LANESBOROUGH REIT

2003 ANNUAL REPORT

OBJECTIVES

To provide Unitholders with stable cash distributions, payable quarterly and to the maximum extent reasonably possible, tax deferred; and

To maximize unit value through ongoing active management of the assets of LREIT, the acquisition of additional properties or interests therein and the financing of new developments.

Financial Highlights **As at December 31**	2003		2002	
Revenue:				
Rentals from Income properties	$ 2,172,374		$ 1,211,190	
Interest and other income	268,446		24,514	
Total revenue	2,440,840		1,235,704	
Operating income	1,533,706		677,941	
Net income (loss)	175,938		(47,970)	
Total assets	21,894,509		12,544,843	
Mortgage loans payable	10,704,727		7,882,709	
Convertible debentures	2,704,648		2,687,449	
	13,409,375		10,570,158	
Cash distributions	525,585		124,000	
	($0.50/unit)		($0.16/unit)	
Distributable income	299,840		9,679	
PER UNIT	Basic	Diluted	Basic	Diluted
Operating income	1.55	1.25	1.022	1.022
Net income	0.178	0.165	(0.072)	(0.072)
Distributable income	0.303	0.303	0.015	0.013

The focus of LREIT is to invest in quality real estate properties in markets across Canada to produce a geographically diversified portfolio with strong cash flows which, when combined with experienced management, is intended to provide future ongoing cash flow and value growth opportunities for Unitholders.

REPORT TO UNITHOLDERS

Fiscal 2003 was a successful year for LREIT, with the Trust achieving significant growth in its asset base and net income and successfully completing two new unit offerings which have resulted in an increased pool of investment capital. The Trust is positioned for further progress in 2004.

In accordance with its investment strategy of seeking quality real estate properties with strong tenant covenants and stable yields, LREIT acquired two light industrial properties in 2003, both of which are 100% leased to single tenants and secured by long-term lease agreements. During 2003, LREIT also proceeded with a comprehensive and proactive capital improvement plan for the Kenaston Village Mall in Winnipeg, encompassing the construction of a 9,032 square foot addition to the property and extensive renovations to the exterior façade of the original building. The capital improvements have transformed the mall to a more dynamic and modern shopping complex and significantly enhanced the marketability of the property. As of December 31, 2003, the Kenaston Village Mall was 100% leased, including a 12 year lease agreement which has been secured for the 9,032 square foot addition.

In terms of financing investments, LREIT continued with its investment in the Minacs Building in 2003, achieving interest income at an average rate of 11.13% on the second mortgage loan financing. In December 2003, the Trust also provided a first mortgage loan of approximately $3.1 Million for a shopping centre in Winnipeg (the McIvor Mall) at an interest rate of 5.23%. The McIvor Mall was purchased by the Trust in February 2004, at which time the first mortgage loan was fully repaid. The McIvor Mall is viewed as an excellent investment due to the potential for achieving significant gains in value through a proactive leasing strategy, physical upgrade and remarketing initiatives.

The ability to raise additional capital is a significant factor in the assessment of an investment trust and the recent accomplishments of LREIT in the placement of new equity and debenture offerings are very positive indicators of the level of investor confidence in the Trust. During 2003, LREIT raised approximately $7.3 Million of additional capital from the private placement of trust units. In January 2004, an additional $10 Million of capital was raised from a private placement of a new convertible debenture offering, while $4 Million of additional capital was raised in March 2004 from a public convertible debenture offering.

In summary, LREIT has raised in excess of $21 Million of additional capital since January 1, 2003, representing the potential for additional property acquisitions of approximately $85 Million, based on a 75% debt financing percentage.

One of the primary objectives of LREIT is to maximize unit values by creating a large diversified portfolio of quality real estate investments through the ongoing acquisition of additional properties. In fiscal 2003, the gross book value of the income properties of LREIT increased from $10.8 Million to $15 Million. The outlook for fiscal 2004 is for the value of the income properties to exceed $100 Million.

In 2004, there will also be a marked shift in the investment policy of LREIT toward the acquisition of multi-family residential properties. The new investment focus will result in an opportune blend of skill and resources, given the expertise and decades long experience of Shelter Canadian Properties Limited in the development and management of multi-family residential properties.

