

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

FINANCIAL STATEMENTS

(unaudited)

SEPTEMBER 30, 2004

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

BALANCE SHEET

	<u>September 30</u> <u>2004</u>	<u>December 31</u> <u>2003</u> (audited)
Assets		
Income properties (Note 4)	\$ 61,375,399	\$ 14,884,473
Mortgage loan receivable (Note 5)	2,150,000	4,248,326
Deferred charges (Note 6)	1,848,638	847,564
Cash (Note 7)	3,363,414	1,828,597
Other assets (Note 8)	1,066,074	85,549
Intangible assets (Note 9)	<u>1,405,442</u>	<u>-</u>
	<u>\$ 71,208,967</u>	<u>\$ 21,894,509</u>
Liabilities and Equity		
Mortgage loans payable (Note 10)	\$ 47,299,327	\$ 10,704,727
Convertible debentures (Note 11)	15,310,955	2,704,648
Accounts payable and accrued liabilities	1,219,030	603,202
Distribution payable	368,580	-
Intangible liabilities (Note 12)	<u>53,370</u>	<u>-</u>
	64,251,262	14,012,577
Equity	<u>6,957,705</u>	<u>7,881,932</u>
	<u>\$ 71,208,967</u>	<u>\$ 21,894,509</u>

Approved by the Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

	Three Months Ended September 30		Nine Months Ended September 30	
	<u>2004</u>	<u>2003</u> (Note 22)	<u>2004</u>	<u>2003</u> (Note 22)
Unitholders' equity, beginning of period	\$ 4,820,311	\$ 99,128	\$ 6,644,580	\$ 252,123
Units issued by private placement	-	2,009,852	-	2,009,852
Units issued on conversion of debentures	-	58,000	-	58,000
Unit-based compensation (Note 13 and 14)	2,847	2,847	94,741	8,541
Issue costs	-	(193,383)	(1,179,982)	(193,383)
Accretion on equity component of convertible debentures (Note 11)	185,659	6,310	458,415	17,866
Income (loss)	(444,577)	128,332	(797,836)	151,837
Distributions	(368,580)	(161,495)	(1,024,258)	(355,245)
Unitholders' equity, end of period	4,195,660	1,949,591	4,195,660	1,949,591
Equity component of convertible debentures (Note 11)	<u>2,762,045</u>	<u>1,244,336</u>	<u>2,762,045</u>	<u>1,244,336</u>
Equity, end of period	<u>\$ 6,957,705</u>	<u>\$ 3,193,927</u>	<u>\$ 6,957,705</u>	<u>\$ 3,193,927</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF INCOME (LOSS)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Revenue				
Rentals from income properties (Note 16)	\$ 2,093,178	\$ 558,665	\$ 4,813,011	\$ 1,586,345
Interest and other income (Note 17)	<u>216,061</u>	<u>160,751</u>	<u>401,805</u>	<u>225,561</u>
	2,309,239	719,416	5,214,816	1,811,906
Expenses				
Property operating costs	<u>910,783</u>	<u>223,644</u>	<u>1,895,188</u>	<u>661,404</u>
Operating income	<u>1,398,456</u>	<u>495,772</u>	<u>3,319,628</u>	<u>1,150,502</u>
Financing expense	1,134,234	235,842	2,566,077	658,699
Trust expense	28,871	53,539	107,119	112,257
Amortization of income properties	287,437	26,669	594,113	64,987
Amortization of deferred charges	95,003	51,390	272,543	162,722
Amortization of intangible assets	<u>297,488</u>	<u>-</u>	<u>577,612</u>	<u>-</u>
	<u>1,843,033</u>	<u>367,440</u>	<u>4,117,464</u>	<u>998,665</u>
Income (loss)	<u>\$ (444,577)</u>	<u>\$ 128,332</u>	<u>\$ (797,836)</u>	<u>\$ 151,837</u>
Income (loss) per unit (Note 19)				
Basic	\$ (0.169)	\$ 0.133	\$ (0.304)	\$ 0.181
Diluted	(0.169)	0.112	(0.304)	0.159

