LANESBOROUGH REIT

2004 THIRD QUARTER REPORT

REPORT TO UNITHOLDERS

The operating results for the third quarter of 2004 continue to reflect the overall objectives of LREIT of establishing a geographically diversified portfolio of quality real estate properties with strong cash flows, stable cash distributions and value growth opportunities.

During the third quarter of 2004, operating income increased by approximately $900,000 or 180%, in comparison to the third quarter of 2003, while net income, excluding amortization charges, increased by approximately $29,000 or 14%. The relatively modest increase in net income, before amortization expense, is mainly due to the fact that the operating income for the third quarter of 2003 includes a non-recurring revenue amount of $130,356 in regard to a lease termination fee.

For the nine month period ended September 30, 2004, operating income increased by approximately $2.17 Million or 190%, in comparison to the year-to-date results of the prior year, while net income, excluding amortization charges, increased by approximately $267,000 or 70%.

The growth in the income of LREIT reflects a significant increase in the real estate portfolio of the Trust during 2004. As of September 30, 2003, and until the end of the 2003 fiscal year, the real estate portfolio of LREIT consisted of three commercial properties. During the nine month period ended September 30, 2004, LREIT acquired six additional properties, at a total cost of approximately $49 Million, of which approximately $42 Million was directed toward the acquisition of five multi-family residential properties. As of September 30, 2004, multi-family residential properties represent approximately 65% of the total portfolio of the Trust, based on property acquisition costs, reflecting the shift in the investment focus of LREIT toward multi-family residential product. As with the commercial properties, the multi-family residential properties are expected to produce steady income streams and value gains. The increase in operating income during the third quarter of 2004 of approximately $900,000 reflects operating income of approximately $700,000 from the 2004 multi-family residential property acquisitions.

A $10 Million convertible debenture offering in January 2004 and a $4 Million convertible debenture offering in March 2004 served as the primary source of capital for the 2004 residential property acquisitions. Although LREIT has incurred financing expense on the convertible debentures since the closing date of the offerings, the actual investment of the debenture proceeds in new properties was not substantially completed until the sixth multi-family residential property was acquired in October 2004. Accordingly, the third quarter results, and particularly the year-to-date results, reflect a lag in the returns from the full investment of the $14 Million of new capital.

The inclusion of operating income from property acquisitions for an entire year will serve to increase the income potential of the Trust in fiscal 2005, while the financing expense on the associated convertible debentures will remain constant.

The third quarter net loss of $444,577 and the year-to-date net loss of $797,836, compared to the net income results in 2003 are mainly attributable to increased amortization charges, resulting from new accounting policies in accordance with a change in generally accepted accounting principles. The third quarter net loss includes amortization expense of $679,928, including increased amortization charges of $446,416, which are related specifically to the new accounting policies, while the year-to-date loss includes new amortization charges of $897,217.

The cash distribution for the third quarter of 2004 amounted to $368,580 or $0.14 per unit, based on the 2,632,713 trust units which were outstanding as of September 30, 2004. The distribution represents an increase of 12% or 0.015 per unit, in comparison to the previous quarterly distribution amount of $0.125 per unit. The distribution was paid on October 15, 2004.

Consistent with its financial strategy of maximizing unit values by actively pursuing the acquisition of additional properties, LREIT is in the process of arranging a private placement of trust units with estimated gross proceeds of $20 Million. The potential proceeds are to be used to acquire additional multi-family residential properties located in markets throughout Canada. Pending the successful closing of the trust unit offering, LREIT has secured conditional purchase agreements for five properties in Winnipeg, Manitoba, Windsor, Ontario and Yellowknife, Northwest Territories, with a total acquisition cost of approximately $67.35 Million. The trust unit offering is projected to close by December 31, 2004, while the conditional property acquisitions are scheduled to close early in 2005. There is no assurance, however, that the trust unit offering or the conditional property acquisitions will close.

