



**LANESBOROUGH REAL ESTATE INVESTMENT TRUST**

**FINANCIAL STATEMENTS**

**MARCH 31, 2005**

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## BALANCE SHEET

	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2004</u> (restated)
<b>Assets</b>		
Income properties (Note 4)	\$ 73,869,181	\$ 63,459,726
Mortgage loan receivable (Note 5)	3,625,000	2,150,000
Deferred charges (Note 6)	2,925,663	2,006,654
Cash (Note 7)	33,748,711	19,761,989
Other assets (Note 8)	2,706,121	1,271,668
Intangible assets (Note 9)	<u>1,229,469</u>	<u>1,333,825</u>
	<b><u>\$ 118,104,145</u></b>	<b><u>\$ 89,983,862</u></b>
<b>Liabilities and Equity</b>		
Mortgage loans payable (Note 10)	\$ 58,490,704	\$ 49,091,108
Convertible debentures (Note 11)	24,706,345	16,341,180
Accounts payable and accrued liabilities	1,771,908	1,446,803
Distribution payable	1,129,803	-
Intangible liabilities (Note 12)	<u>41,423</u>	<u>45,035</u>
	<b>86,140,183</b>	66,924,126
Equity	<u>31,963,962</u>	<u>23,059,736</u>
	<b><u>\$ 118,104,145</u></b>	<b><u>\$ 89,983,862</u></b>

Approved by the Trustees

*"Arni C. Thorsteinson"*

*"Charles K. Loewen"*

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## STATEMENT OF EQUITY

Three Months Ended March 31, 2005:

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Convertible Debentures</u>	<u>Total</u>
Equity, December 31, 2004, as previously 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	(442,758)	-	-	-	(442,758)
Conversion of debentures	1,213,603	-	-	(170,257)	1,043,346
Unit-based compensation	2,847	-	-	-	2,847
Loss	-	(274,461)	-	-	(274,461)
Distributions	-	-	(1,129,803)	-	(1,129,803)
Equity, March 31, 2005	<u>\$ 31,551,416</u>	<u>\$ (1,794,024)</u>	<u>\$ (3,172,225)</u>	<u>\$ 5,378,795</u>	<u>\$ 31,963,962</u>

Three Months Ended March 31, 2004 (restated):

	<u>Units In \$</u>	<u>Income (Loss)</u>	<u>Distributions</u>	<u>Equity Component of Convertible 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	-	-	-	1,984,244	1,984,244
Issue costs	(1,179,982)	-	-	-	(1,179,982)
Unit-based compensation	2,847	-	-	-	2,847
Loss	-	(171,997)	-	-	(171,997)
Distributions	-	-	(326,589)	-	(326,589)
Equity, March 31, 2004	<u>\$ 5,967,978</u>	<u>\$ (206,917)</u>	<u>\$ (976,174)</u>	<u>\$ 2,702,633</u>	<u>\$ 7,487,520</u>

(unaudited)

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## STATEMENT OF LOSS

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u> (restated)
<b>Revenue</b>		
Rentals from income properties (Note 16)	\$ 2,700,607	\$ 839,472
Interest and other income (Note 17)	<u>353,848</u>	<u>104,766</u>
	<b>3,054,455</b>	944,238
<b>Expenses</b>		
Property operating costs	<u>1,331,699</u>	<u>342,259</u>
Operating income	<u>1,722,756</u>	<u>601,979</u>
Financing expense	1,390,849	513,761
Trust expense	45,784	34,128
Amortization of income properties	348,778	77,798
Amortization of deferred charges	111,948	89,038
Amortization of intangible assets	<u>99,858</u>	<u>59,251</u>
	<u>1,997,217</u>	<u>773,976</u>
Loss	<u>\$ (274,461)</u>	<u>\$ (171,997)</u>
Loss per unit (Note 19)		
Basic	\$ (0.037)	\$ (0.066)
Diluted	(0.037)	(0.066)

