LANESBOROUGH REIT

2006 FIRST QUARTER REPORT

Unitholder Returns

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
Distribution per unit	$0.14	$0.56
Opening unit price	$5.25	$5.50
Closing unit price	$6.65	$5.25
Annualized yield on opening price (distribution/opening unit price)	10.7%	10.2%
Capital appreciation (capital appreciation/opening unit price)	26.7%	(4.5)%
Total return	37.4%	5.7%

Projected cash distribution – 2006:	$0.56
Closing unit price – May 24, 2006:	$6.00
Current yield:	9.3%

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 rental apartment properties in markets across western Canada in order to create a geographically diversified portfolio with solid cash flows and strong capital appreciation potential.

After achieving an increase in its property portfolio of approximately $100 Million or 150% in 2005, LREIT is poised for another year of exceptional growth in 2006. Acquisitions which have been completed, or are under contract in 2006, encompass 14 properties with a total acquisition cost of $162.4 Million. During the first quarter of 2006, LREIT completed two of the new property acquisitions at a total cost of $11.1 Million, resulting in a portfolio with a total acquisition cost of $176.9 Million as of March 31, 2006, representing an increase in the property portfolio of $99.5 Million or 129% since March 31, 2005.

In terms of its bottom line results, LREIT once again incurred a net loss due to high amortization charges, with the net loss increasing by $612,787 or 133% during the first quarter of 2006, compared to the first quarter of 2005. On a per unit basis, the net loss remained relatively constant at $0.064 during the first quarter of 2006, compared to $0.061 during the first quarter of 2005. Net income, before amortization expense and excluding future income tax recovery, increased by $268,198 or 94%, during the first quarter of 2006, compared to the first quarter of 2005.

Notwithstanding the increase in the net loss, LREIT achieved a significant improvement in cash flow results during the first quarter of 2006, mainly due to the increase in the number of properties in the LREIT portfolio. In comparison to the first quarter of 2005, distributable income increased by $212,357 or 48%, "Funds from Operations" (FFO) increased by $355,275 or 410% and "Adjusted Funds from Operations" (AFFO) increased by $323,573 or 122%. "Cash from Operations" increased by a modest amount of $33,183 or 5%, mainly due to the timing of convertible debenture payments. On a per unit basis, FFO increased from $0.012 per unit in 2005 to $0.026 per unit in 2006, while AFFO remained constant at $0.035 per unit.

During the first quarter of 2006, the operating income of LREIT also improved significantly, increasing by $1.5 Million or 89%, compared to the first quarter of 2005, in large part due to the contribution from Nelson Ridge Estates, the largest property in the LREIT portfolio. During the first quarter of 2006, Nelson Ridge Estates accounted for $900,000 or 28% of the total operating income of the Trust. 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. In 2006, the overall quality of the LREIT portfolio will be further solidified, with the investment of approximately $127 Million in additional properties in Fort McMurray, including a portfolio of six smaller apartment buildings, with a scheduled closing date in June 2006, and two large apartment complexes, Lakewood Manor and Woodland Park, which are currently under construction and have a closing date of December 2006.

All of the units of Lakewood Manor are also pre-leased to a major oil sands operating company which will ensure that the property has a 100% occupancy level for a minimum of three years, with guaranteed absolute net operating income of $4.7 Million per annum.

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 25, 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 first quarter ended March 31, 2006 and accompanying notes, and with reference to 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-family residential properties. The overall investment strategy of LREIT is to focus on the acquisition of properties with stable yields, low vacancy levels, strong tenant covenants and growth potential. LREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high calibre and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

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

INVESTMENT ACTIVITIES

Property Acquisitions

General

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

Property Portfolio – March 31, 2006

Property	Location	Purchase Price		Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy 03/31/06	
RESIDENTIAL							
Manitoba							
Highland Tower	Thompson	$ 1,350,000		January 2005	95	29%	(3)
Chancellor Gate	Winnipeg	6,750,000		August 2005	48	90%	
Willowdale Gardens	Brandon	4,326,000		January 2006	88	96%	
Saskatchewan							
Borden Estates	Prince Albert	5,315,000		February 2005	144	72%	
Cedar Village	Prince Albert	2,700,000		February 2005	72	64%	
Carlton Manor	Prince Albert	410,000		February 2005	19	90%	
Riverside Apartments	Prince Albert	265,000		February 2005	12	67%	
MGM Apartments	Prince Albert	650,000		February 2005	28	54%	
Riverside Terrace	Saskatoon	24,000,000	(1)	July 2005	181	97%	
Marquis Towers	Prince Albert	6,200,000		August 2005	129	90%	
Alberta							
Nova Villa	Edmonton	5,400,000		May 2004	61	95%	
Nova Manor	Edmonton	2,615,000		May 2004	32	91%	
Nova Ridge Estates	Spruce Grove	8,800,000		July 2004	102	91%	
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%	
Northwest Territories							
Beck Court	Yellowknife	14,300,000		April 2004	120	96%	
Three Lakes Village	Yellowknife	10,900,000		May 2005	50	96%	
British Columbia							
Greenwood Gardens	Surrey	10,950,000		April 2004	183	86%	
Total – Residential		**$ 154,796,000**		Total Suites	**1,754**		
COMMERCIAL							
Retail and Office							
Kenaston	Winnipeg, MB	$ 12,656,200	(2)	April 2002	103,209	93%	
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		**$ 176,952,200**					

