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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2011 SECOND QUARTER RESULTS

Winnipeg, Manitoba, August 10, 2011 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended June 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 June 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 second quarter of 2011 with income of \$4.90 million, representing an increase of \$5.74 million, compared to Q2-2010. The increase in income in Q2-2011 compared to Q2-2010 reflects the following major components:

- **Net operating income:** Overall increase of \$0.66 million or 12% comprised of a \$0.78 million increase from the Fort McMurray portfolio and \$0.13 million decrease from the other investment properties. The Fort McMurray portfolio achieved an occupancy level of 84%, compared to 70% in Q2-2010 and 66% in Q1-2011. Given the recent increase in activity in the oil sands industry, occupancy levels of the investment properties in Fort McMurray improved substantially during the second quarter of 2011. The improvement is expected to continue in the Fort McMurray portfolio for the balance of 2011. Rental rates are expected to rise gradually as the demand for rental housing in Fort McMurray continues to grow.
- **Interest expense:** Increased by \$1.53 million or 22%, including a “non-cash” component of \$0.95 million, representing 62% of the total increase.
- **Fair value gains:** Amounted to \$7.05 million, compared to a loss of \$0.66 million in Q2-2010. Gains represent increases in fair market value of investment properties during Q2-2011. The loss in Q2-2010 represents capital expenditures. Approximately 62% of the increase in the Q2-2011 appraised value pertains to one property in Fort McMurray.
- **Profit on sale of investment property:** Nil in Q2-2011, compared to \$1.44 million in Q2-2010. The gain in Q2-2010 represents a gain resulting from the unconditional sale of a property at June 30, 2010. The sale closed in Q3-2010.

Cash used in operating activities was \$1.30 million in Q2-2011, relatively unchanged from \$1.26 during Q2-2010. Debt principal payments and capital expenditures exceeded cash provided by operating activities by \$4.28 million. The shortfall was funded by interim sources of capital.

FINANCIAL AND OPERATING SUMMARY

	June 30 2011	December 31 2010
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Total assets	\$550,341,074	\$547,829,176
Total long-term financial liabilities (1)	\$345,123,657	\$354,981,731

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010

KEY FINANCIAL PERFORMANCE INDICATORS

Operating Results

Total revenue	\$ 10,363,052	\$ 9,672,356	\$ 19,513,569	\$ 20,424,498
Net operating income	\$ 6,319,962	\$ 5,663,667	\$ 11,442,969	\$ 11,569,204
Income (loss) from continuing operations, before taxes	\$ 4,103,543	\$(1,493,002)	\$ (484,305)	\$(3,742,562)
Income (loss) and comprehensive income (loss)	\$ 4,900,921	\$ (839,350)	\$ 1,154,313	\$(2,538,182)

Cash Flows

Cash flow from operating activities	\$(1,296,849)	\$(1,256,117)	\$ (525,729)	\$(1,360,841)
Funds from Operations (FFO)	\$(2,187,543)	\$(1,713,676)	\$ (5,698,433)	\$(3,308,756)
Adjusted Funds from Operations (AFFO)	\$(2,396,826)	\$(1,858,720)	\$ (5,723,273)	\$(2,978,479)
Distributable income (loss)	\$(2,749,471)	\$(1,170,456)	\$ (4,371,224)	\$(2,720,202)

PER UNIT AMOUNTS

Net operating income				
- basic	\$ 0.343	\$ 0.311	\$ 0.622	\$ 0.636
- diluted	\$ 0.343	\$ 0.311	\$ 0.622	\$ 0.247
Loss from continuing operations, before income tax				
- basic	\$ 0.223	\$ (0.082)	\$ (0.026)	\$ (0.206)
- diluted	\$ 0.223	\$ (0.082)	\$ (0.026)	\$ (0.206)
Income (loss) and comprehensive income (loss)				
- basic	\$ 0.266	\$ (0.046)	\$ 0.063	\$ (0.139)
- diluted	\$ 0.266	\$ (0.046)	\$ 0.063	\$ (0.139)
Funds from Operations (FFO)				
- basic	\$ (0.119)	\$ (0.094)	\$ (0.310)	\$ (0.182)
- diluted	\$ (0.119)	\$ (0.094)	\$ (0.310)	\$ (0.182)
Adjusted Funds from Operations (AFFO)				
- basic	\$ (0.130)	\$ (0.102)	\$ (0.311)	\$ (0.164)
- diluted	\$ (0.130)	\$ (0.102)	\$ (0.311)	\$ (0.164)
Distributable income (loss)				
- diluted	\$ (0.149)	\$ (0.064)	\$ (0.237)	\$ (0.150)
- diluted	\$ (0.149)	\$ (0.064)	\$ (0.237)	\$ (0.150)

