LANESBOROUGH REAL ESTATE INVESTMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the balance sheets of Lanesborough Real Estate Investment Trust as at December 31, 2003 and 2002 and the statements of equity, income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the trust as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba
February 2, 2004
except as to Note 20 which is as of March 16, 2004

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

BALANCE SHEET

	December 31 2003	December 31 2002
Assets		
Income properties (Note 5)	**$ 14,884,473**	$ 10,787,751
Mortgage loans receivable (Note 6)	**4,248,326**	1,150,000
Deferred charges (Note 7)	**847,564**	440,782
Cash	**1,828,597**	122,495
Accounts receivable	**85,549**	43,815
	$ 21,894,509	$ 12,544,843
Liabilities and Equity		
Mortgage loans payable (Note 8)	**$ 10,704,727**	$ 7,882,709
Convertible debentures (Note 9)	**2,704,648**	2,687,449
Accounts payable and accrued liabilities	**603,202**	410,011
	14,012,577	10,980,169
Equity	**7,881,932**	1,564,674
	$ 21,894,509	$ 12,544,843

Approved by the Board of Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

	Year Ended 2003	December 31 2002
Unitholders' equity, beginning of year		
Units/share capital	**$ 252,123**	$ 341,874
Deficit	**-**	(11,354)
	252,123	330,520
Elimination on reorganization	**-**	(341,874)
Units issued in exchange for shares	**-**	341,874
Units issued by private placement (Note 11)	**7,292,852**	300,000
Units issued on exercise of options	**-**	200,000
Units issued on conversion of debentures (Note 11)	**58,000**	-
Unit-based compensation (Note 11)	**11,388**	31,209
Issue costs	**(644,987)**	(445,223)
Accretion on equity component of convertible debentures (Note 9)	**24,851**	7,587
Income (loss)	**175,938**	(47,970)
Distribution paid	**(525,585)**	(124,000)
Unitholders' equity, end of year	**6,644,580**	252,123
Equity component of convertible debentures (Note 9)	**1,237,352**	1,312,551
Equity, end of year	**$ 7,881,932**	$ 1,564,674

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF INCOME (LOSS)

	Year Ended December 31 2003	2002
Revenue		
Rentals from income properties (Note 13)	**$ 2,172,374**	$ 1,211,190
Interest and other income (Note 14)	**268,466**	24,514
	2,440,840	1,235,704
Expenses		
Property operating costs	**907,764**	557,763
Operating income	**1,533,076**	677,941
Financing expense	**891,941**	553,550
Trust expense	**142,125**	59,691
Amortization of income properties	**99,050**	50,062
Amortization of deferred charges	**224,022**	62,608
	1,357,138	725,911
Income (loss)	**$ 175,938**	$ (47,970)
Income (loss) per unit (Note 16)		
Basic	**$ 0.178**	$ (0.072)
Diluted	**0.165**	(0.072)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF CASH FLOWS

	Year Ended 2003	December 31 2002
Cash provided by (used in) operating activities		
Income (loss) from operations	**$ 175,938**	$ (47,970)
Add: Amortization of income properties	**99,050**	50,062
Amortization of deferred charges	**224,022**	62,608
Accretion on debt component of convertible debentures (Note 9)	**24,851**	7,587
Unit-based compensation (Note 10)	**11,388**	31,209
Cash from operations	**535,249**	103,496
Changes in non-cash operating items (net of effects of acquisition of income property)	**137,313**	213,168
Increase in deferred charges	**(630,803)**	(503,390)
	41,759	(186,726)
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**3,070,000**	7,987,500
Proceeds of convertible debentures	**-**	4,000,000
Proceeds of participating loan	**-**	2,701,338
Repayment of participating loan	**-**	(2,701,338)
Repayment of mortgage loan	**(247,982)**	(104,791)
Private placement of units	**7,292,852**	300,000
Options exercised (Note 11)	**-**	200,000
Issue costs	**(644,987)**	(445,223)
Distribution paid	**(525,585)**	(124,000)
	8,944,298	11,813,486
Cash provided by (used in) investing activities		
Additions to income properties	**(4,181,629)**	(10,687,955)
Mortgage loans receivable advance	**(4,000,348)**	(1,150,000)
Repayment of mortgage loan receivable	**902,022**	-
	(7,279,955)	(11,837,955)
Cash increase (decrease)	**1,706,102**	(211,195)
Cash, beginning of year	**122,495**	333,690
Cash, end of year	**$ 1,828,597**	$ 122,495
Supplementary cash flow information		
Interest paid	**$ 855,923**	$ 388,871

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 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.

