LANESBOROUGH REIT

2006 THIRD QUARTER REPORT

Unitholder Returns

	Nine Months Ended September 30, 2006	Year Ended December 31, 2005
Distribution per unit	$0.42	$0.56
Opening unit price	$5.25	$5.50
Closing unit price	$5.89	$5.25
Annualized yield on opening price (distribution/opening unit price)	10.7%	10.2%

Projected cash distribution – 2006:	$0.56
Closing unit price – November 21, 2006:	$5.69
Current yield:	9.8%

The trust units of Lanesborough Real Estate Investment Trust trade on the Toronto Stock Exchange under the symbol “LRT.UN”. Prior to October 30, 2006, the trust units were listed on the TSX Venture Exchange.

Summary – Third Quarter Comparatives

	Three Months Ended September 30					
	Total			Per Unit – Basic		
	2006	2005	% Change	2006	2005	$ Change
Operating income	$4,702,153	$2,630,693	79%	$0.272	$0.263	$0.009
Cash from operations	$1,116,863	$498,410	124%	$0.065	$0.050	$0.015
FFO	$862,282	$456,473	89%	$0.050	$0.046	$0.004
AFFO	$1,571,496	$621,216	153%	$0.091	$0.062	$0.029
Net income, before amortization	$975,565	$673,491	45%	$0.057	$0.067	$0.010
Net loss	$(1,009,985)	$(486,238)	(108%)	$(0.059)	$(0.049)	$(0.010)

THIRD QUARTER HIGHLIGHTS

Positive Impact of June 2006 Acquisitions – In June 2006, LREIT acquired ten residential properties, including six multi-family residential properties with a closing date of June 30, 2006. During the third quarter of 2006, the June 2006 acquisitions accounted for $1 Million or 21% of the operating income of the Trust.

Continued Growth in Operating Income – LREIT completed the third quarter of 2006 with an increase in operating income of approximately $2 Million or 79%, compared to the third quarter of 2005. For the nine month period ended September 30, 2006, operating income increased by approximately $5 Million or 73%, compared to the first nine months of 2005.

Significant increase in FFO and AFFO – During the third quarter of 2006, Funds from Operations (FFO) increased by $405,809 or 89%, compared to the third quarter of 2005, while Adjusted Funds from Operations (AFFO) increased by $950,280 or 153%. On a per unit basis, FFO increased by $0.004 per unit, while AFFO increased by $0.029 per unit.

Significant Property Completions on the Horizon – LREIT has entered into development/construction agreements for three large apartment complexes in Fort McMurray, Alberta at a combined acquisition cost of $154 Million, compromising a total of 468 rental units. The projected construction completion/acquisition dates for the three properties are December 2006, April 2007 and November 2007.

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.

As anticipated, LREIT achieved significant growth in operating income and cash flow during the third quarter of 2006, primarily due to the impact of the property acquisitions that were completed in June 2006. In comparison to the second quarter of 2006, total revenues increased by $1,479,248 or 21%, operating income increased by $880,306 or 23%; Funds from Operations (FFO) increased by $125,624 or 17%; and Adjusted Funds from Operations (AFFO) increased by $576,348 or 58%. Cash from operations decreased by $634,353 or 36% due to the timing of interest payments on convertible debentures.

After providing for increases in amortization expense, financing expense and trust expense, LREIT completed the third quarter of 2006 with a net loss of $1,009,985, compared to a net loss of $963,067 during the second quarter of 2006.

As discussed in previous reports, LREIT is acquiring three large apartment complexes in Fort McMurray, Alberta which are currently under construction. The three properties, Woodland Park, Lakewood Manor and Park View Apartments, comprise a total of 468 suites and have a combined purchase price of $154 Million. The acquisition of Woodland Park and Lakewood Manor is scheduled to occur on the projected construction completion date in December 2006 and April 2007, respectively, while the construction of Park View Apartments is scheduled to be completed not later than November 2007. The addition of the three new properties in Fort McMurray will serve to further strengthen the revenue base of the Trust.

The operating results for the third quarter of 2006 provide a clear indication that LREIT is continuing to achieve its investment objectives. Since the third quarter of 2005, the property portfolio of LREIT has increased by $68 Million or 41%, based on acquisition costs; cash distributions have remained stable at $0.56 per unit per annum; the unit value of LREIT has achieved an upward trend, notwithstanding the month-to-month fluctuations in price; the Trust graduated to a listing on the Toronto Stock Exchange on October 30, 2006; and significant property acquisitions are in process to support continued growth. The additional capital which is required to complete the acquisitions is expected to be sourced from the refinancing of under-leveraged properties and from the proceeds of the convertible debenture offering which was announced by LREIT on November 16, 2006.

Effective with the November 2006 distribution, LREIT has also implemented a "Distribution Reinvestment Plan" whereby Unitholders may choose to have monthly cash distributions automatically reinvested in additional units, while receiving a "bonus" distribution of units equal to 4% of the reinvested amount.

The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to the long-term success of the Trust.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 22, 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 unaudited financial statements for the third quarter ended September 30, 2006 and accompanying notes, and with reference to the 2006 First and Second Quarter Reports 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

During the nine months ended September 30, 2006, LREIT acquired 12 properties at a total purchase price of approximately $68 Million. As of September 30, 2006, the real estate portfolio of LREIT consisted of 33 properties with a total cost of approximately $234 Million. A portfolio summary is provided on page 4.

Although all of the properties in the LREIT portfolio were acquired prior to the third quarter of 2006, the closing date for six multi-family residential properties in Fort McMurray, Alberta, occurred on June 30, 2006. At a combined purchase price of $32,135,000, the six properties represent 15% of the total acquisition cost of the residential portfolio of LREIT.