In summary, the financial performance of LREIT was generally in accordance with expectations during the third quarter of 2004, with the Trust achieving an improvement in operating income and operating cash flows. The financial condition of LREIT remains strong, as evidenced by the favourable working capital balance and substantial cash reserves. Overall, it is anticipated that LREIT will experience a modest increase in operating cash flows during the fourth quarter of 2004, while the general outlook for 2005 is for another year of substantial growth, based on a vastly expanded real estate portfolio.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
November 25, 2004

Analysis of Net Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Income Properties				
Operating income	$ 1,324,610	$ 472,120	$ 3,075,997	$ 1,067,346
Financing expense – mortgage loans	(573,205)	(135,102)	(1,116,635)	(356,403)
Net income, excluding trust operations, financing expense on debentures and amortization	751,405	337,018	1,959,362	710,943
Trust Operations				
Interest income	73,846	23,652	243,631	83,156
Trust expense	(28,871)	(53,539)	(107,119)	(112,257)
	44,975	(29,887)	136,512	(29,101)
Financing expense – debentures	(561,029)	(100,740)	(1,449,442)	(302,296)
Net income, excluding amortization	**235,351**	**206,391**	**646,432**	**379,546**
Amortization				
Amortization of income properties	(287,437)	(26,669)	(594,113)	(64,987)
Net income, excluding amortization Of deferred charges and intangibles	(52,086)	179,722	52,319	314,559
Amortization of deferred charges	(95,003)	(51,390)	(272,543)	(162,722)
Net income (loss), excluding amortization of intangibles	(147,089)	128,332	(220,224)	151,837
Amortization of intangibles	(297,488)	-	(577,612)	-
Net income (loss)	$ (444,577)	$ 128,332	$ (797,836)	$ 151,837
Operating income per Statement of Income (Loss)	$ 1,398,456	$ 495,772	$ 3,319,628	$ 1,150,502
Cash from operations per Statement of Cash Flows	$ 394,599	$ 215,548	$ 1,168,907	$ 405,953

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 third quarter ended September 30, 2004 and accompanying notes, and with reference to the 2003 Annual Report, and the reports for the first and second quarter of 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.

Income Properties – September 30, 2004

Property	Location	Acquisition Date	Suites/ Leasable Area Sq. Ft.	Occupancy 9/30/04	Purchase Price
Multi-Family Residential					
Beck Court	Yellowknife, NWT	Apr. 2004	120	95%	$ 14,300,000
Greenwood Gardens	Surrey, BC	Apr. 2004	183	84%	10,950,000
Nova Villa	Edmonton, AB	May 2004	61	98%	5,400,000
Nova Manor	Edmonton, AB	May 2004	32	94%	2,615,000
Nova Ridge	Spruce Grove, AB	July 2004	102	76% *	8,800,000
		Total Suites	498		$ 42,065,000
Retail and Office					
Kenaston	Winnipeg, MB	Apr. 2002	103,209	94%	12,600,000 **
McIvor Mall	Winnipeg, MB	Feb. 2004	65,283	96%	6,700,000
			168,492		19,300,000
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	$64,165,000

* Nova Ridge is a newly constructed property, in the initial lease-up stage, as of September 30, 2004.
** Includes cost of asset additions.

INVESTMENT AND FINANCING ACTIVITY

Property Acquisitions

During the third quarter of 2004, LREIT acquired one additional multi-family residential property – Nova Ridge Estates. Subsequent to September 30, 2004, LREIT acquired its sixth multi-family residential property – Norglen Terrace.

Nova Ridge Estates – Spruce Grove, Alberta

Effective July 1, 2004, LREIT acquired Nova Ridge Estates, an apartment complex in Spruce Grove, Alberta, consisting of two newly constructed four-storey buildings with a total of 102 suites. Spruce Grove is located 11 kilometres west of Edmonton and is one of the fastest growing communities in western Canada. The purchase price of the property was $8.8 Million and encompassed the assumption of a first mortgage loan of approximately $6.5 Million, with the expectation that the loan will be increased to $7.3 Million, upon the release of a rental achievement holdback. The interest rate of the first mortgage loan has been fixed at a rate of 4.67%, maturing January 1, 2010.

Norglen Terrace, Peace River, Alberta

Effective October 1, 2004, LREIT acquired Norglen Terrace, an apartment complex in Peace River, Alberta, consisting of two four-storey buildings with a total of 72 suites. The purchase price of the property was $2.5 Million and encompassed the assumption of a 5.15% first mortgage loan of approximately $800,000 and a 7.38% first mortgage loan of approximately $1.24 Million, both of which mature on April 1, 2007.

