LANESBOROUGH REIT

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	September 30 2006	December 31 2005 (audited)
Assets		
Income properties (Note 3)	**$240,674,283**	$159,989,300
Mortgage loans receivable (Note 4)	**13,500,000**	9,350,000
Deferred charges (Note 5)	**3,247,386**	2,701,397
Cash	**4,520,634**	22,965,597
Other assets (Note 6)	**4,611,783**	3,815,427
Intangible assets (Note 7)	**2,526,932**	2,191,630
	$269,081,018	$201,013,351
Liabilities and Equity		
Mortgage loans payable (Note 8)	**$169,473,216**	$116,827,895
Convertible debentures (Note 9)	**23,475,485**	14,496,971
Accounts payable and accrued liabilities (Note 10)	**7,012,361**	3,000,755
Future income taxes (Note 11)	**3,732,270**	140,972
Distribution payable	**806,532**	-
	204,499,864	134,466,593
Non-controlling interest (Note 12)	**2,622,895**	-
Equity	**61,958,259**	66,546,758
	$269,081,018	$201,013,351

Approved by the Trustees

"Arni Thorsteinson"

"Cheryl Barker"

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Three Months Ended September 30, 2006:

	Units In $	Loss	Distributions	Equity Component of Debentures	Total
Equity, June 30, 2006	$ 77,124,854	$ (6,266,736)	$ (13,041,339)	$ 7,081,591	$ 64,898,370
Issue costs	(21,643)	-	-	-	(21,643)
Conversion of debentures	82,102	-	-	(13,545)	68,557
Unit-based compensation	440,757	-	-	-	440,757
Loss	-	(1,009,985)	-	-	(1,009,985)
Distributions	-	-	(2,417,797)	-	(2,417,797)
Equity, September 30, 2006	$ 77,626,070	$ (7,276,721)	$ (15,459,136)	$ 7,068,046	$ 61,958,259

Three Months Ended September 30, 2005 (Restated):

	Units In $	Loss	Distributions	Equity Component of Debentures	Total
Equity, June 30, 2005, as restated	$ 37,486,671	$ (3,282,240)	$ (4,437,100)	$ 4,851,344	$ 34,618,675
Issuance of debentures	40,000	-	-	-	40,000
Issue costs	186	-	-	-	186
Conversion of debentures	7,464,909	-	-	(897,668)	6,567,241
Unit-based compensation	2,847	-	-	-	2,847
Loss	-	(486,238)	-	-	(486,238)
Distributions	-	-	(1,475,579)	-	(1,475,579)
Equity, September 30, 2005	$ 44,994,613	$ (3,768,478)	$ (5,912,679)	$ 3,953,676	$ 39,267,132

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

Nine Months Ended September 30, 2006:

	Units In $	Loss	Distributions	Equity Component of Debentures	Total
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	(272,562)	-	-	-	(272,562)
Conversion of debentures	2,334,468	-	-	(431,575)	1,902,893
Unit-based compensation	448,735	-	-	-	448,735
Loss	-	(3,045,234)	-	-	(3,045,234)
Distributions	-	-	(7,186,707)	-	(7,186,707)
Equity, September 30, 2006	$ 77,626,070	$ (7,276,721)	$ (15,459,136)	$ 7,068,046	$ 61,958,259

Nine Months Ended September 30, 2005 (Restated):

	Units In $	Loss	Distributions	Equity Component of Debentures	Total
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	6,897,500	-	-	2,847,555	9,745,055
Issue costs	(647,931)	-	-	-	(647,931)
Conversion of debentures	13,444,238	-	-	(1,595,376)	11,848,862
Unit-based compensation	8,541	-	-	-	8,541
Loss	-	(1,672,096)	-	-	(1,672,096)
Distributions	-	-	(3,870,257)	-	(3,870,257)
Equity, September 30, 2005	$ 44,994,613	$ (3,768,478)	$ (5,912,679)	$ 3,953,676	$ 39,267,132

