LANESBOROUGH
Real Estate Investment Trust 2600 Seven Evergreen Place ■ Winnipeg, Manitoba R3L 2T3 ■ Tel. 204.475.9090 ■ Fax. 204.452.5505

April 9, 2003

To the Unitholders of
Lanesborough Real Estate Investment Trust

We are pleased to enclose the Annual Report for the Lanesborough Real Estate Investment Trust (LREIT) for the fiscal year ended December 31, 2002.

The Annual Report contains the following information:

- Section I: An overview of LREIT, including the investment objectives of the Trust and a summary of the trading results of the LREIT Trust units.

- Section II: A summary of investment activity during fiscal 2002 and a discussion of the new financing and expansion plans for the Kenaston Property.

- Section III: A detailed discussion and analysis of the Statement of Loss, Distributable Income and Cash Distributions.

- Section IV: A detailed discussion and analysis of financial statement items.

- Section V: A discussion of operational issues in regard to the Income Properties of the Trust, including details of leasing activity.

- Section VI: Audited financial statements of LREIT for the year ended December 31, 2002.

Fiscal 2002 was a very successful year for LREIT. The Plan of Arrangement whereby LREIT was established as a publicly traded entity on the TSX Venture Exchange was successfully completed on August 30, 2002. The $4 Million public debenture offering, which was undertaken in conjunction with the Plan of Arrangement, received a very favourable response from investors. The first cash distribution of LREIT for the period from inception on August 30, 2002 to December 31, 2002 was paid to the Unitholders on December 31, 2002 in the amount of $124,000 or $0.16 per unit.

Leasing activity for the first property acquisition of LREIT, the Kenaston Property, was also very successful during 2002 with the occupancy level improving to 95.3% on December 31, 2002. The rental revenue of the property is expected to improve significantly during 2003 due to the improved occupancy level and the enhancement of the tenant base.

In order to maximize the return on excess cash reserves, LREIT invested $1.15 Million in a second mortgage loan for the Minacs Building in Oshawa, Ontario in December 2002. The loan bears interest at 10% and is repayable on July 19, 2003.

On February 28, 2003, the first semi-annual interest payments in regard to the $4 Million debenture offering were remitted to the debenture holders. The interest payments amounted to $190,000, representing interest for six months on the $3 Million, Series A, 8% debentures and the $1 Million, Series B, 10% debentures.

In summary, LREIT has completed its first year of operations with a strong asset base and is in an ideal position to proceed with additional property acquisitions in 2003. The Board of Trustees of LREIT, in conjunction with the senior management team of Shelter Canadian Properties Limited, is currently reviewing a number of potential acquisition opportunities. The funding of any new property acquisitions will encompass property specific debt financing, the use of available working capital, the use of short-term lines of credit and/or the issuance of additional Trust units.

Shelter Canadian Properties Limited is responsible for the day-to-day management and administration of LREIT and serves as the property manager for the properties which are owned by the Trust. Unitholders who have any questions regarding the financial statements or the operations of LREIT are encouraged to contact Mr. Gino Romagnoli, Manager, Investor Services, Shelter Canadian Properties Limited at (204) 475-9090.

Detailed information is also available on the LREIT website at http://www.lreit.com. The Trust units of LREIT trade on the TSX Venture Exchange under the symbol "LRT.UN".

Yours truly,

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON
Chief Executive Officer

ACT/mw

Enclosure

LANESBOROUGH REAL ESTATE INVESTMENT TRUST (LREIT)
Annual Report
For the Year Ended December 31, 2002

Overview of LREIT and Summary of Unit Price History

OVERVIEW

Inception Date of LREIT

LREIT was created on April 23, 2002 and operated as a privately owned investment trust until August 29, 2002.

On August 30, 2002, pursuant to a Plan of Arrangement between LREIT and Wireless One Inc., a capital pool company on the TSX Venture Exchange, LREIT acquired all of the common shares of Wireless One Inc. in exchange for LREIT Trust units, on a ten to one basis. Concurrently, all of the assets and liabilities of Wireless One Inc. were transferred to LREIT. Wireless One Inc. was subsequently dissolved and, after the completion of a $4 Million public debenture offering and a $300,000 equity contribution from the private placement of Trust units, LREIT was established as a publicly traded entity on the TSX Venture Exchange.

The Trust units of LREIT trade on the TSX Venture Exchange under the symbol “LRT.UN”.

