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

May 30, 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 March 31, 2003.

The Quarterly Report contains the following information:

- Section I: A summary of the investments of LREIT as of March 31, 2003, including a description of the business of LREIT and an update on the expansion plans and new financing arrangements for the Kenaston Property.

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

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

- Section IV: Unaudited financial statements of LREIT for the period ended March 31, 2003.

The cash distribution of LREIT for the first quarter of fiscal 2003 was paid on April 15, 2003 in the amount of $96,875 or $0.125 per unit. The distribution was paid to the Unitholders of record as of March 31, 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 Year Ended March 31, 2003

Summary of Investment 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 ACQUISITIONS

The Kenaston Property

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 94,200 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.

As of March 31, 2003, the Kenaston Property was 96.4% leased.

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 installation of the new exterior façade is expected to be substantially complete by August 31, 2003. The design stage for the majority of the new signs has been completed and the new signs will be installed, subsequent to the completion of the new exterior façade.

The capital improvement plan is partially being funded from the proceeds of an additional first mortgage loan advance, as discussed below.

Expansion Plans

Plans are in process 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 the purpose of constructing an 8,500 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 below.

PROPERTY ACQUISITIONS (continued)

Expansion Plans (continued)

Offers to lease in regard to the proposed 8,500 square foot addition to Kenaston Village Mall are actively being pursued. A conditional offer to lease has been received from one tenant for the entire amount of the new space and serious interest has been displayed by other potential tenants. Construction of the property addition could potentially commence during the summer of 2003.

Additional First Mortgage Loan Advance

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 assisting in the funding of leasehold improvements and other leasing expenses, capital improvements to the Kenaston Property, 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 $314,493 and was primarily in regard to leasehold improvements. A second advance in the amount of $222,812 in regard to further leasehold improvements was funded on May 15, 2003.

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.

Unless additional capital is raised through the issue of additional Trust units or convertible debentures, LREIT intends to request repayment of the second mortgage loan, as required, in order to fund all of the projected obligations of the Trust during 2003.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST (LREIT)
Quarterly Report
For the Year Ended March 31, 2003

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

INTRODUCTION

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

STATEMENT OF INCOME

LREIT completed the period ended March 31, 2003 with operating income of $318,155 and a net income of $527. 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.

Amortization Expense – Tenant Inducements and Leasing Commissions

Tenant inducements and leasing commissions during the first quarter of fiscal 2003 were significantly higher than anticipated, in comparison to the pro forma statement. Tenant inducements and leasing commissions of $347,301 were incurred during the first quarter of fiscal 2003 and 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 first quarter of fiscal 2003 was $58,944, of which $37,144 pertains to tenant inducements and leasing commissions and $21,800 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 quarter of 2003 is reflective of the leasing situation which occurred following the acquisition of the Kenaston Property in April 2002. On the acquisition date of the property, the Kenaston Property was 83% leased. In the first few months of operations, however, one of the larger tenants, Pepper's Restaurant, vacated its premises, resulting in the short-term decline in the occupancy to below 80%.

STATEMENT OF INCOME (continued)

Amortization of Deferred Charges (continued)

In the following months, the occupancy level steadily improved due to strong leasing efforts. During the period from May 2002 to December 2002, leases were obtained from eight new tenants, while the premises of three existing tenants were relocated to different units. The leases for five of the new tenants were obtained during the month of December 2002. As of December 31, 2002, the Kenaston Property was 95.5% leased and the occupancy level increased to 96.4% as of March 31, 2003.

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 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.

Trust Expense

During the first quarter of 2003, trust expense amounted to $37,252, whereas 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. An analysis of trust expense is provided in Section III.

DISTRIBUTABLE INCOME

An analysis of distributable income is provided in Note 15 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 first quarter of fiscal 2003 was $25,408, compared to the pro forma amount of approximately $103,000 per quarter.

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.

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 March 31, 2003, in the amount of $96,875 or $0.125 per unit, was paid on April 15, 2003. As the distributable income for the first quarter of fiscal 2003 amounted to $25,408, the cash distribution on April 15, 2003 was partially funded from cash reserves.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST (LREIT)
Quarterly Report
For the Fiscal Year Ended March 31, 2003

Detailed Financial Analysis and Discussion

INTRODUCTION

The following comments in regard to specific financial statement items should be read in conjunction with the financial statements and the accompanying notes. The focus of discussion is on financial statement items which have changed significantly in comparison to the balances as of December 31, 2002. A detailed discussion of the Statement of Income, Distributable Income and Cash Distributions is provided in Section II.

