

**LANESBOROUGH REAL ESTATE INVESTMENT TRUST**

**FINANCIAL STATEMENTS**

**(unaudited)**

**JUNE 30, 2004**

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## BALANCE SHEET

	<u>June 30</u> <u>2004</u>	<u>December 31</u> <u>2003</u> (audited)
<b>Assets</b>		
Income properties (Note 4)	\$ 52,976,878	\$ 14,884,473
Mortgage loan receivable (Note 5)	2,150,000	4,248,326
Deferred charges (Note 6)	1,810,551	847,564
Cash (Note 7)	5,931,925	1,828,597
Other assets (Note 8)	940,199	85,549
Intangible assets (Note 9)	<u>1,561,567</u>	<u>-</u>
	<b><u>\$ 65,371,120</u></b>	<b><u>\$ 21,894,509</u></b>
<b>Liabilities and Equity</b>		
Mortgage loans payable (Note 10)	\$ 40,944,094	\$ 10,704,727
Convertible debentures (Note 11)	15,126,971	2,704,648
Accounts payable and accrued liabilities	1,142,922	603,202
Distribution payable	329,089	-
Intangible liabilities (Note 12)	<u>61,704</u>	<u>-</u>
	<b>57,604,780</b>	14,012,577
Equity	<u>7,766,340</u>	<u>7,881,932</u>
	<b><u>\$ 65,371,120</u></b>	<b><u>\$ 21,894,509</u></b>

Approved by the Trustees

*"Arni C. Thorsteinson"*

*"Charles K. Loewen"*

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## STATEMENT OF EQUITY

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2004</u>	<u>2003</u> (Note 21)	<u>2004</u>	<u>2003</u> (Note 21)
Unitholders' equity, beginning of period	\$ 5,101,917	\$ 164,344	6,644,580	252,123
Unit-based compensation (Note 13 and 14)	89,047	2,847	91,894	5,694
Issue costs	-	-	(1,179,982)	-
Accretion on equity component of convertible debentures (Note 11)	172,453	5,834	272,756	11,556
Income (loss)	(214,017)	22,978	(353,259)	23,505
Distributions	<u>(329,089)</u>	<u>(96,875)</u>	<u>(655,678)</u>	<u>(193,750)</u>
Unitholders' equity, end of period	4,820,311	99,128	4,820,311	99,128
Equity component of convertible debentures (Note 11)	<u>2,946,029</u>	<u>1,300,994</u>	<u>2,946,029</u>	<u>1,300,994</u>
Equity, end of period	<u>\$ 7,766,340</u>	<u>\$ 1,400,122</u>	<u>\$ 7,766,340</u>	<u>\$ 1,400,122</u>

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## STATEMENT OF INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
<b>Revenue</b>				
Rentals from income properties (Note 16)	\$ 1,880,361	\$ 510,098	\$ 2,719,833	\$ 1,027,680
Interest and other income	<u>80,978</u>	<u>31,286</u>	<u>185,744</u>	<u>64,810</u>
	<b>1,961,339</b>	541,384	<b>2,905,577</b>	1,092,490
<b>Expenses</b>				
Property operating costs	<u>642,144</u>	<u>204,809</u>	<u>984,405</u>	<u>437,760</u>
Operating income	<u>1,319,195</u>	<u>336,575</u>	<u>1,921,172</u>	<u>654,730</u>
Financing expense	950,839	220,584	1,431,843	422,857
Trust expense	44,120	21,466	78,248	58,718
Amortization of income properties	228,878	19,159	306,676	38,318
Amortization of deferred charges	88,502	52,388	177,540	111,332
Amortization of intangible assets	<u>220,873</u>	<u>-</u>	<u>280,124</u>	<u>-</u>
	<u>1,533,212</u>	<u>313,597</u>	<u>2,274,431</u>	<u>631,225</u>
Income (loss)	<u>\$ (214,017)</u>	<u>\$ 22,978</u>	<u>\$ (353,259)</u>	<u>\$ 23,505</u>
Income (loss) per unit (Note 18)				
Basic	\$ (0.081)	\$ 0.030	\$ (0.135)	\$ 0.030
Diluted	(0.081)	0.029	(0.135)	0.030

