



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2009 OPERATING RESULTS

Winnipeg, Manitoba, March 26, 2010 – 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 the December 31, 2010 Management 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.

LREIT initiated a divestiture program in 2009, with the objective of generating gross proceeds of \$250 million from the sale of selected properties. The divestiture program resulted in the sale of 13 properties being completed in the fourth quarter of 2009, at an aggregate gross selling price of \$90.4 million, and generated net cash proceeds of \$29.6 million.

The positive impact of the divestiture program is reflected in the overall income results for 2009. During 2009, LREIT generated total net income of \$3.5 million, compared to a loss in 2008 of \$9.6 million. The total income figures include \$19.0 million of income from discontinued operations in 2009 (including a \$21.1 million gain on the sale of properties), compared to a loss from discontinued operations of \$2.8 million in 2008.

The impact of the recession in Fort McMurray, Alberta due to the slowdown in the oil sands industry was the overriding variable affecting the operations in 2009. As LREIT's portfolio of income-producing properties is concentrated in Fort McMurray and as the Fort McMurray properties were achieving high rates of return during the booming economic period which preceded the market downturn, the recession resulted in a sharp decline in the operating income of specific properties in Fort McMurray and a corresponding decline in LREIT's overall results from continuing operations. From continuing operations, LREIT incurred a loss, before taxes, of \$12.8 million, compared to a loss, before taxes, of \$6.5 million in 2008.

Cash provided by discontinued operations (i.e., from property sales) amounted to \$7.8 million, after the retirement of \$17.1 million of interim mortgage loan debt. The cash provided by discontinued operations also enabled LREIT to temporarily repay \$9.8 million of its bank line of credit and revolving loan facility. As of December 31, 2009, the cash balance of LREIT, net of bank indebtedness, was \$4.3 million, compared to \$3.5 million as of December 31, 2008.

In summary, notwithstanding the negative impact of the recession on operating results, LREIT maintained liquidity during 2009, while also focusing on the longer-term objective of ensuring that it has the financial capability to meet its funding commitments

FINANCIAL AND OPERATING SUMMARY

	Year Ended December 31	
	2009	2008
DISTRIBUTIONS		
Distributions paid in cash	\$ 1,530,736	\$ 8,104,253
Value of trust units issued under DRIP	104,343	1,725,598
Distributions paid in units	19,504,206	-
Distributions paid on LP units	<u>33,285</u>	<u>199,705</u>
	<u>\$ 21,172,570</u>	<u>\$ 10,029,556</u>
Per unit	\$ 1.18	\$ 0.56
BALANCE SHEET		
Total assets	\$537,144,566	\$605,508,331
Total face value of mortgage loans payable and convertible debentures	\$434,576,262	\$507,554,133
KEY FINANCIAL PERFORMANCE INDICATORS		
Operating Results		
Total revenue	\$ 41,812,005	\$43,004,699
Net operating income	\$ 28,429,241	\$30,661,044
Loss from continuing operations, before future income tax	\$(12,779,925)	\$(6,542,200)
Income (loss) and comprehensive income (loss)	\$ 3,497,073	\$(9,607,056)
Cash Flows		
Cash flow from operating activities, including discontinued operations	\$ 2,601,301	\$12,415,514
Funds from Operations (FFO)	\$ (2,205,439)	\$ 3,155,394
Adjusted Funds from Operations (AFFO)	\$ 2,117,945	\$ 8,050,405
Distributable income	\$ 5,247,368	\$11,461,370
PER UNIT AMOUNTS		
Net operating income		
- basic	\$ 1.621	\$ 1.754
- diluted	\$ 1.146	\$ 1.200
Loss from continuing operations, before future income tax		
- basic	\$ (0.729)	\$ (0.374)
- diluted	\$ (0.729)	\$ (0.374)
Income (loss) and comprehensive income (loss)		
- basic	\$ 0.199	\$ (0.549)
- diluted	\$ 0.199	\$ (0.549)
Distributable income		
- basic	\$ 0.299	\$ 0.656
- diluted	\$ 0.299	\$ 0.592
Funds from Operations (FFO)		
- basic	\$ (0.126)	\$ 0.180
- diluted	\$ (0.126)	\$ 0.172
Adjusted Funds from Operations (AFFO)		
- basic	\$ 0.121	\$ 0.461
- diluted	\$ 0.121	\$ 0.437

