



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2012 OPERATING RESULTS

Winnipeg, Manitoba, March 14, 2013 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the year ended December 31, 2012. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with Management’s Discussion & Analysis and the financial statements for the year ended December 31, 2012, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

OPERATING RESULTS

Comprehensive Income

LREIT completed 2012 with comprehensive income of \$20.1 million, compared to comprehensive income of \$5.0 million during 2011. The \$15.1 million increase in comprehensive income mainly reflects the profit on the sale of two seniors’ housing complexes, which are included in discontinued operations.

Continuing Operations

Income before taxes and discontinued operations during 2012 was \$0.6 million, compared to \$2.4 million in 2011, representing a decrease of \$1.8 million. The decrease mainly reflects the following components:

- **Fair value gains/adjustments:** Valuation gains/adjustments related to the fair market value of investment properties, including Parsons Landing, decreased by approximately \$4.8 million during 2012, compared to 2011. The decrease is mainly due to a \$3.5 million reduction in the fair value of Parsons Landing.
- **Insurance proceeds:** Income for 2012 includes insurance proceeds of \$0.9 million related to the settlement of the claim for furniture and equipment losses in regard to the fire at Parsons Landing.
- **Forgiveness of debt:** The refinancing of mortgage loan debt in 2012 encompassed the forgiveness of \$0.9 million of debt by one of the lenders. The debt forgiveness is included in income.
- **Interest Income:** Interest income increased by \$0.6 million during 2012. The increase mainly reflects interest earned on mortgage loans receivable.
- **Profit on sale of investment properties:** During 2012, the profit on sale of investment properties increased by \$0.4 million, compared to 2011.

During 2012, net operating income decreased by \$3.3 million, compared to 2011, however, the decrease in net operating income was entirely offset by a \$3.3 million income recovery on Parsons Landing. The decrease in net operating income is mainly due to elimination of two investment properties in Fort McMurray from the revenue stream (Sienna was sold and Parsons Landing was destroyed by fire), partially offset by an increase in net operating income from the Fort McMurray property portfolio.

Cash Flow from Operating Activities

During 2012, cash outflow from operating activities, excluding working capital adjustments, amounted to \$2.1 million, compared to a cash outflow of \$2.6 million during 2011, representing a decrease in the cash outflow of \$0.5 million. The decrease in the cash outflow, excluding working capital adjustments, mainly reflects the receipt of insurance proceeds of \$0.9 million, a decrease in interest "paid" of \$0.8 million, an

increase in interest received of \$0.3 million and a \$0.3 million decrease in the cash component of trust expense, largely offset by a \$1.9 million increase in income tax expense.

Including working capital adjustments, LREIT completed 2012 with a cash outflow from operating activities of \$4.5 million, compared to a cash outflow of \$1.6 million during 2011.

Mortgage Financing

During 2012, LREIT obtained \$105.6 million of new mortgage loan financing. The new financing, combined with the release of \$7 million of mortgage loan escrow deposits, was primarily used to repay, or pay-down, existing mortgage loan debt. The new financing enabled LREIT to resolve a number of debt covenant issues and also served as a source of interim capital, pending the completion of property sales.

After considering the mortgage loan debt which was eliminated on property sales, "regular" payments of principal and the net decrease in mortgage loan debt from other financing activities, the total mortgage loan debt of LREIT decreased by \$76.5 million in 2012. The ratio of total debt to carrying value of all properties, excluding Parsons Landing, was 68% as at December 31, 2012, compared to 74% as at December 31, 2011

Mortgage Loan Covenants

During 2012, LREIT eliminated covenant breaches on \$67.2 million of mortgage loan debt, encumbered against eight properties, including seven properties in Fort McMurray, Alberta.

As of December 31, 2012, LREIT has \$97.3 million of mortgage loan debt with covenant breaches, comprised of four mortgage loans. It is anticipated that the covenant breach for three of the loans in Fort McMurray (all of which are over-holding past maturity with the consent of the lenders) will be eliminated in 2013 as a result of the refinancing of the loans. The other mortgage loan in Fort McMurray has a maturity date of May 1, 2018 and was paid-down by \$4.3 million in 2012. The covenant breach is expected to be eliminated through modified loan terms.

