



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2010 FIRST QUARTER RESULTS

Winnipeg, Manitoba, May 13, 2010 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended March 31, 2010. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the March 31, 2010 Management Discussion & Analysis and the financial statements for the year quarter March 31, 2010, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

LREIT completed the first quarter of 2010 with net income of \$3.6 million, compared to a net loss of \$8.5 million during the first quarter of 2009. The sale of properties under the divestiture program, combined with the completion of a \$6.78 million second mortgage bond and warrant offering and the existing cash reserves, provided LREIT with sufficient cash resources to meet all of its funding requirements, including the repayment of the \$11.95 million of Series F convertible debenture debt and the supplemental funding of the net cash outflow from operational, investing and financing activities in continuing operations.

With respect to continuing operations, LREIT incurred a loss before income taxes of \$4.0 million, compared to a loss of \$4.3 million during the first quarter of 2009. The improvement in the loss from continuing operations before income taxes in the first quarter of 2010 mainly reflects a decrease in financing expense of approximately \$3.6 million, largely offset by a decrease in operating income of approximately \$3.3 million. The decrease in operating income is mainly attributable to the continuation of weak rental market conditions in Fort McMurray, Alberta, while approximately \$2.8 million of the decrease in financing expense is due to a quarterly adjustment to the carrying value of interest rate swap agreements. After excluding the adjustment to the carrying value of the interest rate swap agreements, financing expense decreased by approximately \$800,000 during the first quarter of 2010, compared to the first quarter of 2009.

In regard to operating cash flows, LREIT completed the first quarter of 2010 with a cash outflow from the operating activities of continuing operations of \$0.7 million, compared to a cash inflow from the operating activities of continuing operations of \$1.2 million, during the first quarter of 2009, representing a net decrease in operating cash flow of approximately \$1.9 million. The decrease mainly reflects the above mentioned decrease in operating income of \$3.3 million, partially offset by the decrease in financing expense, excluding the adjustment to the carrying value of the interest rate swap agreements.

With respect to discontinued operations, cash flow amounted to \$8.3 million during the first quarter of 2010, compared to \$583,494 during the first quarter of 2009. Income from discontinued operations was \$7.5 million during the first quarter of 2010, compared to a loss of \$1.5 million during the first quarter of 2009.

The extent of the increase in cash flow and income from discontinued operations mainly reflects the gain on sale and net proceeds generated from the sale of properties during the first quarter of 2010 under LREIT's divestiture program. In total, LREIT generated net cash proceeds of \$6.4 million from the sale of two properties during the first quarter of 2010, after accounting for expenses, the repayment of mortgage debt and the provision of \$3 million of second mortgage loan financing to the purchaser on one of the property sales.

FINANCIAL AND OPERATING SUMMARY

	March 31 <u>2010</u>	December 31 <u>2009</u>
BALANCE SHEET		
Total assets	\$525,474,894	\$537,144,566
Total long-term financial liabilities (1)	\$402,280,072	\$434,576,262
	<u>Three Months Ended March 31</u>	<u>2010</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>\$ 1,668,364</u>
Per unit	\$ -	\$ 0.09

KEY FINANCIAL PERFORMANCE INDICATORS

Operating Results

Total revenue	\$ 9,072,007	\$12,477,321
Net operating income	\$ 5,385,714	\$ 8,665,493
Loss from continuing operations, before future income tax	\$ (3,969,922)	\$(4,334,894)
Income (loss) and comprehensive income (loss)	\$ 3,577,214	\$(8,530,719)

Cash Flows

Cash flow from operating activities, including discontinued operations	\$ (100,144)	\$ 3,068,814
Funds from Operations (FFO)	\$(1,284,902)	\$(2,094,073)
Adjusted Funds from Operations (AFFO)	\$ (791,996)	\$ 907,644
Distributable income (loss)	\$ (319,143)	\$ 1,538,567

(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.

PER UNIT AMOUNTS

Net operating income		
- basic	\$ 0.297	\$ 0.496
- diluted	\$ 0.226	\$ 0.344
Loss from continuing operations, before future income tax		
- basic	\$ (0.219)	\$ (0.248)
- diluted	\$ (0.219)	\$ (0.248)
Income (loss) and comprehensive income (loss)		
- basic	\$ 0.197	\$ (0.488)
- diluted	\$ 0.197	\$ (0.488)
Distributable income (loss)		
- basic	\$ (0.018)	\$ 0.088
- diluted	\$ (0.018)	\$ 0.084
Funds from Operations (FFO)		
- basic	\$ (0.071)	\$ (0.120)
- diluted	\$ (0.071)	\$ (0.120)
Adjusted Funds from Operations (AFFO)		
- basic	\$ (0.044)	\$ 0.052
- diluted	\$ (0.044)	\$ 0.049

