2006 SECOND QUARTER REPORT

Unitholder Returns

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
Distribution per unit	$0.28	$0.56
Opening unit price	$5.25	$5.50
Closing unit price	$5.30	$5.25
Annualized yield on opening price (distribution/opening unit price)	10.7%	10.2%
Capital appreciation (capital appreciation/opening unit price)	0.95%	(4.5)%
Total return	11.65%	5.7%

Projected cash distribution – 2006:	$0.56
Closing unit price – August 23, 2006:	$5.70
Current yield:	9.8%

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

Financial Highlights

	Three Months Ended June 30					
	Total			Per Unit – Basic		
	2006	2005	% Change	2006	2005	$ Change
Operating income	$3,821,847	$2,466,218	55%	$0.223	$0.304	$(0.081)
Cash from operations	$1,751,216	$813,697	115%	$0.102	$0.100	$0.002
FFO	$736,658	$50,134	1,369%	$0.043	$0.006	$0.037
AFFO	$995,148	$265,581	274%	$0.058	$0.033	$0.025
Net income, before amortization	$914,884	$312,980	192%	$0.053	$0.039	$0.014
Net loss	$(963,067)	$(726,463)	33%	$(0.056)	$(0.090)	$0.034

REPORT TO UNITHOLDERS

The investment strategy of Lanesborough Real Estate Investment Trust ("LREIT") is to focus on investing in quality multi-unit residential 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 2006, LREIT achieved the highest quarterly increase in the cost base of its property portfolio since the inception of the Trust in August 2002. Specifically, LREIT acquired ten residential properties during the second quarter of 2006, at a cost of $57 Million, resulting in a portfolio of 33 properties, with a total acquisition cost of $234 Million as of June 30, 2006. The ten property acquisitions have significantly enhanced the overall geographic diversification of LREIT, with the expansion of the residential portfolio into Ontario, and resulted in a substantial increase in the holdings of LREIT in Fort McMurray, Alberta. As discussed in the 2005 Annual Report, Fort McMurray is considered to be an excellent investment market as the demand for housing in the City is expected to continue to exceed supply for the foreseeable future, with the ongoing expansion of the oil sands industry and the local economy.

The second quarter property acquisitions consist of:

a) Village West Townhouses/Saskatoon, Saskatchewan: LREIT's second property acquisition in Saskatoon, Village West Townhouses, is a multi-family residential complex consisting of 100 three-bedroom townhouses.

b) Chateau St. Michael's/Moose Jaw, Saskatchewan: Chateau St. Michael's is a seniors housing complex consisting of 93 suites, of which 43 are independent living suites and 50 are intermediate care suites.

c) Woodlily Courts/Moose Jaw, Saskatchewan: Woodlily Courts is a multi-family residential property consisting of 102 suites in three, two and one-half storey buildings. Woodlily Courts and Chateau St. Michael's are the first two property acquisitions of LREIT in Moose Jaw.

d) Elgin Lodge/Port Elgin, Ontario: Elgin Lodge is a seniors housing complex consisting of 64 suites, all of which are assisted living units. Elgin Lodge is the first residential property acquisition for LREIT, east of the Manitoba border. The Purolator Sorting Facility in Burlington, Ontario is the other property in the Ontario portfolio of LREIT. Port Elgin, Ontario is located on the shores of Lake Huron, approximately 150 kilometres northwest of the Kitchener/Waterloo area.

e) A portfolio of six multi-family residential properties in Fort McMurray, Alberta: The six multi-family residential properties, all of which are located in the downtown or Lower Townsite area of Fort McMurray, consist of a total of 173 suites, including 93 furnished suites.

In total, LREIT has acquired 15 properties, at a cost of approximately $105 Million, since June 30, 2005. As summarized in the financial highlights on page 1, the additional property acquisitions have resulted in a significant increase in operating income, operating cash flows and net income, before amortization expense, for the second quarter of 2006, compared to the second quarter of 2005. The net loss of LREIT also increased during the second quarter of 2006, compared to the second quarter of 2005, due to high amortization charges.

As discussed in the enclosed report, the overall operating results for the second quarter of 2006, compared to the first quarter of 2006, are also very positive, in large part due to an improvement in the performance of the property portfolio, excluding the 2006 second quarter acquisitions. In fact, with all of the 2006 second quarter property acquisitions occurring in June 2006, including the acquisition of the six properties in Fort McMurray on June 30, 2006, there is a significant amount of operating income from the existing property portfolio which is not reflected in the financial results for the first six months of 2006.

Accordingly, the general outlook for the third quarter of 2006 is for continued growth in the operating income and cash flow of LREIT. Over the longer term, LREIT has entered into development/construction agreements for three large apartment complexes in Fort McMurray, Alberta, comprising a total of 468 rental units, which are expected to significantly improve the overall profit margin of the Trust, commencing in 2007.

The units of LREIT are currently listed on the TSX Venture Exchange. On August 15, 2006, in recognition of the growth in the asset base and revenues of the Trust, LREIT submitted an application to list its units and Series F Debentures on the Toronto Stock Exchange (TSX). In addition, the Board of Trustees of LREIT have approved the implementation of a Distribution Reinvestment Plan whereby Unitholders may choose to have monthly cash distributions automatically reinvested in additional units, while receiving a “bonus” distribution of units equal to 4% of the reinvested amount.

The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to the long-term goal of maximizing investment returns through the ongoing acquisition of quality residential properties.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the financial statements for the second quarter ended June 30, 2006 and accompanying notes, and with reference to the 2006 First Quarter Report and the 2005 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 multi-unit residential properties. The overall investment strategy of LREIT is to focus on the acquisition of properties with stable yields, low vacancy levels and growth potential. LREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high calibre and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

