LANESBOROUGH REIT

2004 FIRST QUARTER REPORT

REPORT TO UNITHOLDERS

The first quarter of 2004 has proven to be an anomaly for LREIT, with the Trust reporting a net loss of $139,242. During the first quarter of 2004, LREIT raised $14 Million of new investment capital from convertible debenture offerings, however, the new capital was not fully invested in income producing properties as of March 31, 2004. Due to the timing difference between the receipt of the investment capital and the use of the investment capital to fund new property acquisitions, LREIT incurred financing costs on the convertible debentures without experiencing an increase in operating income of a corresponding magnitude. Due to the lag in revenues from upcoming property acquisitions, the incremental financing expense on the convertible debentures exceeded the incremental operating income from completed property acquisitions and LREIT completed the first quarter of 2004 in a loss position. The change in the accounting policy for commercial property acquisitions, in accordance with new generally accepted accounting principles, and the resultant increase in amortization expense, also contributed to the first quarter loss.

Notwithstanding the first quarter loss, the operating income of LREIT almost doubled in comparison to the first quarter of 2003, due to the acquisition of three additional properties. On a cash flow basis, cash from operations increased from $87,199 in the first quarter of 2003, to $302,352 in the first quarter of 2004, also primarily due to the acquisition of additional properties. The favourable cash flow results, in comparison to the net loss of $139,242, reflect the extent to which the net loss is affected by non-cash items. On a per unit basis, the cash distribution for the first quarter of fiscal 2004 remained constant at $0.125 per unit, representing a distribution of $326,589 on the 2,612,713 trust units which were outstanding as of March 31, 2004. The first quarter cash distribution was paid on April 15, 2004.

During the second quarter of 2004, LREIT has acquired four multi-family residential properties, while purchase arrangements for an additional multi-family residential property are in process, with an anticipated closing date in the third quarter of 2004. The new property acquisitions will substantially complete the investment of the convertible debenture capital in income producing properties, resulting in a significant increase in operating income.

In summary, the overall financial results for the first quarter of 2004 clearly demonstrate that LREIT has the ability to generate sufficient investment capital to meet its objectives of achieving strong growth in its real estate portfolio. The Trust successfully raised $14 Million of additional capital, representing sufficient equity to increase the portfolio of income properties by over $50 Million. The completion of the new property acquisitions will significantly increase the income generating capabilities of LREIT, with the expectation that the Trust will achieve a favourable net income position by the third quarter of 2004. Quarterly cash distributions are also expected to remain at the existing level of $0.125 per unit during the balance of the year.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

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

INVESTMENT AND FINANCING ACTIVITY

Income Properties

Income Properties – March 31, 2004

Property	City	Province	Year of Acquisition	Type	Leasable Area	Occupancy 3/31/04
Kenaston	Winnipeg	MB	2002	Retail/office	103,209	92.5%
MAAX Warehouse	Airdrie	AB	2003	Light Industrial	39,936	100%
Purolator Building	Burlington	ON	2003	Light Industrial	16,117	100%
McIvor Mall	Winnipeg	MB	2004	Retail	65,283	94.7%

Property Acquisitions

During the first quarter of fiscal 2004, LREIT acquired the McIvor Mall.

During the second quarter of 2004, LREIT acquired four multi-family residential properties – Beck Court, Greenwood Gardens, Nova Villa and Nova Manor.

McIvor Mall – Winnipeg, Manitoba

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

The purchase price of the McIvor Mall was $6.7 Million. The purchase price was funded entirely by a cash payment, pending the arrangement of first mortgage loan financing. LREIT has received a commitment letter for a first mortgage loan of $5.4 Million for a ten year term, with an amortization period of 25 years and with an interest rate to be established at the greater of 5.65% or 150 basis points over the yield on the closest Government of Canada mortgage benchmark bond. The indicated mortgage rate is 6.35%.

Beck Court – Yellowknife, Northwest Territories

On April 1, 2004, LREIT acquired Beck Court, a newly constructed apartment complex in Yellowknife, Northwest Territories, consisting of two four-storey buildings, with a total of 120 suites. The purchase price of the property was $14.3 Million and encompassed the assumption of a 4.97% first mortgage loan of approximately $10.8 Million, maturing January 1, 2014.