2009 COMPARED TO 2008
Analysis of Income (Loss)

	Year Ended December 31		Increase (decrease)	
	2009	2008	Amount	%
Rental revenue	\$ 41,415,408	\$ 42,235,692	\$ (820,284)	(1.9)%
Interest and other income	396,597	769,007	(372,410)	(48.4)%
Property operating costs	<u>13,382,764</u>	<u>12,343,655</u>	<u>1,039,109</u>	<u>8.4%</u>
Net operating income	28,429,241	30,661,044	(2,231,803)	(7.3)%
Trust expense	<u>2,760,536</u>	<u>2,622,973</u>	<u>137,563</u>	<u>5.2%</u>
Income before financing expense, amortization, and taxes	25,668,705	28,038,071	(2,369,366)	(8.5)%
Financing expense	<u>29,584,709</u>	<u>27,492,765</u>	<u>2,091,944</u>	<u>7.6%</u>
Income before amortization and taxes	(3,916,004)	545,306	(4,461,310)	(818.1)%
Amortization	<u>8,863,921</u>	<u>7,087,506</u>	<u>1,776,415</u>	<u>25.1%</u>
Loss before future income tax	(12,779,925)	(6,542,200)	(6,237,725)	95.3%
Future income tax expense	<u>2,698,804</u>	<u>254,392</u>	<u>2,444,412</u>	<u>960.9%</u>
Income (loss) from continuing operations	(15,478,729)	(6,796,592)	(8,682,137)	127.7%
Income (loss) from discontinued operations	<u>18,975,802</u>	<u>(2,810,464)</u>	<u>21,786,266</u>	<u>(775.2)%</u>
Income (loss) and comprehensive income (loss)	<u>\$ 3,497,073</u>	<u>\$ (9,607,056)</u>	<u>\$ 13,104,129</u>	<u>(136.4)%</u>

Overall, including income from discontinued operations and future income tax expense, LREIT generated income of \$3.5 million during 2009, compared to a loss of \$9.6 million during 2008.

Continuing Operations

LREIT incurred a loss from continuing operations, before taxes, of \$12.8 million during 2009, compared to a loss from continuing operations, before taxes, of \$6.5 million during 2008, representing an increase of approximately \$6.3 million. The increase in the loss mainly reflects a decrease in NOI of \$2.2 million, an increase in financing expense of approximately \$2.1 million, and an increase in amortization charges of approximately \$1.8 million.

The decrease in operating income mainly reflects the decrease in operating income from the "same property" portfolio, partially offset by the incremental operating income associated with the three Fort McMurray properties which were added to the income-producing portfolio during 2008.

The increase in financing expense during 2009 is mainly due to three factors as follows:

- (i) an increase in interest expense associated with the amount payable for Parsons Landing of approximately \$2.3 million;
- (ii) an increase in mortgage loan interest of approximately \$1.6 million mainly due to incremental interest on the mortgage loans for Laird's Landing and Siena Apartments and an overall increase in the amount of interim financing for the income property portfolio; and
- (iii) a decrease in financing charges related to the change in the market value of interest rate swap agreements of approximately \$1.7 million.

	<u>Year Ended December 31</u>		<u>Increase (Decrease)</u>
	<u>2009</u>	<u>2008</u>	
Net operating income from continuing operations			
Fort McMurray properties	\$22,936,293	\$25,095,421	\$(2,159,128)
Other properties	5,466,085	5,115,854	350,231
Trust operations	<u>26,863</u>	<u>449,769</u>	<u>(422,906)</u>
Total	<u>\$28,429,241</u>	<u>\$30,661,044</u>	<u>\$(2,231,803)</u>

	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
Average vacancy loss		
Total - all properties	<u>18%</u>	<u>3%</u>
Fort McMurray properties	<u>22%</u>	<u>4%</u>
Average rental rate		
Total - all properties	<u>\$ 2,308</u>	<u>\$ 2,357</u>
Fort McMurray properties	<u>\$ 2,806</u>	<u>\$ 2,913</u>

Discontinued Operations

LREIT generated income from discontinued operations of \$19.0 million during 2009, compared to a loss of \$2.8 million during 2008. The income from discontinued operations includes a gain on sale of \$21.1 million in regard to the 13 properties, which were sold during 2009.

	<u>Properties Sold in 2009</u>	<u>Properties sold year to date 2010</u>	<u>Total</u>
Number of properties sold	<u>13</u>	<u>2</u>	<u>15</u>
Gross proceeds	<u>\$90,392,000</u>	<u>\$ 19,170,000</u>	<u>\$109,562,000</u>
Net proceeds	<u>\$29,631,650</u>	<u>\$ 6,394,969</u>	<u>\$36,026,619</u>

Net proceeds are after deducting take-back financing that LREIT has provided to the purchasers of certain properties totalling \$7.1 million for properties sold in 2009 and \$3 million for properties sold to date in 2010.