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

INVESTMENT ACTIVITIES

Property Acquisitions

General

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

Property Portfolio – June 30, 2006

Property	Location	Purchase Price		Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy 06/30/06	
RESIDENTIAL							
Manitoba							
Highland Tower	Thompson	$ 1,350,000		January 2005	95	26%	(3)
Chancellor Gate	Winnipeg	6,750,000		August 2005	48	88%	
Willowdale Gardens	Brandon	4,326,000		January 2006	88	99%	
Saskatchewan							
Borden Estates	Prince Albert	5,315,000		February 2005	144	69%	
Cedar Village	Prince Albert	2,700,000		February 2005	72	68%	
Carlton Manor	Prince Albert	410,000		February 2005	19	95%	
Riverside Apartments	Prince Albert	265,000		February 2005	12	83%	
MGM Apartments	Prince Albert	650,000		February 2005	28	57%	
Riverside Terrace	Saskatoon	24,000,000	(1)	July 2005	181	90%	
Marquis Towers	Prince Albert	6,200,000		August 2005	129	92%	
Village West	Saskatoon	5,113,800		June 2006	100	85%	
Chateau St. Michael's	Moose Jaw	7,600,000	(1)	June 2006	93	88%	
Woodlily Courts	Moose Jaw	3,700,000		June 2006	102	84%	
Alberta							
Nova Villa	Edmonton	5,400,000		May 2004	61	97%	
Nova Manor	Edmonton	2,615,000		May 2004	32	88%	
Nova Ridge Estates	Spruce Grove	8,800,000		July 2004	102	96%	
Norglen Terrace	Peace River	2,500,000		October 2004	72	100%	
Nelson Ridge Estates	Fort McMurray	40,575,000		April 2005	225	100%	
Broadview Meadows	Sherwood Park	6,790,000		January 2006	93	100%	
Gannet Place	Fort McMurray			June 2006	37	92%	
Lunar Apartments	Fort McMurray			June 2006	24	96%	
Parkland Apartments	Fort McMurray	32,135,000		June 2006	12	67%	
Skyview Apartments	Fort McMurray			June 2006	29	100%	
Snowbird Manor	Fort McMurray			June 2006	34	97%	
Whimbrel Terrace	Fort McMurray			June 2006	37	100%	
Northwest Territories							
Beck Court	Yellowknife	14,300,000		April 2004	120	93%	
Three Lakes Village	Yellowknife	10,900,000		May 2005	50	98%	
Ontario							
Elgin Lodge	Port Elgin	8,300,000	(1)	June 2006	64	98%	
British Columbia							
Greenwood Gardens	Surrey	10,950,000		April 2004	183	94%	
Total – Residential		$ 211,644,800		Total Suites	2,286		
COMMERCIAL							
Retail and Office							
Kenaston	Winnipeg, MB	$ 12,656,200	(2)	April 2002	103,209	94%	
McIvor Mall	Winnipeg, MB	6,700,000		February 2004	65,283	98%	
		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		$ 233,801,000					

(1) Seniors housing complex.
(2) Includes cost of asset additions.
(3) In-suite renovation program in process.

Property Portfolio – June 30, 2006

As of March 31, 2006, the real estate portfolio of LREIT consisted of 23 properties with a total cost of approximately $177 Million.

During the second quarter of 2006, LREIT acquired ten additional properties at a total purchase price of approximately $57 Million, resulting in a real estate portfolio of 33 properties, with a total cost of approximately $234 Million as of June 30, 2006.

Property Acquisitions in Process - Subsequent to June 30, 2006

Acquisitions which are in process, subsequent to June 30, 2006, are as follows:

Property Acquisitions in Process – Subsequent to June 30, 2006

Property	Location	Projected Acquisition Date	Number of Suites	Purchase Price
Woodland Park (1)	Fort McMurray, AB	December 2006	107	$ 37,865,000
Lakewood Manor (1)	Fort McMurray, AB	February 2007	175	56,565,825
Park View Apartments (2)	Fort McMurray, AB	November 2007	186	57,750,000
				$ 152,180,825

(1) The Woodland Park and Lakewood Manor properties are under construction, with estimated completion dates in December 2006 and February 2007, respectively. The acquisition of the properties is scheduled to close on the construction completion date.

(2) Park View Apartments is to be constructed pursuant to a development agreement with Shelter Canadian. The acquisition of the land for the property closed on July 31, 2006, at a cost of approximately $9.84 Million. The construction of the apartment complex commenced in August 2006 and is expected to be completed not later than November 30, 2007. Please refer to the section on "Related Party Transactions" on page 25 of this report for additional information regarding the acquisition of Park View Apartments.

Carrying Costs for Major Renovations and Properties Under Development

During the six month period ended June 30, 2006, additions to Income Properties amounted to $240,984. The additions consist of the capitalization of renovation costs in regard to the corridor and in-suite renovation program at Highland Tower. The renovation program at Highland Tower involves the upgrading of the entire floor of suites at a time, and the temporary removal of suites from the rental market. Accordingly, the capitalized renovation costs include carrying costs, such as financing costs and operating costs pertaining to the unavailable suites. In total, the capitalized renovation costs for Highland Tower include carrying costs of $86,077.

As disclosed in the 2005 Annual Report, the capitalization of carrying costs is in accordance with the accounting policy which was adopted by LREIT, effective July 1, 2005. The only property which has been affected by the accounting policy is Highland Tower, effective in the third quarter of 2005, upon the commencement of the renovation program at the property.

Mortgage Loans Receivable

June 30, 2006 - $14,350,000
December 31, 2005 - $9,350,000

As of June 30, 2006, "Mortgage Loans Receivable" consist of the following loans:

(i) an 8% second mortgage loan of $8.5 Million in regard to the construction of Lakewood Manor. The loan requires payments of interest only, on a quarterly basis, and is subordinate to a construction mortgage in the maximum amount of $32 Million;

(ii) a $5 Million second mortgage loan in regard to the construction of Woodland Park. The loan bears interest at the Royal Bank prime rate and requires payments of interest only, on a quarterly basis, and is subordinate to a construction mortgage in the maximum amount of $18 Million; and

(iii) an investment in a 12% mortgage loan of $850,000, secured by land for a potential property acquisition. The mortgage was repaid in full in July 2006 and the property will not be acquired.

The construction loans are to be credited to the purchase price on the closing date of each property acquisition.

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 also serves as a source of capital.

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

Trust Units

Units Outstanding

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

As of June 30, 2006, LREIT had 17,268,430 units outstanding, representing an increase of 358,944 units or 2.1%, compared to the number of units outstanding as of March 31, 2006. All of the units which were issued during the second quarter of 2006 originated from the conversion of Series A and D debentures.

Summary of Trust Units Issued

The following is a summary of the units which have been issued by LREIT, as of June 30, 2006, since its inception date as a publicly listed entity:

Issue Date	Description	Units Issued	Equity Raised
August 30, 2002	Initial units issued on creation of LREIT	775,000	$ 500,000
Units outstanding, December 31, 2002		775,000	500,000
August 28, 2003	First closing of private offering	502,463	2,009,852
August 29, 2003	Units issued on conversion of debentures	14,500	-
December 8, 2003	Second closing of private offering	70,750	283,000
December 22, 2003	Private placement	1,250,000	5,000,000
Units outstanding, December 31, 2003		2,612,713	7,792,852
April 15, 2004	Private placement on the acquisition of Greenwood Gardens	20,000	-
December 23, 2004	First closing of private placement	3,828,500	19,142,500
Units outstanding, December 31, 2004		6,461,213	26,935,352
January 27, 2005	Second closing of private placement	1,171,500	5,857,500
February 2, 2005	Private placement	200,000	1,000,000
September 29, 2005	Exercise of unit options	10,000	40,000
December 14, 2005	Private placement	6,297,240	32,115,924
January to December 31, 2005	Units issued on conversion of debentures	2,715,333	-
Units outstanding, December 31, 2005		16,855,286	65,948,776
January to June 30, 2006	Units issued on conversion of debentures	413,144	-
Units outstanding, June 30, 2006		17,268,430	$65,948,776

Limited Partnership Units

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

Cash Distribution Dates and Amounts

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

A cash distribution of $0.04667 per unit, or $0.56 on an annualized basis, was paid for the months of January to June 2006, inclusive, representing a total cash distribution of $4,790,219, including the distribution of $21,309 in regard to the LREIT Village West Limited Partnership. The July 2006 distribution was paid on August 15, 2006.

