



# LANESBOROUGH

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## LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

### LANESBOROUGH REIT REPORTS 2006 FIRST QUARTER RESULTS

Winnipeg, Manitoba, May 26, 2006 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX Venture: LRT.UN) is pleased to report the financial results for the first quarter ended March 31, 2006. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the 2006 First Quarter Report, including the financial statements for the quarter ended March 31, 2006, which may be obtained from the LREIT website at [www.lreit.com](http://www.lreit.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

After achieving an increase in its property portfolio of approximately \$100 Million or 150% in 2005, LREIT is poised for another year of exceptional growth in 2006. Acquisitions, which have been completed, or are under contract in 2006, encompass 14 properties with a total acquisition cost of \$162.4 Million. During the first quarter, LREIT completed two of the new property acquisitions at a total cost of \$11.1 Million, resulting in a portfolio with a total acquisition cost of \$176.9 Million as of March 31, 2006, representing an increase in the property portfolio of \$99.5 Million or 129% since March 31, 2005.

LREIT achieved a significant improvement in cash flow results during the first quarter of 2006, mainly due to the increase in the number of properties in the LREIT portfolio. In comparison to the first quarter of 2005, distributable income increased by \$212,357 or 48%, Funds from Operations (FFO) increased by \$355,275 or 410% and Adjusted Funds from Operations (AFFO) increased by \$323,570 or 122%. On a per unit basis, FFO increased from \$0.012 per unit in 2005 to \$0.026 per unit in 2006, while AFFO remained constant at \$0.035 per unit.

During the first quarter, operating income improved significantly, increasing by \$1.5 Million or 89%, compared to the first quarter of 2005, in large part due to the contribution from Nelson Ridge Estates in Fort McMurray, Alberta, the largest property in the LREIT portfolio. Nelson Ridge Estates accounted for \$900,000 or 28% of the total operating income during the first quarter. During 2006, the overall quality of the property portfolio will be further solidified, with the investment of approximately \$127 Million in additional properties in Fort McMurray, including a portfolio of six smaller apartment buildings, with a scheduled closing date in June 2006, and two large apartment complexes, Lakewood Manor and Woodland Park, which are currently under construction and have a closing date of December 2006.

In terms of its bottom line results, LREIT incurred a net loss, primarily due to high amortization charges, with the net loss increasing by \$612,787 or 133% during the first quarter of 2006, compared to the first quarter of 2005. On a per unit basis, the net loss remained relatively constant at \$0.064 during the first quarter of 2006, compared to \$0.061 during the first quarter of 2005. Net income, before amortization expense, increased by \$268,198 or 94%, during the first quarter of 2006, compared to the first quarter of 2005.

## FINANCIAL PERFORMANCE

### Comparison to First Quarter of 2005

	Three Months Ended March 31		Increase (Decrease)
	2006	2005 (restated)	
Operating income – rental properties	\$ 2,899,483	\$1,458,883	\$ 1,440,600
Interest income – Trust	<u>351,842</u>	<u>263,873</u>	<u>87,969</u>
Total operating income	<u>3,251,325</u>	<u>1,722,756</u>	<u>1,528,569</u>
Financing expense			
Mortgage loans	1,689,472	703,804	985,668
Debentures	<u>813,823</u>	<u>687,045</u>	<u>126,778</u>
	<u>2,503,295</u>	<u>1,390,849</u>	<u>1,112,446</u>
Operating income, net of financing expense	748,030	331,907	416,123
Trust expense	<u>202,385</u>	<u>45,784</u>	<u>156,601</u>
Net income, before amortization and future income tax			
Recovery	545,645	286,123	259,522
Amortization	1,626,503	745,518	88,985
Future income tax recovery	<u>(8,676)</u>	<u>-</u>	<u>(8,076)</u>
Net loss	<u>\$ (1,072,182)</u>	<u>\$ (459,395)</u>	<u>\$ (612,787)</u>

## Overview

### Operating Income

During the first quarter, operating income increased by approximately \$1.5 Million or 89%, compared to the first quarter of 2005. The increase in operating income is mainly due to the increase in the number of properties in the LREIT portfolio. During the first quarter of 2005, 16 properties, with a combined acquisition cost of \$77.4 Million, contributed to the operating income of LREIT, whereas during 2006, 23 properties, with a combined acquisition cost of approximately \$177 Million, contributed to operating income.

