LANESBOROUGH
REIT

2004 SECOND QUARTER REPORT

REPORT TO UNITHOLDERS

During the second quarter of 2004, the operating results of LREIT were generally in accordance with expectations, with LREIT achieving significant growth in operating income and operating cash flows. The new accounting policy for recording the cost of property acquisitions and for amortizing income properties, in accordance with a change in generally accepted accounting principles, has resulted in a very significant increase in amortization expense and, in turn, impacted the second quarter bottom line results. The second quarter net loss of $214,017 includes amortization expense of $538,253, including increased amortization charges of $363,400, which are related specifically to the new accounting policies. The increase in amortization expense under the new accounting policies has fundamentally changed the determination of net income and altered both the relative significance of the second quarter loss and the future net income expectations of LREIT. In other words, the higher net loss in the second quarter of 2004 is not indicative of declining performance or a negative trend. The increased loss primarily reflects an increase in the allocation of non-cash expenses due to a change in accounting policies. In fact, the overall performance of LREIT has improved significantly during the second quarter of 2004, as evidenced by the growth in operating income, net income before amortization expense and cash from operations. Please refer to the chart on page 2.

During the second quarter of 2004, the operating income of LREIT increased by approximately $980,000 or 300%, in comparison to the second quarter of 2003, while cash from operations increased by approximately $455,000 or 440%. The increase in income is mainly due to the growth in the real estate investment portfolio of the Trust.

As previously reported, the investment activities of LREIT are currently focused on the acquisition of multi-family residential properties and in this regard, LREIT acquired four apartment complexes during the second quarter of 2004. As of June 30, 2004, residential properties represent approximately 60% of the total portfolio of LREIT, based on property acquisition costs, and the expectation is that LREIT will become much more heavily weighted toward residential properties as additional acquisitions are completed. Overall, the real estate investment portfolio has increased by approximately $42 Million since June 30, 2003, with approximately $33 Million of the increase occurring during the second quarter of 2004.

Notwithstanding the positive operating results, the second quarter loss continues to reflect a timing difference between the receipt of investment capital and the use of investment capital to fund new property acquisitions. During the first quarter of 2004, LREIT raised $14 Million of new capital from convertible debenture offerings, however, a significant portion of the capital was not invested in new property acquisitions until the second quarter of 2004. The closing dates for the acquisition of the four multi-family residential properties during the second quarter of 2004 occurred on April 1st, April 15th and May 1st, for two properties. As a result, LREIT incurred incremental financing expense on the convertible debentures for the entire three months of the second quarter, while the incremental operating income from new property acquisitions did not begin to accrue to LREIT until the closing dates of the second quarter acquisitions.

During the third quarter of 2004, LREIT has acquired one additional multi-family property and finalized arrangements for the acquisition of another residential property. It is anticipated that the remaining capital of approximately $2.3 Million will be fully committed to the acquisition of additional properties by the end of the third quarter. The income from the additional properties will further add to the operating income of the Trust.

On a per unit basis, the cash distribution for the second quarter of fiscal 2004 remained constant at $0.125 per unit, representing a distribution of $329,089 on the 2,632,713 trust units which were outstanding as of June 30, 2004. The second quarter cash distribution was paid on July 15, 2004.

In summary, LREIT has achieved significant growth in its income generating capabilities, in comparison to both the second quarter of 2003 and the first quarter of 2004. During the first six months of 2004, and particularly in the second quarter, there has also been a very significant increase in the asset base of LREIT. As a result of the new property acquisitions, the expectation is that the operating income and operating cash flows of the Trust will continue to improve during the third quarter of 2004.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
August 10, 2004

Analysis of Net Income
For the Three Month Period Ended

	June 30, 2004	March 31, 2004	June 30, 2003
Income Properties			
Operating income	$ 1,251,167	$ 500,220	$ 307,528
Financing expense – mortgage loans	(406,076)	(137,354)	(119,749)
Net income, excluding trust operations, financing expense on debentures and amortization	845,091	362,866	187,779
Trust Operations			
Interest income	68,028	101,757	29,047
Trust expense	(44,120)	(34,128)	(21,466)
	23,908	67,629	7,581
Financing expense - debentures	(544,763)	(343,650)	(100,835)
Net income, excluding amortization	**324,236**	**86,845**	**94,525**
Amortization			
Amortization of income properties	(228,878)	(77,798)	(19,159)
Net income, excluding amortization of deferred charges and intangibles	95,358	9,047	75,366
Amortization of deferred charges	(88,502)	(89,038)	(52,388)
Net income (loss), excluding amortization of intangibles	6,856	(79,991)	22,978
Amortization of intangibles	(220,873)	(59,251)	-
Net income (loss)	$ (214,017)	$ (139,242)	$ 22,978