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## STATEMENT OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
<b>Cash provided by (used in) operating activities</b>				
Income (loss) from operations	\$ (214,017)	\$ 22,978	\$ (353,259)	\$ 23,505
Items not affecting cash				
Accrued rental revenue (Note 16)	(24,884)	-	(41,729)	-
Amortization of above market in-place leases (Note 16)	5,637	-	9,395	-
Amortization of below market in-place leases (Note 16)	(8,334)	-	(13,890)	-
Accretion on debt component of convertible debentures	172,453	5,834	272,756	11,556
Interest on Series C debentures (Note 11)	-	-	131,000	-
Unit-based compensation	89,047	2,847	91,894	5,694
Amortization of income properties	228,878	19,159	306,676	38,318
Amortization of deferred charges	88,502	52,388	177,540	111,332
Amortization of intangible assets	220,873	-	280,124	-
Cash from operations	558,155	103,206	860,507	190,405
Changes in non-cash operating items (net of effects of acquisition of income properties)	(405,457)	33,469	(564,672)	112,835
Tenant inducements and leasing expenses incurred through leasing activity	(424,961)	25,693	(487,337)	(321,608)
	<u>(272,263)</u>	<u>162,368</u>	<u>(191,502)</u>	<u>(18,368)</u>
<b>Cash provided by (used in) financing activities</b>				
Proceeds of mortgage loan financing	5,814,302	223,457	6,433,316	537,950
Proceeds of convertible debentures	-	-	14,000,000	-
Repayment of mortgage loans	(163,921)	(48,025)	(249,281)	(101,828)
Deferred mortgage financing fees	(67,994)	(7,500)	(83,986)	(18,018)
Issue costs	-	-	(1,179,982)	-
Distribution paid	(326,589)	(96,875)	(326,589)	(96,875)
	<u>5,255,798</u>	<u>71,057</u>	<u>18,593,478</u>	<u>321,229</u>
<b>Cash provided by (used in) investing activities</b>				
Income properties acquired (Note 3)	(8,605,816)	-	(15,704,166)	-
Additions to income properties	(98,410)	(374,972)	(417,808)	(374,972)
Mortgage loans receivable advance	-	-	(1,000,000)	-
Repayment of mortgage loan receivable	-	-	3,098,326	-
Deposits on potential acquisitions	(150,000)	-	(275,000)	-
	<u>(8,854,226)</u>	<u>(374,972)</u>	<u>(14,298,648)</u>	<u>(374,972)</u>
<b>Cash increase (decrease)</b>	<b>(3,870,691)</b>	<b>(141,547)</b>	<b>4,103,328</b>	<b>(72,111)</b>
<b>Cash, beginning of period</b>	<b>9,802,616</b>	<b>191,931</b>	<b>1,828,597</b>	<b>122,495</b>
<b>Cash, end of period</b>	<b>\$ 5,931,925</b>	<b>\$ 50,384</b>	<b>\$ 5,931,925</b>	<b>\$ 50,384</b>
<b>Supplementary cash flow information</b>				
Interest paid	\$ 515,539	\$ 113,676	\$ 842,253	\$ 182,760

(unaudited)

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 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 will be 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 \$122,302 for the three months ended June 30, 2004 and \$160,396 for the six months ended June 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 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 lease. The values of tenant relationships are amortized over the term of the lease and renewal periods as applicable. 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 \$1,368 and \$242,466, respectively, for the three months ended June 30, 2004 and \$11,109 and \$316,112, respectively, for the six months ended June 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 June 30, 2004 and \$4,495 for the six months ended June 30, 2004.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 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 \$24,884 for the three months ended June 30, 2004 and \$41,729 for the six months ended June 30, 2004. In addition, accounts receivable is higher than would have been reported under the previous policy by \$41,729 at June 30, 2004.