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Cash provided by (used in) operating activities				
Income (loss) from operations	\$ (444,577)	\$ 128,332	\$ (797,836)	\$ 151,837
Items not affecting cash				
Accrued rental revenue (Note 16)	(26,561)	-	(68,289)	-
Amortization of above market in-place leases (Note 16)	5,637	-	15,032	-
Amortization of below market in-place leases (Note 16)	(8,334)	-	(22,224)	-
Accretion on debt component of convertible debentures	185,659	6,310	458,415	17,866
Interest on Series C debentures (Note 11)	-	-	131,000	-
Unit-based compensation (Note 14)	2,847	2,847	8,541	8,541
Amortization of income properties	287,437	26,669	594,113	64,987
Amortization of deferred charges	95,003	51,390	272,543	162,722
Amortization of intangible assets	297,488	-	577,612	-
Cash from operations	394,599	215,548	1,168,907	405,953
Changes in non-cash operating items (net of effects of acquisition of income properties)	70,530	(210,428)	(494,143)	(97,593)
Tenant inducements and leasing expenses incurred through leasing activity	(127,307)	(136,954)	(614,644)	(458,562)
Unit-based compensation (Note 14)	-	-	86,200	-
	<u>337,822</u>	<u>(131,834)</u>	<u>146,320</u>	<u>(150,202)</u>
Cash provided by (used in) financing activities				
Proceeds of mortgage loan financing	117,412	2,242,470	6,550,728	2,780,420
Proceeds of convertible debentures	-	-	14,000,000	-
Repayment of mortgage loans	(227,230)	(64,519)	(476,511)	(166,347)
Private placement of units	-	2,009,852	-	2,009,852
Deferred mortgage financing fees	(5,783)	(15,987)	(89,769)	(34,005)
Issue costs	-	(193,383)	(1,179,982)	(193,383)
Distribution paid	(329,089)	(96,875)	(655,678)	(193,750)
	<u>(444,690)</u>	<u>3,881,558</u>	<u>18,148,788</u>	<u>4,202,787</u>
Cash provided by (used in) investing activities				
Income properties acquired (Note 3)	(2,128,684)	(2,812,295)	(18,007,850)	(2,812,295)
Additions to income properties	(32,959)	(104,913)	(450,767)	(479,885)
Mortgage loan receivable advance	-	(902,022)	(1,000,000)	(902,022)
Repayment of mortgage loan receivable	-	902,022	3,098,326	902,022
Deposits on potential acquisitions	(300,000)	-	(400,000)	-
	<u>(2,461,643)</u>	<u>(2,917,208)</u>	<u>(16,760,291)</u>	<u>(3,292,180)</u>
Cash increase (decrease)	(2,568,511)	832,516	1,534,817	760,405
Cash, beginning of period	5,931,925	50,384	1,828,597	122,495
Cash, end of period	\$ 3,363,414	\$ 882,900	\$ 3,363,414	\$ 882,900
Supplementary cash flow information				
Interest paid	\$ 868,434	\$ 316,387	\$ 1,710,687	\$ 717,923

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

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 interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared on a consistent basis with the December 31, 2003 audited financial statements, except as described in Note 2. These financial statements do not include all the information and disclosure required by Canadian generally accepted accounting principles for annual financial statements, and should be read in conjunction with the December 31, 2003 audited financial statements and notes thereto.

2 *Changes in accounting policies*

Income properties

Effective January 1, 2004, in accordance with the new recommendations of the CICA Handbook regarding generally accepted accounting principles, amortization on buildings is recorded on a straight-line basis over their remaining useful life. The Trust has applied this change prospectively, with no restatement to prior periods. Amortization of income properties is higher than would have been reported by \$144,179 for the three months ended September 30, 2004 and \$304,575 for the nine months ended September 30, 2004. Amortization of appliances is recorded on a straight-line basis at 10% per annum.

Effective for acquisitions initiated after September 12, 2003, in accordance with new accounting standards regarding operating leases acquired in either an asset purchase or a business combination, a portion of the purchase price is allocated to land, building, tenant inducements and intangibles, such as the value of lease origination costs associated with in-place leases, tenant relationships, cash flow guarantees and the value of above and below market leases, if any. The tenant inducements and lease origination costs are amortized as an expense over the remaining term of the leases. The values of tenant relationships are amortized over the term of the lease and renewal periods as applicable. The cash flow guarantee is amortized over the estimated period of benefit. The values of the above and below market leases are amortized and recorded as either an increase (below market leases) or a decrease (above market leases) to rentals from income properties over the remaining term of the lease. In the event that a tenant vacates its leased space prior to the contractual termination of the lease and rental payments are not being made on the lease, any unamortized balance of the related tenant inducement, intangible asset or liability will be written off. The Trust has applied this change prospectively, with no restatement to prior periods. Amortization of income properties is lower and amortization of deferred charges and intangible assets is higher than would have been reported under the previous method of accounting for acquisitions by \$16,843 and \$319,080, respectively, for the three months ended September 30, 2004 and \$42,550 and \$635,192, respectively, for the nine months ended September 30, 2004. In addition, rentals from income properties is higher as a result of the amortization of above and below market in-place leases by \$2,697 for the three months ended September 30, 2004 and \$7,192 for the nine months ended September 30, 2004.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