Operating income per Statement of Income (Loss)	$ 1,319,195	$ 601,977	$ 336,575
Cash from operations per Statement of Cash Flows	$ 558,155	$ 302,352	$ 103,206

MANAGEMENT'S DISCUSSION AND ANALYSIS

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

The primary objectives of the Lanesborough Real Estate Investment Trust ("LREIT") are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large diversified portfolio of quality real estate investments through the ongoing acquisition of additional properties. The overall investment strategy of LREIT is to focus on the acquisition of properties with stable yields, low vacancy levels, strong tenant covenants and growth potential. LREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high calibre and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

INVESTMENT AND FINANCING ACTIVITY

Income Properties

Income Properties – June 30, 2004

Property	Location	Acquisition Date	Suites/ Leasable Area Sq. Ft.	Occupancy 6/30/04	Purchase Price
Multi-Family Residential					
Beck Court	Yellowknife, NWT	Apr. 2004	120	98.3%	$ 14,300,000
Greenwood Gardens	Surrey, BC	Apr. 2004	183	81.4%	10,950,000
Nova Villa	Edmonton, AB	May 2004	61	96.7%	5,400,000
Nova Manor	Edmonton, AB	May 2004	32	96.9%	2,615,000
		Total Suites	396		$ 33,265,000
Retail and Office					
Kenaston	Winnipeg, MB	Apr. 2002	103,209	92.5%	12,600,000 *
McIvor Mall	Winnipeg, MB	Feb. 2004	65,283	94.7%	6,700,000
			168,492		19,300,000
Light Industrial					
MAAX Warehouse	Airdrie, AB	June 2003	39,936	100%	1,600,000
Purolator Building	Burlington, ON	Sept. 2003	16,117	100%	1,200,000
			56,053		2,800,000
		Total leasable area	224,545	Total cost	$55,365,000

* Includes cost of asset additions.

Property Acquisitions

During the second quarter of 2004, LREIT acquired four multi-family residential properties – Beck Court, Greenwood Gardens, Nova Villa and Nova Manor.

Subsequent to June 30, 2004, LREIT has acquired Nova Ridge Estates and has entered into an agreement to acquire Norglen Terrace. Nova Ridge Estates and Norglen Terrace are both multi-family residential properties.

Beck Court – Yellowknife, Northwest Territories

On April 1, 2004, LREIT acquired Beck Court, a newly constructed apartment complex in Yellowknife, Northwest Territories, consisting of two four-storey buildings, with a total of 120 suites. The purchase price of the property was $14.3 Million and encompassed the assumption of a 4.97% first mortgage loan of approximately $10.8 Million, maturing January 1, 2014.

Greenwood Gardens – Surrey, British Columbia

On April 15, 2004, LREIT acquired Greenwood Gardens, an apartment complex in Surrey, British Columbia, consisting of three, three-storey buildings with a total of 183 suites. The purchase price of the property was $10.95 Million and encompassed the assumption of a 6% first mortgage loan of approximately $6.8 Million, maturing July 5, 2009. In addition, $100,000 of the purchase price was satisfied by LREIT agreeing to pay a portion of the fee payable to the vendor's agent through the issuance of 20,000 trust units at $5.00 per Unit. The units issued to the vendor's agent may not be resold for a period of four months, pursuant to applicable securities law and stock exchange requirements.

Nova Villa – Edmonton, Alberta

Effective May 1, 2004, LREIT acquired Nova Villa, a newly constructed four-storey property, comprised of 61 suites, located in the Castle Downs area of north-central Edmonton. The purchase price of the property was $5.4 Million and encompassed the assumption of a 4.1% first mortgage loan of approximately $4.2 Million, maturing July 1, 2008.