Pending Acquisitions

As disclosed on page 13 of this report, LREIT has secured conditional purchase agreements for five multi-family residential properties, based on the anticipated receipt of $20 Million of new investment capital from a private placement of trust units.

Mortgage Loans Payable

Summary of Mortgage Loans Payable

Maturity Date	Property	Balance September 30, 2004	Interest Rate
Demand	Kenaston	$ 9,586,012	Prime + 0.625%
Demand	MAAX Warehouse	1,083,579	Prime + 1%
July 1, 2008	Nova Villa	4,187,983	4.10%
July 5, 2009	Greenwood Gardens	6,657,356	6.00%
January 1, 2010	Nova Ridge	6,465,052	4.67%
October 1, 2013	Purolator Building	923,099	6.47%
January 1, 2014	Beck Court	10,666,331	4.97%
January 1, 2014	Nova Manor	2,344,401	5.40%
July 1, 2014	McIvor Mall	5,385,454	6.55%
		$ 47,299,327	

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.

As summarized above, LREIT has secured long-term mortgage loan financing at favourable rates of interest for the majority of properties in its real estate portfolio. The selection of floating interest rates for a few properties has resulted in significant savings in interest costs as the floating interest rate has been substantially less than the available fixed rate. The staggered maturity dates will also serve to reduce refinancing risk.

In regard to the mortgage loans with floating interest rates, LREIT has obtained a proposal for an upward refinanced first mortgage loan for the Kenaston Property at an amount which shall not exceed 75% of the appraised value of the property, for a term of ten years, and at a preliminary interest rate of 5.8%. Subject to the completion of an updated appraisal, it is projected that the new loan would result in additional loan proceeds of a minimum of $1.5 Million. The primary use of the loan proceeds would be for additional investment in new properties.

The expectation is that the first mortgage loan for the MAAX Warehouse will remain with a floating interest rate.

Capital Expenditures

Capital expenditures, excluding property acquisitions, were minimal during the third quarter of 2004, consisting of $32,959 in improvements to the Kenaston Property.

Mortgage Loan Receivable

The temporary mortgage loan investment of LREIT consists of a $2.15 Million second mortgage loan, secured by the Minacs Building in Oshawa, Ontario (the “Minacs loan”). The loan is comprised of a $1.15 Million component, bearing interest at a rate of 12.5% and a $1 Million component, bearing interest at a rate of 9%.

Subsequent to September 30, 2004, the maturity date of the Minacs loan was extended for an additional six months to June 30, 2005. LREIT has the right to demand a maximum repayment of $500,000 upon 30 days notice.

Debenture Offerings

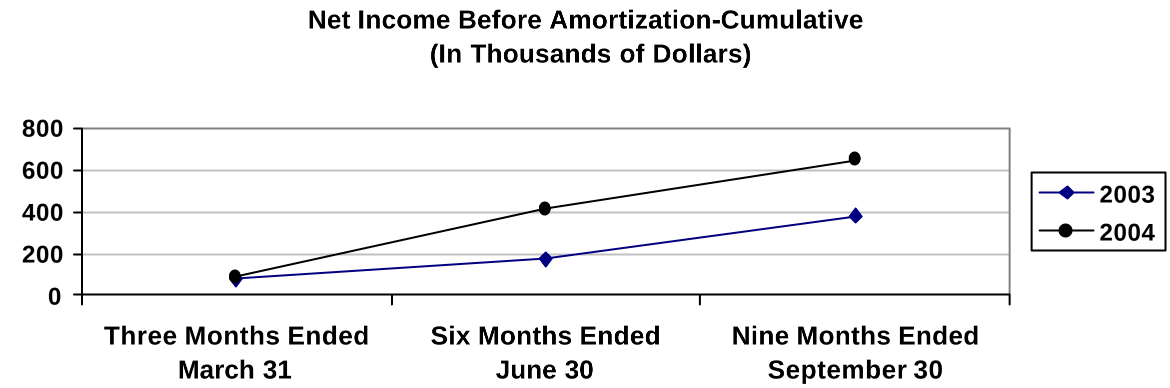
In January 2004, LREIT raised gross proceeds of $10 Million from the private placement of 10,000 Senior Secured Series C Convertible Debentures, bearing interest at a rate of 8%. An additional $4 Million of capital was raised in March 2004 from the public offering of 4,000 Senior Subordinated Series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

The terms of the new debenture offerings are disclosed in Note 11 of the quarterly financial statements.