### ***Net Income, Excluding Amortization Expense***

Net income, before amortization expense and future income tax recovery, increased by \$259,522 or 91%, compared to the first quarter of 2005. The increase in net income mainly reflects an increase in operating income of approximately \$1.5 Million, largely offset by an increase in financing expense of approximately \$1.1 Million. Trust expense also increased by \$156,601. The increase in operating income is mainly due to an increase in the number of properties in the LREIT portfolio, although an increase in the operating cost ratio of the portfolio also affected the relative increase in operating income. The increase in financing expense is comprised of an increase in financing expense pertaining to mortgage loans as well as an increase in financing expense in regard to convertible debentures. The proportionately higher increase in mortgage loan financing expense was the main contributing factor to the overall increase in financing expense during the first quarter of 2006.

### ***Net Loss, Including Amortization Expense***

After considering amortization expense and the future income tax recovery, LREIT incurred a net loss of approximately \$1.1 Million, compared to a net loss of approximately \$460,000 during the first quarter of 2005. The net loss reflects total amortization charges of approximately \$1.6 Million, compared to approximately \$745,000 in the first quarter of 2005.

### ***Trust Expense***

Trust expense increased by \$156,601, compared to the first quarter of 2005. The increase in Trust expense reflects the commencement of monthly asset management fees, pursuant to the Services Agreement, effective January 1, 2006.

## Comparison to Fourth Quarter of 2005

	Three Months Ended		Increase (Decrease)
	March 31, 2006	December 31, 2005	
Operating income – rental properties	\$ 2,899,483	\$ 2,760,500	\$ 138,983
Interest income – Trust	<u>351,842</u>	<u>89,249</u>	<u>262,593</u>
Operating income	<u>3,251,325</u>	<u>2,849,749</u>	<u>401,576</u>
Financing expense			
Mortgage loans	1,689,472	1,512,150	177,322
Debentures	<u>813,823</u>	<u>533,916</u>	<u>279,907</u>
	<u>2,503,295</u>	<u>2,046,066</u>	<u>457,229</u>
Operating income, net of financing expense	748,030	803,683	(55,653)
Trust expense	<u>202,385</u>	<u>63,026</u>	<u>139,359</u>
Net income, before amortization and future income tax			
Recovery	545,645	740,657	(195,012)
Amortization	1,626,503	1,247,117	379,386
Future income tax recovery	<u>(8,676)</u>	<u>(43,450)</u>	<u>34,774</u>
Net loss	<u>\$(1,072,182)</u>	<u>\$ (463,010)</u>	<u>\$ (609,172)</u>

Net income, excluding amortization expense and future income tax recovery, decreased by \$195,012 or 26%, compared to the fourth quarter of 2005, mainly due to the following factors:

- a decrease in operating income, net of mortgage loan financing expense, of \$38,339 or 3%. The decrease reflects a net reduction in the operating income of the existing portfolio of LREIT properties, partially offset by the incremental operating income, which was derived from new property acquisitions during the first quarter of 2006;
- an increase in interest income of \$262,593 or 294%. The increase reflects an increase in bank account interest due to an increase in overall cash reserves and an increase in interest on mortgage loans receivable, primarily in regard to the \$8.5 Million loan in respect of Lakewood Manor;
- a proportional increase in debenture financing expense. As a percentage of net operating income, debenture financing expense increased from 19% during the fourth quarter of 2005 to 25% during the first quarter of 2006. The increase mainly reflects the debenture financing expense associated with the Series F convertible debenture issue in March 2006, including the accretion component; and
- an increase in Trust expense of \$139,359. The increase reflects the commencement of asset management fees, effective January 1, 2006, the total of which amount to \$135,139 for the first quarter of 2006.

The net loss, including amortization expense and future income tax recovery, increased by \$609,172 during the first quarter, compared to the fourth quarter of 2005. In addition to the above noted factors, the net loss reflects an increase in amortization expense of \$379,386.

**Distributable Income**

	Three Months Ended March 31	
	2006	2005 (restated)
Distributable income	<u>\$ 658,222</u>	<u>\$ 445,865</u>
Distributable income per unit – basic	<u>\$0.039</u>	<u>\$0.057</u>
– diluted	<u>\$0.039</u>	<u>\$0.045</u>

**Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)**

	Three Months Ended March 31	
	2006	2005 (restated)
FFO	<u>\$ 441,748</u>	<u>\$ 86,473</u>
FFO per unit – basic	<u>\$0.026</u>	<u>\$0.012</u>
– diluted	<u>\$0.026</u>	<u>\$0.012</u>
AFFO	<u>\$ 588,993</u>	<u>\$ 265,420</u>
AFFO per unit – basic	<u>\$0.035</u>	<u>\$0.035</u>
– diluted	<u>\$0.035</u>	<u>\$0.035</u>

LREIT is a real estate investment trust, which is listed on the TSX Venture Exchange under the symbol “LRT.UN”. 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](http://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 TSX Venture 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.*