In summary, the strong performance of LREIT in 2003 is expected to be followed by further growth in 2004. The Board of Trustees and the management team of Shelter Canadian Properties Limited is committed to delivering strong investment returns to the Unitholders in 2004, through the prudent acquisition of quality properties and the continued implementation of pro-active and superior management practices.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

"Arni C. Thorsteinson"

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
April 16, 2004

LREIT Unit Price History – TSX Venture Exchange

Month	High	Low	Volume
2004			
To April 15th	$4.75	$4.36	9,600
March	$5.05	$4.60	8,800
February	$5.00	$4.50	12,600
January	$4.50	$3.85	42,500
2003			
December	$4.25	$3.50	12,600
November	$4.10	$3.75	11,500
October	$4.60	$3.75	17,200
September	$4.60	$3.70	17,100
August	$4.15	$3.95	3,300
July	$4.15	$4.00	14,200
June	$4.05	$3.25	29,500
May	$3.25	$2.80	1,500
April	$3.25	$2.50	800
March	$3.50	$2.50	3,000
February	$3.40	$2.85	5,800
January	$3.50	$2.75	8,600
2002			
December	$3.10	$2.75	6,500
November	$3.15	$3.00	4,700
October	$3.50	$3.15	3,700
September	$4.00	$3.00	20,600

INVESTMENT AND FINANCING ACTIVITY

INCOME PROPERTIES

Income Properties – December 31, 2003

Property	City	Province	Year of Acquisition	Type	Leasable Area	Occupancy 12/31/03
Kenaston	Winnipeg	MB	2002	Office/retail	103,209	95.5%
MAAX Warehouse	Airdrie	AB	2003	Light Industrial	39,936	100%
Purolator Building	Burlington	ON	2003	Light Industrial	16,117	100%

Property Acquisitions

During fiscal 2003, LREIT acquired the MAAX Warehouse and the Purolator Building.

During the first quarter of fiscal 2004, LREIT acquired the McIvor Mall and finalized purchase agreements for Beck Court and Greenwood Gardens.

The Kenaston Property – Winnipeg, Manitoba

The Kenaston Property consists of two buildings in a joined development, containing 103,209 square feet of leasable space, including the recent 9,032 square foot addition to the property. Kenaston Place is a three-storey office building, with a restaurant on the main floor, comprised of 42,917 square feet of leasable space. Kenaston Village Mall is a single storey retail/service centre, comprised of 60,292 square feet of leasable space, featuring a number of unique speciality shops and dining establishments. As of December 31, 2003, the Kenaston Property was effectively 95% leased, including 4,953 square feet or 4.8% of the total leasable space, relating to a tenant that was permitted to buy out its lease in July 2003, with a discounted prepayment of rent to May 2004.

The Kenaston Property was acquired on April 24, 2002 at a price of $10,650,000. The acquisition was partially funded from the proceeds of a first mortgage loan from Astra Credit Union in the amount of $7,987,500. Subsequently, the registered amount of the loan was increased to $10.2 Million in order to provide for additional funding for leasehold improvements, building exterior upgrades and the construction of a 9,032 square foot addition to the mall, including land acquisition costs.

MAAX Warehouse - Airdrie, Alberta

The MAAX Warehouse property consists of a 39,936 square foot warehouse building situated on a 2.06 acre site, located in Airdrie, Alberta. Airdrie is located just north of Calgary on the Calgary-Edmonton corridor. The warehouse building is 100% leased to a single tenant, MAAX Inc., with the lease expiring on December 31, 2008. MAAX is the largest manufacturer of bathroom products and fixtures in Canada and the sixth largest in the United States. The property also includes a vacant adjacent site of 1.896 acres, providing the opportunity for future expansion.

The MAAX Warehouse property was acquired on June 30, 2003 at a price of $1.575 Million, excluding acquisition costs and closing adjustments. The acquisition was partially funded from the proceeds of a first mortgage loan from Capital City Savings in the amount of $1,120,000.

