



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2011 THIRD QUARTER RESULTS

Winnipeg, Manitoba, November 14, 2011 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended September 30, 2011. 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 quarter ended September 30, 2011, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

OPERATING RESULTS

LREIT completed the third quarter of 2011 with net income of \$2.28 million, representing an increase in net income of \$3.26 million compared to the third quarter of 2010. The increase in net income reflects the following major components:

- **Net operating income:** Overall increase of \$1.01 million or 17%, comprised of a \$1.29 million increase from the Fort McMurray portfolio and a \$0.28 million decrease from other investment properties. The Fort McMurray property portfolio achieved an occupancy level of 94%, compared to 67% in Q3-2010 and 84% in Q2-2011.
- **Interest expense:** Increased by \$1.36 million or 20%, including a "non-cash" component of \$1.16 million or 86% of the total increase. Excluding the non-cash component, interest expense increased by \$0.19 million or 3%, compared to Q3-2010.
- **Fair value gain:** Amounted to \$3.15 million, compared to a loss of \$0.61 million in Q3-2010. The gain represents increases in fair value of investment properties during Q3-2011. The loss in Q3-2010 represents capital expenditures, which were not reflected as an increase in fair value.
- **Profit on sale of investment property:** Nil in Q3-2011, compared to \$0.31 million in Q3-2010. The gain in Q3-2010 represents the variance between the net sale proceeds and carrying value of the two properties, which were sold in Q3-2010.

Cash provided by operating activities, excluding working capital adjustments, increased by \$1.67 million, compared to Q3-2010 mainly due to an increase in net operating income, on a cash basis. Including working capital adjustments, the cash shortfall from operating activities increased by \$1.85 million, compared to Q3-2010. After including regular payments of mortgage loan principal and capital expenditures the cash shortfall amounted to \$5.60 million. The shortfall was funded by the proceeds of the upward refinancing of Riverside Terrace.

Upward Refinancing

During the third quarter of 2011, LREIT successfully completed the upward refinancing of Riverside Terrace. The net proceeds from upward refinancing of approximately \$15.9 million were primarily used to improve working capital and repay debt.

As of September 30, 2011, the working capital deficiency of LREIT was reduced to a balance of approximately \$8.3 million, compared to a balance of approximately \$18.4 million as of June 30, 2011.

FINANCIAL AND OPERATING SUMMARY

	September 30 2011	December 31 2010
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	\$553,688,947	\$547,829,176
Total long-term financial liabilities (1)	\$342,895,988	\$354,981,731

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010

KEY FINANCIAL PERFORMANCE INDICATORS

Operating Results

Rentals from investment properties	\$ 11,142,567	\$ 9,865,921	\$ 30,656,136	\$ 30,290,419
Net operating income	\$ 7,103,623	\$ 6,097,309	\$ 18,546,592	\$ 17,666,513
Income (loss) from continuing operations, before taxes	\$ 1,594,954	\$ (1,513,884)	\$ 1,110,649	\$ (5,256,446)
Income (loss) and comprehensive income (loss)	\$ 2,275,638	\$ (989,289)	\$ 3,429,951	\$ (3,527,471)

Cash Flows

Cash flow from operating activities	\$(2,575,907)	\$ (721,814)	\$ (3,101,636)	\$(2,203,864)
Funds from Operations (FFO)	\$ (876,000)	\$ (750,332)	\$ (6,574,433)	\$(4,059,088)
Adjusted Funds from Operations (AFFO)	\$(1,282,891)	\$ (1,642,318)	\$ (7,463,078)	\$(5,027,367)
Distributable income (loss)	\$ 191,066	\$ (913,618)	\$ (4,180,155)	\$(3,512,611)

PER UNIT AMOUNTS

Net operating income				
- basic and diluted	\$ 0.384	\$ 0.333	\$ 1.006	\$ 0.969
Loss from continuing operations, before income tax				
- basic and diluted	\$ 0.086	\$ (0.083)	\$ 0.060	\$ (0.288)
Income (loss) and comprehensive income (loss)				
- basic and diluted	\$ 0.123	\$ (0.054)	\$ 0.186	\$ (0.193)
Cash flow from operating activities				
- basic and diluted	\$ (0.139)	\$ (0.039)	\$ (0.168)	\$ (0.121)
Funds from Operations (FFO)				
- basic and diluted	\$ (0.047)	\$ (0.041)	\$ (0.357)	\$ (0.223)
Adjusted Funds from Operations (AFFO)				
- basic and diluted	\$ (0.069)	\$ (0.090)	\$ (0.405)	\$ (0.276)
Distributable income (loss)				
- basic and diluted	\$ 0.010	\$ (0.050)	\$ (0.227)	\$ (0.193)

(1) Long-Term Financial Liabilities

Long-term financial liabilities consist of mortgage loans, swap mortgage loans, convertible debentures and mortgage bonds, at face value.

