LANESBOROUGH REIT

2004 ANNUAL REPORT

2004 ACHIEVEMENTS

- **Increase in real estate portfolio of $51.7 Million or 245%.**
- **Increase in operating income of $3 Million or 200%**
- **Over $33 Million of new investment capital raised**
- **Improved property diversification, including six new multi-family residential properties**
- **Growth in unit values of 37.5%**
- **Increase in cash distributions of 6% per unit, yielding 9.6% return on closing price, as of December 31, 2004**

Unitholder Returns

	2004	2003
Distribution per unit	$0.53	$0.50
Opening unit price	$4.00	$2.75
Closing unit price	$5.50	$4.00
Yield on closing price (distribution/closing unit price)	9.6%	12.5%
Capital appreciation (capital appreciation/opening unit price)	37.5%	45.5%
Total return	47.1%	55.0%

Projected cash distribution – 2005:	$0.56
Closing unit price – April 13, 2005:	$6.15
Current yield:	9.11%

REPORT TO UNITHOLDERS

The primary objectives of Lanesborough Real Estate Investment Trust ("LREIT") are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large portfolio of quality real estate investments. In 2004, LREIT made significant progress towards achieving its long-term growth objectives, while providing Unitholders with very favourable investment returns. Overall, Unitholders achieved a total return of 47.1% in 2004, including cash distributions and capital appreciation.

During 2004, LREIT acquired seven new properties at a cost of approximately $51.3 Million and achieved an overall increase in the size of its real estate portfolio of 245%. In 2004, LREIT also shifted its investment strategy to the acquisition of multi-family residential properties, directing $44.565 Million of its total property expenditures toward apartment complexes in Alberta, British Columbia and the Northwest Territories. The investment in the multi-family residential sector is considered to provide the greatest opportunity to maximize returns and long-term unit values, as there has been limited construction of new rental properties over the past 25 years and market values of existing rental properties are generally well below replacement cost. Although rental market conditions are currently very competitive due to low interest rates and the affordability of home ownership, it is anticipated that there will be significant increase in the income potential and market value of multi-family residential properties when rental market conditions improve and occupancy levels return to normalized levels. In the interim, multi-family residential properties offer the opportunity for solid returns at a lower risk, relative to other real estate sectors.

LREIT is also well positioned for another year of strong growth in 2005, after having raised $38 Million of new investment capital since December 30, 2004. In 2005, the increase in the real estate portfolio of LREIT is expected to be in the range of $120 Million to $130 Million, with the value of the total portfolio approaching or exceeding $200 Million by year end. LREIT will continue with its disciplined investment strategy of focusing on the acquisition of established properties with stable operating results and on newly constructed properties in growing residential communities. LREIT will also continue to focus on secondary markets and on properties that offer strong capital appreciation growth potential, while striving to further enhance the geographic diversification of its real estate portfolio. Capital improvement and renovation projects will also continue to be implemented, as deemed appropriate, in order to improve the revenue base and longer-term value of a property.

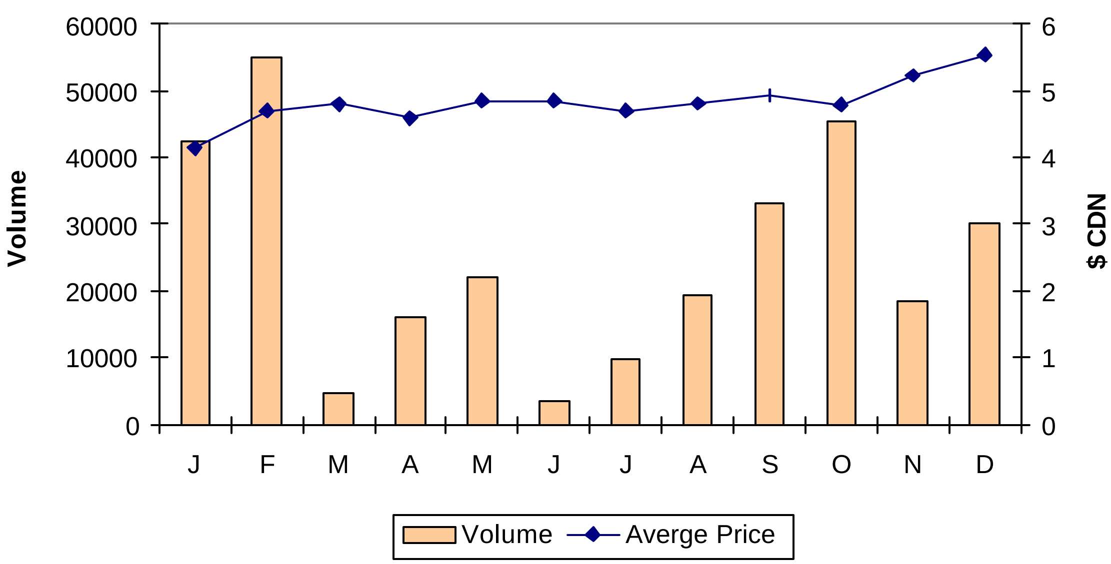
The performance of LREIT's initial property acquisition, the Kenaston Property in Winnipeg, Manitoba, is indicative of the strategy of LREIT for attaining growth in unit values. The Kenaston Property was purchased in April 2002 at a cost of $10.65 Million. In 2003, comprehensive exterior upgrades were undertaken at the property and a new 9,032 square foot addition was completed in early 2004. After considering the cost of the improvements, the total acquisition and capital costs for the Kenaston Property have amounted to $12,656,200. In December 2004, the Kenaston Property was appraised at a market value of $16,050,000, representing an increase in value of approximately $3.4 Million or 27%, in comparison to the total acquisition and capital costs.

Since its inception as a publicly traded real estate investment trust in September 2002, the growth in the asset base and unit value of LREIT has been outstanding. In 2004, total revenues increased by $5.3 Million or 217%; operating income increased by $3 Million or 200%; cash from operations increased by approximately $873,000 or 163%; net income, excluding amortization expense increased by $219,000 or approximately 44%; and distributable income increased by approximately $650,000 or 177%. LREIT has a growing real estate portfolio, which is generating strong financial results and achieving solid gains in value for its Unitholders. With $38 Million of new investment capital, the expectation for 2005 is that LREIT will once again achieve very significant growth in its real estate portfolio and in the value of its units. The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to the long-term goal of maximizing investment returns through the ongoing acquisition of quality multi-family residential properties and the continued implementation of pro-active and superior asset and property management practices.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
April 14, 2005

Unit Price and Trading Volumes
2004



MANAGEMENT'S 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 for the year ended December 31, 2004 and accompanying notes, and with reference to the quarterly reports for 2004. In addition, certain statements in the Management's Discussion and Analysis could be considered as forward-looking information. The forward-looking information is subject to certain risks and uncertainties which could result in actual results differing materially from the forward-looking statements.

OVERALL INVESTMENT OBJECTIVES AND STRATEGY

The primary objectives of the Lanesborough Real Estate Investment Trust ("LREIT") are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large diversified portfolio of quality real estate investments through the ongoing acquisition of additional properties. The overall investment strategy of LREIT is to focus on the acquisition of properties with stable yields, low vacancy levels, strong tenant covenants and growth potential. LREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high calibre and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

INVESTMENT ACTIVITIES

Property Acquisitions

As of December 31, 2003, the real estate portfolio of LREIT consisted of one retail/office complex and two light industrial buildings with a total acquisition cost of approximately $15 Million.

At the beginning of 2004, LREIT acquired an additional retail shopping centre at a purchase price of $6.7 Million and then refocused its efforts toward the acquisition of multi-family residential properties, primarily in secondary markets throughout western Canada. During the nine month period from April 1, 2004 to December 31, 2004, LREIT acquired six multi-family residential properties at a total purchase price of $44,565,000. As of December 31, 2004, the real estate portfolio of LREIT consisted of ten properties with a total cost of approximately $66.7 Million.

Property Portfolio – December 31, 2004

Property	Location	Acquisition Date	Suites/Leasable Area - Sq. Ft.	Occupancy 12/31/04	Purchase Price
Multi-Family Residential					
Beck Court	Yellowknife, NWT	Apr. 2004	120	95%	$ 14,300,000
Greenwood Gardens	Surrey, BC	Apr. 2004	183	80%	10,950,000
Nova Villa	Edmonton, AB	May 2004	61	90%	5,400,000
Nova Manor	Edmonton, AB	May 2004	32	91%	2,615,000
Nova Ridge Estates	Spruce Grove, AB	July 2004	102	89%	8,800,000
Norglen Terrace	Peace River, AB	Oct. 2004	72	93%	2,500,000
		Total Suites	570		$ 44,565,000
Retail and Office					
Kenaston	Winnipeg, MB	Apr. 2002	103,209	99%	12,656,200 *
McIvor Mall	Winnipeg, MB	Feb. 2004	65,283	97%	6,700,000
			168,492		19,356,200
Light Industrial					
MAAX Warehouse	Airdrie, AB	June 2003	39,936	100%	1,600,000
Purolator Building	Burlington, ON	Sept. 2003	16,117	100%	1,200,000
			56,053		2,800,000
		Total leasable area	224,545	Total cost	$ 66,721,200

* Includes cost of asset additions.

