LANESBOROUGH REIT

2005 FIRST QUARTER REPORT

Unitholder Returns

	Three Months Ended March 31, 2005	Year Ended December 31, 2004
Distribution per unit	$0.14	$0.53
Opening unit price	$5.50	$4.00
Closing unit price	$5.85	$5.50
Annualized yield on closing price (distribution/closing unit price)	9.6%	9.6%
Capital appreciation (capital appreciation/opening unit price)	6.4%	37.5%
Total return	8.8%	47.1%

Projected cash distribution – 2005:	$0.56
Closing unit price – May 18, 2005:	$5.45
Current yield:	10.27%

Lanesborough Real Estate Investment Trust trades on the TSX Venture Exchange under the symbol "LRT.UN".

REPORT TO UNITHOLDERS

The mandate of the Lanesborough Real Estate Investment Trust is to create a large portfolio of quality real estate investments in order to maximize unit values and provide stable cash distributions to the Unitholders. Our report for the first quarter of 2005 provides a clear indication of the extent to which LREIT has successfully attained its investment objectives since the first quarter of 2004. During the 12 month period ending March 31, 2005, the real estate portfolio of LREIT has increased from four properties, with a total acquisition cost of $22 Million, to 16 properties, with a total acquisition cost of $77.4 Million. Unit values have increased from $4.75 as of March 31, 2004 to $5.85 as of March 31, 2005, representing a one year gain in value of 23%. Cash distributions, which remained stable at $0.125 per unit for the first and second quarters of 2004 were subsequently increased to $0.14 per unit during the third quarter of 2004, providing Unitholders with a consistent yield of approximately 10%.

In 2005, LREIT will continue to aggressively pursue new property acquisitions in order to achieve additional gains in unit values, while striving to maximize operating cash flows from existing properties. During the first quarter of 2005, LREIT acquired six additional multi-family residential properties and, with a cash balance of $33.7 Million as of March 31, 2005, is well positioned for continued growth. During the first quarter of 2005, operating income increased by $1.12 Million or 186%, compared to the first quarter of 2004 and by $435,983 or 34%, compared to the fourth quarter of 2004. During the first quarter of 2005, the first mortgage loan of the Kenaston Property was also upward refinanced by approximately $2.5 Million, providing an additional source of funds for investment purposes.

Since its inception as a publicly-traded real estate investment fund in September 2002, LREIT has provided Unitholders with a reliable and consistent investment and has clearly demonstrated that it has the capability to deliver results. We look forward to another strong performance in the second quarter of 2005, as LREIT is firmly on-track to attain additional gains in unit values as its portfolio of quality real estate investments continues to grow.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
Chief Executive Officer
May 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the financial statements for the first quarter ended March 31, 2005 and accompanying notes, and with reference to the 2004 Annual Report. In addition, certain statements in the Management's Discussion and Analysis could be considered as forward-looking information. The forward-looking information is subject to certain risks and uncertainties which could result in actual results differing materially from the forward-looking statements.

OVERALL INVESTMENT OBJECTIVES AND STRATEGY

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 ACTIVITIES

Property Acquisitions

First Quarter

As of December 31, 2004, the real estate portfolio of LREIT consisted of six multi-family residential properties and four commercial properties with a total acquisition cost of $66.7 Million.

During the first quarter of 2005, LREIT acquired six additional multi-family residential properties at a total purchase price of $10,690,000, resulting in a real estate portfolio of 16 properties with a total cost of $77.4 Million as of March 31, 2005.