The recent focus of LREIT on the acquisition of multi-family residential properties stems from the terms of the Series C debentures, whereby LREIT committed to acquiring multi-family residential properties with an aggregate price of at least $50 Million. The total purchase price of the multi-family properties which LREIT has acquired, or is in the process of acquiring as of the date of this report, is approximately $45 Million.

RESULTS OF OPERATIONS

Quarterly Overview



Factors Affecting the Comparability of Quarterly Results

Changes in Accounting Policies

Policies Implemented in Fiscal 2004

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 first and second quarterly reports of LREIT for 2004 and are also described in Note 2 of the third quarter 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 Three Months Ended September 30	Nine Months Ended September 30
Amortization of buildings	$ (144,179)	$ (304,575)
Allocation of purchase price for property acquisitions - amortization component	(302,237)	(592,642)
	(446,416)	(897,217)
- revenue component	2,697	7,192
Revenue recognition for leases with contractual rent increases	26,560	68,289
Net decrease in net income	$ (417,159)	$ (821,736)

Policies to be Implemented in Fiscal 2005

As disclosed in Note 2 of the quarterly 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 is effective for fiscal years commencing November 1, 2004, with the amended policy to be applied retroactively. 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.

Cash Flow Guarantees

The acquisition of Nova Manor, Nova Villa and Nova Ridge 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.

During the third quarter of 2004, the cash flow guarantee amount for Nova Ridge was approximately $128,000 in excess of actual cash flows, as Nova Ridge is a newly constructed property in the initial lease-up stage of operations. 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 $147,000 was recorded as an intangible asset on the acquisition of the property and is being amortized over a five month period. At the end of the five month period, actual monthly cash flows are expected to be equal to or in excess of the guarantee amount.

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.

Operational Events

Acquisition of Additional Properties

During the third quarter of fiscal 2003, the portfolio of LREIT consisted of three commercial properties, with a total acquisition cost of approximately $14 Million.

During the nine month period ended September 30, 2004, the portfolio of LREIT gradually increased to nine properties, with a total acquisition cost of approximately $64 Million. At the start of the third quarter, the portfolio included all of the nine properties.

Leasing Costs

Leasing costs are initially recorded as deferred charges and subsequently amortized over the term, or remaining term, of the lease, on a straight-line basis. In general, an increase in cumulative leasing costs results in an increase in amortization expense for deferred charges.

As of September 30, 2003, the total cumulative leasing costs of LREIT were $911,403. As of September 30, 2004, the total cumulative leasing costs had increased to $1,659,281, excluding tenant inducements arising from the change in accounting policy for the acquisition of income properties.

The increase in leasing costs in fiscal 2004 consists primarily of leasehold improvements for the Kenaston Property and the McIvor Mall.

Mortgage Loan Receivable

The change in the mortgage loans receivable balance is the primary factor affecting an increase in “Interest and Other Income”.

During the nine month period ended September 30, 2003, mortgage loans receivable consisted solely of the Minacs loan. Commencing January 1, 2003, the loan balance remained constant at $1.15 Million until July 2003. After a series of repayments in the third quarter of 2003, which resulted in a reduction in the loan balance to $247,978, the loan was reinstated at the original amount of $1.15 Million on September 10, 2003. The interest rate of the loan was 10% from January 1, 2003 until July 19, 2003, at which time the rate increased to 12.5%.

LREIT commenced fiscal 2004 with mortgage loans receivable of $4,248,326, comprised of the Minacs loan of $1.15 Million and a 5.23% first mortgage loan on the McIvor Mall. An additional advance of $1 Million was provided on the Minacs loan in January 2004 at an interest rate of 9%, while the McIvor Mall loan was fully repaid on the acquisition date of the property on February 2, 2004.

Since February 2, 2004, the Minacs loan balance has remained unchanged at the balance of $2.15 Million. Subsequent to September 30, 2004, the maturity date of the loan was extended for an additional six months to June 30, 2005.

