



LANESBOROUGH

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LANESBOROUGH REAL ESTATE INVESTMENT TRUST Press Release

LANESBOROUGH REIT REPORTS 2009 SECOND QUARTER RESULTS

Winnipeg, Manitoba, August 14, 2009 – Lanesborough Real Estate Investment Trust (“LREIT”) (TSX: LRT.UN) today reported its operating results for the quarter ended June 30, 2009. The following comments in regard to the financial position and operating results of LREIT should be read in conjunction with the June 30, 2009 Management Discussion & Analysis and the financial statements for the quarter ended June 30, 2009, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

During 2009, LREIT’s operating results have been negatively impacted by the slow down of development activity in the oil sands industry in northern Alberta and the associated decline in rental housing market conditions in Fort McMurray. LREIT has a high concentration of properties in Fort McMurray and the decline has resulted in increased vacancy losses and reduced rental rates and led to a significant reduction in the profitability of the Fort McMurray property portfolio. The decline in market conditions has necessitated the deferral of distributions since March 2009 and created a delay in the acquisition of the Parsons Landing property in Fort McMurray. Due to the continued weakness of rental market conditions in Fort McMurray, LREIT has suspended distributions for the balance of 2009.

LREIT experienced a significant decrease in revenue and net operating income during the first quarter of 2009, compared to the fourth quarter of 2008, as well as a significant increase in financing expense. The operating results for the second quarter of 2009 are comparable to the first quarter results and reflect a minimal change in the loss before taxes (excluding financing charges related to the interest rate swap agreements) and a more substantive change in operating cash flow (excluding changes in non-cash operating items).

Specifically, after excluding financing charges related to the interest rate swap agreements, LREIT experienced a loss before taxes of approximately \$3.2 million during the second quarter of 2009, compared to a loss of approximately \$3.3 million during the first quarter of 2009. In regard to cash flows, LREIT generated cash from operating activities of approximately \$1.0 million during the second quarter of 2009, including the cash flow from discontinued operations and excluding changes in non-cash operating items, compared to a cash flow of \$1.7 million during the first quarter of 2009. The decrease in cash flow during the second quarter of 2009 is mainly due to an increase in interest expense related to the delay in the acquisition of Parsons Landing.

In comparison to the second quarter of 2008, the loss, before taxes and excluding financing charges related to interest rate swap agreements, increased by approximately \$2.4 million during the second quarter of 2009. The loss before taxes includes the operating results of the ten properties which were reclassified to “properties held for sale” during the second quarter of 2009. Cash flow from operating activities, including cash flow from discontinued operations and excluding changes in non-cash operating items, decreased by approximately \$1.7 million during the second quarter of 2009, compared to the second quarter of 2008. The increase in the loss and the decrease in operating cash flow mainly reflect an increase in financing expense which was substantially higher than the increase in net operating income.

FINANCIAL AND OPERATING SUMMARY

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008 (restated)	2009	2008 (restated)
DISTRIBUTIONS				
Total, including distributions on LP units	\$ -	\$ 2,463,744	\$ 1,668,364	\$ 4,920,645
Per unit	\$ -	\$ 0.14	\$ 0.09	\$ 0.28
KEY PERFORMANCE INDICATORS				
Operations				
Average income property occupancy rate	85%	95%	87%	94%
Income property operating cost ratio	36%	36%	37%	38%
Operating Results				
Revenue	\$ 13,976,190	\$ 11,620,994	\$ 29,144,155	\$ 21,953,365
Net operating income	\$ 9,024,724	\$ 7,520,562	\$ 18,506,976	\$ 13,822,347
Loss from continuing operations for the period before future income tax	\$(4,403,323)	\$ (487,173)	\$ (9,662,915)	\$ (2,210,113)
Loss for the period	\$(3,956,727)	\$(4,988,811)	\$(12,487,446)	\$ (4,988,510)
Cash Flows				
Cash flow from operating activities	\$ 1,278,582	\$ 3,037,717	\$ 3,837,851	\$ 4,369,932
Funds from Operations (FFO)	\$ (702,323)	\$ 1,655,318	\$ (2,796,395)	\$ 2,055,887
Adjusted Funds from Operations (AFFO)	\$ 331,880	\$ 2,003,385	\$ 1,239,954	\$ 3,063,429
Distributable income	\$ 1,069,790	\$ 2,630,440	\$ 2,849,003	\$ 4,189,148
Financing				
Mortgage loans to estimated current value ratio			67%	57%
Weighted average interest rate of mortgage loans			5.6%	5.8%