(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		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
Rentals from investment properties	\$ 10,363,052	\$ 9,672,356	\$ 19,513,569	\$ 20,424,498
Property operating costs	<u>4,043,090</u>	<u>4,008,689</u>	<u>8,070,600</u>	<u>8,855,294</u>
Net operating income	6,319,962	5,663,667	11,442,969	11,569,204
Interest income	47,344	141,637	125,011	248,069
Interest expense	(8,651,755)	(7,123,403)	(17,367,825)	(14,537,402)
Trust expense	(661,170)	(957,471)	(1,432,915)	(1,654,261)
Profit (loss) on sale of investment property	-	1,440,074	-	1,417,750
Fair value gains (losses)	<u>7,049,162</u>	<u>(657,506)</u>	<u>6,748,455</u>	<u>(785,922)</u>
Income (loss) before taxes and discontinued operations	4,103,543	(1,493,002)	(484,305)	(3,742,562)
Income tax expense (recovery)	<u>(89,123)</u>	-	<u>(206,782)</u>	<u>(227,520)</u>
Income (loss) before discontinued operations	4,192,666	(1,493,002)	(277,523)	(3,515,042)
Income from discontinued operations	<u>708,255</u>	<u>653,652</u>	<u>1,431,836</u>	<u>976,860</u>
Income (loss) and comprehensive income (loss)	<u>\$ 4,900,921</u>	<u>\$ (839,350)</u>	<u>\$ 1,154,313</u>	<u>\$ (2,538,182)</u>

Income increased by \$5.74 million during the second quarter of 2011, compared to the second quarter of 2010. The increase in income mainly reflects an increase of \$7.70 million with respect to fair value gains offset by a decrease of \$1.44 million in profit on sale of properties. The increase in income also reflects a \$0.66 million increase in net operating income and a \$1.53 increase in interest expense.

For the six months ended June 30, 2011, compared to the six months ended June 30, 2010, income increased by \$3.69 million.

Analysis of Total Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Fort McMurray	\$ 6,869,514	\$ 5,739,350	\$ 1,130,164	\$ 12,538,210	\$ 12,426,927	\$ 111,283
Other	<u>3,493,538</u>	<u>3,933,006</u>	<u>(439,468)</u>	<u>6,975,359</u>	<u>7,997,571</u>	<u>(1,022,212)</u>
Total	<u>\$10,363,052</u>	<u>\$9,672,356</u>	<u>\$ 690,696</u>	<u>\$19,513,569</u>	<u>\$20,424,498</u>	<u>\$(910,929)</u>

Total revenue from the investment properties increased by \$0.69 million during the second quarter of 2011 compared to the second quarter of 2010. The increase in revenue from the Fort McMurray property portfolio reflects a decrease in vacancy, partially offset by a decrease in the average rental rate. As disclosed in the chart below, vacancy for the Fort McMurray portfolio decreased from 30% during the second quarter of 2010, to 16% during the second quarter of 2011, while the average monthly rental rate decreased by \$25 or 1.1%.

The decrease in revenue for the "Other" property portfolio is mainly due to a reduction in the number of revenue-generating investment properties. During the second quarter of 2010, 25 investment properties contributed to the revenue results, compared to 22 properties during the second quarter of 2011.

Vacancy Loss by Quarter

	2011			2010		
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
	Fort McMurray	34%	16%	26%	33%	33%
Other	2%	2%	2%	4%	3%	5%
Sub-total	25%	13%	19%	25%	24%	24%
Sold properties	N/A	N/A	N/A	2%	2%	3%
Total	25%	13%	19%	24%	24%	23%

Average Monthly Rents by Quarter

	2011			2010		
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
	Fort McMurray	\$2,323	\$2,290	\$2,307	\$2,380	\$2,338
Other	\$1,034	\$1,065	\$1,050	\$1,037	\$1,025	\$1,033
Sub-total	\$1,790	\$1,792	\$1,791	\$1,781	\$1,753	\$1,793
Sold properties	N/A	N/A	N/A	\$904	\$978	\$986
Total	\$1,790	\$1,792	\$1,791	\$1,711	\$1,735	\$1,724

