LANESBOROUGH REIT

REAL ESTATE INVESTMENT TRUST
FINANCIAL STATEMENTS
MARCH 31, 2003

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

BALANCE SHEET

	March 31 2003 (unaudited)	December 2002 (audited)
Assets		
Income properties (Note 3)	**$ 10,768,592**	$ 10,787,751
Mortgage loan receivable (Note 4)	**1,150,000**	1,150,000
Deferred charges (Note 5)	**739,657**	440,782
Cash	**191,931**	122,495
Accounts receivable	**42,632**	43,815
	$ 12,892,812	$ 12,544,843
Liabilities and Equity		
Mortgage loan payable (Note 6)	**$ 8,143,399**	$ 7,882,709
Convertible debentures (Note 7)	**2,693,171**	2,687,449
Accounts payable and accrued liabilities (Note 9)	**488,194**	410,011
	11,324,764	10,980,169
Equity	**1,568,048**	1,564,674
	$ 12,892,812	$ 12,544,843

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

	For the Three Months Ended March 31	
	2003	**2002**
Unitholders' equity, beginning of period	**$ 252,123**	$ 330,520
Unit-based compensation (Note10)	**2,847**	**-**
Accretion on equity component of convertible debentures (Note 7)	**5,722**	-
Income (loss)	**527**	(6,273)
Unitholders' equity, end of period	**261,219**	324,247
Equity component of convertible debentures (Note 7)	**1,306,829**	**-**
Equity, end of period	**$ 1,568,048**	$ 324,247

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF INCOME (LOSS)

	For the Three Months Ended March 31 2003	2002
Revenue		
Rentals from income properties (Note 12)	$ 517,582	$ -
Interest and other income	33,524	-
Total revenue	551,106	-
Expenses		
Property operating costs (Note 13)	232,951	-
Operating income	318,155	-
Financing expense (Note 14)	202,273	-
Trust expense	37,252	6,273
Amortization of income properties	19,159	-
Amortization of deferred charges	58,944	-
Total expenses	317,628	6,273
Income (loss)	$ 527	$ (6,273)
Income (loss) per unit (Note 16)		
Basic	0.001	(0.013)
Diluted	0.001	(0.013)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF CASH FLOWS

	For the Three Months Ended March 31 2003	2002
Cash provided by (used in) operating activities		
Income (loss) from operations	**$ 527**	$ (6,273)
Add: Amortization of income properties	**19,159**	-
Amortization of deferred charges	**58,944**	-
Accretion on liability component of convertible debentures (Note 7)	**5,722**	-
Unit-based compensation (Note 10)	**2,847**	-
Cash from operations	**87,199**	(6,273)
Net change in accounts receivable, accounts payable and accrued liabilities	**79,366**	(455)
Increase in deferred charges	**(357,819)**	-
	(191,254)	(6,728)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**314,493**	-
Repayment of mortgage loan	**(53,803)**	-
	260,690	-
Cash increase (decrease)	**69,436**	(6,728)
Cash, beginning of period	**122,495**	332,455
Cash, end of period	**$ 191,931**	$ 325,727
Supplementary cash flow information		
Interest paid	**$ 69,084**	$ -

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 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.

These interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2002.

2 Significant accounting policies

The accompanying 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 Canadian Institute of Public and Private Real Estate Companies.

Income properties
Income properties include land, buildings and related costs.

Income properties are stated at the lower of net book value and estimated net recoverable amount. The net recoverable amount represents the undiscounted estimated future net cash flow which is expected to be received from the ongoing use and residual worth of the properties, and is intended to determine recovery of an investment and is not an expression of the fair value of a property.

Amortization is recorded on buildings using a 5% forty-year sinking fund basis. Under this method, amortization is charged to income at an amount which increases annually, consisting of a fixed annual sum together with a factor which is compounded at the rate of 5% per annum so as to fully amortize the buildings over a forty-year period.

Deferred charges
Deferred charges include tenant inducements and leasing commissions that are deferred and amortized on a straight-line basis over the term of the respective leases and mortgage financing fees that are deferred and amortized over the term of the respective mortgage.

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 7. Accordingly, the debentures are divided into liability and equity components, based on the net present value of the future interest payments at the time of issue. Accretion in the equity component of the debenture is credited to Unitholders' equity.