Convertible Debentures

Debenture Offerings – 2006

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

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

Summary

The following is a summary of the debenture offerings which have been undertaken by LREIT, as of June 30, 2006, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

				Unit Conversions		
Issue Date/ Maturity Date	Series	Interest Rate	Amount Issued	Six Months Ended June 30, 2006	As of December 31, 2005 (1)	Net Amount Outstanding June 30, 2006
Aug. 30/02/Aug. 30/07	A	10%	$ 3,000,000	$ (36,000)	$ (1,231,000)	$ 1,733,000
Aug. 30/02/Aug. 30/05	B	8%	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 29/06	C	8%	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 15/08	D	8%	4,000,000	(2,033,000)	(147,000)	1,820,000
Feb. 17/05/Feb. 17/10	E	8%	12,000,000	-	-	12,000,000
Mar. 26/06/Mar. 25/11	F	7.5%	13,680,000	-	-	13,680,000
			$ 43,811,000	$ (2,069,000)	$ (12,509,000)	29,233,000
Net accumulated accretion						1,102,690
Book value, June 30, 2006						$ 30,335,690
Allocation of book value						
Debt component						$ 23,254,099
Equity component						7,081,591
						$ 30,335,690

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

Mortgage Loans Payable

June 30, 2006 - $156,575,403
December 31, 2005 - $116,827,895

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount June 30, 2006	Percentage of Total
2006	4.5%	$ 459,437	0.3%
2006	- (VTB)	250,000	0.2%
2007	6.5%	1,953,407	1.3%
2008	4.1%	4,049,271	2.6%
2009	5.3%	25,553,213	16.3%
2011	5.7%	4,984,802	3.2%
2013	5.9%	27,671,919	17.6%
2014	5.5%	17,876,394	11.4%
2015	5.6%	40,780,161	26.0%
2016	5.4%	30,830,945	19.7%
		154,409,549	98.6%
Demand/floating rate	6.7%	2,165,854	1.4%
		$ 156,575,403	100.0%

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

The new mortgage loans which were arranged for the property acquisitions in the first and second quarter of 2006 account for the increase in the balance of "Mortgage Loans Payable" since December 31, 2005.

All of the property acquisitions encompassed first mortgage loan financing, with the exception of Elgin Lodge, which was purchased entirely in cash, on an interim basis. Subsequent to June 30, 2006, a first mortgage loan of $5.9 Million was obtained for Elgin Lodge, with an interest rate equal to prime plus 1%.

As of June 30, 2006, the weighted average interest rate of the fixed rate mortgage loans is 5.5%, compared to 5.6% as of December 31, 2005, while the weighted average interest rate for floating rate mortgage loans increased from 6% to 6.7% during the same period. The impact of the higher interest rate was minimal, however, as the amount of floating rate mortgages represented 1.4% and 1.9% of the total mortgage loans payable as of June 30, 2006 and December 31, 2005, respectively.

The ratio of mortgage loans payable, relative to the value of the total property portfolio, also remained relatively constant at 63.2% as of June 30, 2006, compared to 63.8% as of December 31, 2005.

Financing Arrangements for Upcoming Property Acquisitions

Financing Summary

Property	Purchase Price (Millions)	Loan Amount (Millions)	Interest Rate	Type	Debt Percentage	Notes
Lakewood Manor	$56.60	$42.50	Not available	New FML	75%	1
Woodland Park	$37.90	$25.00	5.25% (est.)	New FML	66%	1
Park View Apartments – land	$9.84	$7.3	8%	VTB	75%	2

(1) The projected financing for Lakewood Manor and Woodland Park is based on the assumption that long-term, fixed rate first mortgage loan financing will be obtainable, prior to the construction completion/acquisition date of the properties. In the unlikely event that the longer term financing is not arranged, a standby first mortgage loan of $32 Million and $18 Million has been secured for Lakewood Manor and Woodland Park, respectively.

(2) The Vendor Take-Back (VTB) mortgage for the land acquisition for Park View Apartments is due on October 31, 2006, pending the completion of arrangements for construction financing of approximately $45 Million. The VTB mortgage is expected to be repaid from an initial advance on the construction financing.

FINANCIAL PERFORMANCE

Asset/Debt Summary

	As of June 30, 2006	As of December 31, 2005
Total assets	$ 260,625,343	$ 201,013,351
Mortgage loans payable	$ 156,575,403	$ 116,827,895
Convertible debentures (face value)	29,233,000	17,622,000
	$ 185,808,403	$ 134,449,895

Total Assets

As of June 30, 2006, the total assets of LREIT amounted to $260,625,343, compared to $201,013,351 at the end of 2005, representing an increase of approximately $60 Million or 30%. The increase in total assets is mainly due to an increase in "Income Properties" and reflects the acquisition of 12 additional properties during the first and second quarter of 2006.

During 2006, the cost of "Income Properties" also increased by $3,871,302 in regard to the future income tax liability associated with the acquisition of Riverside Terrace. Please refer to Note 3 and Note 11 of the second quarter financial statements.

The increase in total assets also reflects a decrease in cash of approximately $17.7 Million, an increase in "Mortgage Loans Receivable" of $5 Million and an increase in "Other Assets" of approximately $2.3 Million.

Long-Term Financial Liabilities

As of June 30, 2006, mortgage loans payable and the face value of convertible debenture debt amounted to approximately 71% of the value of the total property portfolio of LREIT, compared to 65% as of December 31, 2005. The increase in the overall "debt" ratio is mainly due to an increase in debenture debt as a result of the Series F convertible debenture offering in March 2006.

Other Balance Sheet Items

Deferred Charges

June 30, 2006 - $3,041,220
December 31, 2005 - $2,701,397

As per Note 5 of the second quarter financial statements, the unamortized cost of deferred charges was $4,922,504 as of June 30, 2006, representing a decrease of $71,939, in comparison to the unamortized balance of $4,994,443 as of December 31, 2005.

The decrease in the unamortized balance of deferred charges in 2006 mainly reflects the write-off of the balance of fully amortized financing costs of $774,943 in regard to the Series B and Series C convertible debentures, partially offset by the deferral of financing costs of $699,176 in regard to the Series F debentures.

Other Assets

June 30, 2006 - $6,121,333
December 31, 2005 - $3,815,427

Other assets increased by $2,305,906 since December 31, 2005. As disclosed in note 6 of the second quarter financial statements, the increase is mainly due to an increase in deposits on potential acquisitions, amounts receivable and prepaid property taxes .

Intangible Assets

June 30, 2006 - $3,307,032
December 31, 2005 - $2,191,630

As disclosed in Note 7 of the second quarter financial statements, the unamortized cost of intangible assets was $5,276,824, as of June 30, 2006, representing an increase of $1,659,539, in comparison to the unamortized balance of $3,617,285 as of December 31, 2005.

The increase in the unamortized balance of intangible assets mainly represents an increase in lease origination costs, associated with property acquisitions in 2006. Lease origination costs represent the portion of the purchase price of a property that is attributed to the value of the operating leases which are in place when a property is acquired.