Objectives of LREIT

The objectives of LREIT are as follows:

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

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

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

MANAGEMENT OF LREIT

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.

MANAGEMENT OF LREIT (continued)

Trustees and Officers (continued)

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 the Trust. Mr. Coleman is the Vice President and Secretary Treasurer of Big Freight Systems Inc. and serves as Secretary of the Trust. Mr. Thorsteinson, CFA, is the President and principal owner of Shelter Canadian Properties Limited and serves as Chief Executive Officer of the Trust.

The Chief Financial Officer of the Trust 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 the Trust and to perform the accounting and reporting functions of the Trust.

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.

The senior management of Shelter Canadian has a track record of over 25 years of real estate development, asset and property management and investment experience. Shelter Canadian has an employee base in Canada of approximately 200 individuals and its corporate Head Office is located in Winnipeg, Manitoba.

Shelter Canadian Properties Limited and its American equivalent, Shelter American Holdings, Inc., are currently responsible for the management of 80 multi-unit rental, condominium, commercial and hotel properties in North America, comprising over 7,700 suites and in excess of two million square feet of commercial space, with a total portfolio value in excess of $775 Million.

UNIT PRICE HISTORY

A monthly summary of the trading results for LREIT Trust units, commencing with the first month of trading in September 2002, is provided below.

Month	High	Low	Volume
September 2002	$4.00	$3.25	20,600
October 2002	$3.65	$3.15	3,700
November 2002	$3.20	$3.00	8,500
December 2002	$3.10	$2.75	6,500
January 2003	$4.00	$2.90	9,650
February 2003	$3.40	$2.85	5,800
March 2003	$3.50	$2.50	3,000

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Summary of Investment Activity and New Financing and Expansion Plans For the Kenaston Property

INVESTMENT ACTIVITY

Property Acquisitions

As a recently created Investment Trust, the portfolio of LREIT currently consists of one development, known as the Kenaston Property. The Kenaston Property was acquired on April 24, 2002.

The Kenaston Property consists of two buildings in a joined development, containing approximately 94,400 square feet of leasable space. Kenaston Place is a three-storey office building, with a restaurant on the main floor, comprised of approximately 42,900 square feet of leasable space. Kenaston Village Mall is a single storey retail/service centre, comprised of approximately 51,500 square feet of leasable space, featuring a number of unique speciality shops and dining establishments.

A detailed analysis of leasing activity at the Kenaston Property is provided in Section V of the Annual Report.

Financing

On December 19, 2002, LREIT provided second mortgage loan financing of $1.15 Million for the Minacs Building in Oshawa, Ontario. The second mortgage loan bears interest at 10% and is repayable on July 19, 2003.

Subject to raising additional capital through the issue of additional Trust units or convertible debentures, LREIT intends to request repayment of 50% of the second mortgage loan during fiscal 2003, representing a cash inflow of $575,000. The funds will be used to create sufficient cash reserves to fund all of the projected obligations of the Trust during 2003.

KENASTON PROPERTY – NEW FINANCING AND EXPANSION PLANS

New Financing

The initial acquisition cost of the Kenaston Property was funded, in part, from the proceeds of a first mortgage loan in the amount of $7,987,500.

In January 2003, the first mortgagee agreed to increase the registered amount of the loan to $9 Million, thereby providing for additional mortgage loan proceeds of $1,012,500. The additional mortgage loan proceeds are to be advanced in instalments and used for the purpose of funding leasehold improvements and other leasing expenses, building exterior upgrades, and the cost of acquiring adjoining land from CN Rail. The additional mortgage loan proceeds are only to be advanced after the actual costs, in respect of each item, have been incurred.

In March 2003, the first advance under the revised mortgage terms was received. The advance was in the amount of $320,670 and was in regard to leasehold improvements and other leasing expenses.

KENASTON PROPERTY – NEW FINANCING AND EXPANSION PLANS (continued)

Expansion Plans

Plans are underway to acquire the former CN Rail right-of-way to the east of Kenaston Mall and to construct an 8,500 square foot addition to Kenaston Mall. The planned development is dependent on pre-leasing the new space and financing the expansion with an increased first mortgage loan from Astra Credit Union. The amount of the increased first mortgage loan would be in addition to the $9 Million amount, discussed above, aside from the cost of the land acquisition which is already encompassed in the $9 Million loan. Construction of the property addition could potentially commence during the summer of 2003.