2 *Significant accounting policies* (continued)

Unit Options
The Trust has a unit option plan available for officers, employees and trustees and has granted options to Shelter Canadian Properties Limited and the independent Trustees. Consideration paid by option holders on exercise of unit options is credited to Unitholders' equity. The fair value based method of accounting is applied to all unit-based payments to non-employees and to direct awards of units to employees and Trustees. Compensation expense is not recorded at the time that the options are issued to the independent Trustees. The unit-based compensation on the issue of unit options to the independent Trustees is disclosed as pro forma information.

Revenue recognition
Rents are recognized as revenue over the terms of the related lease agreements. Recoveries from tenants for property operating costs are recognized as revenues during the period in which the applicable costs are incurred.

Distributable income
Distributable income is defined as net income determined in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization of income properties and excluding any gains or losses on the disposition of any asset. Interest expense on convertible debentures for purposes of determining distributable income is calculated based on the actual interest payable on debentures.

Income taxes
In accordance with the terms of the Declaration of the Trust, the Trust intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part 1 of the Income Tax Act. A provision for income taxes is, therefore, not required.

Net income and distributable income per unit
Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

3 *Income properties*

	Cost	Accumulated Amortization	Net Book Value March 31 2003 (unaudited)	Net Book Value December 31 2002 (audited)
Land	$ 2,043,779	$ -	$ 2,043,779	$ 2,043,779
Building	8,794,034	(69,221)	8,724,813	8,743,972
	$ 10,837,813	$ (69,221)	$ 10,768,592	$ 10,787,751

4 *Mortgage loan receivable*

During 2002, the Trust invested in a $1,150,000 second mortgage loan, secured by an office building (Minacs) 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 loan bears interest at 10% payable monthly and is repayable on July 19, 2003. The Trust may request the repayment of up to $500,000 of the consideration upon 30 days notice.

The Trust has a seven-month option to acquire a 50% interest in the Minacs building for a maximum purchase price of $7,850,000, comprised of cash consideration of $1,850,000 and the assumption of a 7% first mortgage loan payable of $6,000,000. There is a provision for $500,000 of the consideration to be satisfied by issuance of 100,000 units at a deemed price of $5.00 per unit.

5 *Deferred charges*

	Cost	Accumulated Amortization	Net Book Value March 31 2003 (unaudited)	Net Book Value December 31 2002 (audited)
Tenant inducements	$ 721,127	$ (71,178)	$ 649,949	$ 384,736
Mortgage financing fees	61,067	(45,800)	15,267	26,549
Leasing commissions	79,015	(4,574)	74,441	29,497
	$ 861,209	$ (121,552)	$ 739,657	$ 440,782

6 *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 March 31, 2003, $8,143,399 (December 31, 2002 - $7,882,709) is outstanding.

The mortgage loan payable is secured by the income properties, bears interest at prime plus .625% per annum and matures June 5, 2003. The Trust has the right to fix the interest rate until May 1, 2003, at a rate not to exceed the residential mortgage rate of the lender plus .125%

7 Convertible debentures

On August 30, 2002, the Trust issued convertible debentures in the amount of $4,000,000, comprised of $3,000,000 Senior Secured Series A and $1,000,000 Senior Subordinated Series B convertible debentures.

The Senior Secured Series A convertible debentures bear interest at 10%, mature on August 30, 2007 and are subordinate only to the mortgage loan payable. The Senior Secured Series A convertible debentures are convertible at the request of the holder at any time during the year ending August 30, 2005 at a conversion price per unit of $5.00; during the year ending August 30, 2006, at $5.50; and during the year ending August 30, 2007, at $6.00. At any time after August 30, 2005, the Trust has the right to redeem all, but not less than all of the Senior Secured Series A convertible debentures at par plus accrued interest. On redemption, the holders may elect to convert to units at the then applicable conversion price.

The Senior Subordinated Series B convertible debentures bear interest at 8%, mature on August 30, 2005 and are subordinate to the mortgage loan payable and the Series A convertible debentures. The Senior Subordinated Series B convertible debentures are convertible at the request of the holder at any time prior to August 30, 2003 at a conversion price per unit of $4.00; during the year ending August 30, 2004 of $4.50; and during the year ending August 30, 2005 of $5.00. At maturity, at the option of the Trust, all outstanding Senior Subordinated Series B convertible debentures are convertible to units, based on a conversion price which is equal to the lesser of $5.00 per Trust unit and the average closing market price of the unit during the preceding twenty trading-day period.

