



LANESBOROUGH REAL ESTATE INVESTMENT TRUST

FINANCIAL STATEMENTS

JUNE 30, 2005

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

BALANCE SHEET

	<u>June 30</u> <u>2005</u>	<u>December 31</u> <u>2004</u> (restated)
Assets		
Income properties (Note 4)	\$124,760,922	\$ 63,459,726
Mortgage loan receivable (Note 5)	3,625,000	2,150,000
Deferred charges (Note 6)	3,256,764	2,006,654
Cash (Note 7)	17,641,912	19,761,989
Other assets (Note 8)	2,162,323	1,271,668
Intangible assets (Note 9)	<u>1,145,685</u>	<u>1,333,825</u>
	<u>\$152,592,606</u>	<u>\$ 89,983,862</u>
Liabilities and Equity		
Mortgage loans payable (Note 10)	\$ 93,501,828	\$ 49,091,108
Convertible debentures (Note 11)	20,788,994	16,341,180
Accounts payable and accrued liabilities	2,571,193	1,446,803
Distribution payable	1,264,875	-
Intangible liabilities (Note 12)	<u>37,811</u>	<u>45,035</u>
	118,164,701	66,924,126
Equity	<u>34,427,905</u>	<u>23,059,736</u>
	<u>\$152,592,606</u>	<u>\$ 89,983,862</u>

Approved by the Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

Three Months Ended June 30, 2005:

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, March 31, 2005	\$ 31,551,416	\$ (1,794,024)	\$ (3,172,225)	\$ 5,378,795	\$ 31,963,962
Issuance of units/debentures	-	-	-	-	-
Issue costs	7,844	-	-	-	7,844
Conversion of debentures	4,765,726	-	-	(527,451)	4,238,275
Unit-based compensation	2,847	-	-	-	2,847
Loss	-	(520,148)	-	-	(520,148)
Distributions	-	-	(1,264,875)	-	(1,264,875)
Equity, June 30, 2005	<u>\$ 36,327,833</u>	<u>\$ (2,314,172)</u>	<u>\$ (4,437,100)</u>	<u>\$ 4,851,344</u>	<u>\$ 34,427,905</u>

Three Months Ended June 30, 2004 (restated):

	<u>Units In \$</u>	<u>Income (Loss)</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, March 31, 2004, as previously reported	\$ 5,967,978	\$ (23,763)	\$ (976,174)	\$ 3,254,034	\$ 8,222,075
Change in accounting policy (Note 2)	-	(183,154)	-	(551,401)	(734,555)
Equity, March 31, 2004, as restated	5,967,978	(206,917)	(976,174)	2,702,633	7,487,520
Unit-based compensation	89,047	-	-	-	89,047
Loss	-	(246,582)	-	-	(246,582)
Distributions	-	-	(329,089)	-	(329,089)
Equity, June 30, 2004	<u>\$ 6,057,025</u>	<u>\$ (453,499)</u>	<u>\$ (1,305,263)</u>	<u>\$ 2,702,633</u>	<u>\$ 7,000,896</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

Six Months Ended June 30, 2005:

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, December 31, 2004, as reported	\$ 23,920,224	\$ (1,233,112)	\$ (2,042,422)	\$ 3,252,898	\$ 23,897,588
Change in accounting policy (Note 2)	-	(286,451)	-	(551,401)	(837,852)
Equity, December 31, 2004, as restated	23,920,224	(1,519,563)	(2,042,422)	2,701,497	23,059,736
Issuance of units/debentures	6,857,500	-	-	2,847,555	9,705,055
Issue costs	(434,914)	-	-	-	(434,914)
Conversion of debentures	5,979,329	-	-	(697,708)	5,281,621
Unit-based compensation	5,694	-	-	-	5,694
Loss	-	(794,609)	-	-	(794,609)
Distributions	-	-	(2,394,678)	-	(2,394,678)
Equity, June 30, 2005	<u>\$ 36,327,833</u>	<u>\$ (2,314,172)</u>	<u>\$ (4,437,100)</u>	<u>\$ 4,851,344</u>	<u>\$ 34,427,905</u>

Six Months Ended June 30, 2004 (restated):