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Discussion of the Statement of Loss, Distributable Income and Cash Distributions

INTRODUCTION

The following comments in regard to the operating results of LREIT should be read in conjunction with the audited financial statements and accompanying notes. A detailed discussion of specific financial statement items is provided in Section IV.

STATEMENT OF LOSS

LREIT completed the year ended December 31, 2002 with a loss of $47,970. In comparison, the pro forma Statement of Operations projected net income of $334,784 for the base year of operations. The variance between actual and projected results is mainly due to the fact that financial statements reflect net income from the Kenaston Property for a four month period, whereas the pro forma Statement of Operations reflects the projected net income from the Kenaston Property for a 12 month period. After considering the shorter time frame for net income purposes, the variance between actual results and pro forma results is mainly due to a variance in base rental revenue.

Participating Loan

The financial statements reflect the operations of LREIT from the date of inception on April 23, 2002 to the year end of December 31, 2002, representing a period of approximately eight months.

The initial acquisition of the Kenaston Property on April 24, 2002 was partially funded by a participating loan from Shelter Canadian Properties Limited. The participating loan, including accrued interest, was fully repaid in September 2002 from the proceeds of the public debenture offering.

The participating loan provided for interest payments to be equal to 100% of the net income of the Kenaston Property, after payment of all expenses and debt servicing. Accordingly, the net income of the Kenaston Property from April 24, 2002 to August 30, 2002 was paid to Shelter Canadian Properties Limited as interest under the terms of the participating loan.

The net income of the Kenaston Property for the period from April 24, 2002 to August 30, 2002 amounted to $122,658. The interest is reflected in “Financing Expense” on the Statement of Loss.

In summary, the revenues and expenses, per the financial statements, reflect the full amounts which were earned or incurred by LREIT, commencing on April 23, 2002. The net income for the Kenaston Property for the period from April 24, 2002 to August 30, 2002, is effectively deducted from operating results in the entry to record interest on the participating loan, as reflected in Financing Expense. As a result, the loss of LREIT for the year ended December 31, 2002 only reflects the net income from the Kenaston Property for the period from August 30, 2002 to December 31, 2002.

STATEMENT OF LOSS (continued)

Base Rental Revenue

The base rental revenue of $1,244,133 per the pro forma Statement of Income is based on the assumption that the Kenaston Property is fully leased or near leased throughout the 12 month pro forma period and that all tenants are paying base rent in full each month.

Actual base rental revenue for the 2002 year amounted to $783,622. The variance in base rental revenue reflects the fact that the actual 2002 year for LREIT is approximately four months shorter than the pro forma year, as LREIT did not commence operations until April 23, 2002.

Aside from the shorter time frame, the main reason for the variance in base rental revenue is that fiscal 2002 was a transitional year for the Kenaston Property in terms of tenancies and as a result, the vacancy rate for the properties was well above normal levels at certain points in the fiscal year. On the acquisition date of the property on April 24, 2002, the Kenaston Property was 83% leased and in the first few months of operations, one of the larger tenants, Pepper's Restaurant, unexpectedly vacated its premises, resulting in a short-term decline in the occupancy level to below 80%.

In the following months, the occupancy level steadily improved due to strong leasing efforts. The relocation of three existing tenants also enhanced the marketability of the vacant space and had a positive impact on leasing efforts. As of December 31, 2002, the Kenaston Property was 95.3% leased and the occupancy level is expected to remain at a high level throughout the 2003 fiscal year. As of April 1, 2003, the Kenaston Property is 96.6% leased (please refer to Section V).

Based on the existing tenancies and after considering free rent allowance for new tenancies, the projected base rental revenue for the Kenaston Property for 2003 is approximately $1.3 Million, which compares favourably to the pro forma base rental revenue.

Amortization of Deferred Charges

Tenant inducements and leasing commissions during fiscal 2002 were also significantly higher than anticipated, in comparison to the pro forma statement. Tenant inducements and leasing commissions of $452,841 were incurred during fiscal 2002 and reflect the cost of leasing the vacant space and reallocating tenants.

Tenant inducements and leasing commissions are initially recorded as "Deferred Charges" on the Balance Sheet. The costs are then amortized over the term of the respective leases, with the amortized amount being charged against income under the expense category "Amortization of Deferred Charges". Actual amortization expense in regard to deferred charges for the 2002 fiscal year was $50,062, whereas the pro forma statement provided for the amortization expense for deferred charges of $5,000.