Purolator Building – Burlington, Ontario

The Purolator Building is a light industrial property consisting of 16,117 square feet, located in Burlington, Ontario. The building is 100% leased to Purolator Courier Ltd., with the lease expiring on September 30, 2012. The building serves as the main distribution centre for Purolator for the Hamilton region of Ontario. Purolator is Canada's leading overnight courier company.

The Purolator Building was acquired on September 2, 2003 at a price of $1.2 Million, excluding acquisition costs and closing adjustments. The acquisition was partially funded from the proceeds of a first mortgage loan from Commercial Mortgage Origination Company of Canada in the amount of $937,500.

McIvor Mall – Winnipeg, Manitoba

On February 2, 2004, LREIT acquired the McIvor Mall, a 65,283 square foot shopping centre, located in Winnipeg, Manitoba. On the acquisition date, the property was 92.7% leased. The anchor tenants of the property include Federated Co-op, Pharma Plus Drugmart and the Royal Bank of Canada.

The acquisition cost of the McIvor Mall of $6.7 Million was funded entirely by a cash payment, pending the arrangement of first mortgage loan financing. It is anticipated that the first mortgage loan financing will be $5.4 Million.

Beck Court – Yellowknife, Northwest Territories

In March 2004, LREIT completed an agreement to acquire Beck Court, a newly constructed apartment complex in Yellowknife, Northwest Territories, consisting of two four-storey buildings, with a total of 120 suites. The purchase price is $14.3 Million and encompasses the assumption of a 4.97% first mortgage loan of approximately $10.8 Million. The acquisition closed on April 1, 2004.

Greenwood Gardens – Surrey, British Columbia

In March 2004, LREIT also completed an agreement to acquire Greenwood Gardens, an apartment complex in Surrey, British Columbia, consisting of three, three-storey buildings with a total of 183 suites. The purchase price is $10.95 Million and encompasses the assumption of a 6% first mortgage loan of approximately $6.8 Million. The acquisition closed on April 15, 2004.

Capital Expenditures

During 2003, a comprehensive exterior improvement program was completed at the Kenaston Village Mall. The improvements consist of the construction of a new exterior façade and the installation of new tenant signs. The improvements have enhanced the long-term marketability of the property and improved the aesthetic appeal of the entire site.

During 2003, LREIT also acquired a section of the former CN Rail right-of-way land, which is located adjacent to the east side of the Kenaston Property, at a price of $425,000. The land was partially used for the purpose of constructing a 9,032 square foot addition to Kenaston Village Mall in order to accommodate a new deluxe spa, to be operated by Giselle's Professional Skin Care. The anticipated cost of the building addition is $1 Million. Construction of the new addition was approximately 33% complete as of December 31, 2003 and Giselle's is expected to open for business in early May 2004. The lease agreement with Giselle's also encompasses a tenant loan of $250,000 for the purpose of funding leasehold improvements. The tenant loan bears interest at a rate of 12%, with a term of eight years.

The exterior improvements and the fiscal 2003 construction costs in regard to the building addition were funded from operating cash flow and from additional first mortgage loan advances from Astra Credit Union.

MORTGAGE LOANS RECEIVABLE

As of December 31, 2002, the mortgage loan investments of LREIT consisted of a $1.15 Million 10% second mortgage loan, secured by the Minacs Building in Oshawa, Ontario. The Minacs loan was advanced on December 19, 2002.

As of December 31, 2003, the mortgage loan investments of LREIT consisted of the $1.15 Million Minacs loan, at an increased interest rate of 12.5%, and a $3,098,326 first mortgage loan, secured by the McIvor Mall, bearing interest at 5.23%. The McIvor loan was advanced in December 2003 in order to provide financing for the mall, pending the completion of the acquisition of the property by LREIT in February 2004.

Details regarding repayments and re-advances in regard to the Minacs loan during 2003 are provided in Note 6 of the Audited Financial Statements.

The first mortgage loan on the McIvor Mall was fully repaid on the acquisition date of the property. In January 2004, an additional advance of $1 Million was provided on the Minacs second mortgage loan, at an interest rate of 9%, thereby increasing the total amount of the loan to $2.15 Million. The Minacs loan is repayable on June 30, 2004.

OFFERING OF TRUST UNITS

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

On December 22, 2003, LREIT completed a private placement of 1,250,000 trust units to an institutional investor at a price of $4 per unit, resulting in total gross proceeds of $5 Million.

