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LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2014 FIRST QUARTER RESULTS

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

Results of Operations

- During the Q1-2014, operating income amounted to $4.5 million. After including income recoveries on Parsons Landing, the total operating income and income recoveries derived from investment properties amounted to $4.6 million, representing a decrease of $2 million, compared to Q1-2013. The decrease is mainly due to a decrease in the occupancy level of the Fort McMurray property portfolio and the sale of two properties in Q4-2013.
- Interest expense decreased by $0.89 million or 11% during Q1-2014, mainly due to a reduction in the amount of mortgage loan debt and a decrease in the weighted average interest rate of debt.
- During Q1-2014, LREIT did not record any fair value gains or losses in regard to its investment properties, including Parsons Landing, compared to fair value gains of $0.44 million in the Q1-2013.

The reduced occupancy level of the Fort McMurray property portfolio in Q1-2014, compared to Q1-2013, reflects a more competitive rental market due to an increase in the supply of available rental units, increased competition from temporary housing units and abnormal variations in winter demand due to delays in the commencement of municipal and oil sands infrastructure projects. As of April 30, 2014, the occupancy level of the Fort McMurray portfolio, excluding Parsons Landing, improved to 87%, compared to 80% for Q1-2014 and 91% for the entire year in 2013. The occupancy level of the Fort McMurray portfolil, including Parsons Landing, at June 1, 2014 is expected to be 91%.

Overall, LREIT completed Q1-2014 with a comprehensive loss of $2.4 million, compared to a comprehensive loss of $0.8 million during Q1-2013. LREIT completed Q1-2014 with a cash inflow from operating activities of $0.7 million, compared to a cash inflow of $0.1 Million during Q1-2013.

Key Events

First Quarter of 2014

- **Closing of Parsons Landing:** On March 6, 2014, the purchase of Parsons Landing was completed and the current liability, "Acquisition payable on Parsons Landing" was eliminated from the financial statements. The acquisition was funded by $39.29 million from the net proceeds a $40 million first mortgage loan maturing on April 30, 2015, an advance under the revolving loan and the balance in cash. The completion of the purchase transaction strengthens the overall financial position of LREIT going forward by eliminating prior period uncertainties regarding the finalization of the property ownership and the forgiveness of excess interest.

- **Repayment of Mortgage Bonds (TSX: LRT.NT.A):** In January 2014, LREIT redeemed $10 million of the 9% mortgage bonds using the net proceeds from sale of Nova Court, which occurred in December 2013. As of March 31, 2014, the face value of the remaining mortgage bonds, maturing December 24, 2015, is $6 Million.

Subsequent to March 31, 2014

- **Upward Refinancing:** On May 1, 2014, the first mortgage loan of Elgin Lodge was upward refinanced with a new first mortgage loan of $10.0 million. The net proceeds from the upward refinancing were approximately $1.7 million.

- **Mortgage loans receivable:** The mortgage loans receivable which were provided by LREIT on the sale of the Clarington Seniors' Residence in 2012 matured on May 8, 2014. Repayment of the $9.0 million is expected to be received by June 30, 2014.

- **Series G Debentures:** LREIT is seeking approval from the holders of the Series G debentures to extend the maturity date from February 28, 2015 to June 30, 2018. A meeting of the debenture holders is scheduled for June 16, 2014 to approve the proposed extension.

Debt Position and Refinancing Initiatives

As of March 31, 2014, the total debt of LREIT, including the revolving loan, was equal to 76% of the carrying value of the total property portfolio. The weighted average interest rate of LREIT’s total debt, including the revolving loan, was 6.3% at March 31, 2014, compared to 6.9% as of March 31, 2013 and 5.9% as of December 31, 2013.

LREIT is pursuing a number of upward refinancing opportunities with the objective of generating sufficient funds from refinancing activities and the collection of the mortgage loans receivable to be in a position to fully repay the remaining $6 million balance of the 9% mortgage bonds and substantially reduce the balance of the revolving loan.