Property Portfolio – March 31, 2005

Property	Location	Purchase Price	Acquisition Date	Suites/ Leasable Area - Sq. Ft.	Occupancy 12/31/04
Multi-Family Residential					
Beck Court	Yellowknife, NWT	$ 14,300,000	April 2004	120	98%
Greenwood Gardens	Surrey, BC	10,950,000	April 2004	183	81%
Nova Villa	Edmonton, AB	5,400,000	May 2004	61	84%
Nova Manor	Edmonton, AB	2,615,000	May 2004	32	91%
Nova Ridge Estates	Spruce Grove, AB	8,800,000	July 2004	102	95%
Norglen Terrace	Peace River, AB	2,500,000	October 2004	72	89%
Highland Towers	Thompson, MB	1,350,000	January 2005	95	78%
Borden Estates	Prince Albert, SK	5,315,000	January 2005	144	85%
Cedar Village	Prince Albert, SK	2,700,000	February 2005	72	90%
Carlton Manor	Prince Albert, SK	410,000	February 2005	19	84%
Riverside Apartments	Prince Albert, SK	265,000	February 2005	12	83%
MGM Apartments	Prince Albert, SK	650,000	February 2005	28	93%
		$ 55,255,000	Total Suites	940	
Retail and Office					
Kenaston	Winnipeg, MB	12,656,200*	April 2002	103,209	100%
McIvor Mall	Winnipeg, MB	6,700,000	February 2004	65,283	97%
		$ 19,356,200		168,492	
Light Industrial					
MAAX Warehouse	Airdrie, AB	1,600,000	June 2003	39,936	100%
Purolator Building	Burlington, ON	1,200,000	September 2003	16,117	100%
		2,800,000		56,053	
	Total cost	$ 77,411,200	Total leasable area	224,545	

* Includes cost of asset additions.

Subsequent to March 31, 2005

Due to the limited construction of new rental properties over the last 25 years and as market values of existing rental properties continue to be well below replacement cost, the multi-family residential sector continues to offer an opportunity to earn high returns and achieve significant gains in value, especially with the expectation that there will be an improvement in rental market conditions when interest rates increase and home ownership becomes a more costly alternative for renters. As a result, for the foreseeable future, the investment strategy of LREIT will continue to focus on the acquisition of multi-family residential properties in markets across Canada, including continued investments in small urban centres. The acquisition of senior housing complexes or "care" homes will also be considered. During 2005, it is anticipated that LREIT's portfolio of multi-family residential properties will increase by $120 Million to $130 Million.

Acquisitions which have been completed, or are in process, subsequent to March 31, 2005, are as follows:

Property Acquisitions – Year-to-Date - 2005

Property	Location	Actual/Projected Acquisition Date	Number of Suites	Purchase Price
Nelson Ridge Estates (1)	Fort McMurray, AB	April 1, 2005 *	225	$40,575,000
Nova Village (1)	Yellowknife, NWT	April 28, 2005 *	50	$10,900,000
Luther Riverside Terrace (2)	Saskatoon, SK	July 2005	181	$24,000,000
Marquis Towers (1)	Prince Albert, SK	August 2005	129	$6,200,000

* Acquisitions completed.

(1) Nelson Ridge, Nova Village and Marquis Towers are multi-family residential apartment buildings.
(2) Luther Riverside Terrace is a senior housing complex.

Capital Expenditures

Capital expenditures, excluding property acquisitions, were minimal during the first quarter of 2005, amounting to $3,876.

Mortgage Loans Receivable

March 31, 2005 - $3,625,000
December 31, 2004 - $2,150,000

Pending the investment of new capital in property acquisitions, LREIT typically has a significant amount of short-term excess cash reserves. The strategy of LREIT is to attempt to maximize the return on short-term excess cash reserves by investing a portion of the reserves in low-risk, higher yield financial instruments.

Since December 2002, the primary investment vehicle for the short-term excess cash reserves of LREIT has been a second mortgage loan, secured by the Minacs Building in Oshawa, Ontario (the "Minacs loan"). Please refer to the section on "Related Party Transactions" on page 13 of this report for additional information regarding the Minacs Building.