Accounts Payable and Accrued Liabilities

June 30, 2006 - $8,402,588
December 31, 2005 - $3,000,755

As disclosed in note 10 of the second quarter financial statements, “Accounts Payable and Accrued Liabilities” increased by $5,401,833 since December 31, 2005. The increase mainly reflects amounts due in regard to the acquisition of the six residential properties in Fort McMurray, Alberta.

Future Income Taxes

June 30, 2006 - $3,968,724
December 31, 2005 - $140,972

In 2005, LREIT acquired Riverside Terrace by purchasing all of the issued and outstanding shares of its wholly owned operating subsidiary, Riverside Terrace Inc.

As disclosed in Note 11 of the second quarter financial statements, the acquisition of Riverside Terrace resulted in a potential income tax liability of approximately $4 Million. The income tax liability, which pertains to a difference between the tax and book value of the assets, is only payable in the event of a sale of the properties. The income tax liability will decline as the difference between the tax and book value of the assets decreases over time.

The income tax liability resulted in a corresponding increase in the recorded cost of “Income Properties”.

Non-controlling Interest

As noted above, the acquisition of the Village West Townhouses, encompassed the issuance of Class B Limited Partnership Units. The net income or loss associated with the operations of the Village West Townhomes accrues to the holder of the limited partnership units until such time as the limited partnership units are converted to trust units.

The "non-controlling interest" amount of $2,720,241 on the balance sheet of LREIT, represents the cumulative interest of the holder of the limited partnership units of the LREIT Village West Limited Partnership. As of June 30, 2006, the cumulative interest consists of the original deemed value of the limited partnership units of $2,739,704, plus the net income of the Village West Townhouses for the second quarter of 2006 of $1,846, less the cash distribution of $21,309 which was paid to the holder of the limited partnership units for the month of June 2006. Please refer to note 12 of the second quarter financial statements. As reflected on the Consolidated Statements of Loss, the allocation of net income of $1,846 serves to increase the net loss of LREIT.

RESULTS OF OPERATIONS

Summary of Operating/Cash Flow Results

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005 (restated)	2006	2005 (restated)
Total revenue	$ 6,891,004	$ 4,300,018	$ 13,333,039	$ 7,366,618
Operating income	$ 3,821,847	$ 2,466,218	$ 7,073,172	$ 4,188,974
Net loss	$ (963,067)	$ (726,463)	$ (2,035,249)	$ (1,185,858)
Distributable income	$ 1,096,784	$ 538,246	$ 1,755,011	$ 985,247
Funds from Operations (FFO)	$ 736,658	$ 50,134	$ 1,178,406	$ 136,607
Adjusted Funds from Operations (AFFO)	$ 995,148	$ 265,581	$ 1,583,741	$ 532,711
Cash distributions, declared - total	$ 2,364,800	$ 1,264,875	$ 4,790,219	$ 2,394,678
- per unit	$0.14	$0.14	$0.28	$0.28
Per Unit				
Operating income				
- basic	$0.223	$0.304	$0.416	$0.537
- diluted	$0.211	$0.211	$0.392	$0.365
Net loss				
- basic	$(0.056)	$(0.090)	$(0.120)	$(0.152)
- diluted	$(0.056)	$(0.090)	$(0.120)	$(0.152)
Distributable income				
- basic	$0.064	$0.066	$0.103	$0.126
- diluted	$0.063	$0.066	$0.103	$0.126
Funds from Operations (FFO)				
- basic	$0.043	$0.006	$0.069	$0.017
- diluted	$0.043	$0.006	$0.069	$0.017
Adjusted Funds from Operations (AFFO)				
- basic	$0.058	$0.033	$0.093	$0.068
- diluted	$0.058	$0.033	$0.093	$0.068

Comparative Impact of Accounting Policies Implemented in 2005

Convertible Debentures

Issue Costs on Convertible Debentures

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

The accounting policy was applied retroactively, resulting in the reclassification of $1,372,041 in issue costs from equity to deferred charges, in regard to convertible debentures which were issued prior to January 1, 2005.

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

Period	2005
Q1	$ 184,934
Q2	241,224
Q3	90,949
Q4	-
	$ 517,107

Accordingly, amortization of deferred charges for the three and six month period ended June 30, 2005 is higher than was previously reported by $241,224 and $426,158, respectively.

Properties Under Development

As disclosed in the 2005 Annual Report, LREIT adopted an accounting policy, effective October 1, 2005, whereby all acquisition, development, leasing and operating costs are capitalized for properties under development until the property achieves a satisfactory occupancy level within a predetermined time limit.

During 2005, capitalized costs for properties under development, excluding the initial acquisition costs, amounted to $107,343 all of which pertained to the operations of Three Lakes Village during the period from May 1, 2005 to December 31, 2005.

Effective January 1, 2006, the capitalization of carrying costs for Three Lakes Village was discontinued as the Project attained a satisfactory occupancy level. There are no other properties under development.

Net Income

Analysis of Net Income

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005 (restated)	2006	2005 (restated)
Operating income – rental properties	$ 3,447,506	$ 2,291,926	$ 6,346,989	$ 3,750,810
Interest income – Trust	374,341	174,292	726,183	438,164
Operating income	3,821,847	2,466,218	7,073,172	4,188,974
Financing expense				
Mortgage loans	1,758,129	1,194,520	3,447,601	1,898,326
Debentures	864,846	903,748	1,678,669	1,590,791
	2,622,975	2,098,268	5,126,270	3,489,117
Operating income, net of financing expense	1,198,872	367,950	1,946,902	699,857
Trust expense	283,988	54,970	486,373	100,754
Net income, before amortization, future income tax recovery and non-controlling interest	914,884	312,980	1,460,529	559,103
Amortization	1,910,979	1,039,443	3,537,482	1,784,961
Future income tax recovery	(34,874)	-	(43,550)	-
Non-controlling interest	1,846	-	1,846	-
Net loss	$ (963,067)	$ (726,463)	$ (2,035,249)	$ (1,185,858)

Three Months Ended June 30, 2006

Net Income, Excluding Amortization Expense

During the second quarter of 2006, the net income of LREIT, before amortization expense, future income tax recovery and non-controlling interest, increased by $601,904 or 192%, compared to the second quarter of 2005. The increase in net income reflects an increase in operating income of $1,355,629, partially offset by an increase in financing expense of $524,707 and an increase in trust expense of $229,018.

As discussed on pages 15 to 18 of this report, the increase in operating income is mainly due to an increase in the number of properties in the LREIT portfolio, although the increase in the operating cost ratio of the portfolio also affected the relative increase in operating income.

The increase in financing expense is comprised of an increase in financing expense pertaining to mortgage loans, partially offset by a decrease in financing expense in regard to convertible debentures.

Net Loss, Including Amortization Expense

After considering amortization expense, future income tax recovery and non-controlling interest, LREIT incurred a net loss of $963,067 during the second quarter of 2006, compared to a net loss of $726,463 during the second quarter of 2005. The net loss reflects total amortization charges of approximately $1.9 Million, compared to approximately $1.04 Million in the second quarter of 2005.