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## STATEMENT OF CASH FLOWS

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u> (restated)
<b>Cash provided by (used in) operating activities</b>		
Loss from operations	\$ (274,461)	\$ (171,997)
Items not affecting cash		
Accrued rental revenue (Note 16)	(22,275)	(16,845)
Amortization of above market in-place leases (Note 16)	4,498	3,758
Amortization of below market in-place leases (Note 16)	(3,612)	(5,556)
Accretion on debt component of convertible debentures (Note 11)	687,043	375,310
Interest on Series C debentures	-	131,000
Unit-based compensation (Note 13)	2,847	2,847
Amortization of income properties	348,778	77,798
Amortization of deferred charges	111,948	89,038
Amortization of intangible assets	99,858	59,251
Interest paid on convertible debentures	<u>(355,873)</u>	<u>(187,830)</u>
Cash from operations	598,751	356,774
Changes in non-cash operating items (net of effects of acquisition of income properties)	(334,941)	(213,637)
Tenant inducements and leasing expenses incurred through leasing activity	<u>(58,575)</u>	<u>(62,376)</u>
	<u>205,235</u>	<u>80,761</u>
<b>Cash provided by (used in) financing activities</b>		
Proceeds of mortgage loan financing	12,000,000	619,014
Proceeds of convertible debentures	12,000,000	14,000,000
Repayment of mortgage loans	(9,730,961)	(85,360)
Private placement of units	6,857,500	-
Financing costs	(972,382)	(15,992)
Issue costs	<u>(442,758)</u>	<u>(1,179,982)</u>
	<u>19,711,399</u>	<u>13,337,680</u>
<b>Cash provided by (used in) investing activities</b>		
Income properties acquired (Note 3)	(3,201,036)	(6,448,350)
Additions to income properties	(3,876)	(319,398)
Mortgage loan receivable advance	(1,475,000)	(1,000,000)
Repayment of mortgage loan receivable	-	3,098,326
Deposits on potential acquisitions	<u>(1,250,000)</u>	<u>(775,000)</u>
	<u>(5,929,912)</u>	<u>(5,444,422)</u>
<b>Cash increase</b>	13,986,722	7,974,019
<b>Cash, beginning of period</b>	<u>19,761,989</u>	<u>1,828,597</u>
<b>Cash, end of period</b>	<u>\$ 33,748,711</u>	<u>\$ 9,802,616</u>
<b>Supplementary cash flow information</b>		
Interest paid on mortgage loans payable	<u>\$ 295,879</u>	<u>\$ 63,404</u>

(unaudited)

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 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 \$39,888 for the three months ended March 31, 2005 and \$32,757 for the three months March 31, 2004.

Basic and diluted loss per unit is greater than would have been reported under the previously policy by \$0.006 per unit for the three months ended March 31, 2005 and \$0.013 per unit for the three months ended March 31, 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 \$1,385,949. 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 \$5,332,094. 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 \$4,036,314. 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

MARCH 31, 2005

### 3 *Acquisitions (continued)*

The net assets acquired in the transactions are as follows:

Land	\$ 1,055,297
Building	9,449,310
Appliances	249,750
Mortgage loans payable assumed	(6,880,557)
Working capital, net	<u>(127,764)</u>
	<u>\$ 3,746,036</u>
Consideration:	
Cash	\$ 3,201,036
Vendor take-back second mortgage loan	250,000
Deposits	<u>295,000</u>
	<u>\$ 3,746,036</u>

### 4 *Income properties*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value March 31 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Land	\$ 12,034,052	\$ -	\$ 12,034,052	\$ 10,978,755
Buildings	61,641,732	(1,275,987)	60,365,745	51,224,297
Appliances	<u>1,592,750</u>	<u>(123,366)</u>	<u>1,469,384</u>	<u>1,256,674</u>
	<u>\$ 75,268,534</u>	<u>\$ (1,399,353)</u>	<u>\$ 73,869,181</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 on June 30, 2005. The Trust may request the repayment of up to \$500,000 of the consideration upon 30 days notice.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2005

### 6 *Deferred charges*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value March 31 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Tenant inducements	\$ 1,658,290	\$ (501,360)	\$ 1,156,930	\$ 1,177,438
Financing costs	1,297,340	(118,433)	1,178,907	221,241
Leasing expenses	164,042	(44,794)	119,248	117,945
Amounts recorded on income property acquisition				
Tenant inducements	<u>569,203</u>	<u>(98,625)</u>	<u>470,578</u>	<u>490,030</u>
	<u>\$ 3,688,875</u>	<u>\$ (763,212)</u>	<u>\$ 2,925,663</u>	<u>\$ 2,006,654</u>