Property Portfolio – September 30, 2006

Property	Location	Purchase Price		Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy 09/30/06	
RESIDENTIAL							
Manitoba							
Highland Tower	Thompson	$ 1,350,000		January 2005	95	57%	(3)
Chancellor Gate	Winnipeg	6,750,000		August 2005	48	98%	
Willowdale Gardens	Brandon	4,326,000		January 2006	88	100%	
Saskatchewan							
Borden Estates	Prince Albert	5,315,000		February 2005	144	76%	
Cedar Village	Prince Albert	2,700,000		February 2005	72	75%	
Carlton Manor	Prince Albert	410,000		February 2005	19	100%	
Riverside Apartments	Prince Albert	265,000		February 2005	12	92%	
MGM Apartments	Prince Albert	650,000		February 2005	28	71%	
Marquis Towers	Prince Albert	6,200,000		August 2005	129	93%	
Riverside Terrace	Saskatoon	24,000,000	(1)	July 2005	181	92%	
Village West	Saskatoon	5,113,800		June 2006	100	98%	
Chateau St. Michael's	Moose Jaw	7,600,000	(1)	June 2006	93	92%	
Woodlily Courts	Moose Jaw	3,700,000		June 2006	102	97%	
Alberta							
Nova Villa	Edmonton	5,400,000		May 2004	61	97%	
Nova Manor	Edmonton	2,615,000		May 2004	32	100%	
Nova Ridge Estates	Spruce Grove	8,800,000		July 2004	102	95%	
Norglen Terrace	Peace River	2,500,000		October 2004	72	92%	
Broadview Meadows	Sherwood Park	6,790,000		January 2006	93	100%	
Nelson Ridge Estates	Fort McMurray	40,575,000		April 2005	225	98%	
Gannet Place	Fort McMurray	6,873,700		June 2006	37	87%	
Lunar Apartments	Fort McMurray	4,457,100		June 2006	24	96%	
Parkland Apartments	Fort McMurray	2,230,200		June 2006	12	83%	
Skyview Apartments	Fort McMurray	5,385,800		June 2006	29	97%	
Snowbird Manor	Fort McMurray	6,314,500		June 2006	34	91%	
Whimbrel Terrace	Fort McMurray	6,873,700		June 2006	37	100%	
Northwest Territories							
Beck Court	Yellowknife	14,300,000		April 2004	120	99%	
Three Lakes Village	Yellowknife	10,900,000		May 2005	50	94%	
Ontario							
Elgin Lodge	Port Elgin	8,300,000	(1)	June 2006	64	97%	
British Columbia							
Greenwood Gardens	Surrey	10,950,000		April 2004	183	99%	
Total – Residential		**$ 211,644,800**		Total Suites	**2,286**	93%	
COMMERCIAL							
Retail and Office							
Kenaston	Winnipeg, MB	$ 12,656,200	(2)	April 2002	103,209	91%	
McIvor Mall	Winnipeg, MB	6,700,000		February 2004	65,283	98%	
		19,356,200			168,492	94%	
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	100%	
Total – Commercial		**$ 22,156,200**		Total leasable area	**224,545**	95%	
Total		**$ 233,801,000**					

(1) Seniors housing complex.
(2) Includes cost of asset additions.
(3) In-suite renovation program in process. The occupancy rate is based on the number of suites which are available to lease, as of September 30, 2006.

Properties Under Development

The investment strategy of LREIT in regard to focusing on multi-residential properties also encompasses the acquisition of newly constructed properties, either through a direct development agreement or upon the completion of construction at a contracted purchase price.

Development Agreements

LREIT has entered into a development agreement with Shelter Canadian Properties Limited in regard to the acquisition of a 186 suite apartment building in Fort McMurray, Alberta, to be known as the Park View Apartments. The land acquisition for the property was completed in July 2006 at a cost of $9.3 Million, while the construction of the apartment building commenced in August 2006. As of September 30, 2006, the cumulative construction costs amounted to approximately $3.6 Million. The land acquisition was funded by an 8% vendor take-back mortgage of $7.3 Million, with the balance in cash, while the building construction costs were funded from working capital, pending the closing of the construction financing in December 2006. The land acquisition costs and the cumulative construction costs, in the total amount of $12.9 Million, are included in “Income Properties” on the balance sheet of LREIT.

In accordance with the accounting policy which was adopted by LREIT, effective October 1, 2005, all acquisition costs, development, leasing, financing and operating costs, less rental revenue, are capitalized for properties under development until the property achieves a satisfactory occupancy level within a predetermined time limit. The construction costs for Park View Apartments, of approximately $3.6 Million, include carrying costs of $97,600, representing interest on the 8% vendor take-back mortgage loan.

Pursuant to the development agreement, the total cost of Park View Apartments, including land costs and development fees, is not to exceed $57.75 Million. The construction financing is expected to be approximately $45 Million, resulting in a projected equity contribution of approximately $12.75 Million.

The construction of the apartment building is expected to be completed not later than November 30, 2007. Please refer to the section on “Related Party Transactions” on page 28 of this report for additional information regarding the development agreement for Park View Apartments.

Purchase Agreements

LREIT is also acquiring two apartment properties, which are currently under construction in Fort McMurray, Alberta. The purchase price for the two properties, Woodland Park and Lakewood Manor, is $37,865,000 and $58,735,825, respectively, including GST. Woodland Park consists of 107 fully furnished suites, including 32 townhouses and a four-storey apartment building with 75 suites and is expected to be completed in December 2006. Lakewood Manor consists of 175 fully furnished suites, including 64 three-storey townhouses and a four-storey apartment building with 111 suites and is expected to be completed in April 2007. The acquisition of the properties is scheduled to close on the construction completion dates, at which time the cost of the properties will be reflected on the balance sheet of LREIT.

The acquisition of the properties will be funded by long-term, fixed rate mortgage loan financing at a maximum debt to value ratio of 75%, with the balance in cash. For Woodland Park, a $27.3 Million first mortgage loan has been arranged, with a term of five years, and with the interest rate to be set at 1.5% above the five year Government of Canada bond rate, as of the date of funding.

Additional details regarding the three year lease agreement which has been obtained for all of the suites at Lakewood Manor are provided on page 20.

Major Renovations

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

LREIT is currently undertaking extensive major renovations at the Highland Tower property in Thompson, Manitoba. The renovation program involves the upgrading of an entire floor of suites at a time and the temporary removal of suites from the rental market. The renovation program commenced in July 2005 and is expected to be completed by February 2007. As of September 30, 2006, the total cumulative renovation costs at Highland Towers are $1,372,389, of which $430,261 were incurred during the first nine months of 2006. Renovation costs are being funded from working capital.

In accordance with the accounting policy which was adopted by LREIT, effective July 1, 2005, carrying costs incurred during the period of major in-suite renovations of income properties are capitalized during the period that the suites are removed from the rental market. The total cumulative renovation costs for Highland Towers include carrying costs of $156,140.

In June 2006, LREIT acquired Elgin Lodge, a 64 suite retirement home in Port Elgin, Ontario. In conjunction with the acquisition of the property, LREIT developed plans for a multi-level extension of the building on excess land. At an estimated cost of $8.5 Million, the expansion will add an additional 59 suites to the property, of which 12 will be studio suites and 47 will be one-bedroom suites. The construction of the 59 suite expansion is expected to commence in January 2007. The construction costs will be partially funded by an increase in the existing first mortgage loan and from working capital.