2 *Changes in accounting policies (continued)*

Revenue recognition

Effective January 1, 2004, in accordance with the new recommendations of the CICA Handbook regarding generally accepted accounting principles, rental revenue from leases with contractual rent increases are recognized on a straight-line basis over the term of the respective leases. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements are recorded to deferred rent receivable and accrued rental revenue. The Trust has applied this change prospectively, with no restatement to prior periods. Rentals from income properties is higher than would have been reported under the previous policy by \$26,561 for the three months ended September 30, 2004 and \$68,289 for the nine months ended September 30, 2004. In addition, accounts receivable is higher than would have been reported under the previous policy by \$68,289 at September 30, 2004.

Convertible debentures

In 2003, the CICA issued amendments to Section 3860 of the Handbook that will require the value ascribed to the option of the Trust to convert the Series B convertible debentures to units, based on a variable conversion price, currently classified as equity, to be presented as a liability. The amendments are effective for the fiscal years beginning on or after November 1, 2004 and are to be applied retroactively.

3 *Acquisitions*

On February 2, 2004, the Trust acquired the Mclvor Mall, a shopping centre located in Winnipeg, Manitoba for a total cost of \$6,448,350. The acquisition was funded entirely in cash.

On April 1, 2004, the Trust acquired Beck Court, a residential property located in Yellowknife, Northwest Territories for a total cost of \$14,154,662. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of \$10,733,383 with the balance paid in cash.

On April 15, 2004, the Trust acquired Greenwood Gardens, a residential property located in Surrey, British Columbia for a total cost of \$11,203,650. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of \$6,753,344, payment of a portion of the fee payable to the vendor's agent through the issuance of 20,000 Trust units at \$5.00 per unit, and the balance paid in cash.

On May 1, 2004, the Trust acquired Nova Manor and Nova Villa, two residential properties located in Edmonton, Alberta for a total cost of \$2,582,034 and \$5,370,804 respectively. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of \$2,355,302 and \$4,213,305 respectively, with the balance paid in cash.

On July 1, 2004, the Trust acquired Nova Ridge Estates, a residential property located in Spruce Grove, Alberta for a total cost of \$8,818,736. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of \$6,465,052 with the balance paid in cash.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

3 *Aquisitions (continued)*

The net assets acquired in the transactions are as follows:

Land	\$ 7,156,795
Building	38,168,481
Appliances	1,309,000
Deferred charges	
Tenant inducements	569,203
Intangible assets	
Lease origination costs	1,171,612
Tenant relationships	555,748
Cash flow guarantee	147,000
Above market in place leases	123,726
Intangible liabilities	
Below market in-place leases	(75,594)
Mortgage loans payable assumed	(30,520,386)
Working capital, net	<u>(547,735)</u>
	<u>\$ 18,057,850</u>
Consideration:	
Cash	\$ 18,007,850
Rental achievement holdback payable	<u>50,000</u>
	18,057,850
Less deposit	<u>(50,000)</u>
	<u>\$ 18,007,850</u>

4 *Income properties*

	Cost	Accumulated Amortization	Net Book Value September 30 2004	Net Book Value December 31 2003 (audited)
Land	\$ 10,906,861	\$ -	\$ 10,906,861	\$ 3,728,254
Buildings	49,902,763	(690,474)	49,212,289	11,156,219
Appliances	<u>1,309,000</u>	<u>(52,751)</u>	<u>1,256,249</u>	<u>-</u>
	<u>\$ 62,118,624</u>	<u>\$ (743,225)</u>	<u>\$ 61,375,399</u>	<u>\$ 14,884,473</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

5 *Mortgage loan receivable*

	September 30 2004	December 31 2003 (audited)
Minacs Building	\$ 2,150,000	\$ 1,150,000
Mclvor Mall	-	3,098,326
	<u>\$ 2,150,000</u>	<u>\$ 4,248,326</u>

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 \$1,150,000 loan advance bears interest at 12.5%. An additional loan advance of \$1,000,000 which was made on January 9, 2004 bears interest at 9%. Interest is payable monthly and the loan is repayable on December 31, 2004. The Trust may request the repayment of up to \$500,000 of the consideration upon 30 days notice.

