



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2010 THIRD QUARTER RESULTS

Winnipeg, Manitoba, November 10, 2010 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended September 30, 2010. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the Management Discussion & Analysis and the financial statements for the quarter September 30, 2010, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

During the third quarter of 2010, LREIT incurred a loss from continuing operations \$3.43 million, which was virtually unchanged in comparison to the loss from continuing operations of \$3.45 million in the third quarter of 2009. The slight decrease in the loss mainly reflects a decrease in financing expense, offset by a decrease in operating income. The decrease in operating income mainly reflects a decrease in the overall occupancy level of the Fort McMurray property portfolio as a result of the May 31, 2010 expiry of the corporate lease agreement for 100% of Lakewood Manor. The expiry of the lease agreement resulted in a corresponding decrease in the average occupancy level of the entire property portfolio. Lakewood Manor is currently 51% occupied. The decrease in financing expense is mainly due to a decrease in "non-cash" financing charges related to the change in value of interest swap arrangements.

LREIT completed the third quarter of 2010, with a cash outflow from operating activities, before changes in non-cash operating items, of \$1.49 million, representing a decrease of \$0.98 million, compared to the third quarter of 2009. The decrease mainly reflects a decrease in operating income, on a cash basis and, to a lesser extent, an increase in financing expense, on a cash basis. After providing for changes in non-cash operating items, as well as the net cash outflow from financing and investing activities, LREIT completed the third quarter of 2010 with a net cash outflow from continuing operations of \$2.45 million. Cash inflows from investing and financing activities include \$6.34 million from the collection of a mortgage loan receivable, \$2.06 million from new mortgage financing and additional advances on the revolving loan commitment and line of credit of \$1.35 million. Cash outflows from investing and financing activities include \$1.45 million of regular mortgage loan principal payments, the retirement of \$4.50 million of second mortgage loan financing, an increase in restricted cash of \$2.01 million and the investment of \$3.34 million in a defeasance asset.

Discontinued Operations

During the third quarter of 2010, LREIT completed the sale of a two apartment properties, resulting in combined gain on sale of \$4.25 million. After accounting for the gain on sale and the income from the rental operation on "held for sale" properties, LREIT completed the third quarter of 2010 with income from discontinued operations of \$4.69 million.

The two property sales generated net cash proceeds of \$6.88 million. After accounting for mortgage loan repayments of \$4.31 million and the net cash outflow from other investing and financing activities, LREIT completed the third quarter of 2010 with a net cash inflow from discontinued operations of \$2.22, which effectively served to fund the net cash outflow from continuing operations of \$2.45 million.

Year-to-Date Results

During the first nine months of 2010, income from the discontinued operations exceeded the loss from continuing operations by \$0.96 million, primarily due to the sale of four properties and the resulting gain on sale of \$11.84 million.

In comparison, the net cash outflow from continuing operations exceeded the total cash inflows from discontinued operations by \$2.06 million during the first nine months of 2010, largely due to the extent of long-term debt repayments and an increase in mortgage loan escrow deposits. The cash shortfall was funded from existing cash resources.

FINANCIAL AND OPERATING SUMMARY

	September 30 <u>2010</u>	December 31 <u>2009</u>
BALANCE SHEET		
Total assets	\$516,217,762	\$537,144,566
Total long-term financial liabilities	\$402,783,959	\$434,466,995

	Three Months Ended <u>September 30</u>		Nine Months Ended <u>September 30</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
DISTRIBUTIONS				
Distributions paid in cash	\$ -	\$ -	\$ -	\$ 1,530,736
Value of trust units issued under DRIP	-	-	-	104,343
Distributions paid on LP units	-	-	-	33,285
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,668,364</u>
Per unit	\$ -	\$ -	\$ -	\$ 0.09

