



## LANESBOROUGH

REAL ESTATE INVESTMENT TRUST

2600 Seven Evergreen Place  
Winnipeg, Manitoba R3L 2T3  
Tel. 204.475.9090  
Fax. 204.475.5505

### LANESBOROUGH REAL ESTATE INVESTMENT TRUST

#### Press Release

#### LANESBOROUGH REAL ESTATE INVESTMENT TRUST REPORTS FINANCIAL RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2003.

Winnipeg, May 30, 2003 – Lanesborough Real Estate Investment Trust (LREIT) is pleased to report financial results for the first quarter ended March 31, 2003. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the first quarter report and the financial statements and the accompanying notes, which may be obtained from the LREIT website at [www.lreit.com](http://www.lreit.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

#### DISCUSSION OF OPERATING RESULTS

LREIT completed the first quarter 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.

#### 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.

Operating cost recoveries amounted to \$196,396 during the first quarter of 2003, while actual property operating costs amounted to \$232,951. 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.

#### 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. Specifically, interest income on the Minacs loan for the first quarter of 2003 was \$28,356.

#### 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.

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. 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%.

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.

## **DISTRIBUTABLE INCOME**

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.

## **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.

## **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.

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.

LREIT is a real estate investment trust, which has been listed on the TSX Venture Exchange under the symbol “LRT.UN” since September 9, 2002. LREIT’s objective is to provide Unitholders with stable and growing cash distributions from investment in a geographically diversified Canadian portfolio of quality properties with strong tenants. For further information on LREIT, please visit our website at [www.lreit.com](http://www.lreit.com).

*The TSX Venture Exchange has not reviewed or approved the contents of this press release.*

For further information: [Arni Thorsteinson](#), Chief Executive Officer, or [Gino Romagnoli](#), Investor Relations, Tel: (204) 475-9090, Fax: (204) 452-5505, Email: [info@lreit.com](mailto:info@lreit.com) .