Nova Manor – Edmonton, Alberta

Effective May 1, 2004, LREIT acquired Nova Manor, a newly constructed three-storey property containing 32 suites, located approximately two kilometres north of the West Edmonton Mall. The purchase price of the property was $2.615 Million and encompassed the assumption of a 5.4% first mortgage loan of approximately $2.4 Million, maturing January 1, 2014.

Nova Ridge Estates – Spruce Grove, Alberta

Effective July 15, 2004, LREIT acquired Nova Ridge Estates, an apartment complex in Spruce Grove, Alberta, consisting of two newly constructed four-storey buildings with a total of 102 suites. Spruce Grove is located 11 kilometres west of Edmonton and is one of the fastest growing communities in western Canada. The purchase price of the property was $8.8 Million and encompassed the assumption of a first mortgage loan of approximately $6 Million, with the expectation that the loan will be increased to $7.3 Million, upon the release of holdbacks for construction deficiencies and rental achievements. The first mortgage loan bears interest at the 30-day commercial paper rate plus 0.9%. The interest rate will be fixed for a five year term at a later date.

Norglen Terrace, Peace River, Alberta

In July 2004, LREIT entered into an agreement to acquire Norglen Terrace at a price of $2.6 Million. Norglen Terrace is an apartment complex in Peace River, Alberta, consisting of two four-storey buildings with a total of 71 suites. The acquisition is expected to close during September 2004.

Mortgage Loans

In February 2004, LREIT acquired the McIvor Mall in Winnipeg, Manitoba. The purchase price of $6.7 Million was funded entirely by a cash payment, pending the arrangement of first mortgage loan financing.

In June 2004, LREIT completed the first mortgage loan financing arrangements for the McIvor Mall. The new first mortgage loan of $5.4 Million is for a ten year term at an interest rate of 6.55%.

Capital Expenditures

In conjunction with the completion of the new 9,032 square foot addition to the Kenaston Village Mall, the parking lot of the mall was expanded to accommodate 58 additional parking stalls. The total cost of the parking lot expansion was approximately $170,000, of which $60,500 was incurred during the second quarter of 2004. The construction costs were funded from operating cash flow and from additional first mortgage loan advances from Astra Credit Union.

The acquisition of the McIvor Mall encompassed a holdback of $250,000 in regard to the completion of renovations to the exterior façade of the building. The renovations were completed and all holdback funds were released to the Vendor as of June 30, 2004.

MORTGAGE LOANS RECEIVABLE

The mortgage loan investments of LREIT consist of a $2.15 Million second mortgage loan, secured by the Minacs Building in Oshawa, Ontario. The loan is comprised of a $1.15 Million component, bearing interest at a rate of 12.5% and a $1 Million component, bearing interest at a rate of 9%.

Effective June 30, 2004, the maturity date of the Minacs loan was extended for an additional six months to December 31, 2004. LREIT has the right to demand a maximum repayment of $500,000 upon 30 days notice.

DEBENTURE OFFERINGS

In January 2004, LREIT raised gross proceeds of $10 Million from the private placement of 10,000 Senior Secured Series C Convertible Debentures, bearing interest at a rate of 8%. An additional $4 Million of capital was raised in March 2004 from the public placement of 4,000 Senior Subordinated Series D Convertible Debentures, also bearing interest at a rate of 8%.

The terms of the new debenture offerings are disclosed in Note 10 of the quarterly financial statements.

The recent focus of LREIT on the acquisition of multi-family residential properties stems from the terms of the Series C debentures, whereby LREIT committed to acquiring multi-family residential properties with an aggregate price of at least $50 Million. The total purchase price of the multi-family properties which LREIT has acquired, or is in the process of acquiring as of the date of this report, is approximately $45 Million.

RESULTS OF OPERATIONS

The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the financial statements and accompanying notes.

Quarterly Comparison
For the Three Month Period Ended

	June 30 2004	June 30 2003	Increase (Decrease)	March 31, 2004	Increase (Decrease)
Revenue:					
Rentals from Income Properties	$1,880,361	$ 510,098	$1,370,263	$ 839,472	$ 1,040,889
Interest and Other Income	80,978	31,286	49,692	104,766	(23,788)
Total revenue	1,961,339	541,384	1,419,955	944,238	1,017,101
Operating income	1,319,195	336,575	982,620	601,977	717,218
Net income (loss)	(214,017)	22,978	(236,995)	(139,242)	(74,775)

Factors Affecting the Comparability of Quarterly Results

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2004, LREIT has adopted three new accounting policies which have significantly affected the disclosure of information in the financial statements. The accounting policies were adopted, pursuant to the recommendations of the CICA Handbook, in order to conform to Canadian generally accepted accounting principles. The new policies were discussed at length in the 2004 first quarter report of LREIT and are also described in Note 2 of the quarterly financial statements. The main impact of the new policies has been to significantly increase amortization expense, which has resulted in a corresponding reduction in net income. The specific impact of the new policies is provided below.