Divestiture Program

In 2009, LREIT initiated a multi-year asset divestiture program with the objective of reducing debt levels. During 2012, two senior housing complexes were sold under its divestiture program, as well as one investment property and nine condominium units at Lakewood Townhomes. In total, the property sales in 2012 resulted in net sale proceeds of \$21.9 million. The net sale proceeds enabled LREIT to meet all of its ongoing funding commitments and also substantially reduce the extent of its working capital deficiency. As of December 31, 2012, LREIT has a working capital deficiency of approximately \$4.5 million, representing an improvement of approximately \$9 million, compared to the working capital deficiency as of December 31, 2011.

Parsons Landing

The reconstruction of Parsons Landing is expected to be completed during the fourth quarter of 2013. Following an estimated lease-up period of 90 days, the property will be reclassified as a revenue-generating investment property. The loss of \$3.5 million that LREIT recognized in 2012 in regard to the reduction in the fair value of Parsons Landing is expected to be substantially recovered in 2013.

Qualification for REIT Exception

Management believes that LREIT will qualify for the REIT Exception for income tax purposes for the 2013 taxation year. As a result, LREIT will once again be in a position to reduce its taxable income from capital gains or otherwise through the payment of cash or "special" distributions. The reduction of taxable income will have a beneficial impact on the cash position of LREIT.

Outlook

In 2013, LREIT will continue to focus on the following initiatives:

- The refinancing of mortgage loan debt, including upward refinancing, in order to resolve the remaining covenant breaches and reduce interest rates. During the first two months of 2013, LREIT has replaced \$20.4 million of 12% mortgage loan financing with a new 5.0% first mortgage loan of \$21 million; collected \$3.2 million of mortgage loan receivables and reduced the outstanding balance

of a 12% blanket second mortgage loan from \$9.5 million to \$7.5 million. In addition, a 7% first mortgage loan of \$22.7 million and a 12% second mortgage loan of \$16.3 million are expected to be replaced with a 3.7% five year first mortgage loan of \$42 million by March 31, 2013.

- The sale of the two remaining seniors' housing complexes under the divestiture program and the sale of additional condominium units at Lakewood Townhomes.
- The improvement of net operating income by maximizing rental rates and controlling operating costs.

The net proceeds from upward refinancing and property sales, combined with the draws on the revolving loan commitment from 2668921 Manitoba Ltd., as required, are expected to be sufficient to enable LREIT to meet all of its ongoing funding obligations during 2013.

FINANCIAL AND OPERATING SUMMARY

	December 31		
	2012	2011	2010
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			
Total assets	\$481,552,578	\$555,220,070	\$547,829,176
Total long-term financial liabilities ⁽¹⁾	\$323,026,417	\$399,176,274	\$402,006,221

	Year Ended December 31		
	2012	2011	2010

KEY FINANCIAL PERFORMANCE INDICATORS

Operating Results

Rentals from investment properties	\$ 38,410,992	\$41,852,726	\$ 39,902,688
Net operating income	\$ 22,429,229	\$25,729,391	\$ 23,361,318
Income (loss), before taxes and discontinued operations	\$ 601,545	\$ 2,382,662	\$(11,496,252)
Income (loss) and comprehensive income (loss)	\$ 20,098,308	\$ 5,035,231	\$(9,323,543)

Cash Flows

Cash flow from operating activities	\$ (4,538,612)	\$(1,566,188)	\$(1,565,119)
Funds from Operations (FFO)	\$ (6,927,383)	\$(6,993,506)	\$(10,333,671)
Adjusted Funds from Operations (AFFO)	\$ (9,997,160)	\$(8,483,052)	\$ (9,670,113)
Distributable loss	\$ (5,091,215)	\$(5,002,715)	\$ (5,652,477)

(1) Long-term financial liabilities consist of mortgage loans, a swap mortgage loan, debentures, defeased liability and mortgage bonds. The swap mortgage loans and mortgage bonds are included at face value.