### **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.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 3 *Aquisitions (continued)*

The net assets acquired in the transactions are as follows:

Land	\$ 6,306,795
Building	30,732,681
Appliances	941,800
Deferred charges	
Tenant inducements	569,203
Intangible assets	
Lease origination costs	1,171,612
Tenant relationships	555,748
Above market in place leases	123,726
Intangible liabilities	-
Below market in-place leases	(75,594)
Mortgage loans payable assumed	(24,055,334)
Working capital, net	<u>(566,471)</u>
	<u>\$ 15,704,166</u>

### 4 *Income properties*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2004</u>	<u>Net Book Value December 31 2003 (audited)</u>
Land	\$ 10,042,320	\$ -	\$ 10,042,320	\$ 3,728,254
Buildings	42,448,545	(435,672)	42,012,873	11,156,219
Appliances	<u>941,800</u>	<u>(20,115)</u>	<u>921,685</u>	<u>-</u>
	<u>\$ 53,432,665</u>	<u>\$ (455,787)</u>	<u>\$ 52,976,878</u>	<u>\$ 14,884,473</u>

### 5 *Mortgage loan receivable*

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

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 6 *Deferred charges*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2004</u>	<u>Net Book Value December 31 2003 (audited)</u>
Tenant inducements	\$ 1,387,286	\$ (304,844)	\$ 1,082,442	\$ 714,694
Mortgage financing fees	163,338	(86,506)	76,832	10,448
Leasing expenses	144,687	(26,625)	118,062	122,422
Amounts recorded on income property acquisition				
Tenant inducements	<u>569,203</u>	<u>(35,988)</u>	<u>533,215</u>	<u>-</u>
	<u>\$ 2,264,514</u>	<u>\$ (453,963)</u>	<u>\$ 1,810,551</u>	<u>\$ 847,564</u>

Amortization of deferred charges consists of the following:

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Tenant inducements	\$ 59,937	\$ 33,647	\$ 112,628	\$ 68,375
Mortgage financing fees	1,342	15,267	17,602	37,067
Leasing expenses	5,630	3,474	11,322	5,890
Amounts recorded on income property acquisition				
Tenant inducements	<u>21,593</u>	<u>-</u>	<u>35,988</u>	<u>-</u>
	<u>\$ 88,502</u>	<u>\$ 52,388</u>	<u>\$ 177,540</u>	<u>\$ 111,332</u>

### 7 *Cash*

Included in cash is \$380,540 (2003 - nil) relating to funds held in trust for future tenant inducements and tenant security deposits.

### 8 *Other assets*

	<u>June 30 2004</u>	<u>December 31 2003</u>
Amounts receivable	\$ 84,763	\$ 30,615
Loan receivable from tenant	250,000	-
Property tax deposits	136,991	-
Prepaid expenses	101,716	4,934
Deposits on potential acquisitions	325,000	50,000
Deferred rental revenue	<u>41,729</u>	<u>-</u>
	<u>\$ 940,199</u>	<u>\$ 85,549</u>

**LANESBOROUGH REAL ESTATE INVESTMENT TRUST**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**9 Intangible assets**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2004</u>	<u>Net Book Value December 31 2003 (audited)</u>
Lease origination costs	\$ 1,171,612	\$ (253,660)	\$ 917,952	\$ -
Tenant relationships	<u>555,748</u>	<u>(26,464)</u>	<u>529,284</u>	<u>-</u>
	1,727,360	(280,124)	1,447,236	-
Above market in-place leases	<u>123,726</u>	<u>(9,395)</u>	<u>114,331</u>	<u>-</u>
	<u>\$ 1,851,086</u>	<u>\$ (289,519)</u>	<u>\$ 1,561,567</u>	<u>\$ -</u>

Amortization of intangible assets consists of the following:

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Lease origination costs	\$ 214,672	\$ -	\$ 253,660	\$ -
Tenant relationships	<u>6,201</u>	<u>-</u>	<u>26,464</u>	<u>-</u>
	220,873	-	280,124	-
Above market in-place leases	<u>5,637</u>	<u>-</u>	<u>9,395</u>	<u>-</u>
	<u>\$ 226,510</u>	<u>\$ -</u>	<u>\$ 289,519</u>	<u>\$ -</u>

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

**10 Mortgage loans payable**

Mortgage payable consists of the following:

	<u>Interest Rates at June 30, 2004</u>		<u>Weighted Average Term to Maturity</u>	<u>June 30, 2004</u>
	<u>Range</u>	<u>Weighted Average Interest Rate</u>		
Fixed rate mortgage payable	4.1% - 6.5%	5.4%	7.8 years	\$ 30,308,686
Floating rate mortgages payable	4.4% - 4.8%	4.4%	Demand	<u>10,635,408</u>
				<u>\$ 40,944,094</u>

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 10 *Mortgage loan payable (continued)*

	Interest Rates at December 31, 2003		Weighted Average Term to Maturity	December 31 2003
	Range	Weighted Average Interest Rate		
Fixed rate mortgage 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	\$ 10,932,709
2005	634,613
2006	670,351
2007	708,147
2008	4,581,315
Thereafter	<u>23,416,959</u>
	<u>\$ 40,944,094</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 June 30, 2004 is \$9,544,502 (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.