2011 COMPARED TO 2010

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Rentals from investment properties	\$ 11,142,567	\$ 9,865,921	\$ 30,656,136	\$ 30,290,419
Property operating costs	<u>4,038,944</u>	<u>3,768,612</u>	<u>12,109,544</u>	<u>12,623,906</u>
Net operating income	7,103,623	6,097,309	18,546,592	17,666,513
Interest income	40,298	79,935	165,309	328,004
Interest expense	(8,085,179)	(6,729,854)	(25,453,004)	(21,267,256)
Trust expense	<u>(617,710)</u>	<u>(657,467)</u>	<u>(2,050,625)</u>	<u>(2,311,728)</u>
Loss before the following	(1,558,968)	(1,210,077)	(8,791,728)	(5,584,467)
Profit (loss) on sale of investment properties	-	307,555	-	1,725,305
Fair value gains (losses)	<u>3,153,922</u>	<u>(611,362)</u>	<u>9,902,377</u>	<u>(1,397,284)</u>
Income (loss) before taxes and discontinued operations	1,594,954	(1,513,884)	1,110,649	(5,256,446)
Income tax expense (recovery)	<u>298,704</u>	-	<u>91,922</u>	<u>(227,520)</u>
Income (loss) before discontinued operations	1,296,250	(1,513,884)	1,018,727	(5,028,926)
Income from discontinued operations	<u>979,388</u>	<u>524,595</u>	<u>2,411,224</u>	<u>1,501,455</u>
Income (loss) and comprehensive income (loss)	<u>\$ 2,275,638</u>	<u>\$ (989,289)</u>	<u>\$ 3,429,951</u>	<u>\$ (3,527,471)</u>

Loss, before fair value gains/losses, profit on property sales, income taxes and discontinued operations increased by \$0.35 million during Q3-2011, compared to Q3-2010. The increase in the loss mainly reflects an increase in interest expense, partially offset by an increase in net operating income. After accounting for fair value gains/losses, profit on property sales, income taxes and discontinued operations, LREIT completed Q3-2011 with comprehensive income of \$2.28 million, compared to a comprehensive loss of \$0.99 million during Q3-2010.

For the nine months ended September 30, 2011, the loss before fair value gains, profit on property sales, income taxes and discontinued operations increased by \$3.21 million, compared to the nine months ended September 30, 2010, comprised of an increase in the loss by quarter of \$2.19 million during Q1-2011, \$0.67 million during Q2-2011 and \$0.35 million during Q3-2011. After accounting for fair value gains/losses, profit on property sales, income taxes and discontinued operations, the comprehensive income of LREIT increased by \$6.96 million during the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010.

Analysis of Total Rental Revenue

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Fort McMurray	\$ 7,618,972	\$ 5,964,861	\$ 1,654,111	\$ 20,157,182	\$ 18,391,788	\$ 1,765,394
Other	<u>3,523,595</u>	<u>3,901,060</u>	<u>(377,465)</u>	<u>10,498,954</u>	<u>11,898,631</u>	<u>(1,399,677)</u>
Total	<u>\$11,142,567</u>	<u>\$9,865,921</u>	<u>\$1,276,646</u>	<u>\$30,656,136</u>	<u>\$30,290,419</u>	<u>\$ 365,717</u>

Total revenue from investment properties increased by \$1.28 million during Q3-2011 compared to Q3-2010. The increase in revenue from the Fort McMurray property portfolio reflects a decrease in the vacancy, partially offset by a decrease in the average rental rate. As disclosed in the charts below, the vacancy for the Fort McMurray portfolio decreased from 33% during Q3-2010, to 6% during Q3-2011, while the average monthly rental rate decreased by

\$134 or 5.6%. Rental revenue for the Fort McMurray portfolio was also comparatively low during the third quarter of 2010, as Lakewood Manor was in a transitional leasing period following the expiry of the corporate lease agreement for the entire property in the second quarter of 2010. The decrease in revenue for the "Other" property portfolio is mainly due to a reduction in the number of revenue-generating investment properties.