In 2005, LREIT intends to continue to concentrate on the acquisition of multi-family residential properties with the expectation that there will be a very significant increase in the overall size of the portfolio by the end of the year. During the period from December 30, 2004 to March 16, 2005, LREIT raised additional investment capital in the amount of $38 Million. After considering other cash reserves, issue costs and the net working capital requirements for 2005, it is anticipated that, at a minimum, new property acquisitions will be in the range of $120 Million to $130 Million during 2005.

Acquisitions which have been completed, or are in process, in 2005, are as follows:

Property Acquisitions – Year-to-Date – 2005

Property	Location	Actual/Projected Acquisition Date	Number of Suites	Purchase Price
Highland Towers	Thompson, MB	January 2005 *	95	$ 1,350,000
Borden Estates	Prince Albert, SK	January 2005 *	144	5,315,000
Cedar Village	Prince Albert, SK	February 2005 *	72	
Carlton Manor	Prince Albert, SK	February 2005 *	19	4,025,000
Riverside Apartments	Prince Albert, SK	February 2005 *	12	
MGM Apartments	Prince Albert, SK	February 2005 *	28	
Nelson Ridge Estates	Fort McMurray, AB	April 2005	222	40,575,000
				$ 51,240,000

* Acquisition completed.

Due to the limited construction of new rental properties over the last 25 years and as market values of existing rental properties continue to be well below replacement cost, the multi-family residential sector continues to offer an opportunity to earn high returns and achieve significant gains in value, especially with the expectation that there will be an improvement in rental market conditions when interest rates increase and home ownership becomes a more costly alternative for renters. As a result, for the foreseeable future, the investment strategy of LREIT will continue to focus exclusively on the acquisition of multi-family residential properties in markets across Canada, including continued investments in small urban centres.

Capital Expenditures

Capital expenditures, excluding property acquisitions, amounted to $449,056 during 2004. The capital expenditures consist primarily of the construction costs which were incurred in order to complete a new 9,032 square foot addition to the Kenaston Property. The construction costs were funded from operating cash flow and from additional first mortgage loan advances.

Mortgage Loans Receivable

December 31, 2004 - $2,150,000
December 31, 2003 - $4,248,326

Pending the investment of new capital in property acquisitions, LREIT typically has a significant amount of short-term excess cash reserves. The strategy of LREIT is to attempt to maximize the return on short-term excess cash reserves by investing a portion of the reserves in low-risk, higher yield financial instruments.

Since December 2002, the primary investment vehicle for the short-term excess cash reserves of LREIT has been a second mortgage loan, secured by the Minacs Building in Oshawa, Ontario (the "Minacs loan"). Please refer to the section on "Related Party Transactions" on page 17 of this report for additional information regarding the Minacs Building.

As of December 31, 2003, LREIT had $1.15 Million invested in the Minacs loan at an interest rate of 12.5%, with a repayment date of June 30, 2004. On January 9, 2004, an additional $1 Million was invested in the Minacs loan at an interest rate of 9%. Based on a periodic review of the short-term cash requirements of LREIT, the repayment date of the Minacs loan was extended to December 31, 2004 and subsequently to June 30, 2005. Accordingly, as of December 31, 2004, the total amount of the Minacs loan was $2.15 Million with a repayment date of June 30, 2005.

In January 2005, following the closing of the unit offering on December 30, 2004, an additional $1.475 Million was invested in the Minacs loan at an interest rate of 9%, with the repayment date for the total loan of $3.625 Million remaining at June 30, 2005. LREIT has the right to demand a maximum repayment of $500,000 upon 30 days notice.

The mortgage loan receivable balance, as of December 31, 2003, also included a $3,098,326 first mortgage loan, secured by the McIvor Mall, bearing interest at 5.23%. The 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. The loan was fully repaid on the acquisition date of February 2, 2004.

FINANCING ACTIVITIES

The overall strategy of LREIT is to fund the equity component of new property acquisitions through the issuance of additional trust units or convertible debentures. The upward refinancing of property debt may also serve as a source of capital.

Trust Units

LREIT is authorized to issue an unlimited number of trust units. As of December 31, 2003, LREIT had 2,612,713 trust units outstanding, with an average issue price of $3.15.

In December 2004, LREIT initiated a private placement offering of a maximum of 5,000,000 trust units at a price of $5 per unit (the "December 2004 unit offering"). The first closing of the offering occurred on December 30, 2004, resulting in 3,828,500 units being issued for total gross proceeds of $19,142,500.

After considering the unit offering, the total number of trust units outstanding increased to 6,461,213 as of December 31, 2004. The year end balance also reflects the issuance of 20,000 units, at a price of $100,000, in order to satisfy a portion of the purchase price in regard to one of the residential property acquisitions in 2004.

The second closing of the December 2004 unit offering occurred on January 27, 2005, resulting in the issuance of the remaining 1,171,500 units for total gross proceeds of $5,857,500. In total, the unit offering resulted in gross proceeds of $25 Million.

On February 2, 2005, LREIT completed another private offering of 200,000 trust units at a price of $5 per unit, resulting in proceeds of $1 Million.

Convertible Debentures

In 2004, LREIT raised $14 Million of additional capital from two debenture offerings, as follows:

- a $10 Million private placement offering of Senior Secured Series C Convertible Debentures, bearing interest at a rate of 8%, with a closing date of January 30, 2004; and

- a $4 Million public offering of Senior Secured Series D Convertible Debentures, bearing interest at a rate of 8%, with a closing date of March 16, 2004.

On March 29, 2004, LREIT issued additional Series C debentures of $131,000, representing the amount of interest payable on the debentures for the first 60 days.

As of December 31, 2003, the outstanding balance of convertible debentures was $3,942,000. The two debenture offerings in 2004 resulted in an increase in convertible debentures to $18,073,000, as of December 31, 2004. In accordance with generally accepted accounting principles, the convertible debentures are divided into debt and equity components. An analysis of the debt and equity components, as of December 31, 2004, is provided in Note 12 of the audited financial statements of LREIT.

The total interest expense on the convertible debentures in 2003 was $378,436. In 2004, the total interest payable on all of the convertible debentures increased to $1,374,330.

In January 2005, LREIT initiated a private placement offering of Subordinated Series E Convertible Debentures with a maximum principal amount of $12 Million. The debentures bear interest at a rate of 8%, with a five year term. The first closing of the offering occurred on February 18, 2005, resulting in gross proceeds of $3.569 Million. The balance of the offering, in the amount of $8.431 Million, closed on March 16, 2005.

The Declaration of Trust for LREIT does not impose any limitation on the amount of convertible debt which may be issued by the Trust. The Series C debentures included a covenant which restricted LREIT from issuing any additional debentures, other than the Series D debentures, until such time as LREIT acquired multi-family residential properties with a minimum gross purchase price of $50 Million. The acquisition covenant was satisfied on January 31, 2005 upon the acquisition of Highland Towers and Borden Estates. The Series C debentures also include a clause which specifies that, prior to proceeding with any additional debenture offerings, LREIT must raise proceeds from additional unit offerings which are at least 50% greater than the proceeds from any additional debenture offerings.

Mortgage Loans Payable

December 31, 2004 - $49,091,108
December 31, 2003 - $10,704,727

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2004	Percentage of Total
2007	6.51%	$ 2,027,452	4%
2008	4.10%	4,168,765	9%
2009	6.00%	6,598,619	13%
2013	6.47%	919,024	2%
2014	5.49%	18,324,978	37%
		32,038,838	65%
Demand/floating rate	Prime + 4.82%	17,052,270	35%
		$ 49,091,108	100%

The general policy of LREIT is to utilize fixed rate financing with terms which are appropriate for the nature of the properties being financed. Upward refinancing opportunities are also pursued, when appropriate, in order to provide a source of additional capital and to minimize the impact of capital expenditures on ongoing operating cash flows.