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF LOSS

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	**2005 (restated)**	**2006**	**2005 (restated)**
Revenue				
Rentals from income properties (Note 17)	**$ 7,877,307**	$ 4,802,181	**$ 20,328,693**	$ 11,569,459
Interest and other income (Note 18)	**492,945**	44,236	**1,374,598**	643,576
	8,370,252	4,846,417	**21,703,291**	12,213,035
Expenses				
Property operating costs	**3,668,099**	2,215,724	**9,927,966**	5,393,368
Operating income	**4,702,153**	2,630,693	**11,775,325**	6,819,667
Financing expense	**2,998,531**	1,934,207	**8,124,801**	5,423,324
Trust expense	**728,057**	22,995	**1,214,430**	123,749
Amortization of income properties	**1,276,589**	699,032	**3,197,943**	1,648,651
Amortization of deferred charges	**201,943**	311,497	**686,652**	967,695
Amortization of intangible assets	**776,891**	149,200	**1,908,310**	328,344
	5,982,011	3,116,931	**15,132,136**	8,491,763
Loss before income taxes	**(1,279,858)**	(486,238)	**(3,356,811)**	(1,672,096)
Future income tax recovery (Note 11)	**(236,454)**	-	**(280,004)**	-
Loss before the undernoted	**(1,043,404)**	(486,238)	**(3,076,807)**	(1,672,096)
Non-controlling interest (Note 12)	**33,419**	-	**31,573**	-
Loss	**$ (1,009,985)**	$ (486,238)	**$ (3,045,234)**	$ (1,672,096)
Loss per unit (Note 19)				
Basic	**$ (0.059)**	$ (0.049)	**$ (0.178)**	$ (0.179)
Diluted	**(0.059)**	(0.049)	**(0.178)**	(0.179)

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 September 30 2006	Three Months Ended September 30 2005 (restated)	Nine Months Ended September 30 2006	Nine Months Ended September 30 2005 (restated)
Cash provided by (used in) operating activities				
Loss from operations	**$ (1,009,985)**	$ (486,238)	**$ (3,045,234)**	$ (1,672,096)
Items not affecting cash				
Accrued rental revenue	**(13,334)**	(18,865)	**(36,515)**	(62,663)
Amortization of above market in-place leases	**3,209**	4,498	**9,627**	13,494
Amortization of below market in-place leases	**(3,183)**	(3,612)	**(9,549)**	(10,836)
Accretion on debt component of convertible debentures (Note 9)	**866,049**	580,057	**2,544,718**	2,170,848
Unit-based compensation	**440,757**	2,847	**448,735**	8,541
Amortization of income properties	**1,276,589**	699,032	**3,197,943**	1,648,651
Amortization of deferred charges	**201,943**	311,497	**686,652**	967,695
Amortization of intangible assets	**776,891**	149,200	**1,908,310**	328,344
Future income taxes	**(236,454)**	-	**(280,004)**	-
Non-controlling interest	**(33,419)**	-	**(31,573)**	-
Interest paid on convertible debentures	**(1,152,200)**	(740,006)	**(1,893,097)**	(1,481,119)
Cash from operations	**1,116,863**	498,410	**3,500,013**	1,910,859
Changes in non-cash operating items (net of effects of acquisition of income properties)	**(74,379)**	281,569	**(196,610)**	108,485
Tenant inducements and leasing expenses incurred through leasing activity	**(7,526)**	(6,250)	**(62,882)**	(151,088)
	1,034,958	773,729	**3,240,521**	1,868,256
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	**6,392,189**	-	**40,246,439**	19,621,494
Proceeds of convertible debentures	**-**	-	**13,680,000**	12,000,000
Repayment of mortgage loans	**(794,375)**	(547,371)	**(4,425,795)**	(10,716,914)
Private placement of units	**-**	-	**-**	6,857,500
Options exercised	**-**	40,000	**-**	40,000
Financing costs	**(403,609)**	111,531	**(1,164,496)**	(1,010,247)
Issue costs	**(1,788)**	186	**(252,707)**	(648,303)
Distributions paid on on trust units	**(2,417,183)**	(1,264,876)	**(6,380,175)**	(2,394,679)
Distributions paid on Class B units of Village West LP	**(63,927)**	-	**(63,927)**	-
	2,711,307	(1,660,530)	**41,639,339**	23,748,851
Cash provided by (used in) investing activities				
Income properties acquired (Note 2)	**(3,873,410)**	(12,461,671)	**(57,934,280)**	(39,142,929)
Additions to income properties	**(1,111,035)**	(481,635)	**(1,352,019)**	(489,344)
Mortgage loan receivable advance	**-**	-	**(5,000,000)**	(1,475,000)
Repayment of mortgage loan receivable	**850,000**	3,625,000	**850,000**	3,625,000
Deposits on potential acquisitions	**-**	250,000	**560,000**	(210,000)
Change in restricted cash	**(316,968)**	(292,037)	**(448,524)**	(370,338)
	(4,451,413)	(9,360,343)	**(63,324,823)**	(38,062,611)
Cash decrease	**(705,148)**	(10,247,144)	**(18,444,963)**	(12,445,504)
Cash, beginning of period	**5,225,782**	17,065,419	**22,965,597**	19,263,779
Cash, end of period	**$ 4,520,634**	$ 6,818,275	**$ 4,520,634**	$ 6,818,275
Supplementary cash flow information				
Interest paid on mortgage loans payable	**$ 2,010,290**	$ 1,312,065	**$ 5,404,029**	$ 3,383,836