Additional details regarding the guarantees and commitments associated with the Elgin Lodge expansion are provided on page 20 of this report.

Mortgage Loans Receivable

September 30, 2006 - $13,500,000
December 31, 2005 - $9,350,000

As of September 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 $38 Million. The loan was advanced during the fourth quarter of 2005; and

(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. The loan was advanced during the second quarter of 2006.

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 September 30, 2006, LREIT had 17,281,596 units outstanding, representing an increase of 426,310 units or 2.5%, compared to the number of units outstanding as of December 31, 2005. All of the units which were issued during the nine month period ended September 30, 2006 originated from the conversion of Series A and D debentures.

Unit Options

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of LREIT and to other individuals who are employed or retained by the Trust to perform specific duties. As of June 30, 2006, LREIT had granted options to acquire a total of 50,000 units, of which 10,000 were exercised.

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

In accordance with generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as “unit-based compensation”. Unit-based compensation expense is included in trust expense in the Consolidated Statement of Loss. Due to the high proportion of options which vested on the date of issue, there is a very significant lump-sum charge to unit-based compensation expense, during the third quarter of 2006, and a corresponding increase in trust expense. Specifically, during the third quarter of 2006, unit-based compensation expense amounted to $440,757, of which $417,351 pertains to the options which were issued in July 2006. The lump-sum charge to unit-based compensation expense, resulted in an increase in trust expense of $444,069 or 156% during the third quarter of 2006, compared to the second quarter of 2006.

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

Period	Projected Unit-Based Compensation
2006 – Q3	$ 417,351
2006 – Q4	80,824
2006 – Total	498,175
2007	256,668
2008	134,800
2009	68,314
2010	22,139
	$ 980,096

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

Summary of Trust Units Issued

The following is a summary of the units which have been issued by LREIT, as of September 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 September 30, 2006	Units issued on conversion of debentures	426,310	-
Units outstanding, September 30, 2006		17,281,596	$65,948,776

Limited Partnership Units

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

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

Cash Distribution Dates and Amounts

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

A cash distribution of $0.04667 per unit, or $0.56 on an annualized basis, was paid for the months of January to September 2006, inclusive, representing a total cash distribution of $7,271,943, including the distribution of $85,236 in regard to the LREIT Village West Limited Partnership. The September distributions of $827,841 were paid on October 15, 2006.

Convertible Debentures

Debenture Offerings – As of September 30, 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.

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

The following is a summary of the debenture offerings which have been undertaken by LREIT, as of September 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	Nine Months Ended September 30, 2006	As of December 31, 2005 (1)	Net Amount Outstanding September 30, 2006
Aug. 30/02/Aug. 30/07	A	10%	$ 3,000,000	$ (79,000)	$ (1,231,000)	$ 1,690,000
Aug. 30/02/Aug. 30/05	B	8%	1,000,000	-	(1,000,000)	-
Jan. 30/04/Jan. 30/06	C	8%	10,131,000	-	(10,131,000)	-
Mar. 16/04/Mar. 16/08	D	8%	4,000,000	(2,063,000)	(147,000)	1,790,000
Feb. 17/05/Feb. 17/10	E	8%	12,000,000	-	-	12,000,000
Mar. 10/06/Mar. 11/11	F	7.5%	13,680,000	-	-	13,680,000
			$ 43,811,000	$ (2,142,000)	$ (12,509,000)	29,160,000
Net accumulated accretion						1,383,531
Book value, September 30, 2006						$ 30,543,531
Allocation of book value						
Debt component						$ 23,475,485
Equity component						7,068,046
						$ 30,543,531

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

Debenture Offerings – Subsequent to September 30, 2006

On November 16, 2006, LREIT filed a preliminary short form prospectus for a public offering of Series G Convertible Redeemable Unsecured Subordinated Debentures. The offering price and terms of the debenture issue are to be determined, based on market conditions.

Mortgage Loans Payable

September 30, 2006 - $169,473,216
December 31, 2005 - $116,827,895

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount September 30, 2006	Percentage of Total
2006	7.7%	$ 7,550,000	4.4%
2007	5.4%	2,396,984	1.4%
2008	4.1%	4,028,638	2.4%
2009	5.3%	25,404,687	15.0%
2011	5.7%	5,454,112	3.2%
2013	6.0%	27,433,109	16.2%
2014	5.7%	17,798,002	10.5%
2015	5.3%	40,551,005	24.1%
2016	5.4%	30,799,069	18.2%
		161,415,606	95.2%
Demand/floating rate	6.9%	8,057,610	4.8%
		$ 169,473,216	100.0%

Mortgage Loan Portfolio

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

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

At the end of the first three quarters of 2006, the weighted average interest rate of the fixed rate mortgage loans remained constant at 5.6%, while the weighted average interest rate for floating rate mortgage loans fluctuated between 6% and 6.9%.

The ratio of mortgage loans payable, relative to the total acquisition cost of the entire portfolio of income-producing properties, increased from 67% as of June 30, 2006 to 69% as of September 30, 2006. The third quarter increase reflects the first mortgage loan advances of $5,900,000 and $492,189 which were received in the third quarter of 2006 for Elgin Lodge and Chateau St. Michael's, respectively. The ratio of mortgage loans payable, relative to the estimated current value of the property portfolio, was approximately 56%, as of September 30, 2006.

The cost of the land for Park View Apartments and the related vendor take-back mortgage loan of $7.3 Million are excluded from the debt ratio calculation as Park View is under development.

Vendor Take-Back Mortgages

The vendor take-back mortgage loan balance of $7,550,000 consists of the 8% vendor take-back mortgage of $7.3 Million in regard to the land acquisition for Park View Apartments and a $250,000 interest-free vendor take-back mortgage loan that was obtained on the acquisition of the properties in Prince Albert, Saskatchewan in February 2005.

The loan for the Park View land acquisition is to be repaid from the proceeds of the construction financing. In October 2006, the maturity date of the mortgage was extended from October 31, 2006 to November 30, 2006. The loan for the Prince Albert properties matured on July 1, 2006 and will be repaid on demand.

FINANCIAL PERFORMANCE

Asset/Debt Summary

	As of September 30, 2006	As of December 31, 2005
Total assets	$ 269,081,018	$ 201,013,351
Mortgage loans payable	$ 169,473,216	$ 116,827,895
Convertible debentures (face value)	29,160,000	17,622,000
	$ 198,633,216	$ 134,449,895

Total Assets

As of September 30, 2006, the total assets of LREIT amounted to $269,081,018, compared to $201,013,351 at the end of 2005, representing an increase of approximately $68 Million or 34%. The increase in total assets is mainly due to an increase in "Income Properties" and reflects the acquisition of 12 additional properties since December 31, 2005.