All of the acquisitions in 2004 encompassed first mortgage loan financing. The total debt assumed or arranged on the property acquisitions amounted to approximately $37.5 Million or approximately 73% of the total purchase price, with a weighted average interest rate of 5.34%. The new first mortgage loans account for the increase in the balance of “Mortgage Loans Payable” during 2004. As of December 31, 2004, the total mortgage loans payable amount of $49,091,108, represents 72.9% of the appraised value of the total real estate portfolio.

As summarized above, 65% of the property indebtedness consists of fixed-rate mortgage loan financing at favourable rates of interest, while the remaining indebtedness has a variable rate of interest. The selection of floating interest rates for a portion of the property portfolio has resulted in significant savings in interest costs as the floating interest rate has been substantially less than the available fixed rate. The staggering of maturity dates also serves to reduce refinancing risk.

The variable interest rate financing includes the first mortgage loan of approximately $9.5 Million, which is registered against the Kenaston Property, and the first mortgage loan of approximately $6.5 Million, which is registered against Nova Ridge Estates. Effective January 1, 2005, the first mortgage loan for Nova Ridge Estates was fixed at an interest rate of 4.67% with a maturity date of January 1, 2010. During February 2005, the first mortgage loan for the Kenaston Property was upward refinanced by approximately $2.5 Million, with the total amount of loan to bear interest at a fixed rate of 5.8% for ten years. The loan proceeds will be used to fund leasing costs and capital expenditures for the Kenaston Property, the McIvor Mall and for general purposes.

RESULTS OF OPERATIONS

Financial Highlights

	December 31			
	2004		2003	
Total revenue	$ 7,743,244		$ 2,440,840	
Operating income	$ 4,616,038		$ 1,533,076	
Net income (loss)	$ (1,349,726)		$ 175,938	
Total assets	$ 89,983,862		$ 21,894,509	
Mortgage loans payable	$ 49,091,108		$ 10,704,727	
Convertible debentures	15,503,328		2,704,648	
	$ 64,594,436		$ 13,409,375	
Cash distributions	$ 1,392,838 ($0.53/unit)		$ 525,585 ($0.50/unit)	
Distributable income	$ 1,016,313		$ 366,338	
PER UNIT	Basic	Diluted	Basic	Diluted
Operating income	1.74	1.74	1.55	1.25
Net income (loss)	(0.510)	(0.510)	0.178	0.165
Distributable income	.384	.373	0.370	0.363

Overall Performance

Impact of Changes in Accounting Policy

Effective January 1, 2004, LREIT adopted three new accounting policies which significantly affected the disclosure of information in the financial statements. The accounting policies were adopted, pursuant to the recommendations of the CICA Handbook, in order to conform to Canadian generally accepted accounting principles. The new policies were discussed at length in the quarterly reports of LREIT for 2004 and are also described in Note 3 of the year end financial statements. The main impact of the new policies has been to significantly increase amortization expense, which has resulted in a corresponding reduction in net income. The specific impact of the new policies on net income is summarized below.

Impact of Change in Accounting Policies on Net Income

Policy	Increase (Decrease) in Net Income Year Ended December 31, 2004
Amortization of buildings	$ (461,282)
Allocation of purchase price for property acquisitions	
- amortization component	(799,730)
	(1,261,012)
- revenue component	9,891
Revenue recognition for leases with contractual rent increase	92,791
Net decrease in net income	$ (1,158,330)

Comparison to Expectations

Overall, LREIT performed remarkably well in its second full year of operations, achieving very significant growth in its asset base, revenues and operating income.

At the end of 2003, the expectation was that LREIT would achieve a very significant increase in net income during 2004 and that total gross book value of the portfolio of income properties would exceed $100 Million. Although the portfolio of income properties increased by over 200% to a value of approximately $67 Million at year end, the $100 Million "target" was not achieved as the procurement of quality real estate investments encompassed a longer time frame than anticipated. Prior to the receipt of the net proceeds from the unit offering on December 30, 2004, LREIT had approximately $3 Million of funds which were originally "designated" to be used for 2004 property acquisitions. The closing date for the 2004 unit offering and the resultant availability of additional investment capital, was also initially projected to occur earlier in the year.

The variance between actual and projected net income is primarily due to the adoption of new accounting policies for amortization expense, pursuant to the recommendations of the CICA Handbook. As noted above, the change in accounting policies resulted in a decrease in net income of $1,158,330, of which $1,261,012 pertains to increased amortization expense. After adjusting the results of operations to exclude the impact of the change in accounting policies, LREIT incurred a loss of $191,396 in 2004.

The net loss of $191,396 in 2004, compared to the projection of higher net income, is mainly attributable to the fact that the incremental cost of new investment capital exceeded the incremental income from new property acquisitions. Due to the timing difference between the receipt of $14 Million of new investment capital during the first quarter of 2004 and the use of the investment capital to fund property acquisitions, LREIT incurred financing expense on the convertible debentures without experiencing an increase in operating income of a corresponding magnitude. The timing difference or "lag" in the investment of new capital is more fully explained on page 12 of this report.

Operating Segments

Geographic

The real estate portfolio of LREIT is diversified geographically and by property type. In 2004, the geographic diversification of LREIT became significantly more pronounced as the property portfolio expanded into British Columbia and the Northwest Territories and additional properties were purchased in Winnipeg and in three urban centres in Alberta, namely Edmonton, Spruce Grove and Peace River. In 2004, 51% of the rental revenues of LREIT were generated in Manitoba, compared to 94% in 2003.

In 2005, there will be a greater geographic diversification of the real estate portfolio of LREIT, with the portfolio expanding into Saskatchewan and to new provincial locations such as Fort McMurray, Alberta and Thompson, Manitoba. The continued geographic diversification of LREIT will serve to mitigate the general economic risks which are associated with real property ownership, such as the risk of increased competition or reduced demand in a local real estate market.

Property Type

General

At the beginning of 2004, LREIT purchased a retail shopping centre in Winnipeg and then refocused its efforts exclusively toward the acquisition of multi-family residential properties. In 2004, the six multi-family residential properties which LREIT acquired through the year, accounted for 45% of the total income from property operations, whereas the real estate portfolio of LREIT did not contain any residential properties in 2003.

Residential

The operating results of the residential properties were generally in accordance with expectations, aside from the Greenwood Gardens property in Surrey, British Columbia. As a result of higher than anticipated vacancy rates, Greenwood Gardens is incurring a modest operating loss, net of first mortgage loan debt service costs and major expenditures. The high vacancy rate at Greenwood Gardens is due to a number of factors, including competitive market conditions, the quality of the tenant base, the relative condition of the property and the quality of the previous property management services. On the positive side, there is an opportunity for achieving a significant increase in the value of Greenwood Gardens, following an improvement in the operating results of the property. Firstly, Greenwood Gardens is located in one of the newer and most rapidly expanding communities in Surrey and the combination of continued population growth and shrinking land development opportunities is expected to improve the overall demand for rental housing. Secondly, rental market conditions in Surrey are expected to improve significantly once mortgage interest rates begin to increase and the cost of home ownership rises. The affordability of home ownership, due to low interest rates, is the primary factor affecting rental market conditions in major centres across Canada in terms of causing increased vacancy rates. Thirdly, the implementation of new marketing strategies and the completion of an extensive multi-year in-suite and common area upgrade program, combined with responsive on-site property management services, is expected to result in a gradual improvement in the tenant base and lead to improved occupancy levels, higher tenant retention rates and a significant improvement in both shorter term operating results and longer term income potential.

The other multi-family residential properties in the LREIT portfolio achieved relatively favourable occupancy levels and solid cash flow results in 2004. The “home ownership affordability” factor has not impacted the other residential properties to the same extent as Greenwood Gardens, as the properties have a more “captured” market by virtue of being located in new and more desirable communities or in smaller urban centres where the tenant base is considerably less focused on home ownership.

The acquisition of three properties, Nova Manor, Nova Villa and Nova Ridge Estates, encompassed cash flow guarantees, whereby the Vendor guaranteed a specified monthly operating cash flow until the monthly net rental revenues reach a predetermined threshold level, subject to a maximum period of one year. It is anticipated that the threshold levels for all three properties will be attained within the one year guarantee period. As a result, the expiry of the cash flow guarantee is not expected to cause a reduction in the future operating income of LREIT. The cash flow guarantees also served to mitigate any impact of increased occupancy levels on the operating results of Nova Villa and Nova Manor properties in 2005.

For Nova Ridge Estates, the cash flow guarantee amount exceeded actual cash flows by $200,500, as the property was in the initial lease-up stage of operations during 2004. The excess cash flow is reflected in interest income and is entirely offset by an increase in amortization of intangible assets, as the total projected amount of the excess cash flow of $250,500 was recorded as an intangible asset on the acquisition of the property and is being amortized over the one year loan guarantee period. The offsetting amortization charge serves to neutralize the impact of the cash flow guarantee on net income.