6 *Deferred charges*

	Cost	Accumulated Amortization	Net Book Value September 30 2004	Net Book Value December 31 2003 (audited)
Tenant inducements	\$ 1,512,558	\$ (370,225)	\$ 1,142,333	\$ 714,694
Mortgage financing fees	169,120	(88,750)	80,370	10,448
Leasing expenses	146,723	(32,410)	114,313	122,422
Amounts recorded on income property acquisition				
Tenant inducements	<u>569,203</u>	<u>(57,581)</u>	<u>511,622</u>	<u>-</u>
	<u>\$ 2,397,604</u>	<u>\$ (548,966)</u>	<u>\$ 1,848,638</u>	<u>\$ 847,564</u>

Amortization of deferred charges consists of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Tenant inducements	\$ 65,381	\$ 41,464	\$ 178,008	\$ 109,839
Mortgage financing fees	2,243	6,299	19,846	43,366
Leasing expenses	5,786	3,627	17,108	9,517
Amounts recorded on income property acquisition				
Tenant inducements	<u>21,593</u>	<u>-</u>	<u>57,581</u>	<u>-</u>
	<u>\$ 95,003</u>	<u>\$ 51,390</u>	<u>\$ 272,543</u>	<u>\$ 162,722</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

7 *Cash*

Included in cash is \$464,386 (2003 - nil) relating to funds held in trust for tenant security deposits, future tenant inducements and a rental achievement holdback.

8 *Other assets*

	September 30 2004	December 31 2003
Amounts receivable	\$ 130,160	\$ 30,615
Loan receivable from tenant	250,000	-
Property tax deposits	96,331	-
Prepaid expenses	121,294	4,934
Deposits on potential acquisitions	400,000	50,000
Deferred rental revenue	<u>68,289</u>	<u>-</u>
	<u>\$ 1,066,074</u>	<u>\$ 85,549</u>

9 *Intangible assets*

	Cost	Accumulated Amortization	Net Book Value September 30 2004	Net Book Value December 31 2003 (audited)
Lease origination costs	\$ 1,171,612	\$ (407,378)	\$ 764,234	\$ -
Tenant relationships	555,748	(42,342)	513,406	-
Cash flow guarantee	<u>147,000</u>	<u>(127,892)</u>	<u>19,108</u>	<u>-</u>
	1,874,360	(577,612)	1,296,748	-
Above market in-place leases	<u>123,726</u>	<u>(15,032)</u>	<u>108,694</u>	<u>-</u>
	<u>\$ 1,998,086</u>	<u>\$ (592,644)</u>	<u>\$ 1,405,442</u>	<u>\$ -</u>

Amortization of intangible assets consists of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Lease origination costs	\$ 153,717	\$ -	\$ 407,378	\$ -
Tenant relationships	15,879	-	42,342	-
Cash flow guarantee	<u>127,892</u>	<u>-</u>	<u>127,892</u>	<u>-</u>
	297,488	-	577,612	-
Above market in-place leases	<u>5,637</u>	<u>-</u>	<u>15,032</u>	<u>-</u>
	<u>\$ 303,125</u>	<u>\$ -</u>	<u>\$ 592,644</u>	<u>\$ -</u>

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

10 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	<u>Interest Rates at September 30, 2004</u>			
	<u>Range</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Term to Maturity</u>	<u>September 30 2004</u>
Fixed rate mortgages payable	4.1% - 6.5%	5.4%	7.6 years	\$ 30,164,685
Floating rate mortgages payable	3.2% - 5.0%	4.1%	Demand	<u>17,134,642</u>
				<u>\$ 47,299,327</u>

	<u>Interest Rates at December 31, 2003</u>			
	<u>Range</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Term to Maturity</u>	<u>December 31 2003</u>
Fixed rate mortgages payable	6.5%	6.5%	9.7 years	\$ 934,944
Floating rate mortgages payable	5.1% - 5.5%	5.2%	Demand	<u>9,769,783</u>
				<u>\$ 10,704,727</u>

Approximate principal repayments are as follows:

Period Ending December 31

2004 - remainder of year	\$ 17,287,942
2005	634,613
2006	670,351
2007	708,147
2008	4,581,315
Thereafter	<u>23,416,959</u>
	<u>\$ 47,299,327</u>

The first mortgage loan relating to the Kenaston Property is authorized to a maximum of \$10,200,000 (2003 - \$10,200,000). The outstanding balance of the first mortgage loan at September 30, 2004 is \$9,586,011 (2003 - \$8,659,339).

