



CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	<u>June 30</u> <u>2006</u>	<u>December 31</u> <u>2005</u> (audited)
Assets		
Income properties (Note 3)	\$228,579,976	\$159,989,300
Mortgage loans receivable (Note 4)	14,350,000	9,350,000
Deferred charges (Note 5)	3,041,220	2,701,397
Cash	5,225,782	22,965,597
Other assets (Note 6)	6,121,333	3,815,427
Intangible assets (Note 7)	<u>3,307,032</u>	<u>2,191,630</u>
	<u>\$260,625,343</u>	<u>\$201,013,351</u>
Liabilities and Equity		
Mortgage loans payable (Note 8)	\$156,575,403	\$116,827,895
Convertible debentures (Note 9)	23,254,099	14,496,971
Accounts payable and accrued liabilities (Note 10)	8,402,588	3,000,755
Future income taxes (Note 11)	3,968,724	140,972
Distribution payable	<u>805,918</u>	<u>-</u>
	193,006,732	134,466,593
Non-controlling interest (Note 12)	2,720,241	-
Equity	<u>64,898,370</u>	<u>66,546,758</u>
	<u>\$260,625,343</u>	<u>\$201,013,351</u>

Approved by the Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended June 30, 2006:

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, March 31, 2006	\$ 75,166,150	\$ (5,303,669)	\$ (10,637,229)	\$ 7,444,731	\$ 66,669,983
Issue costs	(2,605)	-	-	-	(2,605)
Conversion of debentures	1,957,320	-	-	(363,140)	1,594,180
Unit-based compensation	3,989	-	-	-	3,989
Loss	-	(963,067)	-	-	(963,067)
Distributions	-	-	(2,404,110)	-	(2,404,110)
Equity, June 30, 2006	<u>\$ 77,124,854</u>	<u>\$ (6,266,736)</u>	<u>\$ (13,041,339)</u>	<u>\$ 7,081,591</u>	<u>\$ 64,898,370</u>

Three Months Ended June 30, 2005 (Restated):

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, March 31, 2005, as restated	\$ 32,710,254	\$ (2,555,777)	\$ (3,172,225)	\$ 5,378,795	\$ 32,361,047
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	-	(726,463)	-	-	(726,463)
Distributions	-	-	(1,264,875)	-	(1,264,875)
Equity, June 30, 2005	<u>\$ 37,486,671</u>	<u>\$ (3,282,240)</u>	<u>\$ (4,437,100)</u>	<u>\$ 4,851,344</u>	<u>\$ 34,618,675</u>

The accompanying notes are an integral part of these financial statements.
(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Six Months Ended June 30, 2006:

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, December 31, 2005	\$ 75,115,429	\$ (4,231,487)	\$ (8,272,429)	\$ 3,935,245	\$ 66,546,758
Equity component of issued debentures	-	-	-	3,564,376	3,564,376
Issue costs	(250,919)	-	-	-	(250,919)
Conversion of debentures	2,252,366	-	-	(418,030)	1,834,336
Unit-based compensation	7,978	-	-	-	7,978
Loss	-	(2,035,249)	-	-	(2,035,249)
Distributions	-	-	(4,768,910)	-	(4,768,910)
Equity, June 30, 2006	<u>\$ 77,124,854</u>	<u>\$ (6,266,736)</u>	<u>\$ (13,041,339)</u>	<u>\$ 7,081,591</u>	<u>\$ 64,898,370</u>

Six Months Ended June 30, 2005 (Restated):

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, December 31, 2004, as restated	25,292,265	(2,096,382)	(2,042,422)	2,701,497	23,854,958
Private placement of units	6,857,500	-	-	-	6,857,500
Equity component of issued debentures	-	-	-	2,847,555	2,847,555
Issue costs	(648,117)	-	-	-	(648,117)
Conversion of debentures	5,979,329	-	-	(697,708)	5,281,621
Unit-based compensation	5,694	-	-	-	5,694
Loss	-	(1,185,858)	-	-	(1,185,858)
Distributions	-	-	(2,394,678)	-	(2,394,678)
Equity, June 30, 2005	<u>\$ 37,486,671</u>	<u>\$ (3,282,240)</u>	<u>\$ (4,437,100)</u>	<u>\$ 4,851,344</u>	<u>\$ 34,618,675</u>

The accompanying notes are an integral part of these financial statements.
(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF LOSS