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

The increase in total assets also reflects a decrease in cash of approximately $18 Million and an increase in "Mortgage Loans Receivable" of $4.15 Million.

Long-Term Financial Liabilities

As of September 30, 2006, mortgage loans payable and the face value of convertible debenture debt amounted to approximately 66% of the estimated current value of the total property portfolio of LREIT.

Other Balance Sheet Items

Deferred Charges

September 30, 2006 - $3,247,386
December 31, 2005 - $2,701,397

As per Note 5 of the third quarter financial statements, the unamortized cost of deferred charges was $5,333,639 as of September 30, 2006, representing an increase of $339,196, in comparison to the unamortized balance of $4,994,443 as of December 31, 2005.

The increase in the unamortized balance of deferred charges in 2006 mainly reflects the deferral of financing costs of $699,176 in regard to the Series F debentures and approximately $470,577 in regard to the new mortgage loans which were arranged for the 2006 property acquisitions, offset by the write-off of the balance of fully amortized financing costs of $774,943 in regard to the Series B and Series C convertible debentures.

Other Assets

September 30, 2006 - $4,611,783
December 31, 2005 - $3,815,427

Other assets increased by $796,356 since December 31, 2005. As disclosed in note 6 of the third quarter financial statements, the increase is mainly due to an increase in amounts receivable, prepaid property taxes and restricted cash.

Intangible Assets

September 30, 2006 - $2,526,932
December 31, 2005 - $2,191,630

As disclosed in Note 7 of the third quarter financial statements, the unamortized cost of intangible assets was $5,276,824, as of September 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

September 30, 2006 - $7,012,361
December 31, 2005 - $3,000,755

As disclosed in note 10 of the third quarter financial statements, “Accounts Payable and Accrued Liabilities” increased by $4,011,606 since December 31, 2005. The increase mainly reflects amounts due in regard to the construction of Park View Apartments in Fort McMurray, Alberta.

Future Income Taxes

September 30, 2006 - $3,732,270
December 31, 2005 - $140,972

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

In 2005, LREIT acquired Riverside Terrace by purchasing all of the issued and outstanding shares of its wholly owned operating subsidiary, Riverside Terrace Inc., resulting in a potential income tax liability of approximately $4 Million. The income tax liability is also reflected in the recorded cost of the property.

The income tax liability pertains to a difference between the tax and book value of the assets and will decline as the difference between the tax and book value of the assets decreases over time.

Non-controlling Interest

As noted on page 8, 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 Townhouses 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 $2,622,895 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 September 30, 2006, the cumulative interest consists of the original deemed value of the limited partnership units of $2,739,704, minus the net loss of the Village West Townhouses for 2006 of $31,573, less the cash distribution of $85,236 which was paid to the holder of the limited partnership units for the period from June 2006 to September 2006. Please refer to note 12 of the third quarter financial statements. As reflected on the Consolidated Statements of Loss, the allocation of net loss of $31,573 serves to decrease the net loss of LREIT.

RESULTS OF OPERATIONS

Summary of Operating/Cash Flow Results

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005 (restated)	2006	2005 (restated)
Total revenue	$ 8,370,252	$ 4,846,417	$ 21,703,291	$ 12,213,035
Operating income	$ 4,702,153	$ 2,630,693	$ 11,775,325	$ 6,819,667
Net loss	$ (1,009,985)	$ (486,238)	$ (3,045,234)	$ (1,672,096)
Distributable income	$ 1,621,832	$ 769,457	$ 3,376,833	$ 1,759,646
Funds from Operations (FFO)	$ 862,282	$ 456,473	$ 2,040,690	$ 591,721
Adjusted Funds from Operations (AFFO)	$ 1,571,496	$ 621,216	$ 3,155,237	$ 1,156,151
Cash distributions, declared - total	$ 2,481,724	$ 1,475,579	$ 7,271,943	$ 3,870,257
- per unit	$0.14	$0.14	$0.42	$0.42
Per Unit				
Operating income				
- basic	$0.272	$0.263	$0.689	$0.729
- diluted	$0.255	$0.225	$0.648	$0.552
Net loss				
- basic	$(0.059)	$(0.049)	$(0.178)	$(0.179)
- diluted	$(0.059)	$(0.049)	$(0.178)	$(0.179)
Distributable income				
- basic	$0.094	$0.077	$0.198	$0.188
- diluted	$0.091	$0.073	$0.195	$0.186
Funds from Operations (FFO)				
- basic	$0.050	$0.046	$0.119	$0.063
- diluted	$0.049	$0.046	$0.118	$0.063
Adjusted Funds from Operations (AFFO)				
- basic	$0.091	$0.062	$0.185	$0.124
- diluted	$0.089	$0.059	$0.182	$0.122

Comparative Impact of Accounting Policies Implemented in 2005

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.

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 nine month period ended September 30, 2005 is higher than was previously reported by $90,049 and $517,107, respectively.

Net Income

Analysis of Net Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005 (restated)	2006	2005 (restated)
Operating income – rental properties	$ 4,288,842	$ 2,646,914	$ 10,635,831	$ 6,397,724
Interest income – Trust	413,311	(16,221)	1,139,494	421,943
Operating income	4,702,153	2,630,693	11,775,325	6,819,667
Financing expense				
Mortgage loans	2,132,482	1,354,150	5,580,083	3,252,476
Debentures	866,049	580,057	2,544,718	2,170,848
	2,998,531	1,934,207	8,124,801	5,423,324
Operating income, net of financing expense	1,703,622	696,486	3,650,524	1,396,343
Trust expense	728,057	22,995	1,214,430	123,749
Net income, before amortization, future income tax recovery and non-controlling interest	975,565	673,491	2,436,094	1,272,594
Amortization	2,255,423	1,159,729	5,792,905	2,944,690
Future income tax recovery	(236,454)	-	(280,004)	-
Non-controlling interest	(33,419)	-	(31,573)	-
Net loss	$ (1,009,985)	$ (486,238)	$ (3,045,234)	$ (1,672,096)

Three Months Ended September 30, 2006

Net Income, Excluding Amortization Expense

During the third quarter of 2006, the net income of LREIT, before amortization expense, future income tax recovery and non-controlling interest, increased by $302,074 or 45%, compared to the third quarter of 2005. The increase in net income reflects an increase in operating income of $2,071,460, partially offset by an increase in financing expense of $1,064,324 and an increase in trust expense of $705,062.