Greenwood Gardens – Surrey, British Columbia

On April 15, 2004, LREIT acquired Greenwood Gardens, an apartment complex in Surrey, British Columbia, consisting of three, three-storey buildings with a total of 183 suites. The purchase price of the property was $10.95 Million and encompassed the assumption of a 6% first mortgage loan of approximately $6.8 Million, maturing July 5, 2009. In addition, $100,000 of the purchase price was satisfied by LREIT agreeing to pay a portion of the fee payable to the vendor's agent through the issuance of 20,000 trust units at $5.00 per Unit. The units issued to the vendor's agent may not be resold for a period of four months, pursuant to applicable securities law and stock exchange requirements.

Greenwood Gardens also provides the opportunity for the future construction of an additional 71 suites on the existing site.

Nova Villa – Edmonton, Alberta

Effective May 1, 2004, LREIT acquired Nova Villa, a newly constructed four-storey property, comprised of 61 suites, located in the Castle Downs area of north-central Edmonton. The purchase price of the property was $5.4 Million and encompassed the assumption of a first mortgage loan of approximately $4.2 Million, maturing July 1, 2008.

Nova Manor – Edmonton, Alberta

Effective May 1, 2004, LREIT acquired Nova Manor, a newly constructed three-storey property containing 32 suites, located approximately two kilometres north of the West Edmonton Mall. The purchase price of the property was $2.615 Million and encompassed the assumption of a first mortgage loan of approximately $2.4 Million, maturing November 1, 2013.

Capital Expenditures

During the first quarter of fiscal 2004, the new 9,032 square foot addition to the Kenaston Village Mall was substantially completed. The new tenant for the entire space, Giselle's Professional Skin Care, opened for business on April 24, 2004.

The lease agreement with Giselle's also encompasses a tenant loan of $250,000, the proceeds of which were used for the funding of leasehold improvements. The tenant loan bears interest at a rate of 12%, with a term of eight years and is repayable at any time without penalty.

The total cost of the building addition, excluding the land acquisition cost, was approximately $1 Million, including leasehold improvements, of which $317,133 was incurred during the first quarter of fiscal 2004. The construction costs were funded from operating cash flow and from additional first mortgage loan advances from Astra Credit Union.

The new addition to the Kenaston Village Mall was constructed on a section of land which LREIT acquired in fiscal 2003 at a cost of $425,000. The total land area of 112,500 square feet was subdivided into two parcels, containing 28,350 square feet and 84,150 square feet, respectively. The addition to the Mall was constructed on the 28,350 square foot parcel, while the remaining parcel is being considered for future development.

MORTGAGE LOANS RECEIVABLE

As of December 31, 2003, the mortgage loan investments of LREIT consisted of the $1.15 Million second mortgage loan, secured by the Minacs Building in Oshawa, Ontario, bearing interest at a rate of 12.5% and a $3,098,326 first mortgage loan, secured by the McIvor Mall, bearing interest at 5.23%. The McIvor loan was advanced in December 2003.

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

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 placement of 4,000 Senior Subordinated Series D Convertible Debentures, also bearing interest at a rate of 8%.

The terms of the new debenture offerings are disclosed in Note 9 of the quarterly financial statements.

RESULTS OF OPERATIONS

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

Quarterly Comparison
For the Three Month Period Ended

	March 31 2004	March 31 2003	Increase (Decrease)	December 31, 2003	Increase (Decrease)
Revenue:					
Rentals from Income Properties	**$ 839,472**	$ 517,582	$ 321,890	$ 586,029	$ 253,443
Interest and Other Income	**104,766**	33,524	71,242	42,905	61,861
Total revenue	**944,238**	551,106	393,132	628,934	315,304
Operating income	**601,977**	318,155	283,822	382,574	219,403
Net income (loss)	**(139,242)**	527	(139,769)	24,101	(163,343)

Changes in Accounting Policies

Effective January 1, 2004, LREIT has adopted three new accounting policies which have 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, which are also described in Note 2 of the quarterly financial statements, are as follows:

Revenue Recognition for Stepped Leases

Commercial leases typically provide for an annual or periodic increase in the base rental rate during the term of the lease. Prior to January 1, 2004, base rental payments were recognized as revenue, based on the amount of rent which was actually payable during the fiscal year, pursuant to the lease agreement. Effective January 1, 2004, base rental payments are being recognized as revenue in equal annual amounts, based on a straight-line allocation of the total rent which is payable over the entire lease term. The difference between the actual amount of rent collected and the amount of revenue recorded is recorded as an accounts receivable and amortized over the term of the lease.