Amortization of deferred charges consists of the following:

	<u>Three Months Ended March 31</u>	
	<u>2005</u>	<u>2004</u>
Tenant inducements	\$ 71,259	\$ 52,691
Financing costs	14,716	16,260
Leasing expenses	6,521	5,692
Amounts recorded on income property acquisition		
Tenant inducements	<u>19,452</u>	<u>14,395</u>
	<u>\$ 111,948</u>	<u>\$ 89,038</u>

### 7 *Cash*

Included in cash is \$624,513 (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>March 31 2005</u>	<u>December 31 2004 (audited)</u>
Amounts receivable	\$ 278,504	\$ 118,373
Loan receivable from tenant	250,000	250,000
Prepays and other	462,551	165,504
Deposits on potential acquisitions	1,600,000	645,000
Deferred rent receivable	<u>115,066</u>	<u>92,791</u>
	<u>\$ 2,706,121</u>	<u>\$ 1,271,668</u>



**LANESBOROUGH REAL ESTATE INVESTMENT TRUST**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2005**

**9 Intangible assets**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value March 31 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Lease origination costs	\$ 1,215,612	\$ (591,352)	\$ 624,260	\$ 683,239
Tenant relationships	555,748	(74,099)	481,649	497,528
Cash flow guarantee	<u>250,500</u>	<u>(225,500)</u>	<u>25,000</u>	<u>50,000</u>
	2,021,860	(890,951)	1,130,909	1,230,767
Above market in-place leases	<u>123,726</u>	<u>(25,166)</u>	<u>98,560</u>	<u>103,058</u>
	<u>\$ 2,145,586</u>	<u>\$ (916,117)</u>	<u>\$ 1,229,469</u>	<u>\$ 1,333,825</u>

Amortization of intangible assets consists of the following:

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u>
Lease origination costs	\$ 58,979	\$ 38,988
Tenant relationships	15,879	20,263
Cash flow guarantee	<u>25,000</u>	<u>-</u>
	99,858	59,251
Above market in-place leases	<u>4,498</u>	<u>3,758</u>
	<u>\$ 104,356</u>	<u>\$ 63,009</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 MARCH 31, 2005

### 10 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	<u>Interest Rates at March 31, 2005</u>			
	<u>Range</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Term to Maturity</u>	<u>March 31 2005</u>
Fixed rate mortgages payable	4.1% - 7.4%	5.4%	6.8 years	\$ 57,181,157
Floating rate mortgage payable	5.3%	5.3%	Demand	1,059,547
Non-interest bearing vendor takeback second mortgage loan payable	-	-	1.3 years	<u>250,000</u>
				<u>\$ 58,490,704</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	\$ 2,379,689
2006	1,433,859
2007	3,121,729
2008	5,093,623
2009	18,143,081
Thereafter	<u>28,318,723</u>
	<u>\$ 58,490,704</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 MARCH 31, 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>	<u>Units Issued</u>
Series A	\$ 5.00	102,200
Series B	\$ 5.00	19,000
Series C	\$ 4.50	111,111
Series D	\$ 5.00	5,000

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>March 31, 2005</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 2,250,309	\$ 416,916	\$ 2,667,225
Series B - 8%, due August 30, 2005	813,879	193,087	1,006,966
Series C - 8%, due January 29, 2006	9,126,849	1,116,117	10,242,966
Series D - 8%, due March 15, 2008	3,336,744	805,120	4,141,864
Series E - 8%, due February 17, 2010	<u>9,178,564</u>	<u>2,847,555</u>	<u>12,026,119</u>
	<u>\$ 24,706,345</u>	<u>\$ 5,378,795</u>	<u>\$ 30,085,140</u>
 <u>December 31, 2004</u>	 <u>Debt</u>	 <u>Equity</u>	 <u>Total</u>
			(restated)
Convertible debentures			
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 three months ended March 31, 2005 of \$687,043 (2004 - \$375,310), 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 MARCH 31, 2005

### 12 *Intangible liabilities*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value March 31 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Below market in-place leases	\$ 75,594	\$ (34,171)	\$ 41,423	\$ 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 \$82,291 for the three months ended March 31, 2005 (2004 - \$27,188).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of nil and nil respectively for the three months ended March 31, 2005 (2004 - \$2,426 and \$17,999 respectively), which were capitalized to deferred charges and income properties.