As discussed on pages 16 to 20 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 $1,009,985 during the third quarter of 2006, compared to a net loss of $486,238 during the third quarter of 2005. The net loss reflects total amortization charges of approximately $2.3 Million, compared to approximately $1.2 Million in the third quarter of 2005.

Financing Expense – Mortgage Loans

Financing expense on mortgage loans increased by $778,332 or 57% during the third quarter of 2006, compared to the third 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 from rental properties, financing expense on mortgage loans decreased from 51.2% in the third quarter of 2005 to 49.7% in the third 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, excluding the $7.3 Million vendor take-back mortgage loan for the land acquisition of the Park View Apartments, decreased from 71% as of September 30, 2005, to 69% as of September 30, 2006. The decrease in the ratio of mortgage loans payable reflects the relatively low debt ratios of a number of the 2006 property acquisitions, including Chateau St. Michael's, Elgin Lodge and, in particular, the Village West Townhouses, as the acquisition of Village West was funded by a combination of mortgage and equity financing.

The impact of the lower debt ratio was partially offset by an increase in the weighted average interest rate of floating rate mortgages from 5.2% as of September 30, 2005 to 6.9% as of September 30, 2006.

Financing Expense – Debentures

During the third quarter of 2006, financing expense on convertible debentures increased by $285,992 or 49%, compared to the third quarter of 2005.

As a percentage of operating income, financing expense on debentures decreased from 22% in the third quarter of 2005 to 18% in the third 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 that were funded from the cumulative amount of debenture capital. The chart on page 26 provides a general overview of the extent to which capital reserves were reduced to fund the acquisition of income-producing properties during the first nine months of 2006; and

- a decrease in the relative amount of debenture capital due to a change in the overall capital structure of the Trust. As of September 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 1.4 in the third quarter of 2005 to 1.6 in the third quarter of 2006.

Amortization Expense

During the third quarter of 2006, total amortization expense increased by $1,095,694 or 94%, compared to the third quarter of 2005. The increase mainly reflects the growth in the portfolio of income-producing properties since September 30, 2005.

During the third quarter of 2006, the ratio of amortization expense to operating income was 48%, compared to 44% in the third quarter of 2005. The increase in the ratio of amortization expense, relative to operating income, is mainly due to the following factors:

- a proportional increase in amortization of intangible assets, reflecting the proportionately higher allocation of the purchase price to intangible assets for properties which were acquired subsequent to September 30, 2005 and the relatively short amortization period for intangible assets; and

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

Trust Expense

Trust expense increased by $705,062 during the third quarter of 2006, compared to the third quarter of 2005. The increase in Trust expense is mainly due to the following factors:

- the lump-sum charge to unit-based compensation expense of $417,351 in regard to the unit options which were issued by the Trust in July 2006;

- the commencement of monthly asset management fees, effective January 1, 2006. As disclosed in the 2005 Annual Report, LREIT began paying a fee for the administrative and asset management services of Shelter Canadian Properties Limited during the first quarter of 2006. The fee is equal to 0.3% of the net book value of the assets of LREIT, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. The asset management fee for the third quarter of 2006 was $163,308.

  Please refer to "Related Party Transactions" on page 28 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; and

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

Nine Months Ended September 30, 2006

During the first nine months of 2006, the net income of LREIT, before amortization expense, future income tax recovery and non-controlling interest, increased by $1,163,500 or 91%, compared to the first nine months of 2005. The increase in net income for the nine month period is mainly due to the same factors which contributed to the increase in net income for the third 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 nine months ended September 30, 2006, increased by $1,373,138, compared to the first nine months of 2005.

Operating Income

During the third quarter of 2006, the operating income of LREIT increased by approximately $2.1 Million or 79%, compared to the third 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 third quarter of 2005, 20 properties, with a total acquisition cost of $155 Million, contributed to the operating income of LREIT. During the third quarter of 2006, 33 properties, with a combined acquisition cost of $234 Million, contributed to operating income.

The operating results for Three Lakes Village are not reflected in the third quarter results for 2005 as the property was under development from May 1, 2006 to December 31, 2006 and during the development period, all operating costs, net of rental revenues, were capitalized.

General

Analysis of Operating Income

	Percentage of Total Operating Income			
	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Residential	80%	74%	74%	62%
Commercial	12%	26%	16%	32%
Total - Income Properties	92%	100%	90%	94%
Trust	8%	-	10%	6%
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 92% and 100% of the total operating of income of LREIT during the third 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 September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Residential	87%	76%	84%	70%
Commercial	13%	24%	16%	30%
	100%	100%	100%	100%

During the third quarter of 2006, total rental revenues increased by approximately $3.1 Million or 64%, compared to the third quarter of 2005. The increase is mainly due to an increase in the number of properties in the LREIT portfolio.

During the third quarter of 2006, the residential properties accounted for 87% of the total rental revenues of the Trust, compared to 76% during the third quarter of 2005. As disclosed in the first chart on this page, residential properties accounted for 80% of the operating income of LREIT during the third quarter of 2006, compared to 74% during the third quarter of 2005. The percentage increase in revenues and operating income reflects the acquisition of additional residential properties, subsequent to September 30, 2005.

As of September 30, 2006, the real estate portfolio of LREIT consisted of four commercial properties and 29 residential properties, compared to four commercial properties and 17 residential properties as of September 30, 2005. The percentage of revenue and income attributable to residential properties is expected to continue to increase as additional residential properties are acquired.

Although the residential property component of LREIT is gradually accounting for a higher percentage of operating income, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties, McIvor Mall and the Kenaston Property, were 98% and 91% leased, respectively, as of September 30, 2006.

Analysis of Residential Properties

Revenue

Analysis of Rental Revenue by Geographic Market Segment – Residential Properties

	Percentage of Total Rental Revenue			
	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Alberta	35%	36%	33%	36%
Saskatchewan	30%	23%	29%	14%
Manitoba	17%	25%	20%	30%
Northwest Territories	9%	10%	10%	13%
British Columbia	4%	6%	5%	7%
Ontario	5%	N/A	3%	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 September 30, 2006. The increase in the percentage component for the Saskatchewan portfolio and the corresponding decrease in the percentage component for the Manitoba portfolio reflects the acquisition of three properties in Saskatchewan, subsequent to September 30, 2005, at a cost of $16.4 Million, compared to the acquisition of one property in Manitoba at a cost of $4.3 Million. The Alberta portfolio maintained the top ranking as seven properties were acquired in Alberta, subsequent to September 30, 2005 at an acquisition cost of $38.9 Million.