As there has been a minimal variance between actual monthly cash flows and the guaranteed monthly cash flows for Nova Manor and Nova Villa, the property acquisitions did not encompass the recording of excess cash flows as income or as an intangible asset.

Commercial and Light Industrial

Notwithstanding the shift toward the acquisition of residential properties in 2004, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. In 2004, commercial and light industrial properties accounted for 55% of the total income from property operations. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties are achieving a high level of lease renewals, favourable rental rate increases and a strong demand for space.

Although the residential property component of LREIT is expected to increase by a very significant amount by the end of 2005, the commercial and light industrial properties will continue to enhance the overall status of the Trust in terms of property diversification.

Analysis of Operating Results

Analysis of Net Income

	December 31 2004	December 31 2003	Net Change
Income Properties			
Operating income	$ 4,311,851	$ 1,411,676	$ 2,900,175
Financing expense – mortgage loans	(1,748,772)	(488,653)	(1,260,119)
Net income, excluding trust operations, financing expense on debentures and amortization	2,563,079	923,023	1,640,056
Trust Operations			
Interest income	304,187	121,400	182,787
Trust expense	(124,475)	(142,125)	17,650
	179,712	(20,725)	200,437
Financing expense – debentures	(2,025,118)	(403,288)	(1,621,830)
Net income, excluding amortization	**717,673**	**499,010**	**218,663**
Amortization			
Income properties	(901,464)	(99,050)	(802,414)
Deferred charges	(374,842)	(224,022)	(150,820)
Intangibles	(791,093)	-	(791,093)
Total amortization	(2,067,399)	(323,072)	(1,744,327)
Net income (loss)	(1,349,726)	175,938	(1,525,664)
Add: Net decrease in income re: change in accounting policies	1,158,330	-	1,158,330
Adjusted net income (loss)	$ (191,396)	$ 175,938	$ (367,334)

Net Income (Loss)

Net Income (Loss), Including Amortization Expense

The change in bottom line results, from net income in 2003 to a net loss in 2004, is mainly due to an increase in amortization expense. In total, amortization expense increased by $1,744,327 in 2004, due to two factors. Firstly, as disclosed on page 8 of this report, amortization expense increased by $1,261,012 as a result of the implementation of new accounting policies. Secondly, after excluding any amounts related to the change in accounting policies, amortization of income properties increased by approximately $400,000, reflecting the new property acquisitions in 2004 and a full year of amortization expense on the 2003 property acquisitions.

Net Income, Excluding Amortization Expense

After excluding amortization expense, net income increased by $218,663 in 2004. The increase is comprised of the following components:

Increase in net income from property operations	$ 1,640,056
Increase in trust income	200,437
	1,840,493
Less: Increase in financing expense on debentures	1,621,830
Increase in net income, excluding amortization	$ 218,663

The increase in net income from property operations reflects the acquisition of additional properties, while the increase in trust income mainly reflects an increase in interest income from the investment in the Minacs Loan. The increase in financing expense on debentures reflects the issuance of the Series C and Series D debentures in the first quarter of 2004.

Net Income (Loss), Excluding Impact of Accounting Policy Changes

After excluding the impact of the change in accounting policies on net income, LREIT incurred a net loss of $191,396, compared to a net income of $175,398 in 2003. The change in bottom line results primarily reflects the fact that the incremental financing expense associated with the issuance of the Series C and Series D debentures exceeded the incremental income which was generated from completed property acquisitions, due to the lag in the investment of new capital in property acquisitions in 2004. Specifically, LREIT incurred financing expense on $14 Million of new convertible debentures, bearing interest at a rate of 8%, whereas a significant portion of the convertible debenture funds were yielding a nominal return during the year, pending the investment of the funds in income-producing properties.

The following analysis illustrates the variance between the incremental income from trust and property operations and the incremental cost of investment capital.

Incremental income from trust and property operations		
Increase in trust income and income from property operations		$ 1,840,493
Less: Incremental increase in amortization expenses:		
Total increase in amortization expense	$ 1,744,327	
Increase due to new accounting policies	(1,261,012)	
	483,315	
Revenue increases due to new accounting policies	102,682	(585,997)
		1,254,496
Incremental cost of investment capital		
Increase in financing expense – debentures		(1,621,830)
Net variance		$ (367,334)

The incremental income from property acquisitions was also affected by the below average operating results of Greenwood Gardens.

In 2005, it is anticipated that the income from the 2004 property acquisitions and from the investment of the remaining “2004” equity in new properties will exceed the cost of the associated investment capital. Depending on the timing of new property acquisitions in 2005, the incremental cost associated with the $12 Million convertible debenture offering in February 2005 may exceed the total incremental income from all property acquisitions. In summary, the lag in the investment of new capital may also limit the relative growth in net income in 2005.

Operating Income

2004 - $4,616,038
2003 - $1,533,076

Operating income increased by $3,082,962 or 200% during 2004, primarily due to an increase in the number of properties in the real estate portfolio of LREIT.

Operating costs for rental properties, as a percentage of revenues from rental properties, remained relatively constant in 2004. In total, property operating costs amounted to approximately 42% of property revenues in 2004, while in 2003 the operating cost percentage was approximately 39%.

For Greenwood Gardens, operating costs amounted to approximately 73% of revenues, primarily due to the high vacancy loss and the corresponding impact on net rental revenues. The below average results for Greenwood Gardens were essentially offset, however, by the above average results for the two light industrial properties in the LREIT portfolio. On a combined basis, operating costs for MAAX Warehouse and the Purolator Building were a modest 14% of rental revenues. In summary, as a result of the size and diversification of its real estate portfolio, the overall profit margin of LREIT is being maintained at a favourable level. As the profit margin is not expected to change significantly in 2005, the rate of growth in operating income and operating cash flows is expected to continue at a favourable level in 2005, in proportion to the growth in revenues from new property acquisitions.

Cash from Operations

2004 - $1,408,168
2003 - $535,249

The impact of amortization expense and other non-cash expenses is reflected in the contrast between the net loss and the favourable operating cash flow results. In 2004, cash from operations increased by $872,919 or 163%, compared to fiscal 2003. Cash from operations excludes amortization expense, the non-cash component of debenture financing expense, accrued revenue and unit-based compensation.

Balance Sheet Items

Deferred Charges

December 31, 2004 - $2,006,654
December 31, 2003 - $847,564

In 2004, the unamortized balance of deferred charges increased by approximately $1.5 Million, as follows:

Tenant inducements	$ 700,628
Leasing expenses	18,493
	719,121
Mortgage financing fees	235,401
Amounts recorded on income property acquisitions	569,203
	$ 1,523,725

The tenant inducements consist primarily of leasehold improvements for the Kenaston Property and the McIvor Mall. The mortgage financing fees were incurred during the course of obtaining new mortgage loans for property acquisitions and in regard to the additional first mortgage loan advances for the Kenaston Property. The "amounts recorded on income property acquisitions" represent property acquisition costs allocated to deferred charges in accordance with new accounting policies.

After recording amortization, the 2004 year end balance of deferred charges increased by $1,159,090. A breakdown of amortization expense for deferred charges is provided in Note 7 of the audited financial statements.

Accounts Payable and Accrued Liabilities

December 31, 2004 - $1,446,803
December 31, 2003 - $603,202

Accounts Payable and Accrued Liabilities increased by $843,601 since December 31, 2003. The increase mainly reflects an increase in tenant security deposits, as well as an increase in accrued interest on mortgage loans payable and accrued interest on convertible debentures.

Fourth Quarter Results

Fourth Quarter Analysis

	Three Months Ended		Increase
	December 31, 2004	September 30, 2004	(Decrease)
Revenue:			
Rentals from Income Properties	$ 2,361,058	$ 2,093,178	$ 267,880
Interest and Other Income	167,370	216,061	(48,691)
Total revenue	$ 2,528,428	$ 2,309,239	$ 219,189
Operating income	$ 1,296,410	$ 1,398,456	$ (102,046)
Net income (loss)	$ (551,890)	$ (444,577)	$ (107,313)

Analysis of Fourth Quarter Results

During the fourth quarter of 2004, the operating income of LREIT decreased by $102,046, compared to the third quarter of 2004, while the net loss increased by $107,313.