Comparison to Previous Third Quarter

Three Months Ended September 30	2004	2003	Increase (Decrease)
Revenue:			
Rentals from Income Properties	$ 2,093,178	$ 558,665	$ 1,534,513
Interest and Other Income	216,061	160,751	55,310
Total revenue	2,309,239	719,416	1,589,823
Operating income	1,398,456	495,772	902,684
Net income, excluding amortization	235,351	206,391	28,960
Net income (loss)	(444,577)	128,332	(572,909)

Net Income (Loss)

During the third quarter of 2004, LREIT incurred a loss of $444,577, compared to net income of $128,332 during the third quarter of 2003.

The change in bottom line results, from the third quarter of 2003 to the third quarter of 2004, is primarily due to the implementation of new accounting policies for recording property acquisitions and for amortizing income properties, in accordance with a change in generally accepted accounting principles. As disclosed on page 6 of this report, the change in accounting policies has resulted in a reduction in net income of $417,159.

In addition, the third quarter results for fiscal 2003 are comparatively higher due to the inclusion of a non-recurring revenue amount of $130,356 in regard to a lease termination fee. The lease termination fee represented the discounted payout of rent obligations for a 15 month period.

The relatively modest increase in net income, before amortization expense, is also mainly due to the inclusion of the lease termination fee in the 2003 income results.

Operating Income

Operating income increased by $902,684 or 182% during the third quarter of fiscal 2004, compared to the third quarter of 2003, primarily due to an increase in the number of properties in the real estate portfolio of LREIT.

Financing Expense

Financing expense is comprised of interest on the mortgage loans which are secured by the income properties as well as financing expense on the convertible debentures. During the third quarter of 2004, financing expense increased by $898,392 or 380%, compared to the third quarter of 2003. Approximately 51% of the increase is due to an increase in financing expense associated with the Series C and Series D convertible debentures, while approximately 49% is due to an increase in financing expense in regard to mortgage loans.

Amortization Expenses

During the third quarter of 2004, total amortization expense increased by $601,869 or 771%, compared to the third quarter of 2003. Approximately 43% of the increase is due to an increase in amortization of income properties, while approximately 50% is due to an increase in amortization of intangible assets. The increase in amortization of income properties reflects the acquisition of additional buildings, as well as the change in the accounting policy for the amortization of buildings. The increase in amortization of intangible assets is mainly due to the change in accounting policy for recording the purchase price of income properties.

Interest and Other Income

During the third quarter of 2004, interest and other income increased by $55,310 or 34%, compared to the third quarter of 2003. The increase reflects the inclusion of approximately $128,000 of the Nova Ridge cash flow guarantee amount in “other” income, representing the extent to which the guaranteed amount exceeded actual revenues, as well as an increase in interest income from the Minacs second mortgage loan, due to the increase in the amount of the loan. The increases are largely offset by the inclusion of the lease termination fee of $130,356 in interest and other income in the third quarter of 2003.

Segmented Information

Segmented financial information is provided in Note 20 to the Financial Statements. During the third quarter of 2003, the commercial properties accounted for 100% of the operating income of LREIT, excluding interest income on mortgage loans receivable. During the second and third quarter of 2004, a higher percentage of operating income has shifted to multi-family residential properties, with the residential portfolio accounting for 47% of the total operating income for the third quarter of 2004.

Comparison to Preceding Quarter

Three Months Ended	September 30, 2004	June 30, 2004	Increase (Decrease)
Revenue:			
Rentals from Income Properties	$ 2,093,178	$ 1,880,361	$ 212,817
Interest and Other Income	216,061	80,978	135,083
Total revenue	2,309,239	1,961,339	347,900
Operating income	1,398,456	1,319,195	79,261
Net income, excluding amortization	235,351	324,236	(88,885)
Net income (loss)	(444,577)	(214,017)	(230,560)

During the third quarter of 2004, the operating income of LREIT increased by approximately $79,261 or 6%, compared to the second quarter of 2004, while net income, excluding amortization expense, decreased by $88,885 or 27%. The net loss increased from $214,017 in the second quarter, to $444,577 in the third quarter.

The increase in operating income mainly reflects the acquisition of Nova Ridge during the third quarter of 2004, as well as the inclusion of the operating results of other residential properties for the entire third quarter, largely offset by a reduction of approximately $128,000 in the operating income of Beck Court, as well as a reduction of approximately $31,500 in the operating income of Greenwood Gardens. The reduction in the operating income of Beck Court is mainly due to the under accrual of utility expenses during the second quarter of 2004. The under accrual reflects typical administrative difficulties which may be encountered upon the acquisition of a new property in terms of systemizing financial information.