Analysis of Property Operating Costs

	Three Months Ended June 30		Increase (Decrease)	Six Months Ended June 30		Increase (Decrease)
	2011	2010		2011	2010	
Fort McMurray	\$2,580,593	\$2,233,504	\$347,089	\$4,980,647	\$4,896,821	\$83,826
Other	<u>1,462,497</u>	<u>1,775,185</u>	<u>(312,688)</u>	<u>3,089,953</u>	<u>3,958,473</u>	<u>(868,520)</u>
Total	<u>\$4,043,090</u>	<u>\$4,008,689</u>	<u>\$34,401</u>	<u>\$8,070,600</u>	<u>\$8,855,294</u>	<u>\$(784,694)</u>

During the second quarter of 2011, property operating costs increased marginally by \$0.03 million or 1%, compared to the second quarter of 2010, comprised of a \$0.34 million increase in the operating costs of the Fort McMurray portfolio and a decrease of \$0.31 million in the operating costs of the "Other" property

portfolio. For the six months period, operating costs decreased by \$0.78 million or 9% in 2011 compared to 2010.

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase (Decrease)	2011	2010	Increase (Decrease)
Fort McMurray	\$4,288,921	\$3,505,846	\$ 783,075	\$7,557,563	\$7,530,106	\$ 27,457
Other	<u>2,031,041</u>	<u>2,157,821</u>	<u>(126,780)</u>	<u>3,885,406</u>	<u>4,039,098</u>	<u>(153,692)</u>
Total	<u>\$6,319,962</u>	<u>\$5,663,667</u>	<u>\$ 656,295</u>	<u>\$11,442,969</u>	<u>\$11,569,204</u>	<u>\$(126,235)</u>

COMPARISON TO PREVIOUS QUARTER

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

	Three Months Ended		Increase (Decrease)	
	June 30, 2011	March 31, 2011	Amount	%
Rentals from investment properties	10,363,052	9,150,517	1,212,535	13.3%
Property operating costs	<u>4,043,090</u>	<u>4,027,510</u>	<u>15,580</u>	<u>0.4%</u>
Net operating income	6,319,962	5,123,007	1,196,955	23.4%
Interest income	47,344	77,667	(30,323)	(39.0)%
Interest expense	(8,651,755)	(8,716,070)	(64,315)	(0.7)%
Trust expense	(661,170)	(771,745)	(110,575)	(14.3)%
Fair value gains (losses)	<u>7,049,162</u>	<u>(300,707)</u>	<u>7,349,869</u>	<u>N/R</u>
Loss for the period before taxes and discontinued operations	4,103,543	(4,587,848)	8,691,391	189.4%
Income tax expense (recovery)	<u>(89,123)</u>	<u>(117,659)</u>	<u>(28,536)</u>	<u>(24.3)%</u>
Loss for the period before discontinued operations	4,192,666	(4,470,189)	8,662,855	193.8%
Income from discontinued operations	<u>708,255</u>	<u>723,581</u>	<u>(15,326)</u>	<u>(2.0)%</u>
Comprehensive income (loss)	<u>\$ 4,900,921</u>	<u>\$ (3,746,608)</u>	<u>\$ 8,647,529</u>	<u>230.8%</u>

During the second quarter of 2011, income increased by \$8.65 million compared to the first quarter of 2011, comprised mainly of an increase of \$7.35 million in fair value gains and an increase of \$1.20 million in net operating income.

OUTLOOK

Financing

LREIT expects to generate proceeds of approximately \$16 million from the upward refinancing of Riverside Terrace in Saskatoon during the third quarter of 2011. The upward refinancing of two other properties in the fourth quarter of 2011 is expected to generate net proceeds of \$4 million.

The net proceeds from the refinancings will be used to repay other debt, which includes an interest free advance from Shelter Canadian Properties Limited, bank line of credit and revolving loan from 2668921 Manitoba Ltd.

LREIT continues to address the breach of debt service coverage covenants for approximately \$196 million of mortgage loan debt. The majority of the covenant breaches were initially addressed through forbearance

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

The Series G convertible debentures in the approximate amount of \$25.5 million mature on December 31, 2011. LREIT intends to seek approval from the debenture holders to extend the maturity date beyond December 31, 2011. LREIT also has the option to satisfy its obligation in regard to the Series G debentures by issuing trust units to the debenture holders.

Property Sales

LREIT is actively pursuing the sale of the four seniors' housing complexes, as well as three other properties. It was previously anticipated that LREIT would complete the sale of three of the seniors' housing complexes in 2011 and sell the remaining four properties in 2012. The closings of the sale of all or some of the aforementioned properties may extend to 2012. After accounting for the upward refinancing of properties which are expected to be sold, the net after-tax sale proceeds from the seven property sales is projected to be approximately \$41 million.

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.