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2006</u>	<u>2005</u> (restated)	<u>2006</u>	<u>2005</u> (restated)
Revenue				
Rentals from income properties (Note 16)	\$ 6,461,667	\$ 4,066,671	\$ 12,451,386	\$ 6,767,278
Interest and other income (Note 17)	<u>429,337</u>	<u>233,347</u>	<u>881,653</u>	<u>599,340</u>
	6,891,004	4,300,018	13,333,039	7,366,618
Expenses				
Property operating costs	<u>3,069,157</u>	<u>1,833,800</u>	<u>6,259,867</u>	<u>3,177,644</u>
Operating income	<u>3,821,847</u>	<u>2,466,218</u>	<u>7,073,172</u>	<u>4,188,974</u>
Financing expense	2,622,975	2,098,268	5,126,270	3,489,117
Trust expense	283,988	54,970	486,373	100,754
Amortization of income properties	992,152	600,841	1,921,354	949,619
Amortization of deferred charges	281,736	359,316	484,709	656,198
Amortization of intangible assets	<u>637,091</u>	<u>79,286</u>	<u>1,131,419</u>	<u>179,144</u>
	<u>4,817,942</u>	<u>3,192,681</u>	<u>9,150,125</u>	<u>5,374,832</u>
Loss before income taxes	(996,095)	(726,463)	(2,076,953)	(1,185,858)
Future income tax recovery (Note 11)	<u>(34,874)</u>	<u>-</u>	<u>(43,550)</u>	<u>-</u>
Loss before non-controlling interest	(961,221)	(726,463)	(2,033,403)	(1,185,858)
Non-controlling interest (Note 12)	<u>1,846</u>	<u>-</u>	<u>1,846</u>	<u>-</u>
Loss	<u>\$ (963,067)</u>	<u>\$ (726,463)</u>	<u>\$ (2,035,249)</u>	<u>\$ (1,185,858)</u>
Loss per unit (Note 18)				
Basic	\$ (0.056)	\$ (0.090)	\$ (0.120)	\$ (0.152)
Diluted	(0.056)	(0.090)	(0.120)	(0.152)

The accompanying notes are an integral part of these financial statements.
(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005 (restated)	2006	2005 (restated)
Cash provided by (used in) operating activities				
Loss from operations	\$ (963,067)	\$ (726,463)	\$ (2,035,249)	\$ (1,185,858)
Items not affecting cash				
Accrued rental revenue	(12,871)	(21,524)	(23,181)	(43,799)
Amortization of above market in-place leases	3,209	4,498	6,418	8,996
Amortization of below market in-place leases	(3,183)	(3,612)	(6,366)	(7,224)
Accretion on debt component of convertible debentures (Note 9)	864,846	903,748	1,678,669	1,590,791
Unit-based compensation	3,989	2,847	7,978	5,694
Amortization of income properties	992,152	600,841	1,921,354	949,619
Amortization of deferred charges	281,736	359,316	484,709	656,198
Amortization of intangible assets	637,091	79,286	1,131,419	179,144
Future income taxes	(34,874)	-	(43,550)	-
Non-controlling interest	1,846	-	1,846	-
Interest paid on convertible debentures	(19,658)	(385,240)	(740,897)	(741,113)
Cash from operations	1,751,216	813,697	2,383,150	1,412,448
Changes in non-cash operating items (net of effects of acquisition of income properties)	43,005	159,412	(122,231)	(173,102)
Tenant inducements and leasing expenses incurred through leasing activity	(8,734)	(83,837)	(55,356)	(144,838)
	<u>1,785,487</u>	<u>889,272</u>	<u>2,205,563</u>	<u>1,094,508</u>
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	28,304,250	7,621,494	33,854,250	19,621,494
Proceeds of convertible debentures	-	-	13,680,000	12,000,000
Repayment of mortgage loans	(2,913,781)	(438,580)	(3,631,420)	(10,169,543)
Private placement of units	-	-	-	6,857,500
Financing costs	(49,604)	(362,971)	(760,887)	(1,122,149)
Issue costs	(2,605)	7,844	(250,919)	(648,117)
Distributions paid	(2,387,358)	(1,129,803)	(3,962,992)	(1,129,803)
	<u>22,950,902</u>	<u>5,697,984</u>	<u>38,928,032</u>	<u>25,409,382</u>
Cash provided by (used in) investing activities				
Income properties acquired (Note 2)	(43,235,315)	(22,680,222)	(52,060,870)	(26,681,258)
Additions to income properties	(50,484)	(3,833)	(240,984)	(7,709)
Mortgage loan receivable advance	(5,000,000)	-	(5,000,000)	(1,475,000)
Deposits on potential acquisitions	(240,000)	(10,000)	(1,440,000)	(460,000)
Change in restricted cash	(157,679)	48,020	(131,556)	(78,283)
	<u>(48,683,478)</u>	<u>(22,646,035)</u>	<u>(58,873,410)</u>	<u>(28,702,250)</u>
Cash decrease	(23,947,089)	(16,058,779)	(17,739,815)	(2,198,360)
Cash, beginning of period	29,172,871	33,124,198	22,965,597	19,263,779
Cash, end of period	\$ 5,225,782	\$ 17,065,419	\$ 5,225,782	\$ 17,065,419
Supplementary cash flow information				
Interest paid on mortgage loans payable	<u>\$ 1,478,602</u>	<u>\$ 1,100,917</u>	<u>\$ 3,393,739</u>	<u>\$ 1,752,669</u>

The accompanying notes are an integral part of these financial statements.
(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

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 dated April 23, 2002 and amended effective July 12, 2006.

Basis of presentation

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements reflect the operations of the Trust, wholly owned operating subsidiaries and LREIT Village West Limited Partnership (Village West LP). The interim financial statements have been prepared on a consistent basis with the December 31, 2005 audited financial statements. 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, 2005 audited financial statements and notes thereto.

2 *Acquisitions*

On January 1, 2006, the Trust acquired Willowdale Gardens, a residential property located in Brandon, Manitoba for a total cost of \$4,419,425. The acquisition was funded from the assumption of a first mortgage loan of \$2,169,426, with the balance paid in cash. On April 7, 2006, a new first mortgage loan was obtained in the amount of \$3,685,500.