As of December 31, 2004, the total amount of the Minacs loan was $2.15 Million with a repayment date of June 30, 2005. In January 2005, following the closing of the unit offering on December 30, 2004, an additional $1.475 Million was invested in the Minacs loan at an interest rate of 9%, with the repayment date for the total loan of $3.625 Million remaining at June 30, 2005. LREIT has the right to demand a maximum repayment of $500,000 upon 30 days notice.

FINANCING ACTIVITIES

The overall strategy of LREIT is to fund the equity component of new property acquisitions through the issuance of additional trust units or convertible debentures. The upward refinancing of property debt may also serve as a source of capital.

Trust Units

LREIT is authorized to issue an unlimited number of trust units.

In December 2004, LREIT initiated a private placement offering of a maximum of 5,000,000 trust units at a price of $5 per unit (the "December 2004 unit offering"). The first closing of the offering occurred on December 30, 2004, resulting in 3,828,500 units being issued for total gross proceeds of $19,142,500. After considering the unit offering, LREIT had 6,461,213 trust units outstanding as of December 31, 2004, with an average issue price of $4.25.

The following is a summary of the trust units which were issued by LREIT during the first quarter of 2005:

Summary of Trust Units

		Units Issued	Gross Proceeds
Units outstanding, December 31, 2004		6,461,213	$ 27,476,411
January 27, 2005	Second closing of December 2004 unit offering	1,171,500	5,857,500
February 2, 2005	Private placement to institutional investor	200,000	1,000,000
January to March 31, 2005	Units issued on conversion of debentures	237,311	-
Units issued – first quarter 2005		1,608,811	6,857,500
Units outstanding, March 31, 2005		8,070,024	$ 34,333,911

Convertible Debentures

The Declaration of Trust does not impose any limitation on the amount of convertible debt which may be issued by the Trust. The Series C debentures included a covenant which restricted LREIT from issuing any additional debentures, other than the Series D debentures, until such time as LREIT acquired multi-family residential properties with a minimum gross purchase price of $50 Million. The acquisition covenant was satisfied on January 31, 2005, upon the acquisition of Highland Towers and Borden Estates. The Series C debentures also include a clause which specifies that prior to proceeding with any additional debenture offerings, LREIT must raise proceeds from additional unit offerings which are at least 50% greater than the proceeds from any additional debenture offerings.

In January 2005, LREIT initiated a $12 Million private placement offering of Subordinated Series E Convertible Debentures, bearing interest at a rate of 8%, with a five year term and a final closing date of March 16, 2005.

The following is a summary of the debenture offerings which have been undertaken by LREIT, as of March 31, 2005, since its inception date as a publicly listed entity:

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Unit Conversions	Net Amount Outstanding
Aug. 30/02/Aug. 30/07	A	10%	$ 3,000,000	$ (511,000)	$ 2,489,000
Aug. 30/02/Aug. 30/05	B	8%	1,000,000	(153,000)	847,000
Jan. 30/04/Aug. 29/06	C	8%	10,131,000	(500,000)	9,631,000
Mar. 16/04/Mar. 15/08	D	8%	4,000,000	(25,000)	3,975,000
Feb. 17/05/Feb. 17/10	E	8%	12,000,000	-	12,000,000
			$ 30,131,000	$ 1,189,000	28,942,000
Accumulated accretion, net of interest paid - December 31, 2004					887,076
Accretion, net of interest paid – first quarter 2005					256,064
Book value, March 31, 2005					$ 30,085,140

Mortgage Loans Payable

March 31, 2005 - $58,490,704
December 31, 2004 - $49,091,108

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2004	Percentage of Total
2005	4.12%	$ 473,475	1.0%
2006	0.00% (VTB)	250,000	0.5%
2007	6.50%	2,015,623	3.5%
2008	4.10%	4,149,354	7.0%
2009	5.35%	12,935,100	22.0%
2010	4.67%	6,439,988	11.0%
2013	6.47%	914,883	1.5%
2014	5.49%	18,252,734	31.0%
2015	5.80%	12,000,000	20.5%
		57,431,157	98%
Demand/floating rate	Prime + 1% (5.25%)	1,059,547	2%
		$ 58,490,704	100%

The general policy of LREIT is to utilize fixed rate financing with terms which are appropriate for the nature of the properties being financed. Upward refinancing opportunities are also pursued, when appropriate, in order to provide a source of additional capital and to minimize the impact of capital expenditures on ongoing operating cash flows.