2012 COMPARED TO 2011
Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease)	
	2012	2011	Amount	%
Rentals from investment properties	\$ 38,410,992	\$ 41,852,726	\$ (3,441,734)	(8.2)%
Property operating costs	<u>15,981,763</u>	<u>16,123,335</u>	<u>141,572</u>	<u>0.9%</u>
Net operating income	22,429,229	25,729,391	(3,300,162)	(12.8)%
Interest income	969,607	328,145	641,462	195.5%
Forgiveness of debt	859,561	-	859,561	- %
Interest expense	(33,261,469)	(33,162,993)	(98,476)	0.3%
Trust expense	(2,323,979)	(2,611,313)	287,334	(11.0)%
Income recovery on Parsons Landing	3,278,987	-	3,278,987	- %
Insurance proceeds	<u>925,355</u>	<u>-</u>	<u>925,355</u>	<u>- %</u>
Loss before the following	(7,122,709)	(9,716,770)	2,594,061	26.7%
Profit on sale of investment properties	915,531	487,095	428,436	88.0%
Fair value gains	10,308,723	11,612,337	(1,303,614)	11.2%
Fair value adjustment of Parsons Landing	<u>(3,500,000)</u>	<u>-</u>	<u>(3,500,000)</u>	<u>- %</u>
Income before taxes & discontinued operations	601,545	2,382,662	(1,781,117)	74.8%
Current income tax expense	49,763	-	(49,763)	- %
Deferred income tax expense	<u>-</u>	<u>91,922</u>	<u>91,922</u>	<u>(100.0)%</u>
Income (loss) before discontinued operations	551,782	2,290,740	(1,738,958)	75.9%
Income from discontinued operations	<u>19,546,526</u>	<u>2,744,491</u>	<u>16,802,035</u>	<u>612.2%</u>
Income and comprehensive income	<u>\$ 20,098,308</u>	<u>\$ 5,035,231</u>	<u>\$ 15,063,077</u>	<u>(299.2)%</u>

Analysis of Total Rental Revenue

	Year Ended December 31					
			Increase (Decrease)		% of Total	
	2012	2011	Amount	%	2012	2011
Fort McMurray	\$22,965,656	\$21,068,980	\$1,896,676	9%	60%	50%
Other investment properties	<u>14,254,048</u>	<u>14,084,247</u>	<u>169,801</u>	<u>1%</u>	<u>37%</u>	<u>34%</u>
Sub-total	37,219,704	35,153,227	2,066,477	6%	97%	84%
Properties sold	796,861	2,672,453	(1,875,592)	(70)%	2%	6%
Impaired property	<u>394,427</u>	<u>4,027,046</u>	<u>(3,632,619)</u>	<u>(90)%</u>	<u>1%</u>	<u>10%</u>
Total	<u>\$38,410,992</u>	<u>\$41,852,726</u>	<u>\$(3,441,734)</u>	<u>(8)%</u>	<u>100%</u>	<u>100%</u>

As disclosed in the chart above, total revenue from investment properties, excluding properties sold and the impaired property, increased by \$2.1 million during 2012, compared to 2011. The increase is comprised of an increase in revenue from investment properties in Fort McMurray of \$1.9 million and an increase in revenue from the other investment properties of \$0.2 million.

The increase in revenue from the Fort McMurray property portfolio reflects an increase in the average occupancy level, as well as an increase in the average rental rate. As disclosed in the charts below, the average occupancy level for the Fort McMurray portfolio increased from 82% during 2011, to 90% in 2012, while the average monthly rental rate increased by \$23 or 1.1%.

Revenue for "properties sold" decreased by \$1.9 million during 2012 due to the sale of Siena Apartments effective May 1, 2012. Revenue from the "Impaired property" decreased by \$3.6 million as the property is under reconstruction following the fire in February 2012. The recovery of insurance proceeds for revenue losses is recorded as a separate income category after the calculation of net operating income.

Occupancy Level, by Quarter

	2012				
	Q1	Q2	Q3	Q4	12 Month Average
	Fort McMurray	92%	90%	87%	88%
Other investment properties	98%	97%	97%	98%	97%
Properties sold	100%	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a	n/a
Total	95%	92%	91%	92%	92%

	2011				
	Q1	Q2	Q3	Q4	12 Month Average
	Fort McMurray	64%	79%	94%	93%
Other investment properties	98%	98%	98%	99%	98%
Properties sold	100%	100%	100%	100%	100%
Impaired property	63%	91%	94%	97%	86%
Total	75%	87%	95%	95%	88%

Average Monthly Rents, by Quarter

	2012				
	Q1	Q2	Q3	Q4	12 Month Average
	Fort McMurray	\$2,124	\$2,191	\$2,251	\$2,293
Other investment properties	\$1,075	\$1,069	\$1,048	\$1,076	\$1,067
Properties sold	\$3,100	n/a	n/a	n/a	n/a
Impaired property	n/a	n/a	n/a	n/a	n/a
Total	\$1,704	\$1,684	\$1,704	\$1,739	\$1,709

	2011				
	Q1	Q2	Q3	Q4	12 Month Average
	Fort McMurray	\$2,260	\$2,211	\$2,180	\$2,129
Other investment properties	\$1,034	\$1,065	\$1,050	\$1,064	\$1,050
Properties sold	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100
Impaired property	\$2,370	\$2,319	\$2,282	\$2,241	\$2,303
Total	\$1,790	\$1,784	\$1,759	\$1,743	\$1,767