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 expenses 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 mortgages.

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 9. Accordingly, the debentures are divided into debt 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 compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized when unit options are granted.

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 *Changes in accounting policies*

Unit options

The Trust has implemented the new recommendations of the CICA Handbook regarding stock-based compensation. In accordance with the new recommendations, compensation expense is recognized at the time that the options are granted to officers, employees and trustees. There were no options granted during the year ended December 31, 2003. The Trust will not record the effect of compensation expense of $2,081 for options granted before January 1, 2003, in accordance with the new recommendations.

Income properties

Effective January 1, 2004, in accordance with the new recommendations of the CICA Handbook regarding generally accepted accounting principles, amortization on buildings will be recorded on a straight-line basis at 2% per annum. As permitted by the CICA, the Trust will apply this change prospectively.

4 *Acquisitions*

On June 30, 2003, the Trust acquired a light industrial property known as the MAAX Warehouse in Airdrie, Alberta. The acquisition was funded from the proceeds of a first mortgage loan in the principal amount of $1,120,000 with the balance paid in cash. The cash component was funded from the partial repayment of the mortgage loan receivable.

Net assets acquired:	
Income properties, at purchase price, including acquisition costs	$ 1,589,182
Prepaid property taxes	17,861
Tenant security deposits	(32,004)
	$ 1,575,039
Consideration:	
Mortgage loan payable	$ 1,120,000
Cash	455,039
	$ 1,575,039

On September 2, 2003, the Trust acquired a light industrial property known as the Purolator Building in Burlington, Ontario. The acquisition was funded from the proceeds of a first mortgage loan in the principal amount of $937,500 with the balance paid in cash. The cash component was funded from the partial repayment of the mortgage loan receivable.

Net assets acquired:	
Income properties, at purchase price, including acquisition costs	$ 1,237,256
Consideration:	
Mortgage loan payable	$ 937,500
Cash	299,756
	$ 1,237,256

5 *Income properties*

	Cost	Accumulated Amortization	Net Book Value December 31 2003	Net Book Value December 31 2002
Land	$ 3,728,254	$ -	$ 3,728,254	$ 2,043,779
Buildings	11,305,331	(149,112)	11,156,219	8,743,972
	$ 15,033,585	$ (149,112)	$ 14,884,473	$ 10,787,751

6 *Mortgage loans receivable*

Minacs Building
The Trust invested in a $1,150,000 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 second mortgage loan was repaid in the amounts of $442,022, $150,000 and $310,000 on July 4, 2003, July 11, 2003 and August 29, 2003, respectively. The loan was re-advanced to the maximum amount of $1,150,000 on September 10, 2003. The loan bears interest at 12.5%, payable monthly and is repayable on June 30, 2004. The Trust may request the repayment of up to $500,000 of the consideration upon 30 days notice.

McIvor Mall
The Trust invested in a $3,098,326 mortgage loan, secured by a shopping centre in Winnipeg, Manitoba. The loan bears interest at 5.23% and was repaid on acquisition of the property subsequent to December 31, 2003.

7 *Deferred charges*

	Cost	Accumulated Amortization	Net Book Value December 31 2003	Net Book Value December 31 2002
Tenant inducements	$ 906,911	$ (192,217)	$ 714,694	$ 384,736
Mortgage financing fees	89,557	(79,109)	10,448	26,549
Leasing expenses	137,725	(15,303)	122,422	29,497
	$ 1,134,193	$ (286,629)	$ 847,564	$ 440,782

8 Mortgage loans payable

	December 31 2003	December 31 2002
First mortgage loan, bearing interest at prime plus .625% with monthly principal and interest payments of $59,500. The loan is payable on demand until such time as the interest rate and term are fixed and is secured by a charge registered against the Kenaston Property.	$ 8,659,339	$ 7,882,709
First mortgage loan, bearing interest at prime plus 1% with monthly principal and interest payments of $7,986. The loan is payable on demand until such time as the interest rate and term are fixed and is secured by a charge registered against the MAAX Warehouse Property.	1,110,444	-
First mortgage loan, bearing interest at 6.47% with monthly principal and interest payments of $6,263. The loan is due October 1, 2013 and is secured by a charge registered against the Purolator Building Property.	934,944	-
	$ 10,704,727	$ 7,882,709

Approximate principal repayments are as follows:

Year Ending December 31	
2004	9,785,703
2005	16,967
2006	18,082
2007	19,271
2008	20,538
Thereafter	844,166
	$ 10,704,727

The Trust has arranged for an increase in the first mortgage loan relating to the Kenaston Property to a maximum of $10,200,000 (2002 - $7,987,500).