(1) Riverside Terrace is a senior's housing complex.
(2) Includes cost of asset additions.
(3) In-suite renovation program in process.

Property Portfolio – March 31, 2006

As of December 31, 2005, the real estate portfolio of LREIT consisted of 21 properties with a total cost of $165.8 Million.

During the first quarter of 2006, LREIT acquired two additional multi-family residential properties at a total purchase price of $11.1 Million, resulting in a real estate portfolio of 23 properties, with a total cost of $176.9 Million as of March 31, 2006.

Property Acquisitions Subsequent to March 31, 2006

Acquisitions which have been completed, or are in process, subsequent to March 31, 2006, are as follows:

Property Acquisitions – Subsequent to March 31, 2006

Property	Location	Actual/Projected Acquisition Date	Number of Suites	Purchase Price
Village West	Saskatoon, SK	May 2006	100	$ 5,150,000
Chateau St. Michaels (1)	Moose Jaw, SK	May 2006	93	7,600,000
Elgin Lodge (1) (2)	Port Elgin, ON	May 2006	64	8,300,000
Gannet Place	Fort McMurray, AB	June 2006	37	
Lunar Apartments	Fort McMurray, AB	June 2006	24	
Parkland Apartments	Fort McMurray, AB	June 2006	12	32,135,000
Skyview Apartments	Fort McMurray, AB	June 2006	29	
Snowbird Manor	Fort McMurray, AB	June 2006	34	
Whimbrel Terrace	Fort McMurray, AB	June 2006	37	
Woodlily Courts	Moose Jaw, SK	June 2006	102	3,700,000
Lakewood Manor (3)	Fort McMurray, AB	December 2006	175	56,565,300
Woodland Park (3)	Fort McMurray, AB	December 2006	107	37,865,000
				$ 151,315,300

(1) Chateau St. Michaels and Elgin Lodge are senior's housing complexes.
(2) A 59-suite expansion of Elgin Lodge is planned for 2007 at an estimated cost of $8.5 Million.
(3) The Lakewood Manor and Woodland Park properties in Fort McMurray, Alberta are under construction, with estimated completion dates in December 2006. The acquisition of the properties is scheduled to close on the construction completion date.

Carrying Costs for Major Renovations and Properties Under Development

During the first quarter of 2006, additions to Income Properties amounted to $190,500. 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 vacancy losses and operating costs pertaining to the unavailable suites. In total, the capitalized renovation costs for Highland Tower include carrying costs of $37,948.

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

March 31, 2006 - $9,350,000
December 31, 2005 - $9,350,000

Lakewood Manor Loan

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

Other

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

Woodland Park

Subsequent to March 31, 2006, LREIT also provided a $5 Million second mortgage loan in regard to the construction of Woodland Park. The loan bears interest at the Royal Bank prime rate, requiring payments of interest only, on a quarterly basis, and is subordinate to a construction mortgage in the maximum amount of $18 Million.

FINANCING ACTIVITIES

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

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

Trust Units

Units Outstanding

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

As of March 31, 2006, LREIT had 16,909,486 units outstanding, representing an increase of 54,200 units or 0.3%, compared to the number of units outstanding as of December 31, 2005. All of the units which were issued during the first quarter of 2006 originated from the conversion of Series D debentures.

Summary of Trust Unit Offerings

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

Issue Date	Description	Units Issued	Equity Raised
August 30, 2002	Initial units issued on creation of LREIT	775,000	$ 500,000
Units outstanding, December 31, 2002		775,000	500,000
August 28, 2003	First closing of private offering	502,463	2,009,852
August 29, 2003	Units issued on conversion of debentures	14,500	-
December 8, 2003	Second closing of private offering	70,750	283,000
December 22, 2003	Private placement	1,250,000	5,000,000
Units outstanding, December 31, 2003		2,612,713	7,792,852
April 15, 2004	Private placement on the acquisition of Greenwood Gardens	20,000	-
December 23, 2004	First closing of private placement	3,828,500	19,142,500
Units outstanding, December 31, 2004		6,461,213	26,935,352
January 27, 2005	Second closing of private placement	1,171,500	5,857,500
February 2, 2005	Private placement	200,000	1,000,000
September 29, 2005	Exercise of unit options	10,000	40,000
December 14, 2005	Private placement	6,297,240	32,115,924
January to March 31, 2005	Units issued on conversion of debentures	2,715,333	-
Units outstanding, December 31, 2005		16,855,286	65,948,776
January to March 31, 2006	Units issued on conversion of debentures	54,200	-
Units outstanding, March 31, 2006		16,909,486	$65,948,776