Financing Expense – Mortgage Loans

Financing expense on mortgage loans increased by $563,609 or 47% during the second quarter of 2006, compared to the second quarter of 2005. The increase mainly reflects the incremental interest expense on the additional mortgage loans which were assumed or arranged for new property acquisitions. As a percentage of operating income, financing expense on mortgage loans decreased from 48% in the second quarter of 2005 to 46% in the second quarter of 2006, mainly due a decrease in the average debt load of Income Properties. As a percentage of total property acquisition costs, the ratio of mortgage loans payable decreased from 72% as of June 30, 2005 to 68% as of June 30, 2006. The decrease in the average debt ratio reflects the acquisition of the two largest properties in the LREIT portfolio, namely Nelson Ridge Estates and Luther Riverside Terrace, at debt to value ratios of 47% and 64%, respectively.

The impact of the lower debt ratio was partially offset by an increase in the weighted average interest rate of floating rate mortgages from 5.3% as of June 30, 2005 to 6.7% as of June 30, 2006.

The increase in the operating cost ratio of LREIT in 2006 also contributed to the increase in mortgage loan financing expense ratio.

Financing Expense – Debentures

During the second quarter of 2006, financing expense on convertible debentures decreased by $38,902 or 4%, compared to the second quarter of 2005.

As a percentage of operating income, financing expense on debentures decreased from 37% in the second quarter of 2005 to 23% in the second quarter of 2006. The decrease in the ratio of debenture financing expense, relative to operating income, reflects the following factors:

- a reduction in the amount of uninvested debenture capital. As discussed at length in previous reports, the receipt of debenture capital results in an immediate increase in financing expense, whereas the income from the investment of the capital gradually accrues as properties are acquired. The reduction in the ratio of financing expense to operating income effectively reflects the additional operating income associated with property acquisitions which were funded from the cumulative amount of debenture capital; and

- a decrease in the relative amount of debenture capital due to a change in the overall capital structure of the Trust. As of June 30, 2005, LREIT had raised approximately $30 Million of debenture capital, representing approximately 50% of the total capital raised from debenture and trust unit offerings. As of December 31, 2005, the percentage of debenture capital, relative to total capital, had declined to approximately 30%, although the ratio subsequently increased to approximately 40% in March 31, 2006, as a result of the Series F convertible debenture offering.

  As a result of the proportional reduction in debenture debt, the operating income coverage ratio for total financing expense increased from 1.2 in the second quarter of 2005 to 1.5 in the second quarter of 2006. As discussed on page 23 of this report, the proportional reduction in debenture debt and the corresponding decrease in the relative amount of debenture financing expense was offset by an increase in cash distributions.

Amortization Expense

During the second quarter of 2006, total amortization expense increased by $871,536 or 84%, compared to the second quarter of 2005. The increase mainly reflects the growth in the portfolio of income-producing properties since June 30, 2005.

During the second quarter of 2006, the ratio of amortization expense to operating income was 50%, compared to 42% in the second quarter of 2005. The increase in the ratio of amortization expense, relative to operating income, reflects a combination of inter-related factors, as follows:

- a proportional increase in amortization of intangible assets, reflecting the proportionately higher allocation of the purchase price to intangible assets for properties which were acquired during the fourth quarter of 2005 and the first quarter of 2006 and the relatively short amortization period for intangible assets; and

- a proportional increase in amortization of income properties, reflecting an increase in the relative amount of acquisition costs charged to income properties, including the future income tax liability of approximately $4 Million; and

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

Trust Expense

Trust expense increased by $229,018 during the second quarter of 2006, compared to the second quarter of 2005. The increase in Trust expense reflects the commencement of monthly asset management fees, effective January 1, 2006.

As disclosed in the 2005 Annual Report, LREIT began paying a fee for the administrative and asset management services of Shelter Canadian Properties Limited during the first quarter of 2006. The fee is equal to 0.3% of the gross book value of the assets of LREIT, excluding cash, as of the date of the most recently issued financial statements. The asset management fee for the second quarter of 2006 was $141,779.

Legal fees, due diligence costs for non-acquired properties and general administrative costs also increased during the second quarter of 2006, compared to the second quarter of 2005.

Please refer to "Related Party Transactions" on page 25 of this report for additional information in regard to the administrative, asset management and property management services which are provided to LREIT by Shelter Canadian and the associated remuneration.

Six Months Ended June 30, 2006

During the first six months of 2006, the net income of LREIT, before amortization expense, future income tax recovery and non-controlling interest, increased by $901,426 or 161%, compared to the first six months of 2005. The increase in net income for the six month period is mainly due to the same factors which contributed to the increase in net income for the second quarter. Specifically, the increase in net income reflects an increase in operating income, partially offset by increases in financing expense and trust expense.

After considering amortization expense, future income tax recovery and non-controlling interest, the net loss of LREIT, for the six months ended June 30, 2006, increased by $849,391, compared to the first six months of 2005.

Operating Income

During the second quarter of 2006, the operating income of LREIT increased by approximately $1.36 Million or 55%, compared to the second quarter of 2005. The increase in the operating income is mainly due to the increase in the number of properties in the portfolio of LREIT. During the second quarter of 2005, 18 properties, with a total acquisition cost of $129 Million, contributed to the operating income of LREIT. During the second quarter of 2006, 27 properties, with a combined acquisition cost of $202 Million, contributed to operating income. (The six properties in Fort McMurray, which were acquired on June 30, 2006, did not contribute to operating income during the second quarter of 2006.)

General

Analysis of Operating Income

	Percentage of Total Operating Income			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Residential	72%	62%	71%	55%
Commercial	18%	31%	19%	35%
Total - Income Properties	90%	93%	90%	90%
Trust	10%	7%	10%	10%
Total	100%	100%	100%	100%

The operations of LREIT encompass the acquisition and management of a growing portfolio of income-producing properties. The portfolio of Income Properties includes commercial and residential properties in rental markets across western Canada and in Ontario and the Northwest Territories. For financial reporting purposes, the operating results of the Income Properties are segmented geographically and by property type, while operating results pertaining to overall asset management and administrative activities are categorized under the heading of “Trust”.

The operating income from “Trust” operations consists almost exclusively of interest income on mortgage loans receivable and excess cash reserves. The portfolio of Income Properties is the primary source of operating income accounting for 90% and 93% of the total operating of income of LREIT during the second quarter of 2006 and 2005, respectively.

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

Overall Portfolio Analysis

Revenue

Analysis of Rental Revenues by Property Sector

	Percentage of Total Rental Revenues			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Residential	83%	71%	82%	66%
Commercial	17%	29%	18%	34%
	100%	100%	100%	100%

During the second quarter of 2006, total rental revenues increased by approximately $2.4 Million or 59%, compared to the second quarter of 2005. The increase is mainly due to an increase in the number of properties in the LREIT portfolio.

