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LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2014 THIRD QUARTER RESULTS

Winnipeg, Manitoba, November 10, 2014 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the quarter ended September 30, 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 September 30, 2014, which may be obtained from the LREIT website at www.lreit.com or the SEDAR website at www.sedar.com.

Results of Operations

Overview

LREIT completed Q3-2014 with a loss before discontinued operations, fair value adjustments and gain on sale of investment properties of $0.66 million, compared to income of $0.62 million in Q3-2013. After including discontinued operations, fair value adjustments and gain on sale of investment properties, LREIT completed Q3-2014 with a comprehensive loss of $0.8 million, compared to comprehensive income of $13.51 million during Q3-2013, representing a variance of approximately $14.31 million. The variance mainly reflects a decrease in gains related to fair value adjustments of approximately $12.8 million.

Net Operating Income and Income Recoveries

During Q3-2014, total net operating income ("NOI") decreased by $0.3 million, compared to Q3-2013. Excluding properties sold and Parsons Landing, NOI decreased by $0.34 million as a result of a decrease in the NOI of the Fort McMurray property portfolio of $0.38 million. The decrease in the Fort McMurray NOI mainly reflects the impact of more competitive market conditions.

The NOI results for Q3-2014 were stable, relative to Q2-2014, and reflect a significant recovery in revenue and occupancy levels for the Fort McMurray property portfolio when compared to Q1-2014. During Q3-2014, the average occupancy level for the Fort McMurray property portfolio was 89%, compared to 90% during Q2-2014 and 80% during Q1-2014.

Fair Value Adjustments

During Q3-2014, LREIT recorded a loss of $0.16 million related to fair value adjustments, compared to a gain of $12.8 million during Q3-2013. The variance in fair value adjustments served to decrease income by $12.96 million during Q3-2014, compared to Q3-2013. Gains related to fair value adjustments during Q3-2013 were due to favourable changes in key valuation assumptions for investment properties and improved earnings projections for Parsons Landing following the return of suites to active rental operations. The gain related to fair value adjustments in Q3-2013, includes a $5.16 million increase in the carrying value of Parsons Landing.

Cash Flow Results

Cash inflow from operating activities, excluding working capital adjustments, amounted to $1.15 million during Q3-2014, compared to a cash inflow of $2.06 million during Q3-2013. Including working capital adjustments, LREIT completed Q3-2014 with a cash inflow from operating activities of $0.46 million, compared to a cash inflow of $3.28 million during Q3-2013.

Renewal of the Revolving Loan

Effective October 1, 2014, the revolving loan commitment was renewed for a nine month term to June 30, 2015 at an interest rate of 12% with a maximum balance of $15 million. As of September 30, 2014, the balance of the revolving loan was $10 million.

Removal of Covenant Breach

LREIT has received a loan commitment to refinance a $15.5 million loan that has been subject to a covenant breach. The new loan was expected to fund in Q3-2014 and now is expected to fund in Q4-2014. Upon the anticipated funding of the new loan in Q4-2014, LREIT will have successfully removed the one remaining loan covenant breach. The loan commitment provides for the new loan to bear interest at approximately 4.5% for a ten-year term, compared to the 5.82% rate on the existing loan.

Outlook

Refinancing activities to date and the completion of refinancings in Q4-2014 will reduce the overall cost of mortgage loan debt and contribute to an inflow of working capital. After considering the revolving loan, upward refinancing and the potential of completing an additional property sale before the end of the year, management believes that LREIT has the capability to fund all of its projected funding commitments through 2015.

While the 2014 occupancy level of our Fort McMurray property portfolio has been weaker than expected, the medium term prospects for higher earnings from LREIT's investment in Fort McMurray is favourable as oil production from facilities under construction continues to expand over the next three years.

Management will continue with its systematic approach to reduce debt and interest expense and remains optimistic regarding future operations.