The continued geographic diversification of LREIT will serve to mitigate the general economic risks which are associated with real property ownership, such as the risk of increased competition or reduced demand in a local real estate market.

Property Operating Costs

Analysis of Operating Cost Ratio by Property Sector

	Operating Cost Ratio			
	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Residential	46%	47%	50%	49%
Commercial	49%	42%	43%	40%
Total portfolio	47%	46%	49%	47%

The operating cost ratio for the entire portfolio of LREIT properties increased from 46% during the third quarter of 2005 to 47% during the third quarter of 2006.

The higher overall operating cost ratio for the third quarter of 2006 is due to an increase in the operating cost ratio for the portfolio of commercial properties. Specifically, the operating cost ratio for commercial properties increased from 42% in the third quarter of 2005 to 49% in the third quarter of 2006. The increase is mainly due to a decrease in the occupancy level for the Kenaston Property during the third quarter of 2006.

Although the operating cost ratio for residential properties remained relatively constant during the third quarter of 2005 and 2006, the ratio varied significantly by geographic location, as highlighted in the following chart.

Geographic Analysis of Operating Cost Ratio – Multi-Family Properties

	Operating Cost Ratio			
	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Alberta	33%	39%	40%	36%
Northwest Territories	39%	36%	44%	40%
Saskatchewan	54%	54%	55%	58%
Ontario	63%	N/A	60%	N/A
British Columbia	67%	81%	83%	89%
Manitoba	83%	73%	62%	114%
Total residential portfolio	46%	47%	50%	49%

In general, the variation in the operating cost ratio reflects differences in occupancy levels, the impact of new property acquisitions and quarterly variations in operating expenses.

Nine Month Comparatives

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

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

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

Three Month Comparatives

For the comparative three month period, the operating cost ratio for the Alberta portfolio decreased from 39% in 2005 to 33% in 2006. The improvement in the third quarter of 2006, reflects the more favourable operating cost ratio associated with the six properties which were acquired in Fort McMurray on June 30, 2006. Operating costs for Norglen Terrace were also comparatively high in the third quarter of 2005, due to an increase in maintenance costs in regard to the completion of upgrades to the building.

For the comparative three month period, the provinces with the most significant change in operating cost ratios were British Columbia and Manitoba, with the ratio decreasing from 81% to 67% for British Columbia and increasing from 73% to 83% for Manitoba. The decrease in the operating cost ratio for the British Columbia portfolio, mainly reflects an decrease in the vacancy loss at Greenwood Gardens. The average vacancy rate for the third quarter of 2006, for Greenwood Gardens was 2.2% in 2006, compared to 21.7% in 2005. The increase in the operating cost ratio for the Manitoba portfolio mainly reflects an increase in the vacancy loss at Highland Tower.

Summary

In summary, there was a relatively modest change in the overall operating cost ratio of LREIT, between the third 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 third quarter of 2006 and accounted for approximately $1.6 Million or 33% of the total third 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 $178,774 or 28% during the nine month period ended September 30, 2006, compared to the nine month period ended September 30, 2005. The decrease in operating income is mainly due to an increase in operating expenses, including maintenance expenses, advertising and leasing expenses, management fees and salaries and office expenses.

Lakewood Manor

As disclosed on page 5, the acquisition of Lakewood Manor is expected to close on the estimated construction completion date in April 2007. A multi-year lease agreement with a major oil sands company has been arranged for all of the apartment suites and townhouses at the property.

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

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

Elgin Lodge

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

As disclosed on page 6, LREIT also plans to proceed with a 59 suite expansion of Elgin Lodge in 2007. 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 28 of this report.

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 September 30		Nine Months Ended September 30	
	2006	2005 (restated)	2006	2005 (restated)
Net loss	$ (1,009,985)	$ (486,238)	$ (3,045,234)	$ (1,672,096)
Add (Deduct):				
Total amortization expense	2,255,423	1,159,729	5,792,905	2,944,690
Amortization of deferred financing fees	(113,283)	(217,018)	(395,404)	(680,873)
Future income tax recovery	(236,454)	-	(280,004)	-
Non-controlling interest	(33,419)	-	(31,573)	-
Funds from operations	862,282	456,473	2,040,690	591,721
Add (Deduct):				
Accrued rental revenue	(13,334)	(18,865)	(36,515)	(62,663)
Net amortization of above/below market in-place lease	26	886	78	2,658
Accrued financing expense on convertible debentures	866,049	580,057	2,544,718	2,170,848
Interest on convertible debentures	(576,758)	(393,932)	(1,779,587)	(1,403,866)
Unit based compensation	440,757	2,847	448,735	8,541
Lease acquisition costs	(7,526)	(6,250)	(62,882)	(151,088)
Adjusted funds from operations	$ 1,571,496	$ 621,216	$ 3,155,237	$ 1,156,151
Funds from operations per unit				
- basic	$0.050	$0.046	$0.119	$0.063
- diluted	$0.049	$0.046	$0.118	$0.063
AFFO per unit				
- basic	$0.091	$0.062	$0.185	$0.124
- diluted	$0.089	$0.059	$0.182	$0.122

Cash from Operations

During the third quarter of 2006, cash from operations increased by $618,453, compared to the third quarter of 2005. The increase mainly reflects an increase in net income, before amortization expense, future income tax recovery, non-controlling interest and unit-based compensation expense of $739,984, partially offset by an increase in the cash component of convertible debenture interest of $126,202.

In comparison to the second quarter of 2006, cash from operations decreased by $634,353 or 36%, mainly due to the timing of interest payments on convertible debentures. The interest payment date for all of the convertible debentures occurs in the first and third quarter of the year and, during the third quarter of 2006, interest payments amounted to $1,152,200. The impact of the third quarter interest payment was offset, to a significant degree, by an increase in other operating cash flows. Specifically, after excluding convertible debenture interest payments, cash from operations increased by $498,189 or 28% during the third quarter of 2006, compared to the second quarter of 2006.