On February 1, 2006, the Trust acquired Broadview Meadows, a residential property located in Sherwood Park, Alberta for a total cost of \$6,825,556. The acquisition was funded entirely in cash. On February 6, 2006, a first mortgage loan was obtained in the amount of \$5,550,000.

On June 1, 2006, the Trust acquired Village West Townhouses, a residential property located in Saskatoon, Saskatchewan for a total cost of \$5,213,550 through a Limited Partnership. The acquisition was funded with the assumption of a first mortgage loan of \$2,339,121, the issuance of Class B Limited Partnership Units of Village West LP in the amount of \$2,739,704 and the balance in cash.

On June 1, 2006, the Trust acquired Woodlily Courts, a residential property located in Moose Jaw, Saskatchewan for a total cost of \$3,717,600. The acquisition was funded with a new first mortgage loan of \$3,000,000 with the balance in cash.

On June 1, 2006, the Trust acquired Chateau St. Michael's, a seniors housing complex located in Moose Jaw, Saskatchewan for a total cost of \$7,639,811 through a wholly owned operating subsidiary. The acquisition was funded from the assumption of a first mortgage loan of \$5,016,129 with the balance in cash.

On June 1, 2006, the Trust acquired Elgin Lodge Retirement Home, a seniors housing complex located in Port Elgin, Ontario for a total cost of \$8,500,309 through a wholly owned operating subsidiary. The acquisition was funded entirely in cash on an interim basis.

Effective June 30, 2006, the Trust acquired Gannet Place, Lunar Apartments, Parkland Apartments, Skyview Apartments, Snowbird Manor and Whimbrel Terrace, six residential properties located in Fort McMurray, Alberta for a total cost of \$32,355,565. The acquisition was funded with a new first mortgage loan of \$25,494,750 with the balance in cash.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

2 *Acquisitions (continued)*

The net assets acquired in the transactions are as follows:

Land	\$ 15,001,264
Buildings	50,770,490
Furniture, equipment and appliances	605,223
Intangible assets	
Lease origination costs	1,768,077
Tenant relationships	485,162
Mortgage loans payable assumed	(9,524,677)
Working capital, net	<u>41,601</u>
	<u>\$ 59,147,140</u>

Consideration:

Cash	\$ 52,060,870
Amount payable on acquisition	4,096,566
Class B units of Village West LP	2,739,704
Deposits made in year ended December 31, 2005	<u>250,000</u>
	<u>\$ 59,147,140</u>

The acquisition of six residential properties in Fort McMurray, Alberta, which was effective June 30, 2006, closed subsequent to June 30, 2006. The amount payable on acquisition represents the cash paid on closing of the acquisition.

Deposits of \$1,300,000 were applied to the acquisitions of income properties during the six months ended June 30, 2006.

3 *Income properties*

	Cost	Accumulated Amortization	Net Book Value June 30 2006	Net Book Value December 31 2005 (audited)
Land	\$ 31,961,341	\$ -	\$ 31,961,341	\$ 16,960,077
Buildings	197,260,122	(4,811,956)	192,448,166	139,245,084
Appliances	<u>4,775,408</u>	<u>(604,939)</u>	<u>4,170,469</u>	<u>3,784,139</u>
	<u>\$233,996,871</u>	<u>\$ (5,416,895)</u>	<u>\$228,579,976</u>	<u>\$159,989,300</u>

The cost of the major renovation, including capitalized carrying costs, at Highland Tower for the three months ended June 30, 2006 of \$50,484 (June 30, 2005 - \$nil) and for the six months ended June 30, 2006 of \$240,984 (June 30, 2005 - \$nil) is included in the cost of the buildings. Carrying costs incurred during the period of major in-suite renovations of income properties are capitalized in the cost of the building. Carrying costs consist of financing and certain property operating costs including property taxes, utilities, common area maintenance and salary costs during the period the suites are removed from the rental market. The period that the suites are removed from the rental market during major renovations is normally expected to be not more than three months. Carrying costs of \$48,129 for the three months ended June 30, 2006 (June 30, 2005 - \$nil) and \$86,077 for the six months ended June 30, 2006 (June 30, 2005 - \$nil) have been capitalized to the cost of buildings. Carrying costs are amortized when the suites are returned to the rental market.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

3 *Income properties (continued)*

During the three months ended March 31, 2006, the cost of buildings was increased by an amount of \$3,871,302 relating to an adjustment of the net assets acquired on the purchase of Riverside Terrace Inc.

4 *Mortgage loans receivable*

	June 30 2006	December 31 2005 (audited)
Lakewood Manor	\$ 8,500,000	\$ 8,500,000
Edmonton land	850,000	850,000
Woodland Park	<u>5,000,000</u>	<u>-</u>
	<u>\$ 14,350,000</u>	<u>\$ 9,350,000</u>

Lakewood Manor

The Trust has invested in a second mortgage loan, secured by a 175-suite multi-family apartment and townhouse property, which is currently under construction in Fort McMurray, Alberta. The loan advance of \$8,500,000 bears interest at 8%. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property, which is expected to close in February 2007, in the amount of \$56,565,825.

Edmonton land

The Trust has invested in a mortgage loan, secured by land in Edmonton, Alberta. The loan advance of \$850,000 bears interest at 12%. The loan was repaid on July 15, 2006.