Analysis of Property Operating Costs

	Year Ended December 31		Increase (Decrease)	
	2012	2011	Amount	%
Fort McMurray	\$ 8,768,905	\$8,122,304	\$ 646,601	8%
Other investment properties	<u>6,821,025</u>	<u>6,200,438</u>	<u>620,587</u>	<u>10%</u>
Sub-total	15,589,930	14,322,742	1,267,188	9%
Properties sold	97,450	217,003	(119,553)	(55)%
Impaired property	<u>294,383</u>	<u>1,583,590</u>	<u>(1,289,207)</u>	<u>(81)%</u>
Total	<u>\$15,981,763</u>	<u>\$16,123,335</u>	<u>\$ (141,572)</u>	<u>(1)%</u>

During 2012, property operating costs for the portfolio of investment properties, excluding properties sold and the impaired property, increased by \$1.3 million or 9%, compared to 2011. The increase is comprised of a \$0.6 million increase in the Fort McMurray portfolio and an increase of \$0.6 million in the operating costs of the other investment properties portfolio.

The increase in operating costs for the Fort McMurray portfolio mainly reflects an increase in maintenance costs associated with ongoing renovations. The increase in operating costs for the Other investment property portfolio reflects an increase in maintenance expense mostly associated with repairs to building exterior.

Analysis of Net Operating Income and Operating Margin

	Net Operating Income							
	Year Ended December 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2012	2011	Amount	%	2012	2011	2012	2011
Fort McMurray	\$14,196,751	\$ 12,946,676	\$ 1,250,075	10%	63%	50%	62%	61%
Other investment properties	<u>7,433,023</u>	<u>7,883,809</u>	<u>(450,786)</u>	<u>(6)%</u>	<u>33%</u>	<u>31%</u>	<u>52%</u>	<u>56%</u>
Sub-total	21,629,774	20,830,485	799,289	4%	96%	81%	58%	59%
Properties sold	699,411	2,455,450	(1,756,039)	(72)%	3%	10%	n/a	n/a
Impaired property	<u>100,044</u>	<u>2,443,456</u>	<u>(2,343,412)</u>	<u>(96)%</u>	<u>- %</u>	<u>9%</u>	<u>n/a</u>	<u>n/a</u>
Total	<u>\$22,429,229</u>	<u>\$ 25,729,391</u>	<u>\$(3,300,162)</u>	<u>(13)%</u>	<u>100%</u>	<u>100%</u>	<u>58%</u>	<u>61%</u>

After considering the increase in rental revenue and the increase in property operating costs, as analysed in the preceding sections of this press release, the net operating income for the portfolio of investment properties, excluding properties sold and the impaired property, increased by \$0.8 million or 4% during 2012, compared to 2011. The increase is comprised of an increase in net operating income from the Fort McMurray properties, partially offset by a decrease in net operating income from the Other investment properties. As disclosed in the chart above, the net operating income of the Fort McMurray portfolio increased by \$1.3 million during 2012, compared to 2011, while the net operating income of the Other investment properties portfolio decreased by \$0.5 million.

Overall, the operating margin for the property portfolio, excluding properties sold and the impaired property, decreased from 59% during 2011, to 58% during 2012. The decrease reflects a decrease in the operating margin for the Other investment properties portfolio, partially offset by an increase in the operating margin for the Fort McMurray property portfolio.

After accounting for the decrease in net operating income related to properties sold and the impaired property (Parsons Landing), net operating income decreased by \$3.3 million during 2012, compared to 2011. The decrease was almost entirely offset by the income recovery for Parsons Landing.

The income recovery on Parsons Landing of \$3.3 million exceeded the decrease in net operating income of Parsons Landing by \$0.9 million. The income recovery consists of the amount recovered under the insurance policy for revenue losses, less certain continuing operating costs such as property taxes and insurance which are deducted from the gross insurance recovery through an "occupancy fee".