DEBENTURE OFFERINGS

In January 2004, LREIT raised gross proceeds of $10 Million from the private placement of 10,000 Senior Secured Series C Convertible Debentures, bearing interest at rate of 8%. An additional $4 Million of capital was raised in March 2004 from the public placement of 4,000 Senior Subordinated Series D Convertible Debentures, also bearing interest at a rate of 8%.

The terms of the new debenture offerings are disclosed in Note 20 of the Audited Financial Statements.

MANAGEMENT DISCUSSION AND ANALYSIS

The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the financial statements and accompanying notes.

Overall Financial Highlights **As at December 31**	2003	2002
Working capital	$5,559,270	$906,299
Net cash increase (decrease)	$1,706,102	$(211,195)
Net income (loss)	$175,938	$(47,970)

RESULTS OF OPERATIONS

SIGNIFICANT EVENTS AND TRANSACTIONS

Comparability of Fiscal 2003 and Fiscal 2002 Financial Results

LREIT was created on April 23, 2002 and operated as a privately owned investment Trust until August 29, 2002. The inception date of LREIT as a publicly-listed entity on the TSX Venture Exchange occurred on August 30, 2002.

On April 24, 2002, LREIT acquired the Kenaston Property. The acquisition was partially funded by a participating loan from Shelter Canadian Properties Limited. The net income of the Kenaston Property for the period from April 24, 2002 to August 30, 2002 was remitted to Shelter Canadian, as an interest payment, under the terms of the participating loan.

The preceding events significantly impact the comparability of the fiscal 2003 and fiscal 2002 operating results of LREIT, as follows:

Shortened Fiscal Year in 2002

The 2002 fiscal year encompasses a period of eight months and eight days, commencing on April 23, 2002, whereas the 2003 fiscal year encompasses a period of 12 months. The shortened fiscal year in 2002 has resulted in significantly higher rental revenues and property operating costs in fiscal 2003; and

Four Months of Substantive Operations in 2002

The majority of income statement items which do not pertain to property operations, such as financing expense on convertible debentures, trust expenses and interest income, were not substantive until the last four months of the 2002 fiscal year, following the inception date of the Trust, on August 30, 2002. Moreover, as a result of the interest payment in regard to the participating loan on the Kenaston Property for the period from April 24, 2002 to August 30, 2002, the Statement of Loss for fiscal 2002 only reflects net income from income properties for a period of four months. The four month period of substantive operations in 2002, compared to a 12 month period in 2003, has resulted in significantly higher expenses and net income in 2003.

Segmented Information

Segmented financial information is provided in Note 18 to the Audited Financial Statements. The Kenaston Property accounted for approximately 85% of the operating income of the Trust during 2003. A non-recurring lease termination fee of $130,356, in regard to one of the tenancies at the Kenaston Property, accounted for approximately 50% of the total interest and other income of the Trust during 2003.

Covenants Under the Series C Debentures

The terms of the Series C Debentures include a mandate for LREIT to acquire multi-family residential properties with an aggregate purchase price of at least $50 Million and with a positive pro forma net income. Based on acquisitions which are 75% financed, the $50 Million benchmark represents the investment of $12.5 Million of capital in multi-family residential properties.

The terms of the Series C Debentures also prohibit LREIT from proceeding with any additional debenture offerings, unless approval is specifically granted. Approval was obtained for LREIT to proceed with the Series D Debenture offering, concurrent with the closing of the Series C Debenture offering.

Waiver of Leasing Commissions and Renovation Fees

As disclosed in Note 10 of the financial statements, Shelter Canadian Properties Limited, in its capacity as Property Manager, waived its entitlement to leasing commissions and tenant improvement and renovation fees prior to October 1, 2003. The fees were waived due to the limited income of the Trust since the inception date on August 30, 2002.

Given the projected growth in the cash flows and net income of the Trust and the fact that the leasing-related fees are amortized over the term of the respective leases, the leasing commissions, tenant improvements and renovation fees are not expected to have a material impact on future operations.

NET INCOME

The net income of LREIT increased by $223,908 in fiscal 2003. The increase in net income reflects an increase in operating income, offset by increases in financing, trust and amortization expenses.

