LANESBOROUGH
Real estate investment trust
2600 Seven Evergreen Place
Winnipeg, Manitoba
R3L 2T3
Tel. 204.475.9090
Fax. 204.475.5505

LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2013 OPERATING RESULTS

Winnipeg, Manitoba, March 13, 2014 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the year ended December 31, 2013. 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, 2013, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

HIGHLIGHTS

During 2013, LREIT made significant progress toward improving its overall financial and liquidity position as a result of a number of key accomplishments.

- **Elimination of debt covenant breaches:** During 2013, LREIT resolved debt covenant breaches on three mortgage loans with a combined principal balance of approximately $80.8 million. The resolution of the debt covenant breaches has eliminated a major risk factor and will enable LREIT to move forward with additional debt restructuring initiatives. As of December 31, 2013, all debt covenant breaches have been eliminated with the exception of one swap mortgage loan which is in breach of net operating income achievement requirements.

- **Property divestitures:** During 2013, LREIT sold two additional properties under its divestiture program, including the sale of Nova Court on December 31, 2013. The two sales resulted in net proceeds of $14.5 million after accounting for selling costs and the discharge/assumption of the existing mortgage loan debt. Subsequent to December 31, 2013, LREIT redeemed $10 million of the 9% mortgage bonds (TSX: LRT.NT.A) which were, in part, secured against the Nova Court property.

- **NOI gains for Fort McMurray properties:** During 2013, the net operating income of the Fort McMurray property portfolio, excluding Parsons Landing, increased by $1.5 million or 11%, compared to 2012. The increase in operating income reflects the continued strengthening of economic conditions in Fort McMurray and the completion of income-enhancing capital expenditures for the six apartment properties which are located in the downtown area of the City.

- **Debt reduction:** After accounting for regular and lump-sum mortgage loan principal payments and debt discharged/assumed on the sale of properties, the total long-term debt decreased by $21.0 million during 2013. As at December 31, 2013, the weighted average interest rate of the total debt including the revolving loan was 5.9%, compared to 7.4% as at December 31, 2012. As at December 31, 2013, the total debt, including the revolving loan, was equal to 76% of the carrying value of the total property portfolio, excluding Parsons Landing

- **Parsons Landing - Reconstruction and completion of acquisition:** On June 1, 2013, approximately 16 months after the property was destroyed by a fire, 84 of the 160 units at Parsons

Landing returned to active rental operations. On October 3, 2013, the reconstruction of the remaining 76 units was completed and the entire project became fully operational. On March 6, 2014, the purchase of Parsons Landing was completed. The acquisition was funded by $39.29 million of net proceeds from a 7.95%, $40 million first mortgage loan maturing on April 30, 2015, an advance under the revolving loan and the balance in cash.

INCOME RESULTS

During 2013, LREIT achieved an increase in income from investment properties of $14.1 million, mainly due to the following factors:

- Despite a reduction in the number of income-producing properties, net operating income, combined with income recoveries on Parsons Landing, increased by $1.1 million or 4% during 2013, mainly due to the NOI increase for the Fort McMurray property portfolio. During 2013, the average monthly rental rate of the Fort McMurray property portfolio increased by 5% and the overall occupancy level improved from 90% in 2012 to 91% in 2013.
- Total interest expense decreased by $6.0 million or 18% during 2013, due to the reduction in mortgage loan debt, the decrease in the weighted average interest rate of debt and the elimination of mortgage prepayment charges.
- As a result of the continued appreciation of property values and the return of Parsons Landing to rental operations, fair value gains/adjustments contributed $15.9 million to income.

During 2013, income from discontinued operations decreased by $18.7 million, compared to 2012. The decrease in income from discontinued operations is attributable to the sale of two of the seniors' housing complexes in 2012 and the associated gain of $15 million which was recorded on the sale of the two properties.

Overall, LREIT completed 2013 with comprehensive income of $15.5 million, compared to comprehensive income of $20.1 million in 2012.

CASH FLOW RESULTS

During 2013, cash inflow from operating activities, excluding working capital adjustments, amounted to $2.0 million, compared to a cash outflow of $2.1 million during 2012. Including working capital adjustments, LREIT completed 2013 with a cash inflow from operating activities of $1.6 million, compared to a cash outflow of $4.5 million during 2012.

