

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEET

	<u>September 30</u> <u>2005</u>	<u>December 31</u> <u>2004</u> (restated)
Assets		
Income properties (Note 4)	\$159,860,418	\$ 63,459,726
Mortgage loan receivable (Note 5)	-	2,150,000
Deferred charges (Note 6)	2,930,873	2,006,654
Cash (Note 7)	7,686,823	19,761,989
Other assets (Note 8)	2,008,794	1,271,668
Intangible assets (Note 9)	<u>2,463,686</u>	<u>1,333,825</u>
	<u>\$174,950,594</u>	<u>\$ 89,983,862</u>
Liabilities and Equity		
Mortgage loans payable (Note 10)	\$117,482,304	\$ 49,091,108
Convertible debentures (Note 11)	14,403,100	16,341,180
Accounts payable and accrued liabilities	2,471,732	1,446,803
Distribution payable	1,475,579	-
Intangible liabilities (Note 12)	<u>34,198</u>	<u>45,035</u>
	135,866,913	66,924,126
Equity	<u>39,083,681</u>	<u>23,059,736</u>
	<u>\$174,950,594</u>	<u>\$ 89,983,862</u>

Approved by the Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF EQUITY

Three Months Ended September 30, 2005:

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, June 30, 2005	\$ 36,327,833	\$ (2,314,172)	\$ (4,437,100)	\$ 4,851,344	\$ 34,427,905
Issuance of units/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	-	(478,919)	-	-	(478,919)
Distributions	-	-	(1,475,579)	-	(1,475,579)
Equity, September 30, 2005	<u>\$ 43,835,775</u>	<u>\$ (2,793,091)</u>	<u>\$ (5,912,679)</u>	<u>\$ 3,953,676</u>	<u>\$ 39,083,681</u>

Three Months Ended September 30, 2004 (restated):

	<u>Units In \$</u>	<u>Income (Loss)</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, June 30, 2004, as previously reported	\$ 6,057,025	\$ (239,456)	\$ (1,305,263)	\$ 3,254,034	\$ 7,766,340
Change in accounting policy (Note 2)	-	(214,045)	-	(551,401)	(765,446)
Equity, June 30, 2004, as restated	6,057,025	(453,501)	(1,305,263)	2,702,633	7,000,894
Unit-based compensation	2,847	-	-	-	2,847
Loss	-	(479,357)	-	-	(479,357)
Distributions	-	-	(368,580)	-	(368,580)
Equity, September 30, 2004	<u>\$ 6,059,872</u>	<u>\$ (932,858)</u>	<u>\$ (1,673,843)</u>	<u>\$ 2,702,633</u>	<u>\$ 6,155,804</u>

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF EQUITY

Nine Months Ended September 30, 2005:

	<u>Units In \$</u>	<u>Loss</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, December 31, 2004, as reported	\$ 23,920,224	\$ (1,233,112)	\$ (2,042,422)	\$ 3,252,898	\$ 23,897,588
Change in accounting policy (Note 2)	-	(286,451)	-	(551,401)	(837,852)
Equity, December 31, 2004, as restated	23,920,224	(1,519,563)	(2,042,422)	2,701,497	23,059,736
Issuance of units/debentures	6,897,500	-	-	2,847,555	9,745,055
Issue costs	(434,728)	-	-	-	(434,728)
Conversion of debentures	13,444,238	-	-	(1,595,376)	11,848,862
Unit-based compensation	8,541	-	-	-	8,541
Loss	-	(1,273,528)	-	-	(1,273,528)
Distributions	-	-	(3,870,257)	-	(3,870,257)
Equity, September 30, 2005	<u>\$ 43,835,775</u>	<u>\$ (2,793,091)</u>	<u>\$ (5,912,679)</u>	<u>\$ 3,953,676</u>	<u>\$ 39,083,681</u>

Nine Months Ended September 30, 2004 (restated):

