



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2009 FIRST QUARTER RESULTS

Winnipeg, Manitoba, May 15, 2009 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended March 31, 2009. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the March 31, 2009 Management Discussion & Analysis and the financial statements for the quarter ended March 31, 2009, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

During the first quarter of 2009, LREIT achieved a significant increase in revenue and net operating income, compared to the first quarter of 2008, mainly due to the growth in the property portfolio later in 2008. The loss, before future income taxes, increased by approximately \$3.8 million during the first quarter of 2009, primarily due to an increase in amortization charges of approximately \$1.3 million and a \$2.4 million non-cash charge to financing expense in regard to a decrease in the fair value of the interest rate swap agreements.

As a result of the decline in rental market conditions in Fort McMurray, LREIT experienced a decrease in revenue and net operating income during the first quarter of 2009, compared to the fourth quarter of 2008. Total revenue and net operating income for the first quarter of 2009 decreased by 2% and 11%, respectively, compared to the fourth quarter of 2008.

FINANCIAL AND OPERATING SUMMARY

	Three Months Ended March 31	
	2009	2008
DISTRIBUTIONS		
Total, including distributions on LP units	\$ 1,668,364	\$ 2,456,901
Per unit	\$ 0.09	\$ 0.14
KEY PERFORMANCE INDICATORS		
Operations		
Average residential occupancy rate	91%	94%
Operating residential cost ratio	40%	42%
Operating Results		
Total revenue	\$ 19,861,695	\$ 13,628,993
Net operating income (NOI)	\$ 11,712,648	\$ 7,949,942
Income (loss) for the period before future income tax	\$ (5,749,329)	\$ (1,952,898)
Income (loss) for the period	\$ (8,530,719)	\$ 301
Cash Flows		
Cash flow from operating activities	\$ 3,139,830	\$ 1,332,215
Funds from Operations (FFO)	\$ (2,094,073)	\$ 400,570
Adjusted Funds from Operations (AFFO)	\$ 908,073	\$ 1,057,046
Distributable income	\$ 1,580,019	\$ 1,488,053
Financing		
Mortgage loans to appraised value ratio	62%	68%
Weighted average interest rate of mortgage loans	6.4%	6.2%

PER UNIT AMOUNTS

NOI			
- basic	\$	0.670	\$ 0.455
- diluted	\$	0.465	\$ 0.312
Income (loss) for the period, before future income tax			
- basic	\$	(0.329)	\$ (0.112)
- diluted	\$	(0.329)	\$ (0.112)
Income (loss) for the period			
- basic	\$	(0.488)	\$ -
- diluted	\$	(0.488)	\$ -
Distributable income			
- basic	\$	0.090	\$ 0.085
- diluted	\$	0.086	\$ 0.074
FFO			
- basic	\$	(0.120)	\$ 0.023
- diluted	\$	(0.120)	\$ 0.023
AFFO			
- basic	\$	0.052	\$ 0.061
- diluted	\$	0.049	\$ 0.053

FIRST QUARTER 2009 COMPARED TO FIRST QUARTER 2008

- NOI increased by \$3.8 million or 47.3%, mainly due to the addition of five additional properties to the income-producing portfolio since March 31, 2008, as well as an increase in same property NOI of \$669,000 or 9.3%.
- Loss before amortization, non-controlling interest and taxes increased by approximately \$2.5 million, primarily due to the non-cash charge to financing expense of approximately \$2.4 million in regard to the decrease in the fair value of the interest rate swaps. Excluding financing charges regarding the interest rate swaps, the decrease in income amounted to \$51,000.
- The overall loss increased by approximately \$8.5 million, after considering the increase in amortization charges of approximately \$1.3 million and increase in future income tax expense of approximately \$4.7 million.
- Cash provided by operating activities, excluding changes in non-cash operating items, was unchanged from the first quarter of 2008 at approximately \$1.6 million.
- FFO decreased by \$2.5 million, compared to the first quarter of 2008, while AFFO decreased by \$149,000. On a basic per unit basis, FFO decreased by \$0.143 per unit, while AFFO decreased by \$0.009 per unit.