Operating Income

Operating income increased by approximately $855,000 or 126% during fiscal 2003. The increase in operating income reflects an increase in total revenues, partially offset by an increase in property operating costs.

Total Revenues

Total revenues increased by approximately $1.2 Million or 97% in fiscal 2003. The increase is primarily due to an increase in revenue from Income Properties, however, there was also a significant increase in interest and other income during 2003.

Revenue from Income Properties

Revenue from income properties increased by approximately $960,000 or 80% during fiscal 2003. The increase reflects the following:

- The Kenaston Property was acquired by LREIT on April 23, 2002. As a result, the revenue reporting period for fiscal 2003 is approximately four months longer than in 2002.

- The occupancy level of the Kenaston Property was significantly higher in 2003, averaging approximately 95% for the entire year. In comparison, on the acquisition date in 2002, the Kenaston Property was 83% leased and the occupancy level declined to below 80% during the second quarter of 2002.

- The acquisition of two new properties in 2003 contributed to an increase in third and fourth quarter revenues.

Interest and Other Income

Interest and other income increased by approximately $244,000 in fiscal 2003. The increase reflects the following:

- The receipt of a lease termination fee of $130,356 in the third quarter of fiscal 2003; and

- An increase in interest income derived from the Minacs loan. The Minacs loan was advanced on December 19, 2002. As a result, the investment period for the loan for fiscal 2002 was only 12 days, compared to 365 days in fiscal 2003. On July 19, 2003, the interest rate on the Minacs loan was also increased from 10% to 12.5%.

Financing Expense

Financing expenses is comprised of interest on the mortgage loans which are secured by the income properties as well as financing expense on the convertible debentures. Financing expense increased by $338,391 or 61% in 2003, mainly due to the following:

- The accounting period for financing expense in fiscal 2002 did not commence until August 2002, representing the month in which LREIT became a publicly-listed entity; and

- The acquisition of additional properties and the expansion/renovation of the Kenaston Property resulted in an increase in the balance of mortgage loans payable.

Trust Expense

Trust expense represents costs which pertain specifically to the administration of LREIT, such as legal fees, auditor's fees, regulatory fees and expenses related to the assessment of potential property acquisitions. Trust expense increased by $82,434 or 138% in 2003, mainly due to the following:

- An increase of approximately $30,000 in regulatory fees, reflecting the first full year in which LREIT operated under the reporting requirements of the TSX Venture Exchange;

- An increase of approximately $11,000 in general legal fees, primarily in regard to the completion of the Annual Information Form;

- An increase of approximately $30,000 in costs related to the assessment of potential property acquisitions, primarily in regard to one property in Thunder Bay, Ontario; and

- Fees of approximately $10,000 in regard to the development of the LREIT website.

Amortization Expenses

The accounting period for amortization expense did not commence until August 30, 2002.

Amortization of income properties increased by $48,988 or 98% in 2003. The increase reflects the longer accounting period in 2003 and the acquisition of additional properties.

Amortization of deferred charges increased by $161,414 or 257% in 2003. The increase is mainly attributable to the longer accounting period in 2003 and the fact that deferred charges related to the lease-up of vacant space increased significantly during the first quarter of 2003.

QUARTERLY RESULTS

Quarterly Analysis

	For the Year Ended December 31, 2003			
	Q4	Q3	Q2	Q1
Total revenue	$628,934	$719,416	$541,384	$551,106
Operating income	$382,574	$495,772	$336,575	$318,155
Net income	$24,101	$128,332	$22,978	$527
PER UNIT				
Operating income				
- Basic	0.267	0.513	0.434	0.411
- Diluted	0.233	0.412	0.322	0.304
Net income				
- Basic	0.017	0.133	0.030	0.001
- Diluted	0.017	0.122	0.029	0.001