SUMMARY OF QUARTERLY RESULTS

Quarterly Analysis For the Year Ended December 31				
	2006			2005
	Q3	Q2	Q1	Q4
Total revenue	$8,370,252	$6,891,004	$6,442,035	$5,592,039
Operating income	$4,702,153	$3,821,847	$3,251,325	$2,849,749
Net income (loss)	$(1,009,985)	$(963,067)	$(1,072,182)	$(463,010)
PER UNIT				
Operating income				
- Basic	$0.272	$0.223	$0.193	$0.305
- Diluted	$0.255	$0.211	$0.181	$0.261
Net income (loss)				
- Basic	$(0.059)	$(0.056)	$(0.064)	$(0.040)
- Diluted	$(0.059)	$(0.056)	$(0.064)	$(0.040)

Quarterly Analysis for the Year Ended December 31				
	2005			2004
	Q3 (restated)	Q2 (restated)	Q1 (restated)	Q4 (restated)
Total revenue	$4,846,417	$4,300,018	$3,066,600	$2,528,428
Operating income	$2,630,693	$2,466,218	$1,722,756	$1,296,410
Net income (loss)	$(486,238)	$(726,463)	$(459,395)	$(714,454)
PER UNIT				
Operating income				
- Basic	$0.263	$0.304	$0.230	$0.477
- Diluted	$0.225	$0.211	$0.153	$0.198
Net income (loss)				
- Basic	$(0.049)	$(0.090)	$(0.061)	$(0.263)
- Diluted	$(0.049)	$(0.090)	$(0.061)	$(0.263)

COMPARISON TO PRIOR QUARTER

Comparison to 2006 Second Quarter

	Three Months Ended		
	September 30, 2006	June 30,2006	Increase (Decrease)
Operating income – rental properties	$ 4,288,842	$ 3,447,506	$ 841,336
Interest income – Trust	413,311	374,341	38,970
Operating income	4,702,153	3,821,847	880,306
Financing expense			
Mortgage loans	2,132,482	1,758,129	374,353
Debentures	866,049	864,846	1,203
	2,998,531	2,622,975	375,556
Operating income, net of financing expense	1,703,622	1,198,872	504,750
Trust expense	728,057	283,988	444,069
Net income, before amortization, future income tax recovery and non-controlling interest	975,565	914,884	60,681
Amortization	2,255,423	1,910,979	344,444
Future income tax recovery	(236,454)	(34,874)	(201,580)
Non-controlling interest	(33,419)	1,846	(35,265)
Net loss	$ (1,009,985)	$ (963,067)	$ (46,918)

Analysis of Change in Quarterly Net Loss

During the third quarter of 2006, the net income of LREIT, excluding amortization expense, future income tax recovery and non-controlling interest, increased by $60,681 or 7%, compared to the second quarter of 2006, mainly due to the following factors:

- an increase in operating income from rental properties of $841,336 or 24%. The increase mainly reflects the incremental operating income which was derived from the ten new properties which were acquired in June 2006, particularly in regard to the six residential properties in Fort McMurray which were acquired on June 30, 2006. The increase in operating income is also partially attributable to an increase in operating income from the properties which were acquired prior to June 2006. The increase in operating income from the "pre June 2006" 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 19 of this report;

- an increase in mortgage loan financing expense of $374,353 or 21%. The increase mainly reflects the incremental financing expense in regard to the mortgage loan financing for properties which were acquired in June 2006; and

- an increase in Trust expense of $444,069. The increase mainly reflects the lump-sum charge to unit-based compensation expense of $417,351 in regard to the unit options which were issued by the Trust in July 2006.

The net loss of LREIT, including amortization expense, future income tax recovery and non-controlling interest, increased by $46,918 during the third quarter of 2006, compared to the second quarter of 2006. The increase in the net loss is mainly due to an increase in amortization expense of $344,444, largely offset by an increase in income tax recovery of $201,580.

CAPITAL RESOURCES AND LIQUIDITY

Cash Flow Analysis

Operating Activities

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 below, cash from operations exceeded mortgage loan debt service costs and debenture interest by $1,215,974 during the nine month period ended September 30, 2006.

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.

LREIT has also supplemented cash distributions from working capital to a significant degree, as disclosed in the following chart.

	Nine Months Ended September 30	
	2006	2005 (restated)
Net loss	$ (3,045,234)	$ (1,672,096)
Add (deduct):		
Total amortization expense	5,792,905	2,944,690
Amortization of tenant inducements and leasing expenses	(236,690)	(228,466)
Accretion on debt component of convertible debentures	2,544,718	2,170,848
Interest expense on convertible debentures	(1,779,587)	(1,403,866)
Revenue adjustments	(36,437)	(60,005)
Unit-based compensation	448,735	8,541
Future income tax recovery	(280,004)	-
Non-controlling interest	(31,573)	-
Distributable income	3,376,833	1,759,646
Interest expense on convertible debentures	1,779,587	1,403,866
Interest paid on convertible debentures	(1,893,097)	(1,481,119)
Amortization of tenant inducements and leasing expenses	236,690	228,466
Cash from operations, per Statement of Cash Flows (i)	3,500,013	1,910,859
Principal repayment of mortgage loans	(2,284,039)	(1,216,108)
Cash from operations, net of principal repayment of mortgage loans	1,215,974	694,751
Less: Cash distributions, declared, including LREIT Village West Limited Partnership	(7,271,943)	(3,870,257)
Working capital supplement	$ (6,055,969)	$ (3,175,506)

(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 nine months of 2006 exceeded operating cash flows, net of mortgage loan principal payments, by $6,055,969. 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.

The chart on page 26 provides a general overview regarding the extent to which the investment of capital in income-producing properties has lagged behind the receipt of capital, resulting in a variance between the cost of capital and the return on capital. As disclosed in the chart, LREIT commenced 2006 with a cash balance of approximately $23 Million and subsequently completed the $13.68 Million Series F debenture offering in March 2006. The opening cash balance, combined with the net proceeds from the debenture offering, represent a cash reserve for investment purposes of $35,698,971. In comparison, the net cash outlay during the first nine months of 2006 in regard to the acquisition of income-producing properties was $18,300,174, of which $16,589,974 or 91% was invested, subsequent to May 31, 2006.

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 the cash distribution amount and operating cash flows, net of mortgage loan principal repayments, will be gradually reduced.

Tenant Inducements, Leasing Expenses

Initially, tenant inducements and leasing expenses, excluding amounts recorded on property acquisitions, are funded from working capital. Over the longer term, the incremental revenue from new leasing activity is expected to exceed the initial capital outlays and result in an increase in cash inflows.

Tenant inducements and leasing expenses amounted to $62,882 for the nine months ended September 30, 2006 and consisted entirely of leasehold improvements at the Kenaston Property and the McIvor Mall.