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:

Issue date August 30, 2002	Debt	Equity	Total (audited)
Convertible debentures			
Series A	$ 2,497,490	$ 502,510	$ 3,000,000
Series B	182,372	817,628	1,000,000
	$ 2,679,862	$ 1,320,138	$ 4,000,000

March 31, 2003	Debt	Equity	Total (unaudited)
Convertible debentures			
Series A	$ 2,539,256	$ 460,744	$ 3,000,000
Series B	153,915	846,085	1,000,000
	$ 2,693,171	$ 1,306,829	$ 4,000,000

The accretion of the debt component of $5,722 for the quarter ended March 31, 2003 (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.

8 Related party transactions

Management agreement
The Trust entered into a property management agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust.

The Trust incurred property management fees to Shelter Canadian Properties Limited of $19,727 for the quarter ended March 31, 2003 (2002 - Nil).

Services agreement
The Trust entered into a services agreement, for an initial term expiring August 30, 2007, with Shelter Canadian Properties Limited, a Unitholder. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust.

In consideration for providing services under the services agreement, Shelter Canadian Properties Limited was provided with options to acquire 50,000 units at $1.00 per unit. The options were exercised December 19, 2002 for cash consideration of $50,000. Unit-based compensation expense of $2,847 was recorded for the quarter ended March 31, 2003 (2002 - Nil) to amortize the fair value of the unit-based compensation over the term of the services agreement.

Mortgage loan receivable
During 2002, the Trust invested in a $1,150,000 second mortgage loan, secured by the Minacs building beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited.

The Trust was granted a seven-month option to acquire a 50% interest in the Minacs building for a purchase price of $7,850,000, comprised of cash consideration of $1,850,000 and the assumption of a 7% first mortgage loan payable of $6,000,000. There is a provision for $500,000 of the consideration to be satisfied by issuance of 100,000 units at a deemed price of $5.00 per unit.

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.

9 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31 2003 (unaudited)	December 31 2002 (audited)
Accounts payable	$ 374,565	$ 223,851
Accrued interest on convertible debentures	33,315	128,315
Accrued interest on mortgage loan payable	32,467	28,777
Tenant security deposits	47,847	29,068
	$ 488,194	$ 410,011

10 Units/share capital

On August 30, 2002, the Plan of Arrangement was completed, resulting in the reorganization of Wireless One Inc. into Lanesborough Real Estate Investment Trust. Pursuant to the Plan of Arrangement, the Trust acquired all of the outstanding shares of Wireless One Inc. in exchange for units of the Trust.

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

	March 31, 2003		December 31, 2002	
	Units (unaudited)	Amount (unaudited)	Shares/Units (audited)	Amount (audited)
Share capital				
The Trust's share capital to the date of reorganization was as follows:				
Balance of common shares at December 31, 2001	-	-	5,000,000	$ 341,874
Elimination upon completion of the reorganization	-	-	(5,000,000)	(341,874)
	-	-	-	$ -
Units				
Outstanding, January 1	775,000	$ 873,083	-	$ -
Units issued in exchange for Wireless One Inc. common shares (1 unit for 10 common shares)	-	-	500,000	$ 341,874
Units issued by private placement	-	-	150,000	300,000
Unit issued on exercise of options	-	-	125,000	200,000
Unit based compensation	-	2,847	-	31,209
Outstanding, end of period	775,000	$ 875,930	775,000	$ 873,083

Unit-based compensation relating to unit options issued in regard to the services agreement of $56,936 is expensed over the term of the agreement. Unit-based compensation expense of $2,847 in regard to the services agreement was recorded in trust expense for the quarter ended March 31, 2003 (2002 - Nil).

10 *Units/share capital* (continued)

The 93,750 units subject to a security escrow agreement will be released from escrow on the vesting dates noted below. All units subject to escrow are entitled to be voted and receive distributions.

Units in Escrow	Vesting Year Ending
18,750	December 31, 2003
37,500	December 31, 2004
37,500	December 31, 2005
93,750	

11 *Unit options*

Unit option plan
The Trust may grant options to the Trustees, a director of a subsidiary of the Trust, a senior officer of the Trust or a subsidiary of the Trust, an employee of the Trust or a subsidiary of the Trust, management company employees of the Trust or a subsidiary of the Trust and consultants retained by the Trust including investor relations consultants. The maximum number of units reserved for issuance under the unit option plan will be limited to the lessor of 10% of the total number of issued and outstanding units or 50,000 units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the fair market value of the units on the date of grant. The options will have a maximum term of five years from the date of grant.