COMPARISON TO PRECEDING QUARTER

Analysis of Loss - First Quarter 2009 vs. Fourth Quarter 2008

	Three Months Ended		Increase (decrease)	
	March 31, 2009	December 31, 2008	Amount	%
Rental revenue	\$ 19,601,942	\$ 19,984,545	\$ (382,603)	(1.9)%
Interest and other income	259,753	290,875	(31,122)	(10.7)%
Property operating costs	<u>8,149,047</u>	<u>7,063,497</u>	<u>1,085,550</u>	<u>15.4%</u>
Net Operating Income	11,712,648	13,211,923	(1,499,275)	(11.3)%
Trust expense	<u>744,190</u>	<u>755,661</u>	<u>(11,471)</u>	<u>(1.5)%</u>
Income before financing expense, amortization, non-controlling interest and taxes	10,968,458	12,456,262	(1,487,804)	(11.9)%
Financing expense	<u>13,062,531</u>	<u>14,861,476</u>	<u>(1,798,945)</u>	<u>(12.1)%</u>
Income (loss) before amortization, non-controlling interest and taxes	(2,094,073)	(2,405,214)	311,141	(12.9)%
Amortization	3,616,653	3,600,150	16,503	0.5%
Non-controlling interest	<u>38,603</u>	<u>30,362</u>	<u>8,241</u>	<u>27.1%</u>
Income (loss) before future income tax expense (recovery)	(5,749,329)	(6,035,726)	286,397	(4.7)%
Future income tax expense (recovery)	<u>2,781,390</u>	<u>(3,850,378)</u>	<u>6,631,768</u>	<u>(172.2)%</u>
Loss for the period	<u>\$ (8,530,719)</u>	<u>\$ (2,185,348)</u>	<u>\$ (6,345,371)</u>	<u>290.4%</u>

- NOI decreased by \$1.5 million or 11.3%, mainly due to decline in the revenues of the Fort McMurray property portfolio, and an increase in operating costs in the Manitoba and Saskatchewan portfolios. The decrease in revenues in the Fort McMurray portfolio reflects an increase in the vacancy rate, as well as a decrease in the average rental rate per suite.
- Loss before amortization, non-controlling interest and taxes decreased by approximately \$311,000. After excluding the non-cash charge to financing expense pertaining to the change in fair value of an interest rate swap agreement, the loss before amortization, non-controlling interest and taxes increased by approximately \$2.5 million. The increase in the loss mainly reflects the decrease in NOI as well as an increase of \$1 million in the remaining component of financing expense.
- The overall loss increased by approximately \$6.3 million, after considering the \$6.6 million decrease in the amount of future income tax recoveries.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by \$2.2 million.

OUTLOOK FOR 2009

LREIT is undertaking a divestiture program during 2009 and 2010, targeting the sale of properties with an estimated value of \$150 million. The proceeds of sale will be used for the repayment of higher cost and shorter-term debt. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, by a minimum of 25%, and to reduce the total debt to appraised value ratio to approximately 60%.

During the first quarter of 2009, distributable income approximated the amount of distributions paid, but it is unlikely that this level of income will continue for the remainder of 2009. Vacancy in the Fort

McMurray portfolio has increased during the second quarter and may not substantially improve until 2010.

The closing of Parsons Landing continues to be delayed, pending the completion of permanent financing arrangements for the property. The closing for the payment of the balance owing on Parsons Landing of approximately \$45 million has been extended until June 30, 2009, subject to LREIT obtaining a commitment for permanent financing by June 5, 2009. The vendor has agreed to provide a \$15 million second mortgage loan, in addition to the \$30 million first mortgage loan being arranged, and allow possible further extensions of the closing date until July 31, 2009.

LREIT has \$74 million of mortgage loan debt maturing during the last nine months of 2009, representing 16% of the total long-term debt as of March 31, 2009, and is comprised of \$54.1 million of fixed rate mortgage loans and \$19.9 million of floating rate demand mortgage loans. Renewal terms have been finalized for all mortgage loans which mature in the second quarter of 2009 with the exception of two mortgage loans with a combined principal balance of \$6.6 million that have matured, but alternate financing arrangements have not yet been concluded. Management anticipates that all mortgages maturing in 2009 will be renewed, refinanced or repaid from the proceeds of asset sales.

As disclosed in the financial statements and MD&A, there is uncertainty surrounding the ability of LREIT to continue as a going concern. LREIT sustained net losses in 2008 and in the first quarter of 2009, has a working capital deficit as of March 31, 2009 and is in violation of the debt service covenant on two mortgage loans totalling approximately \$47 million. The violation in the debt service covenant could potentially result in the lender demanding repayment of the mortgage loans and also potentially result in \$25.6 million of convertible debenture debt becoming due and payable. Additionally, as noted above, two first mortgage loans totalling \$6.6 million have matured, but alternate financing arrangements have not yet been concluded.

Management has taken steps to mitigate the level of uncertainty in regard to the going concern issue. The mortgage lender has been requested to reduce the existing debt service coverage ratio requirements in recognition of the decline in market conditions. If agreed to, the violation of the debt service covenant and the risk of the mortgage loans and debentures becoming payable on demand would be eliminated. As noted above, LREIT is also undertaking a divestiture program to raise additional capital and initiated a cash management strategy, including the previously announced reduction in the cash distribution amount. LREIT has also been able to refinance mortgage loans during 2009.

As a result of the steps that have been taken to reduce the level of uncertainty, management has concluded that LREIT has the ability to continue as a going concern.

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) and LRT.DB.G (Series G Convertible Debentures). 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.