The floating rate mortgages payable are payable on demand until such time as the interest rate and term are fixed. The income properties have been pledged as security under the related mortgage agreements.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

11 *Convertible debentures*

The Trust issued \$10,000,000 of Series C debentures by way of private placement on January 30, 2004. The Series C 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 Series C debentures are convertible at the request of the holder at any time prior to January 29, 2006 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.

On March 29, 2004, the Trust issued \$131,000 of Series C debentures with respect to interest on the first sixty days from the date of closing.

The Trust issued \$4,000,000 of Series D debentures by way of public offering on March 16, 2004. The Series D debentures bear interest at 8%, mature on March 15, 2008 and are subordinate to the mortgage loans payable. The Series D 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 Series D debentures are convertible at the request of the holder at any time prior to maturity at a conversion price of \$5.00.

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

<u>September 30, 2004</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 2,664,023	\$ 335,977	\$ 3,000,000
Series B - 8%, due August 30, 2005	62,266	879,734	942,000
Series C - 8%, due January 29, 2006	9,311,105	819,895	10,131,000
Series D - 8%, due March 15, 2008	<u>3,273,561</u>	<u>726,439</u>	<u>4,000,000</u>
	<u>\$ 15,310,955</u>	<u>\$ 2,762,045</u>	<u>\$ 18,073,000</u>
 <u>December 31, 2003</u>	 <u>Debt</u>	 <u>Equity</u>	 <u>Total</u>
			(audited)
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 2,598,399	\$ 401,601	\$ 3,000,000
Series B - 8%, due August 30, 2005	<u>106,249</u>	<u>835,751</u>	<u>942,000</u>
	<u>\$ 2,704,648</u>	<u>\$ 1,237,352</u>	<u>\$ 3,942,000</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

11 *Convertible debentures (continued)*

The accretion of the debt component for the three months ended September 30, 2004 of \$185,659 (2003 - \$6,310) and for the nine months ended September 30, 2004 of \$458,415 (2003 - \$17,866), 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.

12 *Intangible liabilities*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value September 30 2004</u>	<u>Net Book Value December 31 2003 (audited)</u>
Below market in-place leases	\$ 75,594	\$ (22,224)	\$ 53,370	\$ -

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

13 *Related party transactions*

Management agreement

The Trust incurred property management fees to Shelter Canadian Properties Limited of \$60,033 for the three months ended September 30, 2004 (2003 - \$18,715) and \$141,462 for the nine months ended September 30, 2004 (2003 - \$57,484).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of \$4,203 and \$877, respectively for the three months ended September 30, 2004 and \$7,510 and \$38,991 respectively for the nine months ended September 30, 2004, which were capitalized to deferred charges and income properties. Shelter Canadian Properties Limited waived leasing commissions and tenant improvement and renovation fees from the commencement date of the property management agreement to September 30, 2003.

Included in accounts payable and accrued liabilities at September 30, 2004 are property management fees, leasing commissions and tenant improvement and renovation fees of \$3,385 (2003 - \$48,100) payable to Shelter Canadian Properties Limited.

Services agreement

Unit-based compensation expense for the three months ended September 30, 2004 of \$2,847 (2003 - \$2,847) and for the nine months ended September 30, 2004 of \$8,541 (2003 - \$8,541), relating to options issued under the services agreement, was recorded to amortize the fair value of the unit-based compensation over the term of the services agreement.

Mortgage loan receivable

The Trust invested in a second mortgage loan, secured by the Minacs Building beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. Interest income of \$58,918 was recorded for the three months ended September 30, 2004 (2003 - \$20,572) and \$174,199 for the nine months ended September 30, 2004 (2003 - \$77,599).

