



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST

Press Release

LANESBOROUGH REIT REPORTS 2010 OPERATING RESULTS

Winnipeg, Manitoba, March 29, 2011 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the year ended December 31, 2010. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with Management’s Discussion & Analysis and the financial statements for the year ended December 31, 2010, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

During 2010, LREIT incurred a loss from continuing operations, before taxes of \$20.46 million, compared to a loss of \$12.97 million during 2009. The \$7.49 million increase in the loss is mainly attributable to a decrease in operating income from the Fort McMurray properties as a result of the decline in market conditions, which occurred following the economic downturn in October 2008. Operating income from the Fort McMurray properties is lower in 2010, compared to 2009, as revenues declined on a gradual basis during 2009, while, in 2010, revenues remained at a comparatively lower level throughout the year.

For discontinued operations, LREIT completed 2010 with income of \$14.18 million, including a gain on the sale of five properties of \$12.67 million. This compared to 2009 income from discontinued operations of \$19.16 million, including a gain on the sale of 13 properties of \$21.06 million.

Overall, LREIT completed 2010 with a net loss of \$6.28 million, compared to a net income of \$3.50 million in 2009.

Cash outflow from operating activities for 2010 was \$4.22 million, representing a decrease of \$7.70 million, compared to cash flow of \$3.48 million in 2009. The decrease in cash flow generally corresponds to the decrease in operating income. Including cash flow from discontinued operations of \$2.39 million, the net cash outflow was \$1.83 million during 2010, representing a decrease of approximately \$4.4 million, compared to 2009.

Financing and Investing Activities

During 2010, LREIT continued to access additional funding to compensate for the decrease in operating cash flow and address its other funding commitments. Highlights in this regard, include the following:

- the sale of five properties generated net proceeds of \$17.56 million, net of mortgage debt and selling costs;
- the collection of mortgage loans receivable resulted in proceeds of \$10.09 million;
- the initial closing of the second mortgage bonds and warrants offering in December, 2010 generated net gross proceeds of \$12.64 million. At December 31, 2010, cash in escrow included \$8.95 million of proceeds from the closing of the December 2010 mortgage bonds and warrants offering that was held for the March 11, 2011 repayment of the Series F convertible debentures; and
- the revolving loan and bank line of credit generated \$10.31 million during 2010.

The proceeds noted above enabled LREIT to fund the cash outflow from operations of \$4.22 million; the repayment of the Series E debenture of \$11.95 million; monthly repayments of mortgage loans totalling \$7.79 million and establish an \$8.95 million escrow reserve for the partial repayment of the Series F debenture. Other funding requirements during 2010 included escrow deposits of approximately \$8.2 million, most of which pertains to mortgage loans that are in breach of debt service covenant requirements.

FINANCIAL AND OPERATING SUMMARY

	December 31	
	2010	2009
BALANCE SHEET		
Total assets	\$510,655,612	\$537,144,566
Total long-term financial liabilities ⁽¹⁾	\$399,193,205	\$434,576,262
	Year Ended December 31	
	2010	2009
DISTRIBUTIONS		
Distributions paid in units	\$ 8,814,286	\$ 19,504,206
Distributions paid in cash	-	1,530,736
Value of trust units issued under DRIP	-	104,343
Distributions paid on LP units	-	33,285
	\$ 8,814,286	\$ 21,172,570
Per unit	\$ 0.49	\$ 1.18
KEY FINANCIAL PERFORMANCE INDICATORS		
Operating Results		
Total revenue	\$ 32,345,063	\$ 40,054,671
Net operating income	\$ 19,880,816	\$ 27,327,326
Loss from continuing operations, before future income tax	\$(20,461,027)	\$(12,967,629)
Income (loss) and comprehensive loss	\$ (6,278,907)	\$ 3,497,073
Cash Flows		
Cash flow from operating activities, including discontinued operations	\$ (1,832,827)	\$ 2,601,301
Funds from Operations (FFO)	\$(10,123,539)	\$ (2,424,203)
Adjusted Funds from Operations (AFFO)	\$ (7,999,360)	\$ 1,899,181
Distributable income (loss)	\$ (3,995,724)	\$ 5,028,604
PER UNIT AMOUNTS		
Net operating income		
- basic	\$ 1.088	\$ 1.558
- diluted	\$ 0.836	\$ 1.102
Loss from continuing operations, before future income tax		
- basic	\$ (1.120)	\$ (0.739)
- diluted	\$ (1.120)	\$ (0.739)
Income (loss) and comprehensive income (loss)		
- basic	\$ (0.344)	\$ 0.199
- diluted	\$ (0.344)	\$ 0.199
Distributable income (loss)		
- basic	\$ (0.219)	\$ 0.287
- diluted	\$ (0.219)	\$ 0.287
Funds from Operations (FFO)		
- basic	\$ (0.554)	\$ (0.138)
- diluted	\$ (0.554)	\$ (0.138)
Adjusted Funds from Operations (AFFO)		
- basic	\$ (0.438)	\$ 0.108
- diluted	\$ (0.438)	\$ 0.108