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

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 456,617 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 September 29, 2006, an advance of $492,188 was received on the existing mortgage loan.

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 July 5, 2006, a new first mortgage loan was obtained in the amount of $5,900,000.

On 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 $32,132,409. The acquisition was funded with a new first mortgage loan of $21,618,751 with the balance in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

2 *Acquisitions (continued)*

On July 27, 2006, the Trust acquired land in Fort McMurray, Alberta for the development of Park View Apartments at total cost of $9,300,000. The acquisition was funded with a vendor take-back mortgage of $7,300,000 with the balance in cash.

The net assets acquired in the transactions are as follows:

Land	$ 24,301,264
Buildings	50,547,334
Furniture, equipment and appliances	605,223
Intangible assets	
Lease origination costs	1,768,077
Tenant relationships	485,162
Vendor take-back mortgage	(7,300,000)
Mortgage loans payable assumed	(9,524,677)
Working capital, net	41,601
	$ 60,923,984
Consideration:	
Cash	$ 57,934,280
Class B units of Village West LP	2,739,704
Deposits made in year ended December 31, 2005	250,000
	$ 60,923,984

Deposits of $3,300,000 were applied to the acquisitions of income properties during the nine months ended September 30, 2006.

3 *Income properties*

	Cost	Accumulated Amortization	Net Book Value September 30 2006	Net Book Value December 31 2005 (audited)
Land	$ 31,961,341	$ -	$ 31,961,341	$ 15,360,952
Buildings	197,721,660	(5,969,208)	191,752,452	130,049,465
Appliances	4,783,469	(724,276)	4,059,193	3,560,139
Properties under development	12,901,297	-	12,901,297	11,018,744
	$247,367,767	$ (6,693,484)	$240,674,283	$159,989,300

The cost of the major renovation, including capitalized carrying costs, at Highland Tower for the three months ended September 30, 2006 of $189,277 (September 30, 2005 - $389,960) and for the nine months ended September 30, 2006 of $430,261 (September 30, 2005 - $389,960) is included in the cost of the buildings. Carrying costs total $28,001 for the three months ended September 30, 2006 (September 30, 2005 - $21,679) and $114,078 for the nine months ended September 30, 2006 (September 30, 2005 - $21,679).

3 *Income properties (continued)*

The cost of the property under development, including carrying costs, at Park View Apartments for the three and nine months ended September 30, 2006, consist of land of $9,300,000 (2005 - $nil) and construction costs of $3,601,297 (2005 - $nil). Carrying costs total $97,600 for the three and nine months ended September 30, 2006 (2005 - $nil).