FINANCIAL AND OPERATING SUMMARY

	September 30	December 31	
	2014	2013	2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$459,539,723	$468,072,319	$481,552,578
Total long-term financial liabilities	$329,766,000	$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%

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
KEY FINANCIAL PERFORMANCE INDICATORS				
Operating Results				
Rentals from investment properties	$ 9,924,262	$ 10,417,760	$ 28,808,159	$ 30,212,858
Net operating income	$ 6,103,953	$ 6,405,204	$ 16,532,671	$ 18,185,494
Income (loss) before discontinued operations	$ (820,772)	$ 13,422,853	$ (4,235,089)	$ 15,358,454
Income (loss) & comprehensive income (loss)	$ (795,468)	$ 13,505,324	$ (3,942,149)	$ 16,028,750
Cash Flows				
Cash provided by (used in) operating activities	$ 462,910	$ 3,280,950	$ 920,884	$ 3,191,759
Funds from Operations (FFO)	$ (637,581)	$ 700,219	$ (3,170,905)	$ (544,062)
Adjusted Funds from Operations (AFFO)	$ (1,219,479)	$ (481,765)	$ (4,287,138)	$ (2,909,604)
Distributable income (loss)*	$ 367,070	$ 714,151	$ (941,600)	$ (833,474)

Q3-2014 COMPARED TO Q3-2013

Analysis of Income (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Rentals from investment properties	$ 9,924,262	$ 10,417,760	$ 28,808,159	$ 30,212,858
Property operating costs	3,820,309	4,012,556	12,275,488	12,027,364
Net operating income	6,103,953	6,405,204	16,532,671	18,185,494
Interest income	27,770	303,792	619,767	932,039
Interest expense	(6,240,075)	(6,281,557)	(18,940,300)	(20,733,401)
Trust expense	(554,533)	(440,395)	(1,774,482)	(1,762,327)
Income recovery on Parsons Landing	-	630,704	98,499	2,272,334
Gain (loss) before the following	(662,885)	617,748	(3,463,845)	(1,105,861)
Gain (loss) on sale of investment properties	-	-	71,235	164,928
Fair value adjustments	(157,887)	7,652,786	(842,479)	9,077,308
Fair value adjustment of Parsons Landing	-	5,152,319	-	7,222,079
Income (loss) before discontinued operations	(820,772)	13,422,853	(4,235,089)	15,358,454
Income from discontinued operations	25,304	82,471	292,940	670,296
Income (loss) & comprehensive income (loss)	$ (795,468)	$ 13,505,324	$ (3,942,149)	$ 16,028,750

Analysis of Rental Revenue

	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 5,881,636	$6,228,415	$(346,779)	$17,220,467	$18,668,698	$(1,448,231)
Other investment properties	2,750,193	2,673,558	76,635	8,111,063	8,141,398	(30,335)
Sub-total	8,631,829	8,901,973	(270,144)	25,331,530	26,810,096	(1,478,566)
Properties sold (1)	-	917,333	(917,333)	1,065	2,673,560	(2,672,495)
Parsons Landing (2)	1,292,433	598,454	693,979	3,475,564	729,202	2,746,362
Total	$ 9,924,262	$10,417,760	$(493,498)	$28,808,159	$30,212,858	$(1,404,699)

1. Represents revenue from the Purolator Building and Nova Court.
2. For the first nine months of 2013, the rental revenue for Parsons Landing consists solely of the revenue from 84 reconstructed suites for a period of 122 days, commencing June 1, 2013.

As disclosed in the chart above, total revenue from the investment properties, excluding properties sold and Parsons Landing, decreased by $0.27 million in Q3-2014, compared to Q3-2013. The decrease is comprised of a decrease in revenue from investment properties in Fort McMurray of $0.35 million, partially offset by an increase in revenue from the Other investment properties of $0.08million.

The Q3-2014 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 92% during Q3-2013 to 89% during Q3-2014, while the average monthly rental rate decreased by $33 or 1.4%.