COMPARISON TO PREVIOUS QUARTER

Analysis of Income (Loss)

	2012			2011	
	Q4	Q3	Increase (Decrease)	Q4	Increase (Decrease)
Rentals from investment properties	9,432,387	9,206,783	225,604	11,196,590	(1,764,203)
Property operating costs	<u>4,137,920</u>	<u>3,851,511</u>	<u>286,409</u>	<u>4,013,791</u>	<u>(124,129)</u>
Net operating income	5,294,467	5,355,272	(60,805)	7,182,799	(1,888,332)
Interest income	354,645	281,209	73,436	162,836	191,809
Interest expense	(8,532,653)	(10,196,949)	1,664,296	(7,709,989)	(822,664)
Trust expense	(751,957)	(407,263)	(344,694)	(560,688)	(191,269)
Income recovery on Parsons Landing	885,329	869,547	15,782	-	885,329
Insurance proceeds	<u>525,355</u>	<u>400,000</u>	<u>125,355</u>	<u>-</u>	<u>525,355</u>
Loss before the following	(2,224,814)	(3,698,184)	1,473,370	(925,042)	(1,299,772)
Profit (loss) on sale of investment properties	16,967	-	16,967	487,095	(470,128)
Fair value gains	1,329,884	38,614	1,291,270	1,709,960	(380,076)
Fair value adjustment of Parsons Landing	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Income (loss) for the period before taxes and discontinued operations	(377,963)	(3,159,570)	2,781,607	1,272,013	(1,649,976)
Current income tax expense	49,763	-	49,763	-	49,763
Deferred income tax expense (recovery)	<u>-</u>	<u>(181,339)</u>	<u>181,339</u>	<u>-</u>	<u>-</u>
Income (loss) for the period before discontinued operations	(427,726)	(2,978,231)	2,550,505	1,272,013	(1,699,739)
Income from discontinued operations	<u>17,014,084</u>	<u>598,502</u>	<u>16,415,582</u>	<u>333,267</u>	<u>16,680,817</u>
Comprehensive income (loss)	<u>\$ 16,586,358</u>	<u>\$(2,379,729)</u>	<u>\$ 18,966,087</u>	<u>\$ 1,605,280</u>	<u>\$14,981,078</u>

Comparison to Q3-2012

During Q4-2012, loss before the profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, decreased by \$1.5 million, compared to Q3-2012. The decrease in the loss mainly reflects a decrease in interest expense of \$1.7 million, partially offset by an increase in trust expense. The decrease in interest expense mainly reflects the fact that interest expense was comparatively high in the third quarter of 2012 due to the inclusion of \$2.75 million in mortgage prepayment charges, partially offset by a \$0.2 million decrease in mortgage loan interest.

During Q4-2012, fair value gains in regard to the carrying value of investment properties amounted to \$1.3 million, compared to \$0.04 million during Q3-2012, representing an increase of \$1.3 million.

Income from discontinued operations increased by \$16.4 million during Q4-2012, compared to Q3-2012, which mainly reflects the \$13.0 million profit on the sale and \$3.6 million in net income tax recoveries relating to Riverside Terrace.

After accounting for the variance in fair value gains/adjustments, profit on sale, income from discontinued operations and income tax expense, LREIT completed Q4-2012 with comprehensive income of \$16.6 million, compared to a comprehensive loss of \$2.4 million during Q3-2012.

Comparison to Q4-2011

The loss before profit on sale of investment property, fair value gains, income taxes and discontinued operations, increased by \$1.3 million during Q4-2012 compared to Q4-2011. The increase in the loss mainly reflects a decrease in net operating income of \$1.9 million, an increase in interest expense of \$0.8 million, partially offset by an increase in insurance proceeds of \$0.5 million and an increase in the income recovery on Parsons Landing of \$0.9 million. During Q4-2012, the combined total of net operating income and the income recovery on Parsons Landing decreased by \$1.0 million, compared to Q4-2011.

The decrease in the combined total of net operating income and the income recovery on Parsons Landing is comprised of a decrease in net operating income of \$1.9 million, partially offset by the income recovery on Parsons Landing of \$0.9 million. The decrease in net operating income mainly reflects a decrease in net operating income at Parsons Landing (due to the fire), Siena Apartments (due to the sale of the property) and for the Fort McMurray property portfolio due to an increase in operating costs.

After accounting for the variance in fair value gains/adjustments, profit on sale, income from discontinued operations and income tax expense, LREIT completed Q4-2012 with comprehensive income of \$16.6 million, compared to \$1.6 million during Q4-2011.

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.G (Series G Debentures), LRT.NT.A (Second Mortgage Bonds due December 24, 2015), LRT.WT (Warrants expiring March 9, 2015) and LRT.WT.A (Warrants expiring December 23, 2015). The objective of LREIT is to provide Unitholders with stable cash distributions from investment in a diversified 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.