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

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

Convertible Debentures

Debenture Offerings – First Quarter of 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 March 31, 2006, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

Issue Date/ Maturity Date	Series	Interest Rate	Amount Issued	Unit Conversions: Three Months Ended March 31, 2006	Unit Conversions: As of December 31, 2005 (1)	Net Amount Outstanding March 31, 2006
Aug. 30/02/Aug. 30/07	A	10%	$ 3,000,000	$ -	$ (1,231,000)	$ 1,769,000
Aug. 30/02/Aug. 30/05	B	8%	1,000,000	-	(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	(271,000)	(147,000)	3,582,000
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	$ (271,000)	$ (12,509,000)	31,031,000
Net accumulated accretion						985,933
Book value, March 31, 2006						$ 32,016,933
Allocation of book value						
Debt component						$ 24,572,202
Equity component						7,444,731
						$ 32,016,933

(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

March 31, 2006 - $123,829,683
December 31, 2005 - $116,827,895

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount March 31, 2006	Percentage of Total
2006	6.9%	$ 2,610,992	2.1%
2006	- (VTB)	250,000	0.2%
2007	6.5%	1,966,272	1.6%
2008	4.1%	4,069,695	3.3%
2009	5.3%	22,693,393	18.3%
2013	5.9%	27,907,289	22.5%
2014	5.5%	17,953,725	14.5%
2015	5.7%	38,652,273	31.2%
2016	5.3%	5,550,000	4.5%
		121,653,639	98.2%
Demand/floating rate	6% (Prime + 1%)	2,176,044	1.8%
		$ 123,829,683	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 two property acquisitions in the first quarter of 2006 account for the increase in the balance of “Mortgage Loans Payable” since December 31, 2005.

As of March 31, 2006, the weighted average interest rate of the entire portfolio of mortgage loans is 5.6%, representing the same weighted average interest rate which existed as of December 31, 2005. The ratio of mortgage loans payable, relative to the appraised value of the total property portfolio, also remained relatively constant at 63.7% as of March 31, 2006, compared to 63.8% as of December 31, 2005.

Financing Arrangements for Upcoming Property Acquisitions

Financing Summary

Property	Purchase Price (Millions)	Amount (Millions)	Interest Rate	Type	Debt Percentage	Notes
Village West	$5.15	$2.35	5.22%	FML Assumed	46%	2
Chateau St. Michaels	$7.60	$5.50	5.70% (est.)	New FML	72%	1
Elgin Lodge	$8.30	$6.00	Prime + 1%	New FML	72%	1
Elgin Lodge expansion	$8.5 (est.)	$6.40	Not available	New FML	75%	1
Fort McMurray portfolio (six properties)	$32.14	$25.50	5.5% (est.)	New FML	79%	1
Lakewood Manor	$56.60	$42.50	Not available	New FML	75%	3
Woodlily Courts	$3.70	$3.00	5.5% (est.)	New FML	81%	1
Woodland Park	$37.90	$25.00	5.25% (est.)	New FML	66%	3

(1) The new first mortgage loans (FML) to be arranged for the upcoming property acquisitions are based on financing offers or proposals which have not been finalized and are subject to change.

(2) The acquisition of Village West will also be funded by the issuance of Class B Limited Partnership Units ("LPU's"), in the total amount of $2,649,990, of a wholly owned Limited Partnership to be established by the Trust. The LPU's will be issued at $6 per LPU, resulting in the issuance of 441,665 LPU's to the vendor. Each LPU shall be 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.

Based on an annual cash distribution of $0.56 per unit or $247,300 in total, the LPU's have an effective interest rate of 9.3%.

(3) 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 in an amount which is equal to 75% and 66% of the purchase price, respectively, with the financing to be advanced on 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.

FINANCIAL PERFORMANCE

Asset/Debt Summary

	As of March 31, 2006	As of December 31, 2005
Total assets	$ 223,190,253	$ 201,013,351
Mortgage loans payable	$ 123,829,683	$ 116,827,895
Convertible debentures (face value)	31,031,000	17,622,000
	$ 154,860,683	$ 134,449,895

Total Assets

As of March 31, 2006, the total assets of LREIT amounted to $223,190,253, compared to $201,013,351 at the end of 2005, representing an increase of approximately $22.2 Million or 11%. The increase in total assets is mainly due to an increase in "Income Properties" and reflects the acquisition of two additional properties during the first quarter of 2006.