	<u>Units In \$</u>	<u>Income (Loss)</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, December 31, 2003, as previously reported	\$ 7,145,113	\$ 116,614	\$ (649,585)	\$ 1,269,790	\$ 7,881,932
Change in accounting policy (Note 2)	-	(151,534)	-	(551,401)	(702,935)
Equity, December 31, 2003, as restated	7,145,113	(34,920)	(649,585)	718,389	7,178,997
Issuance of debentures	-	-	-	1,984,246	1,984,246
Issue costs	(1,179,982)	-	-	-	(1,179,982)
Unit-based compensation	91,894	-	-	-	91,894
Loss	-	(418,581)	-	-	(418,581)
Distributions	-	-	(655,678)	-	(655,678)
Equity, June 30, 2004	<u>\$ 6,057,025</u>	<u>\$ (453,501)</u>	<u>\$ (1,305,263)</u>	<u>\$ 2,702,635</u>	<u>\$ 7,000,896</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF LOSS

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2005</u>	<u>2004</u> (restated)	<u>2005</u>	<u>2004</u> (restated)
Revenue				
Rentals from income properties (Note 16)	\$ 4,157,533	\$ 1,880,361	\$ 6,858,140	\$ 2,719,833
Interest and other income (Note 17)	<u>233,347</u>	<u>80,978</u>	<u>587,195</u>	<u>185,744</u>
	4,390,880	1,961,339	7,445,335	2,905,577
Expenses				
Property operating costs	<u>1,879,665</u>	<u>642,144</u>	<u>3,211,364</u>	<u>984,405</u>
Operating income	<u>2,511,215</u>	<u>1,319,195</u>	<u>4,233,971</u>	<u>1,921,172</u>
Financing expense	2,147,098	983,404	3,537,947	1,497,165
Trust expense	54,970	44,120	100,754	78,248
Amortization of income properties	631,876	228,878	980,654	306,676
Amortization of deferred charges	118,133	88,502	230,081	177,540
Amortization of intangible assets	<u>79,286</u>	<u>220,873</u>	<u>179,144</u>	<u>280,124</u>
	<u>3,031,363</u>	<u>1,565,777</u>	<u>5,028,580</u>	<u>2,339,753</u>
Loss	<u>\$ (520,148)</u>	<u>\$ (246,582)</u>	<u>\$ (794,609)</u>	<u>\$ (418,581)</u>
Loss per unit (Note 19)				
Basic	\$ (0.064)	\$ (0.094)	\$ (0.102)	\$ (0.160)
Diluted	(0.064)	(0.094)	(0.102)	(0.160)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004 (restated)	2005	2004 (restated)
Cash provided by (used in) operating activities				
Loss from operations	\$ (520,148)	\$ (246,582)	\$ (794,609)	\$ (418,581)
Items not affecting cash				
Accrued rental revenue (Note 16)	(21,524)	(24,884)	(43,799)	(41,729)
Amortization of above market in-place leases (Note 16)	4,498	5,637	8,996	9,395
Amortization of below market in-place leases (Note 16)	(3,612)	(8,334)	(7,224)	(13,890)
Accretion on debt component of convertible debentures (Note 11)	903,748	577,328	1,590,791	953,736
Unit-based compensation (Note 13)	2,847	2,847	5,694	5,694
Amortization of income properties	631,876	228,878	980,654	306,676
Amortization of deferred charges	118,133	88,502	230,081	177,540
Amortization of intangible assets	79,286	220,873	179,144	280,124
Interest paid on convertible debentures	(385,240)	(203,726)	(741,113)	(391,554)
Cash from operations	809,864	640,539	1,408,615	867,411
Changes in non-cash operating items (net of effects of acquisition of income properties)	159,412	(574,041)	(173,102)	(657,776)
Tenant inducements and leasing expenses incurred through leasing activity	(83,837)	(424,961)	(144,838)	(487,337)
	<u>885,439</u>	<u>(358,463)</u>	<u>1,090,675</u>	<u>(277,702)</u>
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	7,621,494	5,814,302	19,621,494	6,433,316
Proceeds of convertible debentures	-	-	12,000,000	14,000,000
Repayment of mortgage loans	(438,580)	(163,921)	(10,169,543)	(249,281)
Private placement of units	-	-	6,857,500	-
Financing costs	(362,971)	(67,994)	(1,335,353)	(83,986)
Issue costs	7,844	-	(434,913)	(1,179,982)
Distribution paid	(1,129,803)	(326,589)	(1,129,803)	(326,589)
	<u>5,697,984</u>	<u>5,255,798</u>	<u>25,409,382</u>	<u>18,593,478</u>
Cash provided by (used in) investing activities				
Income properties acquired (Note 3)	(22,680,222)	(8,519,616)	(26,681,258)	(15,617,966)
Additions to income properties	-	(98,410)	(3,876)	(417,808)
Mortgage loan receivable advance	-	-	(1,475,000)	(1,000,000)
Repayment of mortgage loan receivable	-	-	-	3,098,326
Deposits on potential acquisitions	(10,000)	(150,000)	(460,000)	(275,000)
	<u>(22,690,222)</u>	<u>(8,768,026)</u>	<u>(28,620,134)</u>	<u>(14,212,448)</u>
Cash decrease	(16,106,799)	(3,870,691)	(2,120,077)	4,103,328
Cash, beginning of period	33,748,711	9,802,616	19,761,989	1,828,597
Cash, end of period	\$ 17,641,912	\$ 5,931,925	\$ 17,641,912	\$ 5,931,925
Supplementary cash flow information				
Interest paid on mortgage loans payable	\$ 1,100,917	\$ 515,539	\$ 1,752,669	\$ 842,253