Quarterly Analysis

	For the Year Ended December 31, 2002			
	Q4 [(1)(2)]	Q3 [(1)(2)]	Q2 [(1)(2)]	Q1 [(1)(2)]
Total revenue	$484,146	$747,558	$4,000	0
Operating income	$277,079	$396,862	$4,000	0
Net income	$(44,612)	$26,599	$(23,684)	$(6,273)
PER UNIT				
Operating income				
- Basic	0.418	0.719	0.008	(0.000)
- Diluted	0.383	0.581	0.008	(0.000)
Net income				
- Basic	(0.067)	0.048	(0.047)	(0.013)
- Diluted	(0.067)	0.043	(0.047)	(0.013)

Notes:

(1) LREIT was created on April 23, 2002 and operated as a privately-owned investment trust until August 29, 2002. The inception date of LREIT as a publicly-listed company on the TSX Venture Exchange occurred on August 30, 2002, pursuant to a Plan of Arrangement between LREIT and Wireless One Inc., whereby LREIT acquired all of the common shares of Wireless One in exchange for LREIT trust units, on a ten to one basis.

The operating results for LREIT, prior to April 23, 2002, reflect the operations of Wireless One Inc. For comparative purposes, the Per Unit amounts prior to August 30, 2002 have been adjusted to reflect the exchange of ten common shares of Wireless One Inc. for one unit.

(2) On April 24, 2002, LREIT acquired the Kenaston Property. The acquisition was partially funded by a participating loan from Shelter Canadian Properties Limited. The net income of the Kenaston Property for the period from April 24, 2002 to August 30, 2002 was remitted to Shelter Canadian, as an interest payment, under the terms of the participating loan.

FOURTH QUARTER OF FISCAL 2003

The net income of the Trust decreased by $104,231 during the fourth quarter of 2003. The decrease in net income reflects the fact that the third quarter operating results were comparatively higher due to the inclusion of a non-recurring revenue transaction. Specifically, the third quarter revenues include a fee of $130,356 in regard to the early termination of one of the leases of Kenaston Place. The lease termination fee resulted in comparatively higher revenues, operating income and net income during the third quarter of fiscal 2003.

The closing of the $5 Million trust unit offering in December 2003 had a material impact on the year end Balance Sheet of LREIT. In comparison to third quarter balances, the offering resulted in an increase in equity of approximately $4.5 Million, an increase in cash of approximately $945,000 and an increase in mortgage loans receivable of approximately $3.1 Million. The fourth quarter increases reflect the receipt of the trust unit offering proceeds and the subsequent investment of $3.1 Million in the first mortgage loan for the McIvor Mall.

DISTRIBUTABLE INCOME

The distributable income of LREIT for the fiscal year ended December 31, 2003 was $299,840, representing an increase of $290,161 in comparison to the distributable income for fiscal 2002. The increase is primarily due to the fact that the income results for 2002 are mainly based on an operating period of four months. The significant improvement in the operating results of the Kenaston Property during fiscal 2003, and the acquisition of two new properties, also contributed to the increase in distributable income.

CASH DISTRIBUTIONS

In fiscal 2003, LREIT paid cash distributions of $525,585, representing a distribution of $0.50 per unit, based on the number of units which were outstanding throughout the year. The distributions were paid on a quarterly basis in equal amounts of $0.125 per unit.

The first cash distribution of LREIT in the amount of $124,000 or $0.16 per unit was paid on December 31, 2002 and was in regard to the four month period from the inception date of LREIT on August 30, 2002 to the fiscal year on December 31, 2002. On a pro-rated basis, the fiscal 2002 distribution was equivalent to a quarterly distribution of $0.125 per unit.

CASH FLOWS AND WORKING CAPITAL

The cash balance of the Trust, as of December 31, 2003, increased by $1,706,102, in comparison to the balance at December 31, 2002.

As reflected on the Statement of Cash Flows, the main sources of cash were the net proceeds from the new offerings of trust units, the proceeds from mortgage loan financings and operating cash flow. The main uses of cash were to fund tenant inducements, cash distributions, principal payments on the mortgage loans, the cash amounts owing in regard to the acquisition of the MAAX Warehouse and the Purolator Building and the short-term mortgage loan investment in the McIvor Mall.