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 March 31, 2003 and changes during the period is as follows:

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

11 ***Unit options*** **(continued)**

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:

	March 31 2003	March 31 2002
Income (loss)		
As reported	$ 527	$ (6,273)
Pro-forma	(1,554)	-
Basic income (loss) per unit		
As reported	$ 0.001	$ (0.013)
Pro-forma	(0.002)	-
Diluted income (loss) per unit		
As reported	$ 0.001	$ (0.013)
Pro-forma	(0.002)	-

The fair value of the unit options is calculated based on the weighted average market value of the units for the year.

The fair value of each unit option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The assumptions used for options granted in 2002 are dividend yield of 14%, expected volatility of 28.8% and risk-free interest rate of 4.06%. The assumptions used for expected lives of the options are three years for unit options issued in regard to the services agreement, five years for unit options issued as an inducement for providing the participating loan and 4.83 years for the unit options granted to the independent Trustees.

12 ***Rentals from income properties***

Rentals from income properties include the recovery of property operating costs from tenants of $196,396 for the quarter ended March 31, 2003 (March 31, 2002 - nil).

13 ***Property operating costs***

Property operating costs are comprised of the following:

	March 31 2003	March 31 2002
Property taxes	$ 122,704	$ -
Utilities	44,450	-
Maintenance expenses	39,408	-
Other expenses	26,389	-
	$ 232,951	$ -

14 *Financing expense*

Financing expense is comprised of the following:

	March 31 2003	March 31 2002
Interest on mortgage loan payable	$ 101,551	$ -
Financing expense on convertible debentures	100,722	-
	$ 202,273	$ -

15 *Distributable income (loss)*

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

	March 31 2003	March 31 2002
Income (loss)	$ 527	$ (6,273)
Add (deduct): Financing expense on convertible debentures	100,722	-
Interest expense on convertible debentures	(95,000)	-
Amortization of income properties	19,159	-
Distributable income (loss)	$ 25,408	$ (6,273)
Distributable income (loss) per unit (Note 16)		
Basic	$ 0.033	$ (0.013)
Diluted	0.033	(0.013)

16 *Per unit calculations*

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

	March 31 2003	March 31 2002
Income (loss)	$ 527	$ (6,273)
Diluted income (loss)	$ 527	$ (6,273)
Weighted average number of units	775,000	500,000

16 *Per unit calculations* (continued)

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

	March 31 2003	March 31 2002
Distributable income (loss)	$ 25,408	$ (6,273)
Diluted distributable income (loss)	$ 25,408	$ (6,273)
Weighted average number of units	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) March 31, 2003	Distributable Income (loss) March 31, 2003	Income (loss) March 31, 2002	Distributable Income (loss) March 31, 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.

17 *Major commitment*

The Trust has entered into an agreement to purchase land adjoining the Kenaston Property in the amount of $250,000. The purchase is subject to a change in zoning.

18 Financial instruments and risk management

Fair values
The carrying values of cash, accounts receivable, mortgage loan receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturities of these instruments.

The carrying value of the mortgage loan payable approximates fair value as the mortgage loan payable bears interest at a currently prevailing variable interest rate.

The carrying value of the convertible debentures approximates fair value as the convertible debentures bear interest at a currently prevailing interest rate.

Risk management
The Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. The Trust manages the risks, as follows:

Interest rate risk is minimized as the mortgage loan payable, which is financed at a variable rate, includes an option to fix the interest rate. The Declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties. As at March 31, 2003, the mortgage loan payable is 67.6% (2002 - Nil) of the appraised value of income properties.

Credit risk arises from the possibility that tenants may experience financial difficulty and not be able to fulfill their lease commitments. The credit risk is limited to the recorded amount of tenant receivables. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts. The risk of credit loss is mitigated by ensuring that the tenant mix is diversified and by limiting the exposure to any one tenant. No single tenant accounted for 10% or more of the rentals from income properties.

19 Segmented financial information

The assets are located in and revenue is derived from the operation of retail and office real estate in Canada.

20 Subsequent event

Subsequent to March 31, 2003, the Trust conditionally completed the acquisition of a light industrial property in Airdrie, Alberta for $1,600,000. The acquisition is anticipated to be financed through first mortgage financing of $1,120,000 and the balance in cash from the partial repayment of the mortgage loan receivable.