The reduction in the operating income of Greenwood Gardens reflects an increase in the vacancy loss during the third quarter of 2004, as well as an increase in operating costs or, in particular, maintenance costs and advertising and leasing costs. 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 planned 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 which are higher than the portfolio average and that cost of the upgrade program will exceed the cash flow from operations.

The decrease in net income, before amortization expense, is mainly due to a reduction of approximately $76,000 in the income of the McIvor Mall. The reduction in the income of the McIvor Mall reflects an increase in debt service costs related to the procurement of first mortgage loan financing for the mall, effective June 22, 2004. As the acquisition of the McIvor Mall was initially funded entirely by a cash payment, there were not any debt service costs allocated to the property during the second quarter of 2004, aside from an interest charge of $8,700 for the last nine days of June 2004.

The increase in the net loss mainly reflects the offsetting impact of the amortization charge of approximately $128,000 in regard to the cash flow guarantee of Nova Ridge. The amortization charge effectively reduces the operating income of Nova Ridge, including debt service costs, from $128,302 to break-even.

Year-to-Date Comparison

Nine Months Ended September 30

	2004	2003	Increase (Decrease)
Revenue:			
Rentals from Income Properties	$ 4,813,011	$ 1,586,345	$3,226,666
Interest and Other Income	401,805	225,561	176,244
Total revenue	5,214,816	1,811,906	3,402,910
Operating income	3,319,628	1,150,502	2,169,126
Net income, excluding amortization	646,432	379,546	266,886
Net income (loss)	(797,836)	151,837	(949,673)

The change in operating results for the nine month period ended September 30, 2004, compared to the nine month period ended September 30, 2003, is primarily attributable to the same factors which caused the change in the operating results for the comparative three month periods.

The higher percentage increase in net income, excluding amortization charges, for the comparative nine month period versus the comparative three month periods, primarily reflects the “levelling out” of quarterly variations in operating income and financing expense. The percentage increase in operating income during the second quarter of 2004 was greater than the percentage increase during the third quarter as a greater number of new acquisitions occurred during the second quarter and as the operating income of Beck Court reflected an under accrual of utility expenses.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31

	2004			2003	
	Q3	Q2	Q1	Q4	Q3
Total revenue	$2,309,239	$1,961,339	$944,238	$628,934	$719,416
Operating income	$1,398,456	$1,319,195	$601,977	$382,574	$495,77
Net income (loss)	$(444,577)	$(214,017)	$(139,242)	$24,101	$128,332
PER UNIT					
Operating income					
- Basic	0.531	0.502	0.230	0.267	0.513
- Diluted	0.227	0.224	0.134	0.233	0.412
Net income					
- Basic	(0.169)	(0.081)	(0.053)	0.017	0.133
- Diluted	(0.169)	(0.081)	(0.053)	0.017	0.112

Quarterly Analysis for the Year Ended December 31

	2003		2002	
	Q2	Q1	Q4 (1)(2)	Q3 (1)(2)
Total revenue	$541,384	$551,106	$484,146	$747,558
Operating income	$336,575	$318,155	$277,079	$396,862
Net income (loss)	$22,978	$527	$(44,612)	$26,599
PER UNIT				
Operating income				
- Basic	0.434	0.411	0.418	0.719
- Diluted	0.322	0.304	0.383	0.581
Net income				
- Basic	0.030	0.001	(0.067)	0.048
- Diluted	0.029	0.001	(0.067)	0.043

Notes:

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

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

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

CASH FLOWS AND LIQUIDITY

Cash Flow Highlights

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2004	2003	2004	2003
Cash from operations	$394,599	$215,548	$1,168,907	$405,953
Cash provided by (used in) operating activities	$337,820	$(131,834)	$146,320	$(150,202)
Cash provided by (used in) financing activities	$(444,690)	$3,881,558	$18,148,788	$4,202,787
Cash provided by (used in) investing activities	$(2,461,643)	$(2,917,208)	$(16,760,291)	$(3,292,180)
Net cash increase (decrease)	$(2,568,513)	$832,516	$1,534,817	$760,405

	2004	2003
Working capital, as of September 30	$4,991,878	$1,602,802

General

The main sources of new investment capital for LREIT are the proceeds from the issue of additional trust units and convertible debentures. Prior to proceeding with any additional debenture offerings, LREIT is required to provide the holders of the Series C Debentures with the right of first refusal in regard to the purchase of the debentures.