	<u>Units In \$</u>	<u>Income (Loss)</u>	<u>Distributions</u>	<u>Equity Component of Debentures</u>	<u>Total</u>
Equity, December 31, 2003, as previously reported	\$ 7,145,113	\$ 116,614	\$ (649,585)	\$ 1,269,790	\$ 7,881,932
Change in accounting policy (Note 2)	-	(151,534)	-	(551,401)	(702,935)
Equity, December 31, 2003, as restated	7,145,113	(34,920)	(649,585)	718,389	7,178,997
Issuance of debentures	-	-	-	1,984,246	1,984,246
Issue costs	(1,179,982)	-	-	-	(1,179,982)
Unit-based compensation	94,741	-	-	-	94,741
Loss	-	(897,940)	-	-	(897,940)
Distributions	-	-	(1,024,258)	-	(1,024,258)
Equity, September 30, 2004	<u>\$ 6,059,872</u>	<u>\$ (932,860)</u>	<u>\$ (1,673,843)</u>	<u>\$ 2,702,635</u>	<u>\$ 6,155,804</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF LOSS

	Three Months Ended September 30		Nine Months Ended September 30	
	<u>2005</u>	<u>2004</u> (restated)	<u>2005</u>	<u>2004</u> (restated)
Revenue				
Rentals from income properties (Note 16)	\$ 4,905,105	\$ 2,093,178	\$ 11,763,245	\$ 4,813,011
Interest and other income (Note 17)	<u>44,236</u>	<u>216,061</u>	<u>631,431</u>	<u>401,805</u>
	4,949,341	2,309,239	12,394,676	5,214,816
Expenses				
Property operating costs	<u>2,273,071</u>	<u>910,783</u>	<u>5,484,435</u>	<u>1,895,188</u>
Operating income	<u>2,676,270</u>	<u>1,398,456</u>	<u>6,910,241</u>	<u>3,319,628</u>
Financing expense	2,016,737	1,169,014	5,554,684	2,666,181
Trust expense	22,995	28,871	123,749	107,119
Amortization of income properties	745,649	287,437	1,726,303	594,113
Amortization of deferred charges	220,608	95,003	450,689	272,543
Amortization of intangible assets	<u>149,200</u>	<u>297,488</u>	<u>328,344</u>	<u>577,612</u>
	<u>3,155,189</u>	<u>1,877,813</u>	<u>8,183,769</u>	<u>4,217,568</u>
Loss	<u>\$ (478,919)</u>	<u>\$ (479,357)</u>	<u>\$ (1,273,528)</u>	<u>\$ (897,940)</u>
Loss per unit (Note 19)				
Basic	\$ (0.048)	\$ (0.182)	\$ (0.136)	\$ (0.342)
Diluted	(0.048)	(0.182)	(0.136)	(0.342)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (restated)	2005	2004 (restated)
Cash provided by (used in) operating activities				
Loss from operations	\$ (478,919)	\$ (479,357)	\$ (1,273,528)	\$ (897,940)
Items not affecting cash				
Accrued rental revenue (Note 16)	(18,865)	(26,561)	(62,663)	(68,289)
Amortization of above market in-place leases (Note 16)	4,498	5,637	13,494	15,032
Amortization of below market in-place leases (Note 16)	(3,612)	(8,334)	(10,836)	(22,224)
Accretion on debt component of convertible debentures (Note 11)	580,057	595,810	2,170,848	1,549,545
Unit-based compensation (Note 13)	2,847	2,847	8,541	8,541
Amortization of income properties	745,649	287,437	1,726,303	594,113
Amortization of deferred charges	220,608	95,003	450,689	272,543
Amortization of intangible assets	149,200	297,488	328,344	577,612
Interest paid on convertible debentures	(740,006)	(347,680)	(1,481,119)	(739,234)
Cash from operations	461,457	422,290	1,870,073	1,289,699
Changes in non-cash operating items (net of effects of acquisition of income properties)	281,569	42,839	108,485	(614,935)
Tenant inducements and leasing expenses incurred through leasing activity	(6,250)	(127,307)	(151,088)	(614,644)
Unit based compensation	-	-	-	86,200
	<u>736,776</u>	<u>337,822</u>	<u>1,827,470</u>	<u>146,320</u>
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	-	117,412	19,621,494	6,550,728
Proceeds of convertible debentures	-	-	12,000,000	14,000,000
Repayment of mortgage loans	(547,371)	(227,230)	(10,716,914)	(476,511)
Private placement of units	-	-	6,857,500	-
Options exercised	40,000	-	40,000	-
Financing costs	111,531	(5,783)	(1,223,822)	(89,769)
Issue costs	186	-	(434,728)	(1,179,982)
Distribution paid	(1,264,876)	(329,089)	(2,394,679)	(655,678)
	<u>(1,660,530)</u>	<u>(444,690)</u>	<u>23,748,851</u>	<u>18,148,788</u>
Cash provided by (used in) investing activities				
Income properties acquired (Note 3)	(12,461,671)	(2,128,684)	(39,142,929)	(18,007,850)
Additions to income properties	(444,682)	(32,959)	(448,558)	(450,767)
Mortgage loan receivable advance	-	-	(1,475,000)	(1,000,000)
Repayment of mortgage loan receivable	3,625,000	-	3,625,000	3,098,326
Deposits on potential acquisitions	250,000	(300,000)	(210,000)	(400,000)
	<u>(9,031,353)</u>	<u>(2,461,643)</u>	<u>(37,651,487)</u>	<u>(16,760,291)</u>
Cash decrease	(9,955,107)	(2,568,511)	(12,075,166)	1,534,817
Cash, beginning of period	17,641,930	5,931,925	19,761,989	1,828,597
Cash, end of period	\$ 7,686,823	\$ 3,363,414	\$ 7,686,823	\$ 3,363,414
Supplementary cash flow information				
Interest paid on mortgage loans payable	\$ 1,312,065	\$ 520,754	\$ 3,383,836	\$ 971,454