KEY FINANCIAL PERFORMANCE INDICATORS

Operating Results

Total revenue	\$ 7,931,902	\$ 8,966,037	\$ 24,329,611	\$ 31,594,052
Net operating income	\$ 5,066,605	\$ 5,882,896	\$ 14,958,244	\$ 21,856,702
Loss from continuing operations, before future income tax	\$(3,434,514)	\$(3,455,124)	\$(11,981,673)	\$(11,522,583)
Income (loss) and comprehensive loss	\$ 1,257,049	\$(3,146,599)	\$ 955,835	\$(15,634,045)

Cash Flows

Cash flow from operating activities, including discontinued operations	\$ (756,804)	\$ 380,597	\$ (559,253)	\$ 4,159,969
Funds from Operations (FFO)	\$ (696,386)	\$ (265,623)	\$ (4,093,996)	\$(3,062,019)
Adjusted Funds from Operations (AFFO)	\$(1,339,957)	\$ 179,236	\$ (4,400,175)	\$ 1,421,735
Distributable income (loss)	\$ (773,257)	\$ 645,570	\$ (2,591,856)	\$ 3,219,854

PER UNIT AMOUNTS

Net operating income								
- basic	\$	0.277	\$	0.334	\$	0.820	\$	1.251
- diluted	\$	0.213	\$	0.230	\$	0.630	\$	0.865
Loss from continuing operations, before future income tax								
- basic	\$	(0.188)	\$	(0.196)	\$	(0.657)	\$	(0.660)
- diluted	\$	(0.188)	\$	(0.196)	\$	(0.657)	\$	(0.660)
Income (loss) and comprehensive income (loss)								
- basic	\$	0.069	\$	(0.179)	\$	0.052	\$	(0.895)
- diluted	\$	0.069	\$	(0.179)	\$	0.052	\$	(0.895)
Distributable income (loss)								
- basic	\$	(0.042)	\$	0.036	\$	(0.142)	\$	0.184
- diluted	\$	(0.042)	\$	0.032	\$	(0.142)	\$	0.171
Funds from Operations (FFO)								
- basic	\$	(0.038)	\$	(0.015)	\$	(0.225)	\$	(0.175)
- diluted	\$	(0.038)	\$	(0.015)	\$	(0.225)	\$	(0.175)
Adjusted Funds from Operations (AFFO)								
- basic	\$	(0.073)	\$	0.010	\$	(0.241)	\$	0.081
- diluted	\$	(0.073)	\$	0.006	\$	(0.241)	\$	0.071

(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)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2010	2009	2010	2009
Rental revenue	\$ 7,759,469	\$ 8,909,457	\$ 23,793,699	\$ 31,255,021
Interest and other income	172,433	56,580	535,912	339,031
Property operating costs	<u>2,865,297</u>	<u>3,083,141</u>	<u>9,371,367</u>	<u>9,737,350</u>
Net operating income	5,066,605	5,882,896	14,958,244	21,856,702
Trust expense	<u>657,467</u>	<u>710,801</u>	<u>2,311,728</u>	<u>2,117,078</u>
Income before financing expense, amortization, and taxes	4,409,138	5,172,095	12,646,516	19,739,624
Financing expense	<u>5,713,882</u>	<u>6,505,543</u>	<u>18,245,147</u>	<u>24,919,791</u>
Income before amortization and taxes	(1,304,744)	(1,333,448)	(5,598,631)	(5,180,167)
Amortization	<u>2,129,770</u>	<u>2,121,676</u>	<u>6,383,042</u>	<u>6,342,416</u>
Loss before future income tax	(3,434,514)	(3,455,124)	(11,981,673)	(11,522,583)
Future income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,698,804</u>
Loss from continuing operations	(3,434,514)	(3,455,124)	(11,981,673)	(14,221,387)
Income (loss) from discontinued operations	<u>4,691,563</u>	<u>308,525</u>	<u>12,937,508</u>	<u>(1,412,658)</u>
Income (loss) and comprehensive income (loss)	<u>\$ 1,257,049</u>	<u>\$ (3,146,599)</u>	<u>\$ 955,835</u>	<u>\$ (15,634,045)</u>