BALANCE SHEET

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 5 of the financial statements, the unamortized cost of deferred charges increased by $357,819 or 71.1% since December 31, 2002. The increase in deferred charges is primarily due to an increase in tenant inducements. Specifically, tenant inducements increased by approximately $300,000 or 71.2% since December 31, 2002. Tenant inducements represent items such as leasehold improvement allowances and free rent allowances which are offered to new tenants as an incentive to lease space. The increase in tenant inducements during the first quarter of 2003 reflects the extent of leasing which occurred during December 2002. As discussed in Section II, five new leases were obtained in December 2002 and the majority of the costs which were related to obtaining the leases, such as tenant inducement costs, were incurred during the first quarter of 2003.

The increase in deferred charges also reflects an increase in leasing commissions of $47,360 and an increase in mortgage financing fees of $10,518. The increase in leasing commissions is also due to the extent of leasing activity which occurred during December 2002. The increase in mortgage financing fees is in regard to the additional first mortgage loan financing (please refer to the Mortgage Loan Payable discussion in Section III).

After providing for the amortization of deferred charges for the first quarter of 2003, the balance sheet reflects a balance for deferred charges of $739,657. The amortization expense for deferred charges for the first quarter of 2003, in the amount of $58,944, is also comparatively higher given the increase in the total unamortized cost of deferred charges, as discussed above.

BALANCE SHEET (continued)

Mortgage Loan Payable

The Mortgage Loan Payable represents the first mortgage loan which was obtained to fund the acquisition of the Kenaston Property.

As discussed in Section I, the registered amount of the first mortgage loan was increased to $9 Million, effective January 15, 2003, representing an increase from the original loan amount of $1,012,500. 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. The additional mortgage loan proceeds are being advanced in stages after the actual costs, in respect of each item, have been incurred.

The balance of the mortgage loan payable increased by $260,690 during the first quarter of 2003. The increase reflects the receipt of the first advance in regard to the additional mortgage loan proceeds in the amount of $314,493, partially offset by first mortgage loan principal payments of $53,803.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by $78,183 or 19.1% during the first quarter of 2003. As disclosed in Note 9 to the financial statements, the increase is mainly due to an increase in accounts payable, partially offset by a decrease in accrued interest on convertible debentures.

Accounts payable increased by $150,714, mainly reflecting accrued invoices in regard to recently completed leasehold improvements at the Kenaston Property. Accrued interest on convertible debentures decreased by $95,000, as a semi-annual interest payment on the debentures was made on February 28, 2003. As a result, the financial statements for the first quarter of 2003 reflect accrued interest for one month, whereas the accrued interest balance of December 31, 2002 reflected interest for a period of four months.

In addition, tenant security deposits increased by $18,779 as a result of the new tenancies at the Kenaston Property, while accrued interest on the mortgage loan payable increased by $3,690 as a result of the increase in the balance of the loan.

STATEMENT OF INCOME

Rentals from Income Properties

All of the rental revenue for the first quarter of 2003 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.

As disclosed in Note 12 to the financial statements, operating cost recoveries amounted to $196,396 during the first quarter of 2003, while actual property operating costs amounted to $232,951 (please refer to Note 13 to the audited financial statements). The difference between the actual costs and the recoverable costs, in the amount of $36,555, 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.

<u>STATEMENT OF INCOME</u> (continued)

Interest and Other Income

During the first quarter of 2003, interest and other income amounted to $33,524. Interest and other income for the first quarter of 2003 consists primarily of interest income in regard to the "Minacs" second mortgage loan (please refer to Section I and Note 4 to the financial statements). Specifically, interest income on the Minacs loan for the first quarter of 2003 was $28,356.

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 13 to the financial statements.

Trust Expense

During the first quarter of fiscal 2003, trust expense amounted to $37,252. Trust expense represents costs which pertain specifically to the administration of LREIT. Trust expense for the first quarter of 2003 consists of the following amounts:

Professional fees		$ 14,105
Administration expenses:		
CIBC Mellon fees	$ 9,444	
TSX fees	2,600	
Other	70	12,114
Website development fees		7,247
Unit-based compensation		2,847
Other		939
		$ 37,252

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 10 of the financial statements). Professional fees consist of audit and consultation fees.