During the second quarter of 2006, the residential properties accounted for 83% of the total rental revenues of the Trust, compared to 71% during the second quarter of 2005. As disclosed in the chart on page 15, residential properties accounted for 72% of the operating income of LREIT during the second quarter of 2006, compared to 62% during the second quarter of 2005. The percentage increase in revenues and operating income reflects the change in the investment strategy of LREIT to focus exclusively on the acquisition of residential properties, commencing in March 2004.

As of June 30, 2006, the real estate portfolio of LREIT consisted of four commercial properties and 29 residential properties, compared to four commercial properties and 14 residential properties as of June 30, 2005. The percentage of revenue and income attributable to residential properties is expected to continue to increase, as additional residential properties are acquired. In addition, the second quarter results for 2006 do not include any revenue from the six residential properties which were acquired in Fort McMurray, as the properties were acquired on June 30, 2006.

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. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties, McIvor Mall and the Kenaston Property, were 98% and 94% leased, respectively, as of June 30, 2006.

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.

Analysis of Residential Properties

Revenue

Analysis of Rental Revenue by Geographic Market Segment – Residential Properties

	Percentage of Total Rental Revenue			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Alberta	37%	60%	38%	51%
Saskatchewan	35%	12%	35%	13%
Northwest Territories	12%	16%	13%	21%
Manitoba	7%	3%	7%	3%
British Columbia	6%	9%	6%	12%
Ontario	3%	N/A	1%	N/A
	100%	100%	100%	100%

As reflected in the chart above, there is a high level of geographic diversification in the portfolio of residential properties as of June 30, 2006. The increase in the percentage component for the Saskatchewan portfolio and the corresponding decrease in the percentage component for the Alberta portfolio reflects the acquisition of five properties in Saskatchewan, subsequent to June 30, 2005, at a cost of $46.6 Million. In the third quarter of 2006, the percentage component for Alberta is expected to increase as the rental revenue for the six residential properties which were acquired in Fort McMurray on June 30, 2006 will begin to accrue to the Trust, effective July 1, 2006.

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 Operating Costs

Analysis of Operating Cost Ratio by Property Sector

	Operating Cost Ratio			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Residential	51%	48%	53%	51%
Commercial	38%	38%	40%	39%
Total portfolio	49%	45%	51%	47%

The operating cost ratio for the entire portfolio of LREIT properties increased from 45% during the second quarter of 2005 to 49% during the second quarter of 2006.

The higher overall operating cost ratio for the second quarter of 2006 is due to an increase in the operating cost ratio for the portfolio of residential properties. Specifically, the operating cost ratio for residential properties increased from 48% in the second quarter of 2005 to 51% in the second quarter of 2006. The increase reflects a significant variance in operating cost ratios by geographic location, as highlighted in the following chart.

Geographic Analysis of Operating Cost Ratio – Multi-Family Properties

	Operating Cost Ratio			
	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Alberta	46%	31%	46%	35%
Northwest Territories	42%	39%	47%	41%
Saskatchewan	55%	67%	56%	66%
Manitoba	53%	188%	58%	148%
British Columbia	74%	101%	93%	93%
Ontario	51%	N/A	51%	N/A
Total residential portfolio	51%	48%	53%	51%

The variation in the operating cost ratio among provinces is mainly due to differences in occupancy levels, whereas the variation within each province mainly reflects the impact of new property acquisitions, as well as quarterly variations in operating expenses.

The change in operating cost ratios for the Alberta and Saskatchewan portfolios had the most significant impact of the overall ratio, given the relative size of the portfolios compared to other provinces.

The decrease in the operating cost ratio for the Saskatchewan portfolio is mainly due to the positive impact of the Riverside Terrace acquisition in July 2005. Riverside Terrace achieved an operating cost ratio of 49% during the second quarter of 2006 and accounted for approximately 64% of the total second quarter operating income of the Saskatchewan portfolio.

The increase in the operating cost ratio for the Alberta portfolio, reflects an increase in operating costs at Norglen Terrace and at the Nova Properties. Operating costs at Norglen Terrace were comparatively higher due to an increase in maintenance costs in regard to the completion of upgrades to the building. The increase in operating costs for the Nova Properties is directly related to the expiry of the cash flow guarantee, as discussed below.

The provinces with the most significant change in operating cost ratios were Manitoba and British Columbia. The decrease in the operating cost ratio for the Manitoba portfolio reflects a high operating cost ratio at Highland Tower, offset by the more favourable operating cost ratio of the two Manitoba properties which were acquired subsequent to June 30, 2005, namely Chancellor Gate and Willowdale Gardens.

The decrease in the operating cost ratio for the sole property in the British Columbia portfolio, Greenwood Gardens, mainly reflects an decrease in the vacancy loss and in bad debt expense.

In summary, there was a relatively modest change in the overall operating cost ratio of LREIT, between the second quarter of 2005 and 2006, as the large properties, which comprise a high percentage of the overall property portfolio, are generally achieving favourable operating cost ratios. In particular, Nelson Ridge Estates and Riverside Terrace, which are the two largest properties in the LREIT residential portfolio, based on acquisition costs, had a combined operating cost ratio of 36% during the second quarter of 2006 and accounted for approximately $1.5 Million or 39% of the total second quarter operating income from residential properties.

Revenue/Income and Other Commitments

Nova Properties

In 2004, LREIT acquired three properties, Nova Manor, Nova Villa and Nova Ridge Estates, which encompassed cash flow guarantees, whereby the Vendor guaranteed a specified monthly operating cash flow until the monthly net rental revenues reach a predetermined threshold level, subject to a maximum period of one year. The "one year" period ended on April 30, 2005 for Nova Manor and Nova Villa and on June 30, 2005 for Nova Ridge Estates. As a result of the expiry of the cash flow guarantee, the operating income from the three properties decreased by $58,635 or 21% during the second quarter of 2006, compared to the second quarter of 2005. For the six month period ended June 30, 2006, the operating income from the three properties decreased by $220,623 or 36%, compared to the first six months of 2005. The decrease in operating income is mainly due to an increase in operating expenses, including maintenance, advertising and leasing, management fee and salaries and office expenses.

Lakewood Manor

As disclosed on page 5, the acquisition of Lakewood Manor is expected to close on the estimated construction completion date in February 2007. The property, which is located in Fort McMurray, Alberta, consists of 64 three-storey townhouses and a four storey apartment building with 111 suites. All of the apartment suites will be fully furnished.

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

The lease is for a three year term and will result in absolute net operating income for Lakewood Manor of $4,743,000 per annum. The agreement also provides the oil sands company with an option to extend the lease for an additional two years, at a 10% increase in the annual absolute net operating income, and a three year purchase option to acquire all of the 64 townhouse units. The purchase price for the townhouse units is set at $25,593,600 for 2007; $26,297,600 for 2008; and $27,091,200 for 2009.

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

Elgin Lodge

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

LREIT also plans to proceed with a 59 suite expansion of the property in 2007. The expansion will consist of a multi-level extension of the existing building on excess land. Upon completion of the expansion, the property will consist of 123 suites, comprised of 47 studio suites and 76 one-bedroom suites. The expansion is estimated to cost approximately $8.5 Million and will be financed by an increase in the first mortgage loan and the balance in cash. Kingsway will also guarantee a 12% return on the equity component of LREIT’s investment in the expansion for the balance of the original five year period. For a period of five years from the closing date of the acquisition, Kingsway will be entitled to an additional payment equal to 50% of the amount, if any, by which the appraised value of the expanded property exceeds the total cost to LREIT, including the expansion cost.