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

1 *Organization*

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

Basis of presentation

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared on a consistent basis with the December 31, 2004 audited financial statements, except as described in Note 2. These financial statements do not include all the information and disclosure required by Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the December 31, 2004 audited financial statements and notes thereto.

2 *Change in accounting policies*

Convertible debentures

Effective January 1, 2005, in accordance with the new recommendations of the CICA Handbook regarding financial instruments, the Trust has reclassified the component of the Series B debentures of \$551,401, relating to the present value of the principal payments, as a liability. Previously the amount was included in the equity component of the convertible debentures. As a result, the related cumulative financing expense has been reclassified from equity to liability in the amount of \$286,451 at December 31, 2004 and \$151,534 at December 31, 2003. The Trust has applied the change retroactively.

Financing expense is higher than would have been reported under the previous policy by \$19,945 for the three months ended June 30, 2005 and \$32,565 for the three months June 30, 2004, and \$59,833 for the six months ended June 30, 2005 and \$65,322 for the six months ended June 30, 2004.

Basic and diluted loss per unit is greater than would have been reported under the previous policy by \$0.002 per unit for the three months ended June 30, 2005 and \$0.013 per unit for the three months ended June 30, 2004, and by \$0.008 per unit for the six months ended June 30, 2005 and \$0.025 per unit for the six months ended June 30, 2004.

Issue costs on convertible debentures

Effective January 1, 2005, issue costs relating to debentures are recorded as deferred charges and amortized over the term of the debentures. Previously, all issue costs were recorded as a reduction of equity. The Trust has applied the change retroactively. The prior period amounts have not been restated as the adjustments are not considered material.

3 *Acquisitions*

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

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

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

3 Acquisitions (continued)

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

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

The net assets acquired in the transactions are as follows:

Land	\$ 3,638,333
Building	56,778,689
Appliances	1,860,950
Mortgage loans payable assumed	(34,708,767)
Working capital, net	<u>(92,947)</u>
	<u>\$ 27,476,258</u>
Consideration:	
Cash	\$ 26,681,258
Vendor take-back second mortgage loan	250,000
Deposits made in year ended December 31, 2004	<u>545,000</u>
	<u>\$ 27,476,258</u>

During the three months ended March 31, 2005, a deposit of \$800,000 was made in connection with the acquisition of Nelson Ridge Estates.

4 Income properties

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Land	\$ 14,617,088	\$ -	\$ 14,617,088	\$ 10,978,755
Buildings	108,971,113	(1,831,403)	107,139,710	51,224,297
Appliances	<u>3,203,950</u>	<u>(199,826)</u>	<u>3,004,124</u>	<u>1,256,674</u>
	<u>\$126,792,151</u>	<u>\$ (2,031,229)</u>	<u>\$124,760,922</u>	<u>\$ 63,459,726</u>

5 Mortgage loan receivable

The Trust has invested in a second mortgage loan, secured by an office building in Oshawa, Ontario. The Minacs Building was developed and is beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. The initial loan advance of \$1,150,000 bears interest at 12.5%. The second loan advance of \$1,000,000 bears interest at 9%. The third loan advance of \$1,475,000 which was made on January 6, 2005 bears interest at 9%. Interest is payable monthly and the loan is repayable December 31, 2005. The mortgage loan receivable was repaid in full, including accrued interest, on July 6, 2005.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