Woodland Park

The Trust has invested in a second mortgage loan, secured by a 107 suite multi-family apartment and townhouse property, which is currently under construction in Fort McMurray, Alberta. The loan advance of \$5,000,000 bears interest at Royal Bank Prime Rate. Interest is payable quarterly. The loan shall be applied toward the purchase price of the property, which is expected to close in December 2006, in the amount of \$37,865,000.

5 *Deferred charges*

	Cost	Accumulated Amortization	Net Book Value June 30 2006	Net Book Value December 31 2005 (audited)
Tenant inducements	\$ 1,723,208	\$ (755,572)	\$ 967,636	\$ 1,065,743
Financing costs	2,467,488	(866,253)	1,601,235	1,117,207
Leasing expenses	162,605	(66,105)	96,500	106,225
Amounts recorded on acquisition of income properties				
Tenant inducements	<u>569,203</u>	<u>(193,354)</u>	<u>375,849</u>	<u>412,222</u>
	<u>\$ 4,922,504</u>	<u>\$ (1,881,284)</u>	<u>\$ 3,041,220</u>	<u>\$ 2,701,397</u>

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

5 *Deferred charges (continued)*

Amortization of deferred charges consists of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2006</u>	<u>2005</u> (restated)	<u>2006</u>	<u>2005</u> (restated)
Tenant inducements	\$ 76,866	\$ 70,366	\$ 150,748	\$ 141,625
Financing costs	178,226	262,846	282,123	462,496
Leasing expenses	8,458	6,652	15,466	13,173
Amounts recorded on income property acquisition Tenant inducements	<u>18,186</u>	<u>19,452</u>	<u>36,372</u>	<u>38,904</u>
	<u>\$ 281,736</u>	<u>\$ 359,316</u>	<u>\$ 484,709</u>	<u>\$ 656,198</u>

6 *Other assets*

	<u>June 30</u> <u>2006</u>	<u>December 31</u> <u>2005</u> (audited)
Amounts receivable	\$ 1,482,324	\$ 867,711
Loan receivable from tenant	223,486	236,105
Property tax deposits and other	1,029,143	669,966
Deposits on potential acquisitions	2,100,000	910,000
Deferred rent receivable	205,276	182,095
Restricted cash	<u>1,081,104</u>	<u>949,550</u>
	<u>\$ 6,121,333</u>	<u>\$ 3,815,427</u>

Restricted cash consists of funds held in trust for residential tenant security deposits.

7 *Intangible assets*

	<u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net Book</u> <u>Value</u> <u>June 30</u> <u>2006</u>	<u>Net Book</u> <u>Value</u> <u>December 31</u> <u>2005</u> (audited)
Lease origination costs	\$ 4,078,318	\$ (1,666,413)	\$ 2,411,905	\$ 1,649,972
Tenant relationships	<u>1,074,780</u>	<u>(258,299)</u>	<u>816,481</u>	<u>456,594</u>
	5,153,098	(1,924,712)	3,228,386	2,106,566
Above market in-place leases	<u>123,726</u>	<u>(45,080)</u>	<u>78,646</u>	<u>85,064</u>
	<u>\$ 5,276,824</u>	<u>\$ (1,969,792)</u>	<u>\$ 3,307,032</u>	<u>\$ 2,191,630</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

7 *Intangible assets (continued)*

Amortization of intangible assets consists of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Lease origination costs	\$ 554,379	\$ 38,407	\$ 1,006,145	\$ 97,386
Tenant relationships	82,712	15,879	125,274	31,758
Cash flow guarantee	-	25,000	-	50,000
	637,091	79,286	1,131,419	179,144
Above market in-place leases	<u>3,209</u>	<u>4,498</u>	<u>6,418</u>	<u>8,996</u>
	<u>\$ 640,300</u>	<u>\$ 83,784</u>	<u>\$ 1,137,837</u>	<u>\$ 188,140</u>

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

8 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	Interest Rates at June 30, 2006		Weighted Average Term to Maturity	June 30 2006
	Range	Weighted Average Interest Rate		
Fixed rate mortgage loans payable	4.1% - 7.4%	5.5%	7.3 years	\$154,159,549
Floating rate mortgage loans payable	6.5% - 7.0%	6.7%	Demand	2,165,854
Non-interest bearing vendor takeback second mortgage loans payable due July 1, 2006	-	-	0.0 years	<u>250,000</u>
				<u>\$156,575,403</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

8 *Mortgage loans payable (continued)*

	Interest Rates at December 31, 2005		Weighted Average Term to Maturity	December 31 2005 (audited)
	Range	Weighted Average Interest Rate		
Fixed rate mortgage loans payable	4.1% - 7.4%	5.6%	7.2 years	\$114,388,293
Floating rate mortgage loans payable	6.0%	6.0%	Demand	2,189,602
Non-interest bearing vendor takeback second mortgage loans payable			0.5 years	<u>250,000</u>
				<u>\$116,827,895</u>

Approximate principal repayments are as follows:

Year ending December 31

2006 - remainder of year	\$ 9,277,132
2007	5,546,294
2008	9,682,446
2009	24,193,968
2010	3,338,898
Thereafter	<u>104,536,665</u>
	<u>\$156,575,403</u>

The floating rate mortgage loans payable are 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.

9 *Convertible debentures*

The Trust issued \$13,680,000 of Series F debentures by way of private placement on March 10, 2006. The Series F debentures bear interest at 7.5%, mature on March 11, 2011 and are subordinate to the Series A debentures, Series D debentures and Series E debentures. The Series F debentures are convertible at the request of the holder at any time during the year ending March 11, 2009 at a conversion price per unit of \$6.00, during the year ending March 11, 2010 at \$6.60, and during the year ending March 11, 2011 at \$7.30.

