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LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2014 OPERATING RESULTS

Winnipeg, Manitoba, March 11, 2015 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the year ended December 31, 2014. 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, 2014, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

Highlights

During 2014, LREIT continued to improve its financial and liquidity position. Key accomplishments include:

- **Extension of Series G Debentures:** The maturity date of the Series G debentures was extended from February 2015 to June 2018.
- **Completion of Parsons Landing Acquisition:** On March 6, 2014, the purchase of Parsons Landing was completed, resolving uncertainties regarding the finalization of property ownership and interest forgiveness. In May 2014, 27 months after the fire, the lease up of Parsons Landing achieved 94% occupancy.
- **Upward Re-financing of Mortgage Loans:** LREIT generated net proceeds of $1.6 million from the upward re-financing of Elgin Lodge and, subsequent to December 31, 2014, generated net proceeds of $7.4 million from the upward refinancing of Beck Court. The proceeds have been used to pay down higher interest rate debt and for general working capital purposes.
- **Collection of Mortgage Loans:** The collection of mortgage loans receivable of $9 million provided an infusion of funds during Q2-2014.
- **Elimination of Mortgage Bond Debt:** In 2014, the Trust repaid $10 million of the 9% mortgage bonds. Subsequently, in February of 2015, the remaining mortgage bonds with a face value of $6 million were repaid. The repayments were funded using proceeds from the sale of Nova Court and the upward refinancing of Beck Court, respectively.
- **Reduction in Mortgage Loan Debt Service:** The cash component of interest expense, including discontinued operations, decreased by 15% or $3.8 million, compared to 2013. The majority of the decrease is due to mortgage re-financings at more favourable rates, as well as the reduction in the mortgage bond debt
- **Overall Debt Reduction:** Total long-term debt, combined with the acquisition payable on Parsons Landing, decreased by $15.7 million during 2014, compared to 2013. As of December 31, 2014, the total debt, including the revolving loan, was equal to 78% of the IFRS carrying value of the total property portfolio.

Income Results

During 2014, LREIT incurred a loss from investment properties of $20.9 million compared to income of $14.7 million during 2013. The variance is mainly due to a variance in fair value adjustments, including the fair value adjustments on Parsons Landing, and a decrease in the combined total of net operating income and insurance recoveries, partially offset by a decrease in interest expense.

During 2013, the fair value of the investment property portfolio increased by $15.9 million, largely as a result of the return of suites to active rental operations at Parsons Landing and favourable changes in key valuation assumptions including cap and discount rates. The fair value loss of $16.5 million that occurred in 2014 is almost entirely due to unfavourable changes in revenue and occupancy expectations for the Fort McMurray portfolio that occurred as a result of the decline in oil prices during Q4-2014.

Excluding the impact of properties sold, NOI combined with insurance recoveries on Parsons Landing decreased by $3.0 million during 2014, compared to 2013. After accounting for the decline in net operating income related to the sale of the Purolator Building and Nova Court in 2013, the decrease in operating income is largely attributable to a weakening of market conditions in Q1-2014. Conditions improved substantially in the second and third quarters of the year, but softened again in the fourth quarter, due largely to seasonal factors.

Interest expense decreased by $2.7 million, or 10% ,during 2014, largely as a result of the refinancing of debt at lower interest rates during 2013, the effect of which were fully realized in 2014. The reduction in the combined total of long-term debt and the acquisition payable of $17 million also served to reduce interest expense.

Income from discontinued operations decreased $2.2 million primarily due to the write-down of Elgin Lodge to its fair value based on a new appraisal prepared during 2014. Overall, LREIT completed 2014 with a comprehensive loss of $22.2 million compared to comprehensive income of $15.5 million in 2013.

Cash Flow Results

During 2014, the cash outflow from operating activities, excluding working capital adjustments, amounted to $0.6 million, compared to a cash inflow of $2.0 million during 2013. Including working capital adjustments, LREIT completed 2014 with a cash outflow from operating activities of $0.8 million, compared to a cash inflow of $1.6 million during 2013.

