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LANESBOROUGH REAL ESTATE INVESTMENT TRUST
Press Release

LANESBOROUGH REIT REPORTS 2014 SECOND QUARTER RESULTS

Winnipeg, Manitoba, August 14, 2014 – Lanesborough Real Estate Investment Trust ("LREIT") (TSX: LRT.UN) today reported its operating results for the quarter ended June 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 June 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 Q2-2014 with a loss before discontinued operations, fair value adjustments and gain on sale of investment properties of $0.21 million, compared to a loss of $0.24 million in Q2-2013. After including discontinued operations, fair value adjustments and gain on sale of investment properties, LREIT completed Q2-2014 with a comprehensive loss of $0.74 million, compared to comprehensive income of $3.34 million during Q2-2013, representing a variance of approximately $4.1 Million. The variance mainly reflects a decrease in fair value adjustments of approximately $3.7 million.

Net Operating Income and Income Recoveries

During Q2-2014, net operating income ("NOI") decreased by $0.16 million, compared to Q2-2013. Excluding properties sold and Parsons Landing, NOI decreased by $0.42 million of which $0.35 million or 85% was attributable to the Fort McMurray properties. Notwithstanding the decrease, the NOI results for Q2-2014 reflect a significant recovery in revenues and occupancy levels for the Fort McMurray property portfolio, compared to Q1-2014. The average occupancy level of the Fort McMurray property portfolio for Q2-2014 improved to 90%, compared to 80% in Q1-2014, while the average monthly rental rate decreased by $28 or 2%.

The NOI for Parsons Landing in Q2-2014 was positive after considering the multiple factors which affect the comparability of results from quarter-to-quarter, including the extent of insurance recoveries and the impact of the lease-up program for re-constructed units. During Q2-2014, NOI from Parsons Landing amounted to $0.82 million, compared to combined NOI and insurance recoveries of $0.8 million during Q2-2013. The lease-up program for Parsons Landing was effectively completed in May 2014 when the property achieved an occupancy level of 94%.

NOI for Q2-2014 is reflective of the rental market conditions which exist in Fort McMurray, notwithstanding the quarterly fluctuations in demand and periodic changes in rental supply. As of August 1, 2014, the overall occupancy level of all the Fort McMurray properties, including Parsons Landing, is 89%.

Cash Flow Results

Cash inflow from operating activities, excluding working capital adjustments, amounted to $0.16 million during Q2-2014, compared to a cash outflow of $0.5 million during Q2-2013. Including working capital adjustments, LREIT completed Q2-2014 with a cash outflow from operating activities of $0.26 million, compared to a cash outflow of $0.21 million during Q2- 2013.

Key Events – Q2-*2014*

- In June 2014, LREIT received full repayment of the two mortgage loans receivable which were provided on the sale of the Clarington Seniors' Residence in 2012. The total payment received, including accrued interest, was $8.99 million.
- On June 16, 2014, the holders of the Series G debentures approved an extension of the maturity date of the debentures from February 28, 2015 to June 30, 2018.
- In May 2014, the upward refinancing of one mortgage loan resulted in net proceeds of approximately $1.6 Million.

Covenant Breach

LREIT has received a loan commitment to refinance a $16 million loan that has been subject to a covenant breach. Upon the anticipated funding of the new loan in Q3-2014, 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

The collection of mortgage loans receivable, combined with the extension of the Series G debenture maturity date, has improved the stability and financial position of LREIT. For the remainder of 2014, LREIT will continue to focus on improving operational efficiencies while continuing to pursue mortgage refinancing at lower rates and divestiture opportunities. Proceeds from the anticipated exercise of warrants in 2015 are expected to increase equity capital which will be used to reduce debt.

Based on the expectation that rental market conditions in Fort McMurray will stabilize at seasonal norms, the outlook is for similar operating results during the balance of the year.