Outlook

The primary objective of LREIT for 2014 is to improve its overall liquidity position through the refinancing of existing mortgage loan debt at lower interest rates and the completion of additional property sales, with a focus on the two remaining seniors' housing complexes. The overriding goal is to increase the market price of the trust units to better reflect the net asset value of the units.

The "lease up" of Parsons Landing and the financing transactions which are expected to be completed this year are expected to provide LREIT with a solid foundation for future growth. The continuation of strong activity in the oil sands industry and higher stabilized occupancy levels for the Fort McMurray property portfolio should provide earnings growth for the remainder of 2014.

FINANCIAL AND OPERATING SUMMARY

	March 31	December 31	
	2014	2013	2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$466,414,471	$468,072,319	$481,552,578
Total long-term financial liabilities (1)	$329,119,264	$301,147,731	$323,026,417
Weighted average interest rate			
- Mortgage loan debt	5.7%	5.4%	7.1%
- Total debt	6.3%	5.9%	7.4%

	Three Months Ended March 31		
	2014	2013	2012
KEY FINANCIAL PERFORMANCE INDICATORS			
Operating Results			
Rentals from investment properties	$ 8,908,725	$ 9,768,888	$ 10,383,920
Net operating income	$ 4,504,067	$ 5,693,568	$ 5,958,714
Loss before taxes and discontinued operations	$(2,515,948)	$(1,044,322)	$(26,418,131)
Loss and comprehensive loss	$(2,404,013)	$ (812,228)	$(26,085,895)
Cash Flows			
Cash provided by (used in) operating activities	$ 718,641	$ 123,995	$ (954,913)
Funds from Operations (FFO)	$(2,475,248)	$(1,171,491)	$ (1,432,774)
Adjusted Funds from Operations (AFFO)	$(2,107,868)	$(1,555,316)	$ (1,572,616)
Distributable income (loss)	$ (643,960)	$ 15,067	$ 510,651

(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

Q1-2014 COMPARED TO Q1-2013

Analysis of Loss

	Three Months Ended March 31		Increase (Decrease) In Income	
	2014	2013	Amount	%
Rentals from investment properties	$ 8,908,725	$ 9,768,888	$ (860,163)	(8.8)%
Property operating costs	4,404,658	4,075,320	329,338	8.1%
Net operating income	4,504,067	5,693,568	(1,189,501)	(20.9)%
Interest income	385,218	298,301	86,917	29.1%
Interest expense	(6,954,282)	(7,841,878)	887,596	11.3%
Trust expense	(620,685)	(531,297)	(89,388)	(16.8)%
Income recovery on Parsons Landing	98,499	899,130	(800,631)	(89.0)%
Loss before the following	(2,587,183)	(1,482,176)	(1,105,007)	(74.6)%
Gain on sale of investment properties	71,235	-	71,235	n/a
Fair value gains	-	137,854	(137,854)	(100.0)%
Fair value adjustment of Parsons Landing	-	300,000	(300,000)	100.0%
Loss before discontinued operations	(2,515,948)	(1,044,322)	(1,471,626)	140.9%
Income from discontinued operations	111,935	232,094	(120,159)	(51.8)%
Loss and comprehensive loss	$ (2,404,013)	$ (812,228)	$ (1,591,785)	(196.0)%

Analysis of Rental Revenue

	Three Months Ended March 31					
			Increase (Decrease)		% of Total	
	2014	2013	Amount	%	2014	2013
Fort McMurray	$ 5,349,661	$ 6,154,755	$ (805,094)	(13)%	60%	63%
Other investment properties	2,615,214	2,733,753	(118,539)	(4)%	29%	28%
Sub-total	7,964,875	8,888,508	(923,633)	(10)%	89%	91%
Properties sold	1,065	880,380	(879,315)	(100)%	- %	9%
Parsons Landing	942,785	-	942,785	n/m	11%	- %
Total	$ 8,908,725	$ 9,768,888	$ (860,163)	(9)%	100%	100%

As disclosed in the chart above, total revenue from the investment properties, excluding properties sold and Parsons Landing, decreased by $0.92 million in Q1-2014, compared to Q1-2013. The decrease is comprised of a decrease in revenue from investment properties in Fort McMurray of $0.81 million and a decrease in revenue from the Other investment properties of $0.12 million.