All of the property acquisitions during the first quarter encompassed first mortgage loan financing, with the exception of Highland Tower, which was purchased entirely by a cash payment of $1,350,000. The total first mortgage loan debt assumed on the remaining five property acquisitions amounted to approximately $6.88 Million or approximately 64% of the total purchase price, with a weighted average interest rate of 4.67%. In addition, the first quarter acquisitions encompassed a non interest-bearing vendor take-back (VTB) mortgage of $250,000, maturing July 1, 2006. The new mortgage loans account for the increase in the balance of “Mortgage Loans Payable” during the first quarter of 2005.

On February 24, 2005, the prime plus 0.625% first mortgage loan for the Kenaston Property was upward refinanced by approximately $2.5 Million. The new loan of $12 Million bears interest at a fixed rate of 5.8% for ten years, maturing March 1, 2015. The loan proceeds will be used to fund additional property acquisitions and for general purposes.

RESULTS OF OPERATIONS

Operating Highlights

	Three Months Ended 2005	Three Months Ended 2004
Total revenue	$3,054,455	$944,238
Operating income	$1,722,756	$601,979
Net loss	$(274,461)	$(171,997)
Cash from operations	$598,751	$356,744

Impact of Changes in Accounting Policy

Effective January 1, 2005, LREIT adopted a new accounting policy for debentures which are convertible to units, at the option of the debenture issuer. The accounting policy was adopted, pursuant to the recommendations of the CICA Handbook, in order to conform to Canadian generally accepted accounting principles. The new accounting policy is being applied on a retroactive basis.

The new policy is described in Note 2 of the year end financial statements. The adoption of the amended accounting policy by LREIT resulted in a reallocation of the debt and equity components of the Series B convertible debentures and an increase in prior years financing expense of $286,451 of which $32,757 pertains to the first quarter of 2004. Accordingly, the financing expense for the period ended March 31, 2004 is $32,757 higher than was previously reported.

Overall Performance

General

In accordance with its overall investment strategy, LREIT is progressively acquiring additional properties in order to achieve sustained growth in operating cash flows and create ongoing gains in unit values.

The operating results for the first quarter of 2005 clearly reflect that LREIT has been very successful in achieving its investment objectives since the first quarter of 2004. During the first quarter of 2005, the operating income of LREIT has increased by $1,120,777 or 186%, compared to the first quarter of 2004, while cash from operations has increased by $242,007 or 68%.

The increase in the operating income is mainly due to the increase in the number of properties in the portfolio of LREIT. During the first quarter of 2004, four properties, with a combined purchase price of $22.2 Million, contributed to the operating income of LREIT. During the first quarter of 2005, 16 properties, with a combined acquisition cost of $77.4 Million, contributed to operating income.

Operating Segments

Geographic

During the first quarter of 2005, the geographic diversification of LREIT became significantly more pronounced as the property portfolio expanded into Saskatchewan and Northern Manitoba. During the first quarter of 2005, 41% of the rental revenues of LREIT were generated in Manitoba, compared to 90% during the first quarter of 2004.

Throughout the remainder of 2005, there will be a greater geographic diversification of the real estate portfolio of LREIT, with the portfolio expanding into Northern Alberta and other new provincial locations. The continued geographic diversification of LREIT will serve to mitigate the general economic risks which are associated with real property ownership, such as the risk of increased competition or reduced demand in a local real estate market.

Property Type

General

The real estate portfolio of LREIT did not contain any residential properties during the first quarter of 2004.

