



## LANESBOROUGH

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### LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

#### LANESBOROUGH REIT REPORTS 2010 SECOND QUARTER RESULTS

Winnipeg, Manitoba, August 13, 2010 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended June 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 June 30, 2010, 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).

As anticipated, LREIT experienced a substantial loss from continuing operations during the second quarter of 2010, primarily due to the continuation of high vacancy levels for the property portfolio in Fort McMurray. Vacancy levels in Fort McMurray are expected to remain high this year pending an upturn in development activity in the oil sands industry and an improvement in rental housing market conditions in the city.

LREIT completed the second quarter of 2010 with a loss from continuing operations of \$4.38 million, compared to a loss of \$3.65 million in the second quarter of 2009 and a loss of \$3.97 million in the first quarter of 2010.

In regard to operating cash flows, LREIT completed the second quarter of 2010 with a cash outflow from the operating activities of continuing operations of \$2.27 million, compared to a cash inflow of \$0.66 million during the second quarter of 2009 and a cash outflow of \$0.69 million during the first quarter of 2010. The decrease in cash flow in the second quarter of 2010, compared to the second quarter of 2009, mainly reflects a decrease in operating income from the Fort McMurray property portfolio, partially offset by a decrease in interest expense. In comparison to the first quarter of 2010, the decrease in cash flow is mainly due to an increase in interest expense and a decrease in the operating income of the Fort McMurray property portfolio as a result of the provision for a rental abatement and rent credit at Lakewood Manor.

After considering cash outflows in regard to mortgage loan principal payments, property improvements and other financing and investing activities, the total cash outflow from continuing operations amounted to approximately \$4.6 million during the second quarter of 2010. Cash inflows from continuing operations for the second quarter of 2010 were comprised of draws on the bank line of credit in the amount of \$3.3 million and the utilization of \$700,000 on the revolving loan commitment. The cash inflows effectively represented the main funding source for the cash outflows.

#### *Discontinued Operations*

During the second quarter of 2010, there were no property sales under LREIT's divestiture program and, as a result, the operating results from discontinued operations mainly reflect the rental operations of the eight "held for sale" properties. LREIT completed the second quarter of 2010 with income from discontinued operations of \$0.44 million, while cash flow from discontinued operations amounted to \$0.47 million.

### Year-to-Date Results

During the first six months of 2010, the loss from continuing operations was almost entirely offset by the income from discontinued operations and LREIT completed the six months ended June 30, 2010 with a net loss of \$0.3 million.

In regard to cash flows, the cash outflows from continuing operations exceeded the net cash inflows from discontinued operations by \$1.83 million during the first six months of 2010, with the shortfall being funded from the cash resources of LREIT.

## FINANCIAL AND OPERATING SUMMARY

	June 30 2010	December 31 2009
<b>BALANCE SHEET</b>		
Total assets	\$525,402,394	\$537,144,566
Total long-term financial liabilities (1)	\$400,194,114	\$434,576,262

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<b>DISTRIBUTIONS</b>				
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	\$ 8,224,521	\$ 11,023,743	\$ 17,296,529	\$ 23,501,066
Net operating income	\$ 5,045,889	\$ 7,860,170	\$ 10,431,604	\$ 16,525,664
Loss from continuing operations, before future income tax	\$(4,376,170)	\$(3,646,777)	\$(8,346,092)	\$(7,996,089)
Loss and comprehensive loss	\$(3,931,234)	\$(3,956,727)	\$(301,214)	\$(12,487,446)

### Cash Flows

Cash flow from operating activities, including discontinued operations	\$(1,442,195)	\$ 1,278,582	\$ 209,330	\$ 3,766,836
Funds from Operations (FFO)	\$(1,741,594)	\$ (702,323)	\$ (3,397,606)	\$(2,796,395)
Adjusted Funds from Operations (AFFO)	\$(1,887,298)	\$ 331,449	\$ (3,060,213)	\$ 1,239,094
Distributable income (loss)	\$(1,247,663)	\$ 967,560	\$ (1,947,725)	\$ 2,582,770