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

14 Units

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

	Nine Months Ended September 30, 2004		Year Ended December 31, 2003	
	Units	Amount	Units (audited)	Amount (audited)
Outstanding, beginning of period	2,612,713	\$ 8,235,323	775,000	\$ 873,083
Units issued by private placement	-	-	1,823,213	7,292,852
Units issued on conversion of debentures	-	-	14,500	58,000
Unit based compensation Services agreement	-	8,541	-	11,388
Issued on income property acquisition	<u>20,000</u>	<u>86,200</u>	<u>-</u>	<u>-</u>
Outstanding, end of period	<u>2,632,713</u>	<u>\$ 8,330,064</u>	<u>2,612,713</u>	<u>\$ 8,235,323</u>

The 150,840 units which are subject to escrow as at September 30, 2004 (2003 - 301,670) will be released from escrow during the year ending December 31, 2005. All units which are subject to escrow are entitled to be voted and receive distributions.

The units in escrow are summarized as follows:

Units in Seed Shareholder Escrow	68,340
Units in Security Escrow	<u>82,500</u>
	<u>150,840</u>

15 Unit options

Unit option plan

The Trust granted options in 2002 to the two independent Trustees to acquire 10,000 units each at \$4.00 per unit. There has not been any options exercised for the nine months ended September 30, 2004 (2003 - \$Nil). The options have vested and expire October 29, 2007.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

16 *Rentals from income properties*

	Three Months Ended September 30		Nine Months Ended September 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Rent revenue contractually due from tenants	\$ 2,063,920	\$ 558,665	\$ 4,737,530	\$ 1,586,345
Accrued rental revenue recognized on a straight-line basis	26,561	-	68,289	-
Amortization of above market in-place leases	(5,637)	-	(15,032)	-
Amortization of below market in-place leases	<u>8,334</u>	<u>-</u>	<u>22,224</u>	<u>-</u>
	<u>\$ 2,093,178</u>	<u>\$ 558,665</u>	<u>\$ 4,813,011</u>	<u>\$ 1,586,345</u>

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of \$355,648 for the three months ended September 30, 2004 (2003 - \$181,613) and \$985,381 for the nine months ended September 30, 2004 (2003 - \$570,904).

17 *Interest and other income*

	Three Months Ended September 30		Nine Months Ended September 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Cash flow guarantee	\$ 127,892	\$ -	\$ 127,892	\$ -
Lease termination fee	-	130,356	-	130,356
Interest on mortgage loan receivable	58,918	20,571	174,199	77,599
Other	<u>29,251</u>	<u>9,824</u>	<u>99,714</u>	<u>17,606</u>
	<u>\$ 216,061</u>	<u>\$ 160,751</u>	<u>\$ 401,805</u>	<u>\$ 225,561</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

18 *Distributable income*

Distributable income is defined by the Declaration of Trust and represents non-GAAP information, which may not be comparable to measures used by other issuers.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Income (loss)	\$ (444,577)	\$ 128,332	\$ (797,836)	\$ 151,837
Add (deduct):				
Accrued rental revenue	(26,561)	-	(68,289)	-
Amortization of above market in-place leases	5,637	-	15,032	-
Amortization of below market in-place leases	(8,334)	-	(22,224)	-
Financing expense on convertible debentures	561,029	100,740	1,449,443	302,296
Interest expense on convertible debentures	(375,370)	(94,429)	(991,028)	(284,429)
Amortization of income properties	287,437	26,669	594,113	64,987
Amortization of intangible assets	<u>297,488</u>	<u>-</u>	<u>577,612</u>	<u>-</u>
Distributable income	<u>\$ 296,749</u>	<u>\$ 161,312</u>	<u>\$ 756,823</u>	<u>\$ 234,691</u>
Distributable income per unit (Note 19)				
Basic	\$ 0.113	\$ 0.167	\$ 0.288	\$ 0.280
Diluted	0.100	0.150	0.279	0.271

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

19 *Per unit calculations*

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Income (loss)	<u>\$ (444,577)</u>	<u>\$ 128,332</u>	<u>\$ (797,836)</u>	<u>\$ 151,837</u>
Diluted income (loss)	<u>\$ (444,577)</u>	<u>\$ 134,276</u>	<u>\$ (797,836)</u>	<u>\$ 172,386</u>
Weighted average number of units	2,632,713	965,894	2,625,049	839,331
Dilutive options	-	100	-	-
Dilutive convertible debentures Series B	<u>-</u>	<u>235,982</u>	<u>-</u>	<u>245,275</u>
Weighted average diluted number of units	<u>2,632,713</u>	<u>1,201,976</u>	<u>2,625,049</u>	<u>1,084,606</u>