9 *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 loans 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, provided that the weighted average trading price of the units during the twenty consecutive trading days ending five trading days preceding the date on which the notice of redemption is given must not be less than the applicable conversion price. Upon receipt of the notice of intent to redeem, 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 loans 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, 2004 at a conversion price per unit 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:

December 31, 2003	Debt	Equity	Total
Convertible debentures			
Series A	$ 2,598,399	$ 401,601	$ 3,000,000
Series B	106,249	835,751	942,000
	$ 2,704,648	$ 1,237,352	$ 3,942,000

December 31, 2002	Debt	Equity	Total
Convertible debentures			
Series A	$ 2,521,115	$ 478,885	$ 3,000,000
Series B	166,334	833,666	1,000,000
	$ 2,687,449	$ 1,312,551	$ 4,000,000

On August 29, 2003, $58,000 of the Series B debentures was converted at $4 per unit, resulting in the issue of 14,500 units.

9 Convertible debentures (continued)

The accretion of the debt component $24,851 (2002 - $7,587), which increases the debt component, is included in financing expense on convertible debentures. The accretion of the equity component, which decreases the equity component, is credited in Unitholders' equity.

10 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. Shelter Canadian Properties Limited is also entitled to leasing commissions on new leases of 3% to 5% of base rental payments and leasing commissions on renewals of 1 1/2% to 2 1/2% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The Trust incurred property management fees to Shelter Canadian Properties Limited of $90,891 for the year ended December 31, 2003 (2002 - $23,067).

Leasing commissions and tenant improvement and renovation fees totaled $16,686 and $46,199 respectively to September 30, 2003 ($36,619 and $17,299 for the year ended December 31, 2002). Shelter Canadian Properties Limited has waived the above mentioned leasing commissions and tenant improvement and renovation fees totaling $116,803 from the commencement date of the property management agreement to September 30, 2003.

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of $15,147 and $18,223 respectively for the period from October 1, 2003 to December 31, 2003, which were capitalized to deferred charges and income properties.

Included in accounts payable and accrued liabilities at December 31, 2003 are property management fees, leasing commissions and tenant improvement and renovation fees of $48,100 (2002 - $Nil) payable to Shelter Canadian Properties Limited.

Included in accounts receivable at December 31, 2003, is an amount of $Nil (2002 - $14,842), due from Shelter Canadian Properties Limited.

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

Unit-based compensation expense for the year ended December 31, 2003 of $11,388 (2002 - $3,878), was recorded to amortize the fair value of the unit-based compensation over the term of the services agreement.

Participating loan
In accordance with the terms of the participating loan, interest of $122,658 was recorded, representing 100% of the net income from the property earned by the Trust to August 30, 2002, after payment of all expenses and debt servicing.

10 Related party transactions (continued)

Mortgage loan receivable
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. Interest income of $112,886 was recorded for the year ended December 31, 2003 (2002 - $3,710). Accounts receivable at December 31, 2003 includes accrued interest on the second mortgage loan of $3,781 (2002 - $3,710), due from 2668921 Manitoba Ltd.

Private placement
On August 30, 2002, Shelter Canadian Properties Limited subscribed for 150,000 units of the Trust for cash consideration of $300,000.

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.

11 Units

On June 17, 2003, the Trust initiated a private placement offering of a minimum of 500,000 and a maximum of 1,250,000 units at a price of $4 per unit. The first closing of the offering occurred on August 28, 2003, resulting in 502,463 units being issued for total gross proceeds of $2,009,852. The second closing of the offering occurred on December 8, 2003, resulting in 70,750 units being issued for total gross proceeds of $283,000.

On August 29, 2003, $58,000 of the Series B debentures were converted at $4 per unit, resulting in the issue of 14,500 units.

On December 22, 2003, the Trust issued 1,250,000 units for total gross proceeds of $5,000,000 by way of private placement.

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

	December 31, 2003		December 31, 2002	
	Units	Amount	Shares/Units	Amount
Outstanding, beginning of year	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	1,823,213	7,292,852	150,000	300,000
Units issued on exercise of options	-	-	125,000	200,000
Units issued on conversion of debentures	14,500	58,000	-	-
Unit-based compensation	-	11,388	-	31,209
Outstanding, end of year	2,612,713	$ 8,235,323	775,000	$ 873,083

11 Units (continued)

The fair value of unit options issued is recorded as unit-based compensation in trust expense.