As disclosed in Note 3 and Note 10 of the first quarter financial statements, the cost of "Income Properties" also increased by $3,871,302 in the first quarter of 2006 in regard to an adjustment to the cost of Riverside Terrace as a result of the future income tax liability on the acquisition of the property.

Long-Term Financial Liabilities

As of March 31, 2006, mortgage loans payable and the face value of convertible debenture debt amounted to 80% of the appraised 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. The increase in the overall debt ratio is effectively offset by an increase in the cash balance of the trust and an increase in “Other Assets”.

Other Balance Sheet Items

Deferred Charges

March 31, 2006 - $3,256,329
December 31, 2005 - $2,701,397

As per Note 4 of the audited financial statements, the unamortized cost of deferred charges was $4,889,223 as of March 31, 2006, representing a decrease of $105,220, 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

March 31, 2006 - $5,391,681
December 31, 2005 - $3,815,427

Other assets increased by $1,576,254 since December 31, 2005. The increase is mainly due to an increase in amounts receivable, prepaid expenses and deposits on potential acquisitions.

Intangible Assets

March 31, 2006 - $2,829,612
December 31, 2005 - $2,191,630

As disclosed in Note 6 of the financial statements, the unamortized cost of intangible assets was $4,159,104, as of March 31, 2006, representing an increase of $541,819, in comparison to the unamortized balance 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

March 31, 2006 - $3,325,621
December 31, 2005 - $3,000,755

Accounts Payable and Accrued Liabilities increased by $324,866 since December 31, 2005. The increase is mainly due to an increase in tenant security deposits and operating accounts payable.

Future Income Taxes

March 31, 2006 - $4,003,598
December 31, 2005 - $140,972

As disclosed in Note 10 of the first 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 property. 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”.

RESULTS OF OPERATIONS

Summary of Operating/Cash Flow Results

	Three Months Ended March 31	
	2006	2005 (restated)
Total revenue	$ 6,442,035	$ 3,066,600
Operating income	$ 3,251,325	$ 1,722,756
Net loss	$ (1,072,182)	$ (459,395)
Distributable income	$ 658,222	$ 445,865
Funds from Operations (FFO)	$ 441,748	$ 86,473
Adjusted Funds from Operations (AFFO)	$ 588,993	$ 265,420
Cash distributions, declared - total	$ 2,364,800	$ 1,129,803
- per unit	$0.14	$0.14

Per Unit

	Basic	Diluted	Basic	Diluted
Operating income	$0.193	$0.181	$0.230	$0.153
Net loss	$(0.064)	$(0.064)	$(0.061)	$(0.061)
Distributable income	$0.039	$0.039	$0.057	$0.045
Funds from Operations (FFO)	$0.026	$0.026	$0.012	$0.012
Adjusted Funds from Operations (AFFO)	$0.035	$0.035	$0.035	$0.035

General

During the first quarter of 2006, the operating income of LREIT increased by approximately $1.5 Million or 89%, compared to the first quarter of 2005, while cash from operations increased by $33,183 or 6%. Net income, excluding amortization expense and future income tax recovery, increased by approximately $260,000 or 91%, while the net loss of LREIT increased by approximately $613,000 or 134%.

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 first quarter of 2005 is $184,934 higher than was previously reported.

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 an occupancy level of 81% for the entire first quarter of 2006 and ended the quarter with an occupancy level of 96%. There were no other properties under development during the first quarter of 2006.

Net Income

Analysis of Net Income

	Three Months Ended March 31 2006	Three Months Ended March 31 2005 (restated)	Increase (Decrease)
Operating income – rental properties	$ 2,899,483	$ 1,458,883	$ 1,440,600
Interest income – Trust	351,842	263,873	87,969
Operating income	3,251,325	1,722,756	1,528,569
Financing expense			
Mortgage loans	1,689,472	703,804	985,668
Debentures	813,823	687,045	126,778
	2,503,295	1,390,849	1,112,446
Operating income, net of financing expense	748,030	331,907	416,123
Trust expense	202,385	45,784	156,601
Net income, before amortization and future income tax recovery	545,645	286,123	259,522
Amortization	1,626,503	745,518	880,985
Future income tax recovery	(8,676)	-	(8,676)
Net loss	$ (1,072,182)	$ (459,395)	$ (612,787)

Overview

Net Income, Excluding Amortization Expense

During the first quarter of 2006, the net income of LREIT, before amortization expense and future income tax recovery, increased by $259,522 or 91%, compared to the first quarter of 2005. The increase in net income mainly reflects an increase in operating income of approximately $1.5 Million, largely offset by an increase in financing expense of approximately $1.1 Million. Trust expense also increased by $156,601.

