

LANESBOROUGH

The logo for REIT, featuring a stylized 'R' inside a square followed by the letters 'EIT' in a bold, sans-serif font.

**REAL ESTATE INVESTMENT TRUST
FINANCIAL STATEMENTS
JUNE 30, 2003**

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

BALANCE SHEET

	<u>June 30</u> <u>2003</u> (unaudited)	<u>December 31</u> <u>2002</u> (audited)
Assets		
Income properties (Note 3)	\$ 12,680,262	\$ 10,787,751
Mortgage loan receivable	1,150,000	1,150,000
Deferred charges (Note 4)	669,076	440,782
Cash	50,384	122,495
Accounts receivable	34,674	43,815
Prepaid expenses	27,861	-
	<u>\$ 14,612,257</u>	<u>\$ 12,544,843</u>
Liabilities and Equity		
Mortgage loan payable (Note 5)	\$ 8,318,831	\$ 7,882,709
Convertible debentures (Note 6)	2,699,006	2,687,449
Accounts payable and accrued liabilities	541,566	410,011
Amount payable on acquisition of income property (Note 2)	1,555,857	-
	<u>13,115,260</u>	<u>10,980,169</u>
Equity	<u>1,496,997</u>	<u>1,564,674</u>
	<u>\$ 14,612,257</u>	<u>\$ 12,544,843</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Unitholders' equity, beginning of period	\$ 261,219	\$ 324,247	\$ 252,123	\$ 330,520
Unit-based compensation (Note 7)	2,847	-	5,694	-
Accretion on equity component of convertible debentures (Note 6)	5,834	-	11,556	-
Income (loss)	22,978	(23,684)	23,505	(29,957)
Distribution paid	<u>(96,875)</u>	<u>-</u>	<u>(96,875)</u>	<u>-</u>
Unitholders' equity, end of period	196,003	300,563	196,003	300,563
Equity component of convertible debentures (Note 6)	<u>1,300,994</u>	<u>-</u>	<u>1,300,994</u>	<u>-</u>
Equity, end of period	<u>\$ 1,496,997</u>	<u>\$ 300,563</u>	<u>\$ 1,496,997</u>	<u>\$ 300,563</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Revenue				
Rentals from income properties (Note 11)	\$ 510,098	\$ -	\$ 1,027,680	\$ -
Interest and other income	<u>31,286</u>	<u>4,000</u>	<u>64,810</u>	<u>4,000</u>
Total revenue	<u>541,384</u>	<u>4,000</u>	<u>1,092,490</u>	<u>4,000</u>
Expenses				
Property operating costs	<u>204,809</u>	<u>-</u>	<u>437,760</u>	<u>-</u>
Operating income	<u>336,575</u>	<u>4,000</u>	<u>654,730</u>	<u>4,000</u>
Financing expense	220,584	-	422,857	-
Trust expense	21,466	27,684	58,718	33,957
Amortization of income properties	19,159	-	38,318	-
Amortization of deferred charges	<u>52,388</u>	<u>-</u>	<u>111,332</u>	<u>-</u>
Total expenses	<u>313,597</u>	<u>27,684</u>	<u>631,225</u>	<u>33,957</u>
Income (loss)	<u>\$ 22,978</u>	<u>\$ (23,684)</u>	<u>\$ 23,505</u>	<u>\$ (29,957)</u>
Income (loss) per unit (Note 13)				
Basic	\$ 0.030	\$ (0.047)	\$ 0.030	\$ (0.060)
Diluted	0.029	(0.047)	0.030	(0.060)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Cash provided by (used in) operating activities				
Income (loss) from operations	\$ 22,978	\$ (23,684)	\$ 23,505	\$ (29,957)
Add: Amortization of income properties	19,159	-	38,318	-
Amortization of deferred charges	52,388	-	111,332	-
Accretion on debt component of convertible debentures (Note 6)	5,834	-	11,556	-
Unit-based compensation (Note 7)	2,847	-	5,694	-
Cash from operations	103,206	(23,684)	190,405	(29,957)
Net change in accounts receivable, prepaid expenses, accounts payable and accrued liabilities	33,469	12,776	112,835	12,321
Increase in deferred charges	18,193	-	(339,626)	-
	<u>154,868</u>	<u>(10,908)</u>	<u>(36,386)</u>	<u>(17,636)</u>
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	223,457	-	537,950	-
Repayment of mortgage loan	(48,025)	-	(101,828)	-
Distribution paid	(96,875)	-	(96,875)	-
	<u>78,557</u>	<u>-</u>	<u>339,247</u>	<u>-</u>
Cash provided by (used in) investing activities				
Additions to income properties	(374,972)	-	(374,972)	-
Cash increase (decrease)	(141,547)	(10,908)	(72,111)	(17,636)
Cash, beginning of period	<u>191,931</u>	<u>325,727</u>	<u>122,495</u>	<u>332,455</u>
Cash, end of period	<u>\$ 50,384</u>	<u>\$ 314,819</u>	<u>\$ 50,384</u>	<u>\$ 314,819</u>
Supplementary cash flow information				
Interest paid	<u>\$ 113,676</u>	<u>\$ -</u>	<u>\$ 182,760</u>	<u>\$ -</u>

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

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. On August 30, 2002, a Plan of Arrangement was completed, pursuant to which the Trust acquired all of the outstanding shares of Wireless One Inc. in exchange for units of the Trust.