Asset Additions

During the nine month period ended September 30, 2006, asset additions amounted to $4,557,806 and consisted of the following components:

Development/construction costs for Park View Apartments, excluding land	$ 3,601,297
Renovation costs for Highland Tower	430,261
Additional acquisition costs for Elgin Lodge	393,244
Additional acquisition costs for Fort McMurray Portfolio	103,281
Additional acquisition costs for other properties	29,723
	$ 4,557,806

After deducting accounts payable, the net cash outlay for asset additions, during the nine month period ended September 30, 2006, was $1,352,019. The accounts payable amount mainly represents amounts due in regard to the construction of Park View Apartments.

Summary

As disclosed on the chart on page 26 and as noted above, the net cash outlay for income-producing properties during the first nine months of 2006 was $18,300,174, while the net cash outlay for tenant inducements, leasing expenses, the mortgage loan advance for Woodland Park, asset additions and the acquisition of the land for Park View Apartments, was $7,564,901. After considering the total cash outlay associated with property acquisitions, the cash remaining for investment purposes was effectively reduced to $9,833,896 as of September 30, 2006.

After considering the refund of deposits on potential acquisitions, the change in non-cash operating items and the change in restricted cash, the cash remaining for investment purposes was effectively reduced to $9,748,762. The cash distribution shortfall reduced the cash balance of LREIT to $4,520,634 as of September 30, 2006.

Analysis of Cash Flows for Financing and Investing Activities

	Nine Months Ended September 30, 2006	
Cash, beginning of 2006		$ 22,965,597
Net capital raised:		
Proceeds of convertible debentures	$ 13,680,000	
Financing costs – convertible debentures	(693,919)	
Issue costs	(252,707)	12,733,374
Capital raised, plus beginning cash		35,698,971
Cash invested in income-producing properties:		
Cash consideration (Note 3 of financial statements)	(57,934,280)	
Proceeds of mortgage loan financing	40,246,439	
Mortgage loans discharged on refinancing	(2,141,756) *	
Cash outlay for Park View land	2,000,000	
Financing costs – mortgage loans	(470,577)	(18,300,174)
		17,398,797
Other investments:		
Mortgage loan receivable advance	(5,000,000)	
Mortgage loan receivable repayments	850,000	
Additions to income properties	(1,352,019)	
Cash outlay for Park View land	(2,000,000)	
Tenant inducements and leasing expenses	(62,882)	(7,564,901)
Uninvested cash		9,833,896
Deposits refunded	560,000	
Change in restricted cash	(448,524)	
Change in non-cash operating items	(196,610)	(85,134)
		9,748,762
Cash distribution shortfall	(6,055,969)	
Cash distribution payable	827,841	(5,228,128)
Cash, end of period		$ 4,520,634

* Repayment of mortgage loans (per Statement of Cash Flows)	$ 4,425,795
Mortgage loan principal payments (per Analysis – page 24)	2,284,039
Mortgage loans discharged on refinancing	$ 2,141,756

Working Capital Requirements

As noted on page 26, the cash balance of LREIT, as of September 30, 2006, was $4,520,634, while the working capital balance was $1,115,951. As disclosed in the preceding analysis, LREIT requires working capital to supplement cash distributions. Working capital is also required to fund renovation, construction and property acquisition costs, as follows:

Property	Approximate Amount		Description
Fourth Quarter - 2006			
Woodland Park Apartment Project	$5.6 Million	-	represents the $37,865,000 purchase price, net of the arranged financing of $27.3 Million, less the mortgage loan receivable of $5 Million.
To December 31, 2007			
Highland Tower Apartment Project	$1.3 Million	-	represents the cost to complete the renovation program.
Park View Apartments	$10.3 Million	-	represents the total maximum construction costs of $57.75 Million, net of the projected financing of $45 Million, less the cash outlay to September 30, 2006 of approximately $2.5 Million.
Lakewood Manor	$4.2 Million	-	represents the $58,735,825 purchase price, net of the projected financing of $46 Million, less the mortgage loan receivable of $8.5 Million.
Elgin Lodge	$2.1 Million	-	represents the projected construction costs of $8.5 Million, less the anticipated financing of approximately $6.4 Million.

It is anticipated that the working capital reserves of LREIT will be replenished during the fourth quarter of 2006 from the proceeds of the announced Series G convertible debenture offering and from the refinancing of under-leveraged properties. The refinancing of under-leveraged properties is expected to generate additional capital of approximately $25 Million by early next year.

LREIT may also exchange trust units for real property acquisitions. Secondary financing sources, such as a revolving line of credit, may also be considered by LREIT as a source of interim investment capital.

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

Trends

During the first nine months of 2006, LREIT experienced another period of significant growth and continued to operate with a relatively high level of uninvested capital. As a result of the lag in investment returns, the financial results for the entire year in 2006 are expected to be similar to the results for 2005 and for the first three quarters of 2006. In other words, the expectation for 2006 is that 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 net book value of the total assets of the Trust, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. 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 the Property Manager for all of the properties, except for Riverside Terrace, Chateau St. Michael's and Elgin Lodge, which are managed by third party managers who specialize in seniors' housing

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

OPERATING RISKS AND UNCERTAINTIES

General

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

Proposed Changes to Tax Treatment of Trusts

On October 31, 2006, the federal government issued a background paper announcing proposed changes to the Tax Act that would change the manner in which certain income trusts and the distributions from such trusts are taxed. The federal government has not yet released draft legislation outlining the precise changes that will be made in this regard. The background paper provides that there will be a four year transition period as the proposed changes will not apply until 2011. Based on the background paper, and assuming that the legislation required to implement the proposed changes to the Tax Act is consistent with the background paper, management of the Trust expects that the Trust will satisfy, prior to 2011, the conditions necessary to be excluded from the proposed changes when they become applicable.

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 Third 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
November 22, 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 Loewen, Mr. Earl Coleman, Mr. Harold Milavsky, FCA, Ms. Cheryl Barker, CA and Mr. Arni Thorsteinson, CFA. Mr Loewen is the Chairman, Founder and Chief Executive Officer of Online Enterprises Inc. and serves as Chairman of LREIT. Mr. Coleman is the Vice President and Secretary Treasurer of Big Freight Systems Inc. Mr. Milavsky and Ms. Barker were appointed at the Annual General Meeting in June 2006. Mr. Milavsky is the Chair of the Board, Quantico Capital Corporation. Ms. Barker was the President, MTS (Manitoba) prior to her retirement in February 2006. Mr. Thorsteinson is the President and principal owner of Shelter Canadian Properties Limited and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

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

Administrator of the Trust

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

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the income properties in the LREIT portfolio. Shelter Canadian Properties Limited manages all of the income properties except for the seniors housing complexes where the Trust has retained third 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

Toronto Stock Exchange (TSX)
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