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

1 *Organization*

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

Basis of presentation

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements reflect the operations of the trust and its wholly owned subsidiary Riverside Terrace Inc. 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. In prior years, 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 \$1,705 for the three months, ended September 30, 2005 and \$34,780 for the three months, ended September 30, 2004, and \$61,538 for the nine months, ended September 30, 2005 and \$100,101 for the nine months, ended September 30, 2004.

Basic and diluted loss per unit is greater than would have been reported under the previous policy by nil per unit for the three months, ended September 30, 2005 and \$0.013 per unit for the three months, ended September 30, 2004. Basic and diluted loss per unit is less than would have been reported under the previous policy by \$0.006 per unit for the nine months, ended September 30, 2005 and greater than would have been reported under the previous policy by \$0.038 per unit for the nine months, ended September 30, 2004.

Issue costs on convertible debentures

Effective January 1, 2005, issue costs relating to debentures are recorded as deferred charges and amortized over the term of the debentures. In prior years, 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 to be material.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

2 *Change in accounting policies (continued)*

Carrying costs during major renovations

Effective July 1, 2005, the Trust adopted an accounting policy with respect to carrying costs incurred during the period of major in-suite renovations of income properties. Major in-suite renovations involve the temporary removal of suites from the rental market and include the replacement of flooring, draperies, appliances and cabinetry as well as related repairs and painting. Under the new policy, carrying costs consisting of financing and certain property operating costs including property taxes, utilities, common area maintenance and salary costs relating to the suites removed from the rental market, but in any event no longer than three months, are capitalized in the cost of the building. The carrying costs are amortized over the estimated useful life of five years. Property operating costs are lower and buildings cost is higher than would have been reported prior to the new policy by \$21,679 for the three months and nine months, ended September 30, 2005. Carrying costs have not been amortized as the suites were not returned to the rental market at September 30, 2005. The new policy has been applied retroactively. The prior period amounts have not been restated as there were not any major in-suite renovations, which involved the temporary removal of suites from the rental market in prior periods.

3 *Acquisitions*

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

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

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

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

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

On July 31, 2005, the Trust purchased all issued and outstanding shares of Riverside Terrace Inc. for a total cost of \$23,942,420. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of \$14,737,335 with the balance paid by cash.

On August 31, 2005 the Trust acquired Marquis Tower, a residential property located in Prince Albert, Saskatchewan for a total cost of \$6,154,025. The acquisition was funded with the assumption of a first mortgage loan in the principal amount of \$4,800,000 with the balance paid by cash.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

3 *Acquisitions (continued)*

On September 1, 2005, the Trust acquired Chancellor Gate, a residential property located in Winnipeg, Manitoba for a total cost of \$6,750,000. The acquisition was funded from the assumption of a first mortgage loan of \$3,833,717 and a second mortgage loan of \$1,165,000 with the balance paid by cash.