6 *Deferred charges*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Tenant inducements	\$ 1,744,553	\$ (571,726)	\$ 1,172,827	\$ 1,177,438
Financing costs	1,574,331	(54,116)	1,520,215	221,241
Leasing expenses	164,042	(51,446)	112,596	117,945
Amounts recorded on income property acquisition				
Tenant inducements	<u>569,203</u>	<u>(118,077)</u>	<u>451,126</u>	<u>490,030</u>
	<u>\$ 4,052,129</u>	<u>\$ (795,365)</u>	<u>\$ 3,256,764</u>	<u>\$ 2,006,654</u>

Amortization of deferred charges consists of the following:

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Tenant inducements	\$ 70,366	\$ 59,937	\$ 141,625	\$ 112,628
Financing costs	21,663	1,342	36,379	17,602
Leasing expenses	6,652	5,630	13,173	11,322
Amounts recorded on income property acquisition				
Tenant inducements	<u>19,452</u>	<u>21,593</u>	<u>38,904</u>	<u>35,988</u>
	<u>\$ 118,133</u>	<u>\$ 88,502</u>	<u>\$ 230,081</u>	<u>\$ 177,540</u>

7 *Cash*

Included in cash is \$576,493 (2004 - \$498,210) relating to funds held in trust for tenant security deposits, future tenant inducements and a rental achievement holdback.

8 *Other assets*

	<u>June 30 2005</u>	<u>December 31 2004 (audited)</u>
Amounts receivable	\$ 411,227	\$ 118,373
Loan receivable from tenant	250,000	250,000
Prepays and other	804,506	165,504
Deposits on potential acquisitions	560,000	645,000
Deferred rent receivable	<u>136,590</u>	<u>92,791</u>
	<u>\$ 2,162,323</u>	<u>\$ 1,271,668</u>

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

9 Intangible assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Lease origination costs	\$ 1,215,612	\$ (629,759)	\$ 585,853	\$ 683,239
Tenant relationships	555,748	(89,978)	465,770	497,528
Cash flow guarantee	<u>250,500</u>	<u>(250,500)</u>	<u>-</u>	<u>50,000</u>
	2,021,860	(970,237)	1,051,623	1,230,767
Above market in-place leases	<u>123,726</u>	<u>(29,664)</u>	<u>94,062</u>	<u>103,058</u>
	<u>\$ 2,145,586</u>	<u>\$ (999,901)</u>	<u>\$ 1,145,685</u>	<u>\$ 1,333,825</u>

Amortization of intangible assets consists of the following:

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Lease origination costs	\$ 38,407	\$ 214,672	\$ 97,386	\$ 253,660
Tenant relationships	15,879	6,201	31,758	26,464
Cash flow guarantee	<u>25,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
	79,286	220,873	179,144	280,124
Above market in-place leases	<u>4,498</u>	<u>5,637</u>	<u>8,996</u>	<u>9,395</u>
	<u>\$ 83,784</u>	<u>\$ 226,510</u>	<u>\$ 188,140</u>	<u>\$ 289,519</u>

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

10 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	<u>Interest Rates at June 30, 2005</u>			
	<u>Range</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Term to Maturity</u>	<u>June 30 2005</u>
Fixed rate mortgages payable	4.1% - 7.4%	5.5%	7.24 years	\$ 92,202,262
Floating rate mortgage payable	5.3%	5.3%	Demand	1,049,566
Non-interest bearing vendor takeback second mortgage loan payable	-	-	0.9 years	<u>250,000</u>
				<u>\$ 93,501,828</u>

	<u>Interest Rates at December 31, 2004</u>			
	<u>Range</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Term to Maturity</u>	<u>December 31 2004 (audited)</u>
Fixed rate mortgages payable	4.1% - 7.4%	5.5%	7.0 years	\$ 32,038,838
Floating rate mortgages payable	4.7% - 5.3%	4.8%	Demand	<u>17,052,270</u>
				<u>\$ 49,091,108</u>

Approximate principal repayments are as follows:

Year Ending December 31

2005 - remainder of year	\$ 2,592,665
2006	2,489,951
2007	4,239,093
2008	6,276,406
2009	19,359,746
Thereafter	<u>58,543,967</u>
	<u>\$ 93,501,828</u>