PER UNIT AMOUNTS

Net operating income								
- basic	\$	0.517	\$	0.429	\$	1.060	\$	0.790
- diluted	\$	0.358	\$	0.294	\$	0.734	\$	0.541
Loss from continuing operations for the period, before future income tax								
- basic	\$	(0.252)	\$	(0.028)	\$	(0.553)	\$	(0.126)
- diluted	\$	(0.252)	\$	(0.028)	\$	(0.553)	\$	(0.126)
Income (loss) for the period								
- basic	\$	(0.227)	\$	(0.284)	\$	(0.715)	\$	(0.285)
- diluted	\$	(0.227)	\$	(0.284)	\$	(0.715)	\$	(0.285)
Distributable income								
- basic	\$	0.061	\$	0.150	\$	0.163	\$	0.239
- diluted	\$	0.057	\$	0.142	\$	0.155	\$	0.226
FFO								
- basic	\$	(0.040)	\$	0.094	\$	(0.160)	\$	0.118
- diluted	\$	(0.040)	\$	0.094	\$	(0.160)	\$	0.116
AFFO								
- basic	\$	0.019	\$	0.114	\$	0.071	\$	0.175
- diluted	\$	0.016	\$	0.113	\$	0.065	\$	0.166

SECOND QUARTER 2009 COMPARED TO SECOND QUARTER 2008

- NOI increased by \$1.5 million or 20%, mainly due to the addition of the Sienna Apartments and Parsons Landing to the portfolio subsequent to June 30, 2008.
- Loss before taxes increased by approximately \$3.9 million, primarily due to an increase in financing expense which was substantially higher than the increase in NOI.
- Cash provided by operating activities, excluding changes in non-cash operating items, decreased by \$1.7 million.
- FFO decreased by \$2.4 million, while AFFO decreased by \$1.7 million. On a basic per unit basis, FFO decreased by \$0.134 per unit, while AFFO decreased by \$0.095 per unit.

COMPARISON TO PRECEDING QUARTER

Analysis of Loss - Second Quarter 2009 vs. First Quarter 2009

	Three Months Ended		Increase (decrease)	
	June 30, 2009	March 31, 2009	Amount	%
Rental revenue	\$ 13,874,256	\$ 14,941,454	\$ (1,067,198)	(7.1)%
Interest and other income	101,934	226,511	(124,577)	(55.0)%
Property operating costs	<u>4,951,466</u>	<u>5,685,713</u>	<u>(734,247)</u>	<u>(12.9)%</u>
Net Operating Income	9,024,724	9,482,252	(457,528)	(4.8)%
Trust expense	<u>662,087</u>	<u>744,190</u>	<u>(82,103)</u>	<u>(11.0)%</u>
Income before financing expense, amortization, non-controlling interest and taxes	8,362,637	8,738,062	(375,425)	(4.3)%
Financing expense	<u>9,979,048</u>	<u>11,287,447</u>	<u>(1,308,399)</u>	<u>(11.6)%</u>
Income (loss) before amortization, non-controlling interest and taxes	(1,616,411)	(2,549,385)	932,974	(36.6)%
Amortization	2,735,518	2,671,604	63,914	2.4%
Non-controlling interest	<u>51,394</u>	<u>38,603</u>	<u>12,791</u>	<u>33.1%</u>
Income (loss) before future income tax expense (recovery)	(4,403,323)	(5,259,592)	856,269	(16.3)%
Future income tax expense	<u>258,521</u>	<u>2,777,340</u>	<u>(2,518,819)</u>	<u>(90.7)%</u>
Loss from continuing operations for the period	(4,661,844)	(8,036,932)	3,375,088	(42.0)%
Income from discontinued operations for the period	<u>705,117</u>	<u>(493,787)</u>	<u>1,198,904</u>	<u>(242.8)%</u>
Loss for the period	<u>\$ (3,956,727)</u>	<u>\$ (8,530,719)</u>	<u>\$ 4,573,992</u>	<u>(53.6)%</u>