FINANCIAL AND OPERATING SUMMARY

	June 30 2014	December 31 2013	December 31 2012
STATEMENT OF FINANCIAL POSITION			
Total assets	$458,387,209	$468,072,319	$481,552,578
Total long-term financial liabilities	$329,631,914	$301,147,731	$323,026,417
Weighted average interest rate			
- Mortgage loan debt	5.7%	5.4%	7.1%
- Total debt	6.2%	5.9%	7.4%

	Three Months Ended June 30 2014	Three Months Ended June 30 2013	Six Months Ended June 30 2014	Six Months Ended June 30 2013
KEY FINANCIAL PERFORMANCE INDICATORS				
Operating Results				
Rentals from investment properties	$ 9,975,172	$ 10,026,210	$ 18,883,897	$ 19,795,098
Net operating income	$ 5,924,651	$ 6,086,722	$ 10,428,718	$ 11,780,290
Income (loss) before discontinued operations	$ (898,369)	$ 2,979,923	$ (3,414,317)	$ 1,935,601
Income (loss) and comprehensive income (loss)	$ (742,668)	$ 3,335,654	$ (3,146,681)	$ 2,523,426
Cash Flows				
Cash provided by (used in) operating activities	$ (260,667)	$ (213,186)	$ 457,974	$ (89,191)
Funds from Operations (FFO)	$ (58,076)	$ (72,790)	$ (2,533,324)	$(1,244,281)
Adjusted Funds from Operations (AFFO)	$ (959,791)	$ (872,523)	$ (3,067,659)	$(2,427,839)
Distributable income (loss)	$ (664,710)	$(1,562,692)	$ (1,308,670)	$(1,547,625)

Q2-2014 COMPARED TO Q2-2013

Analysis of Income (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Rentals from investment properties	$ 9,975,172	$ 10,026,210	$ 18,883,897	$ 19,795,098
Property operating costs	4,050,521	3,939,488	8,455,179	8,014,808
Net operating income	5,924,651	6,086,722	10,428,718	11,780,290
Interest income	206,779	329,946	591,997	628,247
Interest expense	(5,745,943)	(6,609,966)	(12,700,225)	(14,451,844)
Trust expense	(599,264)	(790,635)	(1,219,949)	(1,321,932)
Income recovery on Parsons Landing	-	742,500	98,499	1,641,630
Loss before the following	(213,777)	(241,433)	(2,800,960)	(1,723,609)
Gain on sale of investment properties	-	164,928	71,235	164,928
Fair value adjustments	(684,592)	1,286,668	(684,592)	1,424,522
Fair value adjustment of Parsons Landing	-	1,769,760	-	2,069,760
Income (loss) before discontinued operations	(898,369)	2,979,923	(3,414,317)	1,935,601
Income from discontinued operations	155,701	355,731	267,636	587,825
Income (loss) and comprehensive income (loss)	$ (742,668)	$ 3,335,654	$ (3,146,681)	$ 2,523,426

Analysis of Rental Revenue

	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$ 5,989,170	$6,285,528	$ (296,358)	$11,338,831	$12,440,283	$(1,101,452)
Other investment properties	2,745,656	2,734,087	11,569	5,360,870	5,467,840	(106,970)
Sub-total	8,734,826	9,019,615	(284,789)	16,699,701	17,908,123	(1,208,422)
Properties sold [(1)]	-	875,847	(875,847)	1,065	1,756,227	(1,755,162)
Parsons Landing [(2)]	1,240,346	130,748	1,109,598	2,183,131	130,748	2,052,383
Total	$ 9,975,172	$10,026,210	$ (51,038)	$18,883,897	$19,795,098	$(911,201)

1. Represents revenue from the Purolator Building and Nova Court.
2. For the first six months of 2013, the rental revenue for Parsons Landing consists solely of the revenue from 84 reconstructed suites for a period of 30 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 $0.24 million in Q2-2014, compared to Q2-2013. The decrease is comprised of a decrease in revenue from investment properties in Fort McMurray of $0.30 million, partially offset by an increase in revenue from the Other investment properties of $0.01million.

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 95% during Q2-2013 to 90% during Q2-2014, while the average monthly rental rate increased by $34 or 1.5%.