FINANCIAL AND OPERATING SUMMARY

	December 31		
	2013	2012	2011
STATEMENT OF FINANCIAL POSITION			
Total assets	$468,072,319	$481,552,578	$555,220,070
Total long-term financial liabilities **(1)**	$301,147,731	$323,026,417	$399,176,274
Weighted average interest rate			
- Mortgage loan debt	5.4%	7.2%	6.9%
- Total debt	5.9%	7.4%	7.2%

	Year Ended December 31		
	2013	2012	2011
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	$ 40,328,764	$ 38,410,992	$ 41,852,726
Net operating income	$ 24,208,769	$ 22,429,229	$ 25,729,391
Income before taxes and discontinued operations	$ 14,689,374	$ 601,545	$ 2,382,662
Income and comprehensive income	$ 15,519,586	$ 20,098,308	$ 5,035,231
Cash Flows			
Cash provided by (used in) operating activities	$ 1,625,477	$(4,538,612)	$(1,566,188)
Funds from Operations (FFO)	$ (887,528)	$(7,138,217)	$(6,993,506)
Adjusted Funds from Operations (AFFO)	$ (3,863,140)	$(10,207,994)	$(8,483,052)
Distributable loss	$ (1,501,299)	$(5,091,215)	$(5,002,715)

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

2013 COMPARED TO 2012

Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease) in income	
	2013	2012	Amount	%
Rentals from investment properties	$ 40,328,764	$ 38,410,992	$ 1,917,772	5.0%
Property operating costs	16,119,995	15,981,763	(138,232)	(0.9)%
Net operating income	24,208,769	22,429,229	1,779,540	7.9%
Interest income	1,272,740	969,607	303,133	31.3%
Forgiveness of debt	-	859,561	(859,561)	(100.0)%
Interest expense	(27,223,579)	(33,261,469)	6,037,890	18.2%
Trust expense	(2,312,565)	(2,323,979)	11,414	0.5%
Income recovery on Parsons Landing	2,622,629	3,278,987	(656,358)	(20.0)%
Insurance proceeds	-	925,355	(925,355)	(100.0)%
Income (loss) before the following	(1,432,006)	(7,122,709)	5,690,703	79.9%
Profit on sale of investment properties	221,642	915,531	(693,889)	(75.8)%
Fair value gains	6,970,031	10,308,723	(3,338,692)	(32.4)%
Fair value adjustment of Parsons Landing	8,929,707	(3,500,000)	12,429,707	355.1%
Income (loss) before taxes and discontinued operations	14,689,374	601,545	14,087,829	-
Current income tax expense	-	49,763	49,763	100.0%
Income (loss) before discontinued operations	14,689,374	551,782	14,137,592	-
Income from discontinued operations	830,212	19,546,526	(18,716,314)	(95.8)%
Income (loss) and comprehensive income (loss)	$ 15,519,586	$ 20,098,308	$ (4,578,722)	(22.8)%

Analysis of Rental Revenue

	Year Ended December 31					
			Increase (Decrease)		% of Total	
	2013	2012	Amount	%	2013	2012
Fort McMurray	$ 24,422,889	$22,965,656	$1,457,233	6%	61%	60%
Other investment properties	10,892,024	10,939,943	(47,919)	-%	27%	28%
Sub-total	35,314,913	33,905,599	1,409,314	4%	88%	88%
Properties sold	3,425,499	4,110,966	(685,467)	(17)%	8%	11%
Parsons Landing	1,588,352	394,427	1,193,925	303%	4%	1%
Total	$40,328,764	$ 38,410,992	$1,917,772	5%	100%	100%

As disclosed in the chart above, total revenue from the investment properties, excluding properties sold and Parsons Landing, increased by $1.41 million in 2013, compared to 2012. The increase is comprised of an increase in revenue from investment properties in Fort McMurray of $1.46 million, partially offset by a decrease in revenue from the Other investment properties of $47,919.

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 90% during 2012 to 91% in 2013, while the average monthly rental rate increased by $111 or 5.0%. The decrease in the occupancy rate of the Fort McMurray property portfolio during Q4-2013 is largely attributable to the tightening of market conditions in certain areas of Fort McMurray, as well as seasonal factors that tend to reduce demand for suites during the winter months.