- NOI decreased by \$457,000 or 4.8%, mainly due to decline in the revenues of the Fort McMurray property portfolio, partially offset by an increase in NOI from the Saskatchewan property portfolio. The decrease in revenues in the Fort McMurray portfolio reflects an increase in the vacancy rate, as well as a decrease in the average rental rate per suite.
- Loss before taxes decreased by approximately \$856,000. After excluding the non-cash charge to financing expense pertaining to the change in fair value of an interest rate swap agreement, the loss before taxes increased by approximately \$1.2 million. The relative comparability in the loss mainly reflects an increase in income from discontinued operations which offset the decrease in NOI.
- The overall loss decreased by approximately \$4.6 million, after considering the \$2.5 million decrease in the amount of future income tax expense.

- Cash provided by operating activities, excluding changes in non-cash operating items decreased by \$0.6 million.

OUTLOOK FOR SECOND HALF OF 2009

LREIT is pursuing a divestiture program targeting the sale of assets, with estimated proceeds of \$250 million, by December 31, 2010. Currently, 12 properties with estimated proceeds of \$70 million are under conditional contracts for sale and are expected to close this year. The 12 properties had a net book value of \$49.7 million at June 30, 2009. The objective of the divestiture program is to reduce total debt, including convertible debenture debt, and in particular higher cost interim mortgage loan financing. In addition to generating funds for the repayment of debt, the projected sale of properties under the divestiture program will enable LREIT to improve its working capital position. The improved liquidity should sustain LREIT's operations until the expected recovery in the Fort McMurray rental housing market in 2010.

The closing of Parsons Landing continues to be delayed, pending the completion of permanent financing arrangements for the property. The closing for the payment of the balance owing on Parsons Landing of approximately \$45 million has been extended until October 1, 2009, subject to LREIT obtaining a commitment for permanent financing by October 1, 2009. The vendor has agreed to provide a \$15 million second mortgage loan, in addition to the \$30 million first mortgage loan being arranged. The vendor is permitted to list the property for sale and LREIT may list the property for sale this year. Depending on the sale price, a sale may result in the full or partial loss of the cumulative amount paid to the vendor by LREIT. In addition, LREIT would be liable to the vendor for any shortfall between the net proceeds of the sale and the acquisition cost payable of \$45.2 million, plus interest.

LREIT has \$103.8 million of mortgage loan debt from income producing properties maturing during the second half of 2009, representing 23% of total long-term debt, as of June 30, 2009. The maturing debt is comprised of \$10.9 million of fixed rate mortgage loans and \$92.9 million of floating rate demand mortgage loans. \$73 million of the demand loans have terms that extend beyond 2009. Renewal terms have been finalized for all mortgage loans, which mature in the third quarter of 2009, with the exception of two mortgage loans with combined principal balance of \$5.6 million that have matured and alternate financing arrangements have not been concluded. Management anticipates that all mortgages maturing in 2009 will be renewed or refinanced.

As disclosed in the financial statements and MD&A, there is uncertainty surrounding the ability of LREIT to continue as a going concern. LREIT sustained net losses in 2008 and in the first six months of 2009, has a working capital deficit as of June 30, 2009 and is in breach of the debt service covenant on two mortgage loans totalling approximately \$47 million. The violation in the debt service covenant could potentially result in the lender demanding repayment of the mortgage loans and also potentially result in \$25.6 million of convertible debenture debt becoming due and payable. Additionally, one first

mortgage loan in the amount of \$12.8 million has matured, but alternate financing arrangements have not yet been concluded.

Management has taken steps to mitigate the level of uncertainty in regard to the going concern issue. The mortgage lender has been requested to reduce the existing debt service coverage ratio requirements in recognition of the decline in market conditions. If agreed to, the violation of the debt service covenant and the risk of the mortgage loans and debentures becoming payable on demand would be eliminated. As noted above, LREIT has also implemented a divestiture program to reduce debt and suspended cash distribution. LREIT has been able to refinance mortgage loans during 2009. As a result of the steps that have been taken to reduce the level of uncertainty, management believes that LREIT has the ability to continue as a going concern.

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) and LRT.DB.G (Series G Convertible Debentures). 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.

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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.