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 as well as an increase in financing expense in regard to convertible debentures. As discussed below, the proportionately higher increase in mortgage loan financing expense was the main contributing factor to the overall increase in financing expense during the first quarter of 2006.

Net Loss, Including Amortization Expense

After considering amortization expense and the future income tax recovery, LREIT incurred a net loss of approximately $1.1 Million during the first quarter of 2006, compared to a net loss of approximately $460,000 during the first quarter of 2005. The net loss reflects total amortization charges of approximately $1.6 Million, compared to approximately $745,000 in the first quarter of 2005.

Financing Expense – Mortgage Loans

Financing expense on mortgage loans increased by $985,668 or 140% during the first quarter of 2006, compared to the first 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 increased from 41% in the first quarter of 2005 to 52% in the first quarter of 2006, due to the following factors:

- the financing of property acquisitions, subsequent to March 31, 2005, at a higher average interest rate, in comparison to property acquisitions as of March 31, 2005. As of March 31, 2006, the weighted average interest rate of fixed rate and floating rate mortgages was 5.59% and 6%, respectively, compared to 5.4% and 5.3% as of March 31, 2005. The increase in the weighted average interest rate for floating rate mortgages was compounded by a reduction in the principal amount of floating rate mortgage loans; and

- the impact of the higher average interest rate was partially offset by a decrease in the average debt load of Income Properties. The debt ratio of the Income Properties was 75% as of March 31, 2005, compared to 63.7% as of March 31, 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 increase in the operating cost ratio of LREIT in 2005 also contributed to the increase in mortgage loan financing expense ratio.

Financing Expense – Debentures

During the first quarter of 2006, financing expense on convertible debentures increased by $126,778 or 18%, compared to the first quarter of 2005.

As a percentage of operating income, financing expense on debentures decreased from 40% in the first quarter of 2005 to 25% in the first 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 as of March 31, 2005; and

- a decrease in the relative amount of debenture capital due to a change in the overall capital structure of the Trust. As of March 31, 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% as of 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 first quarter of 2005 to 1.3 in the first quarter of 2006. As discussed on page 24 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 first quarter of 2006, total amortization expense increased by $880,985 or 118%, compared to the first quarter of 2005. The increase mainly reflects the growth in the portfolio of income-producing properties since March 31, 2005.

During the first quarter of 2006, the ratio of amortization expense to operating income was 50%, compared to 43% in the first 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 $156,601 during the first quarter of 2006, compared to the first 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 first quarter of 2006 was $43,053 per month or $129,159 in total.

For the second quarter of 2006, the asset management fee is $46,078 for April and May and $50,120 for June.

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.

Operating Income

During the first quarter of 2006, the operating income of LREIT increased by approximately $1.5 Million or 89%, compared to the first 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 first quarter of 2005, 16 properties, with a combined acquisition cost of $77.4 Million, contributed to the operating income of LREIT. During 2006, 23 properties, with a combined acquisition cost of approximately $177 Million, contributed to operating income.

General

Analysis of Operating Income

	Percentage of Total Operating Income	
	Three Months Ended March 31	
	2006	2005
Residential	68%	44%
Commercial	21%	41%
Total - Income Properties	89%	85%
Trust	11%	15%
Total	100%	100%

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

The operating income from "Trust" operations consists almost exclusively of interest income on mortgage loans receivable and excess cash reserves. The portfolio of Income Properties is the primary source of operating income accounting for 89% and 85% of the total operating of income of LREIT during the first 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 Se ctor

	Percentage of Total Rental Revenues	
	Three Months Ended March 31	
	2006	2005
Residential	81%	58%
Commercial	19%	42%
	100%	100%

During the first quarter of 2006, total rental revenues increased by approximately $3.3 Million or 122%, compared to the first quarter of 2005. The increase is mainly due to an increase in the number of properties in the LREIT portfolio.

During the first quarter of 2006, the residential properties accounted for 81% of the total rental revenues of the Trust, compared to 58% during the first quarter of 2005. As disclosed in the chart on the top of this page, residential properties accounted for 68% of the operating income of LREIT during the first quarter of 2006, compared to 44% during the first 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 March 31, 2006, the real estate portfolio of LREIT consisted of four commercial properties and 19 residential properties, compared to four commercial properties and 12 residential properties as of March 31, 2005. The percentage of revenue and income attributable to residential properties is expected to continue to increase, as additional residential properties are acquired.

Notwithstanding the exclusive focus on the acquisition of residential properties since 2004, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. 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 93% leased, respectively, as of March 31, 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 March 31	
	2006	2005
Alberta	40%	35%
Saskatchewan	34%	13%
Northwest Territories	13%	29%
Manitoba	8%	4%
British Columbia	5%	19%
	100%	100%

As reflected in the chart above, there is a high level of geographic diversification in the portfolio of residential properties as of March 31, 2006. The increase in the percentage component for the Alberta and Saskatchewan portfolio reflects the acquisition of Nelson Ridge Estates and Luther Riverside Terrace.