### (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	\$	0.277	\$	0.450	\$ 0.573 \$ 0.946
- diluted	\$	0.212	\$	0.311	\$ 0.439 \$ 0.655
Loss from continuing operations, before future income tax					
- basic	\$	(0.240)	\$	(0.209)	\$ (0.459) \$ (0.458)
- diluted	\$	(0.240)	\$	(0.209)	\$ (0.459) \$ (0.458)
Income (loss) and comprehensive income (loss)					
- basic	\$	(0.216)	\$	(0.227)	\$ (0.017) \$ (0.715)
- diluted	\$	(0.216)	\$	(0.227)	\$ (0.017) \$ (0.715)
Distributable income (loss)					
- basic	\$	(0.068)	\$	0.058	\$ (0.107) \$ 0.154
- diluted	\$	(0.068)	\$	0.054	\$ (0.107) \$ 0.145
FFO					
- basic	\$	(0.096)	\$	(0.040)	\$ (0.187) \$ (0.160)
- diluted	\$	(0.096)	\$	(0.040)	\$ (0.187) \$ (0.160)
AFFO					
- basic	\$	(0.103)	\$	0.019	\$ (0.168) \$ 0.071
- diluted	\$	(0.103)	\$	0.016	\$ (0.168) \$ 0.065

## 2010 COMPARED TO 2009

### Analysis of Income (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Rental revenue	\$ 8,065,897	\$ 10,944,672	\$ 16,929,277	\$ 23,216,115
Interest and other income	158,624	79,071	367,252	284,951
Property operating costs	<u>3,178,632</u>	<u>3,163,573</u>	<u>6,864,925</u>	<u>6,975,402</u>
Net operating income (NOI)	5,045,889	7,860,170	10,431,604	16,525,664
Trust expense	<u>957,472</u>	<u>662,087</u>	<u>1,654,262</u>	<u>1,406,277</u>
Income before financing expense, amortization, and taxes	4,088,417	7,198,083	8,777,342	15,119,387
Financing expense	<u>6,234,323</u>	<u>8,626,813</u>	<u>12,665,762</u>	<u>18,700,179</u>
Income before amortization and taxes	(2,145,906)	(1,428,730)	(3,888,420)	(3,580,792)
Amortization	<u>2,230,264</u>	<u>2,218,047</u>	<u>4,457,672</u>	<u>4,415,297</u>
Loss before future income tax	(4,376,170)	(3,646,777)	(8,346,092)	(7,996,089)
Future income tax expense (recovery)	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,429,431</u>
Loss from continuing operations	(4,376,170)	(3,646,777)	(8,346,092)	(11,425,520)
Income (loss) from discontinued operations	<u>444,936</u>	<u>(309,950)</u>	<u>8,044,878</u>	<u>(1,061,926)</u>
Loss and comprehensive loss	<u>\$ (3,931,234)</u>	<u>\$ (3,956,727)</u>	<u>\$ (301,214)</u>	<u>\$ (12,487,446)</u>

## ***Continuing Operations***

### ***Three-Month Comparatives***

LREIT incurred a loss from continuing operations before taxes of \$4.38 million during the second quarter of 2010, compared to a loss of \$3.65 million during the second quarter of 2009, representing an increase of \$0.73 million. The increase in the loss mainly reflects a decrease in operating income of approximately \$2.8 million, largely offset by a decrease in financing expense of approximately \$2.4 million.

The decrease in operating income mainly reflects the decrease in operating income from the property portfolio in Fort McMurray, as a result of the decline in rental market conditions and a reduction to revenue from a rent credit to the corporate tenant at Lakewood Manor. 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.

After including income from discontinued operations and future income tax expense, LREIT incurred a loss of \$3.93 million during the second quarter of 2010, compared to a loss of \$3.96 million during the second quarter of 2009.

### ***Six-Month Comparatives***

LREIT incurred a loss from continuing operations before taxes of \$8.35 million during the first six months of 2010, compared to a loss of \$8 million during the first six months of 2009, representing an increase of approximately \$0.35 million. The increase in the loss is mainly due to the same factors which contributed to the increased loss during the second quarter of 2010, namely a decrease in operating income and a decrease in financing expense.

