LANESBOROUGH REAL ESTATE INVESTMENT TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2004

Auditors’ Report

To the Unitholders of Lanesborough Real Estate Investment Trust:

We have audited the balance sheets of Lanesborough Real Estate Investment Trust as at December 31, 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

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.

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.

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.

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

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

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	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.

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.

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.

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.

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.

19 Distributable income (continued)

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

	Year Ended December 31 2004	Year Ended December 31 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	Year Ended December 31 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

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.

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

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.

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.