The decrease in operating income and the corresponding increase in the net loss is primarily due to a reduction in the operating income of Greenwood Gardens. The reduction in the operating income of Greenwood Gardens reflects an increase in the vacancy loss during the fourth quarter of 2004, as well as an increase in operating costs or, in particular, bad debt expense and salary costs. The increase in the vacancy loss is partially due to competitive market conditions and partially due to an increase in the turnover of "older" tenancies as a result of the implementation of a higher standard of management policies in regard to rent payments and lease terms. In addition, it has been necessary to devote a greater number of employees to the management of the Project in order to improve the leasing program and expedite certain maintenance work.

In order to improve the quality of the tenant base and to maximize the long-term revenue generating capability of the Project, an extensive in-suite and building upgrade program is in process for Greenwood Gardens, combined with a marketing strategy which has a greater focus on 12-month lease terms, as opposed to month-to-month leases. In the short-term, it is anticipated that the Project will incur vacancy and tenant turnover rates and operating costs which are higher than the portfolio average and that cost of the upgrade program will exceed the cash flow from operations.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31

	2004				2003
	Q4	Q3	Q2	Q1	Q4
Total revenue	$2,528,428	$2,309,239	$1,961,339	$944,238	$628,934
Operating income	$1,296,410	$1,398,456	$1,319,195	$601,977	$382,574
Net income (loss)	$(551,890)	$(444,577)	$(214,017)	$(139,242)	$24,101
PER UNIT					
Operating income					
- Basic	0.477	0.531	0.502	0.230	0.267
- Diluted	0.477	0.227	0.224	0.134	0.233
Net income					
- Basic	(0.203)	(0.169)	(0.081)	(0.053)	0.017
- Diluted	(0.203)	(0.169)	(0.081)	(0.053)	0.017

Quarterly Analysis for the Year Ended December 31

	2003			2002
	Q3	Q2	Q1	Q4 (1)
Total revenue	$719,416	$541,384	$551,106	$484,146
Operating income	$495,772	$336,575	$318,155	$277,079
Net income (loss)	$128,332	$22,978	$527	$(44,612)
PER UNIT				
Operating income				
- Basic	0.513	0.434	0.411	0.418
- Diluted	0.412	0.322	0.304	0.383
Net income				
- Basic	0.133	0.030	0.001	(0.067)
- Diluted	0.112	0.029	0.001	(0.067)

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.

CASH DISTRIBUTIONS

The stated policy of LREIT is to distribute cash to the Unitholders, on a quarterly basis, in an amount which is approximately equal to 90% of the annual “Distributable Income” of the Trust. Distributable income is equal to the net income of LREIT, as determined in accordance with GAAP, subject to certain adjustments for non-cash transactions, such as adding back amortization expense for income properties and intangible assets and converting interest expense on debentures to a cash basis.

Distributable income is a non-GAAP measure, however, and excludes other transactions which LREIT takes into consideration in its determination of cash distributions. Specifically, the source of funding for LREIT has primarily been cash from operations, as follows:

	2004	2003
Income (loss)	$ (1,349,726)	$ 175,938
Add (deduct):		
Total amortization expense	2,067,399	323,072
Amortization of tenant inducements and leasing expenses	(260,855)	(168,911)
Accretion on debt component of convertible debentures	650,788	24,851
Revenue adjustments	(102,681)	-
Unit-based compensation	11,388	11,388
Distributable income, per Note 19 of the financial statements	1,016,313	366,338
Amortization of tenant inducements and leasing expenses	260,855	168,911
Series C debentures issued re: interest	131,000	-
Cash from operations, per Statement of Cash Flows	1,408,168	535,249
Principal repayment of mortgage loans	(722,869)	(247,892)
Cash from operations, net of principal repayment of mortgage loans	685,299	287,357
Cash distribution	(1,392,838)	(525,585)
Working capital supplement	$ 707,539	$ 238,228

CAPITAL RESOURCES AND LIQUIDITY

The main sources of funds for LREIT are operating cash flows and the proceeds from convertible debenture and trust unit offerings. Mortgage loan financing serves primarily to reduce the equity component of new property acquisitions.

Since its inception, LREIT has continually demonstrated an ability to raise additional capital to fund ongoing property acquisitions. During 2004, LREIT raised $33 Million of additional capital of which $14 Million was raised in January and March through the Series C and Series D convertible debenture offerings and $19 Million was raised on December 30, 2004 in the first phase of the $25 Million unit trust offering. The proceeds from the convertible debenture offerings were used primarily to fund new property acquisitions. During 2004, the purchase price of new properties amounted to approximately $51.3 Million, of which approximately $13.7 Million was funded from working capital and approximately $37.5 Million was funded by mortgage loan financing. The acquisition of one property, Greenwood Gardens, encompassed the issuance of 20,000 trust units at $5.00 per unit, representing consideration of $100,000.

As a result of the debenture offerings in January 2004 and March 2004, the cash balance of LREIT was at a high level during the first quarter of the year, however, the cash balance was gradually reduced as new properties were acquired. At the end of the year, the cash balance of LREIT increased by a very significant amount after LREIT raised $19 Million of additional capital from the first closing of the December 2004 unit offering.

For fiscal 2005, the expectation is that excess cash reserves of LREIT will remain at a high level during the first quarter of the year, with significant reductions in cash occurring thereafter, as additional properties are acquired.

As noted in the “Cash Distributions” section of this report, working capital generated from the operating cash flow of LREIT, net of convertible debenture and mortgage loan payments, serves as the primary funding source for cash distributions. LREIT requires working capital in order to fund leasing costs and capital expenditures. During 2004, leasing costs and capital expenditures amounted to approximately $1.17 Million.

Interest expense on convertible debentures is projected to increase from $1,374,330 in 2004 to approximately $2.2 Million in 2005, reflecting a full year of interest payments for the Series C and Series D convertible debentures and interest on the Series E convertible debentures. Based on a quarterly distribution of $0.14 per unit, cash distributions are projected to increase from $1,392,838 in 2004 to approximately $4.5 Million in 2005, due to the unit trust offerings which were initiated in December 2004 and February 2005 and encompassed the issuance of 5.2 Million additional trust units. In total, based on the current debenture and equity structure, the convertible debenture payments and cash distributions which are projected for 2005 represent an increase in working capital requirements of approximately $4 Million.

The increased working capital requirements are expected to be partially fulfilled by an increase in operating cash flows, net of mortgage loan payments. The 2004 property acquisitions will contribute an entire year of operating cash flows to the Trust in 2005 and the acquisition of additional properties in 2005 will also result in a significant increase in operating cash flows.

It is anticipated, however, that in 2005, the incremental cash flow from the new properties will be less than the incremental cash outlays of the associated debenture and equity financing, due to the timing difference between the receipt of debenture and equity financing and the actual investment of the proceeds in new properties. As a result of the lag in cash flow from new property acquisitions, the funding of cash distributions in 2005 is expected to encompass a portion of the cash reserves. It is anticipated that leasing costs and capital expenditures in 2005 will be funded from the upward refinancing of the first mortgage loan for the Kenaston Property and cash reserves, as necessary.

Once the new debenture and equity financing is fully invested in income properties, however, the incremental cash is expected to exceed the incremental cost of the additional debenture and equity financing by a significant margin. Based on new property acquisitions of $125 Million, the increase in operating cash flow, net of mortgage loan payments, is roughly projected to be in the range of $4.5 Million to $5 Million.

The Series B debentures in the amount of $942,000 are due on August 30, 2005, while the Series C debentures in the amount of $10 Million are due on January 29, 2006. It is anticipated that the Series B debentures will be converted into units and that the Series C debentures will either be repaid from the proceeds of a new series of convertible debentures or converted into units. Accordingly, the maturity of the Series B and C debentures is not expected to have a significant impact on the working capital of LREIT.

ACCOUNTING POLICY CHANGES - 2005

As disclosed in Note 2 of the audited financial statements, the accounting policy for debentures which are convertible to units, at the option of the Trust, has been amended by the CICA. The amended policy will be adopted by LREIT, effective January 1, 2005, on a retroactive basis. The adoption of the amended accounting policy by LREIT will result in a reallocation of the debt and equity components of the Series B convertible debentures.

RELATED PARTY TRANSACTIONS

The investments of LREIT include the ownership of the McIvor Mall and an investment in a second mortgage loan, secured by the Minacs Building.

The Minacs Building is beneficially owned by 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited. Mr. Arni Thorsteinson, the Chief Executive Officer of the Trust and a Trustee, is a Director and President of Shelter Canadian and is also the President of 2668921 Manitoba Ltd. Mr. Thorsteinson abstains from voting on all matters concerning the Minacs loan.