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of the total of the mortgage loans payable as well as convertible debentures and second mortgage bonds, at face value.

2010 COMPARED TO 2009

Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease)	
	2010	2009	Amount	%
Rental revenue	\$ 31,385,914	\$ 39,662,949	\$ (8,277,035)	(20.9)%
Interest and other income	959,149	391,722	567,427	144.9%
Property operating costs	<u>12,464,247</u>	<u>12,727,345</u>	<u>(263,098)</u>	<u>(2.1)%</u>
Net operating income	19,880,816	27,327,326	(7,446,510)	(27.2)%
Trust expense	<u>3,035,583</u>	<u>2,760,536</u>	<u>275,047</u>	<u>10.0%</u>
Income before financing expense, amortization, and taxes	16,845,233	24,566,790	(7,721,557)	(31.4)%
Financing expense	<u>28,793,113</u>	<u>29,068,439</u>	<u>(275,326)</u>	<u>(0.9)%</u>
Loss before amortization and taxes	(11,947,880)	(4,501,649)	(7,446,231)	165.4%
Amortization	<u>8,513,147</u>	<u>8,465,980</u>	<u>47,167</u>	<u>0.6%</u>
Loss before future income tax	(20,461,027)	(12,967,629)	(7,493,398)	57.8%
Future income tax expense	-	2,698,804	(2,698,804)	(100.0)%
Loss from continuing operations	(20,461,027)	(15,666,433)	(4,794,594)	30.6%
Income from discontinued operations	<u>14,182,120</u>	<u>19,163,506</u>	<u>(4,981,386)</u>	<u>(26.0)%</u>
Income (loss) and comprehensive income (loss)	<u>\$ (6,278,907)</u>	<u>\$ 3,497,073</u>	<u>\$ (9,775,980)</u>	<u>(279.5)%</u>

Continuing Operations

LREIT incurred a loss from continuing operations, before taxes, of \$20.46 million during 2010, compared to a loss of \$12.97 million during 2009. The \$7.49 million increase in the loss reflects a decrease in net operating income from the Fort McMurray property portfolio, as a result of the decline in rental market conditions. The expiry of the "entire property" lease agreement at Lakewood Manor, effective May 31, 2010 and the associated rental abatement and rent credit, as well as the subsequent increase in the vacancy loss, also contributed to the reduction in operating income for the Fort McMurray property portfolio.

After including income from discontinued operations and future income tax expense, LREIT incurred a loss of \$6.28 million during 2010, compared to an income of \$3.50 million during 2009.

Discontinued Operations

LREIT generated income from discontinued operations of \$14.18 million during 2010, compared to income of \$19.16 million during 2009. The total decrease in income from discontinued operations during 2010 of \$4.98 million, reflects an \$8.39 million decrease in the gain from property sales due to fewer property sales during 2010, partially offset by a decrease in amortization charges of \$2.79 million.

Market Conditions

Analysis of Total Revenue from Income Properties

	Year Ended December 31					
			Increase (Decrease)		% of Total	
			Amount	%	2010	2009
	2010	2009				
Fort McMurray	\$24,151,855	\$32,753,694	\$ (8,601,839)	(26)%	76%	82%
Yellowknife	5,425,290	5,191,838	233,452	4%	17%	13%
Other	<u>2,042,040</u>	<u>2,082,276</u>	<u>(40,236)</u>	<u>(2)%</u>	<u>6%</u>	<u>5%</u>
Total	<u>\$31,619,185</u>	<u>\$40,027,808</u>	<u>\$ (8,408,623)</u>	<u>(21)%</u>	<u>100%</u>	<u>100%</u>

The decrease in revenue from the Fort McMurray portfolio reflects an increase in the vacancy loss as well as a decrease in the average rental rate. As noted in the charts below, the average monthly vacancy loss for the Fort McMurray portfolio increased from 22% during 2009, to 32% during 2010, while the average monthly rental rate decreased by 17.7% from \$2,842 to \$2,339.