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

	Three Months Ended March 31			
	2006		2005	
	Operating Cost Ratio	Vacancy Loss	Operating Cost Ratio	Vacancy Loss
Residential	55%	9%	56%	8%
Commercial	43%	3%	40%	3%
Total portfolio	52%	8%	49%	6%

The operating cost ratio for the entire portfolio of LREIT properties increased from 49% during the first quarter of 2005 to 52% during the first quarter of 2006.

The higher overall operating cost ratio for the first quarter of 2006 is mainly due to an increase in the operating cost ratio for the portfolio of commercial properties or, more specifically, for the Kenaston Property. The increase in the operating cost ratio for the Kenaston Property is due to two main factors, as follows:

- total recoverable operating expenses for the property increased by $60,600 or 24%, mainly due to increases in maintenance, property tax and utility expenses;

- the percentage of recoverable operating costs decreased from 91% in 2005 to 89% in 2006, mainly due to an increase in the vacancy rate; and

- non-recoverable operating costs of $12,800 were incurred during the first quarter of 2006, consisting of $11,600 in bad debt expense and $1,200 in advertising and leasing expenses.

Although the operating cost ratio for residential properties decreased from 56% in the first quarter of 2005 to 55% in the first quarter of 2006, there continues to be a significant variance in operating cost ratios by geographic location, as highlighted by the following chart.

Geographic Analysis of Operating Cost Ratio – Multi-Family Properties

	Operating Cost Ratio Three Months Ended March 31	
	2006	2005
Alberta	43%	42%
Northwest Territories	52%	44%
Saskatchewan	58%	64%
Manitoba	63%	96%
British Columbia	115%	86%
Total residential portfolio	55%	56%

The variation in the operating cost ratio among provinces is mainly due to differences in occupancy levels. The variation from the first quarter of 2005 to the first quarter of 2006 reflects the impact of new property acquisitions, as well as quarterly variations in operating expenses.

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 March 31, 2005, namely Chancellor Gate and Willowdale Gardens.

The increase in the operating cost ratio for the sole property in the British Columbia portfolio, Greenwood Gardens, mainly reflects an increase in the vacancy rate, as well as an increase in maintenance expenses.

In summary, there was a minimal change in the overall operating cost ratio, between the first 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, which is the largest property in the LREIT residential portfolio, based on acquisition costs, achieved an operating cost ratio of 27% during the first quarter of 2006 and accounted for approximately $900,000 or 40% of the total first quarter operating income from residential properties.

Revenue/Income 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 $161,700 or 89% during the first quarter of 2006, compared to the first quarter 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 December 2006. The property, which is located in Fort McMurray, Alberta, consists of 64 three-storey townhouses and a four storey apartment building with 111 suites. All of the 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 term of the lease extends until December 31, 2009 and will result in absolute net operating income for Lakewood Manor of $4,743,000 per annum. The agreement also provides the oil sands company with an option to extend the lease for an additional two years, at a 10% increase in the annual absolute net operating income, and a three year purchase option to acquire all of the 64 townhouse units. The purchase price for the townhouse units is set at $25,593,600 for 2007; $26,297,600 for 2008; and $27,091,200 for 2009.

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

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.

In conjunction with the purchase of the property, LREIT also plans to contract Kingsway to proceed with an expansion of the property. 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.

Cash Flows

Cash from Operations

During the first quarter of 2006, LREIT generated cash from operations of $631,934, compared to cash from operations of $598,751 during the first quarter of 2005. The increase in cash flow mainly reflects an increase in net income, excluding amortization expense, largely offset by an increase in interest paid on convertible debentures. As discussed on page 24 of this report, debenture interest payments increased by a very significant amount during the first quarter of 2006, due to the timing of quarterly interest payments.

Funds from Operations (“FFO”)

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

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

Funds from Operations

	Three Months Ended March 31	
	2006	2005 (restated)
Net loss	$(1,072,182)	$ (459,395)
Add (Deduct):		
Total amortization expense	1,626,503	745,518
Amortization of deferred financing fees	(103,897)	(199,650)
Future income tax recovery	(8,676)	-
Funds from operations	$ 441,748	$ 86,473
Funds from operations per unit - basic	$0.026	$0.012
- diluted	$0.026	$0.012

Adjusted Funds from Operations (AFFO)

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

Adjusted Funds from Operations

	Three Months Ended March 31	
	2006	2005 (restated)
Funds from operations	$ 441,748	$ 86,473
Add (deduct):		
Accrued rental revenue	(10,310)	(22,275)
Net amortization of above/below market in-place lease	26	886
Accrued financing expense on convertible debentures	813,823	687,043
Interest on convertible debentures	(614,061)	(430,979)
Unit based compensation	3,989	2,847
Lease acquisition costs	(46,222)	(58,575)
Adjusted funds from operations	$ 588,993	$ 265,420
Adjusted funds from operations per unit - Basic	$0.035	$0.035
- Diluted	$0.035	$0.035