The net assets acquired in the transactions are as follows:

Land	\$ 5,981,322
Building	88,823,765
Furniture, equipment and appliances	2,873,347
Lease origination costs	1,437,829
Tenant relationships	33,870
Mortgage loans payable assumed	(59,242,159)
Working capital, net	<u>29,955</u>
	<u>\$ 39,937,929</u>
Consideration:	
Cash	\$ 39,142,929
Vendor take-back second mortgage loan	250,000
Deposits made in year ended December 31, 2004	<u>545,000</u>
	<u>\$ 39,937,929</u>

Deposits of \$1,200,000 were applied to the acquisitions of income properties during the three months ended September 30, 2005 and \$2,000,000 during the nine months, ended September 30, 2005.

4 *Income properties*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value September 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Land	\$ 16,978,452	\$ -	\$ 16,978,452	\$ 10,978,755
Buildings	141,397,375	(2,484,359)	138,913,016	51,224,297
Appliances	<u>4,261,469</u>	<u>(292,519)</u>	<u>3,968,950</u>	<u>1,256,674</u>
	<u>\$162,637,296</u>	<u>\$ (2,776,878)</u>	<u>\$159,860,418</u>	<u>\$ 63,459,726</u>

The cost of the major renovation, including capitalized carrying costs, at Highland Tower for the three months and nine months ended September 30, 2005 of \$389,960 is included in the cost of the buildings.

5 *Mortgage loan receivable*

The Trust had 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 bore interest at 12.5%. The second loan advance of \$1,000,000 bore interest at 9%. The third loan advance of \$1,475,000 which was made on January 6, 2005 bore interest at 9%. The mortgage loan receivable was repaid in full, including accrued interest, on July 6, 2005.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

6 *Deferred charges*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value September 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Tenant inducements	\$ 1,750,802	\$ (638,743)	\$ 1,112,059	\$ 1,177,438
Financing costs	1,462,800	(181,604)	1,281,196	221,241
Leasing expenses	164,042	(58,098)	105,944	117,945
Amounts recorded on income property acquisition				
Tenant inducements	<u>569,203</u>	<u>(137,529)</u>	<u>431,674</u>	<u>490,030</u>
	<u>\$ 3,946,847</u>	<u>\$ (1,015,974)</u>	<u>\$ 2,930,873</u>	<u>\$ 2,006,654</u>

Amortization of deferred charges consists of the following:

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Tenant inducements	\$ 68,375	\$ 65,381	\$ 208,641	\$ 178,008
Financing costs	126,129	2,243	163,867	19,846
Leasing expenses	6,652	5,786	19,825	17,108
Amounts recorded on income property acquisition				
Tenant inducements	<u>19,452</u>	<u>21,593</u>	<u>58,356</u>	<u>57,581</u>
	<u>\$ 220,608</u>	<u>\$ 95,003</u>	<u>\$ 450,689</u>	<u>\$ 272,543</u>

7 *Cash*

Included in cash is \$868,548 (2004 - \$464,386) relating to funds held in trust for tenant security deposits, future tenant inducements and a rental achievement holdback.

8 *Other assets*

	<u>September 30 2005</u>	<u>December 31 2004 (audited)</u>
Amounts receivable	\$ 381,290	\$ 118,373
Loan receivable from tenant	244,203	250,000
Prepays and other	917,847	165,504
Deposits on potential acquisitions	310,000	645,000
Deferred rent receivable	<u>155,454</u>	<u>92,791</u>
	<u>\$ 2,008,794</u>	<u>\$ 1,271,668</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

9 Intangible assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value September 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Lease origination costs	\$ 2,653,441	\$ (760,258)	\$ 1,893,183	\$ 683,239
Tenant relationships	589,618	(108,678)	480,940	497,528
Cash flow guarantee	<u>250,500</u>	<u>(250,500)</u>	<u>-</u>	<u>50,000</u>
	3,493,559	(1,119,436)	2,374,123	1,230,767
Above market in-place leases	<u>123,726</u>	<u>(34,163)</u>	<u>89,563</u>	<u>103,058</u>
	<u>\$ 3,617,285</u>	<u>\$ (1,153,599)</u>	<u>\$ 2,463,686</u>	<u>\$ 1,333,825</u>

Amortization of intangible assets consists of the following:

	<u>Three Months Ended September 30</u>		<u>Six Months Ended September 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Lease origination costs	\$ 130,499	\$ 153,717	\$ 227,885	\$ 407,378
Tenant relationships	18,701	15,879	50,459	42,342
Cash flow guarantee	<u>-</u>	<u>127,892</u>	<u>50,000</u>	<u>127,892</u>
	149,200	297,488	328,344	577,612
Above market in-place leases	<u>4,498</u>	<u>5,637</u>	<u>13,494</u>	<u>15,032</u>
	<u>\$ 153,698</u>	<u>\$ 303,125</u>	<u>\$ 341,838</u>	<u>\$ 592,644</u>

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

10 Mortgage loans payable

Mortgage loans payable consists of the following:

	<u>Interest Rates at September 30, 2005</u>		<u>Weighted Average Term to Maturity</u>	<u>September 30 2005</u>
	<u>Range</u>	<u>Weighted Average Interest Rate</u>		
Fixed rate mortgage loans payable	4.1% - 7.4%	5.6%	7.4 years	\$115,024,517
Floating rate mortgage loans payable	5.0% - 5.5%	5.2%	Demand	2,207,787
Non-interest bearing vendor takeback second mortgage loan payable	-	-	0.75 years	<u>250,000</u>
				<u>\$117,482,304</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

10 *Mortgage loans payable (continued)*

	Interest Rates at December 31, 2004		Weighted Average Term to Maturity	December 31 2004 (audited)
	Range	Weighted Average Interest Rate		
Fixed rate mortgage loans payable	4.1% - 7.4%	5.5%	7.0 years	\$ 32,038,838
Floating rate mortgage loans 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	\$ 3,040,330
2006	3,040,696
2007	4,823,217
2008	6,895,957
2009	20,014,212
Thereafter	<u>79,667,892</u>
	<u>\$117,482,304</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.

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:

Convertible Debentures	Conversion Price	Units Issued	
		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

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

11 *Convertible debentures (continued)*

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>September 30, 2005</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 1,624,124	\$ 307,280	\$ 1,931,404
Series B - 8%, due August 30, 2005			
Series C - 8%, due January 29, 2006			
Series D - 8%, due March 15, 2008	3,399,139	798,841	4,197,980
Series E - 8%, due February 17, 2010	<u>9,379,837</u>	<u>2,847,555</u>	<u>12,227,392</u>
	<u>\$ 14,403,100</u>	<u>\$ 3,953,676</u>	<u>\$ 18,356,776</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 nine months, ended September 30, 2005 of \$2,170,848 (2004 - \$1,549,545) and for the three months, ended September 30, 2005 of \$580,057 (2004 - \$595,810), which increases the debt component from the initial carrying amount, is included in financing expense.

12 *Intangible liabilities*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value September 30 2005</u>	<u>Net Book Value December 31 2004 (audited)</u>
Below market in-place leases	\$ <u>75,594</u>	\$ <u>(41,396)</u>	\$ <u>34,198</u>	\$ <u>45,035</u>

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

13 *Related party transactions*

Management agreement

The Trust incurred property management fees to Shelter Canadian Properties Limited of \$196,467 for the three months, ended September 30, 2005 (2004 - \$60,033) and \$443,300 for the nine months, ended September 30, 2005 (2004 - \$141,462).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of nil and nil (2004 - \$4,203 and \$877), respectively for the three months, ended September 30, 2005 and nil and nil (2004 - \$7,510 and \$38,991), respectively for the the nine months, ended September 30, 2005. The amounts relating to 2004 were capitalized to deferred charges and income properties.

Included in accounts payable and accrued liabilities at September 30, 2005 is a balance of \$95,825 (2004 - \$3,385), payable to Shelter Canadian Properties Limited. The balance comprises property management fees payable of \$88,036 (2004 - \$3,385) and amounts paid by Shelter Canadian Properties Limited on behalf of the Trust, totalling \$7,789.

Services agreement

Unit-based compensation expense for the three months, ended September 30, 2005 of \$2,847 (2004 - \$2,847) and for the nine months, ended September 30, 2005 of \$8,541 (2004 - \$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.

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 \$659 was recorded for the three months ended September 30, 2005 (2004 - \$58,918) and \$180,221 for the nine months ended September 30, 2005 (2004 - \$174,199).