The decrease in revenue from the Fort McMurray property portfolio, as reflected in the nine-month comparatives, is due to a decrease in the average occupancy level, partially offset by an increase in the average rental rate. The average occupancy level for the Fort McMurray portfolio decreased from 93% during the first nine months of 2013 to 86% during the first nine months of 2014, while the average monthly rental rate increased by $27 or 1.2%.

The revenue results for the Fort McMurray property portfolio reflect a more competitive rental market at the outset of 2014 due to an increase in the supply of available rental units, increased competition from temporary housing units and abnormal variations in seasonal demand that resulted from a delay in the commencement of municipal and oil sands infrastructure projects. Although the second and third quarter revenue results for 2014 reflect an improvement in market conditions, the rental market remains highly competitive.

As disclosed in the following charts, the nine-month occupancy level of the Fort McMurray property portfolio is below 2013 levels and has levelled off at the 89% to 90% mark. The average rental rate is above 2013 levels, however, a downward trend is being displayed in 2014.

Occupancy Level, by Quarter

	2014			
	Q1	Q2	Q3	9 Month Average
Fort McMurray	80%	90%	89%	86%
Other investment properties	89%	92%	94%	92%
Total	82%	91%	91%	88%
Properties sold	n/a	n/a	n/a	n/a
Parsons Landing	69%	89%	93%	84%

	2013					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	93%	95%	92%	93%	84%	91%
Other investment properties	95%	94%	92%	94%	90%	93%
Total	94%	94%	92%	93%	85%	91%
Properties sold	100%	100%	100%	100%	99%	100%
Parsons Landing	n/a	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	9 Month Average
Fort McMurray	$2,337	$2,309	$2,285	$2,311
Other investment properties	$933	$927	$919	$927
Total	$1,672	$1,654	$1,638	$1,655
Properties sold	n/a	n/a	n/a	n/a
Parsons Landing	$2,744	$2,742	$2,734	$2,740

	2013					
	Q1	Q2	Q3	9 Month Average	Q4	12 Month Average
Fort McMurray	$2,259	$2,275	$2,318	$2,284	$2,387	$2,329
Other investment properties	$922	$929	$931	$927	$934	$929
Total	$1,627	$1,638	$1,661	$1,642	$1,699	$1,666
Properties sold	$2,550	$2,546	$2,692	$2,596	$2,299	$2,521
Parsons Landing	n/a	n/a	n/a	n/a	n/a	n/a

Analysis of Property Operating Costs

	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$2,153,047	$2,120,697	$ 32,350	$6,942,319	$ 6,582,146	$ 360,173
Other investment properties	1,337,208	1,303,956	33,252	4,051,569	3,971,162	80,407
Sub-total	3,490,255	3,424,653	65,602	10,993,888	10,553,308	440,580
Properties sold	-	397,843	(397,843)	103,437	1,211,410	(1,107,973)
Parsons Landing	330,054	190,060	139,994	1,178,163	262,646	915,517
Total	$3,820,309	$4,012,556	$(192,247)	$12,275,488	$12,027,364	$ 248,124

During Q3-2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased marginally by $0.07 million, compared to Q3-2013, comprised of an increase of $0.03 million in the operating costs of the Fort McMurray portfolio and an increase of $0.03 million in the Other investment properties portfolio.

For the nine months ended September 30, 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $0.44 million or 4.2%, compared to the first nine months of 2013. The increase is comprised of an increase of $0.36 million in the operating costs of the Fort McMurray portfolio and a $0.08 million increase in the Other investment properties portfolio.