Summary

LREIT incurred a loss of $47,970 in 2002, compared to a pro forma projection of net income of $334,784. The variance is primarily due to the fact that the bottom-line results of LREIT only reflect net income from the Kenaston Property for a period of four months, commencing on the inception date of LREIT as a publicly-traded entity. After considering the shorter time frame, the variance between actual results and pro forma projections is mainly due to a variance in base rental revenue and reflects an average occupancy level which was significantly lower than anticipated.

NET LOSS (continued)

Summary (continued)

Rental revenue is expected to approximate pro forma levels in fiscal 2003, given the stabilization of the tenant base and the fact that the Kenaston Property is 96.6% leased as of April 1, 2003.

DISTRIBUTABLE INCOME

An analysis of distributable income is provided in Note 16 to the financial statements.

Distributable income bears a direct relationship to net income and simply reflects a few adjustments to partially convert net income to a cash basis. The adjustments consist of adding back the non-cash expense in regard to the amortization of income properties and recording the actual amount of interest which is payable on the convertible debentures, after adding back the financing expense for convertible debentures which is recorded for accounting purposes (please refer to Note 7 of Section IV).

The distributable income for LREIT for the 2002 fiscal year was $9,679, compared to the pro forma amount of $410,642.

The variance in the amount of distributable income is almost entirely due to the fact that LREIT incurred a loss of $47,970 during fiscal 2002, whereas the pro forma statement anticipated net income of $334,784. The explanation for the variance between the actual loss and the pro forma net income is provided in the preceding discussion.

CASH DISTRIBUTIONS

Annual cash distributions of LREIT are projected to be approximately $0.50 per unit, based on 775,000 outstanding Trust units, after supplementing distributable income from cash reserves, as necessary. The distributions are expected to occur on a quarterly basis.

The first distribution of LREIT in the amount of $124,000 or $0.16 per unit was paid on December 31, 2002 and was in regard to the four month period from the inception date of LREIT on August 30, 2002 to the fiscal year end of December 31, 2002. As the distributable income for the 2002 fiscal year amounted to $9,679, the cash distribution on December 31, 2002 was substantially funded from cash reserves. The cash distribution for fiscal 2002 was 100% tax deferred

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Detailed Financial Analysis and Discussion

INTRODUCTION

The following comments in regard to the financial position of LREIT should be read in conjunction with the audited financial statements and the accompanying notes. A detailed discussion of the Statement of Loss, Distributable Income and Cash Distributions is provided in Section III.

The 2002 Fiscal Year – Time Frames

The fiscal year ended December 31, 2002 encompasses a period of eight months and eight days, commencing on April 23, 2002, representing the date on which LREIT was created. From April 23, 2002 to August 29, 2002, LREIT was a privately owned investment trust. Effective August 30, 2002. LREIT became a publicly-traded entity.

BALANCE SHEET

ASSETS

1. Income Properties

   The financial statements reflect the acquisition cost of the Kenaston Property, less accumulated amortization expense to December 31, 2002. As the Kenaston Property was acquired during fiscal 2002, all of the accumulated amortization expense pertains to fiscal 2002 and is equal to the amount which is disclosed on the Statement of Loss.

   The initial acquisition cost of the Kenaston Property was funded from the proceeds of a first mortgage loan in the amount of $7,987,500 and from the proceeds of a participating loan from Shelter Canadian Properties Limited in the amount of $2,669,812.

   The participating loan from Shelter Canadian, plus accrued interest, was fully repaid in September 2002, from the proceeds of the public debenture offering. The interest on the participating loan, in the amount of $122,658, is reflected in "Financing Expense" on the Statement of Loss (please refer to Note 12 in Section IV).

2. Mortgage Loan Receivable

   The Mortgage Loan Receivable represents the provision of second mortgage loan financing to the Minacs 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 investment in the Minacs Building, through the provision of second mortgage loan financing, occurred on December 19, 2002. The loan bears interest at 10%, payable monthly and is fully repayable on July 19, 2003. The Trust may request a lump-sum repayment of principal, in the maximum amount of $500,000, upon 30 days notice.