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

11 Convertible debentures

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

During the period, holders of convertible debentures exercised their right to convert to units, as follows:

<u>Convertible Debentures</u>	<u>Conversion Price</u>	Units Issued	
		<u>Three Months Ended June 30, 2005</u>	<u>Six Months Ended June 30, 2005</u>
Series A	\$ 5.00	37,200	139,400
Series B	5.00	70,600	89,600
Series C	4.50	854,000	965,111
Series D	5.00	3,000	8,000

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

<u>June 30, 2005</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 2,093,309	\$ 400,037	\$ 2,493,346
Series B - 8%, due August 30, 2005	486,035	112,615	598,650
Series C - 8%, due January 29, 2006	5,565,711	689,055	6,254,766
Series D - 8%, due March 15, 2008	3,367,455	802,082	4,169,537
Series E - 8%, due February 17, 2010	<u>9,276,484</u>	<u>2,847,555</u>	<u>12,124,039</u>
	<u>\$ 20,788,994</u>	<u>\$ 4,851,344</u>	<u>\$ 25,640,338</u>
 <u>December 31, 2004</u>	 <u>Debt</u>	 <u>Equity</u>	 <u>Total</u>
Convertible debentures			(restated)
Series A - 10%, due August 30, 2007	\$ 2,687,773	\$ 502,510	\$ 3,190,283
Series B - 8%, due August 30, 2005	884,140	214,743	1,098,883
Series C - 8%, due January 29, 2006	9,454,042	1,174,061	10,628,103
Series D - 8%, due March 15, 2008	<u>3,315,225</u>	<u>810,183</u>	<u>4,125,408</u>
	<u>\$ 16,341,180</u>	<u>\$ 2,701,497</u>	<u>\$ 19,042,677</u>

The accretion of the debt component for the six months ended June 30, 2005 of \$1,590,791 (2004 - \$1,178,377) and for the three months ended June 30, 2005 of \$903,748 (2004 - \$583,155), which increases the debt component from the initial carrying amount, is included in financing expense.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

12 *Intangible liabilities*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Below market in-place leases	\$ 75,594	\$ (37,783)	\$ 37,811	\$ 45,035

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

13 *Related party transactions*

Management agreement

The Trust incurred property management fees to Shelter Canadian Properties Limited of \$147,821 for the three months ended June 30, 2005 (2004 - \$54,241) and \$230,112 for the six months ended June 30, 2005 (2004 - \$81,429).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of nil and nil (2004 - \$881 and \$20,115), respectively for the three months ended June 30, 2005 and nil and nil (2004 - \$3,307 and \$38,114), respectively for the the six months ended June 30, 2005. The amounts relating to 2004 were capitalized to deferred charges and income properties.

Included in accounts payable and accrued liabilities at June 30, 2005 is a balance of \$250,741 (2004 - \$10,745) payable to Shelter Canadian Properties Limited. The balance comprises property management fees payable of \$77,250 (2004 - \$10,745), a cash advance of \$161,900 and amounts paid by Shelter Canadian Properties Limited on behalf of the Trust, totaling \$11,591.

Services agreement

Unit-based compensation expense for the three months ended June 30, 2005 of \$2,847 (2004 - \$2,847) and for the six months ended June 30, 2005 of \$5,694 (2004 - \$5,694), relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the term of the services agreement.

Mortgage loan receivable

The Trust invested in a second mortgage loan, secured by the Minacs Building beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. Interest income of \$91,374 was recorded for the three months ended June 30, 2005 (2004 - \$58,278) and \$179,562 for the six months ended June 30, 2005 (2004 - \$115,281).

Accounts receivable at June 30, 2005 includes accrued interest on the second mortgage loan of \$35,489 (2004 - \$3,781), due from 2668921 Manitoba Ltd.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

14 Units

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

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

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

	Six Months Ended June 30 2005	Year Ended December 31 2004
	<u>Units</u>	<u>Units</u> (audited)
Outstanding, beginning of period	6,461,213	2,612,713
Units issued by private placement	1,371,500	3,828,500
Units issued on conversion of debentures	1,202,111	-
Units issued on income property acquisition	<u>-</u>	<u>20,000</u>
Outstanding, end of period	<u>9,034,824</u>	<u>6,461,213</u>

The 109,590 units which are subject to escrow as at June 30, 2005 (2004 - 260,417) will be released from escrow during the year ending December 31, 2005. All units which are subject to escrow are entitled to be voted and receive distributions.

