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

August 29, 2003

To the Unitholders of
Lanesborough Real Estate Investment Trust

We are pleased to enclose the Quarterly Report for the Lanesborough Real Estate Investment Trust (LREIT) for the period ended June 30, 2003.

The Quarterly Report contains the following information:

- Section I: A summary of the investment and financing activity of LREIT, including a description of the business of LREIT; a summary of the properties in the LREIT portfolio, including details of new property acquisitions; an update on the expansion plans and capital improvements for the Kenaston Property; and details of a new offering of trust units.

- Section II: A detailed discussion and analysis of the Statement of Income (Loss), Distributable Income, Cash Distributions, Working Capital and selected Balance Sheet items.

- Section III: Unaudited financial statements of LREIT for the period ended June 30, 2003.

The cash distribution of LREIT for the second quarter of fiscal 2003 was paid on July 15, 2003 in the amount of $96,875 or $0.125 per unit. The distribution was paid to the Unitholders of record as of June 30, 2003.

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

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Enclosure

LANESBOROUGH REAL ESTATE INVESTMENT TRUST (LREIT)
Quarterly Report
For the Period Ended June 30, 2003

Summary of Investment and Financing Activity

DESCRIPTION OF BUSINESS

Lanesborough Real Estate Investment Trust ("LREIT") is an unincorporated closed-end real estate investment trust created to invest primarily in a portfolio of retail, residential, industrial and office properties located across Canada.

PROPERTY PORTFOLIO

As of June 30, 2003, the portfolio of LREIT consisted of two properties - the Kenaston Property in Winnipeg, Manitoba and the MAAX Warehouse in Airdrie, Alberta.

The Kenaston Property – Winnipeg, Manitoba

The Kenaston Property consists of two buildings in a joined development, containing approximately 94,200 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 51,300 square feet of leasable space, featuring a number of unique speciality shops and dining establishments.

The Kenaston Property was acquired on April 24, 2002. As of June 30, 2003, the Kenaston Property was effectively 92.9% leased, which included 6,355 square feet (6.7%) relating to a tenant that was permitted to buy out its lease with a prepayment representing rent to May 2004.

MAAX Warehouse - Airdrie, Alberta

As of June 30, 2003, LREIT acquired the MAAX Warehouse property in Airdrie, Alberta. Airdrie is located just north of Calgary on the Calgary-Edmonton corridor.

The MAAX Warehouse property consists of a 39,936 square foot building situated on a 2.06 acre site. The acquisition also includes a vacant adjacent site of 1.896 acres, providing the opportunity for future expansion. The property is 100% leased to a single tenant, MAAX Inc., with the lease expiring on December 31, 2008. MAAX is the largest manufacturer of bathroom products and fixtures in Canada and the sixth largest in the United States.

The net purchase price of the warehouse property was $1,596,186 and was paid subsequent to June 30, 2003. Accordingly, as of June 30, 2003, the purchase price, net of the usual closing adjustments, is reflected as amount payable on acquisition of income property.

Subsequent to June 30, 2003, the amount payable on acquisition was funded from first mortgage financing and cash. The first mortgage financing consists of a new first mortgage loan from Capital City Savings and Credit Union in the amount of $1,120,000, with an interest rate of prime plus 1%, payable on demand until such time as the interest rate and term are fixed. The source of cash was primarily from the partial repayment of the mortgage loan receivable in regard to the Minacs Building, as well as from the existing cash reserves of the Trust.

PROPERTY PORTFOLIO (continued)

Purolator Building – Burlington, Ontario

On July 10, 2003, LREIT conditionally completed the acquisition of the Purolator Building in Burlington, Ontario. The light industrial property consists of 16,117 square feet and is 100% leased to Purolator Courier Ltd., with the lease expiring on September 30, 2012. The building serves as the main distribution centre for Purolator for the Hamilton region of Ontario. Purolator is Canada's leading overnight courier company and a subsidiary of Canada Post.

The purchase price of the property is $1.2 Million and is to be funded by a new first mortgage loan of approximately $900,000, with the balance to be paid in cash. The first mortgage loan financing will consist of a new first mortgage loan from Commercial Mortgage Origination Company of Canada, with a ten year term and an interest rate to be based on the nearest ten year Government of Canada bond yield, plus 150 basis points.

INVESTMENT FINANCING

Minacs Second Mortgage Loan

On December 19, 2002, LREIT provided second mortgage loan financing of $1.15 Million for the Minacs Building in Oshawa, Ontario at an interest rate of 10% and a repayment date of July 19, 2003, with a provision for the repayment of up to $500,000 of the loan upon 30 days notice.

On July 4, 2003, $442,022 of the second mortgage loan was repaid, while an additional amount of $150,000 was repaid on July 11, 2003. The remaining balance of $557,978 was extended for a period of six months at an interest rate of 12.5%. The extended second mortgage loan is repayable in full, or in part, on 30 days notice.