BALANCE SHEET (continued)

ASSETS (continued)

2. Mortgage Loan Receivable (continued)

In consideration for providing the second mortgage loan financing, LREIT was granted a seven month option to acquire a 50% interest in the Minacs Building for the purchase price of $7,850,000, comprised of cash consideration of $1.85 Million and the assumption of a 7% first mortgage loan of $6 Million. There is also a provision for $500,000 of the purchase price to be satisfied by the issuance of 100,000 Trust units at a deemed price of $5.00 per unit.

The second mortgage loan investment was primarily funded from the proceeds of the public debenture offering and from equity contributions.

3. Deferred Charges

The Deferred Charges represent tenant inducements, mortgage financing fees and leasing commissions. The Deferred Charges are recorded at cost and subsequently amortized over the term of the item to which the charges relate. Tenant inducements and leasing commissions are amortized over the term of the respective leases. The mortgage financing fees are amortized over the term of the first mortgage loan.

The balance of Deferred Charges, as of December 31, 2002, in the amount of $440,782, represents deferred charges with a total cost of $503,390, less an accumulated amortization expense of $62,608. As LREIT was established during fiscal 2002, all of the accumulated amortization expense pertains to fiscal 2002 and is equal to the amount which is disclosed on the Statement of Loss.

4. Cash

A complete analysis of the sources and uses of cash is provided on the Statement of Cash Flows.

The main sources of cash were the proceeds of the first mortgage loan, the proceeds from the participating loan, the proceeds from the initial public debenture offering and equity contribution, and the proceeds from the unit purchase options, which were exercised by Shelter Canadian Properties Limited on December 19, 2002. The unit purchase options resulted in the issuance of 125,000 additional units for total proceeds of $200,000.

The main uses of cash were to acquire the Kenaston Property, to repay the participating loan, to fund the second mortgage loan for the Minacs Building and to fund the costs related to the public offering. Other uses of cash include principal repayments in regard to the first mortgage loan of $104,791 and distributions paid of $124,000.

After considering the above noted transactions, the cash from operations, the change in working capital and the increase in deferred charges, the cash balance of LREIT as of December 31, 2002 was $122,495.

BALANCE SHEET (continued)

ASSETS (continued)

5. Accounts Receivable

Accounts receivable consists of rent payments due from the tenants of the Kenaston Property, accrued interest on the Minacs loan, a refundable deposit in regard to a prospective investment and an overpayment of $14,842 in regard to the participating loan from Shelter Canadian Properties Limited. As disclosed in Note 9 to the financial statements, the overpayment was repaid subsequent to December 31, 2002.

LIABILITIES

6. Mortgage Loan Payable

The Mortgage Loan Payable represents the first mortgage loan which was obtained to fund the acquisition of the Kenaston Property. The balance of the loan reflects the original loan amount of $7,987,500, less principal payments to December 31, 2002.

As discussed in Section II, the registered amount of the first mortgage loan was increased to $9 Million, effective January 15, 2003. The additional mortgage loan proceeds are being use to fund leasehold improvements and other leasing costs, building exterior upgrades and the cost of acquiring adjoining land from CN Rail.

7. Convertible Debentures

The $4 Million debenture offering consisted of a $3 Million offering of Secured Series A convertible debentures, bearing interest at a rate of 10% and a $1 Million offering of Subordinated Series B convertible debentures, bearing interest at a rate of 8%. The terms of the debentures, including the terms of conversion to Trust units, are disclosed in detail in Note 8 to the financial statements. As the debentures are convertible to Trust units, a portion of the debenture issue is disclosed as equity on the balance sheet of LREIT. The allocation of the debentures between debt and equity components is based on the net present value of future interest payments, assuming that a portion of the debentures is converted to equity units.

At the inception of LREIT on August 30, 2002, the allocation of the $4 Million debenture offering was $2,679,862 to debt and $1,320,138 to equity.

The allocated balances of convertible debentures are adjusted each quarter to reflect the increase or growth in the debt component. The increase in the debt component is referred to as "accretion" and it is an entirely separate concept from the process of accruing interest on the debentures in order to reflect the interest which is payable to the debenture holders.

As of December 31, 2002, the allocation of the $4 Million debt offering was $2,687,449 to debt and $1,312,551 to equity. In comparison to the balances as of August 30, 2002, the debt component has increased by $7,587 and the equity component has decreased by $7,587. The increase in the debt component of $7,587 represents the accretion value. The decrease in the equity component is offset by a charge to Unitholders' equity.