The 90% average occupancy rate of the Fort McMurray portfolio during Q2-2014 represents a significant improvement in comparison to the average occupancy rate during Q1-2014 of 80%. As previously reported, the occupancy rate of the Fort McMurray property portfolio decreased to 80% in Q1-2014, compared to 93% in Q1-2013, as a result of 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. Although the occupancy rate improved during Q2-2014, the competitive market factors affected the extent of the improvement in the occupancy rate in Q2-2014, relative Q2-2013.

For the six months period ended June 30, 2014, total revenue from investment properties, excluding properties sold and Parsons Landing, decreased by $1.21 million, compared to the first six months of 2013. The variance in the six month comparatives is mainly due to the unfavourable variance in revenue results during Q1-2014.

Occupancy Level, by Quarter

	2014		
	Q1	Q2	6 Month Average
Fort McMurray	80%	90%	85%
Other investment properties	89%	92%	91%
Total	82%	91%	86%
Properties sold	n/a	n/a	n/a
Parsons Landing	69%	89%	79%

	2013					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	93%	95%	94%	92%	84%	91%
Other investment properties	95%	94%	94%	92%	90%	93%
Total	94%	94%	94%	92%	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	6 Month Average
Fort McMurray	$2,337	$2,309	$2,325
Other investment properties	$933	$927	$930
Total	$1,672	$1,654	$1,664
Properties sold	n/a	n/a	n/a
Parsons Landing	$2,744	$2,742	$2,743

	2013					
	Q1	Q2	6 Month Average	Q3	Q4	12 Month Average
Fort McMurray	$2,259	$2,275	$2,267	$2,318	$2,387	$2,329
Other investment properties	$922	$929	$925	$931	$934	$929
Total	$1,627	$1,638	$1,632	$1,661	$1,699	$1,666
Properties sold	$2,550	$2,546	$2,548	$2,692	$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 June 30			Six Months Ended June 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$2,253,339	$2,196,215	$ 57,124	$4,789,272	$4,461,449	$ 327,823
Other investment properties	1,351,118	1,277,203	73,915	2,714,361	2,667,206	47,155
Sub-total	3,604,457	3,473,418	131,039	7,503,633	7,128,655	374,978
Properties sold	21,339	393,484	(372,145)	103,437	813,567	(710,130)
Parsons Landing	424,725	72,586	352,139	848,109	72,586	775,523
Total	$4,050,521	$3,939,488	$ 111,033	$8,455,179	$8,014,808	$ 440,371

During Q2-2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $0.13 million, compared to Q2-2013. The increase is comprised of an increase of $0.06 million in the operating costs of the Fort McMurray portfolio and an increase of $0.07 million in the Other investment properties portfolio.

For the six months ended June 30, 2014, property operating costs for the portfolio of investment properties, excluding properties sold and Parsons Landing, increased by $0.37 million or 5%, compared to the first six months of 2013. The increase is comprised of an increase of $0.33 million in the operating costs of the Fort McMurray portfolio and a $0.05 million increase in the Other investment properties portfolio.

The increase in the operating costs of the Fort McMurray portfolio for both the first quarter and six months comparatives is mainly due to an increase in repair costs related to water damage, net of insurance recoveries, and to additional snow removal costs.

Analysis of Net Operating Income

	Net Operating Income					
	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Fort McMurray	$3,735,831	$4,089,313	$ (353,482)	$ 6,549,559	$ 7,978,834	$(1,429,275)
Other investment properties	1,394,538	1,456,884	(62,346)	2,646,509	2,800,634	(154,125)
Sub-total	5,130,369	5,546,197	(415,828)	9,196,068	10,779,468	(1,583,400)
Properties sold	(21,339)	482,363	(503,702)	(102,372)	942,660	(1,045,032)
Parsons Landing	815,621	58,162	757,459	1,335,022	58,162	1,276,860
Total	$5,924,651	$6,086,722	$(162,071)	$10,428,718	$11,780,290	$(1,351,572)

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 $0.42 million or 7% during Q2-2014, compared to Q2-2013. Net operating income for the Fort McMurray portfolio decreased by $0.35 million while net operating income for the Other investment properties portfolio decreased by $0.06 million.