Vacancy, by Quarter

	2011					
	Q1	Q2	Q3	9 Month Average		
Fort McMurray	34%	16%	6%	19%		
Other	2%	2%	2%	2%		
Sub-total	25%	13%	5%	14%		
Properties divested	N/A	N/A	N/A	N/A		
Total	25%	13%	5%	14%		

	2010					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	30%	30%	33%	31%	33%	32%
Other	6%	5%	4%	5%	3%	5%
Subtotal	24%	23%	25%	24%	24%	24%
Properties divested	5%	2%	2%	3%	2%	3%
Total	23%	22%	24%	23%	24%	23%

Average Monthly Rents, by Quarter

	2011					
	Q1	Q2	Q3	9 Month Average		
Fort McMurray	\$2,323	\$2,290	\$2,246	\$2,282		
Other	\$1,034	\$1,065	\$1,050	\$1,046		
Sub-total	\$1,790	\$1,792	\$1,759	\$1,776		
Properties divested	N/A	N/A	N/A	N/A		
Total	\$1,790	\$1,792	\$1,759	\$1,776		

	2010					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	\$2,495	\$2,315	\$2,380	\$2,397	\$2,338	\$2,382
Other	\$1,037	\$1,031	\$1,037	\$1,035	\$1,025	\$1,033
Sub-total	\$1,895	\$1,743	\$1,781	\$1,806	\$1,753	\$1,793
Properties divested	\$1,060	\$1,004	\$904	\$989	\$978	\$986
Total	\$1,767	\$1,683	\$1,711	\$1,720	\$1,735	\$1,724

Analysis of Property Operating Costs

	Three Months Ended			Nine Months Ended		
	September 30		Increase	September 30		Increase
	2011	2010	(Decrease)	2011	2010	(Decrease)
Fort McMurray	\$2,523,116	\$2,155,049	\$368,067	\$7,503,762	\$7,051,870	\$451,892
Other	<u>1,515,828</u>	<u>1,613,563</u>	<u>(97,735)</u>	<u>4,605,782</u>	<u>5,572,036</u>	<u>(966,254)</u>
Total	<u>\$4,038,944</u>	<u>\$3,768,612</u>	<u>\$270,332</u>	<u>\$12,109,544</u>	<u>\$12,623,906</u>	<u>\$(514,362)</u>

During Q3-2011, property operating costs for the entire portfolio of investment properties increased by \$0.27 million or 7%, compared to Q3-2010. The increase is comprised of a \$0.37 million increase in the operating costs of the Fort McMurray portfolio partially offset by a decrease of \$0.10 million in the operating costs of the "Other" property portfolio. The increase in operating costs for the Fort McMurray portfolio is mainly due to an increase in on-site salary costs and advertising expenses. The decrease in operating costs for the "Other" property portfolio is mainly due to the reduction in the number of properties in the portfolio.

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Fort McMurray	\$5,095,856	\$3,809,812	\$1,286,044	\$12,653,420	\$11,339,918	\$1,313,502
Other	<u>2,007,767</u>	<u>2,287,497</u>	<u>(279,730)</u>	<u>5,893,172</u>	<u>6,326,595</u>	<u>(433,423)</u>
Total	<u>\$7,103,623</u>	<u>\$6,097,309</u>	<u>\$1,006,314</u>	<u>\$18,546,592</u>	<u>\$17,666,513</u>	<u>\$880,079</u>

COMPARISON TO PREVIOUS QUARTER

Analysis of Income (Loss) Third Quarter 2011 vs. Second Quarter 2011

	Three Months Ended		Increase (Decrease)	
	September 30, 2011	June 30, 2011	Amount	%
Rentals from investment properties	11,142,567	10,363,052	779,515	7.5%
Property operating costs	<u>4,038,944</u>	<u>4,043,090</u>	<u>(4,146)</u>	<u>(0.1)%</u>
Net operating income	7,103,623	6,319,962	783,661	12.4%
Interest income	40,298	47,344	(7,046)	(14.9)%
Interest expense	(8,085,179)	(8,651,755)	(566,576)	(6.5)%
Trust expense	<u>(617,710)</u>	<u>(661,170)</u>	<u>(43,460)</u>	<u>(6.6)%</u>
Loss before the following	(1,558,968)	(2,945,619)	1,386,651	47.1%
Fair value gains (losses)	<u>3,153,922</u>	<u>7,049,162</u>	<u>(3,895,240)</u>	<u>(55.3)%</u>
Income for the period before taxes and discontinued operations	1,594,954	4,103,543	(2,508,589)	(61.1)%
Income tax expense (recovery)	<u>298,704</u>	<u>(89,123)</u>	<u>387,827</u>	<u>435.2%</u>
Income for the period before discontinued operations	1,296,250	4,192,666	(2,896,416)	69.1%
Income from discontinued operations	<u>979,388</u>	<u>708,255</u>	<u>271,133</u>	<u>38.3%</u>
Comprehensive income	<u>\$ 2,275,638</u>	<u>\$ 4,900,921</u>	<u>\$(2,625,283)</u>	<u>(53.6)%</u>