Park View Apartments

LREIT has entered into a Development Agreement with Shelter Canadian Properties Limited in regard to the construction of Park View Apartments. Details of the Development Agreement are disclosed on page 25 of this report.

Cash Flows

Cash from Operations

During the second quarter of 2006, LREIT generated cash from operations of $1,751,216, compared to cash from operations of $813,697 during the second quarter of 2005. The increase in cash flow mainly reflects an increase in net income, excluding amortization expense of approximately $600,000 and a decrease of approximately $366,000 in interest paid on convertible debentures. The decrease in interest paid on convertible debentures reflects the full conversation of the Series C convertible debentures, subsequent to June 30, 2005.

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

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

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

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

Funds from Operations/Adjusted Funds from Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005 (restated)	2006	2005 (restated)
Net loss	$ (963,067)	$ (726,463)	$ (2,035,249)	$ (1,185,858)
Add (Deduct):				
Total amortization expense	1,910,979	1,039,443	3,537,482	1,784,961
Amortization of deferred financing fees	(178,226)	(262,846)	(282,123)	(462,496)
Future income tax recovery	(34,874)	-	(43,550)	-
Non-controlling interest	1,846	-	1,846	-
Funds from operations	736,658	50,134	1,178,406	136,607
Add (Deduct):				
Accrued rental revenue	(12,871)	(21,524)	(23,181)	(43,799)
Net amortization of above/below market in-place lease	26	886	52	1,772
Accrued financing expense on convertible debentures	864,846	903,748	1,678,669	1,590,791
Interest on convertible debentures	(588,766)	(586,673)	(1,202,827)	(1,013,516)
Unit based compensation	3,989	2,847	7,978	5,694
Lease acquisition costs	(8,734)	(83,837)	(55,356)	(144,838)
Adjusted funds from operations	$ 995,148	$ 265,581	$ 1,583,741	$ 532,711
Funds from operations per unit				
- basic	$0.043	$0.006	$0.069	$0.018
- diluted	$0.043	$0.006	$0.069	$0.017
AFFO per unit				
- basic	$0.058	$0.033	$0.093	$0.068
- diluted	$0.058	$0.033	$0.093	$0.068

SUMMARY OF QUARTERLY RESULTS

Quarterly Analysis For the Year Ended December 31

	2006		2005	
	Q2	Q1	Q4	Q3 (restated)
Total revenue	$6,891,004	$6,442,035	$5,592,039	$4,846,417
Operating income	$3,821,847	$3,251,325	$2,849,749	$2,630,693
Net income (loss)	$(963,067)	$(1,072,182)	$(463,010)	$(486,238)
PER UNIT				
Operating income				
- Basic	$0.223	$0.193	$0.305	$0.263
- Diluted	$0.211	$0.181	$0.261	$0.225
Net income (loss)				
- Basic	$(0.056)	$(0.064)	$(0.040)	$(0.049)
- Diluted	$(0.056)	$(0.064)	$(0.040)	$(0.049)

Quarterly Analysis for the Year Ended December 31

	2005		2004 (restated)	
	Q2 (restated)	Q1 (restated)	Q4	Q3
Total revenue	$4,300,018	$3,066,600	$2,528,428	$2,309,239
Operating income	$2,465,350	$1,722,756	$1,296,410	$1,398,456
Net income (loss)	$(726,463)	$(459,395)	$(714,454)	$(605,970)
PER UNIT				
Operating income				
- Basic	$0.304	$0.230	$0.477	$0.531
- Diluted	$0.211	$0.153	$0.198	$0.227
Net income (loss)				
- Basic	$(0.090)	$(0.061)	$(0.263)	$(0.230)
- Diluted	$(0.090)	$(0.061)	$(0.263)	$(0.230)

COMPARISON TO PRIOR QUARTER

Comparison to 2006 First Quarter

	Three Months Ended		
	June 30, 2006	March 31,2006	Increase (Decrease)
Operating income – rental properties	$ 3,447,506	$ 2,899,483	$ 548,023
Interest income – Trust	374,341	351,842	22,499
Operating income	3,821,847	3,251,325	570,522
Financing expense			
Mortgage loans	1,758,129	1,689,472	68,657
Debentures	864,846	813,823	51,023
	2,622,975	2,503,295	119,680
Operating income, net of financing expense	1,198,872	748,030	450,842
Trust expense	283,988	202,385	81,603
Net income, before amortization, future income tax recovery and non-controlling interest	914,884	545,645	369,239
Amortization	1,910,979	1,626,503	284,476
Future income tax recovery	(34,874)	(8,676)	(26,198)
Non-controlling interest	1,846	-	1,846
Net loss	$ (963,067)	$ (1,072,182)	$ 109,115

Analysis of Change in Quarterly Net Loss

During the second quarter of 2006, the net income of LREIT, excluding amortization expense, future income tax recovery and non-controlling interest, increased by $369,239 or 68%, compared to the first quarter of 2006, mainly due to the following factors:

- an increase in operating income from rental properties of $548,023 or 19%. The increase reflects the incremental operating income which was derived from new property acquisitions during the second quarter of 2006 and an increase in operating income from the existing portfolio. The increase in operating income from the existing portfolio is largely attributable to a decrease in the operating cost ratio for the portfolio of residential properties, particularly for Greenwood Gardens, as discussed on page 18 of this report;

- a proportional decrease in mortgage loan financing expense. As a percentage of net operating income, mortgage loan financing expense decreased from 52% during the first quarter of 2006 to 46% during the second quarter of 2006. The decrease mainly reflects a comparatively lower debt to value ratio for the second quarter property acquisitions, as Elgin Lodge was acquired on a 100% cash basis and the Village West Townhouses were acquired using a combination of mortgage and equity financing; and

- an increase in Trust expense of $81,603. The increase mainly reflects an increase in the fees associated with the filing of the 2005 annual and 2006 first quarter reports in April 2006, an increase in due diligence costs for non-acquired properties and an increase in general expenses.

The net loss of LREIT, including amortization expense, future income tax recovery and non-controlling interest, decreased by $109,115 during the second quarter of 2006, compared to the first quarter of 2006. The decrease in the net loss reflects the increase in income, as explained above, partially offset by an increase in amortization expense of $284,476.

CAPITAL RESOURCES AND LIQUIDITY

Working Capital

Operations

On an annual basis, LREIT is generating sufficient revenues from operations to fully fund operating costs and mortgage loan debt service costs for its entire portfolio of income-producing properties, as well as interest payable on convertible debentures and trust expenses. As disclosed in the chart on page 23, cash from operations exceeded mortgage loan debt service costs and debenture interest by $898,486 during the six month period ended June 30, 2006.