Allocation of Purchase Price for Property Acquisitions

Prior to January 1, 2004, the entire purchase price of an income property was allocated between land and building and was recorded under “Income Properties” on the balance sheet. Effective January 1, 2004, a portion of the purchase price is allocated to land, building, tenant inducements, intangible assets and intangible liabilities, based on the value of tenant improvements, existing leases and other factors. The amount allocated to tenant inducements is recorded as a deferred charge and amortized over the remaining term of the associated leases. The amount allocated to intangible assets and intangible liabilities is amortized over the remaining term of the associated leases and, as applicable, the renewal periods. The amount allocated to leases which are above or below market value is amortized over the remaining term of the lease and the amortized amount is reflected in rental revenue.

The new policy for allocating the purchase price of an income property will cause “Intangible Assets”, “Intangible Liabilities” and “Deferred Charges” to be higher, in comparison to prior periods, and the increase in “Income Properties” to be lower, in comparison to prior periods, to the extent that LREIT acquires additional properties subsequent to December 31, 2003.

The new policy applies to commercial and residential properties. For residential properties, the amount allocated to intangible assets is amortized over a maximum period of one year, given the short-term nature of residential leases.

As LREIT was actively acquiring new residential properties during the second quarter of 2004, the new accounting policy for allocating the purchase price of an income property has significantly impacted the second quarter results of LREIT. In total, $299,200 of the purchase price of the new residential properties was allocated to intangible assets, of which $156,193 was expensed during the second quarter of 2004. The second quarter amortization expense for intangible assets for the McIvor Mall was $64,680, resulting in a total amortization expense for intangible assets of $220,873 during the second quarter of 2004.

The decrease in “Income Properties” of $299,200, which has resulted from the new policy for recording the purchase price of income properties, is offset by an increase in “Deferred Charges”, “Intangible Assets” and “Intangible Liabilities”, as reflected on the balance sheet of LREIT. In total, amortization expense for deferred charges and intangible assets is $242,466 higher than would have been recorded in prior periods, while amortization expense for income properties is $1,368 lower, as a result of the change in accounting policy, representing a net increase in amortization expense in regard to the acquisition of income properties of $241,098.

In addition, rental revenue from income properties is $2,697 higher than would have been recorded in prior periods, as a result of the amortization of the amount allocated to leases which were above or below market value.

Amortization of Buildings

Effective January 1, 2004, the amortization of buildings has changed from a 5%, 40-year sinking fund basis to a straight-line basis over the remaining useful life of the building.

Initially, the change in the amortization policy for buildings will result in an increase in amortization expense, in comparison to prior years, as the straight-line method results in a constant annual amortization charge, whereas the sinking fund method results in an annual amortization charge which commences at a comparatively lower amount and gradually increases over time.

As disclosed in Note 2 of the quarterly financial statements, amortization of income properties for the three months ended June 30, 2004 is higher by approximately $122,302 as a result of the new amortization policy.

Revenue Recognition for Leases with Contractual Rent Increases

Commercial leases typically provide for an annual or periodic increase in the base rental rate during the term of the lease. Prior to January 1, 2004, base rental payments were recognized as revenue, based on the amount of rent which was actually payable during the fiscal year, pursuant to the lease agreement. Effective January 1, 2004, base rental payments are being recognized as revenue in equal annual amounts, based on a straight-line allocation of the total rent which is payable over the entire lease term. The difference between the actual amount of rent collected and the amount of revenue recorded is recorded as an accounts receivable and amortized over the term of the lease.

The new policy of revenue recognition for commercial leases with graduated rental rate increases will result in rental revenues being higher than the contractual rental revenues of the lease, in the initial years of a new lease, and rental revenues being lower in the later years of a new lease. The impact of the new policy will be most significant in the year of transition (i.e., in fiscal 2004), depending upon the number of new commercial leases which become effective during the year.