Occupancy Level, by Quarter

	2013				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	93%	95%	92%	84%	91%
Other investment properties	95%	94%	92%	90%	93%
Properties sold	100%	100%	100%	99%	100%
Parsons Landing	n/a	n/a	n/a	n/a	n/a
Total	94%	95%	93%	86%	92%

	2012				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	92%	90%	87%	88%	90%
Other investment properties	98%	96%	96%	97%	97%
Properties sold	100%	100%	99%	100%	100%
Parsons Landing	n/a	n/a	n/a	n/a	n/a
Total	95%	92%	91%	92%	92%

The occupancy level represents the portion of potential revenue that was achieved

Average Monthly Rents, by Quarter

	2013				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	$2,259	$2,275	$2,318	$2,387	$2,329
Other investment properties	$922	$929	$931	$934	$929
Properties sold	$2,550	$2,546	$2,692	$2,299	$2,521
Parsons Landing	n/a	n/a	n/a	n/a	n/a
Total	$1,739	$1,749	$1,780	$1,786	$1,773

	2012				
	Q1	Q2	Q3	Q4	12 Month Average
Fort McMurray	$2,124	$2,191	$2,251	$2,293	$2,218
Other investment properties	$891	$898	$902	$919	$903
Properties sold	$2,729	$2,379	$2,174	$2,295	$2,438
Parsons Landing	n/a	n/a	n/a	n/a	n/a
Total	$1,704	$1,684	$1,704	$1,739	$1,709

Analysis of Property Operating Costs

	Year Ended December 31		Increase (Decrease)	
	2013	2012	Amount	%
Fort McMurray	$ 8,707,915	$ 8,768,905	$ (60,990)	(1)%
Other investment properties	5,277,117	5,182,636	94,481	2%
Sub-total	13,985,032	13,951,541	33,491	-%
Properties sold	1,593,323	1,735,839	(142,516)	(8)%
Parsons Landing	541,640	294,383	247,257	84%
Total	$16,119,995	$15,981,763	$ 138,232	1%

During 2013, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $33,491, compared to 2012. The increase is comprised of an increase of $94,481 in the operating costs of the Other investment properties portfolio, partially offset by a decrease of $60,990 in the Fort McMurray portfolio.

Analysis of Net Operating Income

	Net Operating Income							
	Year Ended December 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2013	2012	Amount	%	2013	2012	2013	2012
Fort McMurray	$15,714,974	$ 14,196,751	$ 1,518,223	11%	65%	63%	64%	62%
Other investment properties	5,614,907	5,757,307	(142,400)	(2)%	23%	26%	52%	53%
Sub-total	21,329,881	19,954,058	1,375,823	7%	88%	89%	60%	59%
Properties sold	1,832,176	2,375,127	(542,951)	(23)%	8%	11%	53%	58%
Parsons Landing	1,046,712	100,044	946,668	946%	4%	-	66%	25%
Total	$24,208,769	$ 22,429,229	$ 1,779,540	8%	100%	100%	60%	58%

After considering the increase in rental revenue and property operating costs, as analyzed in the preceding sections of this press release, net operating income for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $1.38 million or 7% during 2013, compared to 2012. As disclosed in the table above, net operating income for the Fort McMurray portfolio increased by $1.52 million while net operating income for the Other investment properties portfolio decreased by $0.14 million.

Total net operating income increased by $1.78 million during 2013, compared to 2012 after accounting for the decrease in net operating income related to properties sold and the increase in net operating income attributable to Parsons Landing. During 2013, net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $3.67 million, compared to $3.38 million during 2012, representing an increase of $0.29 million. The income recovery consisted of the amount recovered under the insurance policy for revenue losses, less certain operating costs such as property taxes and insurance which were deducted from the gross insurance recovery through an "occupancy fee". In comparison, net operating income consists of total actual revenues less total actual operating costs.

Overall, the operating margin for the property portfolio, excluding properties sold and Parsons Landing, increased from 59% in 2012, to 60% in 2013. The increase in the overall operating margin reflects an increase in the operating margin for the Fort McMurray property portfolio.

INTEREST EXPENSE

Total interest expense for investment properties decreased by $6.04 million or 18% during 2013, compared to 2012. The decrease is mainly due to the elimination of mortgage prepayment charges of $2.75 million, a decrease in mortgage loan and swap mortgage loan interest of $3.49 million and $0.52 million, respectively, and a decrease in amortization of transaction costs of $0.17 million, partially offset by a reduction in the gain related to the change in value of interest rate swaps of $0.74 million.

Total interest expense for discontinued operations decreased by $3.78 million or 83% during 2013, compared to 2012. The decrease is comprised of a decrease in mortgage loan interest of $1.95 million, the elimination of mortgage prepayment charges of $1.29 million, and a decrease in amortization of transaction costs of $0.54 million.