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:

	Units		
	Three Months Ended September 30 2005	Nine Months Ended September 30 2005	Year Ended December 31 2004 (audited)
Outstanding, beginning of period	9,034,824	6,461,213	2,612,713
Units issued by private placement	-	1,371,500	3,828,500
Units issued on conversion of debentures	1,495,022	2,697,133	-
Units issued on exercise of unit option	10,000	10,000	-
Units issued on income property acquisition	-	-	20,000
Outstanding, end of period	<u>10,539,846</u>	<u>10,539,846</u>	<u>6,461,213</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

14 *Units (continued)*

There are not any units which are subject to escrow provisions at September 30, 2005 (2004 - 150,840). All units which were subject to escrow provisions were entitled to vote and receive distributions.

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. On September 30, 2005, one independent trustee exercised the option to acquire 10,000 units at \$4.00 per unit for total gross proceeds of \$40,000 (2004 - nil).

16 *Rentals from income properties*

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Rent revenue contractually due from tenants	\$ 4,887,126	\$ 2,063,920	\$ 11,703,240	\$ 4,737,530
Accrued rental revenue recognized on a straight-line basis	18,865	26,561	62,663	68,289
Amortization of above market in-place leases	(4,498)	(5,637)	(13,494)	(15,032)
Amortization of below market in-place leases	<u>3,612</u>	<u>8,334</u>	<u>10,836</u>	<u>22,224</u>
	<u>\$ 4,905,105</u>	<u>\$ 2,093,178</u>	<u>\$ 11,763,245</u>	<u>\$ 4,813,011</u>

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of \$441,885 for the three months, ended September 30, 2005 (2004 - \$355,648) and \$1,342,561 for the nine months, ended September 30, 2005 (2004 - \$985,381).

17 *Interest and other income*

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Cash flow guarantee	\$ -	\$ 127,892	\$ 33,627	\$ 127,892
Interest on mortgage loan receivable	659	58,918	180,221	174,199
Other	<u>43,577</u>	<u>29,251</u>	<u>417,583</u>	<u>99,714</u>
	<u>\$ 44,236</u>	<u>\$ 216,061</u>	<u>\$ 631,431</u>	<u>\$ 401,805</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

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 the purpose 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.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (restated)	2005	2004 (restated)
Loss	\$ (478,919)	\$ (479,357)	\$ (1,273,528)	\$ (897,940)
Add (deduct):				
Accrued rental revenue	(18,865)	(26,561)	(62,663)	(68,289)
Amortization of above market in-place leases	4,498	5,637	13,494	15,032
Amortization of below market in-place leases	(3,612)	(8,334)	(10,836)	(22,224)
Accretion on debt component of convertible debentures	580,057	595,810	2,170,848	1,549,545
Interest on convertible debentures	(393,932)	(375,370)	(1,403,866)	(991,028)
Unit-based compensation	2,847	2,847	8,541	8,541
Amortization of deferred charges	220,608	95,003	450,689	272,543
Amortization of tenant inducements	(68,375)	(65,381)	(208,641)	(178,008)
Amortization of leasing expenses	(6,652)	(5,786)	(19,825)	(17,108)
Amortization of income properties	745,649	287,437	1,726,303	594,113
Amortization of intangible assets	<u>149,200</u>	<u>297,488</u>	<u>328,344</u>	<u>577,612</u>
Distributable income	<u>\$ 732,504</u>	<u>\$ 323,433</u>	<u>\$ 1,718,860</u>	<u>\$ 842,789</u>
Distributable income per unit (Note 19)				
Basic	\$ 0.073	\$ 0.123	\$ 0.184	\$ 0.321
Diluted	0.073	0.105	0.184	0.296

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

19 *Per unit calculations*

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

Loss per unit calculations are based on the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (restated)	2005	2004 (restated)
Loss	<u>\$ (478,919)</u>	<u>\$ (479,357)</u>	<u>\$ (1,273,528)</u>	<u>\$ (897,940)</u>
Diluted loss	<u>\$ (478,919)</u>	<u>\$ (479,357)</u>	<u>\$ (1,273,528)</u>	<u>\$ (897,940)</u>
Weighted average number of units	<u>10,006,233</u>	<u>2,632,713</u>	<u>9,353,352</u>	<u>2,625,049</u>
Weighted average diluted number of units	<u>10,006,233</u>	<u>2,632,713</u>	<u>9,353,352</u>	<u>2,625,049</u>