2010 COMPARED TO 2009**Analysis of Income (Loss)**

	Three Months Ended March 31		Increase (decrease)	
	2010	2009	Amount	%
Rental revenue	\$ 8,863,379	\$ 12,271,439	\$ (3,408,060)	(27.8)%
Interest and other income	208,628	205,882	2,746	1.3%
Property operating costs	<u>3,686,293</u>	<u>3,811,828</u>	<u>(125,535)</u>	<u>(3.3)%</u>
Net operating income	5,385,714	8,665,493	(3,279,779)	(37.8)%
Trust expense	<u>696,790</u>	<u>744,190</u>	<u>(47,400)</u>	<u>(6.4)%</u>
Income before financing expense, amortization, and taxes	4,688,924	7,921,303	(3,232,379)	(40.8)%
Financing expense	<u>6,431,439</u>	<u>10,058,947</u>	<u>(3,627,508)</u>	<u>(36.1)%</u>
Income before amortization and taxes	(1,742,515)	(2,137,644)	395,129	(18.5)%
Amortization	<u>2,227,407</u>	<u>2,197,250</u>	<u>30,157</u>	<u>1.4%</u>
Loss before future income tax	(3,969,922)	(4,334,894)	364,972	(8.4)%
Future income tax expense (recovery)	<u>-</u>	<u>2,698,804</u>	<u>(2,698,804)</u>	<u>(100.0)%</u>
Income (loss) from continuing operations	(3,969,922)	(7,033,698)	3,063,776	(43.6)%
Income (loss) from discontinued operations	<u>7,547,136</u>	<u>(1,497,021)</u>	<u>9,044,157</u>	<u>(604.1)%</u>
Income (loss) and comprehensive income (loss)	<u>\$ 3,577,214</u>	<u>\$ (8,530,719)</u>	<u>\$ 12,107,933</u>	<u>(141.9)%</u>

Overall, LREIT generated income of \$3.6 million during the first quarter of 2010, compared to a loss of \$8.5 million during the first quarter of 2009.

Continuing Operations

LREIT incurred a loss from continuing operations before taxes of \$4.0 million during the first quarter of 2010, compared to a loss from continuing operations before taxes of \$4.3 million during the first quarter of 2009, representing a decrease in the loss from continuing operations before taxes of approximately \$0.4 million. The decrease in the loss mainly reflects a decrease in financing expense of approximately \$3.6 million, largely offset by a decrease in operating income of \$3.3 million. The decrease in operating income mainly reflects the decrease in operating income from the property portfolio in Fort McMurray. The decrease in financing expense is mainly due to a decrease in financing charges related to the change in the market value of interest rate swap agreements and a decrease in interest expense associated with the amount payable for Parsons Landing, the majority of which relates to the timing of the forgiveness of accrued interest in excess of the required monthly payments.

Discontinued Operations

LREIT generated income from discontinued operations of \$7.5 million during the first quarter of 2010, compared to a loss of \$1.5 million during the first quarter of 2009. The income from discontinued operations includes revenues, operating costs, financing expenses, and amortization charges for all properties which are held for sale as of March 31, 2010; revenues, operating costs, financing expenses, and amortization charges for the two properties which were sold during the first quarter of 2010, and the total gain on sale in regard to the two properties which were sold during the first quarter of 2010. Amortization charges for a specific property are discontinued, effective on the date in which the property was classified as held for sale. As the majority of "held for sale" reclassifications occurred subsequent to the first quarter of 2009 and before the first quarter of 2010, amortization charges have a significant effect on the comparative results for discontinued operations. In total, the income from discontinued operations for the first quarter of 2010 includes amortization charges of \$0.4 million, compared to amortization charges of \$1.4 million during the first quarter of 2009. Excluding amortization charges and the gain on sale of approximately \$7.6 million, LREIT generated income from

discontinued operations of \$0.4 million during the first quarter of 2010, compared to a loss of \$0.1 million during the first quarter of 2009.

Market Conditions - Fort McMurray (13 properties)

Accounting for approximately 67% of the total available rental units, the Fort McMurray property portfolio represents the most significant revenue component in LREIT's overall 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 a reduction in occupancy levels of LREIT's property portfolio in Fort McMurray and affected the leasing of vacant suites and the retention of existing tenants. Although development activity in the oil sands industry is improving, the expectation is that the economic recovery in Fort McMurray may occur gradually.