COMPARISON TO PRECEDING QUARTER

Analysis of Income (Loss) - Fourth Quarter 2009 vs. Third Quarter 2009

	Three Months Ended		Increase (decrease)	
	Dec. 31, 2009	Sept. 30, 2009	Amount	%
Rental revenue	\$ 8,852,092	\$ 9,347,201	\$ (495,109)	(5.3)%
Interest and other income	54,245	57,399	(3,154)	(5.5)%
Property operating costs	<u>3,173,645</u>	<u>3,233,706</u>	<u>(60,061)</u>	<u>(1.9)%</u>
Net Operating Income	5,732,692	6,170,894	(438,202)	(7.1)%
Trust expense	<u>643,461</u>	<u>710,801</u>	<u>(67,340)</u>	<u>(9.5)%</u>
Income before financing expense, amortization, and taxes	5,089,231	5,460,093	(370,862)	(6.8)%
Financing expense	<u>4,276,964</u>	<u>6,634,722</u>	<u>(2,357,758)</u>	<u>(35.5)%</u>
Income (loss) before amortization, and taxes	812,267	(1,174,629)	1,986,896	(169.2)%
Amortization	<u>2,225,574</u>	<u>2,223,052</u>	<u>2,522</u>	<u>0.1%</u>
Loss from continuing operations for the period	(1,413,307)	(3,397,681)	1,984,374	(58.4)%
Income from discontinued operations for the period	<u>20,544,425</u>	<u>251,082</u>	<u>20,293,343</u>	<u>8,082%</u>
Income (loss) and comprehensive income (loss) for the period	<u>\$ 19,131,118</u>	<u>\$ (3,146,599)</u>	<u>\$ 22,277,717</u>	<u>(708.0)%</u>

During the fourth quarter of 2009, LREIT incurred a loss from continuing operations, before taxes, of \$1.4 million, compared to a loss from continuing operations, before taxes, of \$3.4 million during the third quarter of 2009. The decrease in the loss from continuing operations mainly reflects a decrease in financing expense, partially offset by a decrease in net operating income.

The decrease in financing expense mainly reflects a decrease in interest charges on the balance owing in regard to Parsons Landing as the majority of the interest which was forgiven on the amount payable was recorded during the fourth quarter of 2009.

The decrease in net operating income mainly reflects a decrease in the net operating income of the Fort McMurray and Yellowknife property portfolios. The net operating income of the Fort McMurray and Yellowknife property portfolios decreased by approximately \$268,000 and \$150,000, respectively during the fourth quarter of 2009, compared to the third quarter of 2009.

The decrease in the NOI for the Fort McMurray portfolio is mainly due to a decrease in revenues as a result of a reduction in the monthly average rental rate. The decrease in the NOI for the Yellowknife portfolio is mainly due to increased energy and utility costs in addition to a decrease in revenue as a result of a reduction in monthly average rental rates.

After providing for income from discontinued operations, LREIT completed the fourth quarter of 2009 with income of \$19.1 million, compared to a loss of \$3.1 million during the third quarter of 2009. The bottom-line results for the fourth quarter of 2009 reflect income from discontinued operations of \$20.5 million (including \$21.1 million relating to gains on sale), compared to \$251,000 during the third quarter of 2009.

SUBSEQUENT EVENTS AND OUTLOOK

The main funding commitment at the outset of 2010 was the repayment of \$11.95 million of principal on maturity of the Series E convertible debentures on February 17, 2010. The amount owing was paid from existing cash resources and by utilizing \$9.8 million of funds from the bank line of credit and revolving loan facility. The cash resources, which were used for the repayment of the Series E convertible debentures, were effectively replenished at the beginning of March 2010 from the proceeds of two additional property sales and from the completion of a public offering of investment units comprised of bonds and warrants. The property sales generated net proceeds of \$6.4 million, while the gross proceeds from the public offering of investment units amounted to \$6.8 million. The completion of the debt offering is a positive indicator of the ability of LREIT to arrange financing. Management expects that the anticipated sale of additional properties in 2010 should enable LREIT to further improve its financial position.

The main factors affecting operating results for 2010 are:

- the extent to which rental market conditions improve in Fort McMurray;
- the ability of LREIT to arrange mortgage loan debt on income properties at an overall interest rate which is not significantly higher than the existing interest rates and cure mortgage covenant breaches; and
- the extent to which LREIT generates additional cash from property sales for the reduction of debt associated with continuing operations.

As a result of the steps which have been taken to address the risk factors, and after considering events which have occurred subsequent to December 31, 2009, including the repayment of the Series E debentures in February 2010; the issue of investment units; the renewal or refinancing of all mortgage loans which have matured to the date of this report in 2010; the completion of additional property sales in 2010 and the resulting reduction of additional debt, management believes that LREIT has the financial capacity to maintain stability.

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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