Distributable income per unit calculations are based on the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004 (restated)	2005	2004 (restated)
Distributable income	<u>\$ 732,504</u>	<u>\$ 323,433</u>	<u>\$ 1,718,860</u>	<u>\$ 842,789</u>
Diluted distributable income	<u>\$ 732,504</u>	<u>\$ 623,802</u>	<u>\$ 1,718,860</u>	<u>\$ 1,435,828</u>
Weighted average number of units	10,006,233	2,632,713	9,353,352	2,625,049
Dilutive options	2,933	3,368	2,883	2,796
Dilutive convertible debentures				
Series A	-	-	-	-
Series B	-	272,816	-	206,965
Series C	-	2,251,333	-	2,006,786
Series D	-	800,000	-	-
Weighted average diluted number of units	<u>10,009,166</u>	<u>5,960,230</u>	<u>9,356,235</u>	<u>4,841,596</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

20 *Segmented financial information*

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

Nine months ended September 30, 2005:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	3,223,435	240,222	8,299,588	-	11,763,245
Interest and other income	74,316	2,615	132,557	421,943	631,431
Property operating costs	1,357,106	32,927	4,094,402	-	5,484,435
Operating income	1,940,645	209,910	4,337,743	421,943	6,910,241
Financing expense	737,993	84,843	2,561,000	2,170,848	5,554,684
Amortization of income properties	246,150	23,509	1,456,644	-	1,726,303
Amortization of deferred charges	297,960	804	41,893	110,032	450,689
Amortization of intangible assets	155,833	-	172,511	-	328,344
Income (loss)	502,707	100,755	105,696	(1,982,686)	(1,273,528)
Total assets	20,572,418	2,808,502	144,702,891	6,866,783	174,950,594

Nine months ended September 30, 2004 (restated):

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	2,631,764	252,537	1,928,710	-	4,813,011
Interest and other income	21,884	1,161	135,129	243,631	401,805
Property operating costs	1,120,600	36,158	738,430	-	1,895,188
Operating income	1,533,048	217,540	1,325,409	243,631	3,319,628
Financing expense	415,068	84,026	617,542	1,549,545	2,666,181
Amortization of income properties	226,867	23,509	343,737	-	594,113
Amortization of deferred charges	271,121	804	618	-	272,543
Amortization of intangible assets	198,289	-	379,323	-	577,612
Income (loss)	421,703	109,201	(15,811)	(1,413,033)	(897,940)
Total assets	21,120,582	2,895,840	42,594,938	4,597,607	71,208,967

Three months ended September 30, 2005:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,077,772	70,848	3,756,485	-	4,905,105
Interest and other income	29,990	938	29,529	(16,221)	44,236
Property operating costs	477,184	5,568	1,790,319	-	2,273,071
Operating income	630,578	66,218	1,995,695	(16,221)	2,676,270
Financing expense	256,298	28,117	1,152,265	580,057	2,016,737
Amortization of income properties	82,050	7,836	655,763	-	745,649
Amortization of deferred charges	98,744	268	11,564	110,032	220,608
Amortization of intangible assets	51,943	-	97,257	-	149,200
Income (loss)	141,541	29,998	78,847	(729,305)	(478,919)
Total assets	20,572,418	2,808,502	144,702,891	6,866,783	174,950,594

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

20 *Segmented financial information (continued)*

Three months ended September 30, 2004 (restated):

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	956,993	84,179	1,052,006	-	2,093,178
Interest and other income	9,675	266	132,275	73,845	216,061
Property operating costs	416,935	11,981	481,867	-	910,783
Operating income	549,733	72,464	702,414	73,845	1,398,456
Financing expense	194,269	26,876	352,060	595,809	1,169,014
Amortization of income properties	78,452	7,837	201,148	-	287,437
Amortization of deferred charges	94,276	268	459	-	95,003
Amortization of intangible assets	74,358	-	223,130	-	297,488
Income (loss)	108,378	37,483	(74,383)	(550,835)	(479,357)
Total assets	21,120,582	2,895,840	42,594,938	4,597,607	71,208,967