Subsequent to March 31, 2004, LREIT refocused its efforts exclusively toward the acquisition of multi-family residential properties. During the first quarter of 2005, the 12 multi-family residential properties which LREIT acquired since March 31, 2004, accounted for 58% of the total income from property operations.

Residential

The vacancy rate for the majority of the multi-family residential properties in the LREIT portfolio was relatively high as of March 31, 2005. Vacancy levels are high by historical standards throughout the multi-family residential rental market, as interest rates have been at a very low level for an extended period of time, resulting in a move to home ownership by a high percentage of existing and potential tenants. On the positive side, the favourable lending conditions have enabled LREIT to secure low interest financing for new property acquisitions and minimize first mortgage loan debt service costs. Vacancy levels are also factored into the purchase price of new property acquisitions. As a result, notwithstanding the higher vacancy levels, all of the multi-family residential properties, with the exception of Greenwood Gardens, achieved positive cash flow results during the first quarter of 2005, after funding debt service costs.

The cash deficiency at Greenwood Gardens is largely due to the costs associated with the completion of an extensive multi-year in-suite and common area upgrade program at the Project. As reported in the 2004 Annual Report, it is anticipated that, in the short-term, Greenwood Gardens will incur operating costs which are higher than the portfolio average and that the cost of the upgrade program will exceed the cash flow from operations.

Commercial and Light Industrial

Notwithstanding the shift toward the acquisition of residential properties in 2004, the commercial and light industrial properties of LREIT continue to generate excellent yields and provide a strong foundation for the Trust in terms of cash flows and asset values. During the first quarter of 2005, commercial and light industrial properties accounted for 42% of the total income from property operations. The two light industrial properties in the LREIT portfolio are 100% leased to single tenants under long-term lease agreements, while the two commercial properties, McIvor Mall and the Kenaston Property, were 97% and 100% leased, respectively, as of March 31, 2005.

Although the residential property component of LREIT is gradually accounting for a higher percentage of operating income, the commercial and light industrial properties will continue to enhance the overall status of the Trust in terms of property diversification.

Cash Flow Guarantees

The acquisition of three properties, Nova Manor, Nova Villa and Nova Ridge Estates, encompassed cash flow guarantees, whereby the Vendor guaranteed a specified monthly operating cash flow until the monthly net rental revenues reach a predetermined threshold level, subject to a maximum period of one year. The “one year” period ends on May 31, 2005 for Nova Manor and Nova Villa and on July 31, 2005 for Nova Ridge Estates. It was previously anticipated that the threshold levels for all three properties would be attained within the one year guarantee period. Due to a modest increase in the vacancy loss, there may be a marginal variance between actual and guaranteed rent levels of Nova Villa and Nova Manor. In any event, the expiry of the cash flow guarantee is not expected to have a significant impact on the future operating income of LREIT. The cash flow guarantees also served to mitigate any impact of increased vacancy levels on the operating results of Nova Villa and Nova Manor properties during the first quarter of fiscal 2005.

Analysis of Operating Results

Analysis of Net Income

	Three Months Ended March 31 2005	2004	Net Change
Income Properties			
Operating income	$ 1,458,883	$ 500,220	$ 958,663
Financing expense – mortgage loans	(703,804)	(137,354)	(566,450)
Net income, excluding trust operations, financing expense on debentures and amortization	755,079	362,866	392,213
Trust Operations			
Interest income	263,873	101,759	162,114
Trust expense	(45,784)	(34,128)	(11,656)
	218,089	67,631	150,458
Financing expense – debentures	(687,045)	(376,407)	(310,638)
Net income, excluding amortization	**286,123**	**54,090**	**232,033**
Amortization expense	(560,584)	(226,087)	(334,497)
Net loss	$ (274,461)	$ (171,997)	$ (102,464)

Net Income, Excluding Amortization Expense

Net income, before amortization expense, increased by $232,033 during the first quarter of 2005, compared to the first quarter of 2004. The increase is comprised of the following components:

Increase in net income from property operations	$ 392,213
Increase in trust income	150,458
	542,671
Less: Increase in financing expense on debentures	310,638
Increase in net income, excluding amortization	$ 232,033

The increase in net income from property operations reflects the acquisition of additional properties, while the increase in trust income mainly reflects an increase in interest income from the investment in the Minacs Loan. The increase in financing expense on debentures reflects the completion of additional debenture offerings of $10 Million, $4 Million and $12 Million on June 30, 2004, March 16, 2004 and February 17, 2005, respectively.