Leasing Costs and Property Improvements

LREIT requires working capital in order to fund capital improvements, as well as tenant inducements and leasing expenses for existing properties. The majority of tenant inducements and leasing expenses, excluding amounts recorded on property acquisitions, pertain to the office and retail space at the Kenaston property and at the McIvor Mall. Initially, the tenant inducements and leasing expenses are funded from working capital, however, over the longer term, the incremental revenue from new leasing activity is expected to exceed the initial capital outlays and result in an increase in cash inflows.

Aside from the 59 suite expansion of Elgin Lodge, capital improvements for existing properties are expected to continue to be relatively limited. As disclosed on page 5 of this report, additions to Income Properties amounted to $240,984 for the six months ended June 30, 2006.

Details of the Elgin Lodge expansion are provided on page 19 of this report.

Cash Distributions

Distributable Income

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

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

	Six Months Ended June 30	
	2006	2005 (restated)
Net loss	$ (2,035,249)	$ (1,185,858)
Add (deduct):		
Total amortization expense	3,537,482	1,784,961
Amortization of tenant inducements and leasing expenses	(166,214)	(154,798)
Accretion on debt component of c onvertible debentures	1,678,669	1,590,791
Interest expense on convertible debentures	(1,202,822)	(1,013,516)
Revenue adjustments	(23,129)	(42,027)
Unit-based compensation	7,978	5,694
Future income tax recovery	(43,550)	-
Non-controlling interest	1,846	-
Distributable income	1,755,011	985,247
Interest expense on convertible debentures	1,202,822	1,013,516
Interest paid on convertible debentures	(740,897)	(741,113)
Amortization of tenant inducements and leasing expenses	166,214	154,798
Cash from operations, per Statement of Cash Flows (i)	2,383,150	1,412,448
Principal repayment of mortgage loans	(1,489,664)	(668,737)
Cash from operations, net of principal repayment of mortgage loans	893,486	743,711
Less: Cash distributions, declared, including LREIT Village West Limited Partnership	(4,790,219)	(2,394,678)
Working capital supplement	$ (3,896,733)	$ (1,650,967)

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

Cash Distribution Shortfall

As disclosed in the preceding analysis, the total cash distributions of LREIT for the first six months of 2006 exceeded operating cash flows, net of mortgage loan principal payments, by approximately $3.9 Million. To a significant degree, the shortfall between the cash flow and cash distribution amount reflects a lag between the receipt of new investment capital and the investment of the new capital in income-producing properties. Specifically, the lump-sum receipt of large amounts of investment capital results in an immediate increase in financing expense or cash distribution amounts, while the income from the investment of the capital gradually accrues to LREIT as new properties are acquired.

In this regard, LREIT raised approximately $45.7 Million from unit and debenture offerings between December 14, 2005 and June 30, 2006. Although LREIT invested approximately $16.5 Million of cash equity in new property acquisitions during the first six months of 2006, approximately 90% of the cash equity was not invested until June 2006, including 33%, which was not invested until the last day of the second quarter, upon the acquisition of the six new properties in Fort McMurray, Alberta. As a result, there is a very significant amount of investment income in regard to the existing property portfolio, which is not reflected in the operating cash flows for the first six months of 2006.

The increase in the cash distribution shortfall from $1,650,967 in the first six months of 2005, compared to $3,896,733 in the first six months of 2006, reflects the continuation of a variance between cash distribution levels and cash flow amounts, on a per unit basis, multiplied by an increase in the number of units outstanding.

To the extent that the cash distribution amount exceeds cash flows, the excess distribution effectively represents a return of capital to the Unitholders and also serves to reduce the investment capacity of the Trust. As additional property acquisitions are completed and operations stabilize, it is anticipated that the shortfall between operating cash flows and the cash distribution amount will be gradually reduced.

Investment Capital

Overview – First Six Months of 2006

Since its inception, LREIT has demonstrated an ongoing ability to raise additional capital to fund new property acquisitions. As noted above, LREIT raised approximately $45.7 Million of additional capital between December 14, 2005 and June 30, 2006 from unit and debenture offerings, while the total cash invested in new property acquisitions during the same period amounted to approximately $16.5 Million. Based on a mortgage debt to equity ratio of 25% for new property acquisitions, the capital resources of LREIT as of June 30, 2006, represent funding for new property acquisitions, in the range of $75 Million to $100 Million, during the remainder of the year. As of June 30, 2006, the capital resources of LREIT include mortgage loan investments of $14.35 Million, cash deposits on potential acquisitions of $2.1 Million, the first mortgage loan proceeds for Elgin Lodge of $6 Million and cash reserves of $5 Million.

Future Growth

As disclosed on page 5 of this report, LREIT is under contract to acquire three large-scale apartment complexes which are being developed in Fort McMurray, Alberta. The acquisition of Woodland Park is expected to occur by December 31, 2006, while the acquisition date for the Lakewood Manor is expected to occur in February 2007 and not later than November 30, 2007 for Park View Apartments.

Trends

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

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

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited (“Shelter Canadian”)

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

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

In January 2006, the Governance and Compensation Committee of the Board of Trustees determined that the remuneration of Shelter Canadian, pursuant to the Services Agreement, should be amended to be comparable with market asset management fees. For the six month period ending June 30, 2006, the Committee approved an asset management fee equal to 0.3% of the gross book value of the total assets of the Trust, excluding cash, as of the date of the most recently issued financial statements. Subsequent to March 31, 2006, the period for the 0.3% fee was extended to December 31, 2006. Payment of the fee is to occur on a monthly basis, on the last day of each month.

Shelter Canadian is also the Property Manager for LREIT, pursuant to the Property Management Agreement. Shelter Canadian has a direct involvement in the management of all of the income properties in the portfolio of LREIT and acts as Asset Manager and Property Manager for the majority of properties. The on-site property management function is sub-contracted for certain properties in order to maintain continuity between the tenants and the incumbent Property Manager or due to such factors as the remoteness of the property location or the nature of the acquisition process.

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

Acquisition of Willowdale Gardens

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

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

Development Agreement for Park View Apartments

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

Pursuant to the development agreement, Shelter Canadian has agreed to:

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

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

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

The acquisition of the land for the property closed on July 31, 2006, at a cost of approximately $9.84 Million. The acquisition of the land relating to the Park View Apartments, and the entering into of the development agreement with Shelter, was approved by the independent trustees of LREIT and Mr. Thorsteinson abstained from voting on the resolution approving the transaction.

OPERATING RISKS AND UNCERTAINTIES

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2006 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 24, 2006

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, Mr. Harold Milavsky, Ms. Cheryl Barker 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. Milavsky and Ms. Barker were appointed at the Annual General Meeting in June 2006. Mr. Milavsky is the Chair of the Board, Quantico Capital Corporation. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson, 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 manages all of the income properties except for the seniors housing complexes where the Trust has retained third part property managers to provide on-site management services, due to the nature of the operations.

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

Office Address

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

Unit Listing

TSX Venture Exchange
Unit trading symbol: LRT.UN

Unitholder and Investor Contact

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

Transfer Agent and Registrar

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

Auditors

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

Legal Counsel

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