The accretion of $7,587, combined with the accrued interest payable on the debentures, in the amount of $128,315, is included in Financing Expense on the Statement of Loss.

BALANCE SHEET (continued)

LIABILITIES (continued)

7. Convertible Debentures (continued)

   The balance of the Convertible Debentures as of December 31, 2002, as reflected on the Balance Sheet of LREIT, consists only of the debt component of the convertible debentures in the amount of $2,687,449.

8. Accounts Payable and Accrued Liabilities

   Accounts payable and accrued liabilities are summarized in Note 10 to the financial statements and include accounts payable in regard to the operations of the Kenaston Property and the administration and establishment of the Trust, accrued interest on the convertible debentures, accrued interest on the first mortgage loan and tenant security deposits.

EQUITY

A complete analysis of the equity of the Trust is provided on the Statement of Equity.

Aside from the equity component of the convertible debentures, the main "sources" of equity stem from the issuance of Trust units. The Statement of Equity reflects the Trust units which were issued on August 30, 2002, pursuant to the Plan of Arrangement at a value of $341,874; the $300,000 equity contribution from the private placement of trust units on August 30, 2002; and the equity contribution of $231,209 in regard to the unit purchase options which were exercised by Shelter Canadian on December 19, 2002.

In regard to the unit purchase options which were exercised by Shelter Canadian, the difference between the option price of $200,000 and the equity contribution of $231,209, represents the difference between the fair value of the unit options and the option price. The difference of $31,209 is referred to as "unit-based compensation expense" and is recorded as a Trust expense, offset by an increase in equity (please refer to Note 11 to the financial statements).

The Statement of Equity also reflects the equity component of the convertible debentures in the amount of $1,312,551.

The main items which serve to reduce equity are the issue costs in regard to the public offering, the distribution paid and the net accounting loss of LREIT for the year ended December 31, 2002.

After considering the above noted transactions and the increase in equity of $7,587, resulting from the accretion of the equity component of the debentures, the equity of LREIT as of December 31, 2002 is $1,564,674.

STATEMENT OF LOSS

REVENUE

9. Rentals from Income Properties

   All of the rental revenue for the fiscal year ended December 31, 2002 pertains to the operations of the Kenaston Property. Rental revenue includes the base rent which is payable each month under the terms of each tenant's lease, as well as the tenant's proportionate share of operating costs.

STATEMENT OF LOSS (continued)

REVENUE (continued)

9. Rentals from Income Properties (continued)

   As disclosed in Note 13 to the financial statements, operating cost recoveries amounted to $427,568 in fiscal 2002, while actual property operating costs amounted to $557,763 (please refer to Note 15 to the audited financial statements). The difference between the actual costs and the recoverable costs, in the amount of $130,195, is known as non-recoverable operating costs and primarily relates to vacant space and to tenants who were granted short-term rent concessions during the leasing process.

   The rental revenue for the Kenaston Property is expected to increase significantly during fiscal 2003, as the improved occupancy level will increase both base rental revenue and the extent of recoverable operating costs (please refer to the Statement of Loss discussion in Section III).

10. Interest and Other Income

    Interest and other income consists primarily of interest earned on the cash balances of LREIT. Prior to its investment in the second mortgage loan of the Minacs Building on December 19, 2002, the cash balance of LREIT was in excess of $1 Million.

EXPENSES

11. Property Operating Costs

    Property operating costs pertain to the operations of the Kenaston Property. A complete analysis of the property operating costs is provided in Note 15 to the financial statements.

12. Financing Expense

    An analysis of Financing Expense is provided in Note 14 to the financial statements.

    Financing Expense consists of interest on the first mortgage loan of the Kenaston Property; interest on the participating loan from Shelter Canadian; and financing expense in regard to the debt component of the convertible debentures.

    The first mortgage loan bears interest at prime plus .625% per annum. The total interest in regard to the first mortgage loan, in the amount of $294,990, represents interest from the acquisition date of the Kenaston Property on April 24, 2002 to the year end on December 31, 2002.

    As discussed in Note 1, the participating loan from Shelter Canadian, plus accrued interest, was fully repaid in September 2002. Interest on the participating loan consisted of the net income from the operations of the Kenaston Property from the date of acquisition on April 24, 2002 to the inception date of LREIT as a publicly-traded entity on August 30, 2002. The net income for the period from April 24, 2002 to December 31, 2002 amounted to $122,658, after payment of all operating expenses and debt service costs.