Basis of presentation

The acquisition of Wireless One Inc. was accounted for on a 'continuity of interest' basis. The results of operation of Wireless One Inc. for periods prior to formation of the Trust are presented as those of the Trust in a manner similar to a pooling of interests. Accordingly, these financial statements present the operations of the Trust on a continuity of interest basis, which is identical to the financial position and results of operation of Wireless One Inc. for those periods.

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and are generally in accordance with the recommendations of the CIPPREC. The interim financial statements have been prepared on a consistent basis with the December 31, 2002 audited financial statements. The disclosures included below are incremental to those included with the annual audited financial statements. The interim financial statements should be read in conjunction with the December 31, 2002 audited financial statements and notes thereto.

2 *Acquisition*

On June 30, 2003, the Trust acquired a light industrial property, known as the MAAX Warehouse in Airdrie, Alberta for the purchase price of \$1,596,186.

Net assets acquired:	
Income properties	\$ 1,578,325
Prepaid property taxes	<u>17,861</u>
	<u>1,596,186</u>
Consideration:	
Cash	8,325
Tenant security deposits	<u>32,004</u>
	<u>40,329</u>
Amount payable on acquisition of MAAX Warehouse	<u>\$ 1,555,857</u>

Subsequent to June 30, 2003, the amount payable on acquisition was satisfied by the Trust with the proceeds of a mortgage in the amount of \$1,120,000 and with the balance paid in cash. The cash component of the purchase price was funded by the partial repayment of the mortgage loan receivable. The prime plus 1% mortgage loan is payable on demand, until the interest rate and term are fixed, and is secured by the MAAX Warehouse.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2003

3 *Income properties*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2003 (unaudited)</u>	<u>Net Book Value December 31 2002 (audited)</u>
Land	\$ 2,697,779	\$ -	\$ 2,697,779	\$ 2,043,779
Buildings	<u>10,070,863</u>	<u>(88,380)</u>	<u>9,982,483</u>	<u>8,743,972</u>
	<u>\$ 12,768,642</u>	<u>\$ (88,380)</u>	<u>\$ 12,680,262</u>	<u>\$ 10,787,751</u>

4 *Deferred charges*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2003 (unaudited)</u>	<u>Net Book Value December 31 2002 (audited)</u>
Tenant inducements	\$ 695,434	\$ (104,825)	\$ 590,609	\$ 384,736
Mortgage financing fees	68,567	(61,067)	7,500	26,549
Leasing commissions	<u>79,015</u>	<u>(8,048)</u>	<u>70,967</u>	<u>29,497</u>
	<u>\$ 843,016</u>	<u>\$ (173,940)</u>	<u>\$ 669,076</u>	<u>\$ 440,782</u>

5 *Mortgage loan payable*

The Trust has arranged a mortgage loan payable in the amount of \$9,000,000 (December 31, 2002 - \$7,987,500). As at June 30, 2003, \$8,318,831 (December 31, 2002 - \$7,882,709) is outstanding.

The mortgage loan payable is secured by the related income property, bears interest at prime plus .625% per annum and is due on demand.

6 *Convertible debentures*

The following allocation of the convertible debentures to debt and equity components is based on the net present value of future interest payments with an estimated cost of borrowing without conversion option of 15% for Series A and 18% for Series B debentures:

	<u>Debt</u>	<u>Equity</u>	<u>Total (unaudited)</u>
Convertible debentures			
Series A	\$ 2,558,067	\$ 441,933	\$ 3,000,000
Series B	<u>140,939</u>	<u>859,061</u>	<u>1,000,000</u>
	<u>\$ 2,699,006</u>	<u>\$ 1,300,994</u>	<u>\$ 4,000,000</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

6 *Convertible debentures (continued)*

The accretion of the debt component for the six months ended June 30, 2003 of \$11,556 (June 30, 2002 - Nil) and for the three months ended June 30, 2003 of \$5,834 (June 30, 2002 - Nil), which increases the debt component from the initial carrying amount, is included in financing expense on convertible debentures. The accretion of the equity component, which decreases the equity component from the initial carrying amount, is credited in Unitholders' equity.

7 *Related party transactions*

Services agreement

Unit-based compensation expense for the six months ended June 30, 2003 of \$5,694 (June 30, 2002 - Nil) and for the three months ended June 30, 2003 of \$2,847 (June 30, 2002 - Nil), 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.

8 *Units/share capital*

The 411,250 units subject to escrow will be released from escrow on the vesting dates noted below. All units subject to escrow are entitled to be voted and receive distributions.