SUMMARY OF QUARTERLY RESULTS

Quarterly Analysis For the Year Ended December 31

	2006	2005		
	Q1	Q4	Q3 (restated)	Q2 (restated)
Total revenue	$6,442,035	$5,592,039	$4,846,417	$4,300,018
Operating income	$3,251,325	$2,849,749	$2,630,693	$2,465,350
Net income (loss)	$(1,072,182)	$(463,010)	$(486,238)	$(726,463)
PER UNIT				
Operating income				
- Basic	$0.193	$0.305	$0.263	$0.304
- Diluted	$0.181	$0.261	$0.225	$0.211
Net income (loss)				
- Basic	$(0.064)	$(0.040)	$(0.049)	$(0.090)
- Diluted	$(0.064)	$(0.040)	$(0.049)	$(0.090)

Quarterly Analysis for the Year Ended December 31

	2005	2004 (restated)		
	Q1 (restated)	Q4	Q3	Q2
Total revenue	$3,066,600	$2,528,428	$2,309,239	$1,961,339
Operating income	$1,722,756	$1,296,410	$1,398,456	$1,319,195
Net income (loss)	$(459,395)	$(714,454)	$(605,970)	$(373,196)
PER UNIT				
Operating income				
- Basic	$0.230	$0.477	$0.531	$0.501
- Diluted	$0.153	$0.198	$0.227	$0.224
Net income (loss)				
- Basic	$(0.061)	$(0.263)	$(0.230)	$(0.142)
- Diluted	$(0.061)	$(0.263)	$(0.230)	$(0.142)

COMPARISON TO PRIOR QUARTER

Comparison to 2005 Fourth Quarter

	Three Months Ended		
	March 31, 2006	December 31, 2005	Increase (Decrease)
Operating income – rental properties	$ 2,899,483	$ 2,760,500	$ 138,983
Interest income – Trust	351,842	89,249	262,593
Operating income	3,251,325	2,849,749	401,576
Financing expense			
Mortgage loans	1,689,472	1,512,150	177,322
Debentures	813,823	533,916	279,907
	2,503,295	2,046,066	457,229
Operating income, net of financing expense	748,030	803,683	(55,653)
Trust expense	202,385	63,026	139,359
Net income, before amortization and future income tax recovery	545,645	740,657	(195,012)
Amortization	1,626,503	1,247,117	379,386
Future income tax recovery	(8,676)	(43,450)	34,774
Net loss	$ (1,072,182)	$ (463,010)	$ (609,172)

Analysis of Change in Quarterly Net Loss

During the first quarter of 2006, the net income of LREIT, excluding amortization expense and future income tax recovery, decreased by $195,012 or 26%, compared to the fourth quarter of 2005, mainly due to the following factors:

- a decrease in operating income, net of mortgage loan financing expense, of $38,339 or 3%. The decrease reflects a net reduction in the operating income of the existing portfolio of LREIT properties, partially offset by the incremental operating income which was derived from new property acquisitions during the first quarter of 2006. The net reduction in operating income for the existing portfolio is largely attributable to decreases in operating income in regard to the Kenaston Property and Greenwood Gardens, as discussed on page 17 and page 18 of this report;

- an increase in interest income in regard to “Trust” operations of $262,593 or 294%. The increase reflects an increase in bank account interest due to an increase in overall cash reserves and an increase in interest on mortgage loans receivable, primarily in regard to the $8.5 Million loan in respect of Lakewood Manor;

- a proportional increase in debenture financing expense. As a percentage of net operating income, debenture financing expense increased from 19% during the fourth quarter of 2005 to 25% during the first quarter of 2006. The increase mainly reflects the debenture financing expense associated with the Series F convertible debenture issue in March 2006, including the accretion component; and

- an increase in Trust expense of $139,359. The increase reflects the commencement of asset management fees, effective January 1, 2006, the total of which amount to $129,159 for the first quarter of 2006. Please refer to the discussion of “Trust Expense” on page 15 of this report.

The net loss of LREIT, including amortization expense and future income tax recovery, increased by $609,172 during the first quarter of 2006, compared to the fourth quarter of 2005. In addition to the above noted factors, the net loss reflects an increase in amortization expense of $379,386, mainly due to the same variables which contributed to the increase in amortization expense, compared to the first quarter of 2005, as disclosed on page 15 of this report.