The operating results for the second quarter of 2010 account for a greater proportion of the loss for the first six months of 2010, due to the fact that the reduction in financing expense related to the change in value of interest rate swap agreements was substantially less in the second quarter of 2010.

After including income from discontinued operations and future income taxes, LREIT incurred a loss of \$0.30 million during the first six months of 2010, compared to a loss of \$12.49 million during the first six months of 2009.

## ***Discontinued Operations***

LREIT generated income from discontinued operations of \$8.04 million during the first six months of 2010, compared to a loss of \$1.06 million during the first six months 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 June 30, 2010; revenues, operating costs, financing expenses, and amortization charges for the two properties which were sold during the first six months of 2010, and the total gain on sale in regard to the two properties which were sold during the first six months of 2010.

The total increase in income from discontinued operations during the first six months of 2010 of \$9.11 million is mainly attributable to the first quarter of the year as both of the property sales and the associated gain on sale are first quarter transactions.

## **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 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 (Three Properties)*

Yellowknife has experienced a stable market for rental accommodation since the beginning of 2009. Although the reduced demand has resulted in an increase in the overall vacancy rate, the average overall monthly rental rate for the Yellowknife rental market has increased since the beginning of 2009.

*Other Locations (Five Properties)*

The five "other" properties consist of four 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 four 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 Net Operating Income - Income Properties**

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Fort McMurray	\$3,514,323	\$6,487,684	\$(2,973,361)	\$7,540,276	\$13,830,817	\$(6,290,541)
Yellowknife	1,008,608	937,613	70,995	1,947,748	1,840,779	106,969
Other	<u>408,385</u>	<u>432,036</u>	<u>(23,651)</u>	<u>738,606</u>	<u>835,198</u>	<u>(96,592)</u>
Total	<u>\$4,931,316</u>	<u>\$7,857,333</u>	<u>\$(2,926,017)</u>	<u>\$10,226,630</u>	<u>\$16,506,794</u>	<u>\$(6,280,164)</u>

**Analysis of Vacancy Loss for Income Properties**

	2010			2009		
	Q1	Q2	6 Month Average	Q1	Q2	6 Month Average
				Q3	Q4	12 Month Average
Fort McMurray	31%	30%	31%	30%	31%	22%
Yellowknife	2%	1%	1%	1%	1%	1%
Other	9%	7%	8%	5%	6%	4%
Total	25%	24%	25%	25%	25%	18%

### **Analysis of Average Monthly Rents for Income Properties**

	<b>2010</b>			<b>2009</b>		
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
	Fort McMurray	\$2,495	\$2,143	\$2,319	\$2,733	\$2,595
Yellowknife	\$1,941	\$1,915	\$1,928	\$1,960	\$1,854	\$1,863
Other	\$753	\$761	\$757	\$740	\$743	\$738
<b>Total</b>	<b>\$2,114</b>	<b>\$1,876</b>	<b>\$1,995</b>	<b>\$2,274</b>	<b>\$2,166</b>	<b>\$2,308</b>

### **Analysis of Operating Margin - Income Properties**

	<b>Operating Margin</b>			
	<b>Three Months</b>		<b>Six Months Ended</b>	
	<b>Ended June 30</b>		<b>June 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Fort McMurray	61%	74%	61%	73%
Yellowknife	60%	61%	59%	60%
Other	59%	63%	54%	60%
<b>Total</b>	<b><u>61%</u></b>	<b><u>71%</u></b>	<b><u>60%</u></b>	<b><u>70%</u></b>

Overall, the operating margin for the property portfolio decreased from 71% during the second quarter of 2009, to 61% during the second 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 PRECEDING QUARTER