The new policy of revenue recognition for commercial leases will result in rental revenues being higher than the contractual rental revenues of the lease, in the initial years of a new lease, and rental revenues being lower in the later years of a new lease. The impact of the new policy will be most significant in the year of transition (i.e., in fiscal 2004), depending upon the number of new commercial leases which become effective during the year.

As disclosed in Note 2 of the quarterly financial statements, rentals from income properties for the three months ended March 31, 2004, is higher by $16,845 as a result of new policy of revenue recognition.

Cost of Income Properties with Commercial Leases

Prior to January 1, 2004, the entire purchase price of an income property with commercial leases was allocated between land and building and was recorded under "Income Properties" on the balance sheet. Effective January 1, 2004, a portion of the purchase price is allocated to land, building, tenant inducements, intangible assets and intangible liabilities, based on the value of tenant improvements, existing leases and other factors. The amount allocated to tenant inducements is recorded as a deferred charge and amortized over the remaining term of the associated leases. The amount allocated to intangible assets and intangible liabilities is amortized over the remaining term of the associated leases and, as applicable, the renewal periods.

The new policy of allocating the purchase price between three components will cause "Intangible Assets", "Intangible Liabilities" and "Deferred Charges" to be higher, in comparison to prior periods, and the increase in "Income Properties" to be lower, in comparison to prior periods, to the extent that LREIT acquires additional commercial properties subsequent to December 31, 2003.

As a result of the new policy for recording the acquisition cost of income properties with commercial leases, the cost of "Income Properties" as of March 31, 2003 is $2,045,495 lower than would have been recorded in prior periods. The decrease in "Income Properties" is offset by an increase in "Deferred Charges", "Intangible Assets" and "Intangible Liabilities", as reflected on the balance sheet of LREIT. In addition, amortization expense for deferred charges and intangible assets is $73,646 higher than would have been recorded in prior periods, while amortization expense for income properties is $9,740 lower, as a result of the change in accounting policy for commercial property acquisitions.

Amortization of Buildings

Effective January 1, 2004, the amortization of buildings has changed from a 5%, 40-year sinking fund basis to a straight-line basis over the useful life of the building.

Initially, the change in the amortization policy will result in an increase in amortization expense, in comparison to prior years, as the straight-line method results in a constant annual amortization charge, whereas the sinking fund method results in an annual amortization charge which commences at a comparatively lower amount and gradually increases over time.

As disclosed in Note 2 of the quarterly financial statements, amortization of income properties for the three months ended March 31, 2004 is higher by approximately $38,094 as a result of the new amortization policy.

Operating Factors Affecting Comparability of Quarterly Results

Acquisition of Additional Properties

During the first quarter of fiscal 2003, the portfolio of LREIT consisted solely of the Kenaston Property, an office/retail complex in Winnipeg, Manitoba, comprised of 94,200 square feet of leasable space. By the end of fiscal 2003, the real estate portfolio had increased to three properties, while a fourth property was acquired during the first quarter of fiscal 2004. The total average leasable space during the first quarter of fiscal 2004 was 192,600 square feet.

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. As of March 31, 2003, the total cumulative leasing costs of LREIT were $800,412. As of March 31, 2004, the total cumulative leasing costs had increased to $1,676,215, including tenant inducements of $569,203 arising from the change in accounting policy for the acquisition of income properties.

Mortgage Loans Receivable

During the first quarter of 2003, mortgage loans receivable consisted of a 10% first mortgage loan in the amount of $1.15 Million, secured by the Minacs Building in Oshawa, Ontario. LREIT commenced the first quarter of fiscal 2004 with mortgage loans receivable of $4,248,326, comprised of a 12.5% first mortgage loan in the amount of $1.15 Million and a 5.23% first mortgage loan on the McIvor Mall. The McIvor Mall loan was fully repaid on February 2, 2004 and an additional advance of $1 Million was provided on the Minacs loan in January 2004 at an interest rate of 9%.

Comparison to Previous First Quarter

During the first quarter of 2004, LREIT incurred a loss of $139,242, compared to net income of $527 during the first quarter of 2003.