The increase in the operating costs for the nine months comparatives is mainly due to an increase in maintenance costs. The nine-month comparatives were also affected by 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					
	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$3,728,589	$4,107,718	$(379,129)	$10,278,148	$12,086,552	$(1,808,404)
Other investment properties	1,412,985	1,369,602	43,383	4,059,494	4,170,236	(110,742)
Sub-total	5,141,574	5,477,320	(335,746)	14,337,642	16,256,788	(1,919,146)
Properties sold	-	519,490	519,490)	(102,372)	1,462,150	(1,564,522)
Parsons Landing	962,379	408,394	553,985	2,297,401	466,556	1,830,845
Total	$6,103,953	$6,405,204	$(301,251)	$16,532,671	$18,185,494	$(1,652,823)

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 $0.34 million or 6% during Q3-2014, compared to Q3-2013. The decrease in NOI is attributable to a decrease of $0.38 million in the NOI of the Fort McMurray properties, partially offset by an increase of $0.04 million in the NOI of the Other investment properties.

For the nine-month period ended September 30, 2014 compared to 2013, net operating income for the portfolio of investment properties, excluding properties sold and Parsons Landing, decreased by $1.92 million.

After accounting for the decrease in net operating income related to properties sold and the net operating income attributable to Parsons Landing, total net operating income decreased by $0.30 million during Q3-2014, compared to Q3-2013, For the nine-month period ended September 30, 2014 compared to 2013, total net operating income decreased by $1.65 million.

During the nine months ended September 30, 2014, net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $2.40 million, compared to $2.74 million during the nine months ended September 30, 2013, representing a decrease of $0.34 million or 13%. The decrease is attributable to the change in the operational status of the property. During the first nine months of 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 62% in Q3-2013, to 60% in Q3-2014. For the nine months ended September 30, 2014, the operating margin was 57% compared to 61% for the nine months ended September 30, 2013. The decrease in the operating margin for the nine months ended September 30, 2014 is mainly due to the unfavourable variance in revenue results for the Fort McMurray property portfolio, particularly in Q1-2014.

COMPARISON TO PREVIOUS QUARTER

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	September 30, 2014	June 30, 2014	Amount	%
Rentals from investment properties	$ 9,924,262	$ 9,975,172	$ (50,910)	(0.5)%
Property operating costs	3,820,309	4,050,521	230,212	5.7%
Net operating income	6,103,953	5,924,651	179,302	3.0%
Interest income	27,770	206,779	(179,009)	(86.6)%
Interest expense	(6,240,075)	(5,745,943)	(494,132)	(8.6)%
Trust expense	(554,533)	(599,264)	44,731	7.5%
Loss before the following	(662,885)	(213,777)	(449,108)	(210.1)%
Fair value adjustments	(157,887)	(684,592)	526,705	(76.9)%
Loss for the period before discontinued operations	(820,772)	(898,369)	77,597	8.6%
Income from discontinued operations	25,304	155,701	(130,397)	(83.7)%
Comprehensive loss	$ (795,468)	$ (742,668)	$ (52,800)	(7.1)%

Comparison to Q2-2014

During Q3-2014, LREIT incurred a loss of $0.66 million, before fair value adjustment and discontinued operations, compared to a loss of $0.21 million during Q2-2014. The increase in the loss mainly reflects an increase in interest expense of $0.49 million and a decrease in interest income of $0.18 million, partially offset by an increase in net operating income of $0.18 million. The increase in interest expense is mainly attributable to the change in fair value of the interest rate swap liability. The decrease in interest income is due to the repayment of the mortgage loans receivable in June 2014. The increase in operating income is mainly due to a decrease in property operating costs of $0.23 million or, more specifically, a decrease in utilities expense of $0.11 million and a decrease in maintenance expense of $0.16 million.

After accounting for the variance in fair value losses and fair value adjustment in the amount of $0.53, the loss before discontinued operations increased by $0.08 million during Q3-2014, compared to Q2-2014.

Income from discontinued operations decreased by $0.01 million in Q3-2014 compared to Q2-2014. After accounting for discontinued operations, LREIT completed Q3- 2014 with a comprehensive loss of $0.8 million, compared to a comprehensive loss of $0.75 million during Q2-2014.

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), 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.