Unit-based compensation relating to unit options issued in regard to the services agreement is expensed over the term of the agreement. Unit-based compensation that relates to the unit options issued as an inducement for providing the participating loan was expensed in 2002.

Unit-based compensation expense is comprised as follows:

	2003	2002
Services agreement	$ 11,388	$ 3,878
Participating loan	-	27,331
	$ 11,388	$ 31,209

The 301,667 units subject to escrow as at December 31, 2003 (2002 - 452,500) will be released from escrow on the vesting dates noted below. 150,833 units were released from escrow during the year ended December 31, 2003 (2002 - 27,500). All units subject to escrow are entitled to be voted and receive distributions.

Units in Seed Shareholder Escrow	Units in Security Escrow	Total Units in Escrow	Vesting Year Ending
68,333	82,500	150,833	December 31, 2004
68,334	82,500	150,834	December 31, 2005
136,667	165,000	301,667	

12 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.

12 *Unit options (continued)*

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 December 31, 2003 and changes during the year is as follows:

Options	Units	Exercise Price
Outstanding, beginning of year	20,000	$ 4.00
Granted	-	-
Exercised	-	-
Outstanding, end of year	20,000	$ 4.00
Options vested	20,000	

13 *Rentals from income properties*

Rentals from income properties include the recovery of property operating costs from tenants of $732,410 for the year ended December 31, 2003 (2002 - $427,568).

14 *Interest and other income*

Interest and other income includes a one-time lease termination fee of $130,356 from Sun Life Assurance Company of Canada.

15 *Distributable income*

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

	2003	2002
Income (loss)	$ 175,938	$ (47,970)
Add (deduct):		
Financing expense on convertible debentures	403,288	135,902
Interest expense on convertible debentures	(378,436)	(128,315)
Amortization of income properties	99,050	50,062
Distributable income	$ 299,840	$ 9,679
Distributable income per unit (Note 16)		
Basic	$ 0.303	$ 0.015
Diluted	0.303	0.013

16 Per unit calculations

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

	2003	2002
Income (loss)	$ 175,938	$ (47,970)
Diluted income (loss)	$ 201,941	$ (47,970)
Weighted average number of units	988,893	663,105
Dilutive Series B convertible debentures	236,216	-
	1,225,109	663,105

Distributable income per unit calculations are based on the following:

	2003	2002
Distributable income	$ 299,840	$ 9,679
Diluted distributable income	$ 299,840	$ 9,679
Weighted average number of units	988,893	663,105
Dilutive options	-	60,301
	988,893	723,406

Basic per unit information is calculated based on the weighted average number of units outstanding for the year. 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.

16 Per unit calculations (continued)

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:

	2003	2002
Unit options issued to independent Trustees		
Number of units if exercised	20,000	20,000
Exercise price	$ 4.00	$ 4.00
Unit options issued in regard to the services agreement		
Number of units exercised, December 19, 2002	-	50,000
Exercised price	$ -	$ 1.00
Unit options issued as an inducement for providing the participating loan		
Number of units exercised, December 19, 2002	-	75,000
Exercised price	$ -	$ 2.00
Series B convertible debentures		
Number of units if converted	-	250,000
Exercise price	$ -	$ 4.00

Distributable income per unit:

	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	209,333	250,000
Exercise price	$ 4.50	$ 4.00

17 Financial instruments and risk management

Fair values

As at December 31, 2003, the carrying values of cash, accounts receivable, mortgage loans receivable and accounts payable and accrued liabilities approximate fair value due to the immediate or short-term maturities of these instruments.

The carrying value of the mortgage loans payable on demand approximate fair value as the mortgage loans payable bear interest at currently prevailing variable interest rates. The carrying value of the term mortgage loan approximates fair value as the interest rate is consistent with current rates for debt with similar terms.

The carrying value of the convertible debentures approximate 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 for the mortgage loans payable on demand, which are financed at variable rates, by structuring the mortgage loans with 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 December 31, 2003, the mortgage loan payable is 71.4% (2002 - 65.4%) 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.

Further risks arise in the event that a borrower defaults on the repayment of the loan from the Trust. The Trust has endeavoured to ensure that adequate security has been provided in support of mortgage loans receivable.