Outlook

The recent decline in oil prices and lower occupancies will make 2015 a challenging year for the Fort McMurray property portfolio. LREIT intends to expand its divestiture program in 2015 and will pursue upward re-financing opportunities in an effort to further improve its overall liquidity position. Despite current headwinds, the long-term prospects for continued growth in oil sands production and development activity remain. Even during periods of price volatility, oil sands production has continued to increase steadily over time, reflecting the long-term nature of the oil sands resource.

FINANCIAL AND OPERATING SUMMARY

	December 31		
	2014	2013	2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$442,773,600	$468,072,319	$481,552,578
Total long-term financial liabilities[1]	$327,980,499	$302,335,837	$324,501,221
Weighted average interest rate			
- Mortgage loan debt	5.7%	5.4%	7.1%
- Total debt	6.3%	5.9%	7.4%

	Year Ended December 31		
	2014	2013	2012
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	$ 38,291,698	$40,328,764	$ 38,410,992
Net operating income	$ 21,775,464	$24,208,769	$ 22,429,229
Income (loss) before discontinued operations	$(20,878,092)	$14,689,374	$ 601,545
Income (loss) and comprehensive income (loss)	$(22,238,581)	$15,519,586	$ 20,098,308
Cash Flows			
Cash provided by (used in) operating activities	$ (806,632)	$ 1,625,477	$ (4,538,612)
Funds from Operations (FFO)	$ (4,047,931)	$ (887,528)	$ (7,138,217)
Adjusted Funds from Operations (AFFO)	$ (6,083,144)	$ (3,863,140)	$(10,207,994)

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

2014 COMPARED TO 2013

Analysis of Income (Loss)

	Year Ended December 31		Increase (Decrease) in Income	
	2014	2013	Amount	%
Rentals from investment properties	$ 38,291,698	$ 40,328,764	$(2,037,066)	(5)%
Property operating costs	16,516,234	16,119,995	(396,239)	(2)%
Net operating income	21,775,464	24,208,769	(2,433,305)	(10)%
Interest income	657,609	1,272,740	(615,131)	(48)%
Interest expense	(24,480,925)	(27,223,579)	2,742,654	10%
Trust expense	(2,472,215)	(2,312,565)	(159,650)	(7)%
Income recovery on Parsons Landing	98,499	2,622,629	(2,524,130)	(96)%
Loss before the following	(4,421,568)	(1,432,006)	(2,989,562)	(209)%
Gain on sale of investment properties	71,235	221,642	(150,407)	(68)%
Fair value adjustments - Investment properties	(16,527,759)	6,970,031	(23,497,790)	(337)%
Fair value adjustment - Parsons Landing	-	8,929,707	(8,929,707)	(100)%
Income (loss) before discontinued operations	(20,878,092)	14,689,374	(35,567,466)	(242)%
Income (loss) from discontinued operations	(1,360,489)	830,212	(2,190,701)	(264)%
Income (loss) and comprehensive income (loss)	$(22,238,581)	$ 15,519,586	$(37,758,167)	(243)%

Analysis of Rental Revenue

	Year Ended December 31					
			Increase (Decrease)		% of Total	
	2014	2013	Amount	%	2014	2013
Fort McMurray	$22,737,066	$24,422,889	$(1,685,823)	(7)%	59%	61%
Other investment properties	11,003,126	10,892,024	111,102	1%	29%	27%
Sub-total	33,740,192	35,314,913	(1,574,721)	(4)%	88%	88%
Properties sold (1)	1,065	3,425,499	(3,424,434)	(100)%	-%	8%
Parsons Landing (2)	4,550,441	1,588,352	2,962,089	186%	12%	4%
Total	$38,291,698	$40,328,764	$(2,037,066)	(5)%	100%	100%

1. Represents revenue from the Purolator Building and Nova Court.
2. For 2013, results represent revenue from Parsons Landing for 84 suites which were reconstructed and returned to rental operations on October 1, 2013.

