortization of tenant inducements and leasing expenses	(154,798)	(123,950)
Accretion on debt component of convertible debentures	1,590,791	953,736
Interest expense on convertible debentures	(1,013,516)	(615,658)
Revenue adjustments	(42,027)	(46,224)
Unit-based compensation	5,694	5,694
Distributable income, per Note 18 of the financial statements	981,414	519,357
Interest expense on convertible debentures	1,013,516	615,658
Interest paid on convertible debentures	(741,113)	(391,554)
Amortization of tenant inducements and leasing expenses	154,798	123,950
Cash from operations, per Statement of Cash Flows	1,408,615	867,411
Principal repayment of mortgage loans	(668,737)	(249,281)
Cash from operations, net of principal repayment of mortgage loans	739,878	618,130
Cash distribution	(2,394,678)	(655,678)
Working capital supplement	$ (1,654,800)	$ (37,548)

The cash from operations, net of mortgage principal repayments, excludes funds derived from increases in property values, such as the proceeds of upward refinancing. During the first half of 2005, the upward refinancing of the first mortgage loan of the Kenaston Property resulted in cash proceeds of approximately $2.4 Million.

CAPITAL RESOURCES AND LIQUIDITY

Cash Reserves

The main sources of funds for LREIT are operating cash flows and the proceeds from convertible debenture and trust unit offerings. Mortgage loan financing serves primarily to reduce the equity component of new property acquisitions.

Since its inception, LREIT has demonstrated an ongoing ability to raise additional capital to fund new property acquisitions. LREIT commenced 2005 with a cash balance of $19.76 Million and raised an additional $17.5 Million of capital during the first six months of the year from unit and debenture offerings, net of issue costs. The upward refinancing of the first mortgage loan of the Kenaston Property during the first quarter of 2005 also resulted in cash proceeds of approximately $2.4 Million, net of refinancing costs.

During the first six months of 2005, the total acquisition cost of new properties amounted to $62.3 Million, of which approximately $19.7 Million was funded from working capital and approximately $42.6 Million was funded by mortgage loan financing.

In summary, cash outlays in respect of new property acquisitions exceeded inflows of new investment capital by approximately $2.2 Million during the first six months of 2005. After considering other cash transactions, there was a total cash decrease of approximately $2.1 Million during the first six months of 2005 and the cash balance of LREIT was reduced to $17.6 Million as of June 30, 2005.

It is anticipated that cash reserves will be significantly reduced during the third quarter of 2005, as additional properties are acquired.

Working Capital Requirements

Cash Distributions

As noted in the "Cash Distributions" section of this report, working capital generated from the operating cash flow of LREIT, net of convertible debenture and mortgage loan payments, serves as the primary funding source for cash distributions.

As disclosed in the 2004 Annual Report, the operating cash flow of LREIT, net of convertible debenture and mortgage loan payments, is not expected to be sufficient to fully fund cash distributions in 2005. The anticipated shortfall mainly reflects a lag in the investment of new capital in additional income-producing properties, resulting in a variance between the incremental cost of new capital and the incremental cash flow from new property acquisitions. For the first six months of 2005, the cash distribution amount exceeded operating cash flows, net of convertible debenture and mortgage loan payments, by $1,654,799. As additional property acquisitions are completed, it is anticipated that operating cash flows will gradually increase to a level which is sufficient to fully fund the cash distributions of the Trust.

As noted above, the operating cash flows also exclude upward refinancing proceeds of approximately $2.5 Million.

Leasing Costs and Capital Expenditures

LREIT requires working capital in order to fund leasing costs and capital expenditures. During the first six months of 2005, leasing costs and capital expenditures amounted to $148,714 of which 92% pertains to tenant inducements at Kenaston Village Mall and the McIvor Mall.

Convertible Debentures

The Series B debentures are due on August 30, 2005. As disclosed on page 6 of this report, the outstanding amount of the Series B debentures was reduced from the original issue amount of $1,000,000 to a balance of $494,000, as of June 30, 2005, due to debenture conversions. As LREIT intends to exercise its option to convert any outstanding debentures at maturity, the debentures will be fully converted into units as of August 31, 2005.

The Series C debentures are due on January 29, 2006. The Series C debentures are convertible at the request of the holder, at any time prior to January 29, 2006, at a conversion price of $4.50. As of June 30, 2005, the outstanding amount of the debentures was reduced from $10,131,000 to $5,788,000, due to debenture conversions, resulting in the issuance of 965,111 trust units. As of August 15, 2005, the outstanding amount of the Series C debentures was further reduced to a balance of $1,013,000 due to debenture conversions, resulting in the issuance of an additional 1,061,111 trust units. It is anticipated that the Series C debentures will be fully converted by January 29, 2006.

In total, 2005, the conversion of debentures has resulted in the issuance of 2,337,422 trust units as of August 15, 2005. The incremental cash outlay associated with the unit conversions is approximately $435,000, based on the comparison of a cash distribution of $0.56 per unit and the weighted average interest rate of the converted debentures of 8.15%.

RELATED PARTY TRANSACTIONS

During the second quarter of 2005, the investments of LREIT included an investment in a second mortgage loan, secured by the Minacs Building. On July 8, 2005, the Minacs second mortgage loan was fully repaid as a result of the acquisition of the Minacs Building by Huntingdon Real Estate Investment Trust (HREIT).

Prior to July 8, 2005, The Minacs Building was beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. Mr. Arni Thorsteinson, the Chief Executive Officer of the Trust and a Trustee, is a Director and President of Shelter Canadian and is also the President of 2668921 Manitoba Ltd. Mr. Thorsteinson abstained from voting on all matters concerning the Minacs loan.

Mr. Thorsteinson is the Chief Executive Officer, President and a trustee of HREIT.

OPERATING RISKS AND UNCERTAINTIES

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand for leased premises 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 through both the brokerage community and internal resources. LREIT further decreases its operating risk through property and geographic diversification, 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.

The shift in the investment strategy of LREIT toward the acquisition of multi-family residential properties during 2004 has resulted in a property portfolio with a higher percentage of multi-family residential properties. The general market risk associated with a higher weighting of multi-family residential properties will be minimized through geographic diversification, focusing on quality properties and by utilizing the national organizational infrastructure and management expertise of Shelter Canadian Properties Limited.

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2005 Second Quarter 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
August 25, 2005

UNITHOLDER INFORMATION

Trustees and Officers

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

The current trustees of LREIT are Mr. Charles K. Loewen, Mr. Earl S. Coleman and Mr. Arni C. Thorsteinson. Mr Loewen is the Chairman, Founder and Chief Strategy Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is the Vice President and Secretary Treasurer of Big Freight Systems Inc. and serves as Secretary of LREIT. Mr. Thorsteinson, CFA, is the President and principal owner of Shelter Canadian Properties Limited and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

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

Administrator of the Trust

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

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the income properties in the LREIT portfolio.

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

Office Address

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

Unit Listing

TSX Venture Exchange
Unit trading symbol: LRT.UN

Unitholder and Investor Contact

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

Transfer Agent and Registrar

CIBC Mellon Trust Company
750 – One Lombard Place
Winnipeg, Manitoba R3B 0X3

Auditors

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

Legal Counsel

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