The units in escrow are summarized as follows:

Units in Seed Shareholder Escrow	68,340
Units in Security Escrow	<u>41,250</u>
	<u>109,590</u>

15 Unit options

Unit option plan

The Trust granted options in 2002 to the two independent Trustees to acquire 10,000 units each at \$4.00 per unit. There has not been any options exercised for the six months ended June 30, 2005 (2004 - nil). The options have vested and expire October 29, 2007.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

16 *Rentals from income properties*

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Rent revenue contractually due from tenants	\$ 4,136,895	\$ 1,852,780	\$ 6,816,113	\$ 2,673,609
Accrued rental revenue recognized on a straight-line basis	21,524	24,884	43,799	41,729
Amortization of above market in-place leases	(4,498)	(5,637)	(8,996)	(9,395)
Amortization of below market in-place leases	<u>3,612</u>	<u>8,334</u>	<u>7,224</u>	<u>13,890</u>
	<u>\$ 4,157,533</u>	<u>\$ 1,880,361</u>	<u>\$ 6,858,140</u>	<u>\$ 2,719,833</u>

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of \$473,056 for the three months ended June 30, 2005 (2004 - \$223,639) and \$900,676 for the six months ended June 30, 2005 (2004 - \$501,732).

17 *Interest and other income*

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash flow guarantee	\$ 11,169	\$ -	\$ 33,627	\$ -
Interest on mortgage loan receivable	91,374	58,278	179,562	115,281
Other	<u>130,804</u>	<u>22,700</u>	<u>374,006</u>	<u>70,463</u>
	<u>\$ 233,347</u>	<u>\$ 80,978</u>	<u>\$ 587,195</u>	<u>\$ 185,744</u>

18 *Distributable income*

Distributable income is defined as net income determined in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization of income properties and excluding any gains or losses on the disposition of any asset. Interest expense on convertible debentures for purposes of determining distributable income is calculated based on the actual interest payable on debentures.

Distributable income represents non-GAAP information, which may not be comparable to measures used by other issuers.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

18 *Distributable income (continued)*

Distributable income and distributable income per unit are calculated, as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2005</u>	<u>2004</u> (restated)	<u>2005</u>	<u>2004</u> (restated)
Loss	\$ (520,148)	\$ (246,582)	\$ (794,609)	\$ (418,581)
Add (deduct):				
Accrued rental revenue	(21,524)	(24,884)	(43,799)	(41,729)
Amortization of above market in-place leases	4,498	5,637	8,996	9,395
Amortization of below market in-place leases	(3,612)	(8,334)	(7,224)	(13,890)
Accretion on debt component of convertible debentures	903,748	577,328	1,590,791	953,736
Interest on convertible debentures	(583,673)	(372,310)	(1,013,516)	(615,658)
Unit-based compensation	2,847	2,847	5,694	5,694
Amortization of deferred charges	118,133	88,502	230,081	177,540
Amortization of tenant inducements	(70,366)	(59,937)	(141,625)	(112,628)
Amortization of leasing expenses	(6,652)	(5,630)	(13,173)	(11,322)
Amortization of income properties	631,876	228,878	980,654	306,676
Amortization of intangible assets	<u>79,286</u>	<u>220,873</u>	<u>179,144</u>	<u>280,124</u>
Distributable income	<u>\$ 534,413</u>	<u>\$ 406,388</u>	<u>\$ 981,414</u>	<u>\$ 519,357</u>
Distributable income per unit (Note 19)				
Basic	\$ 0.066	\$ 0.155	\$ 0.126	\$ 0.198
Diluted	0.066	0.119	0.126	0.189

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

19 Per unit calculations

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

Loss per unit calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2005</u>	<u>2004</u> (restated)	<u>2005</u>	<u>2004</u> (restated)
Loss	<u>\$ (520,148)</u>	<u>\$ (246,582)</u>	<u>\$ (794,609)</u>	<u>\$ (418,581)</u>
Diluted loss	<u>\$ (520,148)</u>	<u>\$ (246,582)</u>	<u>\$ (794,609)</u>	<u>\$ (418,581)</u>
Weighted average number of units	<u>8,103,604</u>	<u>2,629,636</u>	<u>7,817,308</u>	<u>2,621,175</u>
Weighted average diluted number of units	<u>8,103,604</u>	<u>2,629,636</u>	<u>7,817,308</u>	<u>2,621,175</u>