### Analysis of Loss - Second Quarter 2010 vs. First Quarter 2010

	Three Months Ended		Increase (Decrease)	
	June 30, 2010	March 31, 2010	Amount	%
Rental revenue	\$ 8,065,897	\$ 8,863,379	\$ (797,482)	(9.0)%
Interest and other income	158,624	208,628	(50,004)	(24.0)%
Property operating costs	<u>3,178,632</u>	<u>3,686,293</u>	<u>(507,661)</u>	<u>(13.8)%</u>
Net Operating Income (NOI)	5,045,889	5,385,714	(339,825)	(6.3)%
Trust expense	<u>957,472</u>	<u>696,790</u>	<u>260,682</u>	<u>37.4%</u>
Income before financing expense, amortization, and taxes	4,088,417	4,688,924	(600,507)	(12.8)%
Financing expense	<u>6,234,323</u>	<u>6,431,439</u>	<u>(197,116)</u>	<u>(3.1)%</u>
Income (loss) before amortization	(2,145,906)	(1,742,515)	(403,391)	23.1%
Amortization	<u>2,230,264</u>	<u>2,227,407</u>	<u>2,857</u>	<u>0.1%</u>
Loss from continuing operations for the period	(4,376,170)	(3,969,922)	(406,248)	10.2%
Income from discontinued operations for the period	<u>444,936</u>	<u>7,599,942</u>	<u>(7,155,006)</u>	<u>(94)%</u>
Income (loss) and comprehensive income (loss) for the period	<u>\$ (3,931,234)</u>	<u>\$ 3,630,020</u>	<u>\$ (7,561,254)</u>	<u>(208.3)%</u>

During the second quarter of 2010, LREIT incurred a loss from continuing operations of \$4.38 million, compared to a loss \$3.97 million during the first quarter of 2010, representing an increase \$0.41 million. The increase in the loss from continuing operations mainly reflects a decrease in net operating income of \$0.34 million. The decrease in net operating income mainly reflects a decrease in the net operating income of the Fort McMurray property portfolio, partially offset by an increase in net operating income from the "Yellowknife" and "Other" portfolios. The decrease in the NOI for the Fort McMurray portfolio is mainly due to a decrease in revenues as a result of the billing adjustment and rent credit for Lakewood Manor.

After providing for income from discontinued operations, LREIT completed the second quarter of 2010 with a loss of \$3.93 million, compared to income of \$3.63 million during the first quarter of 2010. The bottom-line results for the second quarter of 2010 reflect income from discontinued operations of \$0.44 million, compared to \$7.60 million during the first quarter of 2010. Income from discontinued operations for the first quarter of 2010 includes \$7.60 million relating to gains on sale, compared to nil in the second quarter of 2010.

## OUTLOOK

### *Sources of Cash*

During 2010 and 2011, the sale of properties is expected to serve as the main source of capital for LREIT. In this regard, LREIT recently entered into an unconditional contract to sell Woodlily Court in Moose Jaw, Saskatchewan with a scheduled closing date of September 1, 2010 and with expected net cash proceeds of approximately \$3.2 million, after expenses and the repayment of mortgage loan debt. In July 2010, LREIT accepted early prepayment of a 6% mortgage loan receivable in the amount of \$6.34 million. Net proceeds were used for the repayment of higher cost interim mortgage debt.

### *Key Financing Issues*

Although LREIT continues to experience a delay in obtaining sufficient financing to complete the closing of Parsons Landing in Fort McMurray, the payment extension deadline has been extended from July 31,

2010 to January 3, 2011. LREIT is also continuing to seek formal relief in regard to the breach of debt service coverage covenants for approximately \$167.5 million of mortgage loan debt. Management expects the lenders will continue to act with restraint in regard to the debt covenants.

During the first six months of 2010, approximately \$19.3 million of the mortgage loan debt matured and all of the debt was renewed, refinanced or repaid/eliminated on the sale of properties. Subsequent to June 30, 2010 \$22.6 million of the mortgage loan debt matured and it is anticipated that the debt will be renewed or refinanced under similar terms and conditions. The matured debt is comprised of an \$18.62 million first mortgage loan and a \$4 million second mortgage loan. As the \$18.62 million first mortgage loan is one of the loans in breach of debt service coverage requirements, the renewal of the loan may be delayed.

#### *Divestiture Program*

As of June 30, 2010, LREIT has eight properties which are designated for sale under LREIT's divestiture program, excluding the previously announced sale of Woodlily Court in Moose Jaw. The proceeds from the sale of the properties are expected to be sufficient to enable LREIT to meet its funding requirements through 2011.

#### **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](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 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.*