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*

	September 30 2006	December 31 2005 (audited)
Lakewood Manor	$ 8,500,000	$ 8,500,000
Edmonton land	-	850,000
Woodland Park	5,000,000	-
	$ 13,500,000	$ 9,350,000

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 April 2007, in the amount of $58,735,825.

Edmonton land
The Trust invested in a mortgage loan, secured by land in Edmonton, Alberta. The loan advance of $850,000 bore 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 September 30 2006	Net Book Value December 31 2005 (audited)
Tenant inducements	$ 1,727,469	$ (822,476)	$ 904,993	$ 1,065,743
Financing costs	2,871,096	(979,535)	1,891,561	1,117,207
Leasing expenses	165,871	(72,702)	93,169	106,225
Amounts recorded on acquisition of income properties				
Tenant inducements	569,203	(211,540)	357,663	412,222
	$ 5,333,639	$ (2,086,253)	$ 3,247,386	$ 2,701,397

Amortization of deferred charges consists of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005 (restated)	2006	2005 (restated)
Tenant inducements	$ 63,877	$ 68,375	$ 214,626	$ 208,641
Financing costs	113,283	217,018	395,404	680,873
Leasing expenses	6,597	6,652	22,064	19,825
Amounts recorded on income property acquisition				
Tenant inducements	18,186	19,452	54,558	58,356
	$ 201,943	$ 311,497	$ 686,652	$ 967,695

6 *Other assets*

	September 30 2006	December 31 2005 (audited)
Amounts receivable	$ 1,691,794	$ 867,711
Loan receivable from tenant	216,889	236,105
Property tax deposits and other	986,420	669,966
Deposits on potential acquisitions	100,000	910,000
Deferred rent receivable	218,610	182,095
Restricted cash	1,398,070	949,550
	$ 4,611,783	$ 3,815,427

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

7 *Intangible assets*

	Cost	Accumulated Amortization	Net Book Value September 30 2006	Net Book Value December 31 2005 (audited)
Lease origination costs	$ 4,078,318	$ (2,300,490)	$ 1,777,828	$ 1,649,972
Tenant relationships	1,074,780	(401,113)	673,667	456,594
	5,153,098	(2,701,603)	2,451,495	2,106,566
Above market in-place leases	123,726	(48,289)	75,437	85,064
	$ 5,276,824	$ (2,749,892)	$ 2,526,932	$ 2,191,630

Amortization of intangible assets consists of the following:

	Three Months Ended September 30 2006	Three Months Ended September 30 2005	Nine Months Ended September 30 2006	Nine Months Ended September 30 2005
Lease origination costs	$ 634,077	$ 130,499	$ 1,640,222	$ 227,885
Tenant relationships	142,814	18,701	268,088	50,459
Cash flow guarantee	-	-	-	50,000
	776,891	149,200	1,908,310	328,344
Above market in-place leases	3,209	4,498	9,627	13,494
	$ 780,100	$ 153,698	$ 1,917,937	$ 341,838

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 September 30, 2006: Range	Interest Rates at September 30, 2006: Weighted Average Interest Rate	Weighted Average Term to Maturity	September 30 2006
Fixed rate mortgage loans payable	4.1% - 8.0%	5.6%	6.7 years	$161,165,606
Floating rate mortgage loans payable	6.5% - 7.0%	6.9%	Demand	8,057,610
Non-interest bearing vendor takeback second mortgage loans payable	-	-	0.0 years	250,000
				$169,473,216

8 Mortgage loans payable (continued)

	Interest Rates at December 31, 2005			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2005 (audited)
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 take-back second mortgage loans payable			0.5 years	250,000
				$116,827,895

Approximate principal repayments are as follows:

Year ending December 31	
2006 - remainder of year	$ 16,513,106
2007	6,093,927
2008	9,799,967
2009	24,300,146
2010	3,450,835
Thereafter	109,315,235
	$169,473,216

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:

		Units Issued	
Convertible Debentures	Conversion Price	Three Months Ended September 30 2006	Nine Months Ended September 30 2006
Series A	$ 5.50	-	6,544
Series A	6.00	7,166	7,166
Series D	5.00	6,000	412,600