COMPARISON TO PREVIOUS QUARTERS

Analysis of Income (Loss)

	2013			2012	
	Q4	Q3	Increase (Decrease) in income	Q4	Increase (Decrease) in income
Rentals from investment properties	$ 10,115,906	$ 10,417,760	$ (301,854)	$ 9,432,387	$ 683,519
Property operating costs	4,092,631	4,012,556	(80,075)	4,137,920	45,289
Net operating income	6,023,275	6,405,204	(381,929)	5,294,467	728,808
Interest income	340,701	303,792	36,909	354,645	(13,944)
Interest expense	(6,490,178)	(6,281,557)	(208,621)	(8,786,495)	2,296,317
Trust expense	(550,238)	(440,395)	(109,843)	(751,957)	201,719
Income recovery on Parsons Landing	350,295	630,704	(280,409)	885,329	(535,034)
Insurance proceeds	-	-	-	525,355	(525,355)
Income (loss) before the following	(326,145)	617,748	(943,893)	(2,478,656)	2,152,511
Profit on sale of investment properties	56,714	-	56,714	(129,776)	186,490
Fair value gains	(2,107,277)	7,652,786	(9,760,063)	1,329,884	(3,437,161)
Fair value adjustment of Parsons Landing	1,707,628	5,152,319	(3,444,691)	500,000	1,207,628
Income (loss) for the period before taxes and discontinued operations	(669,080)	13,422,853	(14,091,933)	(778,548)	109,468
Current income tax expense	-	-	-	49,763	(49,763)
Income (loss) for the period before discontinued operations	(669,080)	13,422,853	(14,091,933)	(828,311)	159,231
Income from discontinued operations	159,916	82,471	77,445	17,014,084	(16,854,168)
Comprehensive income (loss)	$ (509,164)	$ 13,505,324	$(14,014,488)	$16,185,773	$(16,694,937)

Comparison to Q3-2013

During Q4-2013, LREIT incurred a loss of $0.33 million, before profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, compared to income of $0.62 million during Q3-2013. The variance in quarterly results mainly reflects a decrease in net operating income of $0.38 million, a decrease in income recovery on Parsons Landing of $0.28 million, an increase in interest expense of $0.21 million and an increase in trust expense of $0.11 million. Both the decrease in operating income and the decrease in income recovery are attributable to the reconstruction and return of the remaining 76 suites at Parsons Landing on October 3, 2013. As Parsons Landing is incurring a vacancy loss during the lease-up period for reconstructed suites, the decrease in income recovery exceeded the increase in operating income. Another factor contributing to the decrease in operating income is the decrease in the occupancy rate of the Fort McMurray property portfolio during Q4-2013, which is largely attributable to the tightening of market conditions in certain areas of Fort McMurray as well as seasonal factors that tend to reduce demand for suites during the winter months.

After accounting for the decrease in fair value gains and fair value adjustment of Parsons Landing in the combined amount of $13.20 million and an increase in profit on sale of investment properties of $56,714, income before income taxes and discontinued operations decreased by $14.09 million during Q4-2013, compared to Q3-2013.

During Q4-2013, income from discontinued operations increased by $77,445 compared to Q3-2013. The increase in income from discontinued operations mainly reflects a decrease in interest expense.

After accounting for discontinued operations and income tax expense, LREIT completed Q4- 2013 with a comprehensive loss of $0.51 million, compared to comprehensive income of $13.51 million during Q3-2013.

Comparison to Q4-2012

During Q4-2013, loss before profit on sale of investment property, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, amounted to $0.33 million, compared to a loss of $2.48 million during Q4-2012, representing a decrease in the loss of $2.15 million. The decrease in the loss mainly reflects a decrease in interest expense and an increase in operating income, partially offset by a decrease in income recovery on Parsons Landing and a decrease in insurance proceeds.

The decrease in interest expense is mainly due to a decrease in the weighted average interest rate of mortgage loan debt. The increase in operating income is mainly due to the return of Parsons Landing to full rental operations and an increase in operating income for the Fort McMurray property portfolio.

During Q4-2013, income from discontinued operations decreased by $16.85 million compared to Q4-2012. The decrease in income from discontinued operations mainly reflects the sale of Riverside Terrace in December 2012.

After accounting for the variance in fair value gains/adjustments, profit on sale, income from discontinued operations and income tax expense, LREIT completed Q4-2013 with a comprehensive loss of $0.51 million, compared to comprehensive income of $16.19 million during Q4-2012.

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 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.

FOR FURTHER INFORMATION PLEASE CONTACT:
Arni Thorsteinson, Chief Executive Officer, or Gino Romagnoli, Investor Relations
Tel: (204) 475-9090, Fax: (204) 452-5505, Email: info@lreit.com

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.