Distributable income per unit calculations are based on the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Distributable income	<u>\$ 296,749</u>	<u>\$ 161,312</u>	<u>\$ 756,822</u>	<u>\$ 234,691</u>
Diluted distributable income	<u>\$ 516,682</u>	<u>\$ 180,741</u>	<u>\$ 1,348,861</u>	<u>\$ 294,120</u>
Weighted average number of units	2,632,713	965,894	2,625,049	839,331
Dilutive options	3,368	100	2,796	-
Dilutive convertible debentures Series B	272,816	235,982	206,965	245,275
Series C	<u>2,251,333</u>	<u>-</u>	<u>2,006,786</u>	<u>-</u>
Weighted average diluted number of units	<u>5,160,230</u>	<u>1,201,976</u>	<u>4,841,596</u>	<u>1,084,606</u>

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

20 *Segmented financial information*

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

Nine months ended September 30, 2004:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	2,631,764	252,537	1,928,710	-	4,813,011
Interest and other income	21,884	1,161	135,129	243,631	401,805
Property operating costs	1,120,600	36,158	738,430	-	1,895,188
Operating income	1,533,048	217,540	1,325,409	243,631	3,319,628
Financing expense	415,068	84,026	617,540	1,449,443	2,566,077
Amortization of income properties	226,867	23,509	343,737	-	594,113
Amortization of deferred charges	271,121	804	618	-	272,543
Amortization of intangible assets	198,289	-	379,323	-	577,612
Income (loss)	421,703	109,201	(15,809)	(1,312,931)	(797,836)
Total assets	21,120,582	2,895,840	42,594,938	4,597,607	71,208,967

Nine months ended September 30, 2003:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,528,133	58,212	-	-	1,586,345
Interest and other income	142,205	200	-	83,156	225,561
Property operating costs	652,376	9,028	-	-	661,404
Operating income	1,017,962	49,384	-	83,156	1,150,502
Financing expense	333,222	23,181	-	302,296	658,699
Amortization of income properties	62,664	2,323	-	-	64,987
Amortization of deferred charges	157,619	5,103	-	-	162,722
Income (loss)	464,457	18,777	-	(331,397)	151,837
Total assets	12,032,424	2,884,520	-	1,954,995	16,871,939

Three months ended September 30, 2004:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	956,993	84,179	1,052,006	-	2,093,178
Interest and other income	9,674	266	132,274	73,847	216,061
Property operating costs	416,935	11,984	481,864	-	910,783
Operating income	549,732	72,461	702,416	73,847	1,398,456
Financing expense	194,269	26,876	352,060	561,029	1,134,234
Amortization of income properties	78,453	7,836	201,148	-	287,437
Amortization of deferred charges	94,276	268	459	-	95,003
Amortization of intangible assets	74,359	-	223,129	-	297,488
Income (loss)	108,375	37,481	(74,380)	(516,053)	(444,577)
Total assets	21,120,582	2,895,840	42,594,938	4,597,607	71,208,967

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

20 *Segmented financial information (continued)*

Three months ended September 30, 2003:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	500,453	58,212	-	-	558,665
Interest and other income	136,898	200	-	23,653	160,751
Property operating costs	214,616	9,028	-	-	223,644
Operating income	422,735	49,384	-	23,653	495,772
Financing expense	111,921	23,181	-	100,740	235,842
Amortization of income properties	24,346	2,323	-	-	26,669
Amortization of deferred charges	46,287	5,103	-	-	51,390
Income (loss)	240,181	18,777	-	(130,626)	128,332
Total assets	12,032,424	2,884,520	-	1,954,995	16,871,939

Nine months ended September 30, 2004:

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	625,038	552,606	2,631,764	92,385	911,218	-	4,813,011
Interest and other income	129,309	4,106	21,884	352	2,523	243,631	401,805
Property operating costs	170,251	298,266	1,120,600	3,882	302,189	-	1,895,188
Operating income	584,096	258,446	1,533,048	88,855	611,552	243,631	3,319,628
Financing expense	209,378	182,099	415,068	44,456	265,633	1,449,443	2,566,077
Amortization of income properties	128,727	80,674	226,867	9,539	148,306	-	594,113
Amortization of deferred charges	327	291	271,121	804	-	-	272,543
Amortization of intangible assets	188,999	8,497	198,289	-	181,827	-	577,612
Income (loss)	56,665	(13,115)	421,703	34,056	15,786	(1,312,931)	(797,836)
Total assets	18,628,368	11,281,492	21,120,582	1,262,739	14,318,179	4,597,607	71,208,967