9 Convertible debentures (continued)

		Units Issued	
Convertible Debentures	Conversion Price	Three Months Ended September 30 2005	Nine Months Ended September 30 2005
Series A	$ 5.00	106,800	246,200
Series B	5.00	98,800	188,400
Series C	4.50	1,286,222	2,251,333
Series D	5.00	3,200	11,200

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:

September 30, 2006	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 1,619,575	$ 293,557	$ 1,913,132
Series D - 8%, due March 16, 2008	1,629,990	362,558	1,992,548
Series E - 8%, due February 17, 2010	9,832,411	2,847,555	12,679,966
Series F - 7.5%, due March 11, 2011	10,393,509	3,564,376	13,957,885
	$ 23,475,485	$ 7,068,046	$ 30,543,531

December 31, 2005 (audited)	Debt	Equity	Total
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	9,487,871	2,847,555	12,335,426
	$ 14,496,971	$ 3,935,245	$ 18,432,216

The accretion of the debt component for the three months ended September 30, 2006 of $866,049 (2005 - $580,057) and for the nine months ended September 30, 2006 of $2,544,718 (2005 - $2,170,848), which increases the debt component from the initial carrying amount, is included in financing expense.

10 Accounts payable and accrued liabilities

	September 30 2006	December 31 2005 (audited)
Accounts payable and accrued liabilities	$ 1,063,452	$ 983,512
Construction costs payable on the development of Park View Apartments in Fort McMurray, Alberta	3,108,187	-
Mortgage interest payable	1,200,110	1,026,663
Tenant security deposits	1,619,575	959,994
Below market in-place leases, net of accumulated amortization of $54,557 (2005 - $45,008)	21,037	30,586
	$ 7,012,361	$ 3,000,755

11 Future income taxes

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

	September 30 2006	December 31 2005 (audited)
Tax liabilities related to difference in tax and book value	$ 3,966,408	$ 195,885
Tax assets related to operating losses	(234,138)	(54,913)
	$ 3,732,270	$ 140,972

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 September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Temporary differences	$ (107,007)	$ -	$ (100,779)	$ -
Current period operating loss	(129,447)	-	(179,225)	-
	$ (236,454)	$ -	$ (280,004)	$ -

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.

Non-controlling interest consists of the following:

	September 30 2006	December 31 2005 (audited)
Class B units of Village West LP	$ 2,739,704	$ -
Loss of Village West Townhouses	(31,573)	-
Distributions on Class B units of Village West LP	(85,236)	-
Closing balance	$ 2,622,895	$ -

13 Related party transactions

Management agreement
The Trust incurred property management fees to Shelter Canadian Properties Limited of $259,345 for the three months ended September 30, 2006 (2005 - $196,467) and $691,863 for the nine months ended September 30, 2006 (2005 - $443,300).

Included in accounts payable and accrued liabilities at September 30, 2006 is a balance of $20,023 (2005 - $95,825), 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 $163,308 for the three months ended September 30, 2006 (2005 - $nil) and $434,246 for the nine months ended September 30, 2006 (2005 - nil).

Unit-based compensation expense for the three months ended September 30, 2006 of $2,847 (2005 - $2,847) and for the nine months ended September 30, 2006 of $8,541 (2005 - $8,541) , 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.

On July 27, 2006, the Trust acquired and agreed to develop of Park View Apartments, a residential property located in Fort McMurray, Alberta. The Trust has purchased the land and 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.

14 Units

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

	Nine Months Ended September 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	426,310	2,715,333
Units issued on exercise of unit option	-	10,000
Outstanding, end of period	17,281,596	16,855,286

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 life of options of five years.

Unit-based compensation expense of $20,559 for the three months ended September 30, 2006 (2005 - $nil) and $22,843 for the nine months ended September 30, 2006 (2005 - $nil), relating to options issued on January 17, 2006, was recorded to expense the fair value of unit-based compensation.