During Q3-2011, loss, before fair value gains/losses, income taxes and discontinued operations, decreased by \$1.39 million compared to Q2-2011. The decrease in the loss mainly reflects an increase in net operating income of \$0.78 million and a decrease in interest expense of \$0.57 million. The increase in net operating income reflects a \$0.80 million increase in the net operating income of the Fort McMurray property portfolio (mainly due to a decrease in vacancy) offset by a \$0.02 million decrease in the net operating income from the Other portfolio.

Overall, after accounting for fair value gains, income tax expense and discontinued operations, LREIT completed Q3-2011 with comprehensive income of \$2.28 million, compared to comprehensive income of \$4.90 million during Q2-2011.

OUTLOOK

During Q3-2011, net operating income increased by 12% compared to Q2-2011 and by 39%, compared to Q1-2011. The occupancy level for the Fort McMurray property portfolio increased from 66% in Q1-2011 to 94% in Q3-2011, while the average rental rate declined by only 3.3%.

The continued improvement of net operating income results at the Q3-2011 level supports LREIT achieving an improvement in operating cash flow results in 2012. The increased net operating income levels are also translating into increased property values as reflected in the fair value gains, which have been reported in 2011.

Divestiture Program

LREIT is pursuing the sale of the nine properties, comprised of the four seniors' housing complexes, the Lakewood Townhomes in Fort McMurray, as well as four other properties. The Lakewood Townhomes are being sold under a condominium sales program, which was recently implemented. Management expects the property sales will occur later in 2012 and the condominium sales program will be completed in 2013.

After accounting for the upward refinancing of properties which are expected to be sold, the net after tax sale proceeds from the nine property sales is projected to be approximately \$49 million.

Interim Funding

LREIT utilizes a revolving loan commitment from 2668921 Manitoba Ltd., the parent company of Shelter Canadian Properties Limited, as a source of interim financing. The current loan commitment matures on December 31, 2011. The Trustees approved the renewal of the loan commitment, effective on the maturity date, at an interest rate of 14%. The renewal encompasses an increase in the maximum loan amount from \$12 million to \$15 million and an extension to April 30, 2012. The renewal is subject to required regulatory approval. As of September 30, 2011, the balance of the revolving loan commitment was \$9.2 million.

Restructuring of Series G Debentures

As of September 30, 2011, the long-term debt of LREIT includes approximately \$25 million of Series G convertible debentures with a maturity date of December 31, 2011. In October 2011, the Series G debenture holders approved the following amendments to the terms of the Series G debentures:

- an increase in the interest rate from 7.5% per annum to 9.5% per annum, effective December 31, 2011;
- an extension of the maturity date to February 28, 2015;
- the elimination of the ability of the debenture holders to convert the debentures into trust units;
- the elimination of the ability of LREIT to repay interest or principal through the issuance of trust units;
- the addition of a redemption feature which, subject to notice requirements, provides the Trust with the option to redeem the debentures and which requires the Trust to redeem debentures on a from the net proceeds of property sales; and
- the addition of security whereby the debentures will be secured by a Personal Property Security Act (Manitoba) registration against all of the assets and property of LREIT, subject to the priority of existing and future senior debt and permitted encumbrances.

In the absence of the amendments, the funding obligations of LREIT for Q4-2011 would have included either the repayment of \$25 million or a substantial equity distribution in order to repay the debenture debt through the issuance of Trust units.

Financing

LREIT is continuing to negotiate the breach of debt service coverage covenants for approximately \$178 million of mortgage loan debt. The majority of the covenant breaches have been addressed through forbearance agreements or

modified loan terms and by the provision of additional cash deposits and guarantees. The expectation is that all of the covenants breaches will continue to be addressed through new or extended forbearance agreements, guarantees, waivers, modified loan terms or repayment from sale or refinancing proceeds.

As of September 30, 2011, the restricted cash of LREIT includes approximately \$11.5 million of cash deposits held in escrow under mortgage loan agreements.

LREIT is also continuing to complete mortgage loan financing for Parsons Landing in order to acquire the property during 2012.

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 Convertible 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.