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

Convertible Debentures	Conversion Price	Units Issued	
		Three Months Ended June 30 2006	Six Months Ended June 30 2006
Series A	\$ 5.50	6,544	6,544
Series D	5.00	352,400	406,600

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

9 *Convertible debentures (continued)*

<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 D, Series E and Series F debentures:

<u>June 30, 2006</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 1,642,844	\$ 301,026	\$ 1,943,870
Series D - 8%, due March 16, 2008	1,633,584	368,634	2,002,218
Series E - 8%, due February 17, 2010	9,712,891	2,847,555	12,560,446
Series F - 7.5%, due March 11, 2011	<u>10,264,780</u>	<u>3,564,376</u>	<u>13,829,156</u>
	<u>\$ 23,254,099</u>	<u>\$ 7,081,591</u>	<u>\$ 30,335,690</u>
<u>December 31, 2005 (audited)</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 1,640,931	\$ 307,280	\$ 1,948,211
Series D - 8%, due March 16, 2008	3,368,169	780,410	4,148,579
Series E - 8%, due February 17, 2010	<u>9,487,871</u>	<u>2,847,555</u>	<u>12,335,426</u>
	<u>\$ 14,496,971</u>	<u>\$ 3,935,245</u>	<u>\$ 18,432,216</u>

The accretion of the debt component for the three months ended June 30, 2006 of \$864,846 (2005 - \$903,748) and for the six months ended June 30, 2006 of \$1,678,669 (2005 - \$1,590,791), which increases the debt component from the initial carrying amount, is included in financing expense.

10 *Accounts payable and accrued liabilities*

	<u>June 30 2006</u>	<u>December 31 2005 (audited)</u>
Accounts payable and accrued liabilities	\$ 1,159,224	\$ 983,512
Amount payable on acquisition of six residential properties in Fort McMurray, Alberta	4,096,566	-
Mortgage interest payable	1,553,563	1,026,663
Tenant security deposits	1,569,015	959,994
Below market in-place leases, net of accumulated amortization of \$51,374 (2005 - \$45,008)	<u>24,220</u>	<u>30,586</u>
	<u>\$ 8,402,588</u>	<u>\$ 3,000,755</u>

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

11 *Future income taxes*

The future income tax liability of wholly-owned operating subsidiaries, which are subject to income taxes, consists of the following:

	June 30 2006	December 31 2005 (audited)
Tax liabilities related to difference in tax and book value	\$ 4,073,415	\$ 195,885
Tax assets related to operating losses	<u>(104,691)</u>	<u>(54,913)</u>
	<u>\$ 3,968,724</u>	<u>\$ 140,972</u>

The future income tax liability and related increase in the cost of Riverside Terrace Inc. was recorded in the three months ended March 31, 2006.

The future income tax recovery of wholly-owned subsidiaries consists of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Temporary differences	\$ 1,658	\$ -	\$ 6,228	\$ -
Current period operating loss	<u>(36,532)</u>	<u>-</u>	<u>(49,778)</u>	<u>-</u>
	<u>\$ (34,874)</u>	<u>\$ -</u>	<u>\$ (43,550)</u>	<u>\$ -</u>

12 *Non-controlling interest*

Non-controlling interest represents the interest of the holder of the Class B units of Village West LP which is consolidated in these financial statements. The Class B units of Village West LP are exchangeable, at the option of the holder into units of the Trust. The holder of the Class B units of Village West LP is entitled to receive distributions equal to those provided to holders of units of the Trust. The Class B units of Village West LP and any units of the Trust issued in exchange for Class B units are subject to a four month hold period from the date of issuance of the units.

Non-controlling interest consists of the following:

	June 30 2006	December 31 2005 (audited)
Class B units of Village West LP	\$ 2,739,704	\$ -
Income of Village West Townhouses	1,846	-
Distributions on Class B units of Village West LP	<u>(21,309)</u>	<u>-</u>
Closing balance	<u>\$ 2,720,241</u>	<u>\$ -</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

13 *Related party transactions*

Management agreement

The Trust incurred property management fees to Shelter Canadian Properties Limited of \$217,993 for the three months ended June 30, 2006 (2005 - \$147,821) and \$432,518 for the six months ended June 30, 2006 (2005 - \$230,112).

Included in accounts payable and accrued liabilities at June 30, 2006 is a balance of \$14,389 (2005 - \$250,741), payable to Shelter Canadian Properties Limited.

Services agreement

The Trust entered into a services agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust. On January 17, 2006, the terms of the services agreement between the Trust and Shelter Canadian Properties Limited were modified. For the period commencing on January 1, 2006 and concluding June 30, 2006, a service fee was paid to Shelter Canadian Properties Limited, equal to 0.3% of the net book value of the assets of the Trust, excluding cash and accumulated amortization. On May 25, 2006, the term of the service fee was extended for a further six month term ending December 31, 2006.

The Trust incurred service fees to Shelter Canadian Properties Limited of \$141,779 for the three months ended June 30, 2006 (2005 - \$nil) and \$270,938 for the six months ended June 30, 2006 (2005 - nil).