Total net operating income decreased by $0.16 million during Q2-2014, compared to Q2-2013 after accounting for the decrease in net operating income related to properties sold and the net operating income attributable to Parsons Landing. For the first six months period ended June 30, 2014, net operating income decreased by $1.35 million.

During the six months ended June 30, 2014, net operating income from Parsons Landing combined with the income recovery on Parsons Landing amounted to $1.43 million, compared to $1.70 million during the six months ended June 30, 2013, representing a decrease of $0.27 million or 16%. The decrease is attributable to the change in the operational status of the property. During the first six months of 2013, revenue losses from unleased or unreconstructed 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 61% in Q2-2013, to 59% in Q2-2014. For the six months ended June 30, 2014, the operating margin was 55% compared to 60% for the six months ended June 30, 2013. The decrease in the operating margin for the six months ended June 30, 2014 is mainly due to the unfavourable variance in revenue results for the Fort McMurray property portfolio in Q1-2014.

Interest Expense

Total interest expense for investment properties decreased by $0.86 million or 13% during Q2-2014, compared to Q2-2013. The decrease is mainly due to a decrease in interest on the acquisition payable of $0.9 million and a decrease in mortgage bond interest of $0.23 million, partially offset by a increase in mortgage loan interest of $0.17 million and a net increase in total amortization charges for transaction costs of $0.16 million.

Total interest expense for discontinued operations decreased by $0.06 million or 30% during Q2-2014, compared to Q2-2013.

COMPARISON TO PREVIOUS QUARTER

Analysis of Loss

	Three Months Ended		Increase (Decrease) In Income	
	June 30, 2014	March 31, 2014	Amount	%
Rentals from investment properties	$ 9,975,172	$ 8,908,725	$ 1,066,447	12.0%
Property operating costs	4,050,521	4,404,658	354,137	8.0%
Net operating income	5,924,651	4,504,067	1,420,584	31.5%
Interest income	206,779	385,218	(178,439)	(46.3)%
Interest expense	(5,745,943)	(6,954,282)	1,208,339	17.4%
Trust expense	(599,264)	(620,685)	21,421	3.5%
Income recovery on Parsons Landing	-	98,499	(98,499)	(100.0)%
Loss before the following	(213,777)	(2,587,183)	2,373,406	91.7%
Gain on sale of investment properties	-	71,235	(71,235)	(100.0)%
Fair value adjustments	(684,592)	-	(684,592)	n/a
Loss for the period before discontinued operations	(898,369)	(2,515,948)	1,617,579	64.3%
Income from discontinued operations	155,701	111,935	43,766	39.1%
Comprehensive loss	$ (742,668)	$ (2,404,013)	$ 1,661,345	69.1%

Comparison to Q1-2014

During Q2-2014, LREIT incurred a loss of $0.21 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 $2.59 million during Q1-2014. The variance in quarterly results mainly reflects an increase in net operating income of $1.42 million and a decrease in interest expense of $1.21 million, partially offset by a decrease in interest income of $0.18 million and a decrease in income recovery on

Parsons Landing of $0.1 million. The increase in operating income is mainly due to an improvement in the overall occupancy level of the portfolio of investment properties, including the lease-up of additional suites at Parsons Landing. The decrease in income recovery from Parsons Landing reflects the expiry of insurance coverage for revenue losses on February 5, 2014. During Q1-2014, NOI from Parsons Landing, combined with the income recovery amounted to $0.62 million, compared to NOI of $0.82 million in Q2-2014.

After accounting for the variance in fair value losses and fair value adjustment in the amount of $0.68 million and a decrease in gain on sale of investment properties of $0.07 million, the loss before discontinued operations increased by $1.62 million during Q2-2014, compared to Q1-2014.

Income from discontinued operations decreased by $0.04 million in Q2-2014 compared to Q1-2014.

After accounting for discontinued operations, LREIT completed Q2- 2014 with a comprehensive loss of $0.74 million, compared to a comprehensive loss of $2.40 million during Q1-2014.

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.