Continuing Operations

Three-Month Comparatives

LREIT incurred a loss from continuing operations before taxes of \$3.43 million during the third quarter of 2010, compared to a loss from continuing operations before taxes of \$3.45 million during the third quarter of 2009, representing a decrease in the loss from continuing operations before taxes of approximately \$20,000. The decrease in the loss mainly reflects:

- A decrease in financing expense that was mainly due to a decrease in financing charges related to mortgage loans and convertible debentures, partially offset by an increase in financing charges related to mortgage bonds.
- A decrease in operating income that was mainly due to the decrease in operating income from the property portfolio in Fort McMurray, 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, also resulted in an increase in the vacancy loss of the property in the third quarter of 2010 and served to increase the overall vacancy loss of the Fort McMurray property portfolio.

After including income from discontinued operations and future income tax expense, LREIT recorded an income of \$1.26 million during the third quarter of 2010, compared to a loss of \$3.15 million during the third quarter of 2009.

Nine-Month Comparatives

LREIT incurred a loss from continuing operations before taxes of \$11.98 million during the first nine months of 2010, compared to a loss from continuing operations before taxes of \$11.52 million during the first nine months of 2009, representing an increase in the loss from continuing operations of \$0.46 million. The increase in the loss is comprised of a decrease in the loss for the third quarter of 2010 of \$20,000, an increase in the loss for the second quarter of 2010 of \$0.85 million and a decrease in the loss for the first quarter of 2010 of \$0.37 million. The variation in the amount in which the loss increased or decreased in each quarter mainly reflects quarterly variations in operating income and financing expense.

The quarterly variation in financing expense is mainly due to two factors:

- variations in the comparative change in the value of interest rate swap agreements; and
- quarterly variations in interest expense associated with the amount payable on Parsons Landing.

The variation in operating income is also mainly due to two factors:

- during the second quarter of 2010, the provision of a rental abatement and rent credit at the expiry of the "entire property" lease agreement at Lakewood Manor served to reduce rental revenue by \$1 Million; and
- as market conditions in Fort McMurray declined on a gradual basis during 2009, the impact of the change in market conditions on operating income has become less significant over the course of 2010.

After including income from discontinued operations and future income taxes, LREIT recorded an income of \$0.96 million during the first nine months of 2010, compared to a loss of \$15.63 million during the first nine months of 2009.

Discontinued Operations

LREIT generated income from discontinued operations of \$12.94 million during the first nine months of 2010, compared to a loss of \$1.41 million during the first nine months of 2009. The total increase in income from discontinued operations during the first nine months of 2010 of \$14.35 million is mainly attributable to the first and third quarters of the year, which corresponds to the timing of property sales and the recognition of the associated gains on sales.

Market Conditions

Fort McMurray (13 properties)

Accounting for approximately 74% of the total available rental units, the Fort McMurray property portfolio represents the most significant revenue component in LREIT's continuing operations. As a result of the downturn in the global economy in October 2008, there was a reduction in the level of activity in the oil sands construction industry resulting in a weakening of rental market conditions in Fort McMurray. The decline in rental market conditions has resulted in lower rental rates and a reduction in

occupancy levels of LREIT's property portfolio in Fort McMurray. Although development activity in the oil sands industry is improving, the expectation is that the economic recovery in Fort McMurray may occur gradually.

Yellowknife (Two Properties)

Yellowknife has experienced a stable market for rental accommodation since the beginning of 2009. The overall vacancy rate has remained at a low level, and the average overall monthly rental rate for the Yellowknife rental market has increased since the beginning of 2009.

Other Locations (Four Properties)

The four "other" properties consist of three residential rental properties and one commercial property. The commercial property is 100% leased to a single tenant until February 28, 2022. The overall vacancy loss for the three residential rental properties has gradually increased since the beginning of 2009, primarily due to an increase in the vacancy loss for the rental property in Edson, Alberta.