Unit-based compensation expense for the three months ended June 30, 2006 of \$2,847 (2005 - \$2,847) and for the six months ended June 30, 2006 of \$5,694 (2005 - \$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.

Acquisition

Effective January 1, 2006, the Trust acquired Willowdale Gardens. Prior to the acquisition a related party, 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited, which is owned by the Arni Thorsteinson Family Trust, the Chief Executive Officer and a trustee of the Trust, held an 18.67% undivided interest in Willowdale Gardens. From January 1, 2006 until April 6, 2006, the assumed first mortgage loan was guaranteed by Shelter Canadian Properties Limited.

14 *Units*

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

	Six Months Ended June 30 2006	Year Ended December 31 2005 (audited)
Outstanding, beginning of period	16,855,286	6,461,213
Units issued by private placement	-	7,668,740
Units issued on conversion of debentures	413,144	2,715,333
Units issued on exercise of unit option	-	10,000
Outstanding, end of period	<u>17,268,430</u>	<u>16,855,286</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

15 *Unit options*

Unit option plan

On January 17, 2006, the Trust granted options to the three Trustees and the Chief Financial Officer to acquire 7,500 units each at \$5.42 per unit. The options have vested and expire on January 17, 2011.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used for the options granted on January 17, 2006 are dividend yield of 10.13%, expected volatility of 36.22%, risk-free interest rate of 3.84% and expected life of options of 5 years.

Unit-based compensation expense of \$1,142 for the three months ended June 30, 2006 (2005 - \$nil) and for six months ended June 30, 2006 of \$2,284 (2005 - \$nil), relating to options issued to trustees and officers, was recorded to expense the fair value of unit-based compensation.

A summary of the status of the unit options changes during the period is as follows:

	Six Months Ended June 30, 2006		Year Ended December 31, 2005	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Options				
Outstanding, beginning of period	10,000	\$ 4.00	20,000	\$ 4.00
Granted, January 17, 2006	30,000	5.42	-	-
Exercised	-	-	(10,000)	4.00
Weighted average diluted number of units	<u>40,000</u>	<u>\$ 5.07</u>	<u>10,000</u>	<u>\$ 4.00</u>

There were not any options granted or exercised during the three months ended June 30, 2006.

16 *Rentals from income properties*

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of \$388,194 for the three months ended June 30, 2006 (2005 - \$473,056) and \$840,409 for the six months ended June 30, 2006 (2005 - \$900,676) and meal revenue of \$153,550 for the three months ended June 30, 2006 (2005 - \$nil) and \$274,183 for the six months ended June 30, 2006 (2005 - \$nil).

17 *Interest and other income*

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Interest on mortgage loans receivable	\$ 194,964	\$ 91,374	\$ 387,786	\$ 179,562
Other interest	234,373	130,804	442,669	374,006
Alberta natural gas rebates	-	-	51,198	12,145
Cash flow guarantee	-	11,169	-	33,627
	<u>\$ 429,337</u>	<u>\$ 233,347</u>	<u>\$ 881,653</u>	<u>\$ 599,340</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

18 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. The diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding 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>2006</u>	<u>2005</u> (restated)	<u>2006</u>	<u>2005</u> (restated)
Loss	<u>\$ (963,067)</u>	<u>\$ (726,463)</u>	<u>\$ (2,035,249)</u>	<u>\$ (1,185,858)</u>
Diluted loss	<u>\$ (963,067)</u>	<u>\$ (726,463)</u>	<u>\$ (2,035,249)</u>	<u>\$ (1,185,858)</u>
Weighted average number of units	<u>17,135,004</u>	<u>8,103,604</u>	<u>17,006,214</u>	<u>7,800,611</u>
Weighted average diluted number of units	<u>17,135,004</u>	<u>8,103,604</u>	<u>17,006,214</u>	<u>7,800,611</u>

19 *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. Residential real estate consists of multi family residential properties and seniors housing complexes.

Six months ended June 30, 2006:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	2,063,285	181,892	10,206,209	-	12,451,386
Interest and other income	23,012	3,676	128,782	726,183	881,653
Property operating costs	884,766	23,795	5,351,306	-	6,259,867
Operating income	1,201,531	161,773	4,983,685	726,183	7,073,172
Financing expense	506,635	61,972	2,878,994	1,678,669	5,126,270
Amortization of income properties	164,628	15,673	1,741,053	-	1,921,354
Amortization of deferred charges	211,114	536	32,339	240,720	484,709
Amortization of intangible assets	88,910	-	1,042,509	-	1,131,419
Income (loss)	230,236	83,592	(669,598)	(1,679,579)	(2,035,349)
Total assets	19,922,880	2,789,388	215,473,878	22,439,197	260,625,343

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

19 *Segmented financial information (continued)*

Six months ended June 30, 2005 (restated):

	<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	4,452,241	-	6,767,278
Interest and other income	44,326	1,677	115,173	438,164	599,340
Property operating costs	879,922	27,359	2,270,363	-	3,177,644
Operating income	1,310,067	143,692	2,297,051	438,164	4,188,974
Financing expense	481,695	56,726	1,359,905	1,590,791	3,489,117
Amortization of income properties	164,100	15,673	769,846	-	949,619
Amortization of deferred charges	199,216	536	30,288	426,158	656,198
Amortization of intangible assets	103,890	-	75,254	-	179,144
Income (loss)	361,166	70,757	61,758	(1,679,539)	(1,185,858)
Total assets	23,750,944	2,951,158	108,796,245	17,285,029	152,783,376