Distributable income per unit calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2005</u>	<u>2004</u> (restated)	<u>2005</u>	<u>2004</u> (restated)
Distributable income	<u>\$ 534,413</u>	<u>\$ 406,388</u>	<u>\$ 981,414</u>	<u>\$ 519,357</u>
Diluted distributable income	<u>\$ 534,413</u>	<u>\$ 703,698</u>	<u>\$ 981,414</u>	<u>\$ 891,464</u>
Weighted average number of units	8,103,604	2,629,636	7,817,308	2,621,175
Dilutive options	5,714	2,759	5,740	2,340
Dilutive convertible debentures				
Series A	-	-	-	-
Series B	-	209,333	-	209,333
Series C	-	2,251,333	-	1,883,167
Series D	-	800,000	-	-
Weighted average diluted number of units	<u>8,109,318</u>	<u>5,893,061</u>	<u>7,823,048</u>	<u>4,716,015</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

20 *Segmented financial information*

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

Six months ended June 30, 2005:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	2,145,663	169,374	4,543,103	-	6,858,140
Interest and other income	44,326	1,677	103,028	438,164	587,195
Property operating costs	879,922	27,359	2,304,083	-	3,211,364
Operating income	1,310,067	143,692	2,342,048	438,164	4,233,971
Financing expense	481,695	56,726	1,408,735	1,590,791	3,537,947
Amortization of income properties	164,100	15,673	800,881	-	980,654
Amortization of deferred charges	199,216	536	30,329	-	230,081
Amortization of intangible assets	103,890	-	75,254	-	179,144
Income (loss)	361,166	70,757	26,849	(1,253,381)	(794,609)
Total assets	23,750,944	2,951,158	108,761,336	17,129,168	152,592,606

Six months ended June 30, 2004 (restated):

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,674,771	168,358	876,704	-	2,719,833
Interest and other income	12,209	895	2,854	169,786	185,744
Property operating costs	703,665	24,177	256,563	-	984,405
Operating income	983,315	145,076	622,995	169,786	1,921,172
Financing expense	220,799	57,150	265,480	953,736	1,497,165
Amortization of income properties	148,415	15,672	142,589	-	306,676
Amortization of deferred charges	176,845	536	159	-	177,540
Amortization of intangible assets	123,931	-	156,193	-	280,124
Income (loss)	313,325	71,718	58,574	(862,198)	(418,581)
Total assets	20,976,847	2,866,086	33,886,629	7,641,558	65,371,120

Three months ended June 30, 2005:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,099,434	84,769	2,973,330	-	4,157,533
Interest and other income	27,769	946	30,340	174,292	233,347
Property operating costs	439,597	14,913	1,425,155	-	1,879,665
Operating income	687,606	70,802	1,578,515	174,292	2,511,215
Financing expense	257,456	28,339	957,555	903,748	2,147,098
Amortization of income properties	82,050	7,836	541,990	-	631,876
Amortization of deferred charges	100,957	268	16,908	-	118,133
Amortization of intangible assets	51,945	-	27,341	-	79,286
Income (loss)	195,198	34,359	34,721	(784,426)	(520,148)
Total assets	23,750,944	2,951,158	108,761,336	17,129,168	152,592,606

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

20 Segmented financial information (continued)

Three months ended June 30, 2004 (restated):

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	920,068	83,589	876,704	-	1,880,361
Interest and other income	9,662	434	2,854	68,028	80,978
Property operating costs	374,034	11,545	256,565	-	642,144
Operating income	555,696	72,478	622,993	68,028	1,319,195
Financing expense	112,718	27,878	265,480	577,328	983,404
Amortization of income properties	78,453	7,836	142,589	-	228,878
Amortization of deferred charges	88,075	268	159	-	88,502
Amortization of intangible assets	64,680	-	156,193	-	220,873
Income (loss)	211,770	36,496	58,572	(553,420)	(246,582)
Total assets	20,976,847	2,866,086	33,886,629	7,641,558	65,371,120

Six months ended June 30, 2005:

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Saskatchewan</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	2,378,200	554,492	2,295,347	61,590	1,003,996	564,515	-	6,858,140
Interest and other income	87,559	2,904	46,088	535	6,275	5,670	438,164	587,195
Property operating costs	796,970	514,635	1,101,864	2,934	423,190	371,771	-	3,211,364
Operating income	1,668,789	42,761	1,239,571	59,191	587,081	198,414	438,164	4,233,971
Financing expense	797,881	197,675	481,968	29,183	314,681	125,768	1,590,791	3,537,947
Amortization of income properties	422,956	88,008	185,498	6,360	179,353	98,479	-	980,654
Amortization of deferred charges	29,785	502	199,217	536	41	-	-	230,081
Amortization of intangible assets	72,914	2,058	103,890	-	282	-	-	179,144
Income (loss)	345,253	(245,482)	268,998	23,112	92,724	(25,833)	(1,253,381)	(794,609)
Total assets	62,777,545	11,129,006	25,153,034	1,284,604	25,458,236	9,661,013	17,129,168	152,592,606

Six months ended June 30, 2004 (restated):

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	257,199	265,965	1,674,771	61,590	460,308	-	2,719,833
Interest and other income	934	1,802	12,209	250	763	169,786	185,744
Property operating costs	63,948	122,810	703,665	2,615	91,367	-	984,405
Operating income	194,185	144,957	983,315	59,225	369,704	169,786	1,921,172
Financing expense	77,134	83,130	220,798	29,700	132,667	953,736	1,497,165
Amortization of income properties	33,745	44,004	148,414	6,360	74,153	-	306,676
Amortization of deferred charges	82	78	176,844	536	-	-	177,540
Amortization of intangible assets	27,118	4,604	123,931	-	124,471	-	280,124
Income (loss)	56,106	13,141	313,328	22,629	38,413	(862,198)	(418,581)
Total assets	9,766,202	11,347,155	20,976,845	1,255,757	14,383,603	7,641,558	65,371,120

(unaudited)

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

20 *Segmented financial information (continued)*

Three months ended June 30, 2005:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	1,770,876	260,922	1,184,260	30,795	552,258	358,422	-	4,157,533
Interest and other income	22,428	1,595	29,105	300	3,368	2,260	174,291	233,347
Property operating costs	550,804	262,353	599,355	1,655	225,040	240,458	-	1,879,665
Operating income	1,242,500	164	614,010	29,440	330,586	120,224	174,291	2,511,215
Financing expense	603,495	100,461	257,729	14,558	183,010	84,097	903,748	2,147,098
Amortization of income properties	318,648	44,004	96,274	3,180	105,194	64,576	-	631,876
Amortization of deferred charges	16,616	251	100,957	268	41	-	-	118,133
Amortization of intangible assets	27,341	-	51,945	-	-	-	-	79,286
Income (loss)	276,400	(144,552)	107,105	11,434	42,341	(28,449)	(784,427)	(520,148)
Total assets	62,777,545	11,129,006	25,153,034	1,284,604	25,458,236	9,661,013	17,129,168	152,592,606

Three months ended June 30, 2004:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Trust	Total
Rentals from income properties	203,225	265,965	920,068	30,795	460,308	-	1,880,361
Interest and other income	601	1,802	9,662	121	763	68,029	80,978
Property operating costs	52,595	122,810	374,036	1,336	91,367	-	642,144
Operating income	151,231	144,957	555,694	29,580	369,704	68,029	1,319,195
Financing expense	62,742	83,130	112,718	14,818	132,667	577,329	983,404
Amortization of income properties	29,089	44,004	78,452	3,180	74,153	-	228,878
Amortization of intangible assets	27,117	4,604	64,680	-	124,472	-	220,873
Amortization of deferred charges	82	78	88,074	268	-	-	88,502
Income (loss)	32,201	13,141	211,770	11,314	38,412	(553,420)	(246,582)
Total assets	9,766,202	11,347,155	20,976,845	1,255,757	14,383,603	7,641,558	65,371,120

21 *Subsequent events*

On July 28, 2005, the Trust acquired a 181 suite, four storey senior housing complex in Saskatoon, Saskatchewan known as Luther Riverside Terrace for \$24,000,000. The acquisition was funded from the assumption of a \$14,700,000 mortgage, with the balance paid in cash.

Subsequent to June 30, 2005, the Trust agreed to acquire a 129 suite high-rise apartment property in Prince Albert, Saskatchewan known as Marquis Towers for \$6,200,000. The acquisition will be funded entirely in cash.

A distribution of \$1,264,875 was paid on July 15, 2005.

22 *Comparative figures*

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