	<u>Three Months Ended March 31</u>		Increase (Decrease)
	<u>2010</u>	<u>2009</u>	
Net operating income from continuing operations			
Fort McMurray properties	\$ 4,025,951	\$ 7,343,125	\$(3,317,174)
Other properties	1,269,362	1,306,335	(36,973)
Trust	<u>90,401</u>	<u>16,033</u>	<u>74,368</u>
Total net operating income	<u>\$ 5,385,714</u>	<u>\$ 8,665,493</u>	<u>\$(3,279,779)</u>

	<u>Three Months Ended March 31</u>	
	<u>2010</u>	<u>2009</u>
Income properties:		
Average vacancy loss		
Fort McMurray	31%	10%
Yellowknife	2%	-
Other	9%	2%
Total	25%	9%

Average rental rate		
Fort McMurray	\$2,495	\$2,993
Yellowknife	\$1,941	\$1,810
Other	\$753	\$728
Total	\$2,114	\$2,423

Divestiture Program

	<u>Properties</u>	<u>Properties sold</u>	<u>Total</u>
	<u>Sold in 2009</u>	<u>year to date</u> <u>2010</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>\$ 6,445,841</u>	<u>\$36,077,491</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 Loss - First Quarter 2010 vs. Fourth Quarter 2009

	Three Months Ended		Increase (decrease)	
	Mar. 31, 2010	Dec. 31, 2009	Amount	%
	Rental revenue	\$8,863,379	\$8,852,092	\$11,287
Interest and other income	208,628	54,245	154,383	284.6%
Property operating costs	3,686,293	3,173,645	512,648	16.2%
Net Operating Income	5,385,714	5,732,692	(346,978)	(6.1)%
Trust expense	696,790	643,461	53,329	8.3%
Income before financing expense, amortization, and taxes	4,688,924	5,089,231	(400,307)	(7.9)%
Financing expense	6,431,439	4,276,964	2,154,475	50.4%
Income (loss) before amortization, and taxes	(1,742,515)	812,267	(2,554,782)	(314.5)%
Amortization	2,227,407	2,225,574	1,833	0.1%
Loss from continuing operations for the period	(3,969,922)	(1,413,307)	(2,556,615)	180.9%
Income from discontinued operations for the period	7,547,136	20,544,425	(12,997,289)	(63)%
Income (loss) and comprehensive income (loss) for the period	<u>\$3,577,214</u>	<u>\$19,131,118</u>	<u>\$(15,553,904)</u>	<u>(81.3)%</u>

During the first quarter of 2010, LREIT incurred a loss from continuing operations, before taxes, of \$4.0 million, compared to a loss from continuing operations, before taxes, of \$1.4 million during the fourth quarter of 2009. The increase in the loss from continuing operations mainly reflects an increase in financing expense, and, to a much lesser extent, a decrease in net operating income.

Financing expense in the fourth quarter of 2009 includes a reduction of approximately \$2.5 million in regard to the forgiveness of interest which was accrued in prior periods on the amount payable for Parsons Landing. The increase in financing expense mainly reflects the fact that financing expense was comparatively low during the fourth quarter of 2009 due to the interest forgiveness deduction in regard to prior periods.

The decrease in net operating income is mainly due to the Fort McMurray portfolio where net operating income decreased by \$0.4 million during the first quarter of 2010. 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.

After providing for income from discontinued operations, LREIT completed the first quarter of 2010 with income of \$3.6 million, compared to income of \$19.1 million during the fourth quarter of 2009. The bottom-line results for the first quarter of 2010 reflect income from discontinued operations of \$7.5 million, compared to \$20.5 million during the fourth quarter of 2009. Income from discontinued operations for the first quarter of 2010 includes \$7.6 million relating to gains on sale, compared to \$21.1 million in the fourth quarter of 2009.

2010 OUTLOOK

In addition to the impact on operating income, the decline in market conditions in Fort McMurray has resulted in an ongoing delay in the closing of the 160-suite Parsons Landing in Fort McMurray and prevented LREIT from achieving debt service coverage requirements on approximately \$123.6 million of mortgage loan debt for the Fort McMurray properties. A first mortgage loan of \$5.1 million for a "held for sale" property in Moose Jaw is also in breach of its debt service coverage requirements at December 31, 2009.

Although the delay in the closing of Parsons Landing and the inability to achieve debt service coverage requirements have created additional funding demands, in terms of increased loan deposits or interest payment requirements, the two issues have not impaired the ability of LREIT to carry-on with normal operations. Management expects that the Parsons Landing and the debt service coverage issue will be satisfactorily resolved.

Notwithstanding the decrease in operating income, the overall financial results for the first quarter of 2010 reflect LREIT's ongoing ability to deal with significant challenges, as highlighted by the repayment of \$11.95 million of debenture debt. It is anticipated that the sale of additional properties and improving operating results, will continue to provide LREIT with sufficient cash resources to meet its funding requirements.

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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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.