On July 26, 2006, the Trust granted options to each of the independent Trustees, the Chief Executive Officer and the Chief Financial Officer as well as seventeen management and senior employees of Shelter Canadian Properties Limited who are engaged in functions related to the Trust to acquire a total of 960,000 units at $5.80 per unit. The options granted to the independent Trustees have vested. The balance of the options vest equally on the grant date and the first, second, third and fourth anniversaries of the grant date. The options expire on July 26, 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 July 26, 2006, are a dividend yield of 9.61%, expected volatility of 43.10%, risk-free interest rate of 4.25% and life of options of five years.

Unit based compensation expense of $417,351 for the three and nine months ended September 30, 2006 (2005 - $nil), relating to the options issued on July 26, 2006, was recorded to expense the fair value unit-based compensation.

16 Unit options (continued)

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

	Nine Months Ended September 30, 2006		Year Ended December 31, 2005	
	Units	Exercise Price	Units	Exercise Price
Outstanding, beginning of period	10,000	$ 4.00	20,000	$ 4.00
Granted, January 17, 2006	30,000	5.42	-	-
Granted, July 26, 2006	960,000	5.80	-	-
Exercised	-	-	(10,000)	4.00
Weighted average number of diluted units	1,000,000		10,000	
Weighted average exercise price		$ 5.77		$ 4.00

17 Rentals from income properties

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of $341,176 for the three months ended September 30, 2006 (2005 - $441,885) and $1,181,585 for the nine months ended September 30, 2006 (2005 - $1,342,561) and meal revenue of $217,591 for the three months ended September 30, 2006 (2005 - $63,755) and $491,774 for the nine months ended September 30, 2006 (2005 - $63,755).

18 Interest and other income

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Interest on mortgage loans receivable	$ 350,740	$ 659	$ 738,526	$ 180,221
Other interest	142,205	43,577	584,874	417,583
Alberta natural gas rebates	-	-	51,198	12,145
Cash flow guarantee	-	-	-	33,627
	$ 492,945	$ 44,236	$ 1,374,598	$ 643,576

19 Per unit calculations

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. 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 September 30		Nine Months Ended September 30	
	2006	2005 (restated)	2006	2005 (restated)
Loss	$ (1,009,985)	$ (486,238)	$ (3,045,234)	$ (1,672,096)
Diluted loss	$ (1,009,985)	$ (486,238)	$ (3,045,234)	$ (1,672,096)
Weighted average number of units	17,273,001	10,006,233	17,096,736	9,353,352
Weighted average number of diluted units	17,273,001	10,006,233	17,096,736	9,353,352

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

Nine months ended September 30, 2006:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	3,024,737	264,600	17,039,356	-	20,328,693
Interest and other income	31,980	3,962	199,162	1,139,494	1,374,598
Property operating costs	1,380,341	35,683	8,511,942	-	9,927,966
Operating income	1,676,376	232,879	8,726,576	1,139,494	11,775,325
Financing expense	758,116	93,966	4,728,001	2,544,718	8,124,801
Amortization of income properties	246,941	23,509	2,927,493	-	3,197,943
Amortization of deferred charges	304,038	804	52,219	329,591	686,652
Amortization of intangible assets	133,366	-	1,774,944	-	1,908,310
Income (loss)	233,910	114,601	(444,500)	(2,949,245)	(3,045,234)
Total assets	19,698,133	2,789,097	227,976,058	18,617,730	269,081,018

20 Segmented financial information (continued)

Nine months ended September 30, 2005 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	3,223,435	240,222	8,105,802	-	11,569,459
Interest and other income	74,315	2,616	144,702	421,943	643,576
Property operating costs	1,357,106	32,927	4,003,335	-	5,393,368
Operating income	1,940,644	209,911	4,247,169	421,943	6,819,667
Financing expense	737,993	84,843	2,429,640	2,170,848	5,423,324
Amortization of income properties	246,150	23,509	1,378,992	-	1,648,651
Amortization of deferred charges	297,960	804	41,802	627,129	967,695
Amortization of intangible assets	155,833	-	172,511	-	328,344
Income (loss)	502,707	100,755	224,235	(2,499,793)	(1,672,096)
Total assets	20,572,418	2,808,502	144,821,429	6,931,696	175,134,045