Nine months ended September 30, 2003:

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	48,811	-	1,528,132	9,402	-	-	1,586,345
Interest and other income	189	-	142,204	12	-	83,156	225,561
Property operating costs	8,993	-	652,376	35	-	-	661,404
Operating income	40,007	-	1,017,960	9,379	-	83,156	1,150,502
Financing expense	18,528	-	333,222	4,653	-	302,296	658,699
Amortization of income properties	1,936	-	62,664	387	-	-	64,987
Amortization of deferred charges	5,103	-	157,619	-	-	-	162,722
Income (loss)	14,440	-	464,455	4,339	-	(331,397)	151,837
Total assets	1,632,307	-	12,032,424	1,252,213	-	1,954,995	16,871,939

(unaudited)

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

20 *Segmented financial information (continued)*

Three months ended September 30, 2004:

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	367,839	286,641	956,993	30,795	450,910	-	2,093,178
Interest and other income	128,374	2,304	9,674	102	1,760	73,847	216,061
Property operating costs	106,298	175,458	416,935	1,270	210,822	-	910,783
Operating income	389,915	113,487	549,732	29,627	241,848	73,847	1,398,456
Financing expense	132,246	98,969	194,269	14,755	132,966	561,029	1,134,234
Amortization of income properties	94,981	36,670	78,453	3,180	74,153	-	287,437
Amortization of deferred charges	245	214	94,276	268	-	-	95,003
Amortization of intangible assets	161,881	3,893	74,359	-	57,355	-	297,488
Income (loss)	562	(26,259)	108,375	11,424	(22,626)	(516,053)	(444,577)
Total assets	18,628,368	11,281,492	21,120,582	1,262,739	14,318,179	4,597,607	71,208,967

Three months ended September 30, 2003:

	<u>Alberta</u>	<u>British Columbia</u>	<u>Manitoba</u>	<u>Ontario</u>	<u>Northwest Territories</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	48,811	-	500,452	9,402	-	-	558,665
Interest and other income	189	-	136,898	12	-	23,652	160,751
Property operating costs	8,993	-	214,616	35	-	-	223,644
Operating income	40,007	-	422,734	9,379	-	23,652	495,772
Financing expense	18,528	-	111,921	4,653	-	100,740	235,842
Amortization of income properties	1,936	-	24,346	387	-	-	26,669
Amortization of deferred charges	5,103	-	46,287	-	-	-	51,390
Income (loss)	14,440	-	240,180	4,339	-	(130,627)	128,332
Total assets	1,632,307	-	12,032,424	1,252,213	-	1,954,995	16,871,939

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

21 ***Subsequent events***

On October 1, 2004, the Trust acquired a multi-family residential property located in Peace River, Alberta for a purchase price of \$2,500,000. The consideration paid consisted of assumption of mortgage financing of \$2,038,136 with the balance paid in cash.

Subsequent to September 30, 2004, the Trust has entered into conditional offers to purchase five multi-family residential properties for a total cost of \$67,350,000, which are expected to close during the first and second quarter of 2005.

Subsequent to September 30, 2004, the interest rate and maturity date relating to the first mortgage financing for the Nova Ridge Estates were fixed. The \$6,465,052 first mortgage loan will bear interest at 4.67% and mature January 1, 2010.

Subsequent to September 30, 2004, the maturity date of the \$2,150,000 second mortgage loan receivable, secured by the Minacs building, was extended to June 30, 2005. The mortgage loan receivable will continue to bear interest at 12.5% on \$1,150,000 and 9% on \$1,000,000. The Trust may request the repayment of up to \$500,000 of the consideration upon 30 days notice.

The Trust has initiated a private placement offering of trust units for total gross proceeds of up to \$20 million. The unit offering is expected to close during the fourth quarter of 2004.

A distribution of \$368,580 was paid on October 15, 2004.

22 ***Comparative figures***

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

The comparative figures for the statement of equity have been restated to reflect the distribution payable at September 30, 2003. As a result, unitholders' equity at June 30, 2003 and September 30, 2003 have decreased by \$96,875 and 161,495 respectively. There was not any effect on the presentation of the current period.