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. During the first quarter of 2006, however, mortgage loan debt service costs and debenture interest exceeded cash from operations by $85,705, due to the timing of quarterly debenture interest payments. As there are not any debenture interest payments due during the second quarter of 2006, it is anticipated that cash flows will improve significantly for the six month period ending June 30, 2006. Please refer to the discussion on quarterly debenture interest payments in the “Cash Distribution Shortfall” section on page 24.

Leasing Costs and Property Improvements

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

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.

	Three Months Ended March 31	
	2006	2005 (restated)
Net loss	$ (1,072,182)	$ (459,395)
Add (deduct):		
Total amortization expense	1,626,503	745,518
Amortization of tenant inducements and leasing expenses	(80,890)	(77,780)
Accretion on debt component of convertible debentures	813,823	687,043
Interest expense on convertible debentures	(614,061)	(430,979)
Revenue adjustments	(10,284)	(21,389)
Unit-based compensation	3,989	2,847
Future income tax recovery	(8,676)	-
Distributable income	658,222	445,865
Interest expense on convertible debentures	614,061	430,979
Interest paid on convertible debentures	(721,239)	(355,873)
Amortization of tenant inducements and leasing expenses	80,890	77,780
Cash from operations, per Statement of Cash Flows (i)	631,934	598,751
Principal repayment of mortgage loans	(717,639)	(213,442)
Cash from operations, net of principal repayment of mortgage loans	(85,705)	385,309
Less: Cash distributions, declared	2,364,800	1,129,803
Working capital supplement	$ (2,450,505)	$ (744,494)

(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 quarter of 2006 exceeded operating cash flows, net of mortgage loan principal payments, by $2.45 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 invested approximately $3.3 Million of cash equity in new property acquisitions during the first quarter of 2006, after accounting for mortgage loans assumed or obtained, while the total amount of capital raised between December 14, 2005 and March 31, 2006, from unit and debenture offerings, was approximately $45.7 Million.

The increase in the cash distribution shortfall from $744,494 in the first quarter of 2005 to $2,450,505 in the first quarter of 2006, is mainly due to the following factors:

- significantly higher debenture interest payments in 2006, due to the timing of the quarterly interest payments on the Series E convertible debentures. Specifically, in the first quarter of 2006, the interest payment on the Series E debenture was $480,000, while there were not any interest payments due on the Series E debentures in the first quarter of 2005 as the debentures were issued in February 2005;

- significantly higher cash distributions in the first quarter of 2006, due to the timing of debenture conversions in regard to the Series C convertible debentures. In the first quarter of 2006, the face value of the Series C convertible debentures was $10,131,000, with interest payment dates in the second and fourth quarter of the year. Since March 31, 2005, the Series C convertible debentures were fully converted, resulting in the issuance of approximately 2,250,000 trust units, representing an increase in first quarter cash distributions of approximately $315,000; and

- a significant increase in the number of trust units, immediately prior to the start of the first quarter of 2006. In December 2005, LREIT issued 6,297,240 trust units under a price placement offering, representing an increase in first quarter cash distributions of approximately $880,000.

To the extent that the cash distribution amount exceeds cash flows, the excess distribution effectively represents a return of capital to the Unitholders. As additional property acquisitions are completed and operations stabilize, it is anticipated that operating cash flows will gradually increase to a level which is sufficient to fully fund the cash distributions of the Trust.

Investment Capital

Overview – First Quarter 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 March 31, 2006 from unit and debenture offerings, while the total cash invested in new property acquisitions amounted to approximately $3.3 Million. Based on a mortgage debt to equity ratio of 25% for new property acquisitions, the capital resources of LREIT as of March 31, 2006, including the mortgage loan investments of $9.35 Million, represent funding for over $150 Million of new property acquisitions during the remainder of the year.

Future Growth

As disclosed on page 5 of this report, new property acquisitions which are completed or under contract, subsequent to March 31, 2006, amount to approximately $151 Million, representing 12 properties, including two properties in Fort McMurray, Alberta which are under construction and have an estimated closing date of December 31, 2006. The equity for the remaining ten properties is projected at approximately $14 Million, including the 59-suite expansion of Elgin Lodge.

Trends

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

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

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

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

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

In January 2006, the Governance and Compensation Committee of the Board of Trustees determined that the remuneration of Shelter Canadian, pursuant to the Services Agreement, should be amended to be comparable with market asset management fees. For the six month period ending June 30, 2006, the Committee approved an asset management fee equal to 0.3% of the gross book value of the total assets of the Trust, excluding cash, as of the date of the most recently issued financial statements. 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, including the 18.67% ownership interest which was held by 2668921 Manitoba Ltd., at a price of $4,326,000. In November 2005, Willowdale Gardens was appraised at a value of $4,550,000.

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

OPERATING RISKS AND UNCERTAINTIES

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

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

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 First 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
May 25, 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 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.

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Unit Listing

TSX Venture Exchange
Unit trading symbol: LRT.UN

Unitholder and Investor Contact

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