### 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.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 11 *Convertible debentures (continued)*

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 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>June 30, 2004</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>
Convertible debentures			
Series A - 10%, due August 30, 2007	\$ 2,641,131	\$ 358,869	\$ 3,000,000
Series B - 8%, due August 30, 2005	77,723	864,277	942,000
Series C - 8%, due January 29, 2006	9,174,277	956,723	10,131,000
Series D - 8%, due March 15, 2008	<u>3,233,840</u>	<u>766,160</u>	<u>4,000,000</u>
	<u>\$ 15,126,971</u>	<u>\$ 2,946,029</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>

The accretion of the debt component for the three months ended June 30, 2004 of \$172,453 (2003 - \$5,834) and for the six months ended June 30, 2004 of \$272,756 (2003 - \$11,556), 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.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 12 *Intangible liabilities*

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value June 30 2004</u>	<u>Net Book Value December 31 2003 (audited)</u>
Below market in-place leases	\$ 75,594	\$ (13,890)	\$ 61,704	\$ -

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 \$54,241 for the three months ended June 30, 2004 (2003 - \$19,042) and \$81,429 for the six months ended June 30, 2004 (2003 - \$38,769).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of \$881 and \$20,115, respectively for the three months ended June 30, 2004 and \$3,307 and \$38,114 respectively for the six months ended June 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 June 30, 2004 are property management fees, leasing commissions and tenant improvement and renovation fees of \$44,629 (2003 - \$524) payable to Shelter Canadian Properties Limited.

#### **Services agreement**

Unit-based compensation expense for the three months ended June 30, 2004 of \$2,847 (2003 - \$2,847) and for the six months ended June 30, 2004 of \$5,694 (2003 - \$5,694), 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 \$58,278 was recorded for the three months ended June 30, 2004 (2003 - \$28,671) and \$115,281 for the six months ended June 30, 2004 (2003 - \$57,027). Accounts receivable at June 30, 2004 includes accrued interest on the second mortgage loan of \$4,726 (2003 - \$3,237), due from 2668921 Manitoba Ltd.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 14 Units

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

	Six Months Ended June 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	-	5,694	-	11,388
Units 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>\$ 8,327,217</u>	<u>2,612,713</u>	<u>\$ 8,235,323</u>

The 260,417 units which are subject to escrow as at June 30, 2004 (2003 - 411,250) will be released from escrow on the vesting dates noted below. All units which are 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	41,250	109,583	December 31, 2004
<u>68,334</u>	<u>82,500</u>	<u>150,834</u>	December 31, 2005
<u>136,667</u>	<u>123,750</u>	<u>260,417</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 six months ended June 30, 2004 (2003 - \$Nil). The options have vested and expire October 29, 2007.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 16 *Rentals from income properties*

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Rent revenue contractually due from tenants	\$ 1,852,780	\$ 510,098	\$ 2,673,609	\$ 1,027,680
Accrued rental revenue recognized on a straight-line basis	24,884	-	41,729	-
Amortization of above market in-place leases	(5,637)	-	(9,395)	-
Amortization of below market in-place leases	8,334	-	13,890	-
	<u>\$ 1,880,361</u>	<u>\$ 510,098</u>	<u>\$ 2,719,833</u>	<u>\$ 1,027,680</u>

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of \$223,639 for the three months ended June 30, 2004 (2003 - \$183,653) and \$501,732 for the six months ended June 30, 2004 (2003 - \$389,291).