18 Segmented financial information

Year ended December 31, 2003:

	Office & Retail Mixed-Use	Light Industrial	Trust	Total
Rentals from income properties	$ 2,035,132	$ 137,242	$ -	$ 2,172,374
Interest and other income	146,545	520	121,401	268,466
Property operating costs	883,606	24,158	-	907,764
Financing expense	437,064	51,589	403,288	891,941
Amortization of income properties	93,470	5,580	-	99,050
Amortization of deferred charges	213,548	10,474	-	224,022
Income (loss)	553,988	45,962	(424,012)	175,938
Total assets	12,951,808	2,890,497	6,052,204	21,894,509

Year ended December 31, 2002:

	Office & Retail Mixed-Use	Light Industrial	Trust	Total
Rentals from income properties	$ 1,211,190	$ -	$ -	$ 1,211,190
Interest and other income	8,620	-	15,894	24,514
Property operating costs	557,763	-	-	557,763
Financing expense	294,990	-	258,560	553,550
Amortization of income properties	50,062	-	-	50,062
Amortization of deferred charges	62,608	-	-	62,608
Income (loss)	254,387	-	(302,357)	(47,970)
Total assets	11,298,250	-	1,246,593	12,544,843

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

18 Segmented financial information (continued)

Year ended December 31, 2003:

	Alberta	Manitoba	Ontario	Trust	Total
Rentals from income properties	$ 97,621	$ 2,035,132	$ 39,621	$ -	$ 2,172,374
Interest and other income	445	146,545	75	121,401	268,466
Property operating costs	22,287	883,606	1,871	-	907,764
Financing expense	31,993	437,064	19,596	403,288	891,941
Amortization of income properties	3,873	93,470	1,707	-	99,050
Amortization of deferred charges	10,206	213,548	268	-	224,022
Income (loss)	29,708	553,988	16,254	(424,012)	175,938
Total assets	1,629,176	12,951,808	1,261,321	6,052,204	21,894,509

Year ended December 31, 2002:

	Alberta	Manitoba	Ontario	Trust	Total
Rentals from income properties	$ -	$ 1,211,190	$ -	$ -	$ 1,211,190
Interest and other income	-	8,620	-	15,894	24,514
Property operating costs	-	557,763	-	-	557,763
Financing expense	-	294,990	-	258,560	553,550
Amortization of income properties	-	50,062	-	-	50,062
Amortization of deferred charges	-	62,608	-	-	62,608
Income (loss)	-	254,387	-	(302,357)	(47,970)
Total assets	-	11,298,250	-	1,246,593	12,544,843

19 Major commitment

The Trust has entered into agreements for the purpose of constructing a 9,000 square foot addition to the Kenaston Property. The anticipated cost of the building addition is $1,000,000, including a provision for leasehold improvements. As at December 31, 2003, $332,781 has been incurred.

20 Subsequent events

Mortgage loan receivable

On January 9, 2004, the second mortgage loan (Minacs building) was increased by $1,000,000, at an interest rate of 9%, to the aggregate principal amount of $2,150,000.

Convertible debentures

The Trust issued $10,000,000 of Senior Secured Series C convertible debentures by way of private placement on January 30, 2004. The Senior Secured Series C convertible debentures bear interest at 8%, mature on January 29, 2006 (subject to a one year extension if the Trust becomes listed on the Toronto Stock Exchange prior to the maturity date) and are subordinate only to the mortgage loans payable. The Senior Secured Series C convertible debentures are convertible at the request of the holder at any time prior to December 31, 2005 at a conversion price of $4.50. On redemption, the holders may elect to convert to units at the then applicable conversion price.

In addition, the terms of the Series B debentures were modified in order for the Series B debentures to rank pari passu with the Series A debentures and Series C debentures.

The Trust issued $4,000,000 of Senior Subordinated Series D convertible debentures by way of public offering on March 16, 2004. The Senior Subordinated Series D convertible debentures bear interest at 8%, mature on March 15, 2008 and are subordinate to the mortgage loans payable. The Senior Subordinated Series D convertible debentures are also subordinate to the Series A debentures, Series B debentures and Series C debentures until such time as the Trust certifies to the Indenture Trustee that, since January 30, 2004, the Trust has acquired from arm's length third parties one or more multi-family residential properties with an aggregate purchase price of at least $50,000,000 and such properties have a positive pro forma net income (after interest) to the Trust based on the operations of such properties at the time of their acquisition. The Senior Subordinated Series D convertible debentures are convertible at the request of the holder at any time prior to maturity at a conversion price of $5.00.

Acquisitions

On February 2, 2004, the Trust acquired a shopping centre known as the McIvor Mall in Winnipeg, Manitoba for $6,700,000. The purchase price was initially funded entirely in cash. The Trust is negotiating first mortgage loan financing in the amount of $5,400,000.

Subsequent to December 31, 2003, the Trust has entered into conditional offers to purchase five multi-family residential properties for a total cost of $42 million, which are expected to close during the second quarter of 2004.

21 Comparative figures

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