



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REAL ESTATE INVESTMENT TRUST REPORTS FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED JUNE 30, 2003.

Winnipeg, August 29, 2003 – Lanesborough Real Estate Investment Trust (LREIT) is pleased to report financial results for the second quarter ended June 30, 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 or the SEDAR website at www.sedar.com.

DISCUSSION OF OPERATING RESULTS

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.

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. Specifically, interest income on the Minacs loan for the second quarter of 2003 was \$28,671.

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. 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.

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.

DISTRIBUTABLE INCOME

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.

The variance in the amount of distributable income is almost entirely due to the variance between actual and pro forma net income as discussed above.

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.

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.

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.

CAPITAL IMPROVEMENTS

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.

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.

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 FOR 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.

INVESTMENT FINANCING

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.

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.

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.

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.

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

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