Three months ended September 30, 2006:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	961,453	82,708	6,833,146	-	7,877,307
Interest and other income	8,968	286	70,380	413,311	492,945
Property operating costs	495,575	11,888	3,160,636	-	3,668,099
Operating income	474,846	71,106	3,742,890	413,311	4,702,153
Financing expense	251,481	31,993	1,849,008	866,049	2,998,531
Amortization of income properties	82,314	7,836	1,186,439	-	1,276,589
Amortization of deferred charges	92,924	268	19,880	88,871	201,943
Amortization of intangible assets	44,455	-	732,436	-	776,891
Income (loss)	3,672	31,009	224,995	(1,269,661)	(1,009,985)
Total assets	19,698,133	2,789,097	227,976,058	18,617,730	269,081,018

20 Segmented financial information (continued)

Three months ended September 30, 2005 (restated):

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	1,077,772	70,848	3,653,561	-	4,802,181
Interest and other income	29,990	938	29,529	(16,221)	44,236
Property operating costs	477,184	5,568	1,732,972	-	2,215,724
Operating income	630,578	66,218	1,950,118	(16,221)	2,630,693
Financing expense	256,298	28,117	1,069,735	580,057	1,934,207
Amortization of income properties	82,050	7,836	609,146	-	699,032
Amortization of deferred charges	98,744	268	11,504	200,981	311,497
Amortization of intangible assets	51,943	-	97,257	-	149,200
Income (loss)	141,541	29,998	162,477	(820,254)	(486,238)
Total assets	20,572,418	2,808,502	144,821,429	6,931,696	175,134,045

Nine months ended September 30, 2006:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	6,793,416	935,991	4,076,903	650,597	1,996,661	5,875,125	-	20,328,693
Interest and other income	147,195	9,184	43,466	625	10,752	23,882	1,139,494	1,374,598
Property operating costs	2,660,288	777,432	2,030,640	338,949	880,312	3,240,345	-	9,927,966
Operating income	4,280,323	167,743	2,089,729	312,273	1,127,101	2,658,662	1,139,494	11,775,325
Financing expense	2,123,975	276,830	1,117,532	134,148	671,087	1,256,511	2,544,718	8,124,801
Amortization of income properties	1,236,796	132,012	497,281	58,849	369,590	903,415	-	3,197,943
Amortization of deferred charges	42,128	754	305,639	804	1,529	6,207	329,591	686,652
Amortization of intangible assets	396,950	-	910,318	118,790	-	482,252	-	1,908,310
Income (loss)	480,470	(241,854)	(741,042)	134,729	84,896	186,812	(2,949,245)	(3,045,234)
Total assets	112,088,540	10,906,510	32,585,269	10,435,836	24,656,839	59,790,294	18,617,730	269,081,018

Nine months ended September 30, 2005 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	4,116,086	828,038	3,497,097	92,385	1,374,908	1,660,945	-	11,569,459
Interest and other income	115,520	4,925	78,603	788	9,840	11,957	421,943	643,576
Property operating costs	1,469,684	736,095	1,668,821	4,175	545,749	968,844	-	5,393,368
Operating income	2,761,922	96,868	1,906,879	88,998	838,999	704,058	421,943	6,819,667
Financing expense	1,386,245	293,324	761,857	43,673	398,069	369,308	2,170,848	5,423,324
Amortization of income properties	741,717	132,012	284,308	9,539	222,413	258,662	-	1,648,651
Amortization of deferred charges	40,262	754	297,958	804	64	714	627,139	967,695
Amortization of intangible assets	72,914	2,058	202,319	-	282	50,771	-	328,344
Income (loss)	520,783	(331,279)	360,434	34,982	218,171	24,606	(2,499,793)	(1,672,096)
Total assets	61,289,234	11,146,062	29,155,263	1,231,664	25,188,438	40,191,688	6,931,696	175,134,045