Due to a number of factors, including the timing of lease expiry dates and the time lag between the decline in general economic conditions and the slowdown of new construction activity in the oil sands industry, the increase in the vacancy loss for the Fort McMurray property portfolio occurred on a gradual basis in 2009. As disclosed in the chart below, the vacancy loss for the Fort McMurray property portfolio increased from 10% in the first quarter of 2009 to 31% in the fourth quarter of 2009. During 2010, the fluctuation in the quarterly vacancy loss was minimal, with the vacancy loss increasing from an average of 30% during the first half of the year to 33% during the second half of the year.

The increase in the vacancy loss for the Fort McMurray property portfolio in the second half of 2010 mainly reflects the expiry of the corporate lease agreement for 111 apartments in Lakewood Manor effective May 31, 2010. Following the expiry of the lease agreement there was a marked increase in vacancy loss at Lakewood Manor and a corresponding increase in the average vacancy loss for the Fort McMurray property portfolio. Given the current state of rental market conditions in Fort McMurray, the vacancy loss for the Fort McMurray property portfolio is expected to remain near current levels for the first half of 2011. During the second half of 2011, the vacancy loss is expected to improve.

Analysis of Vacancy Loss for Income Properties

	2010				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	30%	30%	33%	33%	32%
Yellowknife	- %	- %	1%	- %	- %
Other	9%	9%	7%	7%	8%
Total	25%	24%	27%	27%	26%
	2009				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	10%	18%	30%	31%	22%
Yellowknife	- %	1%	1%	0%	1%
Other	2%	5%	7%	8%	6%
Total	9%	15%	26%	26%	19%

Analysis of Average Monthly Rents for Income Properties

	2010				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	\$2,495	\$2,143	\$2,380	\$2,338	\$2,339
Yellowknife	\$1,941	\$1,915	\$1,936	\$1,889	\$1,923
Other	\$753	\$761	\$857	\$858	\$855
Total	\$2,114	\$1,958	\$2,135	\$2,097	\$2,103
	2009				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	\$2,993	\$2,904	\$2,733	\$2,595	\$2,842
Yellowknife	\$1,810	\$1,828	\$1,990	\$1,838	\$1,865
Other	\$728	\$739	\$843	\$844	\$839
Total	\$2,530	\$2,502	\$2,400	\$2,277	\$2,461

Analysis of Net Operating Income and Operating Margins

	Net Operating Income							
	Year Ended December 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2010	2009	Amount	%	2010	2009	2010	2009
Fort McMurray	\$14,740,112	\$ 22,936,293	\$(8,196,181)	(36)%	74%	84%	61%	70%
Yellowknife	3,236,846	3,073,370	163,476	5%	16%	11%	60%	59%
Other	<u>1,177,980</u>	<u>1,290,800</u>	<u>(112,820)</u>	(9)%	<u>6%</u>	<u>5%</u>	<u>58%</u>	<u>62%</u>
	19,154,938	27,300,463	(8,145,525)	(30)%	96%	100%	61%	68%
Trust	<u>725,878</u>	<u>26,863</u>	<u>699,015</u>	2,602%	<u>4%</u>	<u>-%</u>	<u>2%</u>	<u>-%</u>
Total	<u>\$19,880,816</u>	<u>\$ 27,327,326</u>	<u>\$(7,446,510)</u>	<u>(27)%</u>	<u>100%</u>	<u>100%</u>	<u>63%</u>	<u>68%</u>