Included in accounts payable and accrued liabilities at March 31, 2005 are property management fees, leasing commissions and tenant improvement and renovation fees of \$27,356 (2004 - \$79,658) payable to Shelter Canadian Properties Limited.

#### **Services agreement**

Unit-based compensation expense for the three months ended March 31, 2005 of \$2,847 (2004 - \$2,847), 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 \$88,188 was recorded for the three months ended March 31, 2005 (2004 - \$57,003).

Accounts receivable at March 31, 2005 includes accrued interest on the second mortgage loan of nil (2004 - \$5,551), due from 2668921 Manitoba Ltd.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 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:

	Three Months Ended March 31 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	237,311	-
Units issued on income property acquisition	<u>-</u>	<u>20,000</u>
Outstanding, end of period	<u>8,070,024</u>	<u>6,461,213</u>

The 109,590 units which are subject to escrow as at March 31, 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 three months ended March 31, 2005 (2004 - nil). The options have vested and expire October 29, 2007.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2005

### 16 *Rentals from income properties*

	Three Months Ended March 31	
	2005	2004
Rent revenue contractually due from tenants	\$ 2,679,218	\$ 820,829
Accrued rental revenue recognized on a straight-line basis	22,275	16,845
Amortization of above market in-place leases	(4,498)	(3,758)
Amortization of below market in-place leases	<u>3,612</u>	<u>5,556</u>
	<u>\$ 2,700,607</u>	<u>\$ 839,472</u>

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of \$428,620 for the three months ended March 31, 2005 (2004 - \$278,093).

### 17 *Interest and other income*

	Three Months Ended March 31	
	2005	2004
Cash flow guarantee	\$ 22,458	\$ -
Interest on mortgage loan receivable	88,188	57,003
Other	<u>243,202</u>	<u>47,763</u>
	<u>\$ 353,848</u>	<u>\$ 104,766</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 MARCH 31, 2005

### 18 *Distributable income (continued)*

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

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u> (restated)
Loss	\$ (274,461)	\$ (171,997)
Add (deduct):		
Accrued rental revenue	(22,275)	(16,845)
Amortization of above market in-place leases	4,498	3,758
Amortization of below market in-place leases	(3,612)	(5,556)
Accretion on debt component of convertible debentures	687,043	375,310
Interest paid on convertible debentures	(355,873)	(187,830)
Unit-based compensation	2,847	2,847
Amortization of deferred charges	111,948	89,038
Amortization of tenant inducements	(71,259)	(52,691)
Amortization of leasing expenses	(6,521)	(5,692)
Amortization of income properties	348,778	77,798
Amortization of intangible assets	<u>99,858</u>	<u>59,251</u>
Distributable income	<u>\$ 520,971</u>	<u>\$ 167,391</u>
Distributable income per unit (Note 19)		
Basic	\$ 0.070	\$ 0.064
Diluted	0.054	0.061

### 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 March 31	
	<u>2005</u>	<u>2004</u> (restated)
Loss	<u>\$ (274,461)</u>	<u>\$ (171,997)</u>
Diluted loss	<u>\$ (274,461)</u>	<u>\$ (171,997)</u>
Weighted average number of units	<u>7,494,251</u>	<u>2,612,713</u>
Weighted average diluted number of units	<u>7,494,251</u>	<u>2,612,713</u>

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2005

### 19 *Per unit calculations (continued)*

Distributable income per unit calculations are based on the following:

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u> (restated)
Distributable income	<u>\$ 520,971</u>	<u>\$ 167,391</u>
Diluted distributable income	<u>\$ 529,190</u>	<u>\$ 167,391</u>
Weighted average number of units	7,494,251	2,612,713
Dilutive options	6,971	2,183
Dilutive convertible debentures		
Series C	2,222,939	-
Series D	<u>-</u>	<u>140,659</u>
Weighted average diluted number of units	<u>9,724,161</u>	<u>2,755,555</u>

### 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.

Three months ended March 31, 2005:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,046,226	84,605	1,569,776	-	2,700,607
Interest and other income	16,558	730	72,687	263,873	353,848
Property operating costs	440,322	12,446	878,931	-	1,331,699
Operating income	622,462	72,889	763,532	263,873	1,722,756
Financing expense	224,239	28,387	451,180	687,043	1,390,849
Amortization of income properties	82,050	7,836	258,892	-	348,778
Amortization of deferred charges	98,259	268	13,421	-	111,948
Amortization of intangible assets	51,945	-	47,913	-	99,858
Income (loss)	165,969	36,398	(7,874)	(468,954)	(274,461)
Total assets	23,594,205	2,936,516	56,281,292	35,292,132	118,104,145



# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2005

### 20 Segmented financial information (continued)

Three months ended March 31, 2004 (restated):

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	754,703	84,769	-	-	839,472
Interest and other income	2,547	462	-	101,757	104,766
Property operating costs	329,627	12,632	-	-	342,259
Operating income	427,623	72,599	-	101,757	601,979
Financing expense	108,081	29,273	-	376,407	513,761
Amortization of income properties	69,961	7,837	-	-	77,798
Amortization of deferred charges	88,770	268	-	-	89,038
Amortization of intangible assets	59,251	-	-	-	59,251
Income (loss)	101,560	35,222	-	(308,779)	(171,997)
Total assets	20,405,730	2,921,682	-	12,315,908	35,643,320

Three months ended March 31, 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	607,325	293,570	1,111,087	30,795	451,738	206,092	-	2,700,537
Interest and other income	65,129	1,309	16,985	235	2,907	3,410	263,873	352,748
Property operating costs	246,166	252,282	502,509	1,279	198,149	131,314	-	1,331,699
Operating income	426,288	42,597	625,563	29,751	256,496	78,188	263,873	1,722,656
Financing expense	194,387	97,214	224,239	14,625	131,670	41,671	687,043	1,391,849
Amortization of income properties	104,309	44,004	89,223	3,180	74,159	33,903	-	348,778
Amortization of deferred charges	13,169	251	98,260	268	-	-	-	112,748
Amortization of intangible assets	45,574	2,058	51,944	-	282	-	-	99,858
Income (loss)	68,849	(100,930)	161,897	11,678	50,385	2,614	(468,954)	(27,665)
Total assets	21,340,154	11,280,427	25,021,561	1,276,820	14,268,445	9,624,606	35,292,132	118,104,145

Three months ended March 31, 2004 (restated):

	<u>Alberta</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	53,974	754,703	30,795	-	839,472
Interest and other income	333	2,547	129	101,757	104,766
Property operating costs	11,353	329,627	1,279	-	342,259
Operating income	42,954	427,623	29,645	101,757	601,979
Financing expense	14,391	108,081	14,882	376,407	513,761
Amortization of income properties	4,657	69,961	3,180	-	77,798
Amortization of deferred charges	-	88,770	268	-	89,038
Amortization of intangible assets	-	59,251	-	-	59,251
Income (loss)	23,907	101,560	11,315	(308,779)	(171,997)
Total assets	1,650,192	20,405,730	1,271,490	12,315,908	35,643,320

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2005

### **21**     ***Subsequent events***

On April 1, 2005, the Trust acquired a multi-family residential property located in Fort McMurray, Alberta known as Nelson Ridge Estates for a purchase price of \$40,575,000. The consideration paid consisted of the assumption of mortgage financing of \$27,800,000 with the balance paid in cash.

On April 1, 2005, the Trust acquired an executive townhouse property located in Yellowknife, Northwest Territories for a purchase price of \$10,900,000. The consideration paid consisted of the assumption of a first mortgage loan of \$7,620,000 with the balance paid in cash.

A distribution of \$1,129,803 was paid on April 15, 2005.

### **22**     ***Comparative figures***

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