The decrease in revenue from the Fort McMurray property portfolio reflects a decrease in the average occupancy level, partially offset by an increase in the average rental rate. As disclosed in the charts below, the average occupancy level for the Fort McMurray portfolio decreased from 93% during Q1-2013, to 80% during Q1-2014, while the average monthly rental rate increased by $78 or 3.5%. The decrease in the occupancy rate of the Fort McMurray property portfolio during Q1-2014 is largely attributable to the tightening of market conditions in Fort McMurray. The reduced occupancy level of the Fort McMurray property portfolio in Q1-2014, compared to Q1-2013 reflects a more competitive rental market due to an increase in the supply of available rental units, increased competition from temporary housing units and abnormal variations in seasonal demand due to a delay in the commencement of municipal and oil sands infrastructure projects.

The decrease in revenue from the Other investment properties is due to a decrease in the average occupancy level from 95% in Q1-2013 to 89% in Q1- 2014, partially offset by an increase in the average monthly rental rate of $11 or 1.2%.

Occupancy Level, by Quarter

	2013					2014
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	93%	95%	92%	84%	91%	80%
Other investment properties	95%	94%	92%	90%	93%	89%
Total	94%	94%	92%	85%	91%	82%
Properties sold	100%	100%	100%	99%	100%	n/a
Parsons Landing	n/a	n/a	n/a	n/a	n/a	69%

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

Average Monthly Rents, by Quarter

	2013					2014
	Q1	Q2	Q3	Q4	12 Month Average	Q1
Fort McMurray	$2,259	$2,275	$2,318	$2,387	$2,329	$2,337
Other investment properties	$922	$929	$931	$934	$929	$933
Total	$1,627	$1,638	$1,661	$1,699	$1,666	$1,672
Properties sold	$2,550	$2,546	$2,692	$2,299	$2,521	n/a
Parsons Landing	n/a	n/a	n/a	n/a	n/a	$2,744

Analysis of Property Operating Costs

	Three Months Ended March 31		Increase (Decrease)	
	2014	2013	Amount	%
Fort McMurray	$2,535,933	$2,265,234	$ 270,699	12%
Other investment properties	1,363,243	1,390,003	(26,760)	(2)%
Sub-total	3,899,176	3,655,237	243,939	7%
Properties sold	82,098	420,083	(337,985)	(80)%
Parsons Landing	423,384	-	423,384	n/m
Total	$4,404,658	$4,075,320	$ 329,338	8%

During Q1-2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $0.24 million, compared to Q1-2013. The increase is comprised of an increase of $0.27 million in the operating costs of the Fort McMurray portfolio, partially offset by a decrease of $26,760 in the Other investment properties portfolio.

Analysis of Net Operating Income

	Net Operating Income							
	Three Months Ended March 31		Increase (Decrease)		Percent of Total		Operating Margin	
	2014	2013	Amount	%	2014	2013	2014	2013
Fort McMurray	$ 2,813,728	$ 3,889,521	$(1,075,793)	(28)%	62%	68%	53%	63%
Other investment properties	1,251,971	1,343,750	(91,779)	(7)%	28%	24%	48%	49%
Sub-total	4,065,699	5,233,271	(1,167,572)	(22)%	90%	92%	51%	59%
Properties sold	(81,033)	460,297	(541,330)	(118)%	(2)%	8%	n/a	52%
Parsons Landing	519,401	-	519,401	n/m	12%	- %	55%	n/a
Total	$ 4,504,067	$ 5,693,568	$(1,189,501)	(21)%	100%	100%	51%	58%

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 $1.17 million or 22% during Q1-2014, compared to Q1-2013. As disclosed in the table above, net operating income for the Fort McMurray portfolio decreased by $1.08 million while net operating income for the Other investment properties portfolio decreased by $0.09 million.