As disclosed on the Balance Sheet, the cash balance of the Trust was $1,828,597 as of December 31, 2003. Subsequent to year end, the cash balance of the Trust increased significantly due to the completion of the Series C Debenture offering, which resulted in net proceeds of $9,214,000, and the repayment of the $3.1 Million mortgage loan investment in the McIvor Mall. Although $6.7 Million of cash was used to fund the acquisition of the McIvor Mall in February 2004, it is anticipated that $5.4 Million will be returned to the Trust, following the procurement of first mortgage loan financing for the mall. The closing of the Series D Debenture offering in March 2004 resulted in additional net cash proceeds of $3,611,000, while the purchase price of Beck Court and Greenwood Gardens encompassed a cash payment of approximately $7.65 Million. The Trust currently has approximately $7 Million designated for new property acquisitions, including the $5.4 Million in regard to the McIvor Mall first mortgage loan. The completion of the Kenaston Village Mall expansion is expected to result in a cash outflow of approximately $420,000 during 2004, net of the additional first mortgage loan financing and including the tenant improvement loan of $250,000.

The general operating policy of LREIT is to maintain a working capital position which provides sufficient resources to fully discharge all current liabilities and allow for sufficient cash reserves to fund ongoing operations, capital expenditures and contingencies. In order to maximize the return on short-term excess cash reserves of investment capital, LREIT has negotiated investment terms with its primary banker, whereby all cash on deposit earns interest at a rate of prime minus 2%.

As of December 31, 2003, the working capital of LREIT was approximately $5.56 Million, representing an increase of approximately $4.7 Million, in comparison to the 2002 year end balance. The increase in working capital mainly reflects the receipt of proceeds from the private placement of trust units.

BALANCE SHEET

Income Properties

Analysis of Income Properties **As at December 31**	2003	2002
Gross book value of Income Properties, beginning of year	$10,837,813	-
Acquisitions	$2,826,438	$10,837,813
Capital expenditures	$1,369,334	-
Gross book value of Income Properties, end of year	$15,033,585	$10,837,813
Mortgage loans payable	$10,704,727	$7,882,709
Loan-to-gross property book value ratio	71.2%	72.7%

The balance of Income Properties, net of amortization charges increased by approximately $4 Million during fiscal 2003. The increase reflects the acquisition of the MAAX Warehouse and Purolator Building and the expansion and capital improvements at the Kenaston Property.

Mortgage Loans Payable

Mortgage Loans Payable represent the first mortgage loans which are registered against the Income Properties of the Trust.

The balance of the Mortgage Loans Payable increased by $2,822,018 during fiscal 2003. The increase reflects the mortgage loans which were obtained in regard to the acquisition of the MAAX Warehouse and the Purolator Building and the increase in the first mortgage loan for the Kenaston Property in regard to the funding of capital improvements and the mall expansion.

Deferred Charges

As per Note 7 of the Audited Financial Statements, the unamortized cost of deferred charges was $1,134,193, as of December 31, 2003, representing an increase of $630,803, in comparison to the unamortized balance as of December 31, 2002. The increase in deferred charges primarily reflects tenant inducements, leasing commissions and the cost of new tenant signs at the Kenaston Property.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities increased by $193,191 during 2003. The increase mainly reflects an increase in accounts payable in regard to the operations and construction activity at the Kenaston Property.

OPERATING RISKS AND UNCERTAINTIES

LREIT's properties are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand for leased premises due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors. In order to minimize the general market risk and achieve stable or increasing average rental rates, combined with acceptable occupancy levels, LREIT focuses on tenant retention and the marketing of vacant space through both the brokerage community and internal resources. LREIT further decreases its operating risk through property and geographic diversification, diversification of tenancies and staggered lease maturities. The risk of revenue losses due to defaults by commercial tenants in respect of lease obligations, is minimized by leasing to tenants with strong financial covenants with the rights of the Landlord strongly entrenched in contractual agreements.

During 2004, the "use of proceeds" covenant, pursuant to the terms of the Series C Debenture offering, is expected to result in a property portfolio with a high percentage of multi-family residential properties. The general market risk associated with a higher weighting of multi-family residential properties will be minimized through geographic diversification, focusing on quality properties and by utilizing the national organizational infrastructure and management expertise of Shelter Canadian Properties Limited.

A discussion of the risks which are associated with the financial instruments of LREIT is provided in Note 17 of the Audited Financial Statements.