Net Loss, Including Amortization Expense

In accordance with generally accepted accounting principles, a portion of the purchase price of a rental property is allocated to deferred charges and to intangible assets or intangible liabilities. Since February 2004, LREIT has acquired 13 properties, at a total cost of approximately $62 Million, of which approximately $2.7 Million has been recorded as a deferred charge or intangible asset/liability. The deferred charges and intangible assets/liabilities are amortized over the term of tenant leases, resulting in relatively high amortization charges in the initial years of a property acquisition.

The increase in the net loss, from $171,997 in the first quarter of 2004, to $274,461 in the first quarter of 2005, is directly attributable to an increase in amortization expense. The increase in amortization expense reflects the increase in the size of the property portfolio of LREIT, as well as the proportionately higher amortization expense for deferred charges and intangible assets/liabilities.

Property Operating Costs

Operating costs for rental properties, as a percentage of revenues from rental properties, increased from 41% during the first quarter of 2004, to 49%, during the first quarter of 2005.

At the beginning of the first quarter of 2004, the property portfolio of LREIT consisted of three commercial properties, including the MAAX Warehouse and the Purolator Building. The increase in the operating cost percentage reflects the comparatively low operating costs of single-tenant commercial properties. As the profit margin is not expected to change significantly in 2005, the rate of growth in operating income and operating cash flows is expected to continue at a favourable level in 2005, in proportion to the growth in revenues from new property acquisitions.

Cash from Operations

During the first quarter of 2005, LREIT generated cash from operations of $598,751.

The impact of amortization expense and other non-cash expenses is reflected in the contrast between the net loss and the favourable results in regard to cash from operations. Cash from operations excludes amortization expense, the non-cash component of debenture financing expense, accrued revenue and unit-based compensation.

Balance Sheet Items

Deferred Charges

March 31, 2005 - $2,925,663
December 31, 2004 - $2,006,654

As of March 31, 2005, the balance of deferred charges increased by $919,009, compared to the balance as of December 31, 2004.

The increase in the balance of deferred charges mainly represents an increase in deferred financing expenses. The increase in deferred financing expenses mainly represents issue costs relating to the Series E debenture offering.

As disclosed in Note 2 of the audited financial statements, LREIT has adopted a new accounting policy, effective January 1, 2005, whereby issue costs relating to debentures are initially recorded as deferred charges and amortized over the term of the debentures. Previously, issue costs relating to debentures were recorded as a reduction of equity.

Other Assets

March 31, 2005 - $2,706,121
December 31, 2004 - $1,271,668

Other assets increased by $1,434,453 since December 31, 2004. Approximately 67% of the increase is due to an increase in deposits on potential property acquisitions. The remainder of the increase is mainly due to an increase in accounts receivable for year end billing adjustments in regard to common area cost recoveries at the Kenaston Property.

Accounts Payable and Accrued Liabilities

March 31, 2005 - $1,771,908
December 31, 2004 - $1,446,803

Accounts Payable and Accrued Liabilities increased by $325,105 since December 31, 2004. The increase mainly reflects an increase in accrued interest on mortgage loans payable and convertible debentures.