Analysis of Total Revenue from Income Properties

	Three Months Ended September 30			Nine Months Ended September 30		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Fort McMurray	\$ 5,970,350	\$7,079,223	\$(1,108,873)	\$18,401,440	\$26,096,931	\$(7,695,491)
Yellowknife	1,343,524	1,371,582	(28,058)	4,103,562	3,910,037	193,525
Other	<u>523,031</u>	<u>515,067</u>	<u>7,964</u>	<u>1,524,638</u>	<u>1,568,049</u>	<u>(43,411)</u>
Total	<u>\$ 7,836,905</u>	<u>\$ 8,965,87</u>	<u>\$(1,128,967)</u>	<u>\$24,029,640</u>	<u>\$31,575,017</u>	<u>\$(7,545,377)</u>

Analysis of Vacancy Loss

	2010				9 Month Average	12 Month Average
	Q1	Q2	Q3	Q4		
Fort McMurray	30%	30%	33%		31%	
Yellowknife	-%	-%	1%		-%	
Other	9%	9%	7%		9%	
Total	25%	24%	27%		26%	

	2009					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	10%	18%	30%	19%	31%	22%
Yellowknife	-%	1%	1%	1%	1%	1%
Other	2%	5%	7%	5%	6%	4%
Total	9%	15%	26%	17%	25%	18%

Analysis of Average Monthly Rents

	2010				2009	
	Q1	Q2	Q3	9 Month	Q4	12 Month
				Average		Average
Fort McMurray	\$2,495	\$2,143	\$2,380	\$2,339	\$2,595	\$2,806
Yellowknife	\$1,941	\$1,915	\$1,936	\$1,934	\$1,854	\$1,863
Other	\$753	\$761	\$857	\$854	\$743	\$738
Total	\$2,114	\$1,958	\$2,135	\$2,104	\$2,166	\$2,308

Analysis of Operating Margin - Income Properties

	Operating Margin			
	Three Months		Nine Months	
	Ended September		Ended September	
	30		30	
	2010	2009	2010	2009
Fort McMurray	64%	66%	62%	71%
Yellowknife	65%	63%	61%	60%
Other	55%	63%	54%	63%
Total	63%	66%	61%	69%

Overall, the operating margin for the property portfolio decreased from 66% during the third quarter of 2009, to 63% during the third quarter of 2010. The decline in the operating margin is primarily due to a decline in the profitability of the Fort McMurray property portfolio.

COMPARISON TO PREVIOUS QUARTER

Analysis of Loss -Third Quarter 2010 vs. Second Quarter 2010

	Three Months Ended		Increase (Decrease)	
	September 30, 2010	June 30, 2010	Amount	%
Rental revenue	\$ 7,759,469	\$ 7,609,363	\$ 150,106	2.0%
Interest and other income	172,433	158,001	14,432	9.1%
Property operating costs	<u>2,865,297</u>	<u>2,996,832</u>	<u>(131,535)</u>	<u>(4.4)%</u>
Net Operating Income	5,066,605	4,770,532	296,073	6.2%
Trust expense	<u>657,467</u>	<u>957,472</u>	<u>(300,005)</u>	<u>(31.3)%</u>
Income before financing expense, amortization, and taxes	4,409,138	3,813,060	596,078	15.6%
Financing expense	<u>5,713,882</u>	<u>6,107,325</u>	<u>(393,443)</u>	<u>(6.4)%</u>
Income (loss) before amortization	(1,304,744)	(2,294,265)	989,521	(43.1)%
Amortization	<u>2,129,770</u>	<u>2,127,951</u>	<u>1,819</u>	<u>0.1%</u>
Loss from continuing operations for the period	(3,434,514)	(4,422,216)	987,702	(22.3)%
Income from discontinued operations for the period	<u>4,691,563</u>	<u>490,982</u>	<u>4,200,581</u>	<u>856%</u>
Income (loss) and comprehensive income (loss) for the period	<u>\$ 1,257,049</u>	<u>\$ (3,931,234)</u>	<u>\$ 5,188,283</u>	<u>(132.0)%</u>

During the third quarter of 2010, LREIT incurred a loss from continuing operations of \$3.43 million, compared to a loss from continuing operations of \$4.42 million during the second quarter, representing a decrease in the loss from continuing operations of \$0.99 million. The decrease mainly reflects an increase in net operating income of \$0.30 million combined with decreases in trust and financing expense of \$0.30 million and \$0.39 million, respectively.