    As discussed in Note 7, the financing expense in regard to the debt component of the convertible debentures, in the amount of $135,902, reflects accrued interest of $128,315 and accretion of $7,587.

STATEMENT OF NET INCOME AND DISTRIBUTABLE INCOME (continued)

EXPENSES

13. Trust Expenses

Trust expenses represent costs which pertain specifically to the administration of LREIT, such as legal fees, auditors' fees, and the cost of press releases. Trust expenses also include unit-based compensation expense of $31,209 (please refer to the discussion regarding Equity, above).

14. Amortization Expense

General

Amortization represents a method of charging capitalized costs or deferred costs to operations over a period of years. Amortization expense serves to reduce the balance sheet values of the capitalized costs and deferred charges.

Amortization of Income Properties

Amortization expense in regard to the Income Properties is calculated using a 5%, 40 year sinking fund basis (please refer to Note 1 of Section IV).

Amortization of Deferred Charges

As discussed in Note 3 above, deferred charges represent tenant inducements, mortgage refinancing fees and leasing commissions. Tenant inducements and leasing commissions are amortized over the term of the respective leases. Mortgage financing fees are amortized over the term of the first mortgage loan.

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Operational Issues

LEASING ACTIVITY

Based on total leasable space of 94,371 square feet, the Kenaston Property was 95.3% leased as of December 31, 2002. From the acquisition date of the property to the end of the 2002 fiscal year, the following changes in tenancies occurred:

		Square Feet
Total leased space, April 24, 2002		78,663
Less: Vacated tenancies:		
- Sun Life Assurance	720	
- Pepper's Restaurant	7,534	
	8,254	
Other:		
- Insurance Brokers Association (reduction of space)	1,020	(9,274)
Add: New tenancies:		
- Aeroguard Leasing Corporation	2,413	
- Astra Credit Union Ltd.	2,008	
- Stratagym (fitness facility)	2,400	
- Bimi Japanese Restaurant	2,270	
- Stella's Café	2,682	
- Dr. Garry Murray (Chiropractor)	1,040	
- Pharmasave	1,500	
- Miller's Meat Market	1,560	15,873
Add: Tenant relocations (net)		4,698
Total leased space, December 31, 2002		89,960

The net increase in square footage from tenant relocations is in regard to three tenants who moved into expanded premises. The relocation of the tenants was completed in order to achieve better space utilization and secure longer term tenancies. Details of the tenant relocations are as follows:

Tenant	New Square Footage	Previous Square Footage	Net Increase
Rogers Video	6,000	4,524	1,476
Scoop & Weigh	4,524	2,612	1,912
Danali His & Hers Urban Wear	2,810	1,500	1,310
	13,334	8,636	4,698

LEASING ACTIVITY (continued)

The tenant inducements of $421,186, as disclosed in Note 6 to the financial statements, represent leasehold improvement allowances and other concessions for the relocated tenants and the new tenants. The leasing commissions of $31,655 are in regard to four tenancies.

As of April 1, 2003, the Kenaston Property is 96.4% leased. Subsequent to December 31, 2002, the following changes in tenancies occurred:

	Square Feet
Total leased space, January 1, 2003	89,960
Add: Increased storage space for the Kenaston Wine Market	985
Total leased space, April 1, 2003	90,945

In addition, an offer to lease has been received from one prospective tenant on space totalling 4,000 square feet. The offer from the prospective tenant is the early stages of negotiation.

Over the next 12 months to March 31, 2004, there are 14 leases expiring, representing 28,838 square feet or 30.6% of the total leasable area. Two of the leases, totalling 7,872 square feet, have already been renewed, leaving a balance of 20,966 square feet, or 22.2% of the leasable area. Lease renewals and new tenancies are actively being pursued, on a continual basis, in an attempt to maximize the occupancy level and rental revenue of the property.

CAPITAL IMPROVEMENTS

A comprehensive capital improvement plan is being developed for the Kenaston Property in order to enhance the long-term marketability of the property and to improve the aesthetic appeal of the entire site. The plan includes the installation of a new exterior façade and new signage.

The capital improvement plan is partially being funded from the proceeds of an additional first mortgage loan advance (please refer to Section II).