From an overall perspective, the net loss is mainly due to the fact that the proceeds from the first quarter convertible debenture offerings were not fully invested in income producing properties as of March 31, 2004. As a result, the cost of the investment capital was disproportionately higher than the return on the investment capital. More specifically, LREIT incurred financing expense on $14 Million of new convertible debentures, bearing interest at a rate of 8%, whereas a significant portion of the convertible debenture funds were yielding a nominal return, pending the investment of the funds in income producing properties. The $9.8 Million cash balance of LREIT as of March 31, 2004 is reflective of a gap between the amount of capital received and the amount of capital invested. The change in the accounting policy for commercial property acquisitions, in accordance with new generally accepted accounting principles, and the resultant increase in amortization expense, also contributed to the first quarter loss.

The operating income projections for the properties that LREIT has acquired, or is in the process of acquiring subsequent to March 31, 2004, utilizing the existing cash resources of the Trust, also demonstrate the impact of the investment lag on operating results. The operating income of the five new properties is projected to be $3.575 Million per annum or $894,000 per quarter.

Notwithstanding the net loss which was incurred by LREIT during the first quarter of 2004, the operating results reflect a significant growth in revenues and operating income. The increase in operating income was offset by increases in financing and amortization expense.

Operating Income

Operating income increased by $283,822 or 89% during the first quarter of fiscal 2004, compared to the first quarter of 2003. Approximately 64% of the increase is due to an increase in the number of properties in the real estate portfolio of LREIT. The remaining increase is primarily due to an increase in interest income from mortgage loans receivable and from interest earned on cash deposits.

Financing Expense

Financing expenses is comprised of interest on the mortgage loans which are secured by the income properties as well as financing expense on the convertible debentures. Financing expense increased by $278,731 or 137% during the first quarter of 2004, mainly due to an increase in financing expense associated with the Series C and Series D convertible debentures.

Amortization Expenses

Total amortization expense increased by $147,984 or 189% during the first quarter of 2004. Approximately $58,600 or 40% of the increase is due to an increase in amortization of income properties, while approximately $59,200 or 40% is due to an increase in amortization of intangible assets. The increase in amortization of income properties is mainly due to the change in the accounting policy for the amortization of buildings and also reflects the acquisition of additional properties. The increase in amortization of intangible assets is due to the change in accounting policy for the acquisition of commercial properties, as applied for the acquisition of the McIvor Mall.

Segmented Information

Segmented financial information is provided in Note 16 to the Financial Statements. During the first quarter of 2003, the Kenaston Property accounted for 100% of the operating income of LREIT, excluding interest income on mortgage loans receivable. During the first quarter of 2004, the allocation of operating income is as follows:

Kenaston Property	$317,922	63.6%
McIvor Mall	109,699	21.9%
MAAX Warehouse	42,954	8.6%
Purolator Building	29,645	5.9%
	$500,220	100.0%

Comparison to Preceding Quarter

During the fourth quarter of fiscal 2003, the net income of LREIT was $24,101. The change in the bottom line results, from net income of $24,101 in the fourth quarter of 2003 to a net loss of $139,242 in the first quarter of 2004, is mainly attributable to the same factors which caused the variance in first quarter results, namely the disproportionately higher financing expense associated with the new convertible debentures and the increase in amortization expense resulting from the change in accounting policy for commercial property acquisitions. The increase in operating income in the first quarter of 2004 in the amount of $219,403 reflects the operating income from the McIvor Mall of $109,699 and an increase in interest from mortgage loans receivable and from interest earned on cash deposits.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31

	2004	December 31, 2003			
	Q1	Q4	Q3	Q2	Q1
Total revenue	$944,238	$628,934	$719,416	$541,384	$551,106
Operating income	$601,977	$382,574	$495,772	$336,575	$318,155
Net income (loss)	$(139,242)	$24,101	$128,332	$22,978	$527
PER UNIT					
Operating income					
- Basic	0.230	0.267	0.513	0.434	0.411
- Diluted	0.134	0.233	0.412	0.322	0.304
Net income					
- Basic	(0.053)	0.017	0.133	0.030	0.001
- Diluted	(0.053)	0.017	0.122	0.029	0.001

Quarterly Analysis for the Year Ended December 31

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

Notes:

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

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

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

CASH FLOWS AND LIQUIDITY

Cash Flow Highlights

	Three Months Ended March	
	2004	2003
Cash from operations	$302,352	$87,199
Cash provided by (used in) operating activities	$80,761	(180,736)
Cash provided by financing activities	$13,337,680	$250,172
Cash provided by (used in) investing activities	$(5,444,422)	-
Net cash increase	$7,974,019	$69,436
Working capital	$11,720,462	$799,494