Three months ended June 30, 2006:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,007,914	84,359	5,369,394	-	6,461,667
Interest and other income	9,967	227	44,802	374,341	429,337
Property operating costs	400,975	11,342	2,656,840	-	3,069,157
Operating income	616,906	73,244	2,757,356	374,341	3,821,847
Financing expense	252,711	32,189	1,473,229	864,846	2,622,975
Amortization of income properties	82,314	7,837	902,001	-	992,152
Amortization of deferred charges	107,771	268	15,073	158,624	281,736
Amortization of intangible assets	44,455	-	592,636	-	637,091
Income (loss)	129,647	32,950	(192,547)	(933,117)	(963,067)
Total assets	19,922,880	2,789,388	215,473,878	22,439,197	260,625,343

Three months ended June 30, 2005 (restated):

	<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	2,882,468	-	4,066,671
Interest and other income	27,769	946	30,340	174,292	233,347
Property operating costs	439,597	14,913	1,379,290	-	1,833,800
Operating income	687,606	70,802	1,533,518	174,292	2,466,218
Financing expense	257,456	28,339	908,725	903,748	2,098,268
Amortization of income properties	82,050	7,836	510,955	-	600,841
Amortization of deferred charges	100,957	268	16,867	241,224	359,316
Amortization of intangible assets	51,945	-	27,341	-	79,286
Income (loss)	195,198	34,359	69,630	(1,025,650)	(726,463)
Total assets	23,750,944	2,951,158	108,796,245	17,285,029	152,783,376

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

19 *Segmented financial information (continued)*

Six months ended June 30, 2006:

	<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	4,043,751	589,436	2,767,261	206,219	1,318,906	3,525,813	-	12,451,386
Interest and other income	96,096	5,978	31,995	(110)	7,738	13,773	726,183	881,653
Property operating costs	1,751,633	545,774	1,292,584	76,274	618,721	1,974,881	-	6,259,867
Operating income	2,388,214	49,640	1,506,672	129,835	707,923	1,564,705	726,183	7,073,172
Financing expense	1,281,147	185,100	741,654	29,263	451,594	758,843	1,678,669	5,126,270
Amortization of income properties	695,284	88,008	331,424	17,911	246,393	542,334	-	1,921,354
Amortization of deferred charges	27,651	502	211,776	536	1,019	2,505	240,720	484,709
Amortization of intangible assets	248,094	-	637,869	29,698	-	215,758	-	1,131,419
Income (loss)	136,041	(223,971)	(416,050)	52,427	8,918	86,965	(1,679,579)	(2,035,249)
Total assets	99,283,999	11,005,453	32,907,225	9,794,976	24,725,499	60,468,994	22,439,197	260,625,343

Six months ended June 30, 2005 (restated):

	<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	913,134	564,515	-	6,767,278
Interest and other income	99,704	2,904	46,088	535	6,275	5,670	438,164	599,340
Property operating costs	809,115	514,635	1,101,864	2,934	377,325	371,771	-	3,177,644
Operating income	1,668,789	42,761	1,239,571	59,191	542,084	198,414	438,164	4,188,974
Financing expense	797,881	197,675	481,968	29,183	265,851	125,768	1,590,791	3,489,117
Amortization of income properties	422,956	88,008	185,498	6,360	148,318	98,479	-	949,619
Amortization of deferred charges	29,785	502	199,217	536	-	-	426,158	656,198
Amortization of intangible assets	72,914	2,058	103,890	-	282	-	-	179,144
Income (loss)	345,253	(245,482)	268,998	23,112	127,633	(25,833)	(1,679,539)	(1,185,858)
Total assets	62,777,545	11,129,006	23,153,034	1,284,604	25,458,236	9,661,013	17,285,029	152,783,376

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006

19 *Segmented financial information (continued)*

Three months ended June 30, 2006:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	2,056,729	326,011	1,358,285	175,424	677,168	1,868,050	-	6,461,667
Interest and other income	23,821	2,844	15,296	(229)	4,544	8,720	374,341	429,337
Property operating costs	861,944	242,509	587,001	74,995	284,446	1,018,262	-	3,069,157
Operating income	1,218,606	86,346	786,580	100,200	397,266	858,508	374,341	3,821,847
Financing expense	656,438	91,570	376,532	14,912	220,191	398,486	864,846	2,622,975
Amortization of income properties	353,430	44,004	165,712	14,731	123,196	291,079	-	992,152
Amortization of deferred charges	13,826	251	106,372	268	509	1,886	158,624	281,736
Amortization of intangible assets	148,856	-	318,935	29,698	-	139,602	-	637,091
Income (loss)	46,059	(49,480)	(180,971)	40,590	53,372	60,480	(933,117)	(963,067)
Total assets	99,283,999	11,005,453	32,907,225	9,794,976	24,725,499	60,468,994	22,439,197	260,625,343