As disclosed in Note 2 of the quarterly financial statements, rentals from income properties for the three months ended June 30, 2004, is higher by $24,884 as a result of new policy of revenue recognition.

OPERATIONAL EVENTS

Acquisition of Additional Properties

During the second quarter of fiscal 2003, the portfolio of LREIT consisted solely of the Kenaston Property, an office/retail complex in Winnipeg, Manitoba, comprised of 94,200 square feet of leasable space. (The MAAX Warehouse was acquired on the last day of the second quarter of fiscal 2003.) As of January 1, 2004, the real estate portfolio of LREIT consisted of three properties, while a fourth property, the McIvor Mall, was acquired on February 2, 2004. The total average leasable space during the first quarter of fiscal 2004 was 192,600 square feet.

During the second quarter of fiscal 2004, LREIT acquired four multi-residential properties. The second quarter results reflect the graduated monthly income from the newly acquired residential properties and a commercial property portfolio with total leasable space of 224,545 square feet, including the operating results of the McIvor Mall for an entire three month period.

Leasing Costs

Leasing costs are initially recorded as deferred charges and subsequently amortized over the term, or remaining term, of the lease, on a straight-line basis. In general, an increase in cumulative leasing costs results in an increase in amortization expense for deferred charges.

As of June 30, 2003, the total cumulative leasing costs of LREIT were $774,449. As of June 30, 2004, the total cumulative leasing costs had increased to $ 2.1 Million, including tenant inducements of $569,203 arising from the change in accounting policy for the acquisition of income properties.

Mortgage Loans Receivable

An increase in mortgage loans receivable is the primary factor affecting an increase in “Interest and Other Income”.

During the second quarter of 2003, mortgage loans receivable consisted of a 10% first mortgage loan in the amount of $1.15 Million, secured by the Minacs Building in Oshawa, Ontario.

LREIT commenced the first quarter of fiscal 2004 with mortgage loans receivable of $4,248,326, comprised of the Minacs loan of $1.15 Million, at an increased rate of 12.5%, and a 5.23% first mortgage loan on the McIvor Mall. The McIvor Mall loan was fully repaid on February 2, 2004 and an additional advance of $1 Million was provided on the Minacs loan in January 2004 at an interest rate of 9%.

During the second quarter of fiscal 2004, mortgage loans receivable consisted of the two components of the Minacs loan, comprised of the $1.15 Million advance, bearing interest at a rate of 12.5% and the additional advance of $1 Million, bearing interest at a rate of 9%.

Comparison to Previous Second Quarter

Net Income (Loss)

During the second quarter of 2004, LREIT incurred a loss of $214,017, compared to net income of $22,978 during the second quarter of 2003.

The change in bottom line results, from the second quarter of 2003 to the second quarter of 2004, is primarily due to the implementation of new accounting policies for recording property acquisitions and for amortizing income properties, in accordance with a change in generally accepted accounting principles. As disclosed on the Statement of Income (Loss), the second quarter results for 2004 include an expense of $220,873 for amortization of intangible assets, whereas there was not any amortization expense for intangible assets included in the second quarter results for 2003. Similarly, amortization expense for income properties is $209,719 higher in comparison to the second quarter of 2003, of which $122,302 pertains to a change in accounting policy.

Due to the extent of the amortization charges for intangible assets and income properties, the new accounting policy for recording property acquisitions has altered the relative significance of direct “net income” or bottom-line comparisons between accounting periods.

A comparison of operating income, operating cash flows and net income, excluding amortization expense, as provided on the chart on page 2 of this report, indicates that the operating performance of LREIT for the second quarter of 2004 has improved significantly in comparison to the second quarter of 2003.

The operating results for the second quarter of 2004 are also tempered by the fact that the proceeds from the convertible debenture offerings in January 2004 and March 2004 were still being invested in income producing properties during the second quarter of 2004. As a result, the cost of the investment capital was disproportionately higher than the return on the investment capital. More specifically, during the second quarter of 2004, LREIT incurred financing expense on $14 Million of new convertible debentures, bearing interest at a rate of 8%, whereas a significant portion of the convertible debenture funds only began to yield an investment return as property acquisitions were completed throughout the second quarter. The projected increase in net income resulting from the inclusion of the operating results for Greenwood Gardens, Nova Villa and Nova Manor for an entire three month period is approximately $42,000

The net investment in new property acquisitions during the second quarter of 2004 was approximately $9.5 Million. The remaining balance of investment capital of approximately $4.5 Million is expected to be fully invested by the end of the third quarter of 2004.