Total net operating income decreased by $1.19 million during Q1-2014, compared to Q1-2013 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 Q1-2014, net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $0.62 million, compared to $0.90 million during Q1-2013, representing an decrease of $0.28 million. The decrease mainly reflects that insurance proceeds were discontinued effective February 5, 2014 and that the property only achieved an average occupancy rate of 69% in Q1-2014.

Overall, the operating margin for the property portfolio, excluding properties sold and Parsons Landing, decreased from 59% in Q1-2013, to 51% in Q1-2014. The decrease in the overall operating margin reflects a decrease in the operating margin for the Fort McMurray property portfolio.

INTEREST EXPENSE

Total interest expense for investment properties decreased by $0.89 million or 11% during Q1-2014, compared to Q1-2013. The decrease is mainly due to a decrease in mortgage loan interest of $0.81 million, a decrease in in mortgage bond interest of $0.18 million, a decrease in interest on acquisition payable of $0.25 million and a net decrease in total amortization charges for transaction costs of $0.25 million, partially offset by an increase in mortgage bond accretion of $0.62 million.

Total interest expense for discontinued operations decreased by $36,012 or 19% during Q1-2014, compared to Q1-2013. The decrease is comprised of a decrease in mortgage loan interest of $27,428 and a decrease in amortization of transaction costs of $8,584.

COMPARISON TO PREVIOUS QUARTERS

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	March 31, 2014	December 31, 2013	Amount	%
Rentals from investment properties	$ 8,908,725	$ 10,115,906	$ (1,207,181)	(11.9)%
Property operating costs	4,404,658	4,092,631	(312,027)	(7.6)%
Net operating income	4,504,067	6,023,275	(1,519,208)	(25.2)%
Interest income	385,218	340,701	44,517	13.1%
Interest expense	(6,954,282)	(6,490,178)	(464,104)	(7.2)%
Trust expense	(620,685)	(550,238)	(70,447)	(12.8)%
Income recovery on Parsons Landing	98,499	350,295	(251,796)	(71.9)%
Loss before the following	(2,587,183)	(326,145)	(2,261,038)	(693.3)%
Gain on sale of investment properties	71,235	56,714	14,521	25.6%
Fair value losses	-	(2,107,277)	2,107,277	(100.0)%
Fair value adjustment of Parsons Landing	-	1,707,628	(1,707,628)	(100.0)%
Loss for the period before discontinued operations	(2,515,948)	(669,080)	(1,846,868)	(276.0)%
Income from discontinued operations	111,935	159,916	(47,981)	(30.0)%
Comprehensive loss	$ (2,404,013)	$ (509,164)	$ (1,894,849)	(372.1)%

Comparison to Q4-2013

During Q1-2014, LREIT incurred a loss of $2.59 million, before profit on sale of investment properties, fair value gains, fair value adjustment of Parsons Landing, income taxes and discontinued operations, compared to a loss of $0.33 million during Q4-2013. The variance in quarterly results mainly reflects a decrease in net operating income of $1.52 million, a decrease in income recovery on Parsons Landing of $0.25 million and an increase in interest expense of $0.46 million. The decrease in operating income also reflects the sale of Nova Court on December 31, 2013. The decrease in income recovery from Parsons Landing reflects that insurance proceeds were no longer received subsequent to February 5, 2014, as well as the gradual lease-up of reconstructed suites during Q4-2013 and Q1-2014. The NOI from the leased suites at Parsons Landing served to partially offset the decrease in income recovery. During Q1-2014, the NOI from Parsons Landing, combined with the income recovery on Parsons Landing, amounted to $0.62 million, compared to $0.93 million in Q4-2013.

After accounting for the variance in fair value losses and fair value adjustment of Parsons Landing in the combined amount of $0.40 million and an increase in gain on sale of investment properties of $14,521, the loss before discontinued operations increased by $1.85 million during Q1-2014, compared to Q4-2013.

Income from discontinued operations decreased by $47,981 in Q1-2014 compared to Q4-2013.

After accounting for discontinued operations, LREIT completed Q1- 2014 with a comprehensive loss of $2.40 million, compared to a comprehensive loss of $0.51 million during Q4-2013.

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.

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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.