The McIvor Mall was purchased from Consolidated Properties Ltd. in February 2004. At the time, Mr. Thorsteinson was a Director of Consolidated Properties Ltd. and served as Chairman of the Board of Directors. Mr. Thorsteinson withdrew from the decision-making process and abstained from voting in regard to the sale and purchase of the McIvor Mall, in his capacity as a Trustee and Executive Officer of LREIT and in his capacity as a Director of Consolidated Properties Ltd.

OPERATING RISKS AND UNCERTAINTIES

The properties of LREIT 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.

The shift in the investment strategy of LREIT toward the acquisition of multi-family residential properties during 2004 has resulted in a property portfolio with a higher 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.

Other risks and uncertainties are more fully explained in the other regulatory filings of LREIT, including the Annual Information Form.

ADDITIONAL INFORMATION

Additional information relating to LREIT, including the Annual Information Form, is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2004 Annual Report of Lanesborough Real Estate Investment Trust and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
April 14, 2005

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 14, 2005

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, 2004 and 2003 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, 2004 and 2003 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 7, 2005
except as to Note 23 which is as of April 1, 2005

Chartered Accountants

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

BALANCE SHEET

	December 31 2004	2003
Assets		
Income properties (Note 5)	**$ 63,459,726**	$ 14,884,473
Mortgage loan receivable (Note 6)	**2,150,000**	4,248,326
Deferred charges (Note 7)	**2,006,654**	847,564
Cash (Note 8)	**19,761,989**	1,828,597
Other assets (Note 9)	**1,271,668**	85,549
Intangible assets (Note 10)	**1,333,825**	-
	$ 89,983,862	$ 21,894,509
Liabilities and Equity		
Mortgage loans payable (Note 11)	**$ 49,091,108**	$ 10,704,727
Convertible debentures (Note 12)	**15,503,328**	2,704,648
Accounts payable and accrued liabilities	**1,446,803**	603,202
Intangible liabilities (Note 13)	**45,035**	-
	66,086,274	14,012,577
Equity	**23,897,588**	7,881,932
	$ 89,983,862	$ 21,894,509

Approved by the Trustees

"Arni C. Thorsteinson"

"Charles K. Loewen"

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF EQUITY

	Year Ended December 31 2004	2003
Unitholders' equity, beginning of year	**$ 6,644,580**	$ 252,123
Units issued by private placement	**19,142,500**	7,292,852
Units issued on conversion of debentures	**-**	58,000
Unit-based compensation (Note 14 and 15)	**98,588**	11,388
Issue costs	**(2,465,977)**	(644,987)
Accretion on equity component of convertible debentures (Note 12)	**650,789**	24,851
Income (loss)	**(1,349,726)**	175,938
Distributions	**(1,392,838)**	(525,585)
Unitholders' equity, end of year	**21,327,916**	6,644,580
Equity component of convertible debentures (Note 12)	**2,569,672**	1,237,352
Equity, end of year	**$ 23,897,588**	$ 7,881,932

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF INCOME (LOSS)

	Year Ended 2004	December 31 2003
Revenue		
Rentals from income properties (Note 17)	**$ 7,174,069**	$ 2,172,374
Interest and other income (Note 18)	**569,175**	268,466
	7,743,244	2,440,840
Expenses		
Property operating costs	**3,127,206**	907,764
Operating income	**4,616,038**	1,533,076
Financing expense	**3,773,890**	891,941
Trust expense	**124,475**	142,125
Amortization of income properties	**901,464**	99,050
Amortization of deferred charges	**374,842**	224,022
Amortization of intangible assets	**791,093**	-
	5,965,764	1,357,138
Income (loss)	**$ (1,349,726)**	$ 175,938
Income (loss) per unit (Note 20)		
Basic	**$ (0.510)**	$ 0.178
Diluted	**(0.510)**	0.165

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

STATEMENT OF CASH FLOWS

	Year Ended 2004	December 31 2003
Cash provided by (used in) operating activities		
Income (loss) from operations	**$ (1,349,726)**	$ 175,938
Items not affecting cash		
Accrued rental revenue (Note 17)	**(92,791)**	-
Amortization of above market in-place leases (Note 17)	**20,668**	-
Amortization of below market in-place leases (Note 17)	**(30,559)**	-
Accretion on debt component of convertible debentures	**650,789**	24,851
Interest on Series C debentures (Note 12)	**131,000**	-
Unit-based compensation (Note 15)	**11,388**	11,388
Amortization of income properties	**901,464**	99,050
Amortization of deferred charges	**374,842**	224,022
Amortization of intangible assets	**791,093**	-
Cash from operations	**1,408,168**	535,249
Changes in non-cash operating items (net of effects of acquisition of income properties)	**(267,659)**	187,313
Tenant inducements and leasing expenses incurred through leasing activity	**(719,121)**	(591,795)
	421,388	130,767
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	**7,035,297**	3,070,000
Proceeds of convertible debentures	**14,000,000**	-
Repayment of mortgage loans	**(722,869)**	(247,982)
Private placement of units	**19,142,500**	7,292,852
Deferred mortgage financing fees	**(245,608)**	(39,008)
Issue costs	**(2,465,977)**	(644,987)
Distribution paid	**(1,392,838)**	(525,585)
	35,350,505	8,905,290
Cash provided by (used in) investing activities		
Income properties acquired (Note 4)	**(18,842,771)**	(2,812,295)
Additions to income properties	**(449,056)**	(1,369,334)
Mortgage loan receivable advance	**(1,000,000)**	(4,000,348)
Repayment of mortgage loan receivable	**3,098,326**	902,022
Deposits on potential acquisitions	**(645,000)**	(50,000)
	(17,838,501)	(7,329,955)
Cash increase	**17,933,392**	1,706,102
Cash, beginning of year	**1,828,597**	122,495
Cash, end of year	**$ 19,761,989**	$ 1,828,597
Supplementary cash flow information		
Interest paid	**$ 2,734,543**	$ 855,923

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 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.

2 Significant accounting policies

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

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

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 on buildings is recorded on a straight-line basis over the remaining useful life. Amortization of appliances is recorded on a straight-line basis at 10% per annum.

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 12. 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 in regard to options granted to officers, employees and trustees is recognized over the vesting period of the options. Compensation expense in regard to options issued to Shelter Canadian Properties Limited under the services agreement is recognized over the term of the services agreement.

Revenue recognition

Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases are recognized on a straight-line basis over the term of the respective leases. Recoveries from tenants for property operating costs are recognized as revenues during the period in which the applicable costs are incurred.

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.

Per unit calculations

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, and as adjustments become necessary, the adjustments are reported in earnings in the period in which the adjustments become known.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004

3 Changes in accounting policies

Income properties
Effective January 1, 2004, in accordance with the new recommendations of the CICA Handbook regarding generally accepted accounting principles, amortization on buildings is recorded on a straight-line basis over the 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 $461,282 for the year ended December 31, 2004.

Effective for acquisitions initiated after September 12, 2003, in accordance with new accounting standards regarding operating leases acquired in either an asset purchase or a business combination, a portion of the purchase price is allocated to land, building, tenant inducements and intangibles, such as the value of lease origination costs associated with in-place leases, tenant relationships, cash flow guarantees and the value of above and below market leases, if any. The tenant inducements and lease origination costs are amortized as an expense over the remaining term of the leases. The values of tenant relationships are amortized over the term of the lease and renewal periods as applicable. The cash flow guarantee is amortized over the estimated period of benefit. The values of the above and below market leases are amortized and recorded as either an increase (below market leases) or a decrease (above market leases) to rentals from income properties over the remaining term of the lease. In the event that a tenant vacates its leased space prior to the contractual termination of the lease and rental payments are not being made on the lease, any unamortized balance of the related tenant inducement, intangible asset or liability will be written off. The Trust has applied this change prospectively, with no restatement to prior periods. Amortization of income properties is lower and amortization of deferred charges and intangible assets and liabilities is higher than would have been reported under the previous method of accounting for acquisitions by $60,645 and $860,375, respectively, for the year ended December 31, 2004. In addition, rentals from income properties is higher as a result of the amortization of above and below market in-place leases by $9,891 for the year ended December 31, 2004.

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 differences 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 $92,791 for the year ended December 31, 2004. In addition, accounts receivable is higher than would have been reported under the previous policy by $92,791 at December 31, 2004.