Operating Income

Operating income increased by $980,000 or 300% during the second quarter of fiscal 2004, compared to the second quarter of 2003, primarily due to an increase in the number of properties in the real estate portfolio of LREIT.

Financing Expense

Financing expense is comprised of interest on the mortgage loans which are secured by the income properties as well as financing expense on the convertible debentures. During the second quarter of 2004, financing expense increased by $730,255 or 331%, compared to the second quarter of 2003. The increase is mainly due to an increase in financing expense associated with the Series C and Series D convertible debentures, as well as an increase in financing expense in regard to mortgage loans.

Amortization Expenses

During the second quarter of 2004, total amortization expense increased by $466,706 or 652%, compared to the second quarter of 2003. Approximately 45% of the increase is due to an increase in amortization of income properties, while approximately $221,000 or 47% is due to an increase in amortization of intangible assets. The increase in amortization of income properties reflects the acquisition of additional buildings, as well as the change in the accounting policy for the amortization of buildings. The increase in amortization of intangible assets is due to the change in accounting policy for recording the purchase price of income properties.

Interest and Other Income

The increase in Interest and Other Income during the second quarter of 2004, compared to the second quarter of 2003, mainly reflects the increase in the amount of the Minacs second mortgage loan. The decrease in Other Income, compared to the first quarter of 2004, reflects the repayment of the first mortgage loan for the McIvor Mall, upon the acquisition of the property by LREIT.

Segmented Information

Segmented financial information is provided in Note 19 to the Financial Statements. During the second quarter of 2003, the Kenaston Property accounted for 100% of the operating income of LREIT, excluding interest income on mortgage loans receivable. During the second quarter of 2004, the higher percentage of operating income has shifted to multi-family residential properties, with the residential portfolio accounting for 50% of the total operating income.

Cash Flow Guarantees

The acquisition of Nova Manor, Nova Villa and Nova Ridge encompassed a cash flow guarantee, whereby the Vendor has guaranteed a specified monthly operating cash flow until the monthly net rental revenues reach a predetermined threshold level, subject to a maximum period of one year. It is anticipated that the threshold levels will be attained within the one year guarantee period. As a result, the expiry of the cash flow guarantee is not expected to cause a reduction in the future operating income of LREIT.

Comparison to Preceding Quarter

During the first quarter of fiscal 2004, LREIT incurred a net loss of $139,242, compared to the net loss of $214,017 for the second quarter of 2004. The increase in the net loss is mainly attributable to the increase in amortization expense, resulting from the change in accounting policy for recording the purchase price of income properties and for amortizing income properties.

Excluding amortization expense, the net income of LREIT increased by approximately $237,000 or 273% during the second quarter of 2004, compared to the first quarter, while operating income increased by approximately $717,000 or 119%.

The increase in operating income mainly reflects the acquisition of four additional income properties during the second quarter of 2004, as well as the inclusion of the operating results of the McIvor Mall for the entire second quarter, compared to a two month period during the first quarter.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31	2004		2003		
	Q2	Q1	Q4	Q3	Q2
Total revenue	$1,961,339	$944,238	$628,934	$719,416	$541,384
Operating income	$1,319,195	$601,977	$382,574	$495,772	$336,575
Net income (loss)	$(214,017)	$(139,242)	$24,101	$128,332	$22,978
PER UNIT					
Operating income					
- Basic	0.502	0.230	0.267	0.513	0.434
- Diluted	0.224	0.134	0.233	0.412	0.322
Net income					
- Basic	(0.081)	(0.053)	0.017	0.133	0.030
- Diluted	(0.081)	(0.053)	0.017	0.122	0.029