20 Segmented financial information (continued)

Three months ended September 30, 2006:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	2,749,665	346,556	1,309,642	444,377	677,755	2,349,312	-	7,877,307
Interest and other income	51,098	3,207	11,471	735	3,014	10,109	413,311	492,945
Property operating costs	908,659	231,659	738,060	262,674	261,591	1,265,456	-	3,668,099
Operating income	1,892,104	118,104	583,053	182,438	419,178	1,093,965	413,311	4,702,153
Financing expense	842,830	91,730	375,877	104,884	219,494	497,667	866,049	2,998,531
Amortization of income properties	541,511	44,004	165,858	40,348	123,197	361,671	-	1,276,589
Amortization of deferred charges	14,479	251	93,862	268	510	3,702	88,871	201,943
Amortization of intangible assets	148,856	-	272,449	89,093	-	266,493	-	776,891
Income (loss)	344,853	(17,882)	(324,991)	82,302	75,978	99,420	(1,269,665)	(1,009,985)
Total assets	112,088,540	10,906,510	32,585,269	10,435,836	24,656,839	59,790,294	18,617,730	269,081,018

Three months ended September 30, 2005 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	1,737,886	273,546	1,201,750	30,795	461,774	1,096,430	-	4,802,181
Interest and other income	15,816	2,021	32,515	253	3,565	6,287	(16,221)	44,236
Property operating costs	660,569	221,460	566,957	1,241	168,424	597,073	-	2,215,724
Operating income	1,093,133	54,107	667,308	29,807	296,915	505,644	(16,221)	2,630,693
Financing expense	588,364	95,649	279,889	14,490	132,218	243,540	580,057	1,934,207
Amortization of income properties	318,761	44,004	98,810	3,179	74,095	160,183	-	699,032
Amortization of deferred charges	10,477	252	98,741	268	64	714	200,981	311,497
Amortization of intangible assets	-	-	98,429	-	-	50,771	-	149,200
Income (loss)	175,530	(85,797)	91,436	11,870	90,538	50,439	(820,254)	(486,238)
Total assets	61,289,234	11,146,062	29,155,263	1,231,664	25,188,438	40,191,688	6,931,696	175,134,045

21 Commitments

Acquisitions

The Trust has acquired and agreed to develop Park View Apartments, a residential property located in Fort McMurray, Alberta. The Trust acquired the land for $9,300,000 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.

The Trust has agreed to acquire Lakewood Manor, a residential property currently under construction, located in Fort McMurray, Alberta for a total cost of $58,735,825. 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 April 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 $27,300,000, with the balance in cash. The Trust has provided a $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:

Property	Manager	Term Expiring
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

22 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 of $6,350,000 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.

23 Subsequent events

Distributions
Distributions of $806,532 and $806,729 were paid on October 15 and November 15, 2006 respectively to unit holders of the Trust. Distributions of $21,309 and $21,309 were paid on October 15 and November 15, 2006 respectively to the holder of the Class B units of Village West LP.

Convertible Debentures
On November 16, 2006, the Trust filed a preliminary short form prospectus in regard to the offering of a Series G convertible debenture issue. The offering price and terms of the debentures are to be determined based on market conditions.

Village West Limited Partnership
On November 1, 2006, the holder of the Class B Village West LP units exchanged 100,000 Class B Village West LP units for units of the Trust on a one for one basis.

24 Comparative figures

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

As a result of the correction of an error relating to issue costs on convertible debentures, amortization of deferred charges is higher than reported under the previous policy by $90,949 for the three months ended September 30, 2005 and $517,107 for the nine months ended September 30, 2005.

As a result of the change in accounting policy relating to properties under development, the following changes have occurred for the three months ended September 30, 2005: Rentals from income properties is lower by $102,924, property operating costs are lower by $57,347, financing expenses are lower by $82,530, amortization of income properties is lower by $46,617 and amortization of deferred charges is lower by $60. For the nine months ended September 30, 2005: Rentals from income properties is lower by $193,786, property operating costs are lower by $103,212, financing expenses are lower by $131,360, amortization of income properties is lower by $77,652 and amortization of deferred charges is lower by $101.

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