As of March 31, 2004, the cash balance of LREIT was approximately $9.8 Million, representing an increase of approximately $8 Million, in comparison to the cash balance as of December 31, 2003. As reflected on the Statement of Cash Flows, the main sources of cash were the convertible debenture proceeds of $14 Million and approximately $3.1 Million from the repayment of the short-term first mortgage loan which had been advanced on the McIvor Mall in December 2003, prior to the acquisition of the property. The main uses of cash included the cash outlay in regard to the McIvor Mall acquisition of approximately $6.45 Million, net of holdbacks; the additional advance of $1 Million on the Minacs loan; the issue costs in regard to the convertible debentures of approximately $1.18 Million; and $775,000 of deposits on potential property acquisitions.

In comparison to the first quarter of 2003, the 2004 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 increased from $87,199 in 2003 to $302,352 in 2004. In general, the increase in cash flow from operations is attributable to the acquisition of additional income properties. The positive cash flow results from operations of $302,352 in 2004, compared to the net loss of $139,242, reflect the extent to which non-cash items impact the income results of LREIT. The non-cash items include amortization expense of $226,087, accretion on the debt component of convertible debentures of $100,303 and interest on the Series C debentures of $131,000. The adjustment for interest on the Series C debentures is a non-recurring item related to the terms of the debenture offering, whereby it was agreed that interest from the closing date of the debentures to the first interest payment date of March 31, 2004 would be paid by issuing additional debentures.

As of March 31, 2004, the working capital of LREIT was approximately $11.7 Million, including cash of approximately $9.8 Million and mortgage loans receivable of $2.15 Million. It is anticipated that the working capital will decrease significantly during the second quarter of 2004 as the cash resources of LREIT are invested in additional income properties. During the second quarter of 2004, LREIT has invested approximately $9.5 Million of equity in four multi-family residential properties. Approximately $1.3 Million is earmarked for the acquisition of an additional multi-family residential property, with an anticipated closing date in July 2004. Upcoming sources of additional capital include the proceeds of the first mortgage loan on the McIvor Mall, in the anticipated amount of $5.4 Million.

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, subsequent to March 31, 2004, is approximately $42 Million.

Distributable Income

The distributable income of LREIT for the first quarter of 2004 was $79,467, compared to $25,408 for the first 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 of $79,467, compared to the operating loss of $139,242 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		$ (139,242)
Amortization expense		137,049
Accretion of debt component		
Financing expense on convertible debentures	$ 343,651	
Interest expense on convertible debentures	(243,348)	100,303
Accrued rental revenue and other adjustments		(18,643)
Distributable income		$ 79,467

Cash Distributions

The distribution for LREIT for the first quarter of 2004, in the amount of $326,589 or $0.125 per unit, was paid on April 15, 2004. Since the inception date of LREIT as a publicly-listed entity on the TSX Venture Exchange on August 30, 2002, the quarterly cash distributions of LREIT have been equal to $0.125 per unit.

BALANCE SHEET

Income Properties

The balance of Income Properties, net of amortization charges increased by approximately $5 Million during the first quarter of 2004. The increase reflects the acquisition of the McIvor Mall and the capital improvements at the Kenaston Property.

Mortgage Loans Payable

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

The balance of the Mortgage Loans Payable increased by $533,654 during the first quarter of fiscal 2004. The increase reflects the increase in the first mortgage loan for the Kenaston Property in regard to the funding of capital improvements and the mall expansion, net of mortgage loan payments.

Deferred Charges

As per Note 6 of the quarterly financial statements, the unamortized cost of deferred charges was $1,771,559, as of March 31, 2004, representing an increase of $637,366, in comparison to the unamortized balance as of December 31, 2003. The increase in deferred charges is mainly due to the change in accounting policy for the acquisition of income properties and also reflects tenant inducements at the Kenaston Property.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities increased by $230,193 during the first quarter of 2004. The increase mainly reflects a holdback in regard to the acquisition of McIvor Mall.

RELATED PARTY TRANSACTIONS

As disclosed on page 2 and 3 of this Quarterly Report, 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 sold to LREIT by 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, is expected to result in a property portfolio with a high percentage of multi-family residential properties. The general market risk associated with a higher weighting of multi-family residential properties will be minimized through geographic diversification, focusing on quality properties and by utilizing the national organizational infrastructure and management expertise of Shelter Canadian Properties Limited.

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.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 27, 2004