OUTLOOK

Fiscal 2004 is expected to be a year of growth for LREIT, given the large pool of investment capital which was raised by the Trust in December 2003 and the first quarter of 2004. As additional properties are acquired, the Trust will experience significant increases in operating income and corresponding increases in net income, although the increases in net income will be tempered by increases in financing and amortization expenses. The most significant expense increase will occur in interest expense, due to the cost of the new debenture financing and the cost of mortgage loan financing for new property acquisitions.

In addition to increased cash flow from operations, it is anticipated that primary variables affecting the cash flows of the Trust in 2004 will be proceeds of the Series C and Series D convertible debentures, net of issue costs; the proceeds from the repayment of mortgage loans receivable, net of any additional advances; the proceeds of new mortgage loan financing; the cost of new property acquisitions; mortgage loan principal repayments; and cash distributions to the Unitholders.

The initial impact of the new convertible debenture offerings in 2004 was to increase the cash balance of the Trust and increase the balance of the convertible debentures and Trust equity. Given the new pool of investment capital, the gross book value of Income Properties is expected to exceed $100 Million by the end of the 2004 fiscal year. The increase in Income Properties will be offset by an increase in mortgage loans payable and a decrease in cash.

The acquisition of the McIvor Mall will result in an increase in operating income from commercial properties and an increase in deferred charges, to the extent that the vacant space is leased during the year.

During 2004, the investment activities of LREIT will be focused on the acquisition of multi-family residential properties. In April 2004, LREIT completed the acquisition of Beck Court and Greenwood Gardens and finalized purchase agreements for three additional multi-family residential properties, with anticipated closing dates during May and June 2004. As multi-family residential properties typically do not encompass extensive leasing costs, it is anticipated that increases in deferred charges, such as tenant inducements and leasing commissions and the associated amortization expense, will not be as significant as the projected increases in other financial items. Conversely, as multi-family properties do not encompass the recovery of operating costs through additional rent charges, and typically require a systematic program of ongoing in-suite and building upgrades to maintain a long-term competitive position, it is anticipated that there will be a moderation of the gross profit margin during 2004. Generally, the change in investment focus from commercial properties to multi-family residential properties will have an offsetting impact on the financial results of the Trust, with the expectation that there will be a very significant increase in the net income of LREIT during 2004, in conjunction with the acquisition of new properties throughout the year.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
April 16, 2004

MANAGEMENT'S RESPONSIBILITY

The financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Lanesborough Real Estate Investment Trust. To fulfill this responsibility, the Trust maintains a system of internal controls to ensure that its reporting practises and accounting and administrative procedures are appropriate, and provide assurance that relevant financial information is produced. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgement in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the financial statements.

Meyers Norris Penny LLP, the independent auditors were appointed by the Unitholders and are responsible for auditing the financial statements and giving an opinion thereon.

The financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of three Trustees, two of whom are independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee.

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Kenneth J. Dando"

Kenneth J. Dando
Chief Financial Officer

April 16, 2004

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 December 31 2003	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 December 31 2003	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

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.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

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.

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of LREIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited with the right to appoint one trustee.

The current trustees of LREIT are Mr. Charles K. Loewen, Mr. Earl S. Coleman and Mr. Arni C. Thorsteinson. Mr Loewen is the Chairman, Founder and Chief Strategy Officer of Online Business Systems and serves as Chairman of LREIT. Mr. Coleman is the Vice President and Secretary Treasurer of Big Freight Systems Inc. and serves as Secretary of LREIT. Mr. Thorsteinson, CFA, is the President and principal owner of Shelter Canadian Properties Limited and serves as Chief Executive Officer of LREIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer of LREIT is Mr. Kenneth J. Dando, CA, Senior Manager of Corporate Accounting and Financial Reporting for Shelter Canadian Properties Limited.

Administrator of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of LREIT and to perform the accounting and reporting functions of LREIT.

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the income properties in the LREIT portfolio.

Shelter Canadian Properties Limited is one of Canada's leading privately owned real estate development and property management companies.

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Unit Listing

TSX Venture Exchange
Unit trading symbol: LRT.UN

Unitholder and Investor Contact

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Chartered Accountants
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