Convertible debentures
Effective January 1, 2005, in accordance with the new recommendations of the CICA Handbook with respect to accounting for financial instruments, the value ascribed to the option of the Trust to convert the Series B convertible debentures to a variable number of units, currently classified as equity, will be presented as a liability. The Trust will apply this change retroactively.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004

4 Acquisitions

On February 2, 2004, the Trust acquired the McIvor Mall, a shopping centre located in Winnipeg, Manitoba for a total cost of $6,815,391. 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 $14,327,570. 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 $11,189,096. 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, with 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 $2,620,914 and $5,406,142 respectively. The acquisition was funded from the assumption of first mortgage loans in the principal amount of $2,355,302 and $4,213,305 respectively, with the balance paid in cash.

On July 1, 2004, the Trust acquired Nova Ridge Estates, a residential property located in Spruce Grove, Alberta for a total cost of $8,812,551. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of $5,980,484 with the balance paid in cash.

On October 1, 2004, the Trust acquired Norglen Terrace, a residential property located in Peace River, Alberta for a total cost of $2,507,992. The acquisition was funded from the assumption of a first mortgage loan in the principal amount of $1,236,870, a second mortgage loan in the principal amount of $801,265 with the balance paid in cash.

NOTES TO THE FINANCIAL STATEMENTS
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4 Acquisitions (continued)

The net assets acquired in the transactions are as follows:

Land	$ 7,233,695
Building	40,463,766
Appliances	1,343,000
Deferred charges	
Tenant inducements	569,203
Intangible assets	
Lease origination costs	1,215,612
Tenant relationships	555,748
Cash flow guarantee	250,500
Above market in place leases	123,726
Intangible liabilities	
Below market in-place leases	(75,594)
Mortgage loans payable assumed	(32,073,953)
Working capital, net	(612,932)
	$ 18,992,771
Consideration:	
Cash	$ 18,842,771
Units issued	100,000
Deposit	50,000
	$ 18,992,771

5 Income properties

	Cost	Accumulated Amortization	Net Book Value December 31 2004	Net Book Value December 31 2003
Land	$ 10,978,755	$ -	$ 10,978,755	$ 3,728,254
Buildings	52,188,546	(964,249)	51,224,297	11,156,219
Appliances	1,343,000	(86,326)	1,256,674	-
	$ 64,510,301	$ (1,050,575)	$ 63,459,726	$ 14,884,473

NOTES TO THE FINANCIAL STATEMENTS
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6 Mortgage loan receivable

	December 31 2004	December 31 2003
Minacs Building	$ 2,150,000	$ 1,150,000
McIvor Mall	-	3,098,326
	$ 2,150,000	$ 4,248,326

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 initial loan advance of $1,150,000 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 June 30, 2005. The Trust may request the repayment of up to $500,000 of the consideration upon 30 days notice.

7 Deferred charges

	Cost	Accumulated Amortization	Net Book Value December 31 2004	Net Book Value December 31 2003
Tenant inducements	$ 1,607,539	$ (430,101)	$ 1,177,438	$ 714,694
Mortgage financing fees	324,958	(103,717)	221,241	10,448
Leasing expenses	156,218	(38,273)	117,945	122,422
Amounts recorded on income property acquisition				
Tenant inducements	569,203	(79,173)	490,030	-
	$ 2,657,918	$ (651,264)	$ 2,006,654	$ 847,564

Amortization of deferred charges consists of the following:

	Year Ended December 31 2004	Year Ended December 31 2003
Tenant inducements	$ 237,884	$ 155,767
Mortgage financing fees	34,815	55,110
Leasing expenses	22,970	13,145
Amounts recorded on income property acquisition		
Tenant inducements	79,173	-
	$ 374,842	$ 224,022

NOTES TO THE FINANCIAL STATEMENTS
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8 Cash

Included in cash is $498,210 (2003 - nil) relating to funds held in trust for tenant security deposits, future tenant inducements and a rental achievement holdback.

9 Other assets

	December 31 2004	December 31 2003
Amounts receivable	$ 118,373	$ 30,615
Loan receivable from tenant	250,000	-
Property tax deposits	129,560	-
Prepaid expenses	35,944	4,934
Deposits on potential acquisitions	645,000	50,000
Deferred rent receivable	92,791	-
	$ 1,271,668	$ 85,549

10 Intangible assets

	Cost	Accumulated Amortization	Net Book Value December 31 2004	Net Book Value December 31 2003
Lease origination costs	$ 1,215,612	$ (532,373)	$ 683,239	$ -
Tenant relationships	555,748	(58,220)	497,528	-
Cash flow guarantee	250,500	(200,500)	50,000	-
	2,021,860	(791,093)	1,230,767	-
Above market in-place leases	123,726	(20,668)	103,058	-
	$ 2,145,586	$ (811,761)	$ 1,333,825	$ -

Amortization of intangible assets consists of the following:

	Year Ended December 31 2004	Year Ended December 31 2003
Lease origination costs	$ 532,373	$ -
Tenant relationships	58,220	-
Cash flow guarantee	200,500	-
	791,093	-
Above market in-place leases	20,668	-
	$ 811,761	$ -

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

NOTES TO THE FINANCIAL STATEMENTS
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11 Mortgage loans payable

Mortgage loans payable consists of the following:

	Interest Rates at December 31, 2004			
	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31 2004
Fixed rate mortgages payable	4.1% - 7.4%	5.5%	7.0 years	$ 32,038,838
Floating rate mortgages payable	4.7% - 5.3%	4.8%	Demand	17,052,270
				$ 49,091,108

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

Approximate principal repayments are as follows:

Year Ending December 31	
2005	$ 17,735,411
2006	722,256
2007	2,635,167
2008	4,581,315
Thereafter	23,416,959
	$ 49,091,108

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

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS
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12 Convertible debentures

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

The Series A debentures bear interest at 10%, mature on August 30, 2007 and are subordinate only to the mortgage loans payable. The Series A 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 Series A 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 Series B debentures bear interest at 8%, mature on August 30, 2005 and are subordinate only to the mortgage loans payable. The Series B debentures are convertible at the request of the holder at any time prior to August 30, 2005 at a conversion price per unit of $5.00. At maturity, at the option of the Trust, all outstanding Series B 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.

On August 29, 2003, $58,000 of the Series B debentures was converted at $4.00 per unit, resulting in the issue of 14,500 units.

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.

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

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

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

12 Convertible debentures (continued)

December 31, 2004	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 2,687,773	$ 312,227	$ 3,000,000
Series B - 8%, due August 30, 2005	46,287	895,713	942,000
Series C - 8%, due January 29, 2006	9,454,042	676,958	10,131,000
Series D - 8%, due March 15, 2008	3,315,226	684,774	4,000,000
	$ 15,503,328	$ 2,569,672	$ 18,073,000

December 31, 2003	Debt	Equity	Total
Convertible debentures			
Series A - 10%, due August 30, 2007	$ 2,598,399	$ 401,601	$ 3,000,000
Series B - 8%, due August 30, 2005	106,249	835,751	942,000
	$ 2,704,648	$ 1,237,352	$ 3,942,000

The accretion of the debt component for the year ended December 31, 2004 of $650,789 (2003 - $24,851), 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.

13 Intangible liabilities

	Cost	Accumulated Amortization	Net Book Value December 31 2004	Net Book Value December 31 2003
Below market in-place leases	$ 75,594	$ (30,559)	$ 45,035	$ -

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

NOTES TO THE FINANCIAL STATEMENTS
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14 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 $206,975 for the year ended December 31, 2004 (2003 - $90,891).

The Trust incurred leasing commissions and tenant improvement and renovation fees to Shelter Canadian Properties Limited of $12,376 and $41,323 respectively for the year ended December 31, 2004 ($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. 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 December 31, 2004 are property management fees, leasing commissions and tenant improvement and renovation fees of $10,745 (2003 - $48,100) payable to 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, 2004 of $11,388 (2003 - $11,388), 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 $232,482 was recorded for the year ended December 31, 2004 (2003 - $112,886).
Accounts receivable at December 31, 2004 includes accrued interest on the second mortgage loan of nil (2003 - $3,781), due from 2668921 Manitoba Ltd.

15 Units

On December 30, 2004, the Trust issued 3,828,500 units for total gross proceeds of $19,142,500 by way of private placement.

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

	Year Ended December 31, 2004		Year Ended December 31, 2003	
	Units	Amount	Units	Amount
Outstanding, beginning of year	2,612,713	$ 8,235,323	775,000	$ 873,083
Units issued by private placement	3,828,500	19,142,500	1,823,213	7,292,852
Units issued on conversion of debentures	-	-	14,500	58,000
Unit based compensation				
Services agreement	-	11,388	-	11,388
Issued on income property acquisition	20,000	87,200	-	-
Outstanding, end of year	6,461,213	$ 27,476,411	2,612,713	$ 8,235,323

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

The units in escrow are summarized as follows:

Units in Seed Shareholder Escrow	68,340
Units in Security Escrow	82,500
	150,840

16 Unit options

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

The Trust 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 year ended December 31, 2004 (2003 - nil). The options have vested and expire October 29, 2007.