Three months ended June 30, 2005 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	1,770,876	260,922	1,184,260	30,795	461,396	358,422	-	4,066,671
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	179,175	240,458	-	1,833,800
Operating income	1,242,500	164	614,010	29,440	285,589	120,224	174,291	2,466,218
Financing expense	603,495	100,461	257,729	14,558	134,180	84,097	903,748	2,098,268
Amortization of income properties	318,648	44,004	96,274	3,180	74,159	64,576	-	600,841
Amortization of deferred charges	16,616	251	100,957	268	-	-	241,224	359,316
Amortization of intangible assets	27,341	-	51,945	-	-	-	-	79,286
Income (loss)	276,400	(144,552)	107,104	11,434	77,250	(28,449)	(1,025,650)	(726,463)
Total assets	62,777,545	11,129,006	25,153,034	1,284,604	25,458,236	9,661,013	17,285,029	152,783,376

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

20 *Commitments*

Acquisitions

The Trust has agreed to acquire Lakewood Manor, a residential property currently under construction, located in Fort McMurray, Alberta for a total cost of \$56,565,825. The acquisition will be funded with a new first mortgage loan in the minimum amount of \$32,000,000, with the balance in cash. The Trust has provided an \$8,500,000 second mortgage, bearing interest at 8.0%, to be credited towards the purchase price upon closing. The purchase is expected to close in February 2007.

The Trust has agreed to acquire Woodland Park, a residential property currently under construction, located in Fort McMurray, Alberta for a total cost of \$37,865,000. The acquisition will be funded with a new first mortgage loan of \$25,000,000, with the balance in cash. The Trust has provided an \$5,000,000 second mortgage, bearing interest at Royal Bank prime rate, to be credited towards the purchase price upon closing. The purchase is expected to close in December 2006.

Management Contracts

The Trust has retained the following third party managers to provide on-site management services to the seniors housing complexes:

<u>Property</u>	<u>Manager</u>	<u>Term Expiring</u>
Riverside Terrace	LutherCare Communities	July 31, 2015
Chateau St. Michael's	Integrated Life Care Inc.	September 30, 2010
Elgin Lodge	Kingsway Arms Management Inc.	May 31, 2016

21 *Contingent consideration on acquisition*

In conjunction with the acquisition of Elgin Lodge, the Trust has contracted with Kingsway Arms Management Services Inc., the management company of the property, to manage the expansion of the property at a rate of \$12,000 per month beginning June 1, 2006 for a period of twelve months. The estimated cost of the expansion is \$8,500,000 to be financed with an additional mortgage loan from the existing lender with the balance in cash.

For a period of five years from June 1, 2006, the Trust is required to make an additional payment to, Kingsway Arms Management Services Inc., of 50% of the amount, if any, that the appraised value of the expanded Elgin Lodge property exceeds the total costs to the Trust, including the expansion costs.

22 *Subsequent events*

Options

On July 26, 2006, the Trust granted a total of 960,000 options to purchase units, exercisable at \$5.80 per unit to each of the Trustees, the Chief Executive Officer and the Chief Financial Officer as well as 17 management and senior employees, who are engaged in functions related to the Trust, of Shelter Canadian Properties Limited. The options granted to the independent Trustees vest immediately while the balance of the options vest equally on the grant date and the first, second, third and fourth anniversaries of the grant date. The units issued upon exercise of the options will be subject to a minimum hold period of four months and a day from the date of the grant of options.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

22 *Subsequent events (continued)*

Acquisitions

On July 27, 2006, the Trust amended the terms of the acquisition and development of Park View Apartments, a residential property located in Fort McMurray, Alberta. The Trust has agreed to purchase the land for approximately \$9,840,000 including the reimbursement of development costs incurred by the vendor. The purchase was funded by a vendor take-back mortgage in the amount of \$7,300,000 bearing interest at 8.0% and due on October 31, 2006 with the balance in cash. In addition, the Trust entered into a development agreement with Shelter Canadian Properties Limited in which Shelter Canadian Properties Limited has agreed to (i) develop the project for a total cost not to exceed \$57,750,000 (inclusive of the purchase price of the land); (ii) arrange and guarantee construction financing, in the approximate amount of \$45,000,000 and permanent financing after completion of construction; and (iii) provide all development and construction supervision services for the project. The Trust will pay to Shelter Canadian Properties Limited a fee of \$1,000,000 in consideration for services provided under the development agreement.

Distributions

Distributions of \$805,918 and \$806,067 were paid on July 15 and August 15, 2006 respectively to unit holders of the Trust. Distributions of \$21,309 and \$21,309 were paid on July 15 and August 15, 2006 respectively to the holder of the Class B units of Village West LP.

Mortgage Financing

On July 5, 2006 a first mortgage loan was obtained on Elgin Lodge in the amount of \$5,900,000, payable interest only at prime plus 1%. The loan matures on the earlier of (i) two years from the completion of the expansion of the property; (ii) six months after the project achieves a debt service coverage ratio of 1.30:1.00; and (iii) May 31, 2009.

23 *Comparative figures*

Certain of the prior period figures have been restated to reflect the change in the accounting policies relating to issue costs on convertible debentures and properties under development.

As a result of the change in accounting policy relating to issue costs on convertible debentures, amortization of deferred charges is higher than reported under the previous policy by \$241,224 for the three months ended June 30, 2005 and \$426,158 for the six months ended June 30, 2005.

As a result of the change in accounting policy relating to properties under development, the following changes have occurred for the three and six months ended June 30, 2005: Rentals from income properties is lower by \$90,862, property operating costs are lower by \$45,865, financing expenses are lower by \$48,830, amortization of income properties is lower by \$31,035 and amortization of deferred charges is lower by \$41.

In addition, certain of the prior period figures have been reclassified to be comparable to the current period.