



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REAL ESTATE INVESTMENT TRUST REPORTS FINANCIAL RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2004.

Winnipeg, Manitoba, May 28, 2004 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX Venture: LRT.UN) is pleased to report the financial results for the first quarter ended March 31, 2004. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the financial statements and the annual report, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

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.

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.

RESULTS OF OPERATIONS

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 | <u>104,766</u> | <u>33,524</u> | <u>71,242</u> | <u>42,905</u> | <u>61,861</u> |
| 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) |

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.

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 factor 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.

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.

LREIT is a real estate investment trust, which is listed on the TSX Venture Exchange under the symbol "LRT.UN". The objective of LREIT is to provide Unitholders with stable cash distributions from investment in a geographically diversified Canadian portfolio of quality real estate properties. For further information on LREIT, please visit our website at www.lreit.com.

FOR FURTHER INFORMATION PLEASE CONTACT:

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