The increase in net operating income mainly reflects a 0.30 million increase in the net operating income of the Fort McMurray property portfolio during the third quarter of 2010. The increase in the NOI for the Fort McMurray portfolio mainly reflects the fact that the revenue for the Fort McMurray portfolio was comparatively low during the second quarter of 2010, as a result of the rental abatement and rent credit provision for Lakewood Manor.

The decrease in financing expense reflects a reduction in the mortgage loan debt as well as a decrease in the interest rate of variable rate mortgage loan financing. The decrease in trust expense is mainly due to trust expense being comparatively high during the second quarter, as a result of a prepayment discount of \$0.21 million on the settlement of a mortgage loan receivable being included in trust expense.

After providing for income from discontinued operations, LREIT completed the third quarter of 2010 with income of \$1.26 million, compared to a loss of \$3.93 million during the second quarter. The bottom-line results for the third quarter of 2010 reflect income from discontinued operations of \$4.69 million, compared to \$0.49 million during the second quarter. Excluding the \$3.91 million relating to gains on sale, compared to nil in the second quarter, income from discontinued operations was \$0.78 million compared to \$0.49 million in the second quarter.

OUTLOOK

Sources of Cash

For the fourth quarter of 2010 and into 2011, the sale of properties is expected to continue to serve as main source of capital for LREIT. In this regard, LREIT completed the sale of a 50-suite townhouse property in Yellowknife, NWT on November 1, 2010. The net cash proceeds, after accounting for

expenses and the assumption of mortgage debt, of approximately \$4.15 million were used to partially repay the mortgage bond liability.

Key Financing Issues

Although LREIT continues to experience a delay in obtaining sufficient financing to complete the closing of a 160-suite apartment development in Fort McMurray (Parsons Landing), the payment extension deadline has been extended from January 3, 2011 to June 30, 2011. LREIT is also continuing to address the breach of debt service coverage covenants for approximately \$145 million of mortgage loan debt. The expectation is that all of the covenant breaches will be resolved through forbearance agreements, waivers or modified loan terms.

During the first nine months of 2010, approximately \$41.8 million of the mortgage loan debt matured and all of the debt was renewed, refinanced or repaid/eliminated on the sale of properties, with the exception of one of the "breach of covenant" mortgage loans in the amount of \$18.5 million which matured on July 18, 2010. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

Subsequent to September 30, 2010, \$33.3 million of the mortgage loan debt has matured. After applying \$0.4 million of sale proceeds to one of the maturing loans, renewal or replacement financing has been arranged for \$15.5 million. The remaining \$17.4 million loan is one of the "breach of covenant" mortgage loans. The lender has offered an extension of forbearance to January 15, 2011 and the terms are being finalized.

Divestiture Program

As of September 30, 2010, LREIT has seven properties, which are designated for sale under LREIT's divestiture sales program, excluding the apartment property in Yellowknife, NWT, which was sold on November 1, 2010. The gross selling prices and net cash proceeds of the seven properties are estimated to total \$150.6 million and \$65.1 million, respectively. The proceeds from the sale of the properties are expected to be sufficient to enable LREIT to meet all of its funding requirements through 2011.

Rental Operations

During the nine-month period ended September 30, 2010, the Fort McMurray property portfolio accounted for approximately 77% of the net operating income. Occupancy levels in Fort McMurray are approximately 70%. Management believes that the Fort McMurray rental housing market will demonstrate higher occupancy rates in future years as the oil sands industry continues to increase daily production and construct additional capacity in the Fort McMurray region. Engineering and procurement activities related to a number of these expansions are underway.

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.F (Series F Convertible Debentures), LRT.DB.G (Series G Convertible Debentures), LRT.NT (Second Mortgage Bonds) and LRT.WT (Warrants). 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.

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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.