Quarterly Analysis for the Year Ended December 31	2003	2002		
	Q1	Q4 (1)(2)	Q3 (1)(2)	Q2 (1)(2)
Total revenue	$551,106	$484,146	$747,558	$4,000
Operating income	$318,155	$277,079	$396,862	$4,000
Net income (loss)	$527	$(44,612)	$26,599	$(23,684)
PER UNIT				
Operating income				
- Basic	0.411	0.418	0.719	0.008
- Diluted	0.304	0.383	0.581	0.008
Net income				
- Basic	0.001	(0.067)	0.048	(0.047)
- Diluted	0.001	(0.067)	0.043	(0.047)

Notes:

(1) LREIT was created on April 23, 2002 and operated as a privately-owned investment trust until August 29, 2002. The inception date of LREIT as a publicly-listed company on the TSX Venture Exchange occurred on August 30, 2002, pursuant to a Plan of Arrangement between LREIT and Wireless One Inc., whereby LREIT acquired all of the common shares of Wireless One in exchange for LREIT trust units, on a ten to one basis.

The operating results for LREIT, prior to April 23, 2002, reflect the operations of Wireless One Inc. For comparative purposes, the Per Unit amounts prior to August 30, 2002 have been adjusted to reflect the exchange of ten common shares of Wireless One Inc. for one unit.

(2) On April 24, 2002, LREIT acquired the Kenaston Property. The acquisition was partially funded by a participating loan from Shelter Canadian Properties Limited. The net income of the Kenaston Property for the period from April 24, 2002 to August 30, 2002 was remitted to Shelter Canadian, as an interest payment, under the terms of the participating loan.

CASH FLOWS AND LIQUIDITY

Cash Flow Highlights

	Three Months Ended June	
	2004	2003
Cash from operations	$558,155	$103,206
Cash provided by (used in) operating activities	$(272,263)	$162,368
Cash provided by financing activities	$5,255,798	$71,057
Cash provided by (used in) investing activities	$(8,854,226)	$(374,972)
Net cash increase (decrease)	$(3,870,691)	$(141,547)
Working capital, as of June 30	$7,550,113	$182,456

As of June 30, 2004, the cash balance of LREIT was approximately $6 Million, representing a decrease of approximately $3.8 Million, in comparison to the cash balance as of March 31, 2004. The main use of cash was the cash outlay of approximately $9.5 Million in regard to the acquisition of the four multi-family residential properties, while the proceeds from the $5.4 Million first mortgage loan for the McIvor Mall represented the main source of cash.

In comparison to the second quarter of 2003, the 2004 cash flows results reflect the overall growth in the operations of LREIT and a significant increase in the extent of investment activity. In terms of cash flows from operating activities, the cash from operations increased from $103,206 in the second quarter of 2003 to $558,155 in 2004. In general, the increase in cash flow from operations is attributable to the acquisition of additional income properties. The positive cash flow results from operations of $558,155 compared to the net loss of $214,017, reflect the extent to which non-cash items impact the income results of LREIT. The non-cash items include amortization expense of $538,253 and accretion on the debt component of convertible debentures, in the amount of $172,453.

As of June 30, 2004, the working capital of LREIT was approximately $7.5 Million. In the short-term, the $6 Million cash balance, as of June 30, 2004, will be the primary source for the funding of additional property acquisitions, while the rental revenue from income properties will serve as the main source of cash for operating activities.

Distributable Income

The distributable income of LREIT for the second quarter of 2004 was $380,606, compared to $47,972 for the second quarter of 2003. The increase from 2003 reflects the increased cash flow from operations due to the acquisition of additional properties. The positive distributable income amount, compared to the net loss of $214,017 reflects adjustments for non-cash items, including the accretion of the debt component on the convertible debentures and amortization expense on income properties and intangible assets, as follows:

Loss		$ (214,017)
Amortization expense		
Accretion of debt component		449,751
Financing expense on convertible debentures	$ 544,763	
Interest expense on convertible debentures	(372,310)	172,453
Accrued rental revenue and other adjustments		(27,581)
Distributable income		$ 380,606

Cash Distributions

The distribution for LREIT for the second quarter of 2004, in the amount of $329,089 or $0.125 per unit, was paid on July 15, 2004. Since the inception date of LREIT as a publicly-listed entity on the TSX Venture Exchange on August 30, 2002, the quarterly cash distributions of LREIT have been equal to $0.125 per unit.