COMPARISON TO PREVIOUS QUARTER

Analysis of Loss Fourth Quarter 2010 vs. Third Quarter 2010

	Three Months Ended		Increase (Decrease)	
	December 31, 2010	September 30, 2010	Amount	%
Rental revenue	\$7,592,215	\$7,759,469	\$(167,254)	(2.2)%
Interest and other income	423,237	172,433	250,804	145.5%
Property operating costs	<u>3,092,880</u>	<u>2,865,297</u>	<u>227,583</u>	<u>7.9%</u>
Net Operating Income	4,922,572	5,066,605	(144,033)	(2.8)%
Trust expense	<u>723,855</u>	<u>657,467</u>	<u>66,388</u>	<u>10.1%</u>
Income before financing expense, amortization, and taxes	4,198,717	4,409,138	(210,421)	(4.8)%
Financing expense	<u>10,547,966</u>	<u>5,713,882</u>	<u>4,834,084</u>	<u>84.6%</u>
Income (loss) before amortization	(6,349,249)	(1,304,744)	(5,044,505)	386.6%
Amortization	<u>2,130,105</u>	<u>2,129,770</u>	<u>335</u>	<u>-%</u>
Loss from continuing operations for the period	(8,479,354)	(3,434,514)	(5,044,840)	146.9%
Income from discontinued operations for the period	<u>1,244,612</u>	<u>4,691,563</u>	<u>(3,446,951)</u>	<u>(73)%</u>
Income (loss) and comprehensive income (loss) for the period	<u>\$(7,234,742)</u>	<u>\$1,257,049</u>	<u>\$(8,491,791)</u>	<u>(675.5)%</u>

During the fourth quarter of 2010, LREIT incurred a loss from continuing operations of \$8.48 million, compared to a loss of \$3.43 million during the third quarter of 2010, representing an increase in the loss of \$5.04 million. The increase in the loss from continuing operations mainly reflects an increase in financing expense of \$4.83 million, which mainly reflects the following factors:

- an increase in accretion of \$1.89 million and an increase in amortization of \$0.84 million related to the early repayment of the March 2010 mortgage bonds;
- a decrease in the amount of the financing expense related to the change in value of interest rate swap arrangements of \$1.08 million; and
- an increase in amortization of mortgage transaction costs of \$0.83 million, the majority of which pertains to the amortization of fees which were incurred on the mortgage loans that are in breach of debt service coverage requirements.

All of the above-noted expenses are part of the non-cash component of financing expense. After excluding the non-cash component, financing expense increased by \$0.12 million during the fourth quarter of 2010.

Including income from discontinued operations, LREIT completed the fourth quarter of 2010 with a loss of \$7.23 million, compared to an income of \$1.26 million during the third quarter of 2010. Income from discontinued operations was \$1.24 million during the fourth quarter of 2010, compared to \$4.69 million during the third quarter

of 2010. Excluding the \$0.83 million relating to the gain on sale during the fourth quarter of 2010 and the \$4.25 million gains on sale in the third quarter of 2010, income from discontinued operations was \$0.41 million in the fourth quarter, compared to \$0.44 million in the third quarter

OUTLOOK

Key Financing Issues

The proceeds of the mortgage bonds and warrants issue, combined with additional advances from the revolving loan, enabled LREIT to retire the Series F convertible debenture debt of approximately \$13.68 million on March 11, 2011.

The Series G convertible debentures in the approximate amount of \$25.55 million mature on December 31, 2011. Management projects that LREIT may generate sufficient proceeds from additional property sales, and/or upward refinancing of mortgage loans, to repay all or a portion of the Series G debentures on maturity. LREIT, however, also has the option to repay the principal amount of the Series G debentures by issuing additional trust units.

LREIT is also continuing to address covenant breaches on individual mortgage loans totalling approximately \$185.9 million. Management's expectation is that all of the covenant breaches will be resolved through forbearance agreements, waivers or modified loan terms. Additional cash deposits may also be required for the loans and additional fees may be incurred in regard to the forbearance agreements.

Property Sales

During 2011, LREIT is pursuing the sale of its four seniors housing complexes, as well as other properties. The timing of additional property sales will be a key factor in regard to reducing overall debt levels and interest costs and achieving an improvement in operating income and operating cash flow.

Rental Operations

Based on the growth in the level of construction activity in the oil sands industry, the Fort McMurray property portfolio is expected to experience improved occupancy levels in 2011 and achieve an increase in rental revenue. LREIT may, however, continue to require other sources of capital to address debt obligations and property improvements.

ABOUT LREIT

LREIT is a real estate investment trust, which is listed on the Toronto Stock Exchange under the symbols LRT.UN (Trust Units), LRT.DB.G (Series G Convertible Debentures), LRT.NT.A (Second Mortgage Bonds due December 24, 2015), LRT.WT (Warrants expiring March 9, 2015) and LRT.WT.A (Warrants expiring December 23, 2015). The objective of LREIT is to provide Unitholders with stable cash distributions from investment in a diversified portfolio of quality real estate properties. For further information on LREIT, please visit our website at www.lreit.com.

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This press release contains certain statements that 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.

The Toronto Stock Exchange has not reviewed or approved the contents of this press release and does not accept responsibility for the adequacy or accuracy of this press release.