As disclosed in the chart above, total revenue from the investment properties, excluding properties sold and Parsons Landing, decreased by $1.57 million in 2014, compared to 2013. The decrease is mainly due to a decrease in revenue from investment properties in Fort McMurray, particularly during Q1-2014. Specifically, during 2014, rental revenues for the Fort McMurray property portfolio decreased by $1.69 million, comprised of a decrease of $0.81 million in Q1, a decrease of $0.30 million in Q2, a decrease of $0.35 million in Q3, and a decrease of $0.24 million in Q4.

The 2014 decrease in revenue from the Fort McMurray property portfolio is attributable to a decrease in both the average occupancy level and the average rental rate. As disclosed in the charts below, the average occupancy level for the Fort McMurray portfolio decreased from 91% during 2013 to 86% during 2014, while the average monthly rental rate decreased by $37 or 1.6%.

The revenue results for the Fort McMurray property portfolio generally reflect a more competitive rental market characterized by a slowdown in oil sands development activity, reduced demand for residential rental units and an increase in the supply of available rental units as well as increased competition from temporary housing units. Specifically, the first quarter results reflect abnormal variations in seasonal demand that resulted from a delay in the commencement of municipal and oil sands infrastructure projects.

In contrast to the average rental rate increases that occurred during 2013, average rental rates decreased steadily throughout 2014. As a result, revenue in Q4-2014 was comparatively low relative to Q4-2013.

Occupancy Level, by Quarter

	2014				
	Q1	Q2	Q3	Q4	12-Month Average
Fort McMurray	80%	90%	89%	86%	86%
Other investment properties	89%	92%	94%	93%	92%
Total	82%	91%	91%	88%	88%
Properties sold	n/a	n/a	n/a	n/a	n/a
Parsons Landing	69%	89%	93%	81%	83%

	2013				
	Q1	Q2	Q3	Q4	12-Month Average
Fort McMurray	93%	95%	92%	84%	91%
Other investment properties	95%	94%	92%	90%	93%
Total	94%	94%	92%	85%	91%
Properties sold	100%	100%	100%	99%	100%
Parsons Landing	n/a	n/a	n/a	n/a	n/a

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

Average Monthly Rents, by Quarter

	2014				
	Q1	Q2	Q3	Q4	12-Month Average
Fort McMurray	$2,337	$2,309	$2,285	$2,233	$2,292
Other investment properties	$933	$927	$919	$933	$928
Total	$1,672	$1,654	$1,638	$1,617	$1,645
Properties sold	n/a	n/a	n/a	n/a	n/a
Parsons Landing	$2,744	$2,742	$2,734	$2,626	$2,712

	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
Total	$1,627	$1,638	$1,661	$1,699	$1,666
Properties sold	$2,550	$2,546	$2,692	$2,299	$2,521
Parsons Landing	n/a	n/a	n/a	n/a	n/a

Analysis of Property Operating Costs

	Year Ended December 31		Increase (Decrease)	
	2014	2013	Amount	%
Fort McMurray	$9,237,202	$8,707,915	$ 529,287	6%
Other investment properties	5,608,388	5,277,117	331,271	6%
Sub-total	14,845,590	13,985,032	860,558	6%
Properties sold	103,437	1,593,323	(1,489,886)	(94)%
Parsons Landing	1,567,207	541,640	1,025,567	189%
Total	$16,516,234	$16,119,995	$ 396,239	2%

During 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $0.86 million, compared to 2013, comprised of an increase of $0.53 million in the operating costs of the Fort McMurray portfolio and an increase of $0.33 million in the Other investment properties portfolio.

The increase in the operating costs of the Fort McMurray portfolio is mainly due to an increase in maintenance costs, including an increase in repair costs related to water damage, net of insurance recoveries and a decrease in property taxes.

Analysis of Net Operating Income

	Net Operating Income							
	Year Ended December 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2014	2013	Amount	%	2014	2013	2014	2013
Fort McMurray	$13,499,864	$ 15,714,974	$(2,215,110)	(14)%	62%	65%	59%	64%
Other investment properties	5,394,738	5,614,907	(220,169)	(4)%	25%	23%	49%	52%
Sub-total	18,894,602	21,329,881	(2,435,279)	(11)%	87%	88%	56%	60%
Properties sold	(102,372)	1,832,176	(1,934,548)	(106)%	(1)%	8%	n/a	53%
Parsons Landing	2,983,234	1,046,712	1,936,522	185%	14%	4%	66%	66%
Total	$21,775,464	$ 24,208,769	$(2,433,305)	(10)%	100%	100%	57%	60%

After considering the decrease in rental revenue and the increase in 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, decreased by $2.44 million or 11% during 2014, compared to 2013. The decrease in NOI is attributable to a decrease of $2.22 million in the NOI of the Fort McMurray properties and a decrease of $0.22 million in the NOI of the Other investment properties.