<u>Units in Seed Shareholder Escrow</u>	<u>Units in Security Escrow</u>	<u>Total Units in Escrow</u>	<u>Vesting Year Ending</u>
68,333	41,250	109,583	December 31, 2003
68,333	82,500	150,833	December 31, 2004
<u>68,334</u>	<u>82,500</u>	<u>150,834</u>	December 31, 2005
<u>205,000</u>	<u>206,250</u>	<u>411,250</u>	

9 *Private placement offering*

On June 17, 2003, the Trust initiated a private placement offering of Trust units at a price of \$4 per unit. The first closing of the offering occurred on August 28, 2003.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2003

10 Unit options

Unit option plan

The Trust has granted options to the two independent Trustees to acquire 10,000 units each at \$4.00 per unit. The options expire October 29, 2007.

A summary of the status of the unit options as at June 30, 2003 and changes during the period is as follows:

<u>Options</u>	<u>Units</u>	<u>Weighted Average Exercise Price</u>
Outstanding, January 1	20,000	\$ 4.00
Granted	-	-
Exercised	-	-
Outstanding, end of period	<u>20,000</u>	<u>\$ 4.00</u>
Options vested	20,000	
Fair value of outstanding options	\$ 2,081	

Unit-based compensation

The pro forma income (loss) and income (loss) per unit information as if the Trust accounted for the unit options issued to the two independent Trustees as financing expense is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Income (loss)				
As reported	\$ 22,978	\$ (23,684)	\$ 23,505	\$ (29,957)
Pro forma	20,897	-	21,424	-
Basic income (loss) per unit				
As reported	\$ 0.030	\$ (0.047)	\$ 0.030	\$ (0.060)
Pro forma	0.027	-	0.028	-
Diluted income (loss) per unit				
As reported	\$ 0.029	\$ (0.047)	\$ 0.030	\$ (0.060)
Pro forma	0.027	-	0.028	-

11 Rentals from income properties

Rentals from income properties include the recovery of property operating costs from tenants of \$389,291 for the six months ended June 30, 2003 (June 30, 2002 - Nil) and \$183,653 for the three months ended June 30, 2003 (June 30, 2002 - Nil).

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2003

12 *Distributable income (loss)*

Distributable income (loss) and distributable income (loss) per unit are calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Income (loss)	\$ 22,978	\$ (23,684)	\$ 23,505	\$ (29,957)
Add (deduct):				
Financing expense on convertible debentures	100,835	-	201,557	-
Interest expense on convertible debentures	(95,000)	-	(190,000)	-
Amortization of income properties	19,159	-	38,318	-
Distributable income (loss)	<u>\$ 47,972</u>	<u>\$ (23,684)</u>	<u>\$ 73,380</u>	<u>\$ (29,957)</u>
Distributable income (loss) per unit (Note 13)				
Basic	\$ 0.062	\$ (0.047)	\$ 0.095	\$ (0.060)
Diluted	0.062	(0.047)	0.095	(0.060)

13 *Per unit calculations*

Income (loss) per unit calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Income (loss)	\$ 22,978	\$ (23,684)	\$ 23,505	\$ (29,957)
Diluted income (loss)	\$ 30,002	\$ (23,684)	\$ 23,505	\$ (29,957)
Weighted average number of units	775,000	500,000	775,000	500,000
Dilutive options	20,000	-	-	-
Dilutive Series B convertible debentures	250,000	-	-	-
	<u>1,045,000</u>	<u>500,000</u>	<u>775,000</u>	<u>500,000</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2003

13 *Per unit calculations (continued)*

Distributable income (loss) per unit calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Distributable income (loss)	\$ 47,972	\$ (23,684)	\$ 73,380	\$ (29,957)
Diluted distributable income (loss)	\$ 47,972	\$ (23,684)	\$ 73,380	\$ (29,957)
Weighted average number of units	775,000	500,000	775,000	500,000

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. The calculation of per unit information on a diluted basis considers the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding Series B convertible debentures to the extent that the debentures are dilutive.

The following instruments have been excluded from the calculation of the per unit amounts as the effect of the instruments is anti-dilutive:

Income (loss) per unit:

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Unit options issued to independent Trustees				
Number of units if exercised	-	-	20,000	-
Exercise price	\$ -	\$ -	\$ 4.00	\$ -
Series B convertible debentures				
Number of units if converted	-	-	250,000	-
Exercise price	\$ -	\$ -	\$ 4.00	\$ -

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2003

13 *Per unit calculations (continued)*

Distributable income (loss) per unit:

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Unit options issued to independent Trustees				
Number of units if exercised	20,000	-	20,000	-
Exercise price	\$ 4.00	\$ -	\$ 4.00	\$ -
Series B convertible debentures				
Number of units if converted	250,000	-	250,000	-
Exercise price	\$ 4.00	\$ -	\$ 4.00	\$ -

For comparative purposes, the prior year number of shares and per share amounts have been restated to reflect the exchange of 10 common shares for 1 unit.

14 *Major commitment*

The Trust has entered into an agreement to purchase land adjoining the Kenaston Property in the amount of \$425,000. The purchase is subject to a change in zoning.

15 *Subsequent event*

Subsequent to June 30, 2003, the Trust conditionally completed the acquisition of a light industrial property known as the Purolator Building in Burlington, Ontario for \$1,200,000. The acquisition is anticipated to be funded through first mortgage loan financing and cash.