Nine months ended September 30, 2005:

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Saskatchewan</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	4,116,086	828,038	3,497,097	92,385	1,568,694	1,660,945	-	11,763,245
Interest and other income	103,375	4,925	78,603	788	9,840	11,957	421,943	631,431
Property operating costs	1,457,539	736,095	1,668,821	4,175	648,961	968,844	-	5,484,435
Operating income	2,761,922	96,868	1,906,879	88,998	929,573	704,058	421,943	6,910,241
Financing expense	1,386,245	293,324	761,857	43,673	529,429	369,308	2,170,848	5,554,684
Amortization of income properties	741,717	132,012	284,308	9,539	300,065	258,662	-	1,726,303
Amortization of deferred charges	40,262	754	297,958	804	165	714	110,032	450,689
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	99,632	24,606	(1,982,686)	(1,273,528)
Total assets	61,289,234	11,146,062	29,155,263	1,231,664	25,069,900	40,191,688	6,866,783	174,950,594

Nine months ended September 30, 2004 (restated):

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	625,038	552,606	2,631,764	92,385	911,218	-	4,813,011
Interest and other income	129,309	4,106	21,884	352	2,523	243,631	401,805
Property operating costs	170,251	298,266	1,120,600	3,882	302,189	-	1,895,188
Operating income	584,096	258,446	1,533,048	88,855	611,552	243,631	3,319,628
Financing expense	209,378	182,099	415,070	44,456	265,633	1,549,545	2,666,181
Amortization of income properties	128,727	80,674	226,867	9,539	148,306	-	594,113
Amortization of deferred charges	327	291	271,121	804	-	-	272,543
Amortization of intangible assets	188,999	8,497	198,289	-	181,827	-	577,612
Income (loss)	56,665	(13,115)	421,701	34,056	15,786	(1,413,033)	(897,940)
Total assets	18,628,368	11,281,492	21,120,582	1,262,739	14,318,179	4,597,607	71,208,967

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

20 *Segmented financial information (continued)*

Three months ended September 30, 2005:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Saskatchewan	Trust	Total
Rentals from income properties	1,737,886	273,546	1,201,750	30,795	564,698	1,096,430	-	4,905,105
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	225,771	597,073	-	2,273,071
Operating income	1,093,133	54,107	667,308	29,807	342,492	505,644	(16,221)	2,676,270
Financing expense	588,364	95,649	279,889	14,490	214,748	243,540	580,057	2,016,737
Amortization of income properties	318,761	44,004	98,810	3,179	120,712	160,183	-	745,649
Amortization of deferred charges	10,477	252	98,741	268	124	714	110,032	220,608
Amortization of intangible assets	-	-	98,429	-	-	50,771	-	149,200
Income (loss)	175,530	(85,797)	91,436	11,870	6,908	50,439	(729,305)	(478,919)
Total assets	61,289,234	11,146,062	29,155,263	1,231,664	25,069,900	40,191,688	6,866,783	174,950,594

Three months ended September 30, 2004 (restated):

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Trust	Total
Rentals from income properties	367,839	286,641	956,993	30,795	450,910	-	2,093,178
Interest and other income	128,375	2,304	9,675	102	1,760	73,845	216,061
Property operating costs	106,303	175,456	416,935	1,267	210,822	-	910,783
Operating income	389,911	113,489	549,733	29,630	241,848	73,845	1,398,456
Financing expense	132,244	98,969	194,270	14,756	132,966	595,809	1,169,014
Amortization of income properties	94,982	36,670	78,453	3,179	74,153	-	287,437
Amortization of deferred charges	245	213	94,277	268	-	-	95,003
Amortization of intangible assets	161,881	3,893	74,358	-	57,356	-	297,488
Income (loss)	559	(26,256)	108,373	11,427	(22,627)	(550,833)	(479,357)
Total assets	18,628,368	11,281,492	21,120,582	1,262,739	14,318,179	4,597,607	71,208,967

21 *Subsequent events*

On October 13, 2005, the Trust announced a private placement offering of units. The offering is expected to close prior to December 15, 2005 with the total gross proceeds of up to \$30,000,000.

A distribution of \$1,475,579 was paid on October 15, 2005.

22 *Comparative figures*

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