### 17 *Distributable income*

Distributable income is defined by the Declaration of Trust which 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 June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Income (loss)	\$ (214,017)	\$ 22,978	\$ (353,259)	\$ 23,505
Add (deduct):				
Accrued rental revenue	(24,884)	-	(41,729)	-
Amortization of above market in-place leases	5,637	-	9,395	-
Amortization of below market in-place leases	(8,334)	-	(13,890)	-
Financing expense on convertible debentures	544,763	100,835	888,414	201,557
Interest expense on convertible debentures	(372,310)	(95,000)	(615,658)	(190,000)
Amortization of income properties	228,878	19,159	306,676	38,318
Amortization of intangible assets	220,873	-	280,124	-
Distributable income	<u>\$ 380,606</u>	<u>\$ 47,972</u>	<u>\$ 460,073</u>	<u>\$ 73,380</u>
Distributable income per unit (Note 18)				
Basic	\$ 0.145	\$ 0.062	\$ 0.176	\$ 0.095
Diluted	0.115	0.062	0.175	0.095

(unaudited)

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 18 *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 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 June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Income (loss)	<u>\$ (214,017)</u>	<u>\$ 22,978</u>	<u>\$ (353,259)</u>	<u>\$ 23,505</u>
Diluted income (loss)	<u>\$ (214,017)</u>	<u>\$ 30,002</u>	<u>\$ (353,259)</u>	<u>\$ 23,505</u>
Weighted average number of units	2,629,636	775,000	2,621,175	775,000
Dilutive options	-	20,000	-	-
Dilutive convertible debentures Series B	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>
Weighted average diluted number of units	<u>2,629,636</u>	<u>1,045,000</u>	<u>2,621,175</u>	<u>775,000</u>

Distributable income per unit calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Distributable income	<u>\$ 380,606</u>	<u>\$ 47,972</u>	<u>\$ 460,073</u>	<u>\$ 73,380</u>
Diluted distributable income	<u>\$ 677,916</u>	<u>\$ 47,972</u>	<u>\$ 832,179</u>	<u>\$ 73,380</u>
Weighted average number of units	2,629,636	775,000	2,621,175	775,000
Dilutive options	2,759	-	2,340	-
Dilutive convertible debentures Series B	209,333	-	209,333	-
Series C	2,251,333	-	1,883,167	-
Series D	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Weighted average diluted number of units	<u>5,893,061</u>	<u>775,000</u>	<u>4,716,015</u>	<u>775,000</u>

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 19 *Segmented financial information*

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

Six months ended June 30, 2004:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,674,771	168,358	876,704	-	2,719,833
Interest and other income	12,209	895	2,854	169,786	185,744
Property operating costs	703,665	65,284	256,563	-	1,025,512
Operating income	983,315	103,969	622,995	169,786	1,880,065
Financing expense	220,799	57,150	265,480	888,414	1,431,843
Amortization of income properties	148,415	15,672	142,589	-	306,676
Amortization of deferred charges	176,845	536	159	-	177,540
Amortization of intangible assets	123,931	-	156,193	-	280,124
Income (loss)	313,328	71,718	58,571	(796,876)	(353,259)
Total assets	20,976,845	2,866,087	33,886,630	7,641,558	65,371,120

Six months ended June 30, 2003:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	1,027,680	-	-	-	1,027,680
Interest and other income	5,306	-	-	59,504	64,810
Property operating costs	437,760	-	-	-	437,760
Operating income	595,226	-	-	59,504	654,730
Financing expense	221,301	-	-	201,556	422,857
Amortization of income properties	38,318	-	-	-	38,318
Amortization of deferred charges	111,332	-	-	-	111,332
Income (loss)	224,275	-	-	(200,770)	23,505
Total assets	11,834,105	1,603,686	-	1,174,466	14,612,257

Three months ended June 30, 2004:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	920,068	83,589	876,704	-	1,880,361
Interest and other income	9,662	433	2,854	68,029	80,978
Property operating costs	374,036	11,545	256,563	-	642,144
Operating income	555,694	72,477	622,995	68,029	1,319,195
Financing expense	112,718	27,877	265,480	544,764	950,839
Amortization of income properties	78,453	7,836	142,589	-	228,878
Amortization of deferred charges	88,075	268	159	-	88,502
Amortization of intangible assets	64,680	-	156,193	-	220,873
Income (loss)	211,771	36,496	58,571	(520,855)	(214,017)
Total assets	20,976,845	2,866,087	33,886,630	7,641,558	65,371,120

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 19 *Segmented financial information (continued)*

Three months ended June 30, 2003:

	<u>Commercial</u>	<u>Light Industrial</u>	<u>Residential</u>	<u>Trust</u>	<u>Total</u>
Rentals from income properties	510,098	-	-	-	510,098
Interest and other income	2,239	-	-	29,047	31,286
Property operating costs	204,809	-	-	-	204,809
Operating income	307,528	-	-	29,047	336,575
Financing expense	119,750	-	-	100,834	220,584
Amortization of income properties	19,159	-	-	-	19,159
Amortization of deferred charges	52,388	-	-	-	52,388
Income (loss)	116,231	-	-	(93,253)	22,978
Total assets	11,834,105	1,603,686	-	1,174,466	14,612,257

Six months ended June 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	257,199	265,965	1,674,771	61,590	460,308	-	2,719,833
Interest and other income	934	1,802	12,209	250	763	169,786	185,744
Property operating costs	63,948	122,810	703,665	2,615	91,367	-	984,405
Operating income	194,185	144,957	983,315	59,225	369,704	169,786	1,921,172
Financing expense	77,133	83,130	220,799	29,700	132,667	888,414	1,431,843
Amortization of income properties	33,745	44,004	148,414	6,360	74,153	-	306,676
Amortization of deferred charges	82	78	176,844	536	-	-	177,540
Amortization of intangible assets	27,117	4,604	123,931	-	124,472	-	280,124
Income (loss)	56,105	13,141	313,328	22,630	38,413	(796,876)	(353,259)
Total assets	9,766,202	11,347,155	20,976,845	1,255,757	14,383,603	7,641,558	65,371,120

Six months ended June 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	-	-	1,027,680	-	-	-	1,027,680
Interest and other income	-	-	5,306	-	-	59,504	64,810
Property operating costs	-	-	437,760	-	-	-	437,760
Operating income	-	-	595,226	-	-	59,504	654,730
Financing expense	-	-	221,301	-	-	201,556	422,857
Amortization of income properties	-	-	38,318	-	-	-	38,318
Amortization of deferred charges	-	-	111,332	-	-	-	111,332
Income (loss)	-	-	224,275	-	-	(200,770)	23,505
Total assets	1,603,686	-	11,834,105	-	-	1,174,466	14,612,257

(unaudited)

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### 19 *Segmented financial information (continued)*

Three months ended June 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	203,225	265,965	920,068	30,795	460,308	-	1,880,361
Interest and other income	601	1,802	9,662	121	763	68,029	80,978
Property operating costs	52,595	122,810	374,036	1,336	91,367	-	642,144
Operating income	151,231	144,957	555,694	29,580	369,704	68,029	1,319,195
Financing expense	62,742	83,130	112,718	14,818	132,667	544,764	950,839
Amortization of income properties	29,089	44,004	78,452	3,180	74,153	-	228,878
Amortization of deferred charges	82	78	88,074	268	-	-	88,502
Amortization of intangible assets	27,117	4,604	64,680	-	124,472	-	220,873
Income (loss)	32,198	13,141	211,771	11,315	38,413	(520,855)	(214,017)
Total assets	9,766,202	11,347,155	20,976,845	1,255,757	14,383,603	7,641,558	65,371,120

Three months ended June 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	-	-	510,098	-	-	-	510,098
Interest and other income	-	-	2,239	-	-	29,047	31,286
Property operating costs	-	-	204,809	-	-	-	204,809
Operating income	-	-	307,528	-	-	29,047	336,575
Financing expense	-	-	119,750	-	-	100,834	220,584
Amortization of income properties	-	-	19,159	-	-	-	19,159
Amortization of deferred charges	-	-	52,388	-	-	-	52,388
Income (loss)	-	-	116,231	-	-	(93,253)	22,978
Total assets	1,603,686	-	11,834,105	-	-	1,174,466	14,612,257

### 20 *Subsequent event*

On July 1, 2004, the Trust acquired a multi-family residential property located in Spruce Grove, Alberta for a purchase price of \$8,800,000. The consideration paid consisted of assumption of first mortgage financing of \$5,980,484 with the balance paid in cash.

Subsequent to June 30, 2004, the Trust has entered into a conditional offer to purchase a multi-family residential property located in Peace River, Alberta, for a purchase price of \$2,600,000, which is expected to close during the third quarter of 2004.

A distribution of \$329,089 was paid on July 15, 2004.

# LANESBOROUGH REAL ESTATE INVESTMENT TRUST

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

### **21**     *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 June 30, 2003. As a result, unitholders' equity at March 31, 2003 and June 30, 2003 have decreased by \$96,875. There was not any effect on the presentation of the current period.