NOTES TO THE FINANCIAL STATEMENTS
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17 Rentals from income properties

	Year Ended December 31 2004	Year Ended December 31 2003
Rent revenue contractually due from tenants	$ 7,071,387	$ 2,172,374
Accrued rental revenue recognized on a straight-line basis	92,791	-
Amortization of above market in-place leases	(20,668)	-
Amortization of below market in-place leases	30,559	-
	$ 7,174,069	$ 2,172,374

Rental revenue contractually due from tenants include the recovery of property operating costs from tenants of $1,386,060 for the year ended December 31, 2004 (2003 - $732,410).

18 Interest and other income

	Year Ended December 31 2004	Year Ended December 31 2003
Cash flow guarantee	$ 200,520	$ -
Interest on mortgage loan receivable	232,482	112,886
Other	136,173	25,224
Lease termination fee	-	130,356
	$ 569,175	$ 268,466

19 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.

Distributable income represents non-GAAP information, which may not be comparable to measures used by other issuers.

NOTES TO THE FINANCIAL STATEMENTS
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19 Distributable income (continued)

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

	Year Ended December 31 2004	2003
Income (loss)	$ (1,349,726)	$ 175,938
Add (deduct):		
Accrued rental revenue	(92,791)	-
Amortization of above market in-place leases	20,668	-
Amortization of below market in-place leases	(30,559)	-
Financing expense on convertible debentures	2,025,119	403,288
Interest expense on convertible debentures	(1,374,330)	(378,436)
Unit-based compensation	11,388	11,388
Amortization of deferred charges	374,842	224,022
Amortization of tenant inducements	(237,884)	(155,767)
Amortization of leasing expenses	(22,970)	(13,145)
Amortization of income properties	901,464	99,050
Amortization of intangible assets	791,093	-
Distributable income	$ 1,016,314	$ 366,338
Distributable income per unit (Note 20)		
Basic	$ 0.384	$ 0.370
Diluted	0.373	0.363

20 Per unit calculations

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

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

	Year Ended December 31 2004	2003
Income (loss)	$ (1,349,726)	$ 175,938
Diluted income (loss)	$ (1,349,726)	$ 201,941
Weighted average number of units	2,647,896	988,893
Dilutive convertible debentures		
Series B	-	236,216
Weighted average diluted number of units	2,647,896	1,225,109

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004

20 Per unit calculations (continued)

Distributable income per unit calculations are based on the following:

	Year Ended December 31 2004	Year Ended December 31 2003
Distributable income	$ 1,016,314	$ 366,338
Diluted distributable income	$ 1,836,217	$ 444,774
Weighted average number of units	2,647,896	988,893
Dilutive options	3,402	-
Dilutive convertible debentures		
Series B	202,299	236,216
Series C	2,068,257	-
Weighted average diluted number of units	4,921,854	1,225,109

21 Financial instruments and risk management

Fair values
As at December 31, 2004, the carrying values of cash, amounts receivable, mortgage loan 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 loans approximate 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 currently prevailing interest rates.

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, 2004, the total of mortgage loans payable is 72.9% (2003 - 71.4%) of the total 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.

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21 Financial instruments and risk management (continued)

Risk management (continued)
Credit risk also arises from the possibility that a borrower may default on the repayment of a loan from the Trust. The risk is mitigated by ensuring that security is obtained in support of the mortgage loan receivable and the loan receivable from tenant.

22 Segmented financial information

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

Year ended December 31, 2004:

	Commercial	Light Industrial	Residential	Trust	Total
Rentals from income properties	3,629,826	336,716	3,207,527	-	7,174,069
Interest and other income	34,136	1,694	229,157	304,188	569,175
Property operating costs	1,601,767	48,537	1,476,902	-	3,127,206
Operating income	2,062,195	289,873	1,959,782	304,188	4,616,038
Financing expense	617,749	113,814	1,017,209	2,025,118	3,773,890
Amortization of income properties	308,918	31,345	561,201	-	901,464
Amortization of deferred charges	360,404	1,072	13,366	-	374,842
Amortization of intangible assets	272,647	-	518,446	-	791,093
Income (loss)	502,478	143,641	(150,441)	(1,845,404)	(1,349,726)
Total assets	21,046,906	2,910,376	45,109,052	20,917,528	89,983,862

Year ended December 31, 2003:

	Commercial	Light Industrial	Residential	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
Operating income	1,298,071	113,604	-	121,401	1,533,076
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

NOTES TO THE FINANCIAL STATEMENTS
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22 Segmented financial information (continued)

Year ended December 31, 2004:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	Trust	Total
Rentals from income properties	1,211,784	848,676	3,629,826	123,180	1,360,603	-	7,174,069
Interest and other income	220,448	5,426	34,136	534	4,443	304,188	569,175
Property operating costs	413,531	625,172	1,601,767	5,317	481,419	-	3,127,206
Operating income	1,018,701	228,930	2,062,195	118,397	883,627	304,188	4,616,038
Financing expense	392,498	281,452	617,749	59,146	397,927	2,025,118	3,773,890
Amortization of income properties	232,673	124,678	308,918	12,719	222,476	-	901,464
Amortization of deferred charges	12,696	670	360,404	1,072	-	-	374,842
Amortization of intangible assets	298,286	11,442	272,647	-	208,718	-	791,093
Income (loss)	82,548	(189,313)	502,478	45,460	54,505	(1,845,404)	(1,349,726)
Total assets	21,292,531	11,212,394	21,046,906	1,270,288	14,244,215	20,917,528	89,983,862

Year ended December 31, 2003:

	Alberta	British Columbia	Manitoba	Ontario	Northwest Territories	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
Operating income	75,779	-	1,298,071	37,825	-	121,401	1,533,076
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

23 Subsequent events

Mortgage loan receivable
On January 6, 2005 an additional loan advance of $1,475,000, at an interest rate of 9%, was made on the mortgage loan receivable (Minacs Building) resulting in a total mortgage loan receivable of $3,625,000.

Units
On January 27, 2005, the over-allotment option from the December 30, 2004 private placement of units, was closed resulting in 1,171,500 units being issued for total gross proceeds of $5,857,500.

On February 2, 2005, the Trust completed a private placement offering of units resulting in 200,000 units being issued for total gross proceeds of $1,000,000.

Acquisitions
On January 31, 2005, the Trust acquired a multi-family residential property located in Thompson, Manitoba known as Highland Tower for a purchase price of $1,350,000. The purchase price was initially funded in cash. The Trust is negotiating first mortgage loan financing in the amount of $900,000. The Trust intends to complete a comprehensive renovation program at the property.

On January 31, 2005, the Trust acquired a multi-family residential property located in Prince Albert, Saskatchewan known as Borden Estates for a purchase price of $5,315,000. The consideration paid consisted of the assumption of first mortgage financing of $4,000,000 with the balance paid in cash.

On March 2, 2005, the Trust acquired four multi-family residential properties located in Prince Albert, Saskatchewan for a combined purchase price of $4,025,000. The consideration paid consisted of the assumption of mortgage financing of $2,910,000, a $250,000 non-interest bearing vendor take-back second mortgage loan maturing July 1, 2006, with the balance paid in cash.

On April 1, 2005, the Trust acquired a multi-family residential property located in Fort McMurray, Alberta known as Nelson Ridge Estates for a purchase price of $40,575,000. The consideration will consist of the assumption of mortgage financing of $28,200,000 with the balance paid in cash.

Mortgage loan payable
On February 25, 2005, the floating rate first mortgage loan in the amount of $9,517,520 relating to the Kenaston Property was upward refinanced with a new first mortgage loan in the amount of $12,000,000 bearing interest at 5.8% and due February 24, 2015.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004

23 Subsequent events (continued)

Convertible debentures
On January 31, 2005, immediately upon closing of the multi-family residential property acquisitions, the Trust completed all of the conditions and covenants required in order for the Series D debentures to rank pari passu with the Series A debentures, Series B debentures and Series C debentures.

On February 18, 2005, the Trust completed the first closing of a private placement of 5 year 8% Subordinated Series E Convertible Debentures for total gross proceeds of $3,659,000. The second closing of the offering occurred on March 16, 2005, for total gross proceeds of $8,341,000. The Series E debentures are convertible at the request of the holder at any time during the year ending February 17, 2008, at a conversion price per unit of $6.50; during the year ending February 17, 2009, at $7.15; and during the year ending February 17, 2010, at $7.90.

24 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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