After accounting for the decrease in net operating income related to both properties that were sold and Parsons Landing, total net operating income decreased by $2.43 million during 2014, compared to 2013.

During 2014, net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $3.08 million, compared to $3.67 million during 2013, representing a decrease of $0.59 million or 16%. The decrease is attributable to the change in the operational status of the property. During 2013, revenue losses from un-leased or un-reconstructed suites were fully covered by insurance proceeds, whereas, at the beginning of 2014, the property was in the lease-up phase and insurance recoveries ended on February 5, 2014. The lease-up phase was essentially completed in May 2014 when the property achieved an occupancy level of 94%.

Overall, the operating margin for the property portfolio, excluding properties sold and Parsons Landing, decreased from 60% in 2013, to 56% in 2014.

COMPARISON TO PREVIOUS AND COMPARATIVE QUARTERS

Analysis of Loss

	Q4-2014	Q3-2014	Increase (Decrease) in Income	Q4-2013	Increase (Decrease) in income
Rentals from investment properties	$ 9,483,539	$ 9,924,262	$ (440,723)	$10,115,906	$ (632,367)
Property operating costs	4,240,746	3,820,309	(420,437)	4,092,631	(148,115)
Net operating income	5,242,793	6,103,953	(861,160)	6,023,275	(780,482)
Interest income	37,842	27,770	10,072	340,701	(302,859)
Interest expense	(5,540,625)	(6,240,075)	699,450	(6,490,178)	949,553
Trust expense	(697,733)	(554,533)	(143,200)	(550,238)	(147,495)
Income recovery on Parsons Landing	-	-	-	350,295	(350,295)
Loss before the following	(957,723)	(662,885)	(294,838)	(326,145)	(631,578)
Gain on sale of investment properties	-	-	-	56,714	(56,714)
Fair value adjustments	(15,685,280)	(157,887)	(15,527,393)	(2,107,277)	(13,578,003)
Fair value adjustment of Parsons Landing	-	-	-	1,707,628	(1,707,628)
Loss for the period before discontinued operations	(16,643,003)	(820,772)	(15,822,231)	(669,080)	(15,973,923)
Income (loss) from discontinued operations	(1,653,429)	25,304	(1,678,733)	159,916	(1,813,345)
Comprehensive loss	$(18,296,432)	$ (795,468)	$(17,500,964)	$ (509,164)	(17,787,268)

Comparison to Q3-2014

During Q4-2014, LREIT incurred a loss of $0.96 million, before fair value adjustment and discontinued operations, compared to a loss of $0.66 million during Q3-2014. The increase in the loss mainly reflects a decrease in net operating income of $0.86 million, partially offset by a decrease in interest expense of $0.70 million. The decrease in net operating income is mainly due to a decrease in the net operating income of the Fort McMurray portfolio. The decrease in interest expense mainly reflects a reduction in interest charges related to the change in fair value of the interest rate swap liability.

After accounting for the variance in fair value adjustments in the amount of $15.53 million, the loss before discontinued operations increased by $15.82 million during Q4-2014, compared to Q3-2014. The variance in fair value adjustments is mainly due to reduced revenue and occupancy expectations related to the decline in oil prices that occurred during Q4-2014.

Income from discontinued operations decreased by $1.68 million in Q4-2014 compared to Q3-2014. The decrease is mainly due to a fair value adjustment for Elgin Lodge recorded in Q4-2014 reducing its fair value by $1.73 million. Including discontinued operations, Q4-2014 had a comprehensive loss of $18.30 million, compared to a comprehensive loss of $0.80 million during Q3-2014.

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) 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.