Third Quarter Cash Flows

As of September 30, 2004, the cash balance of LREIT was approximately $3.4 Million, representing a decrease of approximately $2.6 Million, in comparison to the cash balance as of June 30, 2004. The main use of cash was the cash outlay of approximately $2.1 Million in regard to the acquisition of Nova Ridge.

In comparison to the third quarter of 2003, the 2004 cash flows results reflect the overall growth in the operations of LREIT and a significant increase in the extent of investment activity. In terms of cash flows from operating activities, the cash from operations for the three months ended September 30, 2004 increased by $179,051 or 83%, in comparison to the third quarter of 2003. For the nine month period ended September 30, 2004, cash from operations increased by $849,154 or 209%, compared to the nine month period ended September 30, 2003. In general, the increase in cash flow from operations is attributable to the acquisition of additional income properties. The positive year-to-date cash flow results from operations of $1,255,107, compared to the net loss of $797,386, reflect the extent to which non-cash items impact the income results of LREIT. The non-cash items include amortization expense of $679,928 and accretion on the debt component of convertible debentures, in the amount of $185,659.

As of September 30, 2004, the working capital of LREIT was approximately $5 Million.

Upcoming Sources of Capital

In November 2004, LREIT initiated a private offering of trust units with maximum gross proceeds of $20 Million. The unit offering is scheduled to close by December 31, 2004, subject to the receipt of all regulatory and other approvals. The potential proceeds from the offering are to be used for the acquisition of additional multi-family residential properties and for general purposes.

In anticipation of the successful closing of the unit offering, LREIT has conditionally agreed to acquire five multi-family properties, comprising a total of 804 suites and approximately 43,100 square feet of commercial space, with a total purchase price of $67.35 Million, of which approximately $53 Million is to be satisfied by mortgage financing, including $4.955 Million of non interest-bearing take-back mortgages with two year terms. The properties are located in Winnipeg, Manitoba, Windsor, Ontario and Yellowknife, Northwest Territories. All of the acquisitions are scheduled to close in early 2005. The finalization of each acquisition is subject to the completion of the due diligence process and the removal of the Purchaser's conditions.

The remaining capital, net of issue costs, will be used to acquire properties which have not been identified as of the date of this report and, for general purposes. There is no assurance that the trust unit offering or the conditional property acquisitions will close.

DISTRIBUTABLE INCOME

The distributable income of LREIT for the third quarter of 2004 was $296,749, compared to $161,312 for the third quarter of 2003. The increase from 2003 reflects the increased cash flow from operations due to the acquisition of additional properties. The positive distributable income amount, compared to the third quarter loss of $444,577 reflects adjustments for non-cash items, including the accretion of the debt component on the convertible debentures and amortization expense on income properties and intangible assets, as follows:

Loss		$ (444,577)
Amortization of income properties and intangible assets		584,925
Accretion of debt component:		
Financing expense on convertible debentures	$ 561,029	
Interest expense on convertible debentures	(375,370)	185,659
Accrued rental revenue and other adjustments		(29,258)
Distributable income		$ 296,749

In comparison to the second quarter of 2004, distributable income decreased by $83,857 or 22%. The decrease is mainly attributable to the same factors which caused a change in third quarter operating income and net income, excluding amortization expense, as discussed on page 10 of this report.

BALANCE SHEET

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities increased by $615,830 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.

Distribution Payable

The date of record for the third quarter distribution is September 30, 2004 and, therefore, the distribution is accrued at month end.

Other

The notes to the financial statements provide information regarding the composition of all other balance sheet items.

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. Mr. Thorsteinson is a Director of Consolidated Properties Ltd. and serves 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.

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

Other risks and uncertainties are more fully explained in the other regulatory filings of LREIT, including the 2004 Annual Information Form, dated May 19, 2004.

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.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
November 25, 2004

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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Email: info@lreit.com
Website: www.lreit.com

Unit Listing

TSX Venture Exchange
Unit trading symbol: LRT.UN

Unitholder and Investor Contact

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Chartered Accountants
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