CAPITAL IMPROVEMENTS

Exterior Upgrades – Kenaston Property

1. Description of Upgrades

   Comprehensive exterior improvements are in process at the Kenaston Property, consisting of the installation of a new exterior façade and new signage. The improvements are intended to enhance the long-term marketability of the property and to improve the aesthetic appeal of the entire site. The exterior improvements are expected to be substantially complete by September 30, 2003.

2. Funding of Upgrades

   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 Kenaston Property for the purpose of assisting in the funding of the exterior improvements, leasehold improvements and other leasing expenses 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.

CAPITAL IMPROVEMENTS (continued)

2. Funding of Upgrades (continued)

   As of June 30, 2003, two advances in the total amount of $537,950 had been received in regard to the increased mortgage loan. The first two advances were in regard to the funding of leasehold improvements and other leasing expenses. A third advance in the amount of $184,970 was requested on August 20, 2003 in regard to the funding of the exterior improvements.

EXPANSION PLANS

Addition to the Kenaston Village Mall

LREIT has entered into an agreement to acquire a section of the former CN Rail right-of-way land, which is located adjacent to the east side of the Kenaston Property, for a price of $425,000. The land is to be used for the purpose of constructing a 9,000 square foot addition to Kenaston Village Mall. The land acquisition is subject to the satisfactory completion of a re-zoning process, while the construction plans are 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 additional first mortgage loan advance, as discussed above.

The current status of the subject conditions is as follows:

(i) the re-zoning application was first heard on July 8, 2003 and is in process with the City of Winnipeg;

(ii) an offer to lease for the entire amount of the new space has been accepted from one tenant; and

(iii) a proposal for a further increase in the first mortgage loan of Kenaston Place will be submitted to Astra Credit Union. The loan proceeds are to be used to fund the construction costs and leasehold improvement costs.

OFFERING OF TRUST UNITS

On June 17, 2003, LREIT proceeded with a private placement offering of a minimum of 500,000 and a maximum of 1,250,000 Trust units at a price of $4 per unit. The first closing of the offering occurred on August 28, 2003, resulting in 502,438 units being issued for total gross proceeds of $2,009,752. The remaining units will continue to be offered with closing to occur on one or more future dates.

The funds raised by the offering are primarily intended for the purpose of funding additional property acquisitions.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST (LREIT)
Quarterly Report
For the Period Ended June, 2003

Discussion of the Statement of Income (Loss), Distributable Income, Cash Distributions and Working Capital

INTRODUCTION

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

STATEMENT OF INCOME (LOSS)

LREIT completed the three month period ended June 30, 2003 with operating income of $336,575 and a net income of $22,978. For the six months ended June 30, 2003, the operating income is $654,730 and the net income is $23,505. All of the operating income for the first half of 2003 pertains to the operations of the Kenaston Property, as the acquisition of the MAAX Warehouse building occurred on June 30, 2003.

First Quarter Comparison

In comparison to the first quarter of fiscal 2003, operating income during the second quarter increased by $18,420. The increase in operating income is primarily due to a decrease in operating costs. Net income increased from $527 in the first quarter to $22,978 in the second quarter. The increase in net income is mainly due to the decrease in operating costs partially offset by an increase in financing expense. The increase in financing expense reflects the increase in the mortgage loan payable, following the receipt of additional advances in regard to the upgrades to the Kenaston Property.

Pro-Forma Comparison

In comparison, the pro forma Statement of Operations projected operating income of $1,201,433 for the base year of operations or approximately $300,000 per quarter and net income of $334,784 or approximately $84,000 per quarter.

As a result of the favourable leasing results in 2002, operating income is generally in accordance with expectations. The variance between actual and projected net income is mainly due to the fact that amortization expense in regard to tenant inducements and leasing commissions, is significantly higher in comparison to the pro forma projections. In addition, trust expense is contributing to the variance between the actual amount of net income and the pro forma amount.

STATEMENT OF INCOME (LOSS) (continued)

Amortization Expense – Tenant Inducements and Leasing Commissions

Tenant inducements and leasing commissions decreased by $25,693 during the second quarter of fiscal 2003, resulting in total tenant inducements and leasing commissions in the amount of $321,608 for the six month period ended June 30, 2003. The decrease is a result of $101,707 in tenant inducements and leasing commissions which were incurred in the quarter ended June 30, 2003, net of $127,400 in tenant inducements and leasing commissions which were incurred in the quarter ended March 31, 2003 and which have been reclassified as capital improvements in the quarter ended June 30. The tenant inducements and leasing commissions mainly reflect the costs of completing leasehold improvements for space which was leased toward the end of fiscal 2002.