BALANCE SHEET

Income Properties

The balance of Income Properties, net of amortization charges increased by approximately $33 Million during the second quarter of 2004 and by approximately $38 Million since December 31, 2003. The increase mainly reflects the acquisition of the McIvor Mall during the first quarter of 2004 and the acquisition of four multi-family residential properties during the second quarter.

Mortgage Loans Payable

Mortgage Loans Payable represent the first mortgage loans which are registered against the Income Properties of the Trust.

The balance of the Mortgage Loans Payable increased by approximately $30 Million since December 31, 2003. The increase mainly reflects the first mortgage loans which were assumed on the acquisition of the four multi-family residential properties, as well as the new first mortgage loan for the McIvor Mall.

Other Assets

The balance of Other Assets increased from $85,549 as of December 31, 2003 to $940,199 as of June 30, 2004, representing an increase of approximately $850,000. Effective with the second quarter financial statements, Other Assets includes two asset categories which were previously disclosed separately on the balance sheet, namely Accounts Receivable and Deposits on Potential Acquisitions.

As disclosed in Note 8 to the financial statements, Other Assets includes the following:

(i) a tenant loan of $250,000 which was provided to Giselle's in order to assist in the funding of interior improvements for the new addition to the Kenaston Village Mall. The loan bears interest at a rate of 12% with a term of eight years and is repayable at any time without penalty;

(ii) deposits on potential property acquisitions of $325,000;

(iii) property tax deposits of approximately $137,000;

(iv) prepaid expenses of approximately $102,000;

(v) rent and other miscellaneous receivables of approximately $85,000; and

(vi) deferred rental revenue of approximately $42,000.

Deferred Charges

As per Note 6 of the quarterly financial statements, the unamortized cost of deferred charges was $2,264,514, as of June 30, 2004, representing an increase of $492,955, in comparison to the unamortized balance as of March 31, 2004 and increase of approximately $1.13 Million since December 31, 2003. The increase in deferred charges is mainly due to tenant inducements at the Kenaston Property and the change in accounting policy for recording the cost of property acquisitions.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities increased by $309,257 during the second quarter of 2004 and by $539,720 since December 31, 2003. The increase mainly reflects an increase in accrued interest on mortgage loans and in accrued property tax payable, due to the increase in the real estate portfolio of LREIT.

RELATED PARTY TRANSACTIONS

The investments of LREIT include the ownership of the McIvor Mall and an investment in a second mortgage loan, secured by the Minacs Building.

The Minacs Building is beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. Mr. Arni Thorsteinson, the Chief Executive Officer of the Trust and a Trustee, is a Director and President of Shelter Canadian and is also the President of 2668921 Manitoba Ltd. Mr. Thorsteinson abstains from voting on all matters concerning the Minacs loan.

The McIvor Mall was sold to LREIT by Consolidated Properties Ltd. Mr. Thorsteinson is a Director of Consolidated Properties Ltd. and serves as Chairman of the Board of Directors. Mr. Thorsteinson withdrew from the decision-making process and abstained from voting in regard to the sale and purchase of the McIvor Mall, in his capacity as a Trustee and Executive Officer of LREIT and in his capacity as a Director of Consolidated Properties Ltd.

OPERATING RISKS AND UNCERTAINTIES

The properties of LREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand for leased premises due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors. In order to minimize the general market risk and achieve stable or increasing average rental rates, combined with acceptable occupancy levels, LREIT focuses on tenant retention and the marketing of vacant space through both the brokerage community and internal resources. LREIT further decreases its operating risk through property and geographic diversification, diversification of tenancies and staggered lease maturities. The risk of revenue losses due to defaults by commercial tenants in respect of lease obligations, is minimized by leasing to tenants with strong financial covenants with the rights of the Landlord strongly entrenched in contractual agreements.

During 2004, the "use of proceeds" covenant, pursuant to the terms of the Series C Debenture offering, is expected to result in a property portfolio with a high percentage of multi-family residential properties. The general market risk associated with a higher weighting of multi-family residential properties will be minimized through geographic diversification, focusing on quality properties and by utilizing the national organizational infrastructure and management expertise of Shelter Canadian Properties Limited.

Other risks and uncertainties are more fully explained in the other regulatory filings of LREIT, including the 2004 Annual Information Form, dated May 19, 2004.

ADDITIONAL INFORMATION

Additional information relating to LREIT, including the Annual Information Form, is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
August 9, 2004