Comparison to Preceding Quarter

Fourth Quarter Comparison

	Three Months Ended		Increase
	March 31, 2005	December 31, 2004	(Decrease)
Revenue:			
Rentals from Income Properties	$ 2,700,607	$ 2,361,058	$ 339,549
Interest and Other Income	353,848	167,370	186,478
Total revenue	$ 3,054,455	$ 2,528,428	$ 526,027
Operating income	$ 1,722,756	$ 1,296,410	$ 426,346
Net loss	$ (274,461)	$ (587,841) *	$ 313,380

* Includes retroactive adjustment to increase financing expense by $35,951 per change in accounting policy. Please refer to page 6.

Analysis of Variance

During the first quarter of 2005, the operating income of LREIT increased by $426,346, compared to the fourth quarter of 2004, while the net loss decreased by $313,380.

The increase in operating income and the corresponding decrease in the net loss is primarily due to an increase in the operating income of the rental properties of LREIT and an increase in interest and other income.

The increase in the operating income of the rental properties reflects additional income from new property acquisitions in 2005, as well as an improvement in the operating income of properties which were acquired prior to 2005, particularly Greenwood Gardens and the Kenaston Property. The improvement in the operating results of Greenwood Gardens is mainly due to a reduction in salary costs. As disclosed in the 2004 Annual Report of LREIT, salary costs at Greenwood Gardens were comparatively high during the fourth quarter of 2004 as it has been necessary to devote a greater number of employees to the management of the Project in order to improve the leasing program and expedite certain maintenance work. The improvement in the operating results of the Kenaston Property mainly reflects an increase in base rental revenues due to the improvement in the occupancy level from 92.5% as of March 31, 2004 to 100% as of March 31, 2005.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31

	2005	2004			
	Q1	Q4	Q3	Q2	Q1
Total revenue	$3,054,455	$2,528,428	$2,309,239	$1,961,339	$944,238
Operating income	$1,722,756	$1,296,410	$1,398,456	$1,319,195	$601,979
Net income (loss)	$(274,461)	$(587,841)	$(479,357)	$(246,582)	$(171,997)
PER UNIT					
Operating income					
- Basic	$0.230	0.477	0.531	0.501	0.230
- Diluted	$0.153	0.198	0.227	0.224	0.134
Net income (loss)					
- Basic	(0.037)	(0.216)	(0.182)	(0.094)	(0.066)
- Diluted	(0.037)	(0.216)	(0.182)	(0.094)	(0.066)

Quarterly Analysis for the Year Ended December 31

	2003			
	Q4	Q3	Q2	Q1
Total revenue	$628,934	$719,416	$541,384	$551,106
Operating income	$382,574	$495,772	$336,575	$318,155
Net income (loss)	$(1,668)	$96,870	$(6,218)	$(27,415)
PER UNIT				
Operating income				
- Basic	0.267	0.513	0.434	0.411
- Diluted	0.233	0.412	0.322	0.304
Net income (loss)				
- Basic	(0.001)	0.100	(0.008)	(0.035)
- Diluted	(0.001)	0.100	(0.008)	(0.035)

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.

CASH DISTRIBUTIONS

The stated policy of LREIT is to distribute cash to the Unitholders, on a quarterly basis, in an amount which is approximately equal to 90% of the annual “Distributable Income” of the Trust. Distributable income is equal to the net income of LREIT, as determined in accordance with GAAP, subject to certain adjustments for non-cash transactions, such as adding back amortization expense for income properties and intangible assets and converting interest expense on debentures to a cash basis.

Distributable income is a non-GAAP measure, however, and excludes other transactions which LREIT takes into consideration in its determination of cash distributions. Specifically, the source of funding for LREIT has primarily been cash from operations, as follows:

	Three Months Ended March 31	
	2005	2004
Net loss	$ (274,461)	$ (171,997)
Add (deduct):		
Total amortization expense	560,584	226,087
Amortization of tenant inducements and leasing expenses	(77,780)	(58,383)
Accretion on debt component of convertible debentures	687,043	375,310
Interest paid on convertible debentures	(355,873)	(187,830)
Revenue adjustments	(21,389)	(18,643)
Unit-based compensation	2,847	2,847
Distributable income, per Note 18 of the financial statements	520,971	167,391
Amortization of tenant inducements and leasing expenses	77,780	58,383
Series C debentures issued re: interest	-	131,000
Cash from operations, per Statement of Cash Flows	598,751	356,774
Principal repayment of mortgage loans	(213,442)	(85,360)
Cash from operations, net of principal repayment of mortgage loans	385,309	271,414
Cash distribution	1,129,803	326,589
Working capital supplement	$ 744,494	$ 55,175

CAPITAL RESOURCES AND LIQUIDITY

Cash Reserves

The main sources of funds for LREIT are operating cash flows and the proceeds from convertible debenture and trust unit offerings. Mortgage loan financing serves primarily to reduce the equity component of new property acquisitions.

Since its inception, LREIT has demonstrated an ongoing ability to raise additional capital to fund new property acquisitions. LREIT commenced 2005 with a cash balance of $19.76 Million and raised an additional $17.5 Million of capital during the first quarter of 2005 from unit and debenture offerings, net of issue costs. The upward refinancing of the first mortgage loan of the Kenaston Property also resulted in cash proceeds of approximately $2.4 Million, net of refinancing costs. During the first quarter of 2005, the purchase price of new properties amounted to $10.7 Million, of which approximately $3.8 Million was funded from working capital and approximately $6.9 Million was funded by mortgage loan financing. Overall, cash inflows were significantly greater than cash outflows and at the end of the first quarter of 2005, the cash balance of LREIT increased to approximately $33.7 Million.

It is anticipated that cash reserves will be significantly reduced during the second quarter of 2005, as additional properties are acquired.

Working Capital Requirements

Cash Distributions

As noted in the "Cash Distributions" section of this report, working capital generated from the operating cash flow of LREIT, net of convertible debenture and mortgage loan payments, serves as the primary funding source for cash distributions.

As disclosed in the 2004 Annual Report, the operating cash flow of LREIT, net of convertible debenture and mortgage loan payments, is not expected to be sufficient to fully fund cash distributions in 2005. The anticipated shortfall mainly reflects a lag in the investment of new capital in additional income-producing properties, resulting in a variance between the incremental cost of new capital and the incremental cash flow from new property acquisitions. For the first quarter of 2005, the cash distribution amount exceeded operating cash flows, net of convertible debenture and mortgage loan payments, by $744,494. As additional property acquisitions are completed during 2005, it is anticipated that operating cash flows will gradually increase to a level which is sufficient to fully fund the cash distributions of the Trust.

Leasing Costs and Capital Expenditures

LREIT requires working capital in order to fund leasing costs and capital expenditures. During the first quarter of 2005, leasing costs and capital expenditures were minimal, amounting to approximately $62,000.

Convertible Debentures

The Series B debentures in the amount of $847,000 are due on August 30, 2005, while the Series C debentures in the amount of $9,631,000 are due on January 29, 2006. It is anticipated that the Series B debentures will be converted into units and that the Series C debentures will either be repaid from the proceeds of a new series of convertible debentures or converted into units. Accordingly, the maturity of the Series B and C debentures is not expected to have a significant impact on the working capital of LREIT.

RELATED PARTY TRANSACTIONS

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.

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.

The shift in the investment strategy of LREIT toward the acquisition of multi-family residential properties during 2004 has resulted in a property portfolio with a higher 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 Annual Information Form.

ADDITIONAL INFORMATION

Additional information relating to LREIT, including the Annual Information Form, is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2004 Annual Report of Lanesborough Real Estate Investment Trust and the delivery of the report to the Unitholders has been approved by the Trustees.

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
May 18, 2005

UNITHOLDER INFORMATION

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.

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

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

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.

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Email: info@lreit.com
Website: www.lreit.com

Unit Listing

TSX Venture Exchange
Unit trading symbol: LRT.UN

Unitholder and Investor Contact

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