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 second quarter of fiscal 2003 was $52,388, of which $37,121 pertains to tenant inducements and leasing commissions and $15,267 pertains to the amortization of mortgage financing fees (please refer to the discussion of Deferred Charges in Section III). In comparison, the pro forma statement provided for leasing costs and amortization expense for deferred charges of $1,250 per quarter.

The extent of tenant inducements and leasing commissions during the first six months of 2003 is reflective of the leasing situation which occurred following the acquisition of the Kenaston Property in April 2002. On the acquisition date, the Kenaston Property was 83% leased. In the first few months of operations, the occupancy level declined to a level below 80% due to the early lease termination of one of the larger tenants.

In the following months, the occupancy level steadily improved due to strong leasing efforts. In summary, leasing activity was very extensive during the third and fourth quarters of fiscal 2002 and particularly during the month of December 2002, resulting in significant leasing costs, many of which were incurred during the first and second quarter of fiscal 2003.

In comparison, 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, with a stabilized tenant based and minimal leasing costs.

STATEMENT OF INCOME (LOSS) (continued)

Trust Expense

During the second quarter of 2003, trust expense amounted to $21,466, compared to $37,252 during the first quarter of fiscal 2003. The pro forma statement did not provide for trust expense. Trust expense represent costs which pertain specifically to the administration of LREIT, such as legal fees, auditor's fees and the cost of press releases, as follows:

	Three Months Ended March 31	Three Months Ended June 30	Six Months Ended June 30
Administration expenses:			
CIBC Mellon fees	$ 9,444	$ 2,584	$ 12,028
TSX fees	2,600	-	2,600
Sedar fees	-	2,390	2,390
Press releases	-	3,011	3,011
Other	70	471	541
	12,114	8,456	20,570
Professional fees	14,105	6,280	20,385
Website development fees	7,247	297	7,544
Unit-based compensation	2,847	2,847	5,694
Stationary	-	3,227	3,227
Other	939	359	1,298
	$ 37,252	$ 21,466	$ 58,718

The fees charged by CIBC Mellon are in regard to the services provided as the registrar and transfer agent of LREIT. Unit based compensation is a non-cash expense relating to the issuance of unit options (please refer to Note 7 of the financial statements). Professional fees consist of audit and consultation fees.

Interest and Other Income

During the second quarter of 2003, interest and other income amounted to $31,286. Interest and other income for the second quarter of 2003 consists primarily of interest income in regard to the "Minacs" second mortgage loan (please refer to Section I). Specifically, interest income on the Minacs loan for the second quarter of 2003 was $28,671.

DISTRIBUTABLE INCOME (LOSS)

An analysis of distributable income is provided in Note 12 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.

The distributable income for LREIT for the second quarter of fiscal 2003 was $47,972, compared to the pro forma amount of approximately $103,000 per quarter.

DISTRIBUTABLE INCOME (LOSS) (continued)

The variance in the amount of distributable income is almost entirely due to the variance between actual and pro forma net income, as disclosed in the preceding discussion in regard to the Statement of Net Income (Loss).

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, representing a quarterly distribution of $0.125 per unit.

The distribution of LREIT for the period ended June 30, 2003, in the amount of $96,875 or $0.125 per unit, was paid on July 15, 2003. As a net income of $22,978 was generated during the second quarter of fiscal 2003, the cash distribution on July 15, 2003 was partially funded from cash reserves.

WORKING CAPITAL

As of June 30, 2003, the working capital of LREIT was $279,331. In addition to working capital, funding for the ongoing financial obligations of the Trust is available from a number of sources, including the unadvanced portion of additional first mortgage loan for the Kenaston Property, the proceeds of the new offering of Trust units and from operating cash flow.

BALANCE SHEET

Income Properties

The balance of Income Properties increased by $1,911,670 during the second quarter of fiscal 2003, reflecting the acquisition of the MAAX Warehouse and capital improvements to the Kenaston Property, net of amortization charges for the Kenaston Property.

Deferred Charges

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.

As per Note 4 of the financial statements, the unamortized cost of deferred charges decreased by $18,193 during the second quarter of fiscal 2003, and increased by $339,626 since December 31, 2002. The decrease in the second quarter of fiscal 2003 is a result of $101,707 in tenant inducements and leasing commissions and $7,500 in mortgage financing fees which were incurred in the quarter ended June 30, 2003, net of $127,400 in tenant inducements and leasing commissions which were incurred in the quarter ended March 31, 2003, and which have been reclassified as capital improvements in the second quarter of fiscal 2003.

BALANCE SHEET (continued)

Deferred Charges (continued)

After providing for the amortization of deferred charges for the first half of 2003, the balance sheet reflects a balance for deferred charges of $669,076.

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 Mortgage Loan Payable increased by $175,432 during the second quarter of fiscal 2003 and by $436,122 since December 31, 2002. The increase reflects the receipt of additional advances in regard to the upgrades to the Kenaston Property (please refer to Section I), partially offset by first mortgage loan principal payments.